

PRINCIPAL FINANCIAL GROUP INC

Form S-3

November 06, 2007

**Table of Contents**

**As filed with the Securities and Exchange Commission on November 6, 2007  
Registration Nos. 333- and 333-**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**Form S-3  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**Principal Life Insurance Company**  
*(As depositor and sponsor of the trusts described herein  
and  
as issuer of the funding agreements described herein)  
(Exact name of registrant as specified in its charter)*

**Principal Financial Group, Inc.**  
*(As issuer of the guarantees described herein)  
(Exact name of registrant as specified in its charter)*

**Iowa**  
*(State or other jurisdiction of incorporation or  
organization)*

**Delaware**  
*(State or other jurisdiction of incorporation or  
organization)*

**42-0127290**  
*(I.R.S. Employer Identification Number)*

**42-1520346**  
*(I.R.S. Employer Identification Number)*

**711 High Street  
Des Moines, Iowa 50392-0001  
(515) 247-5111**  
*(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive  
offices)*

**711 High Street  
Des Moines, Iowa 50392-0001  
(515) 247-5111**  
*(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive  
offices)*

***Please address a copy of all communications to:***

**Karen E. Shaff  
Principal Life Insurance Company  
711 High Street  
Des Moines, Iowa 50392-0001  
(515) 247-5111**  
*(Name, address, including zip code, and telephone number, including area code, of agent for service of each  
registrant)*

*Copies to:*

**Perry J. Shwachman  
Anthony J. Ribaud  
Sidley Austin LLP  
One South Dearborn Street  
Chicago, Illinois 60603  
(312) 853-7000**

**Jeffrey J. Delaney  
Pillsbury Winthrop Shaw Pittman LLP  
1540 Broadway  
New York, New York 10036  
(212) 858-1000**

**Approximate date of commencement of proposed sale to the public:** From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Offering Price Per Unit</b>	<b>Proposed Maximum Aggregate Offering Price(1)(2)</b>	<b>Amount of Registration Fee(3)</b>
Secured Medium-Term Notes Funding Agreements issued by Principal Life Insurance Company(4) Guarantees by Principal Financial Group, Inc. With respect to the Funding Agreements(5)	\$4,000,000,000	100%	\$4,000,000,000	\$122,800

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

- (2) If any securities are (a) denominated or payable in a foreign or composite currency or currencies, such principal amount as shall result in an aggregate initial offering price equivalent to \$4,000,000,000, (b) issued at an original issue discount, such principal amount as shall result in an aggregate initial offering price of \$4,000,000,000, or (c) issued with their principal amount payable at maturity to be determined with reference to a currency exchange rate or other index, such principal amount as shall result in an aggregate initial offering price of \$4,000,000,000.
- (3) The registration fee has been calculated on the basis of the maximum aggregate offering price of all securities listed in accordance with Rule 457(o) under the Securities Act of 1933.
- (4) Each Funding Agreement of Principal Life Insurance Company will be purchased by a separate and distinct issuing trust with the proceeds of the sale of a related series of the Secured Medium-Term Notes issued by such issuing trust. Pursuant to Rule 457(o) under the Securities Act of 1933, no separate fee is payable in respect of the Funding Agreements.
- (5) No separate consideration will be received for the Principal Financial Group, Inc. Guarantees. Pursuant to Rule 457(n) under the Securities Act of 1933, no separate fee is payable in respect of the Principal Financial Group, Inc. Guarantees.

**The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

---

**Table of Contents**

**EXPLANATORY NOTE**

This Registration Statement contains:

three prospectus supplements relating to notes (one for an offering of secured medium-term notes which will be offered primarily to institutional investors, one for an offering of Principal<sup>®</sup> Life CoreNotes<sup>®</sup> which will be offered primarily to retail investors and one for an offering of secured medium-term notes which will be offered primarily to retail investors) that one or more newly established separate and distinct trusts may issue and sell to the public, from time to time, with payment of principal and interest on the applicable series of notes to be secured by a funding agreement sold to, and deposited into, the applicable trust, by Principal Life Insurance Company, the payment obligations under which will be fully and unconditionally guaranteed by a guarantee issued by Principal Financial Group, Inc.; and

a base prospectus relating to notes that one or more newly established separate and distinct trusts may issue and sell to the public, from time to time, with payment of principal and interest on the applicable series of notes to be secured by a funding agreement sold to, and deposited into, the applicable trust, by Principal Life Insurance Company, the payment obligations under which will be fully and unconditionally guaranteed by a guarantee issued by Principal Financial Group, Inc.

Each offering of notes made under this Registration Statement will be made pursuant to:

the base prospectus and one of the prospectus supplements included in this Registration Statement, with the specifications of the notes, funding agreements and guarantees offered thereby set forth in a pricing supplement; or

a newly filed prospectus supplement to the base prospectus, with the specifications of the notes, funding agreements and guarantees offered thereby set forth in such newly filed prospectus supplement or a pricing supplement.

Principal<sup>®</sup> is a registered service mark of Principal Financial Services, Inc. and is used under license.

CoreNotes<sup>®</sup> is a registered service mark of Merrill Lynch & Co., Inc.

---

**Table of Contents**

The information in this prospectus supplement is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**PROSPECTUS SUPPLEMENT**

(To prospectus dated \_\_\_\_\_, 2007)

**\$4,000,000,000**

**PRINCIPAL FINANCIAL GROUP LOGO**

**Secured Medium-Term Notes (That are also Asset-Backed Securities)  
Due Between Nine Months and Thirty Years From the Date of Issue  
Issued Through and Obligations of  
Principal Life Income Fundings Trusts  
Secured by Funding Agreements Issued by  
Principal Life Insurance Company and  
Guarantees Issued by Principal Financial Group, Inc.**

**Principal Life:** We are Principal Life Insurance Company, an Iowa insurance company, the sponsor of the program and the depositor and issuer of the funding agreements described below. This prospectus supplement relates to the offering, from time to time, through newly established separate and distinct issuing entities in the form of the trusts described below, of one or more series of secured medium-term notes (that are also asset-backed securities), which we refer to in this prospectus supplement as notes, in an aggregate principal amount of up to \$4,000,000,000 or the equivalent amount in one or more foreign or composite currencies, less any principal amount of notes previously issued under this program pursuant to this prospectus supplement, our Principal<sup>®</sup> Life CoreNotes<sup>®</sup> program issued primarily to retail investors pursuant to a separate prospectus supplement dated the date hereof, our secured medium-term notes retail program issued primarily to retail investors pursuant to a separate prospectus supplement dated the date hereof or otherwise under the accompanying prospectus.

**Issuing Entities:** The applicable trust will use the net proceeds from the offering of its series of notes to purchase a funding agreement sold to, and deposited into, the applicable trust, by us. Our payment obligations under the funding agreement relating to the applicable series of notes will be fully and unconditionally guaranteed by a guarantee issued by Principal Financial Group, Inc., a Delaware corporation and our indirect parent ( PFG ).

Each trust exists for the exclusive purpose of issuing and selling one series of notes to investors, using the net proceeds from the sale of that series of notes to acquire a funding agreement from us, collaterally assigning and granting a security interest in the applicable funding agreement, and collaterally assigning and granting a security interest in the applicable guarantee, in favor of the indenture trustee, and engaging in other activities necessary or incidental thereto.

The notes are obligations of the applicable issuing entity. The notes are secured medium-term notes that are also asset-backed securities.

You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest in the notes.

**The notes:** The specific terms and conditions of each series of notes will be as set forth in a separate pricing supplement. The notes of each series will:

be issued by a separate and distinct trust and will be the obligations of that issuing entity;

rank as secured indebtedness of the trust secured primarily by a funding agreement issued by us;

unless otherwise specified in the applicable pricing supplement, not be listed on any securities exchange;

be issued in only one class;

unless otherwise specified in the applicable pricing supplement, have a minimum denomination of \$1,000 and integral multiples in excess thereof or other specified denominations for foreign currencies;

be in book-entry or definitive form;

have a stated maturity of between 9 months and 30 years from the date of issue;

have redemption and/or repayment provisions, if applicable, whether mandatory or at the option of the trust or the holders of the notes;

represent non-recourse obligations of the trust and be paid only from the assets of that trust;

represent the trust's obligations only and will not represent obligations of, represent interests in, or be guaranteed by, us, PFG or any of our or its affiliates;

provide for payment in U.S. dollars or one or more foreign currencies;

bear interest at fixed or floating rates, or bear no interest at all;

pay interest on each series of notes on a monthly, quarterly, semi-annual or annual basis (unless otherwise specified in the applicable pricing supplement); and

be sold to United States and foreign institutional and other investors.

Holders of a series of notes may look only to the trust's rights and title in the funding agreement issued to, and deposited into, the applicable trust by us, the related guarantee issued by PFG and any proceeds of that funding agreement and guarantee held in the trust and not to any other assets or collateral held by any other trust, us or PFG.

**Investing in the notes involves risks that are described in the Risk Factors section beginning on page 2 of the accompanying prospectus.**

**None of the Securities and Exchange Commission (the SEC), any state securities commission or any state insurance commission has approved or disapproved of these securities or determined if this prospectus supplement, the accompanying prospectus or any pricing supplement is truthful or complete. Any representation to the contrary is a criminal offense.**

The trusts may sell notes to one or more of the applicable agents referred to below (collectively, the Agents ) as principals for resale at varying or fixed offering prices or through the applicable Agents using their reasonable efforts on behalf of the trust.

**Merrill Lynch & Co.**  
**Banc of America Securities LLC**  
**Barclays Capital**  
**Bear, Stearns & Co. Inc.**  
**Citi**  
**Credit Suisse**  
**Deutsche Bank Securities**  
**Goldman, Sachs & Co.**  
**JPMorgan**  
**Lehman Brothers**  
**Morgan Stanley**  
**UBS Investment Bank**  
**Wachovia Securities**

The date of this prospectus supplement is \_\_\_\_\_, 2007.

Principal® and Principal Financial Group and Design are registered service marks of Principal Financial Services, Inc. and are used under license.

CoreNotes® is a registered service mark of Merrill Lynch & Co., Inc.

---

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b>PROSPECTUS SUPPLEMENT</b>	
<u>ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS</u>	S-1
<u>SUMMARY</u>	S-3
<u>DESCRIPTION OF THE NOTES</u>	S-13
<u>SPECIAL PROVISIONS RELATING TO FOREIGN CURRENCY NOTES</u>	S-36
<u>DESCRIPTION OF THE FUNDING AGREEMENTS</u>	S-38
<u>MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS</u>	S-40
<u>PLAN OF DISTRIBUTION</u>	S-47
<b>PROSPECTUS</b>	
ABOUT THIS PROSPECTUS	1
RISK FACTORS	2
FORWARD LOOKING INFORMATION	11
WHERE YOU CAN FIND MORE INFORMATION	11
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE	12
USE OF PROCEEDS	13
RATIO OF EARNINGS TO FIXED CHARGES	13
PRINCIPAL LIFE INSURANCE COMPANY AND PRINCIPAL FINANCIAL GROUP, INC.	14
DESCRIPTION OF THE TRUSTS	15
DESCRIPTION OF THE NOTES	19
DESCRIPTION OF THE FUNDING AGREEMENTS	31
DESCRIPTION OF THE GUARANTEES	36
FEES AND EXPENSES	37
ERISA CONSIDERATIONS	38
PLAN OF DISTRIBUTION	40
LEGAL MATTERS	41
EXPERTS	42

**ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS**

This document is a prospectus supplement and supplements a prospectus which is part of the registration statement that we and PFG have filed with the SEC. This prospectus supplement provides you with a general description of the notes being offered, through newly established separate and distinct trusts and the underlying funding agreements and guarantees, and supplements the description of the notes, the underlying funding agreements and guarantees contained in the accompanying prospectus. These notes may be offered from time to time, through trusts, in one or more series of notes with a total initial public offering price or purchase price of up to \$4,000,000,000 or the equivalent amount in one or more foreign or composite currencies, less any principal amount of notes previously issued under this program pursuant to this prospectus supplement, our Principal<sup>®</sup> Life CoreNotes<sup>®</sup> program issued primarily to retail investors pursuant to a separate prospectus supplement dated the date hereof, our secured medium-term notes retail program issued primarily to retail investors pursuant to a separate prospectus supplement dated the date hereof or otherwise under the accompanying prospectus.

The specific terms and conditions of notes being offered and the related funding agreement and guarantee will be contained in a pricing supplement. A copy of that pricing supplement will be provided to you along with a copy of this prospectus supplement and the accompanying prospectus. That pricing supplement also may add, update, supplement or clarify information in this prospectus supplement and the

S-1

---

**Table of Contents**

accompanying prospectus. You should carefully review such additional, updated, supplemental or clarifying information contained in the pricing supplement. You should read this prospectus supplement and the accompanying prospectus and the pricing supplement together with the additional information that is incorporated by reference in this prospectus supplement and the accompanying prospectus. That additional information is described under the heading "Incorporation of Certain Documents by Reference" beginning on page 12 of the accompanying prospectus.

You should rely only on the information incorporated by reference or provided in this prospectus supplement, the accompanying prospectus and the applicable pricing supplement. None of us, PFG, any trust or any Agent has authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. None of us, PFG, any trust or any Agent is making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and the applicable pricing supplement, as well as information PFG previously filed with the SEC and incorporated by reference, is accurate only as of its respective date. The business, financial condition, results of operations and prospects of us and PFG may have changed since that date.

In this prospectus supplement, references to "Principal Life," "we," "us" and "our" are to Principal Life Insurance Company, an Iowa life insurance company, references to "PFG" are to Principal Financial Group, Inc., a Delaware corporation and our indirect parent company, and references to "trust" are to the applicable newly established separate and distinct special purpose common law trust, formed in a jurisdiction located in the United States of America specified in the applicable pricing supplement, which actually issues the applicable series of notes. In this prospectus supplement, we refer to each series of Secured Medium-Term Notes as a "series of notes" and to Secured Medium-Term Notes in general as "notes."

In this prospectus supplement, references to "United States dollars," "U.S. dollars" or "\$" are to lawful currency of the United States of America, and references to "euros" are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the treaty establishing the European Community, as amended.

