

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

***Request to Approve a Time Extension for the
Initial Term of the Regulatory Agreement¹***

**Edwards Lifesciences LLC
Application No. 19-SM029**

Tuesday, May 17, 2022

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Edwards Lifesciences LLC

Location – Irvine, Orange County

Industry – Cardiovascular Technology Manufacturing

Project – Upgrade and Expansion of Existing Cardiovascular Technology Manufacturing Facility (Advanced Manufacturing)

Total Amount Qualified Property Approved– \$239,234,449

Estimated Sales and Use Tax Exclusion Amount at Approval² – \$20,000,000

Amount of Time Requested –

- One year, until June 18, 2023, for the Initial Term of the Regulatory Agreement (four years from the date of initial CAEATFA Board approval)

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Sales and Use Tax Exclusion Program's statutes and regulations.

² This amount is calculated based on the average statewide sales tax rate at the time of initial approval, which was 8.36%.

REQUEST

On June 18, 2019, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for Edwards Lifesciences LLC (the “Applicant”) for the purchase of up to \$239,234,449 in Qualified Property to upgrade and expand its existing cardiovascular technology design and manufacturing facility located in Irvine (the “Project”). The Regulatory Agreement (“Agreement”) initial term provided the Applicant with three years from the date of CAEATFA Board approval to utilize its STE award.³

As of March 2022, the Applicant has used the STE to purchase approximately \$186.4 million of Qualified Property (78% of the total Qualified Property approved). The Applicant is requesting to extend the Agreement initial term by one year to accommodate delays as a result of COVID-19, which has impacted the Project’s purchasing, redesign, and construction timelines.

The CAEATFA Board can extend the initial term of the Agreement upon a finding that an extension is in the public interest and advances the purposes of the STE Program.⁴

The Applicant states it was in process to completing the Project as initially planned but experienced delays after the COVID-19 pandemic was declared at the beginning of 2020. According to the Applicant, it had to strategically execute purchase orders to mitigate issues caused by market uncertainties. This included careful management and limited use of capital for fixed asset upgrades and research and development. The Applicant also faced challenges when it came to its contractors. According to the Applicant, many of the contractors had difficulty adhering construction timelines because of material sourcing issues and a labor shortage. As such, this led to renegotiation of its construction contracts. Furthermore, the Applicant states that it had to spend additional time redesigning the facility to accommodate mandatory COVID-19 safety measures.

According to the Applicant, all necessary health and safety measures have been properly implemented, and the redesign of the facility has been finalized to suit all business needs during the pandemic and into the future. The challenges with its contractors have been addressed and the Applicant states it is on schedule to purchasing the rest of the Qualified Property through the Spring of 2023, which will occur before the one-year extension request concludes.

THE APPLICANT

Edwards Lifesciences LLC is a Delaware limited liability company established in February 2000 and headquartered in Irvine. The Applicant is a wholly owned subsidiary of Edwards Lifesciences Corporation, a publicly traded company under the symbol EW on the NASDAQ stock exchange. The Applicant partners with the world’s leading clinicians and researchers to design, manufacture, market and sell nonsurgical and minimally invasive products and technologies to treat cardiovascular disease.

³ California Code of Regulations Title 4, Division 13, Section 10035(b)(1)(A)

⁴ California Code of Regulations Title 4, Division 13, Section 10035(b)(1)(B)

The major shareholders (10.0% or greater) of the Applicant are:
Edwards Lifesciences Corporation (100%)

The corporate officers of the Applicant are:

Michael Mussallem, Chairman & CEO
Scott Ullem, VP & CFO
Todd Brinton, VP - Chief Scientific Officer
Donald Bobo, VP – Strategy & Development
Arnold Pinkston, VP – General Counsel

THE PROJECT

The Applicant requested a sales and use tax exclusion to upgrade and expand its existing cardiovascular technology design and manufacturing facility located in Irvine. The Applicant states it will produce a broad range of technologies for the treatment of cardiovascular diseases. These primarily consist of transcatheter heart valves (“THV”), surgical heart valves, and hemodynamic (blood flow) monitoring systems and related devices. The human heart has four valves: tricuspid, pulmonary, mitral and aortic. The Applicant states it is engaged in the research and design of transcatheter heart valve replacement and technologies to treat mitral and tricuspid valve related diseases in addition to its aortic valve products.

