

Transmittal Memorandum No. 19, to the extent that it provided last year's A-76 related Federal pay raise and inflation factor assumptions, is canceled. The standard retirement cost factors for the weighted average CSRS/FERS pension and Federal retiree health cost numbers and the post-retirement health costs also provided by Transmittal Memorandum No. 19, remain in effect. Transmittal 20, with implemented the Federal Activities Inventory Reform (FAIR) Act, remains in effect. Current A-76 guidance can be accessed at OMB's Homepage at <http://www.whitehouse.gov/OMB/circulars/index.html#numerical>

Sylvia M. Mathews,
Deputy Director.

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SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-24425; 812-11752]

Cohesion Technologies, Inc.; Notice of Application

April 27, 2000.

AGENCY: Securities and Exchange Commission ("SEC").

ACTION: Notice of application for an order under sections 6(c) and 6(e) of the Investment Company Act of 1940 (the "Act").

SUMMARY OF APPLICATION: Applicant requests an order exempting it from all provisions of the Act, except sections 9, 17(e) (as modified in the application), 17(f) (as modified in the application), and 37 through 53 of the Act, and the rules and regulations under those sections, from the date the requested order is issued until the earlier of (a) August 18, 2001 or (b) the date applicant may no longer be deemed an investment company.

Filing Dates: The application was filed on August 18, 1999 and amended on November 18, 1999. Applicant has agreed to file an amendment, the substance of which is reflected in this notice, during the notice period.

Hearing or Notification of Hearing: An order granting the requested relief will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving applicant with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on May 22, 2000 and should be accompanied by proof of service on applicant, in the form of an affidavit or,

for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 Fifth Street, N.W., Washington, DC 20549-0609. Applicant, Cohesion Technology, Inc., 2500 Faber Place, Palo Alto, CA 94303.

FOR FURTHER INFORMATION CONTACT: Mary T. Geffroy, Senior Counsel, at (202) 942-0553, or Nadya Roytblat, Assistant Director, at (202) 942-0564 (Office of Investment Company Regulation, Division of Investment Management).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee at the SEC's Public Reference Branch, 450 Fifth Street, N.W., Washington, DC, 20549-0102 (tel. 202-942-8090).

Applicant's Representations

1. Applicant is a Delaware corporation that is engaged in the business of developing and commercializing proprietary surgical products. Applicant also is engaged directly or indirectly through majority-owned subsidiaries in the development and marketing of collagen-based biomaterials. Applicant became a public company on August 18, 1998, when it was spun-off from Collagen Aesthetics, Inc., formerly known as Collagen Corporation ("Collagen"). Collagen was engaged in the business of designing, developing, manufacturing, and marketing biomedical devices for the treatment of defective, diseased, traumatized or aging human tissues. Collagen currently focuses on the aesthetic and reconstructive cosmetic business. In anticipation of the spin-off, Collagen contributed several assets to applicant. Among the assets contributed to applicant by Collagen were minority interests in Boston Scientific Corporation ("Boston Scientific"), Innovasive Devices, Inc. ("Innovative"), and Pharming, B.V. ("Pharming").

2. Boston Scientific is a leading manufacturer of catheter-based devices. Collagen acquired its interest in Boston Scientific in January 1988 as a result of a joint venture between Collagen and Eli Lilly and Company. Since then, applicant has not acquired any additional shares of Boston Scientific and has continued to sell portions of its holdings in Boston Scientific to fund applicant's research and development activities. As of December 31, 1999,

approximately 29% of applicant's total assets on an unconsolidated basis (exclusive of cash items and government securities) consisted of the stock of Boston Scientific. Applicant currently owns less than 1% of Boston Scientific's common stock. Applicant also acquired from Collagen certain rights and undertook certain obligations pursuant to various equity collar instruments to protect against fluctuations in the market value of its Boston Scientific stock.

3. Collagen also transferred to applicant a minority interest in Innovasive, a company engaged in the development, manufacture and marketing of tissue and bone reattachment systems. Collagen acquired Innovasive stock in connection with a joint venture ("Innovative Agreements") between the two companies to develop tissue fixation devices. Applicant assumed Collagen's rights and obligations under the Innovative Agreements. As of December 31, 1999, applicant has an approximately 9% ownership interest in Innovasive, which represented approximately 9.6% of applicant's total assets on an unconsolidated basis (exclusive of cash items and government securities).

4. Finally, Collagen transferred to applicant a minority interest in Pharming, a company engaged in developing and commercializing human health care produced in transgenic animals. Collagen's investment in Pharming was made in connection with a collaborative agreement between the two companies for the development of a product to produce collagen in the milk of transgenic animals ("Pharming Agreement"). Applicant assumed Collagen's rights and obligations under the Pharming Agreement. As of December 31, 1999, applicant had an approximately 6% ownership interest in Pharming, which represented approximately 11.3% of applicant's total assets on an unconsolidated basis (exclusive of cash items and government securities).

Applicant's Legal Analysis

1. Section 3(a)(1)(C) of the Act defines "investment company" to include any issuer which is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or proposes to acquire investment securities having a value exceeding 40% of the value of that issuer's total assets (exclusive of Government securities and cash items) on an unconsolidated basis. Under section 3(a)(2), "investment securities" included all securities except

Government securities and securities issued by employee's securities companies and certain majority-owned subsidiaries.