**Table of Contents**

**SUMMARY**

*This section summarizes the material legal and financial terms of the notes and the underlying funding agreements and guarantees that are described in more detail in Description of the Notes beginning on page S-13 of this prospectus supplement, Description of the Funding Agreements beginning on page S-38 of this prospectus supplement, and Description of the Guarantees beginning on page 36 of the accompanying prospectus. Final terms of any particular series of notes and the related funding agreement and guarantee are set at the time of sale and will be contained in a pricing supplement relating to that series of notes and the related funding agreement and guarantee. That pricing supplement may add to, update, supplement or clarify the terms contained in this summary. In addition, you should read the more detailed information appearing elsewhere in the accompanying prospectus, this prospectus supplement and the applicable pricing supplement.*

**The Trusts** Each series of notes will be issued by a newly established and separately created common law trust. Each trust will be established by GSS Holdings II, Inc., as trust beneficial owner, and U.S. Bank Trust National Association, as trustee, pursuant to a trust agreement (each, a trust agreement ). The assets and liabilities of each trust are separate and distinct from the assets and liabilities of every other trust, us and PFG.

**The Sponsor and the Depositor** We are the sponsor of the program and a registrant as the depositor and issuer of the funding agreements under the program.

**The Guarantor** PFG is a registrant as the issuer of the guarantees that will fully and unconditionally guarantee our payment obligations under the funding agreements.

**Purpose of Trusts** The sole purpose of each trust is to facilitate a program for the issuance of notes to the public. Each trust may only issue one series of notes and such notes will be issued only on the original issue date for such notes. Each series of notes will be secured by only one funding agreement purchased from us by the applicable trust, the principal amount of which may not be increased. Our payment obligations under each funding agreement will be fully and unconditionally guaranteed by PFG. The trust will use the net proceeds received from issuing a series of notes to acquire a funding agreement for, and to be held in, the trust. The trust will hold the collateral described below pertaining to the applicable series of notes to fund its obligations under that series of notes. Notes issued by the trust will be the direct obligations of the trust and will not be the obligations of any other trust, us or PFG. Holders of notes of a particular series may only look to the funding agreement issued by us, the related guarantee issued by PFG and any proceeds of such funding agreement and guarantee held in the related trust for payment on their notes and not to the assets held in any other trust or by us or PFG.

We and PFG are not affiliated with any trust. Neither we, PFG nor any of our officers, directors, subsidiaries or affiliates owns any beneficial interest in any trust nor has any of these persons or entities entered into any agreement with any trust other than in furtherance of the issuance of

notes from time to time as contemplated by this prospectus supplement  
and the accompanying prospectus.

S-3

---

**Table of Contents**

Neither we, PFG nor any of our officers, directors, subsidiaries or affiliates is affiliated with the trustee, the trust beneficial owner or the indenture trustee relating to the notes.

Below is a diagram showing the parties involved in the issuance of notes by each trust.

**We Can Issue Medium-Term Notes and Funding Agreements Directly to Investors**

We are able to issue our own medium-term notes directly to investors and do issue funding agreements directly to investors. However, by securing each trust's notes with a funding agreement, such trust's notes are secured by an asset that would have a higher priority in insolvency than our unsecured medium-term notes, if any, and may be entitled to receive a higher investment rating from one or more nationally recognized rating agencies than our unsecured medium-term notes. In addition, funding agreements are very difficult to transfer and have no active secondary market. By securing each trust's notes with a funding agreement, investors may be able to avail themselves of many of the benefits of our funding agreements while benefiting from the liquidity afforded by each trust's medium-term notes.

**Agents**

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, Barclays Capital Inc., Bear, Stearns & Co. Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Goldman, Sachs & Co., J.P. Morgan Securities Inc., Lehman Brothers Inc., Morgan Stanley & Co. Incorporated, UBS Securities LLC and Wachovia Capital Markets, LLC.

**Secured Medium-Term Notes Program**

This prospectus supplement relates to notes that one or more trusts may issue and sell to United States and foreign institutional and other investors under our secured medium-term notes program.

**Table of Contents**

Principal® Life CoreNotes® Program	<p>Included in the registration statement, of which this prospectus supplement is a part, is another prospectus supplement relating to notes that may be issued and sold to retail investors by newly established trusts under the related Principal® Life CoreNotes® program. The terms of the Principal® Life CoreNotes® are identical in all material respects to the terms of the notes to be sold under this program, as described in this prospectus supplement, except that the Principal® Life CoreNotes®:</p> <p>may not be issued as amortizing notes;</p> <p>will be denominated in U.S. dollars only;</p> <p>will not provide for the payment of additional amounts relating to any required withholding under any circumstances; and</p> <p>may contain a survivor's option, permitting optional repayment of notes of a series of notes, subject to certain limitations, prior to maturity, if requested, following the death of the beneficial owner of notes of that series of notes.</p>
Secured Medium-Term Notes Retail Program	<p>Included in the registration statement, of which this prospectus supplement is a part, is another prospectus supplement relating to notes that may be issued and sold to retail investors by newly established trusts under the related secured medium-term notes retail program. The terms of the secured medium-term notes retail program are identical in all material respects to the terms of the notes to be sold under this program, as described in this prospectus supplement, except that the secured medium-term retail notes:</p> <p>may not be issued as amortizing notes;</p> <p>will be denominated in U.S. dollars only;</p> <p>will not provide for the payment of additional amounts relating to any required withholding under any circumstances; and</p> <p>may contain a survivor's option, permitting optional repayment of notes of a series of notes, subject to certain limitations, prior to maturity, if requested, following the death of the beneficial owner of notes of that series of notes.</p>
Amount	<p>The trusts may collectively issue up to a maximum aggregate principal amount of \$4,000,000,000 of notes, or the equivalent in one or more foreign or composite currencies, in connection with this prospectus supplement, less any principal amount of notes previously issued under this program pursuant to this prospectus supplement, our Principal® Life CoreNotes® program pursuant to a separate prospectus supplement dated the date hereof, our secured medium-term notes retail program pursuant to</p>

a separate prospectus supplement dated the date hereof or otherwise under the accompanying prospectus.

S-5

---

**Table of Contents**

Flow of Funds

Other than during the occurrence and continuance of an event of default under the notes of a trust, amounts received by or on behalf of the trust will be paid:

*first*, to amounts due under the notes; and

*second*, with respect to any remaining funds, in accordance with the applicable trust agreement.

During the occurrence and continuance of an event of default under the notes of a trust, amounts received by or on behalf of the trust will be paid:

*first*, to the payment of the reasonable and customary expenses and counsel fees incurred by the indenture trustee and any other amounts due and unpaid to the indenture trustee, in an aggregate amount of no more than \$250,000 for all notes issued under the program, to the extent not paid pursuant to the applicable expense and indemnity agreement;

*second*, to amounts due under the notes; and

*third*, with respect to any remaining funds, in accordance with the applicable trust agreement.

See Description of the Notes Application of Money Collected Under the Indenture in the accompanying prospectus.

Since we and PFG are registrants, purchasers of notes may proceed directly against us and PFG to enforce their rights under the United States federal and state securities laws. The right of such purchasers to proceed against us, with respect to the applicable funding agreement, under the United States federal and state securities laws, is no different than if we had issued the funding agreement directly to such purchasers. The right of such purchasers to proceed against PFG, with respect to the applicable guarantee, under the United States federal and state securities laws is no different than if PFG had issued the guarantee directly to such purchasers.

Terms of the Notes:

*Status*

Each series of notes will be the unconditional, direct, non-recourse, secured and unsubordinated obligations of the applicable trust. Each series of notes will be secured by the collateral relating to that series of notes.

Each series of notes may be accelerated in the payment of principal and outstanding interest if an event of default under the notes occurs. Upon the occurrence of an event of default, the indenture trustee (described below), on behalf of the holders of such notes, may only proceed against the collateral held in the related trust.

The notes of each series are not, and will not be, obligations of, or guaranteed by, us or any other insurance company or any affiliate of ours, including

S-6

---

**Table of Contents**

PFG. The notes will not benefit from any insurance guarantee fund coverage or any similar protection.

*Payment of Principal and Interest*

Principal and interest payments, if any, on any series of notes will be made solely from the proceeds of a funding agreement purchased with respect to such series of notes for, and to be held in, the related trust and the full and unconditional guarantee issued by PFG of our payment obligations under the relevant funding agreement.

Each series of notes may be interest bearing or non-interest bearing as specified in the applicable pricing supplement. Each series of notes may bear interest at either a fixed rate or a floating rate, or a combination of fixed rates and floating rates, as specified in the applicable pricing supplement.

The principal amount of each note (other than amortizing notes) will be payable on its stated maturity date, repayment date or redemption date, as specified in the applicable pricing supplement, at the corporate trust office of the paying agent, acting in its capacity as servicer, or any other place the relevant trust designates.

Unless otherwise specified in the applicable pricing supplement, interest, if any, on each series of notes will be payable on a monthly, quarterly, semi-annual or annual basis.

A trust may issue amortizing notes that pay an amount in respect of both interest and principal amortized over the life of the note as specified in the applicable pricing supplement.

*Interest Rate*

Each fixed rate note will bear interest from its date of issue at the rate(s) stated in the applicable pricing supplement until the principal is paid. Each floating rate note will bear interest from the date of original issuance until the principal is paid at a rate determined by reference to an interest rate or interest rate formula, which may be adjusted by a spread and/or spread multiplier (each as more fully described under *Description of the Notes* ). The applicable pricing supplement will designate one or more of the following interest rate bases along with the index maturity for that interest rate basis:

the CD Rate;

the CMT Rate;

the Commercial Paper Rate;

the Eleventh District Cost of Funds Rate;

EURIBOR;

the Federal Funds Open Rate;

S-7

---

**Table of Contents**

the Federal Funds Rate;

LIBOR;

the Prime Rate; or

the Treasury Rate.

Interest, if any, will be payable monthly, quarterly, semi-annually or annually on each interest payment date and on the maturity date or, if applicable, earlier redemption or repayment, and, with respect to fixed rate notes, will be computed on the basis of a 360-day year of twelve 30-day months, unless otherwise specified in the applicable pricing supplement.

*Maturities*

Unless otherwise specified in the applicable pricing supplement, each series of notes will mature between nine months and 30 years from its date of original issuance on the last scheduled interest payment date, as specified in the applicable pricing supplement.

*Redemption and Repayment*

A trust will redeem its series of notes if we redeem the funding agreement securing such series of notes. Except as otherwise specified in the accompanying prospectus, this prospectus supplement or the applicable pricing supplement, the funding agreement securing a series of notes will not be redeemable by us and no series of notes will be repayable at the option of the holder prior to their stated maturity date. Unless otherwise specified in the applicable pricing supplement, the notes will not be subject to any sinking fund.

Each trust may issue a series of notes which may be redeemed by the issuing trust when 20% or more of the original principal balance is outstanding. Notes that may be redeemed at a time when 20% or more of the original principal amount of such notes are outstanding will be designated in their title as *callable* in the applicable pricing supplement.

*Withholding Tax*

All amounts due in respect of the notes of any series, the related guarantee and the related funding agreement will be made without any applicable withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by law. Unless otherwise specified in the applicable pricing supplement, none of the notes, the related guarantee or the related funding agreement will provide for the payment of additional amounts relating to any required withholding or deduction imposed or levied on payments in respect of a series of notes, the related guarantee or the related funding agreement. As a result, unless otherwise specified in the applicable pricing supplement, the risk of any such withholding or deduction, whether or not as a result of a change in law or otherwise, will be borne by the holders of such series of notes.

Material United States Federal Income  
Tax Considerations

We intend to take the position, for United States federal income tax purposes, that each trust will be disregarded and that the notes will be treated as representing our indebtedness (the Intended Tax

S-8

---

**Table of Contents**

Characterization ). Each holder of a note (or any beneficial interest therein), by acceptance of the note (or beneficial interest therein), agrees to the Intended Tax Characterization. Accordingly, holders of the notes generally will have the same United States federal income tax consequences from the purchase of the notes as they would have had if they purchased a debt obligation issued directly by us. Prospective purchasers of the notes must carefully consider the tax consequences of the ownership and disposition of the notes set forth under Material United States Federal Income Tax Considerations.

**Fees and Expenses**

We will pay the costs and expenses incurred by a trust under the expense and indemnity agreements with each of the indenture trustee, the custodian, the trust beneficial owner and the trustee (on behalf of itself and each trust formed in connection with the issuance of a series of notes) and any additional service provider appointed from time to time.

Under each expense and indemnity agreement, we will pay certain costs and expenses relating to the offering, sale, issuance and administration of any series of notes and certain costs, expenses and taxes incurred by a trust and will indemnify the indenture trustee, the custodian, the trust beneficial owner, the trustee, each trust and additional service providers appointed from time to time with respect to certain matters. See Fees and Expenses in the accompanying prospectus.

We anticipate that the indenture trustee fees for the program will be approximately \$215 per year for each series of notes.

**Denominations; Currency**

Unless otherwise specified in the applicable pricing supplement, the notes will be denominated in U.S. dollars and sold in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.

**Listing**

Unless otherwise specified in the applicable pricing supplement, your series of notes will not be listed on any securities exchange.

**Form of Notes**

Unless otherwise specified in the applicable pricing supplement, each series of notes will be issued in fully registered form and will be initially represented by one or more book-entry notes registered in the name of Cede & Co., the nominee of The Depository Trust Company, as depositary. Each book-entry note will be held by the indenture trustee as custodian for the depositary or its nominee.

**Clearing Systems**

The Depository Trust Company and/or, in relation to any series of notes, any other clearing system as may be specified in the applicable pricing supplement.

**Collateral**

The notes of any series will be secured by the right, title and interest of the applicable trust in and to (1) the relevant funding agreement held in that trust, (2) the related guarantee issued by PFG to the trust fully and unconditionally guaranteeing our payment obligations under the funding

agreement, (3) all proceeds of the funding agreement and the guarantee and all amounts and instruments on deposit from time to time in the related collection account, (4) all books and records pertaining to the relevant funding

S-9

---

**Table of Contents**

agreement and the related guarantee and (5) all rights of the trust pertaining to the foregoing.

Each series of notes will be secured by the collateral held in the applicable trust. The trust will collaterally assign and grant a security interest in the related funding agreement and the related guarantee in favor of the indenture trustee for the benefit of the holders of notes of the applicable series.

Under the custodial agreement (the custodial agreement ) entered into among the indenture trustee, Bankers Trust Company, N.A. (the custodian ) and the trustee (on behalf of each trust to be formed in connection with the issuance of a series of notes), upon the collateral assignment of and grant of security interest in the funding agreement and the guarantee related to a series of notes of a trust, the custodian will hold the funding agreement and the guarantee, on behalf of the indenture trustee in the State of Iowa.

