

**LONG ISLAND POWER AUTHORITY  
MINUTES OF THE 147th MEETING  
HELD ON SEPTEMBER 26, 2002**

Pursuant to notice dated September 19, 2002, the Long Island Power Authority (the "Authority") was convened for the one hundred and forty-seventh time at 1:15 PM at The Beach Club in Rockaway, NY.

The following Trustees of the Authority were present:

**Richard M. Kessel, Chairman  
Patrick Foye, Deputy Chairman  
Nancy A. Akeson  
Harvey Auerbach  
Thomas A. Doherty  
Robert S. Maimoni  
Nancy Nugent  
Vincent Polimeni  
Jonathan Sinnreich**

Also representing the Authority were Stanley Klimberg, General Counsel, Edward Grilli, Chief of Staff, Seth Hulkower, Chief Operating Officer, Anastasia Song, Acting Chief Financial Officer, Richard Bolbrock, Vice President – Power Markets, Christopher Furlong, Director of Customer Relations, Bert Cunningham, Vice President - Communications, Richard Bolbrock, Vice President - Power Markets, Christopher Furlong, Director of Customer Relations, Bruce Germano,

**Vice President – Retail Services, and Kathleen Stella, Secretary to the Board of Trustees.**

**Chairman Kessel welcomed the members of the public, elected officials and Board members.**

**Upon determining that a quorum was present, Chairman Kessel called the meeting to order.**

**Chairman Kessel stated that this Board meeting is the first ever held in Far Rockaway. The Chairman continued that Far Rockaway is a great community and he hoped to establish a new tradition of meeting here at least once per year.**

**Chairman Kessel indicated LIPA intends to open an office in the Rockaways so that its residents do not have to travel to the LIPA office in Hewlett. The Chairman noted that it is important for LIPA to stay in touch with its customers in all areas, including the Rockaways.**

**Chairman Kessel invited Assemblywoman Pheffer to address the Board. The Chairman indicated that Assemblywoman Pheffer is a great supporter of LIPA, and she was helpful in convincing Assembly Speaker Silver to support LIPA's acquisition of LILCO.**

**Assemblywoman Pheffer stated that she is pleased LIPA's Board is meeting in the Rockaways. She indicated that it is hard to explain to some that**

the Rockaways is a part of LIPA's service area, but the service center will provide a good opportunity for the residents to access LIPA's services.

Assemblywoman Pheffer stated that the Rockaways community worked with LIPA regarding the Florida Power and Light (FP & L) generation project, and the community is responsive to LIPA's needs because LIPA is responsive to their needs. She thanked Mr. Grilli and Ms. Burgess-Levy for devoting their time to ensure that the needs of the community were met.

Assemblywoman Pheffer stated that she urges LIPA to resolve the pending lawsuit with the City of New York concerning cost responsibility for electric facility relocations in connection with City public works projects. She added that the City is also being pressured to resolve the issue. She further indicated that she would appreciate the appointment of a Rockaways resident to the Board.

Assemblywoman Pheffer thanked LIPA for its attention to the community regarding the construction of the substation at 108<sup>th</sup> Street. She stated that the advance notice given to the community, and LIPA's attention to community concerns relating to the environment and aesthetics, have resulted in the project being successful.

Chairman Kessel expressed his thanks to Assemblywoman Pheffer, former Borough President Claire Schulman, current Borough President Helen Marshal and former Assemblywoman Cummings, now deceased, for their help particularly

with respect to the FP & L facility. The Chairman also credited Mr. Davidson and Ms. Burgess-Levy for their work with the community.

Chairman Kessel indicated that the FP & L facility in Far Rockaway outperformed most of the other new plants that were constructed over the last year, and it was critical to keeping the lights on in the Rockaways. The Chairman noted that the use of electricity in Far Rockaway has grown at an extraordinary pace, and local generation is less than demand during peak summer days. He continued that the Bayswater facility helps to meet the load inside the Rockaways, which is crucial.

Chairman Kessel indicated that the public works issue raised by Assemblywoman Pheffer is a critical and complex issue, which has also arisen in Nassau and Suffolk Counties, and he welcomed Assemblywoman Pheffer's help with the City in resolving this issue.

