

ATTORNEY GENERAL OF THE STATE OF NEW YORK
BUREAU OF INVESTMENT PROTECTION

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In the Matter of

FEDERATED INVESTMENT MANAGEMENT COMPANY,
FEDERATED SECURITIES CORP. and
FEDERATED SHAREHOLDERS SERVICES COMPANY

**ASSURANCE OF DISCONTINUANCE
PURSUANT TO EXECUTIVE LAW §63(15)**

WHEREAS, in August 2003, pursuant to Article 23-A of the General Business Law (the "Martin Act"), Eliot Spitzer, Attorney General of the State of New York (the "Attorney General"), commenced an investigation into the conduct of various subsidiaries of Federated Investors, Inc., a publicly traded investment management company (collectively sometimes referred to hereinafter as "Federated" or the "Federated Companies"), respecting "market timing" and "late trading" of mutual funds in the Federated mutual fund family during the period 1998 through September 2003 (the "Investigation");

WHEREAS, in the course of the Investigation, numerous witnesses were deposed and/or interviewed and extensive documentary evidence was reviewed;

WHEREAS, Federated has cooperated in the Investigation by producing documentary evidence and witnesses and identifying evidence relevant to the Investigation;

WHEREAS, Federated has voluntarily adopted certain remedial measures and taken other steps designed to reduce the chances that the conduct described herein will be repeated in the future;

WHEREAS, as set forth in the findings of fact ("Findings") below, the Investigation revealed that certain practices engaged in by Federated violated the Martin Act, section 349 of the General Business Law and Executive Law 6302);

WHEREAS, Federated has advised the Attorney General of its desire to resolve the Investigation;

WHEREAS, Federated has agreed to (i) reduce the management fees charged to certain mutual funds distributed to retail investors in the United States, (ii) implement certain changes with respect to the corporate governance of mutual funds in the Federated family of funds, (iii) maintain a certain corporate structure respecting compliance and ethics, and (iv) make certain payments; and

WHEREAS, the Attorney General finds the following sanctions appropriate and in the public interest and Federated agrees to the sanctions provided herein;

NOW THEREFORE, the Attorney General, based upon the Investigation, makes the following Findings:

FINDINGS

I. Relevant Entities

1. Federated Investors, Inc. ("FII") is an investment management company organized under the laws of the State of Pennsylvania with headquarters in Pittsburgh, Pennsylvania. Through its subsidiaries, FII offers cash management services, retirement products and separately managed accounts for high-net worth individuals and institutions, and manages 138 mutual funds. As of June 30, 2005, FII had approximately \$205 billion in assets under management making it one of the ten largest mutual fund companies (based on assets

under management in "open-end" funds). FII's stock is traded publicly on the New York Stock Exchange.

2. Federated Investment Management Company ("FIMC") is a Delaware business trust with headquarters in Pittsburgh, Pennsylvania and, through a holding company, is a wholly-owned subsidiary of FII. FIMC is registered as an investment adviser with the United States Securities and Exchange Commission ("SEC"). During the relevant time, FIMC served as the investment adviser to certain open-end mutual funds in the Federated mutual fund family.

3. Federated Securities Corp. ("FSC") is a Pennsylvania corporation with headquarters in Pittsburgh, Pennsylvania. FSC is registered as a broker-dealer with the SEC and, through a holding company, is a wholly-owned subsidiary of FII. During the relevant time, FSC served as the principal underwriter for all funds in the Federated mutual fund family. FSC distributes Federated mutual funds primarily through unaffiliated intermediaries such as broker-dealers, investment advisers and banks.

4. Federated Shareholder Services Company ("FSSC") is a Delaware business trust with headquarters in McCandless, Pennsylvania. During the relevant time, FSSC was registered as a transfer agent with the SEC and, through a holding company, is a wholly-owned subsidiary of FII. During the relevant time, FSSC served as the transfer agent for all funds in the Federated mutual fund family.

II. Summary

1. Market timing is the short-term buying and selling of mutual fund shares. It can harm mutual fund shareholders because it can dilute the value of their shares and result in increased transaction and other unnecessary costs. Mutual funds have the legal right to prevent

shareholders from engaging in these harmful activities and, as fiduciaries, are supposed to use these rights to prevent harmful market timing transactions.

2. Since late 1998, prospectuses for Federated funds stated that if it was determined shareholders were engaging in detrimental short-term trading activities, Federated may reject such transactions in accordance with its legal right to do so.

3. In breach of its fiduciary obligations to act in the best interests of mutual fund shareholders, Federated entered into undisclosed market timing arrangements with preferred customers knowing or recklessly disregarding that these arrangements would (and did) negatively impact the investment returns of Federated's mutual fund shareholders. Federated also permitted a timer to illegally place orders directly with Federated after the 4:00 p.m. EST close of the financial markets and yet still receive that day's price. By law, mutual fund orders are supposed to be received before 4:00 p.m. EST in order for a shareholder to receive that day's price. The "late trading" enabled the hedge fund to capitalize on material, post-4 p.m. information that was not available to law-abiding investors.