Funding Agreements

A funding agreement is a type of insurance company product in which the purchaser, usually an institutional investor, pays the insurance company a deposit and, in turn, receives scheduled payments of principal and interest. The deposit we receive on the issuance of a funding agreement will be part of our general account and not allocated to any of our separate accounts. Our general account is the account which contains all of our assets and liabilities other than those held in our separate accounts. (Separate accounts are segregated accounts which are established for certain products that we sell. A separate account holds assets and liabilities specifically related to one or more products and segregates these assets and liabilities from the assets and liabilities of all other separate accounts and the assets and liabilities of our general account.) Since the deposit made under any funding agreement will be part of our general account, our obligations under each funding agreement will be the obligations of our general account, rather than the obligations of any separate account. As such, we will invest the proceeds from the sale of funding agreements in a portfolio of assets which along with our other general account assets will be used to meet our contractual obligations under the funding agreements and our other general account obligations. We will earn the spread differential between the cost of our obligations under the funding agreements and the yield on our invested assets. We may periodically, consistent with our past practice and subject to all applicable regulatory restrictions on our insurance operations, dividend a portion of the spread income to PFG.

Each trust will use the net proceeds received from the sale of its series of notes to purchase a funding agreement issued by us, the terms of which will be set forth in the applicable pricing supplement. The funding agreement will have a deposit amount equal to the sum of the principal amount (or issue price in the case of discount notes) of the related series of notes and the amount of the beneficial interest in the related trust. The rate

at which the funding agreement bears interest will be equal to the rate of interest, if any, on the related series of notes. The funding agreement will otherwise have substantially similar payment and other terms to the related series of notes.

S-10

---

**Table of Contents**

Each funding agreement is our unsecured obligation. See Ratings below.

In the event of our impairment or insolvency, the Iowa Insurance Commissioner will be authorized and directed to commence delinquency proceedings for the purpose of liquidating, rehabilitating, reorganizing or conserving us pursuant to Iowa Code Sections 507C.4, 507C.12, 507C.13, 507C.14 and 507C.16. In conducting delinquency proceedings, claims are prioritized and an order of distribution is specified pursuant to Iowa Code Section 507C.42. There are nine classes within the priority scheme, with each successive class being fully junior to the preceding class. Class 1 priority is given to the costs and expenses of administration of the insurer during the delinquency proceedings and Class 2 priority is given to the claims (1) of the insurer's policyholders, (2) of guaranty associations, (3) under funding agreements of the insurer, (4) for an insufficiency in the assets of a separate account and (5) for unearned premium. We believe that, in a properly prepared and presented case, a court applying Iowa law would conclude that loss claims of principal and interest in respect of each funding agreement would be accorded Class 2 priority under Iowa Code Section 507C.42 and paid equally in priority with our other policyholders. See Description of the Funding Agreements in the accompanying prospectus.

Iowa law would apply to our insolvency or receivership proceedings. Investors should note, however, that the statutory liquidation priority accorded to funding agreements under Iowa law does not clearly apply to any additional amounts required to be paid (if specified in the applicable pricing supplement and related funding agreement) as may be necessary in order that the net amounts receivable by a holder after any withholding or deduction shall equal the respective amounts which would have been receivable by such holder in the absence of such withholding or deduction. Accordingly, in the event of our insolvency or receivership, claims under a funding agreement for such payments, if any, may not rank equally with either life insurance policy and annuity claims or funding agreement claims, and may rank equally with our unsecured debt obligations, which are given Class 5 priority under Iowa Code Section 507C.42. See Description of the Funding Agreements in the accompanying prospectus.

**Guarantees**

Our payment obligations under the funding agreement issued to each trust will be fully and unconditionally guaranteed by PFG under a guarantee issued by PFG to the trust as described in the accompanying prospectus. Each guarantee will be an unsecured, unsubordinated, contingent obligation of PFG. See Description of the Guarantees in the accompanying prospectus.

**Ratings**

Unless otherwise indicated in the applicable pricing supplement, the notes will have an issue credit rating of AA from Standard & Poor's Rating Service, a division of The McGraw-Hill Companies, Inc. (Standard & Poor's). Standard & Poor's has rated the program AA. If Standard & Poor's changes the program rating, the new program rating will be specified in

the applicable pricing supplement. We expect the program to be rated Aa2 by Moody's

S-11

---

**Table of Contents**

Investors Service, Inc. ( Moody's ). If Moody's changes the program rating, the new program rating will be specified in the applicable pricing supplement. Notes of a series will be issued under the program only in the event that, at the time of issuance of such series of notes, at least one nationally recognized rating agency would assign an investment grade rating to such series of notes and the funding agreement securing such series of notes.

Indenture, Indenture Trustee and Servicer Each trust will issue its series of notes to the public pursuant to an indenture between that trust and Citibank, N.A., in its capacity as indenture trustee. See Description of the Notes General Indenture. The indenture trustee will act as servicer with respect to the program. The indenture is subject to the Trust Indenture Act of 1939, as amended. The indenture trustee is not affiliated with any trust, with us or PFG.

Administration of the Trusts U.S. Bank Trust National Association, a national banking association, will be each trust's sole trustee (the trustee). The trustee will not be obligated in any way to make payments under or in respect of the notes. The trustee is not affiliated with us or PFG.

Trust Beneficial Owner GSS Holdings II, Inc., a Delaware corporation, will be the sole beneficial owner of each trust (the trust beneficial owner). The beneficial interest of each trust:

will be purchased by the trust beneficial owner for \$15 (or in the case of a trust that issues discount notes, such other amount as corresponds to the discount on such notes), unless otherwise specified in the applicable pricing supplement;

will be issued in book-entry form only;

will entitle the trust beneficial owner to receive payments in respect thereof on the same terms as the payments to be made to the holders of notes of the related series; and

will be subordinated to the related series of notes.

The trust beneficial owner will receive periodic distributions on its beneficial interest at the same rate and on the same day that holders of notes of the related series receive interest payments. On the maturity date of the trust beneficial owner's beneficial interest and the related series of notes, the trust will redeem the principal amount of the related series of notes to the holders of such notes and the principal amount of the beneficial interest to the trust beneficial owner.

The trust beneficial owner is not affiliated with us or PFG.

Governing Law The notes and each indenture will be governed by, and construed in accordance with, the laws of the State of New York. Each guarantee

issued by PFG will be governed by, and construed in accordance with, the laws of the State of New York. The trust agreement for the applicable trust will be governed by, and construed in accordance with, the laws of the jurisdiction in which it is formed. Each funding agreement will be governed by the laws of the State of Iowa.

S-12

---

**Table of Contents**

**DESCRIPTION OF THE NOTES**

The following description of the material provisions of the notes supplements the general description of the notes provided in the accompanying prospectus. You should therefore review the accompanying prospectus carefully. You should carefully review the information in this prospectus supplement. The pricing supplement for each offering of notes will contain the specific information and terms and conditions for that offering. As such, you should carefully review the information contained in the pricing supplement, including any description of the method of calculating interest on any note. The applicable pricing supplement may also add, update, supplement or clarify information contained in this prospectus supplement or the accompanying prospectus. It is important for you to consider the information contained in the accompanying prospectus, this prospectus supplement, the applicable pricing supplement, the indenture and the notes in making your investment decision.

This section describes some technical concepts and uses some capitalized terms that are not defined in this prospectus supplement. You should refer to the form of indenture and the form of note certificates filed as exhibits to the registration statement (of which this prospectus supplement and the accompanying prospectus are a part) for the full description of those concepts and complete definitions of these terms.

**General**

***Indenture***

Each trust will issue one series of notes, subject to and entitled to the benefits of a separate indenture between the trust and the indenture trustee, which will adopt and incorporate the standard indenture terms. Such notes will be issued only on the original issue date for such notes. With respect to a particular trust, we refer to the applicable indenture and the standard indenture terms as the indenture. Each series of notes will be the subject of a pricing supplement. The indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended. For a description of the terms of the indenture, see Description of the Notes beginning 19 the accompanying prospectus.

At the date of this prospectus supplement, the notes offered pursuant to this prospectus supplement are limited to an aggregate initial public offering price or purchase price of up to \$4,000,000,000, or its equivalent in one or more foreign or composite currencies. This amount is subject to reduction as a result of the issuance of notes previously under this program, our Principal® Life CoreNotes® program, our secured medium-term notes retail program or otherwise under the accompanying prospectus.

***Collateral***

The notes of a series will be the trust's unconditional, direct, non-recourse, secured and unsubordinated obligations. Under the indenture, the funding agreement issued to and deposited into a trust by us, in exchange for the proceeds received by the trust from the offering of its series of notes and trust beneficial interest, will be collaterally assigned by the trust, and the trust will grant a security interest in the funding agreement, to the indenture trustee for the benefit of the holders of the related series of notes. A trust may purchase only one funding agreement from us and the principal amount of the funding agreement may not be increased. The trust will also collaterally assign and grant a security interest in the guarantee issued by PFG to the trust in favor of the indenture trustee for the benefit of the holders of the related series of notes. Each series of notes will be secured by a security interest in the collateral, consisting of:

the relevant funding agreement;

the related guarantee issued by PFG to the trust, which fully and unconditionally guarantees our payment obligations under the relevant funding agreement;

all proceeds of the relevant funding agreement and the relevant guarantee and all amounts and instruments on deposit from time to time in the related collection account;

all books and records pertaining to the relevant funding agreement and the related guarantee; and

all of the trust's rights pertaining to the foregoing.

Under the custodial agreement, upon the collateral assignment and grant of security interest in the funding

**Table of Contents**

agreement and the guarantee related to a series of notes of a trust, the custodian will hold the funding agreement and the guarantee, on behalf of the indenture trustee in the State of Iowa.

***Ranking***

The notes of a series of a trust will rank equally among themselves.

***Pricing Options***

Notes that bear interest will either be fixed rate notes or floating rate notes, or a combination of fixed rate and floating rate, as specified in the applicable pricing supplement. A trust may also issue discount notes and amortizing notes as specified in the applicable pricing supplement.

***Pricing Supplement***

The pricing supplement relating to the offering of a series of notes will describe the following terms:

the principal amount and specified currency for the note;

whether the note:

(1) is a fixed rate note,

(2) is a floating rate note,

(3) is an amortizing note, meaning that a portion or all of the principal amount is payable prior to the stated maturity date in accordance with a schedule or by application of a formula, and/or

(4) is a discount note that does not bear any interest currently or bears interest at a rate that is below market rates at the time of issuance;

the price at which the note will be issued, which will be expressed as a percentage of the aggregate principal amount or face amount;

the original issue date on which the note will be issued;

the stated maturity date;

if the note is a fixed rate note, the rate per annum at which the note will bear any interest and the Interest Payment Date frequency;

if the note is a floating rate note, relevant terms such as:

(1) the Interest Rate Basis,

(2) the Initial Interest Rate,

(3) the Interest Reset Period or the Interest Reset Dates,

- (4) the Interest Payment Dates,
- (5) the Index Maturity,
- (6) any Maximum Interest Rate,
- (7) any Minimum Interest Rate,
- (8) the spread and/or spread multiplier, and
- (9) any other terms relating to the particular method of calculating the interest rate for the note and whether and how the spread and/or spread multiplier may be changed prior to the stated maturity date;

if the note is an amortizing note, the terms for repayment prior to the stated maturity date;

whether the note may be redeemed by the trust, or repaid at the option of the holder, prior to the stated maturity date and the terms of its redemption or repayment, provided that any such redemption or repayment will be accompanied by the simultaneous redemption or repayment of the relevant funding agreement;

any special United States federal income tax considerations relating to the purchase, ownership and disposition of the note;

the jurisdiction of formation of the trust; and

any other terms of the note provided in the accompanying prospectus to be set forth in a pricing supplement or that are otherwise consistent with the provisions of the indenture under which the note will be issued.

**Table of Contents**

***Maturity***

Unless otherwise specified in the applicable pricing supplement, each series of notes will mature on a day between nine months and 30 years from its date of original issuance on the last scheduled interest payment date (the stated maturity date), as specified in the applicable pricing supplement, unless the principal of such series becomes due and payable prior to the stated maturity date, whether, as applicable, by the declaration of acceleration of maturity, notice of redemption by the trust, notice of the registered holder's option to elect repayment or otherwise (we refer to the stated maturity date or any date prior to the stated maturity date on which the particular series of notes becomes due and payable, as the case may be, as the maturity date with respect to the principal of such series of notes repayable on that date).

***Currency***

Unless otherwise specified in the applicable pricing supplement, the notes of a series will be denominated in, and payments of principal, premium, if any, and/or interest, if any, in respect thereof will be made in, United States dollars. In the alternative, each series of notes may be denominated in, and payments of principal, premium, if any, and/or interest, if any, in respect thereof may be made in, a single foreign currency. The currency in which a particular series of notes is denominated (or, if that currency is no longer legal tender for the payment of public and private debts in the country issuing that currency or, in the case of the euro, in the member states of the European Union that have adopted the single currency in accordance with the treaty establishing the European Community, as amended by the treaty on European Union, the currency which is then legal tender in the related country or in the adopting member states of the European Union, as the case may be) is referred to as the specified currency with respect to such series of notes.

You will be required to pay for your notes in the specified currency. At the present time, there are limited facilities in the United States for the conversion of United States dollars into foreign currencies and vice versa, and commercial banks do not generally offer non-United States dollar checking or savings account facilities in the United States. The Agent from or through which a foreign currency note is purchased may be prepared to arrange for the conversion of United States dollars into the specified currency in order to enable you to pay for your foreign currency note, provided that you make a request to that Agent on or prior to the fifth business day (as defined below) preceding the date of delivery of the particular foreign currency note, or by any other day determined by that Agent. Each conversion will be made by an Agent on the terms and subject to the conditions, limitations and charges as that Agent may from time to time establish in accordance with its regular foreign exchange practices. You will be required to bear all costs of exchange in respect of your foreign currency note.

A trust may (if so specified in the applicable pricing supplement), without the consent of the holders of any note, redenominate all, but not less than all, of the notes of any series on or after the date on which the member state of the European Union in whose national currency such notes are denominated has become a participant member in the third stage of the European economic and monetary union as more fully set out in the applicable pricing supplement.

***Form of Notes; Denominations***

Each trust will issue each note as a book-entry note represented by one or more fully registered global securities, unless otherwise specified in the applicable pricing supplement. Unless otherwise specified in the applicable pricing supplement, the *minimum* denominations of each note will be \$1,000 and integral multiples of \$1,000 in excess thereof.

***Listing***

Unless otherwise specified in the applicable pricing supplement, your series of notes will not be listed on any securities exchange.