The Applicant states that its THV and surgical heart valve products are made using an advanced biomaterial derived from bovine (cattle) pericardial tissue called RESILIA. According to the Applicant, this form of tissue provides improved qualities and extends life expectancy for patients when compared to standard mechanical valves. As part of the quality and control process, the Applicant states it will utilize high-speed machine vision systems and high-resolution and 3D imaging microscopes to inspect its valves before certifying that they are safe for use. The Applicant will also utilize automated and programmed robotics that have the capability to perform a number of tasks such as installing and removing screws and electromechanical polishing of fine metals. The Applicant’s prototyping process will consist of laser cutting and 3D printing devices that make prototypes with parts that are smaller than 20 microns (.00078 inches). According to the Applicant, the 3D printers are expected to represent more than two-thirds of its machining efforts, replacing traditional CNC machining. Moreover, Edwards will be installing high efficiency LED lights and solar panels to help reduce its energy consumption by 10%.

AGREEMENT INITIAL TERM EXTENSION REQUEST

The Applicant has requested that the initial term of the Agreement be extended from June 18, 2022, to June 18, 2023, in order to accommodate delays as a result of COVID-19, which has impacted the Applicant’s purchasing, redesign, and construction timelines

Staff Evaluation

In making a recommendation, Staff acknowledges that the COVID-19 pandemic has impacted several industries, including the medical industry. While the Applicant previously had to limit its

spending capacity to mitigate any unforeseen issues and potential long-term effects, the Applicant states it has re-evaluated its books and has determined there continues to be a market for its products. For this reason, the Applicant is confident it can complete the Project and has resumed making equipment purchases to expand its facility. Staff notes that construction contractor issues is also a common theme for businesses and that during the pandemic, contractors not only faced material sourcing and labor issues, but were not able to perform optimally due safety guidelines. With the new plant design recently completed and the state partially reopening in 2021, the Applicant states the Project is on schedule to being completed by the Spring of 2023.

Based on this information, Staff believes extending the initial term of the Agreement will allow for the Project to be completed, and is, therefore, in the public interest and advances the purposes of the STE Program.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with STE Program regulations,⁵ the Applicant has paid an additional fee of \$2,000 because extending the initial term qualifies as a modification to the Applicant's Agreement.

RECOMMENDATION

Staff recommends that the Board approve the Applicant's request to extend the initial term of the Agreement by one year to June 18, 2023, as it is in the public interest and advances the purposes of the STE Program.

Attachments

Attachment A: Edwards Lifesciences LLC's letter requesting waiver (March 13, 2022)
Attachment B: Edwards Lifesciences LLC's staff summary at the time of approval

⁵ California Code of Regulations Title 4, Division 13, Section 10036(c)(1)(B)

**RESOLUTION APPROVING A TIME EXTENSION FOR
EDWARDS LIFESCIENCES LLC’S INITIAL TERM FOR
THE REGULATORY AGREEMENT**

May 17, 2022

WHEREAS, on June 18, 2019, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, approved a Sales Tax Exclusion (“STE”) in the amount of \$239,234,449 of Qualified Property for **Edwards Lifesciences LLC** (the “Applicant”); and

WHEREAS, within three (3) years of approval by the Authority, the Applicant must make all Qualified Property purchases (STE Program regulations Section 10035(b)(1)(B)); and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three (3) years of Application approval (STE Program regulations Section 10035(b)(1)(B)); and

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three (3) years by June 18, 2022, due to unexpected delays in the Project timeline, extending the term by one (1) year to June 18, 2023; and

WHEREAS, granting the waiver will allow the Project to proceed and the state to receive the anticipated environmental and economic benefits that justified the initial approval of the Project in accordance with the law, thereby advancing both the public interest and the purposes of the Program.

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Program to extend the Applicant’s initial term of the Regulatory Agreement to June 18, 2023.

Section 2. This resolution shall take effect immediately upon its passage.

Attachment A: Edwards Lifesciences LLC's Letter Requesting Waiver (March 13, 2022)



March 13, 2022

CAEATFA
Attn: Xee Moua, Program Analyst
915 Capitol Mall Room 587
Sacramento, CA 95814

RE: CAEATFA STE Master Regulatory Agreement ("MRA") Extension Request – Edwards Lifesciences, LLC (19-SM029)

Dear CAEATFA Board Members & Staff,

Edwards Lifesciences, LLC ("Edwards") respectfully requests a 12-month extension, until June 18, 2023 on its CAEATFA STE MRA in order to procure its remaining CAEATFA STE qualified property.