4. In addition, with respect to timers with which Federated had no arrangement, from 1998 until in or about January 2001, Federated did not consistently and effectively prevent all harmful trading activities notwithstanding the prospectus disclosure referenced above. While Federated did stop a substantial amount of timing activity during this time period, timers with which Federated had no arrangement engaged in substantial timing activity that adversely impacted returns.

5. Federated's incentive for allowing timers was the investment advisory and other fees earned on the timing assets. Federated also obtained long-term "buy and hold" investments

from at least one of the entities with which it had a timing arrangement. Under this so-called "sticky money" arrangement, the timer made additional fee-generating investments in Federated-managed investments as an inducement or a reward for the right to "time" Federated mutual funds.

III. Market Timing and Late Trading

1. "Market timing" or "timing" refers to frequent buying and selling of shares of the same mutual fund. "Timers" sometimes engaged in this practice to exploit inefficiencies in mutual fund pricing or other inefficiencies in the stock or bond markets generally. Market timing can harm other mutual fund shareholders because it can dilute the value of their shares, disrupt the management of the mutual fund's investment portfolio and cause the targeted fund to incur costs borne by other shareholders to accommodate frequent buying and selling of shares by the market timer. Where "timing" does result in such harms, mutual funds are supposed to enforce their legal rights to restrict shareholders from engaging in such activity and thereby prevent harm to other shareholders.

2. "Late trading" refers to the practice of placing orders to buy or sell mutual fund shares after the time as of which a mutual fund has calculated its NAV (usually as of the close of trading at 4:00 p.m. EST), but receiving the price based on the prior NAV already determined as of 4:00 p.m. Late trading enables the trader to profit from market events that occur after 4:00 p.m. but that are not reflected in that day's price. In particular, the late trader obtains an advantage — at the expense of the other shareholders of the mutual fund — when he learns of material information and is able to purchase (or sell) mutual fund shares at prices set before the material information was released. Late trading violates Rule 22c-1(a) promulgated by the SEC

under the Investment Company Act of 1940 (the "forward pricing rule").

IV. Facts

1. At all relevant times, Federated had internal policies designed to identify and prevent detrimental market timing in certain of the funds at issue. As early as 1998, Federated recognized the potentially harmful effects that market timing had on its funds. The harm from market timing was expressly acknowledged and documented in internal Federated memoranda and other communications. In recognition of the potential harm from allowing market timing in its funds, prospectuses for Federated mutual funds that permitted exchanges stated the following:

The Fund may modify or terminate the exchange privilege at any time. The Fund's management or Adviser may determine from the amount, frequency and pattern of exchanges that a shareholder is engaged in excessive trading that is detrimental to the Fund and other shareholders. If this occurs, the Fund may terminate the availability of exchanges to that shareholder and may bar that shareholder from purchasing other Federated funds.

2. This prospectus language told shareholders, in effect, that Federated was monitoring frequent trading activities, making a determination concerning whether such activities were causing damage to shareholders and, if so, terminating a shareholders' ability to engage in them in not only the fund being "timed" but in any other Federated funds as well.

3. At various times since its prospectus first recognized market timing *may* cause injury to shareholders, Federated expressly acknowledged that such activities *actually were* causing injury to shareholders. On several occasions, such injury was explicitly brought to the attention of and documented for Federated's senior management.

4. Despite knowledge of the harm caused by market timing, from 1998 until in or about January, 2001, Federated failed to prevent some harmful trading activities notwithstanding the prospectus disclosure referenced above. In 2002 and 2003, Federated entered into three

undisclosed "timing" arrangements that expressly permitted hedge funds and others to engage in market timing strategies. With respect to a fourth timer, Federated also permitted late trading in 2003.

Veras

5. Federated permitted Veras Partners LP and its affiliates, a Sugarland, Texas-based hedge fund ("Veras"), to place numerous orders directly with Federated after the 4:00 p.m. EST close of the financial markets for same day pricing.

6. In accordance with the forward pricing rule, Federated's prospectuses state in relevant part: "You may redeem [or exchange] Shares by simply calling the Fund...If you call before the end of regular trading on the NYSE (normally 4 p.m. Eastern time), you will receive a redemption amount based on that day's NAV."

7. In or about April 2003, a market timing "capacity finder" retained by Veras contacted a Senior Vice President of FSC and preliminarily arranged capacity to trade several of Federated's mutual funds. In May 2003, Veras representatives had two telephone conversations with the FSC Senior Vice President to further discuss the terms under which Veras would be permitted to trade Federated funds. The FSC Senior Vice President knew Veras was a hedge fund engaged in market timing strategies. It was agreed that Veras would establish a direct relationship with Federated rather than process trades through a broker-dealer or other intermediary.