***Payments***

A trust will make payments of principal of, and premium, if any, and interest and other amounts due and owing, if any, on book-entry notes through the indenture trustee, acting in its capacity as servicer, to the account of the depository or its nominee. See Book Entry Notes. In the case of definitive notes, the trust will make payments of principal of, and premium, if any, and interest and other amounts due and owing, if any, on the maturity date in immediately available funds upon presentation and surrender thereof (and, in the case of any repayment on an optional repayment date, upon

**Table of Contents**

submission of a duly completed election form if and as required by the provisions described below) at the office or agency maintained by the trust for this purpose in the Borough of Manhattan, The City of New York, which is currently the paying agency office of the indenture trustee located at 388 Greenwich Street, 14th Floor, New York, New York 10013. A trust will make payments of interest and other amounts due and owing, if any, on the maturity date of a definitive note to the person to whom payment of the principal thereof and premium, if any, thereon shall be made. A trust will make payments of interest and other amounts due and owing, if any, on a definitive note on any Interest Payment Date (as defined below) other than the maturity date by check mailed to the address of the registered holder entitled thereto appearing in the note register. Notwithstanding the foregoing, the trust will make payments of interest and other amounts due and owing, if any, on a definitive note on any Interest Payment Date other than the maturity date to each registered holder of \$10,000,000 (or, if the specified currency is other than United States dollars, the equivalent thereof in the particular specified currency) or more in aggregate principal amount of definitive notes (whether having identical or different terms and provisions) by wire transfer of immediately available funds if the applicable registered holder has delivered appropriate wire transfer instructions in writing to the indenture trustee not less than 15 calendar days prior to the particular Interest Payment Date. Any wire transfer instructions received by the indenture trustee shall remain in effect until revoked by the applicable registered holder.

***Business Day***

Business day means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in The City of New York; provided, however, that, with respect to foreign currency notes, the day must also not be a day on which commercial banks are authorized or required by law, regulation or executive order to close in the Principal Financial Center (as defined below) of the country issuing the specified currency (or, if the specified currency is the euro, the day must also be a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open (a TARGET Settlement Date )); provided, further, that, with respect to notes as to which LIBOR (as defined below) is an applicable Interest Rate Basis, the day must also be a London Banking Day, which means a day on which commercial banks are open for business (including dealings in the LIBOR Currency (as defined below)) in London.

***Principal Financial Center***

Principal Financial Center means, as applicable:

the capital city of the country issuing the specified currency; or

the capital city of the country to which the LIBOR Currency relates;

provided, however, that with respect to United States dollars, Australian dollars, Canadian dollars, the euro, South African rand and Swiss francs, the Principal Financial Center shall be The City of New York, Sydney, Toronto, London (solely in the case of the LIBOR Currency), Johannesburg and Zurich, respectively.

***Registration and Transfer of Notes***

Book-entry notes may be transferred or exchanged only through the clearing systems (described below). Registration of transfer or exchange of definitive notes will be made at the office or agency maintained by the trust for this purpose in the Borough of Manhattan, The City of New York, which is currently the corporate trust office of the indenture trustee located at 388 Greenwich Street, 14th Floor, New York, New York 10013. No service charge will be imposed for any such registration of transfer or exchange of notes, but the trust may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith (other than certain exchanges not involving any transfer).

**Withholding Tax and Payment of Additional Amounts**

All amounts due in respect of the notes will be made without any applicable withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by

S-16

---

## **Table of Contents**

law. Unless otherwise specified in the applicable pricing supplement, the trust will not pay any additional amounts to holders of any series of notes in respect of any such withholding or deduction, any such withholding or deduction will not give rise to an event of default or any independent right or obligation to redeem the notes of such series and each holder of a note of the applicable series will be deemed for all purposes to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such holder's interest in the notes as equitably determined by the trust.

If it is specified in the applicable pricing supplement and funding agreement that we have agreed to pay additional amounts to the trust to reflect any required withholding or deduction under the funding agreement and we are required, or based on an opinion of independent legal counsel selected by us a material probability exists that we will be required, to pay additional amounts in respect of such withholding or deduction, pursuant to (a) any amendment to, or change (including any announced prospective change) in, the tax laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any governmental authority in the United States, which amendment or change is enacted, promulgated, issued or announced on or after the effective date of the applicable funding agreement, we will have the right to redeem the affected funding agreement by giving not less than 30 and no more than 60 days prior written notice to the trust and by paying the trust the outstanding principal of, and accrued but unpaid interest on, the related funding agreement or such other amount as is specified in the applicable pricing supplement. If we redeem the related funding agreement issued to the trust, the related trust will redeem all of the notes of the applicable series as provided in the indenture. See "Description of the Funding Agreements—Early Redemption for Tax Event" in the accompanying prospectus.

## **European Union Directive on the Taxation of Savings Income**

The European Union has adopted a directive regarding the taxation of savings income, which requires a member state of the European Union to provide to the tax authorities of another member state details of payments of interest and other similar income made by a person within its jurisdiction to an individual or to certain other persons in the other member state, except that Austria, Belgium and Luxembourg may instead impose a withholding system for a transitional period unless during such period they elect otherwise. A number of other countries and territories which are not member states of the European Union (including Switzerland) have adopted similar measures to the directive.

Should any deduction or withholding on account of tax be required to be made, or be made, in accordance with the terms of this section, no additional amounts shall be paid or payable by any trust or by us unless specified in the applicable pricing supplement or funding agreement that additional amounts will be paid.

## **Tax Redemption**

If a "tax event" as to the relevant funding agreement occurs, we will have the right to redeem the funding agreement and, upon such redemption, the applicable trust will redeem its series of notes in the same manner described under "Optional Redemption; Optional Repayment; No Sinking Fund" below. For further discussion of "tax event" redemption, see "Description of the Funding Agreements—Early Redemption for Tax Event" in the accompanying prospectus.

## **Security; Non-Recourse Obligations**

Each series of notes will be solely the obligations of the related trust and will not be guaranteed by any person, including but not limited to us, PFG, any Agent, any of our or their affiliates or any other trust. A trust's obligations under its series of notes will be secured by all of its rights and title in a funding agreement issued by us, the payment obligations of which are guaranteed by the related guarantee issued by PFG to the trust and other rights and assets included in the applicable collateral held in the trust.

Since we will be the sole obligor under the funding agreement and PFG will be the sole obligor under the related guarantee, the trust's ability to meet its obligations, and your ability to receive payments from the trust, with respect to the applicable series of notes, will be principally dependent upon our ability to perform our obligations under the applicable funding agreement held in the

S-17

---

## **Table of Contents**

relevant trust and PFG's ability to perform its obligations under the guarantee of our payment obligations under the related funding agreement. However, you will have no direct contractual rights against us or PFG under the funding agreement or the guarantee, respectively. Under the terms of the funding agreement and related guarantee, recourse rights to us or PFG, respectively, will belong to the trust, its successors and its permitted assignees, but only with respect to the relevant trust. In connection with the offering and sale of a series of notes, the trust will collaterally assign and grant a security interest in the relevant funding agreement for such series of notes to, and the trust will collaterally assign and grant a security interest in the related guarantee in favor of, the indenture trustee for the benefit of the holders of such series of notes. Accordingly, recourse to us under such funding agreement and to PFG under the related guarantee will be enforceable only by the indenture trustee as a secured party on behalf of the holders of such series of notes, or by the holders of such series of notes by directing the indenture trustee under the limited circumstances described in the accompanying prospectus under "Description of the Notes—Certain Rights of Holders." See also "Description of the Notes—Nonrecourse Enforcement" in the accompanying prospectus.

Since we and PFG are registrants, purchasers of notes may proceed directly against us and PFG to enforce their rights under the United States federal and state securities laws. The right by such purchasers to proceed against us, with respect to the applicable funding agreement, under the United States federal and state securities laws is no different than if we had issued the funding agreement directly to such purchasers. The right by such purchasers to proceed against PFG, with respect to the applicable guarantee, under the United States federal and state securities laws is no different than if PFG had issued the guarantee directly to such purchasers.

### **Optional Redemption; Optional Repayment; No Sinking Fund**

In the case of notes that are not discount notes, if an optional redemption date is specified in the pricing supplement relating to a series of notes, and we have redeemed the related funding agreement in full or part, as applicable, the related trust will redeem the series of notes secured by such funding agreement, in full or in part as applicable, prior to the stated maturity date of such series of notes. Such redemptions shall be made in whole or from time to time in part in increments of \$1,000 or any other integral multiple of an authorized denomination specified in the applicable pricing supplement (provided that any remaining principal amount thereof shall be at least \$1,000 or other minimum authorized denomination applicable thereto), at the applicable redemption price (as defined below), together with unpaid interest, if any, accrued thereon to, but excluding, the date of redemption. The trust must give written notice to the holders of the particular series of notes to be redeemed not more than 60 nor less than 30 calendar days prior to the date of redemption. Redemption price, with respect to a series of notes, means an amount equal to the initial redemption percentage specified in the applicable pricing supplement (as adjusted by the annual redemption percentage reduction, as described in the pricing supplement, if applicable) multiplied by the unpaid principal amount thereof to be redeemed. The initial redemption percentage, if any, applicable to a series of notes shall decline at each anniversary of the initial redemption date by an amount equal to the applicable annual redemption percentage reduction, if any, until the redemption price is equal to 100% of the unpaid amount thereof to be redeemed.

Each trust may issue a series of notes which may be redeemed by the issuing trust when 20% or more of the original principal balance is outstanding, which are referred to as "callable" notes and will be designated in their title as "callable" in the relevant pricing supplement. Unless otherwise specified in the relevant pricing supplement, such series of notes will otherwise be subject to the redemption provisions described herein. For a discussion of the redemption of discount notes, see "Discount Notes."

If fewer than all of the notes are to be redeemed, DTC will select the notes to be redeemed not more than 60 calendar days prior to the redemption date by lot or, if the notes are not in book-entry form, the indenture trustee will do so, in its reasonable discretion, by lot or on a pro rata basis in accordance with its customary procedures. If any note is redeemed in part only, a new note in principal amount equal to the unredeemed principal portion will be issued.

If an optional repayment right is specified in the pricing supplement relating to a series of notes, such notes may be subject to repayment at

S-18

---

## **Table of Contents**

the option of the holders of such series of notes on any repayment date specified in the applicable pricing supplement. Exercise of the repayment option under the notes by the holders will also require the applicable trust to exercise a corresponding repayment under the applicable funding agreement. On any such repayment date, unless otherwise specified in the applicable pricing supplement, the notes shall be repayable in whole or in part in increments of \$1,000 at the option of the holders thereof at a repayment price equal to 100% of the principal amount thereof to be repaid, together with interest thereon payable to the date of repayment. A holder of a series of notes exercising its repayment right must submit to the indenture trustee at its corporate trust office, or at such other place or places of which the relevant trust has notified such holder, the notes to be repaid together with the option to elect repayment form attached to the notes not more than 60 nor less than 30 calendar days prior to the date of repayment. Exercise of such repayment right by a holder shall be irrevocable. If a holder requests repayment in part only, a new note in principal amount equal to the principal portion of the notes not repaid will be issued.

None of the trusts will issue notes that may be repaid at the option of the holders prior to the stated maturity if such issuance would cause the relevant trust to fail to satisfy the applicable requirements for exemption under Rule 3a-7 under the Investment Company Act of 1940, as amended, and all applicable rules, regulations and interpretations thereunder.

Only DTC may exercise a repayment option in respect of notes issued in book-entry form. Accordingly, beneficial owners of notes that desire to exercise their repayment option, if any, with respect to all or any portion of such notes, must instruct the participant through which they own their interest to direct DTC to exercise the repayment option on their behalf by delivering the duly completed election form to the indenture trustee as aforesaid. In order to ensure that the election form is received by the indenture trustee on a particular day, the applicable beneficial owner must so instruct the participant through which it owns its interest before such participant's deadline for accepting instructions for that day. Participants may have different deadlines for accepting instructions from their customers. Accordingly, a beneficial owner should consult the participant through which it owns its interest in the notes for the participant's deadline for receiving payment instructions. In addition, at the time such instructions are given, each such beneficial owner will cause such participant to transfer such beneficial owner's interest in the notes issued in book-entry form, on DTC's records, to the indenture trustee.

No series of notes will be subject to, or entitled to the benefit of, any sinking fund unless otherwise specified in the applicable pricing supplement. A trust may issue amortizing notes that pay a level amount in respect of both interest and principal over the life of the notes, if specified in the applicable pricing supplement. See Amortizing Notes.

## **Purchase of Notes by Us**

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us will be surrendered to the indenture trustee for cancellation. Concurrently with the surrender to the indenture trustee of any note, the funding agreement related to such note will be similarly cancelled.

If applicable, such trust will comply with the requirements of Section 14(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repurchase of the notes by us.

## **Interest**

Each interest-bearing series of notes will bear interest from its date of issue at the rate per annum, in the case of notes that bear interest at fixed rates, or pursuant to the interest rate formula, in the case of notes that bear interest at floating rates, in each case as specified in the applicable pricing supplement, until the principal thereof is paid or made available for payment. The trust will make interest payments in respect of each series of notes in an amount equal to

the interest accrued from and including the immediately preceding interest payment date in respect of which interest has been paid or from and including the date of issue, if no interest has been paid, to but excluding the applicable interest payment date or the maturity date, as the case may be (each, an interest period ).

Interest on each series of notes will be payable in arrears on each interest payment date, to

S-19

---

**Table of Contents**

the registered holder at the close of business on the regular interest record date (as defined below) (except that interest, if any, due at maturity will be paid to the person to whom the principal of the note is paid), and on the maturity date. The first payment of interest on any series of notes originally issued between a regular interest record date and the related interest payment date will be made on the interest payment date immediately following the next succeeding regular interest record date to the registered holder on the next succeeding regular interest record date. The regular interest record date shall be the day that is fifteen (15) calendar days preceding the applicable interest payment date, whether or not a business day.

**Fixed Rate Notes**

In the case of each series of notes that bear interest at fixed rates, the applicable pricing supplement will specify the fixed interest rate per annum applicable to each note and the frequency with which interest is payable. Interest on each series of notes that bears interest at fixed rates will be computed on the basis of a 360-day year of twelve 30-day months.

Unless otherwise specified in the applicable pricing supplement, the interest payment dates for fixed rate notes will be as follows:

**Interest Payment  
Frequency**

**Interest Payment Dates**

Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third calendar month, beginning in the third calendar month following the month the note was issued.
Semi-annual	Fifteenth day of every sixth calendar month, beginning in the sixth calendar month following the month the note was issued.
Annual	Fifteenth day of every twelfth calendar month, beginning in the twelfth calendar month following the month the note was issued.

