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February 25, 2008

Headnote

Mutual Reliance Review System for Exemptive Relief Applications

Securities Act s. 114(2) Issuer Bids - Exemption from Issuer Bid Requirements - An issuer conducting an issuer bid under a modified dutch auction procedure requires relief from the requirement to take up and pay for securities deposited on a pro rata basis and the associated disclosure requirement - The issuer is disclosing the maximum number of shares it will acquire under the bid, and the minimum and maximum amount it will pay for shares tendered; as a result, the potential for confusion is minimal

Securities Rules s. 162(3) - Exemption from the Valuation Requirements - An issuer wants relief from the requirement to obtain a formal valuation in connection with an issuer bid for its outstanding securities - A liquid market for the issuer's securities exists prior to the bid; after the bid, there will be a market for the issuer's securities that is not materially less liquid than before the bid

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, s. 105(g), 114(2)

Securities Rules, B.C. Reg. 194/97, ss. 162(2) and 162(3)

Form 62-903F, Item 2 & Item 9

In the Matter of
the Securities Legislation of
British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec,
Nova Scotia, and New Brunswick
(the Jurisdictions)

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In the Matter of
Coastal Contacts Inc.
(the Filer)

MRRS Decision Document

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Background

- ¶ 1 The local securities regulatory authority or regulator (the Decision Maker) in each of the Jurisdictions has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the Legislation) that, in connection with the proposed purchase by the Filer of a portion of its outstanding common shares (Shares) under an issuer bid (the Offer), the Filer be exempt from the requirements in the Legislation:
- (a) to take up and pay for the Shares proportionately according to the number of securities deposited by each shareholder, and provide disclosure in the issuer bid circular dated January 18, 2008 and filed on SEDAR (the Circular) of the proportionate take up and payment (the Proportionate Take Up Requirement); and
 - (b) except in Ontario and Quebec, to obtain a formal valuation of the Shares and provide disclosure in the Circular of such valuation, or a summary thereof (the Valuation Requirement) (collectively, the Requested Relief).

Under the Mutual Reliance Review System for Exemptive Relief Applications

- (a) the British Columbia Securities Commission is the principal regulator for this application; and
- (b) this MRRS decision document evidences the decision of each Decision Maker.

Interpretation

- ¶ 2 Defined terms contained in National Instrument 14-101 *Definitions* have the same meaning in this decision unless they are defined in this decision.

Representations

- ¶ 3 This decision is based on the following facts presented by the Filer:
- 1. the Filer is incorporated under the *Canada Business Corporations Act* with its head office in Vancouver, British Columbia;
 - 2. the Filer is authorized to issue an unlimited number of Shares and an unlimited number of preferred shares without par value; as of January 17, 2008, the filer had 71,075,212 Shares and no preferred shares issued and outstanding;
 - 3. the Shares trade on the Toronto Stock Exchange (TSX) under the trading symbol "COA";

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4. the Filer is a reporting issuer in British Columbia, Alberta, Manitoba, Ontario and Quebec and, to its knowledge, is not in default of any requirement of the Legislation;
5. to the Filer's knowledge and based on publicly available information, the only Shareholders that, as of January 17, 2008, held greater than 10% of the Shares were Roger Hardy, the Corporation's Chairman, Chief Executive Officer and President, who held 9,911,569 Shares representing approximately 13.9% of the issued and outstanding Shares, and Montrusco Bolton Investments Inc., which held 9,183,000 Shares representing approximately 12.9% of the issued and outstanding Shares;
6. the Filer intends to acquire up to 7,000,000 Shares (the Specified Number of Shares) under the Offer;
7. as specified in the Circular, the Filer is conducting the Offer pursuant to a modified Dutch auction procedure (the Dutch Auction) as follows:
 - (a) the Filer will offer to purchase up to the Specified Number of Shares;
 - (b) the Filer will purchase Shares within a price range (the Price Range) of not less than \$1.10 and not more than \$1.25 per Share;
 - (c) each holder of Shares (collectively, the Shareholders) wishing to tender to the Offer will have the right either to:
 - (i) specify the lowest price within the Price Range at which such Shareholder is willing to sell its tendered Shares (an Auction Tender), or
 - (ii) not specify a price but elect to be deemed to have tendered the Shares purchased at the Purchase Price (determined according to subparagraph (d) below) (a Purchase Price Tender);
 - (d) the price per Share (Purchase Price) for the Shares tendered to the Offer and not withdrawn will be the lowest price that will enable the Filer to purchase up to Specified Number of Shares, and will be determined based upon the number of Shares tendered and not withdrawn under Auction Tenders or Purchase Price Tenders, with each Purchase Price Tender being considered a tender at the lowest price within the Price Range for the purpose of calculating the Purchase Price;