Upon receipt of the award, Edwards made substantial progress on the renovation and expansion of the Irvine facility. Unfortunately, the uncertainty surrounding the COVID-19 pandemic created unexpected delays to the Project at the beginning of 2020. As a result of COVID-19 pandemic, Edwards experienced the following delays:

- Uncertainty in the global markets, specifically in the healthcare sector caused increased focus on expenditures and management to temporarily limit discretionary spending including fixed asset upgrades and R&D.
- Challenges with contractors adhering to timelines causing renegotiation of contracts related to difficulties with sourcing materials and widespread labor shortages.
- Excess time required to redesign project plans to include required safety measures to mitigate the spread of COVID-19.

Despite the obstacles presented by COVID-19, the Company continues to see growth and high demand for its products. As of December of 2021, the company has purchased approximately \$186.4M or 78% of the Qualified Property. With the reopening of California in 2021 and high-volume of vaccinations, the expansion and upgrade of the Irvine facility is moving forward in full swing and the Company has a strategic plan to acquire the remaining production equipment over the next year. Edwards fully expects to acquire qualified property equal to the remainder of their award by Spring of 2023. Please reach out to us with any questions. Thank you in advance for your time and careful consideration.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alex Tran'.

Alex Tran
Consultant Representative

cc: xee.moua@treasurer.ca.gov
CAEATFA@sto.ca.gov
alex.tran@CALincentives.com
sarah.hoyt@CALincentives.com

Attachment B: Edwards Lifesciences LLC’s Staff Summary at the Time of Approval

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Resolution No. 19-SM029
Application No. 19-SM029

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

Request to Approve Project for Sales and Use Tax Exclusion (STE)¹

**Edwards Lifesciences LLC
Application No. 19-SM029**

Tuesday, June 18, 2019

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Edwards Lifesciences LLC

Location – Irvine, Orange County

Industry – Cardiovascular Technology Manufacturing

Project – Upgrade and Expansion of Existing Cardiovascular Technology Manufacturing
Facility (Advanced Manufacturing)

Value of Qualified Property – \$239,234,449

Estimated Sales and Use Tax Exclusion Amount² – \$20,000,000

Application Score –

Fiscal Benefits Points:	1,049
<u>Environmental Benefits Points:</u>	<u>30</u>
Net Benefits Score:	1,079
 <u>Additional Benefits Points:</u>	 <u>80</u>
Total Score:	1,159

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.36%.

Agenda Item – 4.A.2
Resolution No. 19-SM029-02

Agenda Item – 4.A.15
Resolution No. 19-SM029
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THE APPLICANT

Edwards Lifesciences LLC (“Edwards” or the “Applicant”) is a Delaware limited liability company established in February 2000 and headquartered in Irvine. The Applicant is publicly traded under the symbol EW and partners with the world’s leading clinicians and researchers to design, manufacture, market and sell nonsurgical and minimally invasive products and technologies to treat cardiovascular disease.

The corporate officers of Edwards are:
Michael Mussallem, Chief Executive Officer
Scott Ullem, Chief Financial Officer
Todd Brinton, Chief Scientific Officer
Donald Bobo, Vice President, Strategy & Development
Aimee Weisner, Vice President, General Counsel

THE PROJECT

Edwards is requesting a sales and use tax exclusion to upgrade and expand its existing cardiovascular technology design and manufacturing facility located in Irvine (the “Project”). Edwards states it will produce a broad range of technologies for the treatment of cardiovascular diseases. These primarily consist of transcatheter heart valves (“THV”), surgical heart valves, and hemodynamic (blood flow) monitoring systems and related devices. The human heart has four valves: tricuspid, pulmonary, mitral and aortic. Edwards states it is currently engaging in the research and design of transcatheter heart valve replacement and technologies to treat mitral and tricuspid valve related diseases in addition to its aortic valve products.

The Applicant represents that its THV and surgical heart valve products are made using an advanced biomaterial derived from bovine (cattle) pericardial tissue called RESILIA. According to Edwards, this form of tissue provides improved qualities and extends life expectancy for patients when compared to standard mechanical valves. As part of the quality and control process, Edwards states it will utilize high-speed machine vision systems and high-resolution and 3D imaging microscopes to inspect its valves before certifying that they are safe for use. Edwards will also utilize automated and programmed robotics that have the capability to perform a number of tasks such as installing and removing screws and electromechanical polishing of fine metals. Edwards’ prototyping process will consist of laser cutting and 3D printing devices that make prototypes with parts that are smaller than 20 microns (.00078 inches). According to Edwards, the 3D printers are expected to represent more than two-thirds of its machining efforts, replacing traditional CNC machining. Moreover, Edwards will be installing high efficiency LED lights and solar panels to help reduce its energy consumption by 10%.

