

2004 BCSECCOM 239

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - Relief granted from the valuation requirement in connection with an offer by the issuer for out-of-the-money convertible debentures - conversion feature of no material value – debentures trade like non-convertible, unsecured debt – circular to include summary of opinion letter on convertibility feature

Applicable British Columbia Provisions

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

**IN THE MATTER OF THE SECURITIES LEGISLATION OF ONTARIO,
ALBERTA, BRITISH COLUMBIA, MANITOBA, NEWFOUNDLAND
AND LABRADOR, NOVA SCOTIA, QUEBEC AND SASKATCHEWAN**

AND

**IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM OR
EXEMPTIVE RELIEF APPLICATIONS**

AND

IN THE MATTER OF STERLING CENTRECORP INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the “Decision Maker”) in each of Ontario, Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, Quebec and Saskatchewan (the “Jurisdictions”) has received an application (the “Application”) from Sterling Centrecorp Inc. (“Sterling”) for a decision under the securities legislation of the Jurisdictions (the “Legislation”) that the requirement contained in the Legislation to obtain a formal valuation (the “Valuation Requirement”) of the 7.25% Convertible Unsecured Subordinated Debentures due December 31, 2004 (the “Debentures”) shall not apply to Sterling in connection with its proposed offer (the “Offer”) to acquire its outstanding Debentures pursuant to a formal issuer bid;

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the “System”), the Ontario Securities Commission is the principal regulator for this Application;

AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 Definitions or in Agence nationale d'encadrement du secteur financier Notice 14-101;

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AND WHEREAS Sterling has represented to the Decision Makers that:

1. Sterling is governed by the *Business Corporations Act* (Ontario). Its head office is located in Markham, Ontario.
2. Sterling is a reporting issuer or the equivalent in each Jurisdiction and is not in default of any requirements of the Legislation.
3. Sterling's authorized capital consists of an unlimited number of special shares and an unlimited number of common shares (the "Common Shares"). As at February 9, 2004, there were no special shares outstanding and 35,742,584 Common Shares were issued and outstanding.
4. As at February 9, 2004, Sterling had outstanding Debentures in the aggregate principal amount of \$25,570,000.
5. The Common Shares and the Debentures are listed on the Toronto Stock Exchange (the "TSX").
6. To the knowledge of management of Sterling, no person holds more than 10% of the aggregate principal amount of the Debentures.
7. The Debentures were issued under a trust indenture dated as of August 29, 1997 (the "Indenture") between Sterling and CIBC Mellon Trust Company, as trustee, and distributed to the public pursuant to a prospectus dated August 19, 1997.
8. Since December 31, 2002, Sterling has been entitled to redeem the Debentures in whole or, from time to time, in part, at any time at par plus accrued and unpaid interest up to the date of redemption.
9. Sterling may, at its option and subject to all regulatory approvals, elect to redeem the Debentures by payment of that number of Common Shares (the "Share Redemption Option") determined by dividing the aggregate principal amount of the outstanding Debentures by 95% of the weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending 5 trading days preceding the redemption date.
10. Sterling has no intention of triggering the Share Redemption Option prior to, or during the course of, the Offer.

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11. The Indenture provides that Sterling may purchase for cancellation any or all of the Debentures at any time in the open market, by pro rata offer, by tender or by private contract, provided that Sterling is not in default under the Indenture. Sterling is not in default under the Indenture. There are no other restrictions upon Sterling's ability to purchase the Debentures.
12. The Debentures are unsecured and subordinated and are convertible at the holder's option into Common Shares at any time up to and including the close of business on the last business day before their maturity date of December 31, 2004, at a conversion price of \$7.25 per Common Share.
13. Over the twelve month period immediately preceding February 6, 2004, the Debentures traded on the TSX on only 120 out of the 261 trading days, with an average daily trading price of \$70.38 on the days traded, a price range per \$100 principal amount of \$63.00 to \$75.50 and an average daily volume of \$4,900 on the days traded.
14. Over the twelve month period immediately preceding February 6, 2004, the Common Shares have traded on the TSX in a range between \$0.66 and \$1.20 per Common Share with an average daily volume of 7,908 shares.
15. On February 6, 2004, the closing price of the Debentures on the TSX was \$75.00 per \$100 principal amount of Debentures and the closing price of the Common Shares on the TSX was \$0.95 per Common Share or approximately 13% of the conversion price of the Debentures of \$7.25 per Common Share.
16. In a letter (the "RBC Letter") dated February 6, 2004, RBC Dominion Securities Inc. ("RBCDS") advised Sterling that, in RBCDS's opinion:
 - (i) the conversion feature of the Debentures is of no material value; and
 - (ii) the Debentures trade on the TSX like non-convertible, subordinated, unsecured debt based on the underlying creditworthiness of Sterling.
17. Under the terms of the Offer, Sterling will offer to purchase all of the outstanding Debentures for a cash purchase price of \$80 for each \$100 principal amount of existing Debentures.
18. The Offer will be an "issuer bid" within the meaning of the Legislation because the Debentures are convertible debt securities.

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19. The Offer will be made in compliance with the requirements in the Legislation applicable to formal bids made by issuers, except to the extent exemptive relief is granted by the Decision Makers.

20. The issuer bid circular provided to holders of the Debentures in connection with the Offer will include a summary and a copy of the RBC Letter.

AND WHEREAS pursuant to the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the “Decision”);

AND WHEREAS 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:

- (A) in connection with the Offer, the Valuation Requirement contained in the Legislation shall not apply to Sterling, provided that:
 - (i) prior to or during the course of the Offer, Sterling shall not have indicated any intention of triggering the Share Redemption Option;
 - (ii) at the date the Offer is made, RBCDS shall have confirmed in writing to Sterling that the conclusions stated in the RBC Letter remain valid as of the day before the Offer is made; and
 - (iii) Sterling complies with the other requirements in the Legislation applicable to formal bids made by issuers, and
- (B) this Decision and the Application shall be held in confidence by the Decision Makers until the earlier of (a) public disclosure of the Offer and (b) April 16, 2004.

Dated March 8, 2004.

Ralph Shay, Director,
Take-over/Issuer Bids, Mergers & Acquisitions