If any interest payment date or the maturity date of a series of notes that bear interest at fixed rates falls on a day that is not a business day, the applicable trust will make the required payment of principal, premium, if any, and/or interest or other amounts on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

Interest rates that each trust offers on its fixed rate notes may differ from the rates offered by other trusts depending upon, among other factors, the aggregate principal amount of notes purchased in any single transaction. Notes with different variable terms other than interest rates may also be offered by other trusts concurrently to different investors. Other trusts may change interest rates or formulas and other terms of notes from time to time, but no change of terms will affect any note any other trust has previously issued or as to which any other trust has accepted an offer to purchase.

**Floating Rate Notes**

Interest on each series of notes that bears interest at floating rates will be determined by reference to the applicable Interest Rate Basis or Interest Rate Bases, which may, as described below, include:

the CD Rate;

the CMT Rate;

the Commercial Paper Rate;

the Constant Maturity Swap Rate;

the Eleventh District Cost of Funds Rate;

EURIBOR;

the Federal Funds Open Rate;

the Federal Funds Rate;

LIBOR;

the Prime Rate; or

the Treasury Rate.

The applicable pricing supplement will specify certain terms of the particular series of notes that bears interest at floating rates, including:

whether the note that bears interest at floating rates is:

a Regular Floating Rate Note;

a Floating Rate/Fixed Rate Note; or

an Inverse Floating Rate Note;

S-20

---

**Table of Contents**

the Fixed Rate Commencement Date, if applicable;

Fixed Interest Rate, if applicable;

Interest Rate Basis or Interest Rate Bases;

Initial Interest Rate, if any;

Interest Reset Dates;

Interest Payment Dates;

Index Maturity;

Maximum Interest Rate and/or Minimum Interest Rate, if any;

spread and/or spread multiplier; or

if one or more of the applicable Interest Rate Bases is LIBOR, the LIBOR Currency and LIBOR Page.

The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on:

if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date (as defined below) immediately preceding that Interest Reset Date; or

if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

The spread is the number of basis points (one one-hundredth of a percentage point) specified in the applicable pricing supplement to be added to or subtracted from the related Interest Rate Basis or Interest Rate Bases applicable to a series of notes that bears interest at floating rates. The spread multiplier is the percentage specified in the applicable pricing supplement of the related Interest Rate Basis or Interest Rate Bases applicable to a series of notes that bears interest at floating rates by which the Interest Rate Basis or Interest Rate Bases will be multiplied to determine the applicable interest rate. The Index Maturity is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Interest Rate Bases will be calculated.

Interest rates that each trust offers on its floating rate notes may differ from the rates offered by other trusts depending upon, among other factors, the aggregate principal amount of notes purchased in any single transaction. Notes with different variable terms other than interest rates may also be offered by other trusts concurrently to different investors. Other trusts may change interest rates or formulas and other terms of notes from time to time, but no change of terms will affect any note any other trust has previously issued or as to which any other trust has accepted an offer to purchase.

***Regular Floating Rate Notes***

Unless a series of notes that bears interest at floating rates is designated as a series of Floating Rate/Fixed Rate Notes or a series of Inverse Floating Rate Notes, or as having an addendum attached or having other/additional provisions

apply, in each case relating to a different interest rate formula, such series of notes that bears interest at floating rates will be a series of Regular Floating Rate Notes and will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

plus or minus the applicable spread, if any; and/or

multiplied by the applicable spread multiplier, if any.

Commencing on the first Interest Reset Date, as specified in the relevant pricing supplement, the rate at which interest on a series of Regular Floating Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate.

***Floating Rate/Fixed Rate Notes***

If a series of notes that bears interest at floating rates is designated as a series of Floating Rate/Fixed Rate Notes, such series of notes that bears interest at floating rates will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

plus or minus the applicable spread, if any; and/or

multiplied by the applicable spread multiplier, if any.

**Table of Contents**

Commencing on the first Interest Reset Date, the rate at which interest on a series of Floating Rate/Fixed Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that:

the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate, as specified in the relevant pricing supplement; and

the interest rate in effect commencing on the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified in the applicable pricing supplement, or, if not so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

***Inverse Floating Rate Notes***

If a series of notes that bears interest at floating rates is designated as a series of Inverse Floating Rate Notes, such series of notes that bears interest at floating rates will bear interest at the Fixed Interest Rate minus the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

plus or minus the applicable spread, if any; and/or

multiplied by the applicable spread multiplier, if any;

provided, however, that interest on a series of Inverse Floating Rate Notes will not be less than zero. Commencing on the first Interest Reset Date, the rate at which interest on a series of Inverse Floating Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate.

***Interest Reset Dates***

The applicable pricing supplement will specify the dates on which the rate of interest on a series of notes that bears interest at floating rates will be reset (each, an Interest Reset Date ), and the period between Interest Reset Dates will be the Interest Reset Period. Unless otherwise specified in the applicable pricing supplement, the Interest Reset Dates will be, in the case of a series of notes that bears interest at floating rates which reset:

*daily* each business day;

*weekly* the Wednesday of each week, with the exception of weekly reset series of notes that bear interest at floating rates as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week;

*monthly* the fifteenth day of each calendar month, with the exception of monthly reset series of notes that bear interest at floating rates as to which the Eleventh District Cost of Funds Rate is an applicable Interest Rate Basis, which will reset on the first calendar day of the month;

*quarterly* the fifteenth day of March, June, September and December of each year;

*semi-annually* the fifteenth day of the two months of each year specified in the applicable pricing supplement; and

*annually* the fifteenth day of the month of each year specified in the applicable pricing supplement; provided, however, that, with respect to any series of Floating Rate/Fixed Rate Notes, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date.

If any Interest Reset Date for any series of notes that bears interest at floating rates would otherwise be a day that is not a business day, the particular Interest Reset Date will be postponed to the next succeeding business day, except that in the case of a series of notes that bears interest at floating rates as to which LIBOR is an applicable Interest Rate Basis and that business day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding business day.

**Table of Contents**

***Interest Determination Dates***

The interest rate applicable to a series of notes that bears interest at floating rates for an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular Interest Determination Date, which will be:

*with respect to the Federal Funds Open Rate* the related Interest Reset Date;

*with respect to the Federal Funds Rate and the Prime Rate* the business day immediately preceding the related Interest Reset Date;

*with respect to the CD Rate, the Commercial Paper Rate, and the CMT Rate* the second business day preceding the related Interest Reset Date;

*with respect to the Constant Maturity Swap Rate* the second U.S. Government Securities business day (as defined under *Constant Maturity Swap Rate* below) preceding the related Interest Reset Date; provided, however, that if, after attempting to determine the Constant Maturity Swap Rate (as described under *Constant Maturity Swap Rate* below), such rate is not determinable for a particular Interest Determination Date (the *original interest determination date*), then such Interest Determination Date shall be the first U.S. Government Securities business day preceding the original interest determination date for which the Constant Maturity Swap Rate can be determined as described under *Constant Maturity Swap Rate* below;

*with respect to the Eleventh District Cost of Funds Rate* the last working day of the month immediately preceding the related Interest Reset Date on which the Federal Home Loan Bank of San Francisco publishes the Eleventh District Index (as defined below);

*with respect to LIBOR* the second London Banking Day preceding the related Interest Reset Date, unless the applicable LIBOR Currency is pounds sterling, in which case the Interest Determination Date will be the related Interest Reset Date, or unless the applicable LIBOR Currency is euro, in which case the Interest Determination Date will be the second TARGET Settlement Date preceding the related Interest Reset Date;

*with respect to EURIBOR* the second TARGET Settlement Date preceding the related Interest Reset Date; and

*with respect to the Treasury Rate* the day of the week in which the related Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (i.e., Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday.

Unless otherwise specified in the applicable pricing supplement, the Interest Determination Date pertaining to a series of notes that bears interest at floating rates the interest rate of which is determined with reference to two or more Interest Rate Bases will be the latest business day which is at least two business days before the related Interest Reset Date for the applicable note that bears interest at floating rates on which each Interest Reset Basis is determinable.

***Calculation Dates***

The indenture trustee will be the Calculation Agent, unless otherwise specified in the applicable pricing supplement. The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to

S-23

---

**Table of Contents**

the Calculation Date (as defined below), except with respect to LIBOR, EURIBOR and the Eleventh District Cost of Funds Rate, which will be determined on the particular Interest Determination Date. Upon request of the registered holder of a series of notes that bears interest at floating rates, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest Reset Date with respect to the particular series of notes that bears interest at floating rates. The Calculation Date, if applicable, pertaining to any Interest Determination Date will be the earlier of:

the tenth calendar day after the particular Interest Determination Date or, if such day is not a business day, the next succeeding business day; or

the business day immediately preceding the applicable Interest Payment Date or the maturity date, as the case may be.

***Maximum and Minimum Interest Rates***

A series of notes that bears interest at floating rates may also have either or both of the following if specified in the applicable pricing supplement:

a maximum numerical limitation, or ceiling, that may accrue during any Interest Reset Period (a Maximum Interest Rate ); and

a minimum numerical limitation, or floor, that may accrue during any Interest Reset Period (a Minimum Interest Rate ).

In addition to any Maximum Interest Rate that may apply to a series of notes that bears interest at floating rates, the interest rate on a series of notes that bears interest at floating rates will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application.

***Interest Payments***

Unless otherwise specified in the applicable pricing supplement, interest on each series of notes that bears interest at floating rates will be payable on the date(s) set forth below (each, an Interest Payment Date with respect to such series of notes that bears interest at floating rates). Unless otherwise specified in the applicable pricing supplement, the Interest Payment Dates will be, in the case of a series of notes that bears interest at floating rates which reset:

*daily, weekly or monthly* the fifteenth day of each calendar month or on the fifteenth day of March, June, September and December of each year, as specified in the applicable pricing supplement;

*quarterly* the fifteenth day of March, June, September and December of each year;

*semi-annually* the fifteenth day of the two months of each year specified in the applicable pricing supplement; and

*annually* the fifteenth day of the month of each year specified in the applicable pricing supplement.

In addition, the maturity date will also be an Interest Payment Date.

If any Interest Payment Date other than the maturity date for any series of notes that bears interest at floating rates would otherwise be a day that is not a business day, such Interest Payment Date will be postponed to the next

succeeding business day, except that in the case of a series of notes that bears interest at floating rates as to which LIBOR is an applicable Interest Rate Basis and that business day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding business day. If the maturity date of a series of notes that bears interest at floating rates falls on a day that is not a business day, the trust will make the required payment of principal, premium, if any, and interest or other amounts on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

All percentages resulting from any calculation on notes that bear interest at floating rates will be rounded to the nearest one hundred- thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards. For example, 9.876545% (or .09876545) would be rounded to 9.87655% (or .0987655). All dollar amounts used in

**Table of Contents**

or resulting from any calculation on notes that bear interest at floating rates will be rounded, in the case of United States dollars, to the nearest cent or, in the case of a foreign currency, to the nearest unit (with one-half cent or unit being rounded upwards).

With respect to each series of notes that bears interest at floating rates, accrued interest is calculated by multiplying the principal amount of such note that bears interest at floating rates by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Reset Period. The interest factor for each day will be computed by dividing the interest rate applicable to such day by 360, in the case of a series of notes that bears interest at floating rates as to which the CD Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, the Federal Funds Open Rate, the Federal Funds Rate, LIBOR, EURIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of a series of notes that bears interest at floating rates as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. In the case of a series of notes that bears interest at floating rates as to which the Constant Maturity Swap Rate is the Interest Rate Basis, the interest factor for each day will be computed by dividing the number of days in the interest period by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months (unless (i) the last day of the interest period is the 31st day of a month but the first day of the interest period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the interest period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)). The interest factor for a series of notes that bears interest at floating rates as to which the interest rate is calculated with reference to two or more Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified in the applicable pricing supplement applied.

The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions.

***CD Rate***

CD Rate means:

- (1) the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) (as defined below) under the caption CDs (secondary market); or
- (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption CDs (secondary market); or
- (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in The City of New York (which may include the Agents or their affiliates) selected by the Calculation Agent for negotiable United States dollar certificates of deposit of major United States money market banks for negotiable United States certificates of deposit with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time; or

(4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the CD Rate in effect on the particular Interest Determination Date.

H.15(519) means the weekly statistical release designated as H.15(519), or any successor

S-25

---

**Table of Contents**

publication, published by the Board of Governors of the Federal Reserve System.

H.15 Daily Update means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/update>, or any successor site or publication.

***CMT Rate***

CMT Rate means:

(1) if Reuters Page FRBCMT is specified in the applicable pricing supplement:

(a) the percentage equal to the yield for United States Treasury securities at constant maturity having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) under the caption Treasury Constant Maturities, as the yield is displayed on the Reuters Service ( Reuters ) (or any successor service) on page FRBCMT (or any other page as may replace the specified page on that service) ( Reuters Page FRBCMT ), for the particular Interest Determination Date; or

(b) if the rate referred to in clause (a) does not so appear on Reuters Page FRBCMT, the percentage equal to the yield for United States Treasury securities at constant maturity having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption Treasury Constant Maturities; or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519); or

(d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the Agents or their affiliates) (each, a Reference Dealer ), selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on

**Table of Contents**

the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date; or

(2) if CMT Reuters Page FEDCMT is specified in the applicable pricing supplement:

(a) the percentage equal to the one-week or one-month, as specified in the applicable pricing supplement average yield for United States Treasury securities at constant maturity having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) opposite the caption Treasury Constant Maturities, as the yield is displayed on Reuters (or any successor service) (on page FEDCMT or any other page as may replace the specified page on that service) ( Reuters Page FEDCMT ), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

(b) if the rate referred to in clause (a) does not so appear on Reuters Page FEDCMT, the percentage equal to the one-week or one-month, as specified in the applicable pricing supplement, average yield for United States Treasury securities at constant maturity having the particular Index Maturity and for the week or month, as applicable, preceding the particular Interest Determination Date as published in H.15(519) opposite the caption Treasury Constant Maturities; or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the one-week or one-month, as specified in the applicable pricing supplement, average yield for United States Treasury securities at constant maturity having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

(d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic

**Table of Contents**

mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time; or

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on that Interest Determination Date;

If two United States Treasury securities with an original maturity greater than the Index Maturity specified in the applicable pricing supplement have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

***Commercial Paper Rate***

Commercial Paper Rate means:

(1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) under the caption Commercial Paper Nonfinancial; or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Money Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other

**Table of Contents**

recognized electronic source used for the purpose of displaying the applicable rate, under the caption Commercial Paper Nonfinancial; or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New York (which may include the Agents or their affiliates) selected by the Calculation Agent for commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is Aa , or the equivalent, from a nationally recognized statistical rating organization; or

(4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date.