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Figure 1: Transcatheter Heart Valve

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Manufacturing/Production Machinery, Equipment and Materials	\$ 65,596,949
Facility Buildout, Upgrades and Infrastructure Improvements	71,850,000
Design, Engineer, and Research & Development Property	45,505,000
Tooling Equipment and Materials	3,592,500
Logistics, Transport, Storage Systems and Related Property	14,370,000
Lab Instruments and Devices	5,987,500
Quality Control, Testing, Prototyping and Related Property	20,357,500
Computers, Information Technology and Related Property	<u>11,975,000</u>
Total	<u>\$239,234,449</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components (of the Project) over original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation, or for other reasons.

TIMELINE

The Applicant states it plans to upgrade existing production, research, design, testing, and prototyping equipment over the next three years starting in Q2 of 2019. The Applicant also states that it will have two buildout phases for the Project; the first phase will be to construct 200,000

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to 250,000 square feet of Project space by Q3 2020, and the second phase will be to construct an additional 225,000 to 275,000 square feet, commencing in Q4 2020.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 1,159 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 30 points, which exceeds the 20-point threshold.

- A. Fiscal Benefits (1,049 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes, and other indirect fiscal benefits of the Applicant, which amounts to \$20,979,059, resulting in a Fiscal Benefits score of 1,049 points for the Project.
- B. Environmental Benefits (30 points).** The Project will result in an Environmental Benefits Score of 30. The Applicant received points in the following categories:
- 1. Energy Consumption (10 of 30 points).** The Applicant represents that the Project will result in a 10 percent reduction in energy consumption compared to the Applicant's previous manufacturing process.
 - 2. Solid Waste (5 of 30 points).** The Applicant represents that the Project will result in a five percent reduction in solid waste produced relative to the Applicant's previous manufacturing process.
 - 3. Hazardous Waste (6 of 30 points).** The Applicant represents that the Project will result in a six percent reduction in hazardous waste produced relative to the Applicant's previous manufacturing process.
 - 4. Air Pollutants (9 of 30 points).** The Applicant represents that the Project will result in a nine percent reduction in air pollutants produced relative to the Applicant's previous manufacturing process.
- C. Additional Benefits (80 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 80 additional points.
- 1. Production Jobs (30 of 75 points).** The Applicant represents that the Project will support a total of 974 production-related jobs at its Facility. CAEATFA estimates that approximately 44 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE, resulting in a Permanent Jobs Score of 30 points for the Project.

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2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of 90 construction jobs at its Facility. CAEATFA estimates that approximately four of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
3. **Research and Development Facilities (25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to the cardiovascular technologies production process that is the subject of this Application.
4. **Workforce Partnerships (25 points)**. The Applicant has a partnership with some of the top schools in the U.S. such as Cal Tech, Stanford, Harvard, MIT, Duke, Cal, USC, UCLA, UCSD, and UCI for the purpose of training the workers at the Facility and/or for the purposes of assisting in the training of potential future workers.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, all permits needed for the Project such as building, installation, and operational permits have been approved and are in good standing with the City of Irvine.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,³ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$350,000.

³ California Code of Regulations Title 4, Division 13, Section 10036

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RECOMMENDATION

Staff recommends approval of Resolution No. 19-SM029 for Edwards Lifesciences LLC's purchase of Qualified Property in an amount not to exceed \$239,234,449, anticipated to result in an approximate sales and use tax exclusion value of \$20,000,000.

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**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH EDWARDS LIFESCIENCES LLC**

June 18, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Edwards Lifesciences LLC** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement to acquire Project equipment with an estimated cost not to exceed \$239,234,449 over a period of three years; and

WHEREAS, the Applicant believes that this form of financial assistance will enable it to avail itself of the benefits of an exclusion from sales and use taxes relative to the Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority to execute the necessary documents to effectuate the Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The requested master regulatory agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(a)(6).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(a)(7).

Section 4. The Executive Director, Deputy Executive Director, or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to the Project as the Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

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Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant's Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances, be carried out or assumed by a successor or assignee entity, or by an affiliate of the Applicant.

Section 6. Each of the Authorized Signatories, acting alone, is hereby authorized and directed to do any and all ministerial acts, including (without limitation) the execution and delivery of any and all documents and certificates they may deem necessary or advisable in order to consummate the Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property listed in the semi-annual reports pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. This Resolution is effective immediately and will remain in full force and effect unless the Regulatory Agreement, as defined in CAEATFA Regulations Section 10035(a), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.