Chairman Kessel stated that he had concerns regarding another substation in the Rockaways at which there were several problems causing outages this summer. The Chairman indicated that LIPA is evaluating improvements that need to be made to prevent future problems.

Chairman Kessel stated that the first item on the agenda is approval of the minutes of the August 29 Board meeting. Upon motion duly made and seconded, the following resolution was approved, with Trustee Maimoni abstaining:

**601. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE AUGUST 29, 2002 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY**

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**RESOLVED**, that the Minutes of the meeting of the Authority held on August 29, 2002, are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

**\* \* \***

Chairman Kessel stated that the Board approved a complex financial transaction at the August 29 special meeting to access additional cash without adding to LIPA's debt portfolio. The Chairman stated that yesterday LIPA's staff closed the sale of an option to UBS AG to enter into a floating to fixed rate swap agreement, which will deliver to LIPA a net premium of \$92.6 million. He continued that \$82 million will be wired to LIPA's bank account on October 1, 2002, and the balance will be paid over time to LIPA in the form of a higher swap payment received from UBS AG.

Chairman Kessel indicated that UBS AG will also wire an additional \$21.6 million to LIPA on February 3, 2003, to cover the expense of the issuance of floating rate bonds. The Chairman indicated that LIPA may keep the money if there is no bond issuance, or LIPA may keep the difference if the cost of the issuance is less than the \$21.6 million. He noted that if LIPA were to have closed this transaction one day later, the value would have been about \$86 million rather than \$92 million.

Chairman Kessel thanked Ms. Song and Mr. Mahoney of PaineWebber for their creative work which will benefit LIPA's customers and LIPA's long term

financing. The Chairman also thanked the members of the Public Authorities Control Board, Governor Pataki, Assembly Speaker Silver and Senate Majority Leader Bruno, for their approval.

Chairman Kessel stated that LIPA had a healthy summer from a revenue standpoint, but much of the revenue will be offset by higher fuel costs and the costs of meeting the demand. The Chairman indicated that he has asked Ms. Song to look into some options that would benefit LIPA's customers and the long-term financial stability of LIPA.

Chairman Kessel stated that LIPA sold approximately 10 percent more electricity in June, July and August of this year as compared to last, i.e., an increase from approximately 6 million to 6.6 million MWH. The Chairman added that a significant portion of the additional revenue will pay for the operation of the plants, the cost of the new plants and fuel costs, which have risen due to instability in the Middle East.

Chairman Kessel stated that Long Island would have experienced rolling blackouts had the Board not taken initiatives such as the installation of 200 MW of temporary emergency generation and the ten new fast track power plants for Summer 2002. The Chairman stated that on most 90-degree days LIPA's demand was between approximately 4,800 to 4,900 MW, and LIPA had more than 29 days of demand greater than 4,000 MW as compared to only one such day that LILCO experienced in 1997. He added that LIPA set 10 of its 15 peak records this summer, and there were two days when demand exceeded 5,000 MW.

Chairman Kessel indicated that although it was a hot summer, the weather was not as extreme as the previous summer, yet usage still rose by 20 percent. The Chairman stated that LIPA could come close to reaching its capacity if there were to be a heat wave similar to that of 2001.

Chairman Kessel stated that although LIPA had tight days in June when LIPA lost two key transmission lines and not all plants were operating, LIPA generally had a margin of approximately 500 MW per day. The Chairman indicated that the KeySpan personnel did an extraordinary job in maintaining and running the power plants.

Chairman Kessel indicated that LIPA needs to add several hundred MW of generation for next summer to keep pace with the growth in demand. The Chairman thanked Mr. Grilli, Mr. Hulkower and Mr. Bolbrock for their efforts behind the construction of the ten new power plants and the completion of the Cross-Sound Cable. He stated that LIPA does not plan to have the benefit of the 200 MW of temporary generation next year, although it may be an option.

Chairman Kessel stated that he expects the Cross-Sound Cable will be operational next summer, but the political situation in Connecticut has made this uncertain. The Chairman continued that even though the cable is completed and ready, LIPA cannot count on it for next summer.

Chairman Kessel thanked the Board for their cooperation in allowing him to move expeditiously on these projects. The Chairman also thanked Mr. Grilli, Mr. Klimberg, Mr. Hervey, Mr. Hulkower, Mr. Cunningham, Mr. Germano and LIPA's staff who helped LIPA make it through a challenging summer.