Money Market Yield means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where D refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and M refers to the actual number of days in the applicable Interest Reset Period.

**Constant Maturity Swap Rate**

Constant Maturity Swap Rate means:

(1) the rate for U.S. dollar swaps with the designated maturity specified in the applicable pricing supplement, expressed as a percentage, which appears on Reuters Screen (or any successor service) TGM42276 Page as of 11:00 A.M., New York City time, on the particular Interest Determination Date; or

(2) if the rate referred to in clause (1) does not appear on Reuters Screen (or any successor service) TGM42276 Page by 2:00 P.M., New York City time, on such Interest Determination Date, a percentage determined on the basis of the mid-market semi-annual swap rate quotations provided by the reference banks (as defined below) as of approximately 11:00 A.M., New York City time, on such Interest Determination Date, and, for this purpose, the semi-annual swap rate means the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with a term equal to the designated maturity specified in the applicable pricing supplement commencing on the Interest Reset Date and in a representative amount (as defined below) with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an actual/360 day count basis, is equivalent to USD-LIBOR-BBA with a designated maturity specified in the applicable pricing supplement. The Calculation Agent will request the principal New York City office of each of the reference banks to provide a quotation of its rate. If at least three quotations are provided, the rate for that Interest Determination Date will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest); or

(3) if at least three quotations are not received by the Calculation Agent as mentioned in clause (2), the Constant Maturity Swap Rate in effect on the particular Interest Determination Date.

U.S. Government Securities business day means any day except for Saturday, Sunday, or a day on which The Bond Market Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

Representative amount means an amount that is representative for a single transaction in the relevant market at the relevant time.

**Table of Contents**

Reference banks mean five leading swap dealers in the New York City interbank market, selected by the Calculation Agent, after consultation with us.

***Eleventh District Cost of Funds Rate***

Eleventh District Cost of Funds Rate means:

- (1) the rate equal to the monthly weighted average cost of funds for the calendar month immediately preceding the month in which the particular Interest Determination Date falls as set forth under the caption 11th District on the display on Reuters (or any successor service) on page COFI/ARMS (or any other page as may replace the specified page on that service) ( Reuters Page COFI/ARMS ) as of 11:00 A.M., San Francisco time, on that Interest Determination Date; or
- (2) if the rate referred to in clause (1) does not so appear on Reuters Page COFI/ARMS, the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced (the Eleventh District Index ) by the Federal Home Loan Bank of San Francisco as the cost of funds for the calendar month immediately preceding that Interest Determination Date; or
- (3) if the Federal Home Loan Bank of San Francisco fails to announce the Eleventh District Index on or prior to the particular Interest Determination Date for the calendar month immediately preceding that Interest Determination Date, the Eleventh District Cost of Funds Rate in effect on the particular Interest Determination Date.

***EURIBOR***

EURIBOR means: (1) with respect to any Interest Determination Date relating to a series of EURIBOR Notes or a series of notes that bears interest at floating rates for which the interest rate is determined with reference to EURIBOR (a EURIBOR Interest Determination Date ), the rate for deposits in euros as sponsored, calculated and published jointly by the European Banking Federation and ACI The Financial Market Association, or any company established by the joint sponsors for purposes of compiling and publishing those rates, having the Index Maturity specified in the applicable pricing supplement, commencing on the applicable Interest Reset Date, as the rate appears on Reuters (or any successor service) on page EURIBOR 01 (or any other page as may replace that specified page on the service) ( Reuters Page EURIBOR 01 ) as of 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date; or (2) if such rate does not appear on Reuters Page EURIBOR 01, or is not so published by 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date, such rate will be calculated by the Calculation Agent and will be the arithmetic mean of at least two quotations obtained by the Calculation Agent after requesting the principal

Euro-zone (as defined below) offices of four major banks in the Euro-zone interbank market to provide the Calculation Agent with its offered quotation for deposits in euros for the period of the Index Maturity specified in the applicable pricing supplement, commencing on the applicable Interest Reset Date, to prime banks in the Euro-zone interbank market at approximately 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euro in the market at that time; or (3) if fewer than two such quotations are so provided, the rate on the applicable EURIBOR Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date by four major banks in the Euro-zone for loans in euro to leading European banks, having the Index Maturity specified in the applicable pricing supplement, commencing on the applicable Interest Reset Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euros in the market at that time; or (4) if the banks so selected by the Calculation Agent are not quoting as mentioned

above, EURIBOR will be EURIBOR in effect on the applicable EURIBOR Interest Determination Date.

Euro-zone means the region comprised of member states of the European Union that have adopted the single currency in accordance with the

S-30

---

**Table of Contents**

treaty establishing the European Community, as amended by the treaty on European Union.

***Federal Funds Rates***

Federal Funds Open Rate means the rate set forth on Reuters (or any successor service) on page 5 (or any other page as may replace the specified page on that service) for an Interest Determination Date underneath the caption

FEDERAL FUNDS in the row titled OPEN. If the rate is not available for an Interest Determination Date, the rate for that Interest Determination Date shall be the Federal Funds Rate as determined below.

Federal Funds Rate means:

(1) the rate as of the particular Interest Determination Date for United States dollar federal funds as published in H.15 (519) under the caption EFFECT and displayed on Reuters (or any successor service) on page FEDFUNDS1 (or any other page as may replace the specified page on that service) ( Reuters Page FEDFUNDS1 ); or

(2) if the rate referred to in clause (1) does not so appear on Reuters Page FEDFUNDS1 or is not so published by 5:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption Federal Funds (Effective); or

(3) if the rate referred to in clause (2) is not so published by 5:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date will be the rate for the first preceding day for which such rate is set forth in H.15(519) under the caption Federal Funds (Effective) , as such rate is displayed on Reuters Page FEDFUNDS1.

***LIBOR***

LIBOR means:

(1) the rate for deposits in the LIBOR Currency having the Index Maturity specified in the applicable pricing supplement, commencing on the related Interest Reset Date, that appears on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or

(2) if no rate appears on the particular Interest Determination Date on the LIBOR Page as specified in clause (1), the rate calculated by the Calculation Agent as the arithmetic mean of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which may include affiliates of the Agents), in the London interbank market selected by the Calculation Agent to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or

(3) if fewer than two offered quotations referred to in clause (2) are provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include affiliates of the Agents), in that principal financial center selected by the Calculation Agent for loans in the LIBOR Currency to leading European banks, having the particular Index Maturity and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or

(4) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (3), LIBOR in effect on the particular Interest Determination Date.

LIBOR Currency means the currency specified in the applicable pricing supplement as to

S-31

---

**Table of Contents**

which LIBOR shall be calculated or, if no currency is specified in the applicable pricing supplement, United States dollars.

**LIBOR Page** means the display on Reuters (or any successor service) on the page specified in the applicable pricing supplement (or any other page as may replace that page on that service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

***Prime Rate***

Prime Rate means:

- (1) the rate on the particular Interest Determination Date as published in H.15(519) under the caption **Bank Prime Loan** ; or
- (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption **Bank Prime Loan**; or
- (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on Reuters Screen US PRIME 1 Page (as defined below) as the applicable bank's prime rate or base lending rate as of 11:00 A.M., New York City time, on that Interest Determination Date; or
- (4) if fewer than four rates referred to in clause (3) are so published by 3:00 p.m., New York City time, on the related Calculation Date, the rate calculated by the Calculation Agent as the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on that Interest Determination Date by three major banks (which may include affiliates of the Agents) in The City of New York selected by the Calculation Agent; or
- (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), the Prime Rate in effect on the particular Interest Determination Date.

**Reuters Screen US PRIME 1 Page** means the display on Reuters Monitor Money Rates Service (or any successor service) on the **US PRIME 1** page (or any other page as may replace that page on that service) for the purpose of displaying prime rates or base lending rates of major United States banks.

***Treasury Rate***

Treasury Rate means:

- (1) the rate from the auction held on the Treasury Rate Interest Determination Date (the **Auction** ) of direct obligations of the United States ( **Treasury Bills** ) having the Index Maturity specified in the applicable pricing supplement under the caption **INVESTMENT RATE** on the display on Reuters (or any successor service) on page USAUCTION 10 (or any other page as may replace that page on that service) ( **Reuters USAUCTION 10** ) or page USAUCTION 11 (or any other page as may replace that page on that service) ( **Reuters USAUCTION 11** ); or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption U.S. Government Securities/Treasury Bills/Auction High ; or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury; or

S-32

---

**Table of Contents**

(4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption U.S. Government Securities/Treasury Bills/Secondary Market; or

(5) if the rate referred to in clause (4) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption U.S. Government Securities/Treasury Bills/Secondary Market ; or

(6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include the Agents or their affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable pricing supplement; or

(7) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date.

Bond Equivalent Yield means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where D refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, N refers to 365 or 366, as the case may be, and M refers to the actual number of days in the applicable Interest Reset Period.

**Other/Additional Provisions; Addendum**

Any provision with respect to a series of notes, including the specification and determination of one or more Interest Rate Bases, the calculation of the interest rate applicable to a note that bears interest at floating rates, the interest payment dates, the stated maturity date, any redemption or repayment provisions or any other term relating to the applicable notes, may be modified and/or supplemented as specified under Other/Additional Provisions on the face thereof or in an addendum relating thereof, if so specified on the face thereof and in each case described in the applicable pricing supplement.

**Discount Notes**

A trust may issue a series of notes ( Discount Notes ) that has an Issue Price (as specified in the applicable pricing supplement) that is less than the principal amount thereof by an amount that is equal to or greater than the *de minimis* amount. The *de minimis* amount is equal to 0.25% multiplied by the product of the principal amount of the notes and the number of full years to the stated maturity date. A series of Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a series of Discount Notes and par is referred to as the Discount. In the event of redemption, repayment or acceleration of maturity of a series of Discount Notes, the amount payable to the holders of such series of Discount Notes will be

equal to the sum of:

the Issue Price (increased by any accruals of Discount) and, in the event of any redemption of such series of Discount Notes, if applicable, multiplied by the initial redemption percentage (as adjusted by the annual redemption percentage reduction, if applicable); and

any unpaid interest accrued on such series of Discount Notes to the maturity date.

S-33

---

## **Table of Contents**

Unless otherwise specified in the applicable pricing supplement, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a series of Discount Notes, a Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable series of Discount Notes (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the applicable series of Discount Notes and an assumption that the maturity of such series of Discount Notes will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a series of Discount Notes (the Initial Period ) is shorter than the compounding period for such series of Discount Notes, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided in the preceding sentence. The accrual of the applicable Discount may differ from the accrual of original issue discount for purposes of the Internal Revenue Code of 1986, as amended, certain series of Discount Notes may not be treated as having original issue discount within the meaning of such Code, and certain series of notes other than Discount Notes may be treated as issued with original issue discount for United States federal income tax purposes. See Material United States Federal Income Tax Considerations.

Each trust may issue a series of notes which may be redeemed by the issuing trust when 20% or more of the original principal balance of such notes is outstanding, which are referred to as callable notes. In the case of Discount Notes that may be redeemed at a time when 20% or more of such notes are outstanding, such notes will be designated in their title as callable in the applicable pricing supplement. Unless otherwise specified in the applicable pricing supplement, such series of notes will otherwise be subject to the redemption provisions as specified under Optional Redemption; Optional Repayment; No Sinking Fund.

## **Amortizing Notes**

A trust may issue a series of notes ( Amortizing Notes ) with the amount of principal thereof and interest thereon payable in installments over their terms. Unless otherwise specified in the applicable pricing supplement, interest on each series of Amortizing Notes will be computed on the basis of a 360-day year of twelve 30-day months. Payments with respect to a series of Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. Further information concerning additional terms and provisions of a particular series of Amortizing Notes will be specified in the applicable pricing supplement, including a table setting forth repayment information for such series of Amortizing Notes.

## **Book-Entry Notes**

We have established a depositary arrangement, on behalf of the trusts, with DTC with respect to the book-entry notes, the terms of which are summarized below.

All book-entry notes having the same terms will be represented by one or more global securities. Each global security will be deposited with, or on behalf of, DTC and will be registered in the name of DTC or its nominee. No global security may be transferred or exchanged except as a whole by DTC or a nominee of DTC to DTC or to another nominee of DTC, or by DTC or another nominee of DTC to a successor of DTC or a nominee of a successor to DTC. So long as DTC or its nominee is the registered holder of a global security, DTC or its nominee will be the sole owner of the related book-entry notes represented thereby for all purposes under the indenture. Except as otherwise provided below, the beneficial owners of the global security or securities represented by book-entry notes will not be entitled to receive physical delivery of definitive notes and will not be considered the registered holders of the book-entry notes for any purpose under the indenture and no global security representing book-entry notes will be exchangeable or

transferable. As a result, to exercise any rights of a registered holder under the indenture, a beneficial owner must rely on the procedures of DTC and, if the beneficial owner is not a participant, on the procedures of the participant or participants through which the beneficial owner owns its interest. The laws of some jurisdictions require that some purchasers of securities take

## **Table of Contents**

physical delivery of securities in definitive form. These laws may limit the ability to transfer beneficial interests in a global security represented by book-entry notes.

Each global security representing book-entry notes will be exchangeable for definitive notes having the same terms in a like aggregate principal amount only if:

the trust notifies the indenture trustee that the trust wishes in its sole discretion to exchange the global security for definitive notes;

an event of default on the notes of that series has occurred and has not been cured; or

DTC notifies us that it is unwilling or unable to continue as a clearing system for the global securities, or we have become aware that it has ceased to be a clearing agency registered under the Exchange Act and, in either case, a successor clearing system is not appointed by us within 60 calendar days after receiving the notice from DTC or becoming aware that DTC is no longer registered.

If any of these events occurs, the appropriate trust will print and deliver definitive notes. Definitive notes issued under these circumstances will be registered in the names of the beneficial owners of the related global securities as provided to the indenture trustee by the participants identified by DTC.