8. During the second telephone conference call, in which a former FSSC administrative level employee also participated, according to Veras, its representatives asked for and were granted a 4:30 p.m. cut-off time to place trades. According to the FSC Senior Vice

President and the former FSSC employee, no such permission was granted nor did they expressly agree to permit any market timing. Veras subsequently established accounts directly with the former FSSC employee and began market timing various Federated funds. The FSC Senior Vice President and members of FSC's sales team later visited with Veras representatives in Texas.

9. Veras' market timing "model" involved looking at the post-4 p.m. close of a particular financial index prior to making a decision on whether to engage in a market timing transaction and/or, if so, how much to trade. In all, from June 2003 to August 2003, Veras called twenty-nine trades directly into Federated's customer service desk after the 4:00 p.m. close of the financial markets. The latest trade was placed at 4:55 p.m. Federated's mutual fund trade processing system allowed FSSC employees, known as customer service representatives, to improperly process trades received after 4:00 p.m. at the current day's NAV. The illegal trades stopped after Veras learned of the Attorney General's "market timing" and "late trading" investigation in late Summer 2003.

Canary Capital

10. Federated entered into an arrangement with Canary Capital Partners and its affiliates, a Secaucus, New Jersey-based hedge fund ("Canary"), and involved several funds. The arrangement was approved by senior officers of FSC and FIMC.

11. Canary was given permission to trade \$50 million in three "round trips" per month in each of six different domestic equity funds. Later Canary exceeded the \$50 million limit and approval was given to increase the number of Canary's permitted round trips. Some or all of Canary's transactions were late trades submitted through brokers or other intermediaries rather than directly to Federated. No evidence was uncovered establishing that Federated knew

Canary was engaged in late trading.

12. In all, from January 2003 to July 2003, Canary conducted more than \$1.6 billion in aggregate market timing transactions as follows:

Fund	"Round Trips"	Approximate Transaction Volume
American Leaders	15	\$ 440 million
Capital Appreciation	13	\$ 362 million
Equity Income	3	\$ 120 million
Kaufmann	4	\$ 265 million
Max-Cap	7	\$ 250 million
Stock Trust	4	\$ 240 million
TOTALS	46	\$ 1.67 billion

Canary's permitted timing trades resulted in substantial dilution and other harm to Federated's mutual fund shareholders.

15. In exchange for the right to conduct timing transactions, Canary made an approximately \$10 million "sticky" money investment in a Federated-advised short-term Euro-denominated fund on which Federated earned additional fees.

Two Other Arrangements

16. Another timing arrangement was reached in or about August 2002 in the Federated High Yield Trust. The arrangement was approved by officers of FSC and FIMC. During the period from March 2002 to July 2003, this approved timer engaged in at least seven "round trips" in a total transaction volume exceeding \$219 million. This timer later made a \$90 million investment in the Federated Prime Cash Obligations Fund.

17. Another timing arrangement was reached in May 2002 in the Federated High Income Bond Fund, Inc. The arrangement was approved by officers of FSC and FIMC. During the period from May 2002 to September 2003, this approved timer engaged in at least ten "round trips" in an aggregate transaction volume exceeding \$90 million.

IV. Violations

1. The foregoing acts and practices of Federated violated the Martin Act, Article 23-A of the General Business Law.

2. The foregoing acts and practices of Federated violated § 349 of the General Business Law.

3. The foregoing acts and practices of Federated violated § 63(12) of the Executive Law.

AGREEMENT

IT NOW APPEARING THAT Federated desires to settle and resolve the Investigation without admitting or denying the Attorney General's Findings, which Findings are not binding on any other person or entity in this or any other proceeding, the Attorney General and Federated hereby enter into this Assurance of Discontinuance ("Assurance"), pursuant to Executive Law § 63(15), and agree as follows:

I. Affirmative Relief

A. Disgorgement and Civil Penalty

1. Federated shall pay \$27,000,000 in disgorgement and/or restitution plus a civil money penalty in the amount of \$45,000,000. In addition, Federated has previously paid \$8 million in restitution to certain funds after the commencement of the Attorney General's

investigation in August 2003. In total, therefore, Federated will pay a total of \$80,000,000, exclusive of the value of the management fee reductions provided for in Section I.D. hereof, to resolve the matters raised by this Assurance. The \$72,000,000 yet to be paid shall be remitted to and administered by the SEC in accordance with the Order Instituting Administrative and Cease and Desist Proceedings pursuant to certain provisions of the federal securities laws in the *Matter of Federated Investment Management Company, et al.* issued or to be issued by the U.S. Securities and Exchange Commission ("SEC") on or near the date hereof (the "SEC Order").

2. The provisions in the SEC Order relating to the payment and administration of the \$72,000,000 referred to in this section are incorporated herein by reference, and such terms are agreed to as part of this Assurance by the Federated Companies. Amounts ordered to be paid as civil money penalties pursuant to this Assurance (i.e., pursuant to the incorporated terms of the SEC Order) shall be treated as penalties paid to the government for all purposes, including tax purposes.