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- (e) the total dollar amount the Filer will spend under the Offer will remain variable until the Purchase Price is determined and the pro-rating is calculated in accordance with the procedures outlined on subparagraph (j) below;
- (f) subject to pro ration and the exception relating to “Odd-Lot” deposits described in subparagraph (j) below, all Shares tendered at or below the Purchase Price, whether through an Auction Tender or a Purchase Price Tender, will be taken up and paid for at the Purchase Price;
- (g) all Shares tendered pursuant to Auction Tenders at tender prices within the Price Range but above the Purchase Price will not be purchased by the Filer and will be returned to the tendering Shareholders;
- (h) all Shares tendered by Shareholders who specify a tender price for such Shares that is outside the Price Range, or which are otherwise not properly deposited in accordance with the terms of the Offer, will be considered to have been improperly tendered, will be excluded from the determination of the Purchase Price, will not be purchased by the Filer and will be returned to the tendering Shareholders;
- (i) all Shares tendered and not withdrawn by Shareholders who fail to indicate whether they have tendered their Shares under an Auction Tender or a Purchase Price Tender, or who tender their Shares under an Auction Tender but fail to specify any tender price for such tendered Shares, or who indicate that they have tendered the same Shares to both an Auction Tender and a Purchase Price Tender, will be considered to have been tendered pursuant to a Purchase Price Tender;
- (j) if the number of Shares tendered at or below the Purchase Price is greater than the Specified Number of Shares, the Filer will purchase the tendered Shares on a *pro rata* basis, except that, to prevent “Odd Lot” deposits, the Filer will first purchase and not pro-rate the Shares properly deposited by each Shareholder who owns fewer than 100 Shares and who properly tenders all such Shares at or below the Purchase Price;
- (k) if the Offer is under-subscribed by the initial expiration date but all the terms and conditions thereof have been complied with except those waived by the Filer, the Filer may extend the Offer for at least 10 days, in which case Filer will first take up and pay for all Shares tendered at that time and not withdrawn in accordance with the Legislation; and

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- (l) in the event of an extension of the Offer by the Filer that is followed by an over-subscription due to tenders received during the extension, the Filer will pro-rate only among the tendered Shares received during the extension (subject to the exception relating to “Odd Lot” deposits described in subparagraph (j) above);
- 8. prior to the expiry of the Offer, all information regarding the number of Shares tendered and the prices at which such Shares are tendered will be kept confidential by the depositary under the Offer, and the depositary will be directed by the Filer to maintain such confidentiality until the Purchase Price has been determined;
- 9. the Filer cannot comply with the Proportionate Take Up Requirement due to the Dutch Auction procedure and exception for “Odd-Lot” deposits described in paragraph 7 above;
- 10. the Filer intends to rely upon the exemptions from the Valuation Requirement in subsections 1.2(1)(b) and 3.4(3) of Ontario Securities Commission Rule 61-501 (Rule 61-501) and subsections 1.3(1)(b) and 3.4(3) of Quebec Regulation Policy Statement Q-27 (Regulation Q-27) (the Presumption of Liquid Market Exemptions);
- 11. in accordance with the requirements of the Presumption of Liquid Market Exemptions:
 - (a) there is a published market for the Shares, being the TSX;
 - (b) the Filer has received from a company that is qualified and independent of all interested parties to the Offer, determined in accordance with subsection 1.2(1)(b)(ii) of Rule 61-501 and subsection 1.3(1)(b)(1) of Regulation Q-27, an opinion (the Liquidity Opinion) that there was a liquid market in the Shares as at the date the Offer was publicly announced;
 - (c) the Liquidity Opinion states that it is reasonable to conclude that, following the completion of the Offer, there will be a market for the beneficial owners of Shares who do not tender to the Offer that is not materially less liquid than the market that existed at the time of the making of the Offer; and
 - (d) the Circular includes the Liquidity Opinion and the disclosure relating to the Liquidity Opinion required under subsection 1.2(1)(b)(iv) of Rule 61-501 and Section 6.2 of Regulation Q-27, together with a statement that the

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TSX has sent a letter to the respective Directors of the Ontario Securities Commission and the Autorité des marchés financiers indicating its concurrence with the Liquidity Opinion;

12. based on the Liquidity Opinion, the Filer has determined that it is reasonable to conclude that, following completion of the Offer, there will be a market for the beneficial owners of Shares who do not tender to the Offer that is not materially less liquid than the market that exists at the time the Offer was made; and

13. the Circular:

- (a) discloses the mechanics for the take-up of and payment for, or the return of, Shares as described in paragraph 7 above;
- (b) explains that, by tendering Shares at the lowest price in the Price Range or under a Purchase Price Tender, a Shareholder can reasonably expect that the Shares so tendered will be purchased at the Purchase Price, subject to pro ration as described in paragraph 7 above;
- (c) describes the background to the Offer;
- (d) describes the review and approval process adopted by the board of directors of the Filer in relation to the Offer, including any materially contrary view or abstention by a director;
- (e) discloses the fact that the Filer has applied for an exemption from the Proportionate Take Up Requirement and the Valuation Requirement in connection with the Offer;
- (f) discloses the facts supporting the Filer's reliance on the Presumption of Liquid Market Exemptions; and
- (g) except to the extent exemptive relief is granted by this decision, contains the disclosure prescribed by the Legislation for issuer bids.

Decision

- ¶ 4 Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met.

The decision of the Decision Makers under the Legislation is that the Requested Relief is granted provided that:

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- (a) Shares deposited under the Offer and not withdrawn are taken up and paid for, or returned to Shareholders, in the manner described in paragraph 7 above; and
- (b) for the Valuation Requirement, the Filer can rely on the Presumption of Liquid Market Exemptions.

Martin Eady, CA
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British Columbia Securities Commission