## **About the Depositary**

The following is based on information furnished by DTC:

DTC will act as securities depository for the book-entry notes. The book-entry notes will be issued as fully registered securities in the name of Cede & Co. (DTC's nominee) or another name requested by DTC. One fully registered global security will be issued for each issue of a series of book-entry notes in the aggregate principal amount of that issue and will be deposited with, or on behalf of, DTC. If the aggregate principal amount of any issue exceeds DTC's limit for a single global security, then the global securities will be issued in the form of one or more global securities having a principal amount equal to DTC's limit and one or more additional global securities representing any remaining principal amount.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for securities that direct participants deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between direct participant's accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers (including the purchasing agent), banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). DTCC, in turn, is owned by a number of direct participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly (indirect participants). The DTC rules applicable to its direct and indirect participants are on file with the SEC. More information about DTC can be

found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Under DTC's system, purchases of book-entry notes must be made by or through direct participants, which will receive a credit for the book-entry notes on DTC's records. The ownership interest of the actual purchaser is in turn recorded on the records of the direct and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but are expected

S-35

---

**Table of Contents**

to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which they entered into the transaction. Transfers of ownership interests in book-entry notes are accomplished by entries made on the books of the direct and indirect participants acting on behalf of the beneficial owners. Beneficial owners will not receive definitive notes unless use of the book-entry system is discontinued as described above.

To facilitate subsequent transfers, all global securities representing the book-entry notes deposited with, or on behalf of, DTC will be registered in the name of DTC's nominee, Cede & Co., or any other name that DTC requests. The deposit of global securities with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the book-entry notes; DTC's records reflect only the identity of the direct participants to whose accounts the book-entry notes are credited, which may or may not be the beneficial owners. DTC's participants are responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications from DTC to direct participants, from direct participants to indirect participants and from direct participants and indirect participants to beneficial owners are governed by arrangements among them and are subject to statutory and regulatory requirements.

Neither DTC nor Cede & Co. will consent or vote with respect to global securities. Under its usual procedures, DTC mails an omnibus proxy to a company as soon as possible after a record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the book-entry notes are credited on the record date (identified in a listing attached to the omnibus proxy).

The trust will make payments on the global securities in immediately available funds to Cede & Co. or any other nominee named by DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that date. Payments by participants to beneficial owners are governed by standing instructions and customary practices and are subject to statutory and regulatory requirements. The trust and the trustee are responsible only for making payments to DTC; DTC is responsible for disbursing those payments to its direct participants and the direct participants (and any indirect participants) are solely responsible for disbursing those payments to the beneficial owners.

Any redemption notices will be sent to Cede & Co. If less than all of the book-entry notes having the same terms are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each direct participant in those notes to be redeemed.

A beneficial owner must give notice of any election to have its book-entry notes repaid through its participant to the indenture trustee. Delivery of the book-entry notes will be effected by causing the relevant direct participant to transfer the relevant part of its interest in the global securities to the indenture trustee on DTC's records.

DTC may discontinue providing its services as securities depository at any time by giving reasonable notice to us or the indenture trustee. If we do not obtain a successor securities depository, the applicable trust will print and deliver definitive notes.

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). If we do so, the applicable trust will print and deliver definitive notes.

**SPECIAL PROVISIONS RELATING TO FOREIGN CURRENCY NOTES**

**General**

Unless otherwise specified in the applicable pricing supplement, foreign currency notes will not be sold in, or to residents of, the country issuing the specified currency. The information set forth in this prospectus supplement is directed to prospective purchasers who are United States residents and, with respect to foreign currency notes, is by necessity incomplete. We, PFG, the trusts and the Agents disclaim any responsibility to advise prospective purchasers who are residents of countries other than

S-36

---

**Table of Contents**

the United States with respect to any matters that may affect the purchase, holding or receipt of payments of principal of, and premium, if any, and interest, if any, on, their foreign currency notes. These purchasers should consult their own financial and legal advisors with regard to these risks. See Risk Factors Risk Factors Relating to the Notes If the trust issues notes denominated in a foreign currency, those notes are subject to exchange rate and exchange control risks in the accompanying prospectus.

**Payment of Principal, Premium, if Any, and Interest, if Any**

Unless otherwise specified in the applicable pricing supplement, a trust is obligated to make payments of principal of, and premium, if any, and interest, if any, on, a foreign currency note in the specified currency. Any amounts so payable by the trust in the specified currency will be converted by the exchange rate agent named in the applicable pricing supplement (the exchange rate agent ) into United States dollars for payment to the registered holders thereof unless otherwise specified in the applicable pricing supplement or a registered holder elects, in the manner described below, to receive these amounts in the specified currency.

Any United States dollar amount to be received by a registered holder of a foreign currency note will be based on the highest bid quotation in The City of New York received by the exchange rate agent at approximately 11:00 A.M., New York City time, on the second business day preceding the applicable payment date from three recognized foreign exchange dealers (one of whom may be the exchange rate agent) selected by the exchange rate agent and approved by the trust for the purchase by the quoting dealer of the specified currency for United States dollars for settlement on that payment date in the aggregate amount of the specified currency payable to all registered holders of foreign currency notes scheduled to receive United States dollar payments and at which the applicable dealer commits to execute a contract. All currency exchange costs will be borne by the registered holders of foreign currency notes by deductions from any payments. If three bid quotations are not available, payments will be made in the specified currency.

Registered holders of foreign currency notes may elect to receive all or a specified portion of any payment of principal, premium, if any, and/or interest, if any, in the specified currency by submitting a written request to the indenture trustee at its corporate trust office in The City of New York on or prior to the applicable regular record date or at least 15 calendar days prior to the maturity date, as the case may be. This written request may be mailed or hand delivered or sent by cable, telex or other form of facsimile transmission. This election will remain in effect until revoked by written notice delivered to the indenture trustee on or prior to a regular record date or at least 15 calendar days prior to the maturity date, as the case may be. Registered holders of foreign currency notes to be held in the name of a broker or nominee should contact their broker or nominee to determine whether and how an election to receive payments in the specified currency may be made.

Unless otherwise specified in the applicable pricing supplement, if the specified currency is other than United States dollars, a beneficial owner of a global security which elects to receive payments of principal, premium, if any, and/or interest, if any, in the specified currency must notify the participant through which it owns its interest on or prior to the applicable record date or at least 15 calendar days prior to the maturity date, as the case may be, of its election. The applicable participant must notify the depository of its election on or prior to the third business day after the applicable record date or at least 12 calendar days prior to the maturity date, as the case may be, and the depository will notify the indenture trustee of that election on or prior to the fifth business day after the applicable record date or at least ten calendar days prior the maturity date, as the case may be. If complete instructions are received by the participant from the applicable beneficial owner and forwarded by the participant to the depository, and by the depository to the trustee, on or prior to such dates, then the applicable beneficial owner will receive payments in the specified currency.

A trust will make payments of the principal of, and premium, if any, and/or interest, if any, on foreign currency notes which are to be made in United States dollars in the manner specified herein with respect to notes denominated in United States dollars. See Description of the Notes General. A trust will make payments of interest, if any, on foreign currency notes which are to be made in the specified currency on an Interest Payment Date other than the maturity date by check mailed to the

S-37

---

## **Table of Contents**

address of the registered holders of their foreign currency notes as they appear in the register, subject to the right to receive these payments by wire transfer of immediately available funds under the circumstances described under Description of the Notes General. A trust will make payments of principal of, and premium, if any, and/or interest, if any, on, foreign currency notes which are to be made in the specified currency on the maturity date by wire transfer of immediately available funds to an account with a bank designed at least 15 calendar days prior to the maturity date by the applicable registered holder, provided the particular bank has appropriate facilities to make these payments and the particular foreign currency note is presented and surrendered at the office or agency maintained by the trust for this purpose in the Borough of Manhattan, The City of New York, in time for the indenture trustee, acting in its capacity as servicer, to make these payments in accordance with its normal procedures.

### **Availability of Specified Currency**

If the specified currency for foreign currency notes is not available for any required payment of principal, premium, if any, and/or interest, if any, due to the imposition of exchange controls or other circumstances beyond its control, a trust will be entitled to satisfy its obligations to the registered holders of these foreign currency notes by making payments in United States dollars on the basis of the market exchange rate, computed by the exchange rate agent, on the second business day prior to the particular payment or, if the market exchange rate is not then available, on the basis of the most recently available market exchange rate.

The market exchange rate for a specified currency other than United States dollars means the noon dollar buying rate in The City of New York for cable transfers for the specified currency as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

All determinations made by the exchange rate agent shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on the registered holders of the foreign currency notes.

### **Judgments**

Under current New York law, a state court in the State of New York would be required to render a judgment in respect of a foreign currency note in the specified currency, and a judgment in the specified currency would be converted into United States dollars at the exchange rate prevailing on the date of entry of the judgment. Accordingly, registered holders of foreign currency notes would be subject to exchange rate fluctuations between the date of entry of a foreign currency judgment and the time when the amount of the foreign currency judgment is paid in United States dollars and converted by the applicable registered holder into the specified currency. It is not certain, however, whether a non-New York state court would follow the same rules and procedures with respect to conversions of foreign currency judgments.

Each trust will indemnify the registered holder of any of its notes against any loss incurred as a result of any judgment or order being given or made for any amount due under the particular note and that judgment or order requiring payment in a currency (the judgment currency) other than the specified currency, and as a result of any variation between:

the rate of exchange at which the specified currency amount is converted into the judgment currency for the purpose of that judgment or order; and

the rate of exchange at which the registered holder, on the date of payment of that judgment or order, is able to purchase the specified currency with the amount of the judgment currency actually received.

## **DESCRIPTION OF THE FUNDING AGREEMENTS**

Each trust will use the net proceeds from the issuance of a series of notes to the public and the issuance of the trust beneficial interest to the trust beneficial owner to purchase a funding agreement. The funding agreement will have substantially similar payment and other terms to the related series of notes. The funding agreement may be interest bearing or non-interest bearing. A funding agreement may bear interest at either a fixed or a floating rate, or a combination of fixed and floating rates, as specified in the applicable pricing supplement. The calculation of the interest rate, the dates of interest

S-38

---

**Table of Contents**

and maturity payments and such other payment terms on the funding agreement will be determined in the same manner as described above under Description of the Notes. An amount equal to the funding agreement deposit plus accrued but unpaid interest, if any, and accrued discount, if any (in the case of a discount funding agreement) (other than an amortizing funding agreement) will be payable on its stated maturity date, as specified in the applicable pricing supplement. We may issue an amortizing funding agreement that pays an amount in respect of both interest and deposit amount over the life of the funding agreement, if specified in the applicable pricing supplement.

The pricing supplement relating to a series of notes will describe the following pricing terms of the related funding agreement:

the deposit amount and the specified currency for the funding agreement;

whether the funding agreement:

(1) is a fixed rate funding agreement,

(2) is a floating rate funding agreement,

(3) is an amortizing funding agreement, meaning that a portion or all of the deposit amount is payable prior to the stated maturity in accordance with a schedule or by application of a formula, and/or

(4) is a discount funding agreement that does not bear interest currently or bears interest at a rate that is below market rates at the effective date;

the price at which the funding agreement will be issued, which will be expressed as a percentage of the aggregate deposit amount or face amount;

the effective date on which the funding agreement will be issued;

the stated maturity date;

if the funding agreement is a fixed rate funding agreement, the rate per annum at which the funding agreement will bear any interest and the interest payment date frequency;

if the funding agreement is a floating rate funding agreement, relevant terms such as:

(1) the interest rate basis,

(2) the initial interest rate,

(3) the interest reset period or the interest reset dates,

(4) the interest payment dates,

(5) the index maturity,

(6) any maximum interest rate,

(7) any minimum interest rate,

(8) the spread and/or spread multiplier, and

(9) any other terms relating to the particular method of calculating the interest rate for the funding agreement and whether and how the spread and/or spread multiplier may be changed prior to stated maturity;

if the funding agreement is an amortizing funding agreement, the terms for repayment prior to the stated maturity;

whether the funding agreement may be redeemed by us, or repaid at the option of the trust, prior to the stated maturity and the terms of its redemption or repayment; provided in either case the relevant series of notes will contain substantially the same redemption and repayment terms and no funding agreement may be redeemed or repaid without the simultaneous redemption or repayment of the related series of notes; and

any other terms of the funding agreement.

For a more detailed discussion of the funding agreements, see [Description of the Funding Agreements](#) in the accompanying prospectus.

S-39

---

**Table of Contents**

**MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

The following is a general discussion of the material United States federal income tax considerations relating to the purchase, ownership and disposition of the notes by initial purchasers of the notes who purchase the notes at their issue price (determined as set forth below) and hold the notes as capital assets within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the Code). The statements set forth in the following discussion, to the extent they constitute matters of United States federal income tax law or legal conclusions with respect thereto, represent the opinion of Sidley Austin LLP, special United States income tax counsel to us. This discussion does not address all of the tax considerations that may be relevant to prospective purchasers in light of their particular circumstances or to persons subject to special rules under United States federal tax laws, such as certain financial institutions, insurance companies, real estate investment trusts, dealers in securities, tax-exempt entities, certain former citizens or residents of the United States, persons who hold the notes as part of a straddle, hedging, conversion or other integrated transaction, persons who mark their securities to market for United States federal income tax purposes or U.S. persons whose functional currency (as defined in section 985 of the Code) is not the U.S. dollar. In addition, this discussion does not address the effect of any state, local or foreign tax laws or the effect of the U.S. federal alternative minimum tax. Accordingly, prospective purchasers are advised to consult their own tax advisors with respect to their individual circumstances.

This discussion is based on the Code, the Treasury Regulations promulgated thereunder and administrative and judicial pronouncements, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect.

For purposes of the following discussion, the term U.S. Holder means a beneficial owner of a note who or which is, for United States federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States or of any political subdivision thereof or (iii) an estate or trust treated as a United States person under section 7701(a)(30) of the Code. The term

Non-U.S. Holder means a beneficial owner of a note other than a U.S. Holder. For the purposes of this discussion, U.S. Holders and Non-U.S. Holders shall be referred to collectively as holders.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership, and special rules, not discussed in this prospectus supplement or the accompanying prospectus, may apply to such partners and partnerships. Such persons should consult their own tax advisors in that regard.

**Classification of the Notes and the Trust**

We intend to take the position, for United States federal income tax purposes, that each trust will be disregarded and that the notes will be treated as representing our indebtedness (the Intended Tax Characterization). Each holder of a note (or any beneficial interest therein), by acceptance of the note (or beneficial interest), agrees to treat the trust with respect to which the note was issued and the note consistently with the Intended Tax Characterization.