3. The Federated Companies agree that they shall not seek or accept, directly or indirectly, reimbursement or indemnification, including, but not limited to, payment made pursuant to any insurance policy, with regard to any or all of the amounts payable pursuant to this Assurance, without the prior consent of the Attorney General; provided, however, that nothing in this Assurance shall: (i) prevent any Federated Company from bringing claims (including claims for indemnity and/or contribution) against persons or entities for injuries sustained by shareholders of the Federated family of mutual funds as a result of market timing or late trading; or (ii) limit or impair the rights of persons other than a Federated Company under any applicable insurance policy.

4. No payments made or costs incurred by the Federated Companies pursuant to or in connection with this Assurance shall be borne directly or indirectly by any Federated mutual fund or the shareholders thereof. The Federated Companies agree and undertake that they and their affiliates shall not directly or indirectly assess any fee or charge to any Federated mutual fund or the shareholders thereof to defray, recoup or reimburse any such payments or costs, including, but not limited to, the reduction in management fees provided for in section I.D. below. Nothing in this Assurance shall prohibit the Federated Companies (or their affiliates) from indemnifying or paying costs on behalf of the Federated funds. Within 45 days after the end of FIMC's fiscal years 2005 through 2010, the chief financial officer of FIMC shall certify in writing to the Attorney General that the Federated Companies have complied in all material respects with the provisions of this paragraph.

B. Incorporation of Certain Undertakings in the SEC Order

As part of this Assurance, the Federated Companies agree to the terms of and shall comply with the provisions of the paragraph headed "Independent Distribution Consultant" in the SEC Order.

C. General Relief

1. The Federated Companies admit the jurisdiction of the Attorney General. The Federated Companies will cease and desist from engaging in any acts in violation of the Martin Act, General Business Law § 349 and/or Executive Law § 6302) and will comply with the Martin Act, General Business Law § 349 and Executive Law § 6302).

2. Evidence of a violation of this Assurance by the Federated Companies (or any one of them) shall constitute prima facie proof of violation of the Martin Act, General

Business Law § 349 and Executive Law § 63(12) in any civil action or proceeding hereafter commenced by the Attorney General.

D. Reduction of Management Fee Rates For Five Years

1. FIMC agrees that effective January 1, 2006, FIMC and its Successors (as hereinafter defined in Section II.D.8) shall establish and implement reduced Net Management Fee Rates for certain of the Federated Funds (as hereinafter defined), which Federated Funds will be identified in writing to the Attorney General on a Schedule A to this agreement within 45 days of the date of this Assurance (the "Affected Funds"). "Net Management Fee Rates" means the percentage fee rates specified in the relevant agreements between FIMC and the Affected Funds, less waivers and reimbursements by FIMC, in effect as of September 30, 2005, which rates will be set forth on Schedule A. The reduced Net Management Fee Rates shall result in a reduction of \$4,000,000 per *year* based upon assets under management of the Affected Funds as of September 30, 2005, for a total reduction over five years of \$20,000,000 from the amount of fees that would have been paid by the Affected Funds based on the Net Management Fee Rates and assets under management of the Affected Funds as of September 30, 2005. FIMC further agrees that the reduced Net Management Fee Rates established pursuant to this paragraph shall not be increased through December 31, 2010.

2. If any Affected Fund on Schedule A ceases to operate (e.g., due to liquidation or merger) ("Ceased Funds") at any time prior to December 31, 2010, then the Net Management Fee Rates of other Federated Funds to which FIMC provides advisory services as of the date of such cessation shall be reduced so that the total management fees (excluding the Ceased Funds) based on assets under management as of September 30, 2005 are reduced by the

same percentage as that resulting from the reduced Net Management Fee Rates specified in the previous paragraph (calculated on an assets under management-weighted basis).

3. FIMC represents and warrants that Schedule A will accurately and completely state: (a) assets under management of the Affected Funds as of September 30, 2005; (b) the Net Management Fee Rates for the Affected Funds as of September 30, 2005; and (c) the reduced Net Management Fee Rates and the resulting net management fee reduction of \$4,000,000 as provided in subsection 1 above.

E. Corporate Governance of Mutual Funds

1. On or after January 1, 2006, FIMC shall not directly or indirectly manage or provide investment advisory services to any mutual fund in the Federated family of mutual funds or any successors thereto ("Federated Fund") that has not agreed to and implemented the following provisions of this section insofar as they concern acts by the fund. In the event that any Federated Fund does not continue to act in accordance with such provisions, FIMC shall promptly terminate its management of, and/or provision of advisory services to, such fund.