Chairman Kessel indicated that new base load generation is not expected until at least the summer of 2005. The Chairman stated that LIPA is working to ensure a sufficient supply of power until such time.

Chairman Kessel stated that the next item on the agenda is the Operations Report, to be delivered by Mr. Hulkower. Mr. Hulkower thanked Assemblywoman Pheffer for her help relating to the new substation, which was a terrific collaborative effort. He reported that the GE temporary generation units are being dismantled in preparation for their removal. He added that the units came off-line on September 15, and LIPA is in the process of shipping them back to GE.

Mr. Hulkower reported that the Y-50 transmission line returned to full rating on September 15 and it is operating at approximately 650 MW peak capacity. He further reported that major maintenance was started on the power plants on Long Island, including Northport 3, which has been taken off-line for a six-month overhaul. He continued that an installation will be made to Northport 3 to enable it to be operated in dual mode, whereas previously it could burn only oil.

Mr. Hulkower reported that LIPA is on target to meet its marketing load growth and revenue goals, which is notable at a time when the economy is

slowing down. He further reported that LIPA's Keep Cool Air Conditioner Turn-In Bounty Program had 39,451 completed transactions against a goal of 25,000, with there being a total of 64,000 units actually turned in.

Deputy Chairman Foye asked whether LIPA has accounted for the fact that the new air conditioners are generally larger and use more power than the old units. Mr. Hulkower responded that the difference in the capacity between the old and new units is being accounted for, and Mr. Zaweski will further analyze the energy savings calculations. He continued that LIPA has ongoing discussions with NYSERDA to ensure that LIPA accurately captures the amount of energy savings.

Mr. Hulkower reported that 196 MW in accounts were added to the Peak Reduction Initiative. He noted that Brookhaven National Labs (BNL) accounted for 40 MW. He added that LIPA and NYPA convinced BNL to reschedule their largest single load, the operation of a heavy ion collider, so that it did not run from approximately June through September.

Mr. Hulkower reported that revenue collections reflect an increase in arrears, which follows the seasonal pattern. He stated that there has been a large jump in the 30-day arrears, due greatly to the fact that customers are beginning to see the high bills related to this summer's usage.

Mr. Hulkower reported that reliability performance measures have continued on a negative trend. He indicated that the trend is largely due to the

increase in storms, but LIPA does not yet have a complete picture as to the causes. He stated that LIPA is examining how to manage the system to better handle the problems caused by the weather.

Mr. Hulkower further reported that there has been an increase in the average duration of outages from 66 minutes to 71 minutes, which is a function of the fact that it takes longer to achieve repairs with the greater number of outages. He indicated that LIPA is investigating this issue, and it will be included in LIPA's budget discussions for next year.

Mr. Hulkower reported that LIPA has completed 40 percent of the scheduled tree trimming work with 61 circuits completed out of a total of 149 scheduled. He stated that LIPA is reprioritizing some of the work to focus on the more troublesome circuits.

Chairman Kessel indicated that an unusual windstorm recently caused approximately 100,000 outages. He stated that more than 80 percent of the outages were restored the same night, and almost all were restored by the next day. He noted that Connecticut experienced 124,000 outages, and they were still restoring power several days after the storm. Chairman Kessel thanked the work crews for their extraordinary efforts in restoring power on Long Island. The Chairman also thanked the management personnel at LIPA and KeySpan. He noted that each week there are conference calls held with KeySpan to evaluate the week's events and plan for future events.

Trustee Sinnreich asked which of the four operating areas was not meeting acceptable performance levels according to the report, and what was the extent of and the reason for its failure. Mr. Hulkower replied that he will research the matter and provide a response.

Trustee Maimoni inquired as to the frequency of the use of the temporary GE power units. Mr. Hulkower answered that they were used approximately three times over the course of the summer. Chairman Kessel stated that they were operated mostly to determine whether they would be functional for the intended emergency use. Mr. Hulkower indicated that the units were run on high load days. Chairman Kessel commended GE for doing a great job with the temporary generation.