2. Applicant's investments in Boston Scientific, Innovasive, and Pharming constitute "investment securities" within the meaning of section 3(a)(2) of the Act. Applicant states that as of December 31, 1999, these investment securities constituted more than 40% of its total assets (exclusive of cash items and government securities) on an unconsolidated basis. Applicant, therefore, is an investment company within the meaning of section 3(a)(1)(C) of the Act. Rule 3a-2 under the Act generally provides that, for purposes of section 3(a)(1)(C), an issuer will not be deemed to be engaged in the business of investing, reinvesting, owning, holding, or trading in securities for a period not to exceed one year if the issuer has a *bona fide* intent to be engaged in a non-investment company business. Applicant relied on rule 3a-2 for the period August 18, 1998 to August 18, 1999.

3. Section 6(c) of the Act permits the SEC to exempt any person, security, or transaction from any provision of the Act, if and to the extent that the exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Section 6(e) permits the SEC to require companies exempted from registration requirements of the Act to comply with certain specified provisions of the Act as though the company were a registered investment company.

4. Applicant requests an exemption under sections 6(c) and 6(e) from all provisions of the Act except, sections 9, 17(e) (as modified below), 17(f) (as modified below, and 37 through 53 of the Act, and the rules and regulations under those sections, from the date the requested order is issued until the earlier of August 18, 2001 or the date applicant no longer may be deemed an investment company (the "Exemption Period"). Applicant believes that within the Exemption Period it will be able to reduce its holdings of Boston Scientific stock so that applicant would no longer fall within the definition of investment company under section 3(a)(1)(C).

5. Applicant contends that granting the order under section 6(c) would be appropriate in the public interest and consistent with the protection of investors. Applicant states that it is an operating company that was not designed to be regulated under the Act, and that the requested temporary exemption would enable applicant to

resolve its transient status under the Act. As conditions to the requested order, applicant also agrees to comply with certain provisions of the Act while the requested order is in effect.

6. Section 17(e) of the act generally makes it unlawful for any "affiliated person" of a registered investment company, or any affiliated person of an affiliated person, acting as agent, to receive compensation (other than regular salary or wages) for the purchase and sale of any property to or from the investment company or any company controlled by the investment company, or, acting as broker for the investment company in the purchase or sale of securities, to receive remuneration exceeding certain amounts. Applicant requests that the section 17(e) restrictions apply only to those employees of applicant who are also officers and directors of applicant. Applicant believes that it would be overly burdensome for it to investigate and identify all affiliations of its 82 employees. Further, applicant contends that because the employees who are not also officers or directors generally are not in a position to determine or influence applicant's actions, no policy reason would be served by requiring those person to comply with section 17(e). Applicant also requests that the provisions of section 17(e)(1) not apply to the occasional receipt by its employees, officers and directors of modest gifts and other forms of gratuity from third parties. Applicant contends that this relief is appropriate because it relates to routine business practices of companies that are not investment companies and because it involves items of *de minimis* value, such as non-lavish entertainment, holiday gifts and similar items. Applicant states that in all other respects, it will comply with section 17(e).

7. Under section 17(f) of the Act, a registered investment company may maintain custody of its securities and similar investments with a member of a national securities exchange, subject to rule 17f-1 under the Act. Rule 17f-1 prohibits the assets of an investment company held by a member of a national securities exchange from being subject to any lien or charge of any kind in favor of the custodian or any persons claiming through the custodian. With respect to applicant's assets that are held by a member of a national securities exchange, applicant requests relief from the provisions of rule 17f-1(b)(3) to permit the custodian to continue to hold applicant's securities and similar assets as collateral in connection with certain loans it grants to applicant. Applicant believes that, for

the limited time during which applicant would be subject to rule 17f-1, it would neither be necessary nor cost effective for applicant to establish an account with a separate custodian solely for the purpose of holding securities as collateral for loans. Applicant states that, in all other respects it will comply with rule 17f-1.

Applicant's Conditions

Applicant agrees that the order granting the requested relief will be subject to the following conditions:

a. Applicant will not purchase or otherwise acquire any "investment securities," as that term is defined in the Act, other than short-term investments including U.S. Government securities, money market funds, certificates of deposit, and commercial paper rated A-1/P-1 that are consistent with the preservation of capital;

b. Applicant will not hold itself out as being engaged primarily in the business of investing, reinvesting, or trading in securities;

c. Applicant will allocate and utilize its accumulated cash and securities for the purpose of funding its business of developing and commercializing proprietary surgical products and other biomedical products;

d. Applicant will not sell any of its investment securities (other than those described in condition (a) above) to any affiliated person of applicant, or any affiliated person of an affiliated person of applicant; and

e. While any order is in effect, applicant's Form 10-K, Form 10-Q and annual reports to shareholders will state that an exemptive order has been granted under sections 6(c) and 6(e) of the Act and that applicant, and other persons in their transactions with applicant, are subject to sections 9, 17(e), 17(f) and 37 through 53 of the Act, and the rules and regulations under these sections, with certain exceptions as described in the application as if applicant were a registered investment company.

For the Commission, by the Division of Investment Management, under delegated authority.

Jonathan G. Katz,

Secretary.

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