Chairman of the Board

2. FIMC may manage or advise a Federated Fund only if the Chairman of the board of trustees of such fund is in all respects independent of FIMC and its affiliates and has had no prior relationship, at any time, with FIMC, its present or former affiliates, directors, officers, employees or agents acting in their capacity as such agents, or with such Federated Fund (other than to have been a mutual fund trustee and/or shareholder of a Federated Fund) (hereinafter referred to as an "Impermissible Relationship"). An Impermissible Relationship includes, but is not limited to, any of the following types of relationships: commercial, banking,

financial, legal, accounting, consulting, advisory, familial, charitable, employee, director, trustee or officer relationship; provided, however, a charitable relationship shall not be deemed an Impermissible Relationship if the charitable relationship is disclosed to the board of trustees. During the period when acting as Chairman and for two years thereafter, the Chairman and any firm with which he or she is affiliated shall have no such Impermissible Relationship. An interested person of FIMC or of the mutual fund shall not be deemed "independent." For purposes of this Assurance, "interested person" has the same meaning as defined in the Investment Company Act of 1940 ("Investment Company Act"); "affiliates" means any "affiliated person" as defined in the Investment Company Act; FIMC or its affiliates, includes, without limitation, their respective predecessors or successors; and "familial" means all individuals within three degrees of consanguinity or affinity.

3. In the event that FIMC desires input from the Attorney General as to whether a proposed Chairman of the board of trustees (or Senior Officer, as defined below) has a relationship that is an Impermissible Relationship, FIMC may make full disclosure of the facts and circumstances and seek the prior guidance of the Attorney General; provided, however, that nothing contained herein shall be construed to excuse a breach of this Assurance where a Chairman or Senior Officer has already assumed office before the input of the Attorney General was sought by FIMC.

Directors

4. FIMC may manage or advise a Federated Fund only if at least seventy-five percent of the membership of the board of trustees of each fund: (1) are not interested persons, as defined by the Investment Company Act, of the fund or of FIMC; and (2) have not

been directors, officers or employees of FIMC or any of its affiliates at any point during the preceding 10 years ("Independent Trustees"); provided, however, that no current trustee shall be removed before 2005 for failure to meet the 10-year requirement. In the event that the board of trustees of any such Federated Fund fails to meet this requirement at any time due to the death, resignation, retirement or removal of any Independent Trustee, FIMC shall terminate its management of, and provision of advisory services to, such fund unless the Independent Trustees bring the board into compliance within a reasonable period of time not to exceed 120 days.

Senior Officer

5. Within 30 days of the parties' execution of this Assurance, FIMC shall recommend in writing to the board of trustees of each Federated Fund that the Federated Fund appoint a full-time senior officer ("Senior Officer") with the title of at least Senior Vice President who shall have no Impermissible Relationship (as defined above) during the period he or she is acting as Senior Officer and for two years thereafter; provided, however, that the Federated Fund's Senior Officer may be technically employed and paid by FIMC or an affiliate and be the same person designated as the Chief Compliance Officer of the Federated Fund pursuant to Rule 38a-1(a)(4) under the Investment Company Act, 17 C.F.R. 270.38a-1 (a)(4), and whom FIMC designates as its Chief Compliance Officer pursuant to Rule 206(4)-(7)(c) under the Investment Advisers Act of 1940 (the "Investment Advisers Act"). For a period of two years following conclusion of the Senior Officer's services as such, FIMC and its affiliates shall not enter into any substantial commercial, banking or financial relationship or any attorney-client, accounting, consulting, or advisory relationship with the Senior Officer or with any firm with which the Senior Officer was affiliated while Senior Officer.

6. FIMC may manage or advise a Federated Fund only if such Senior Officer reports directly to the Federated Fund's board of trustees and such reporting is as often as may be appropriate, but no less than quarterly.

7. FIMC may manage or advise a Federated Fund only if, subject to approval by the Independent Trustees, the Senior Officer has the authority to retain consultants, experts or staff as may be reasonably necessary to assist the Senior Officer in the performance of his or her duties. The Senior Officer and such consultants, experts or staff shall be compensated at their reasonable and customary rates as determined by the Independent Trustees. The Senior Officer may be terminated only with the approval of a majority of the Independent Trustees of the Federated Fund's board of trustees.

8. FIMC may manage or advise a Federated Fund only if the duties and responsibilities of the Federated Fund's Senior Officer include at least the following:

(a) monitoring compliance by the Federated Fund and its investment advisor(s) (insofar as the advisors act in connection with the Federated Fund), with: (i) federal and state securities laws; (ii) state laws respecting potential or actual conflicts of interests; (iii) their respective fiduciary duties; and (iv) applicable codes of ethics and/or compliance manuals; and

(b) managing the process by which proposed management fees (including, but not limited to, advisory fees) to be charged a Federated Fund are negotiated so that such fees are negotiated in a manner which is at arms' length and reasonable and consistent with this Assurance. Proposed management fees include, but are not limited to, renewal of existing management fee agreements or

continuation of such existing fee agreements for more than a year after approval by the Federated Fund's board of trustees.