Chairman Kessel stated that the next item on the agenda is the Financial Report, to be delivered by Ms. Song.

Ms. Song reported that 2002 has been a strong revenue year to date. She stated that financial statements that reflect a snapshot in time may be misleading as to the overall position for LIPA, which has highly cyclical revenues and a different cost cycle. She indicated that the Board materials may need to be updated to offer a more comprehensive picture of LIPA's overall financial position.

Ms. Song reported that August was a strong month for LIPA, changing LIPA's projection from breaking even for the year to having revenues over

expenses of \$20 million. She stated that the volatility of LIPA's financial results on a monthly or yearly basis is troublesome and largely attributable to fuel and purchased power costs. She indicated that these costs are not hedged in a systematic and comprehensive way, but LIPA will put a plan in place for the coming fiscal year to stabilize fuel and purchased power costs. She stated that despite the unpredictable results that LIPA cannot fully control, LIPA is in a good position for a positive year.

Chairman Kessel stated that the numbers look very strong, with revenues over expenses being more than four times the budgeted amount, but LIPA has a tough quarter to go, considering the slowing economy and rising fuel prices. The Chairman indicated that LIPA is in good shape, but the financial pressure is not off. He continued that there are signals indicating that LIPA must be cautious with regard to its expenditures.

Chairman Kessel indicated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman to engage Zimmerman, Edelson, Inc. to provide advertising and public relations advisory services to assist LIPA with the development and implementation of various advertising, marketing and public education programs. The Chairman stated that LIPA issued an RFP for experienced advertising firms to provide advertising and public relations advisory services for a four-year period, and 16 firms submitted written responses. He continued that LIPA's selection committee, with the assistance of Pricewaterhouse Coopers LLP, evaluated the proposals and conducted interviews of the top three proposers. He stated that Zimmerman Edelson was

selected as the best candidate based upon the proposals, interviews and an assessment of LIPA's needs.

Chairman Kessel thanked LIPA's staff for its rigorous review of the proposals. The Chairman indicated that Zimmerman Edelson has done an extraordinary job for LIPA, especially the public appeals for conservation.

Mr. Cunningham stated that LIPA has a very effective and multifaceted marketing campaign, especially with regard to energy conservation and clean energy. He indicated that success of the LIPA Edge program is attributable in part to an aggressive marketing program, and LIPA is not just marketing products and services, but also other messages such as safety. Trustee Nugent stated that the firm has also done a nice job from an aesthetic perspective, and she is pleased that LIPA will be retaining them.

Trustee Sinnreich requested that a report be made to the Board at some point regarding M/WBE compliance. Chairman Kessel answered that LIPA will provide a report to the Board in the future.

Upon motion duly made and seconded, the following resolution was approved unanimously:

#### **602. ENGAGEMENT OF ADVERTISING AND PUBLIC RELATIONS CONSULTANT**

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**RESOLVED**, that the Chairman be, and hereby is, authorized to engage Zimmerman/Edelson, Inc. as the advertising and public relations consultant to the

**Long Island Power Authority (“Authority”) and LIPA, to provide advertising and public relations advisory services and to assist the Authority and LIPA with the development and implementation of various advertising, marketing and public education programs.**

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**Chairman Kessel stated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman to engage five firms to provide accounting and related advisory and/or consulting services on an as-needed basis to LIPA. The Chairman indicated that LIPA issued an RFP seeking to engage one or more experienced firms to provide accounting and related advisory and/or consulting services on an as-needed basis, and six firms submitted written responses. He continued that LIPA’s selection committee evaluated the proposals and interviewed the five qualifying proposers; and based upon the written submissions, interviews and assessment of LIPA’s needs the selection committee concluded that it would be helpful to retain all five firms to be available to provide similar services. He explained that the retention of all five firms, namely KPMG LLP, Pricewaterhouse Coopers LLP, Public Financial Management, Transformation Associates, and Virchow, Krause & Company, LLP, would give LIPA flexibility to select the firm best suited for a particular need.**

**Ms. Song stated that LIPA has been heavily dependent on Pricewaterhouse Coopers, which has performed well, but they are LIPA’s external auditors. She continued that given the concerns regarding the segregation of consulting and auditing duties, LIPA considered that it was time to bring in some new strengths, talents and viewpoints.**