9. FIMC may manage or advise a Federated Fund only if the reasonableness of the proposed management fees is determined by the board of trustees of the fund using either:

(a) an annual competitive bidding process, supervised by the Senior Officer, that includes at least three sealed bids with proposed management fees; or

(b) an annual independent written evaluation prepared by or under the direction of the Senior Officer that considers at least the following: (i) management fees (including any components thereof) charged to institutional and other clients (e.g., a variable annuity that is a clone of the Federated Fund) of FIMC for like services; (ii) management fees (including any components thereof) charged by other mutual fund companies for like services; (iii) costs to FIMC and its affiliates of supplying services pursuant to the management fee agreements, excluding any intra-corporate profit; (iv) profit margins of FIMC and its affiliates from supplying such services; (v) possible economies of scale as the Federated Fund grows larger; and (vi) the nature and quality of FIMC's services, including the Federated Fund's performance.

10. FIMC may manage or advise a Federated Fund only if the Senior Officer keeps the board of trustees fully and promptly informed of the bidding process or the fee evaluation process, as the case may be.

11. FIMC may manage or advise a Federated Fund only if FIMC cooperates fully and promptly with the Senior Officer and provides any information (including preparation

of summaries or other compilations of data) and documents in the possession, custody or control of FIMC that the Senior Officer requests and that relate to or concern any of the matters referenced in this section. FIMC shall promptly provide the Senior Officer with access to any director, officer or employee of FIMC and use its best efforts to cause such persons to answer any and all inquiries put to them by the Senior Officer that relate to or concern any such matters.

12. FIMC may manage or advise a Federated Fund only if the fund: (a) appoints the Senior Officer by January 1, 2006; and (b) promptly appoints a replacement who meets the requirements of this Assurance if the position of Senior Officer thereafter becomes vacant for any reason. By January 1, 2006, FIMC shall provide a written schedule to the Attorney General that identifies the name of the Federated Fund's Senior Officer and describes his or her background and compensation. FIMC shall keep the information on the schedule current and provide an updated schedule to the Attorney General within 30 days of any change in such information. For good cause shown, the Attorney General may in his sole discretion extend in writing any of the deadlines set forth in this paragraph.

13. The Senior Officer or officers hired may serve as Senior Officer to more than one fund.

14. Within 45 days of the completion of the written fee evaluation provided for in Section I.E.9(b), FIMC shall publicly disclose a summary of such evaluation and any opinions or conclusions arising from or included in the evaluation (hereinafter referred to as the "Fee Summary"). FIMC may manage or advise a Federated Fund only if the fund also publicly discloses the Fee Summary. The Fee Summary shall discuss the factors referenced in Section I.E.9(b) and sufficient specifics so that an investor in the fund can evaluate the reasonableness of

the fees; provided, however, that the Fee Summary shall not be required to include or reveal confidential, competitively sensitive data, such as (but not limited to) institutional fee rates, internal costs and profit margins. Public disclosure shall include, at least: (a) continuous, prominent posting (in downloadable format) on the Federated Fund's website of Fee Summaries of at least the two most recent fee evaluations as part of the Federated Fund description; (b) delivery of the Fee Summary of the most recent fee evaluation with the annual and semi-annual reports furnished to shareholders; and (c) prominent notice of the availability of the Fee Summary in the periodic account statements (if any) furnished by the Federated Fund to the individual direct investors.

14. In the event that the Federated Fund's Senior Officer is a person who also performs the Chief Compliance Officer duties on behalf of FIMC pursuant to Rule 206(4)-(7)(c) under the Investment Advisers Act, then (a) the Funds' Independent Trustees shall have the sole power to hire such Senior Officer, terminate such Senior Officer, set and adjust the compensation of such Senior Officer, and exercise control over such Senior Officer; (b) FIMC shall have no power to hire, terminate, or set or adjust the compensation of such Senior Officer, although FIMC may offer, and the Federated Funds' Independent Trustees may consider FIMC's opinions and recommendations as to such decisions; and (c) FIMC shall, at least once per every twelve months of such simultaneous service, cause an independent, outside review to be performed at FIMC's expense pursuant to SAS 70 or other appropriate standard with a stated focus on the independence of the Senior Officer.

F. Disclosure to Investors

In an easy to understand format, FIMC shall:

(1) include with each periodic account statement sent to investors by FIMC, its affiliates or a mutual fund to which FIMC provides management or advisory services: (a) the fees and costs, in actual dollars, on a fund-by-fund basis, charged to each investor based upon the investor's most recent quarterly closing balance; and (b) the fees and costs, in actual dollars, that would be charged a hypothetical investment of \$10,000 held for the next 10 years and the impact of such fees and costs on fund returns for each year and cumulatively, assuming a 5% return for each year and continuation of the reduced Management Fee Rates provided in section I.D. above.

(2) maintain continuous, prominent posting on its website of: (a) a calculator that will enable an investor to calculate the fees and costs, in actual dollars, on a fund-by-fund basis, charged to each investor based upon the investor's most recent quarterly closing balance; and (b) the fees and costs, in actual dollars, that would be charged a hypothetical investment of \$10,000 held for the next 10 years and the impact of such fees and costs on fund returns for each year and cumulatively, assuming a 5% return for each year and continuation of the reduced Management Fee Rates provided in section I.D. above.