Upon motion duly made and seconded, the following resolution was approved, with Chairman Kessel abstaining only as the resolution relates to Public Finance Management:

**603. ENGAGEMENT OF FIRMS TO PROVIDE ACCOUNTING AND RELATED ADVISORY AND/OR CONSULTING SERVICES**

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**RESOLVED**, that the Chairman be, and hereby is, authorized to engage the following firms to provide accounting and related advisory and/or consulting services to the Authority and LIPA:

**KPMG LLP  
PricewaterhouseCoopers LLP  
Public Financial Management  
Transformation Associates  
Virchow, Krause & Company, LLP**

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Chairman Kessel indicated that the next item on the agenda is Board consideration of a resolution authorizing the Chairman to engage the law firms of Holland & Knight LLP, Carter Ledyard & Milburn and Kramer Levin Naftalis & Frankel LLP, to provide specialized legal services to LIPA. The Chairman stated that LIPA previously utilized the services of Holland & Knight and Carter Ledyard who were under contract with NYPA. He further stated that these firms provided invaluable assistance and advice in connection with LIPA's generation projects for Summer 2002. Chairman Kessel indicated that LIPA's MOU with NYPA is no longer in effect, but LIPA has a continuing need for the specialized services provided by these firms.

Chairman Kessel noted that Richard Leland, LIPA's environmental counsel, has recently moved from Rosenman & Colin to Kramer Levin; and Mr. Leland has represented LIPA on a number of important and complex issues, most notably issues relating to LIPA's generation projects for Summer 2002 and LIPA's wind turbine projects. The Chairman stated that it is necessary to engage Mr. Leland's new firm in order to be able to continue to utilize his substantial and unique expertise and valuable services.

Trustee Maimoni inquired as to the duration of the agreements. Mr. Klimberg answered that the term is for three years, but the agreements are terminable at LIPA's will.

Upon motion duly made and seconded, the following resolution was approved unanimously:

#### **604. ENGAGEMENT OF LAW FIRMS**

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**RESOLVED**, that the Chairman be, and hereby is, authorized to engage the law firms Holland & Knight LLP, Carter Ledyard & Milburn and Kramer Levin Naftalis & Frankel LLP, to provide legal services to the Authority and LIPA, effective September 7, 2002.

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Chairman Kessel indicated that the next item on the agenda is Board consideration of a resolution to adopt certain changes to LIPA's tariff in order to introduce a new type of traffic signal utilizing Light Emitting Diode (LED) technology that is more energy efficient. The Chairman continued that the rate

for that service would be lowered, and three separate rates pertaining to traffic signals would be established. He noted that LED traffic signals have increasingly been installed in the LIPA service area by NYPA in conjunction with NYSERDA and the Department of Transportation (DOT), and that a number of elected officials have supported a lower rate for LED signals.

Chairman Kessel indicated that the LED signal uses approximately 8 watts, compared to approximately 69 watts used by the incandescent signal. The Chairman stated that he recommends approval of LIPA staff's original proposal with the revision that the rate for LED signals be reduced by 41.9 percent as compared to the 29.4 percent reduction in that proposal. He indicated that the reduction will be met by reduced costs of fuel and generation capacity to LIPA. He noted that he agreed with the DOT's suggestion that, in order to be proportionate with energy usage, the rate for the 12-inch LED traffic signal should be set at 50 percent (not 100 percent) more than the rate for the 8-inch signal.

Chairman Kessel commended Mr. Furlong and LIPA's staff for their work on establishing rates for LED traffic signals. The Chairman noted that the rates would encourage municipalities to be more energy efficient, while covering LIPA's costs and demonstrating LIPA's own commitment to energy efficiency.

Mr. Furlong stated that the LED traffic lights conserve energy while reducing maintenance costs for the DOT, and that those lights would rarely burn out completely since there are approximately 100 LED units in each light, which will always indicate to some extent the color of the signal.

Trustee Auerbach asked whether the current tariff rates with respect to traffic signals are on a per light rather than energy consumed basis, and whether LIPA would lose money based upon the new rates. Chairman Kessel responded in the affirmative and negative, respectively.