(3) disclose in the applicable prospectus or amendment thereto a summary showing the fees and costs, in actual dollars, that would be charged a hypothetical investment of \$10,000 held for the next 10 years and the impact of

such fees and costs on fund returns for each year and cumulatively, assuming a 5% return for each year and continuation of the reduced Management Fee Rates provided in section I.D. above.

II. Other Provisions

A. Scope Of This Assurance of Discontinuance

1. Except as provided below, this Assurance of Discontinuance concludes the Investigation brought by the Attorney General and any action the Attorney General could commence against the Federated Companies or any of their current affiliates (other than natural persons) or any Federated Fund arising from or relating to the subject matter of the Investigation; provided however, that nothing contained in this Assurance shall be construed to cover claims of any type by any other state agency or any claims that may be brought by the Attorney General to enforce the Federated Companies' obligations arising from or relating to the provisions contained in this Assurance. This Assurance shall not prejudice, waive or affect any claims, rights or remedies of the Attorney General with respect to any person, other than the Federated Companies or any of their current affiliates (other than natural persons) and any Federated Fund, all of which claims, rights, and remedies are expressly reserved.

2. If FIMC does not make the payments as provided in Section I.A. of this Assurance (i.e., pursuant to the SEC Order) or the fee reductions as provided in Section I.D of this Assurance, or the Federated Companies commit a breach of any of their obligations under this Assurance, the Attorney General may terminate this Assurance, at his sole discretion, upon written notice to the Federated Companies and the Federated Companies agree that any statute of limitations or other time related defenses applicable to the subject of the Investigation and any

claims arising from or relating thereto are tolled from and after December 31, 2004. In the event of such termination, the Federated Companies expressly agree and acknowledge that this Assurance shall in no way bar or otherwise preclude the Attorney General from commencing, conducting or prosecuting any investigation, action or proceeding, however denominated, related to the Investigation, against the Federated Companies or from using in any way any statements, documents or other materials produced or provided by the Federated Companies after commencement of the Investigation, including, without limitation, any statements, documents or other materials provided for purposes of settlement negotiations.

3. Except in an action by the Attorney General to enforce the Federated Companies' obligations in this Assurance, neither this Assurance nor any acts performed or documents executed in furtherance of this Assurance: (a) may be deemed or used as an admission of, or evidence of, the validity of any alleged wrongdoing, liability or lack of wrongdoing or liability; or (b) may be deemed or used as an admission of or evidence of any such alleged fault of omission of the Federated Companies in any civil, criminal or administrative proceeding in any court, administrative agency or other tribunal. This Assurance shall not confer any rights upon any persons or entities who are not a party to this Assurance.

4. This Assurance is not intended by the Attorney General to subject the Federated Companies or any of their affiliates to any disqualifications under the laws of any state, the District of Columbia, Puerto Rico or territory (collectively "State"), including, without limitation, any disqualifications from relying upon the State registration exemptions or State safe harbor provisions.

5. This Assurance is not intended to disqualify the Federated Companies or

their affiliates from any business that they otherwise are qualified, licensed or permitted to perform under the applicable laws of the State of New York and any disqualifications from relying upon this state's registration exemptions or safe harbor provisions that arise from the Assurance are hereby waived.

B. Cooperation

1. The Federated Companies, their current affiliates (including, without limitation, FII), and their successors, assigns, and/or purchasers of all or substantially all their assets ("Federated Entities") agree to cooperate fully and promptly with the Attorney General with regard to any investigation, litigation or other proceeding initiated by the Attorney General or to which the Attorney General is a party, whether pending or subsequently initiated, relating to market timing or late trading. Federated Entities shall use their best efforts to ensure that all current and former officers, directors, trustees, agents and employees of Federated Entities also fully and promptly cooperate with the Attorney General.

2. Cooperation shall include, without limitation:

(a) production, voluntarily and without service of subpoena, of all documents or other tangible evidence requested by the Attorney General and any compilations or summaries of information or data that the Attorney General requests be prepared, with the exception of any information or documents with respect to which the Federated Entities have a legal or contractual obligation of confidentiality to persons or entities who are not parties to this Assurance ("Confidential Information") and information or documents protected by the attorney-client and/or work product privileges ("Privileged Information");

(b) without the necessity of a subpoena, having the then-current

officers, directors, and employees of Federated Entities attend any proceedings in New York State or elsewhere at which the presence of any such persons is requested by the Attorney General and having such then-current officers, directors, and employees answer any and all inquiries that may be put by the Attorney General to any of them at any proceedings or otherwise ("proceedings" include, but are not limited to, any meetings, interviews, depositions, hearings, trials or other proceedings), except to the extent to which such inquiries call for the disclosure of Confidential Information or Privileged Information;