Trustee Sinnreich asked whether LIPA has ascertained that the LED signals are as safe or safer than incandescent signals. Mr. Hulkower responded that the LED signals are stronger and have already been installed on a widespread basis throughout Long Island. Chairman Kessel added that the DOT has indicated the LED signals are easier to see, especially at night and during fog.

Upon motion duly made and seconded, the following resolution was approved unanimously

**605. ADOPTION OF REVISIONS TO LIPA'S TARIFF REGARDING TRAFFIC SIGNAL**

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WHEREAS, in February 2002, the Long Island Power Authority ("Authority") issued a Notice of Proposal Rulemaking inviting public comment on the Authority staff's proposal ("Proposal") to revise LIPA Tariff provisions relating to traffic signal lighting so as to add a separate, lower rate for Light Emitting Diode ("LED") signals, equal to \$2.97 per signal face per month; establish a separate rate for incandescent signals, equal to \$4.41 per signal face per month; establish a separate rate for the control mechanism, equal to \$7.41 per month; and make related clarifying changes to tariff language; and WHEREAS, notice of the proposed action was published in the State Register on February 20, 2002, two public hearings were held on April 9, 2002, and the public comment period has now expired, with the Authority having received comments from a total of two parties, which parties have proposed further reduction of the LED traffic signal rate in order to additionally incentives customers to use that technology; and

WHEREAS, upon further review of the Proposal and consideration of the comments received, it is in the public interest to adopt modifications to the

**Proposal in order to further reduce the rate for LED traffic signals so as to encourage use of this energy efficient technology while providing for coverage of LIPA's costs;**

**NOW, THEREFORE, BE IT RESOLVED, that for the reasons set forth herein and in the preceding Memorandum, the Proposal with the specified modifications is hereby adopted and approved; and be it further**

**RESOLVED that the attached Tariff Leaves reflecting our action herein are approved.**

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**Chairman Kessel stated that the next item on the agenda is Board consideration of resolution to allow for early retirement during the period of December 1, 2002 through February 28, 2003 without penalty pursuant to the New York State and Local Retirement System's 2002 Retirement Incentive Program. The Chairman continued that the Legislature has enacted a retirement incentive law, Part B of which mandates that participants offer a 90-day open period during which eligible Tier 2, 3 and 4 members of at least 55 years of age with 25 or more years of service credit may retire without benefit reductions. He indicated that Part B of the retirement incentive law is distinct from Part A, which provides additional service credit for eligible employees. He stated that LIPA's participation in Part A was approved at the August 29 special meeting of the Board.**

**Trustee Doherty asked whether the Part B incentive would impact LIPA. Chairman Kessel indicated that a few people may avail themselves of the retirement incentive.**

Upon motion duly made and seconded, the following resolution was approved unanimously:

**606. RESOLUTION APPROVING LIPA'S OPEN PERIOD FOR EARLY RETIREMENTS WITHOUT PENALTY UNDER THE NEW YORK STATE AND LOCAL RETIREMENT SYSTEM'S 2002 RETIREMENT INCENTIVE PROGRAM**

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**BE IT RESOLVED** that the Board of Trustees of the Long Island Power Authority does hereby elect to provide the benefits of Part B of Chapter 69 of the Laws, 2002, commencing on December 1, 2002 for all eligible employees who retire with an effective date of retirement set during the 90 day period beginning with and immediately following the commencement date and who are otherwise eligible as specified by Part B of Chapter 69, Laws of 2002.

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Upon motion duly made and seconded, the following resolution was approved unanimously:

**607. EXECUTIVE SESSION - PURSUANT TO SECTION 105 OF THE PUBLIC OFFICERS LAW**

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**RESOLVED**, that pursuant to Section 105 of the Public Officers Law, the Trustees of the Long Island Power Authority shall convene in Executive Session for the purpose of discussing litigation and personnel matters.

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At 2:45 p.m. the open session of the Board of Trustees was temporarily adjourned and an executive session of the Board of Trustees was convened.

At 2:55 p.m. the executive session was adjourned and the open session was reconvened.

After noting that no votes were taken in the executive session, Chairman Kessel entertained a motion to adjourn. Upon motion duly made and seconded, the Board voted unanimously to adjourn the meeting at 2:56 PM.

Respectfully submitted,

Stanley B. Klimberg