(c) Federated Entities using their best efforts to cause then-current and former trustees and agents, as well as former officers, directors, and employees of Federated Entities to attend any proceedings in New York State or elsewhere at which the presence of any such persons is requested by the Attorney General and to answer any and all inquiries that may be put by the Attorney General to any of them at any proceedings or otherwise, except to the extent to which such inquiries call for the disclosure of Confidential Information or Privileged Information;

(d) fully, fairly and truthfully disclosing all information and producing all records and other evidence in its possession relevant to all inquiries made by the Attorney General, except to the extent to which such inquiries call for the disclosure of Confidential Information or Privileged Information; and

(e) making the Federated Entities' outside counsel reasonably available to provide comprehensive presentations concerning any internal investigation relating to all matters in this Assurance and to answer questions, except to the extent to which such presentations or questions call for the disclosure of Confidential Information or Privileged

Information.

3. All communications relating to cooperation pursuant to this Assurance may be made to the Federated Companies' current attorneys as follows: Reed Smith L.L.P., 435 Sixth Avenue, Pittsburgh, Pennsylvania, Attention: Thomas L. Allen, Esq., Tel. (412) 288-3066, Fax (412) 288-3063 with a copy to Federated Investors, Inc., 1001 Liberty Avenue, Pittsburgh, Pennsylvania 15222 Attention: General Counsel.

4. In the event Federated Entities fail to comply with this section of the Assurance, the Attorney General, after written notice and a 15-day opportunity to cure, shall be entitled, in addition to any other remedies in the Assurance or otherwise, to: (a) liquidated damages of \$100,000 for each day that Federated Entities are in non-compliance; and (b) specific performance.

C. **No Indemnification**

1. Except as otherwise required by applicable law, or by presently existing written agreement, including, but not limited to, presently existing articles of incorporation and presently existing by-laws of the Federated Companies and/or their affiliates, the Federated Companies shall not make any payments of indemnification or allowances of expenses respecting "market timing" and "late trading" transactions to any person, including, without limitation, current or former directors, officers, employees or agents. However, any such payments by the Federated Companies required by applicable law or by such presently existing written agreements (as described in this Paragraph II.C.1), shall be payable at the time and in the manner of the Federated Companies' choosing.

2. Nothing in this Assurance shall prevent or limit the Federated Companies

from indemnifying any fund within the Federated family of mutual funds or their successors in connection with any business combination, merger or otherwise.

D. Miscellaneous Provisions

1. This Assurance and any dispute related thereto shall be governed by the laws of the State of New York without regard to any conflicts of laws principles.

2. No failure or delay by the Attorney General in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein shall be cumulative.

3. The Federated Companies consent to the jurisdiction of the Attorney General in any proceeding or action to enforce this Assurance.

4. The Federated Companies enter into this Assurance voluntarily and represent that no threats, offers, promises or inducements of any kind have been made by the Attorney General or any member, officer, employee, agent or representative of the Attorney General to induce the Federated Companies to enter into this Assurance.

5. The Federated Companies agree not to take any action or to make or permit to be made any public statement denying, directly or indirectly, any finding in this Assurance or creating the impression that this Assurance is without factual basis. Nothing in this Paragraph affects the Federated Companies': (a) testimonial obligations; or (b) right to take legal or factual positions in any legal or administrative proceeding in which the Attorney General is not a party.

6. This Assurance may be changed, amended or modified only by a writing

signed by all parties hereto.

7. This Assurance, together with the attached Schedule, constitutes the entire agreement between the Attorney General and the Federated Companies and supersedes any prior communication, understanding or agreement, whether written or oral, concerning the subject matter of this Assurance.

8. This Assurance shall be binding upon the Federated Companies and their successors, assigns, and/or purchasers of all or substantially all its assets ("Successors") for as long as FIMC (or any Successors) continues to provide investment advisory services to the funds within the Federated family of mutual funds or any successors thereof (including any funds with which a fund within the Federated family of mutual funds is merged or its assets are transferred, or any reorganized mutual fund into which the assets of any fund within the Federated family of mutual funds are transferred) provided, however, that any Successor to FIMC may petition the Attorney General and obtain relief from such undertakings.

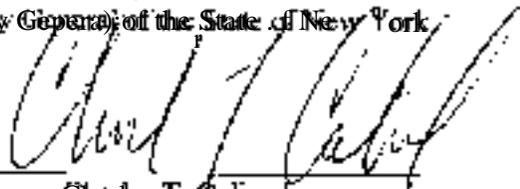
9. This Assurance shall be effective and binding only when this Assurance is signed by all parties. This Assurance may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one instrument.

WHEREFORE, the following signatures are affixed hereto on the dates set forth

below.

Dated: November ^{1.7} 2005

ELIOT SPIZZER,
Attorney General of the State of New York

By: 

Charles T. Caliendo
Assistant Attorney General
Investment Protection Bureau

SCHEDULE A

[TO BE PROVIDED IN ACCORDANCE WITH SECTION II.D.]