Notwithstanding the Intended Tax Characterization, it is possible that a trust could be viewed as a separate entity for United States federal income tax purposes. Sidley Austin LLP is of the opinion that, under current law and assuming full compliance with the terms of the trust agreement and the indenture (and certain other documents), and based on certain facts and assumptions contained in such opinion, each trust will not be classified as an association (or publicly traded partnership) taxable as a corporation for United States federal income tax purposes. Accordingly, whether the Intended Tax Characterization is respected or not, each trust will not be treated as a taxable entity for United States federal income tax purposes. If a trust is viewed as a separate entity rather than disregarded, each holder of a note (or any beneficial interest therein) agrees to treat the trust as a grantor trust and the notes as undivided ownership interests

in such trust. If this were the case, a U.S. Holder would be required to include in income, consistent with its method of accounting, its pro rata share of any amounts paid to the relevant trust to satisfy expenses and would be entitled to deduct, consistent with its method of accounting, its pro rata share of any such expenses as provided in sections 162 and 212 of the Code. If the U.S. Holder is an individual, trust or estate, or to the extent the U.S. Holder s

**Table of Contents**

income is reportable on the income tax return of an individual, trust or estate, the deduction for such person's share of such expenses will be allowed only to the extent that all of such person's miscellaneous itemized deductions, including such person's share of the relevant trust's expenses, exceed two percent of such person's adjusted gross income. In addition, an individual's itemized deductions may be subject to other limitations. Accordingly, U.S. Holders who are individuals, or whose income is reported in whole or in part on the income tax return of a United States citizen or resident, should consult their tax advisors with respect to such deductions.

The remainder of this summary assumes that the Intended Tax Characterization is correct.

**U.S. Holders*****Interest and Original Issue Discount***

Each U.S. Holder will include in income payments of qualified stated interest (as described below) in respect of such note, in accordance with such U.S. Holder's method of accounting for United States federal income tax purposes, as ordinary interest income. In general, if the issue price of a note, determined by the first price at which a substantial amount of the notes of the related series are sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers), is less than the stated redemption price at maturity (as described below) of such note by an amount equal to or more than a *de minimis* amount, a U.S. Holder will be considered to have purchased such note with original issue discount (OID). In general, the *de minimis* amount is equal to 1/4 of one percent of the stated redemption price at maturity multiplied by the number of complete years to maturity from the issue date of such note. If a U.S. Holder acquires a note with OID, then regardless of such U.S. Holder's method of accounting, such U.S. Holder will be required to accrue its pro rata share of OID on such note on a constant-yield basis and include such accruals in gross income, whether or not such U.S. Holder has received any cash payment on the notes. Any amount not treated as OID because it is less than the *de minimis* amount generally must be included in income (generally as gain from the sale of notes) as principal payments are received in the proportion that each such payment bears to the original principal amount of the note. Special rules apply to notes with a fixed maturity of one year or less. See Short Term Notes.

Stated redemption price at maturity means the sum of all payments to be made on a note other than payments of qualified stated interest. Qualified stated interest generally means stated interest that is unconditionally payable at least annually at a single fixed rate or, in the case of a variable rate debt instrument (as defined below), at a single qualified floating rate or single objective rate (as such terms are defined below).

In the case of a variable rate debt instrument with interest payable at a single qualified floating rate or a single objective rate, the amount of qualified stated interest and the amount of OID, if any, that accrues during an accrual period is generally determined assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate (each as defined below), the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate or (ii) in the case of an objective rate (as defined below, and other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the debt instrument, and the qualified stated interest (or, if there is no qualified stated interest, OID) allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period pursuant to clause (i) or (ii), as applicable. Special rules apply to a variable rate debt instrument that provides for stated interest at a fixed rate under certain circumstances. If a note is a variable rate debt instrument but interest is payable at other than a single qualified floating rate or a single objective rate, special rules apply that are not discussed in this prospectus supplement or the accompanying prospectus.

A variable rate debt instrument is a debt instrument that (i) has an issue price that does not exceed the total noncontingent principal payments by more than an amount equal to the lesser of (a) 0.015 multiplied by the product of

such total noncontingent principal payments and the number of complete years to maturity of the instrument (or, in the case of a note providing for the payment of any amount other than qualified stated interest prior to maturity, multiplied by the weighted average maturity of the note) or (b) 15 percent of the total noncontingent principal payments, (ii) provides for stated interest (compounded or paid at least

**Table of Contents**

annually) at (A) one or more qualified floating rates, (B) a single fixed rate and one or more qualified floating rates, (C) a single objective rate or (D) a single fixed rate and a single objective rate that is a qualified inverse floating rate, (iii) except as provided in (i) above, does not provide for any principal payments that are contingent, and (iv) provides that a qualified floating rate or objective rate in effect at any time during the term of the instrument is set at the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A qualified floating rate is generally a floating rate under which variations in the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the debt instrument is denominated. A multiple of a qualified floating rate is not a qualified floating rate unless the relevant multiplier is (i) fixed at a number that is greater than 0.65 but not more than 1.35 or (ii) fixed at a number that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate. A variable rate is not considered a qualified floating rate if the variable rate is subject to a cap, floor, governor (i.e., a restriction on the amount of increase or decrease in the stated interest rate) or similar restriction that is reasonably expected as of the issue date to cause the yield on the note to be significantly more or less than the expected yield determined without the restriction (other than a cap, floor, governor or similar restriction that is fixed throughout the term of the note).

An objective rate is a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on objective financial or economic information, *provided, however*, that an objective rate will not include a rate based on information that is within the control of the issuer (or certain related parties of the issuer) or that is unique to the circumstances of the issuer (or certain related parties of the issuer), such as dividends, profits or the value of the issuer's stock. A qualified inverse floating rate is an objective rate (x) that is equal to a fixed rate minus a qualified floating rate and (y) the variations in which can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate (disregarding any caps, floors, governors or similar restrictions that would not, as described above, cause a rate to fail to be a qualified floating rate). Notwithstanding the first sentence of this paragraph, a rate is not an objective rate if it is reasonably expected that the average value of the rate during the first half of the note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the note's term. The Internal Revenue Service ( IRS ) may designate rates other than those specified above that will be treated as objective rates. As of the date of this prospectus supplement, no other rates have been designated.

If interest on a note is stated at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period, and the value of the variable rate on the issue date is intended to approximate the fixed rate, the fixed rate and the variable rate together constitute a single qualified floating rate or objective rate. A fixed rate and a variable rate will be conclusively presumed to meet the requirements of the preceding sentence if the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 0.25 percentage points (25 basis points).

If a floating rate note does not qualify as a variable rate debt instrument or otherwise provides for contingent payments, or if a fixed rate note provides for contingent payments, such note may constitute a contingent payment debt instrument. A note that is a contingent payment debt instrument is generally taxable as follows:

First, we are required to determine, as of the issue date, the comparable yield for the note. The comparable yield is generally the yield at which we would issue a fixed rate debt instrument with terms and conditions similar to those of the note (including the level of subordination, term, timing of payments and general market conditions, but not taking into consideration the riskiness of the contingencies or the liquidity of the note), but not less than the applicable federal rate based on the overall maturity of the note (the AFR ). In certain cases where a contingent payment debt instrument is marketed or sold in substantial part to tax-exempt investors or other investors for whom the prescribed inclusion of interest is not expected to have a substantial effect on their U.S. federal tax liability, the comparable yield

for the note, without proper evidence to the contrary, is presumed to be the AFR.

Second, we are required to construct a projected schedule of payments (the Schedule ).

S-42

---

## **Table of Contents**

The Schedule is determined as of the issue date and generally remains in place throughout the term of the note. The Schedule includes each noncontingent payment and a projected payment for each contingent payment. The Schedule must produce the comparable yield determined as set forth above.

Third, each U.S. Holder will be required to treat all interest on the notes as OID and accrue such interest on a constant yield basis under the usual rules applicable to OID based on the comparable yield of the notes.

Fourth, appropriate adjustments are made to the OID determined under the foregoing rules to account for any differences between actual contingent payments and the projected payments on the Schedule.

Differences between the actual contingent payments made to a U.S. Holder in such U.S. Holder's taxable year and the projected payments for such taxable year are generally aggregated and taken into account, in the case of a positive difference, as additional interest income, or, in the case of a negative difference, first as a reduction in OID for such year and thereafter, subject to certain limitations, as ordinary loss or, in certain cases, as a reduction in the amount realized by the U.S. Holder on the sale, exchange or retirement of the contingent payment debt instrument. We are required to provide to each holder a copy of the Schedule. Our determination of the Schedule must be used by a U.S. Holder unless the Schedule is unreasonable and such U.S. Holder discloses to the IRS that it is using a different schedule. In general, any gain realized by a U.S. Holder on the sale, exchange, retirement or other disposition of a note that is a contingent payment debt instrument prior to the time no contingent payments remain is treated as interest income. In general, any loss on such a note is treated as ordinary loss to the extent it does not exceed such U.S. Holder's prior interest inclusions on the note (net of negative adjustments). The above described treatment of contingent payment debt instruments assumes that the instrument is properly treated as debt for U.S. federal tax purposes.

### ***Premiums***

If the amount paid by a U.S. Holder for a note exceeds the stated redemption price at maturity of the note, the U.S. Holder generally will be considered to have purchased the note at a premium equal in amount to such excess. In this event, the U.S. Holder may elect to amortize such premium, generally on a constant-yield basis, as an offset to interest income. In the case of a note that may be redeemed prior to maturity, the premium is calculated assuming the trust and the U.S. Holder will exercise or not exercise redemption rights in a manner that maximizes the U.S. Holder's yield. It is unclear how premium is calculated when the redemption date or the amount of any redemption premium is uncertain. The election to amortize bond premium, once made, will apply to all debt obligations held or subsequently acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

### ***Short-Term Notes***

Notes that have a fixed maturity of one year or less ( Short-Term Notes ) will be treated as issued with OID. In general, an individual or other U.S. Holder that uses the cash method of accounting is not required to accrue such OID unless the U.S. Holder elects to do so. If such an election is not made, any gain recognized by such U.S. Holder on the sale, exchange, retirement or other disposition of Short-Term Notes will be ordinary income to the extent of the OID accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of sale, exchange, retirement or other disposition, and a portion of the deduction otherwise allowable to such U.S. Holder for interest on borrowings allocable to Short-Term Notes will be deferred until a corresponding amount of income is realized. U.S. Holders who report income for United States federal income tax purposes under the accrual method of accounting and certain other holders are required to accrue OID related to a Short-Term Note as ordinary income on a straight-line basis unless an election is made to accrue the OID under a constant yield method (based on daily compounding). A U.S. Holder of a Short-Term Note may elect to apply the foregoing rules (except for

the rule characterizing gain on sale, exchange or retirement as ordinary) with respect to acquisition discount rather than OID. Acquisition discount is the excess of the stated redemption price at maturity of the Short-Term Note over the U.S. Holder's basis in the Short-Term Note. This election applies to all obligations acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies, unless revoked with the consent of the IRS. A U.S. Holder's tax basis in a Short-Term

**Table of Contents**

Note is increased by the amount included in such U.S. Holder's income on such a Note.

***Sale, Exchange, Retirement or Other Disposition of Notes***

In general, a U.S. Holder will have a tax basis in the note equal to the cost of the note to the U.S. Holder, increased by any amount includible in income by the U.S. Holder as OID and reduced (but not below zero) by any amortized premium and any payments other than payments of qualified stated interest. Subject to the rules described above with respect to contingent payment debt instruments and above under "Short-Term Notes" and below under "Foreign Currency Notes," upon a sale, exchange, retirement or other disposition of a note, a U.S. Holder will generally recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other disposition (less any amount realized that is attributable to accrued but unpaid qualified stated interest, which will constitute ordinary income if not previously included in income) and the U.S. Holder's tax basis in such note. Any such capital gain or loss will be long-term capital gain or loss if the U.S. Holder held the note for more than one year at the time of disposition. A U.S. Holder that is an individual is entitled to preferential treatment for net long-term capital gains. The ability of a U.S. Holder to offset capital losses against ordinary income is limited.

***Foreign Currency Notes***

The following discussion generally describes special rules that apply, in addition to the rules described above, to notes that are denominated in, or provide for payments determined by reference to, a currency or currency unit other than the U.S. dollar ("Foreign Currency Notes"). The amount of qualified stated interest paid with respect to a Foreign Currency Note that is includible in income by a U.S. Holder that uses the cash method of accounting for United States federal income tax purposes is the U.S. dollar value of the amount paid, as determined on the date of actual or constructive receipt by such U.S. Holder, using the spot rate of exchange on such date, and such U.S. dollar value will be the U.S. Holder's tax basis in the foreign currency. In the case of qualified stated interest paid to a U.S. Holder that uses the accrual method of accounting, and in the case of OID (other than OID from a Short-Term Note that is not required to be accrued) for every U.S. Holder, such U.S. Holder is required to include the U.S. dollar value of the amount of such interest income or OID that accrued during the accrual period. The U.S. dollar value of such accrued interest income or OID is generally determined by translating such income at the average rate of exchange for the accrual period (or with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year) or, at the U.S. Holder's election, at the spot rate of exchange on the last day of the accrual period (or in the case of a partial accrual period, the spot rate on the last day of the taxable year), or, alternatively, if the date of receipt of payment is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes such an election must apply it consistently to all debt instruments from year to year, including all debt instruments subsequently acquired and cannot change the election without the consent of the IRS. The U.S. Holder will recognize, as ordinary income or loss, foreign currency exchange gain or loss with respect to such accrued interest income or OID on the date the interest or OID is actually or constructively received, reflecting fluctuations in currency exchange rates between the exchange rate used to determine the accrued interest income or OID for the relevant accrual period and the exchange rate on the date such interest or OID is actually or constructively received.

The amount realized with respect to a sale, exchange, retirement or other disposition of a Foreign Currency Note generally will be the U.S. dollar value of the payment received, determined on the date of disposition of such note (using the spot rate on such date). Gain or loss that is recognized will be ordinary income or loss to the extent it is attributable to fluctuations in currency rates between the date of purchase and the date of sale, exchange, retirement or other disposition. A U.S. Holder's tax basis in a Foreign Currency Note, and the amount of any subsequent adjustment to such Holder's tax basis, will be the U.S. dollar value of the foreign currency amount paid for such Note, or the U.S. dollar value of the foreign currency amount of the adjustment, determined on the date of such purchase or adjustment. In the case of an adjustment resulting from an accrual of OID, such adjustment will be made at the rate at

which such OID is translated into U.S. dollars under the rules described above. A U.S. Holder who purchases a Foreign Currency Note with previously owned foreign currency will recognize ordinary income or loss in an amount

S-44

---

**Table of Contents**

equal to the difference, if any, between such U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market value of the Foreign Currency Note on the date of purchase.

Gain or loss realized with respect to the principal amount represented by a Foreign Currency Note upon the sale, exchange or retirement of the Note that is attributable to fluctuations in currency exchange rates (i.e., exchange gain or loss) will be ordinary income or loss, which will not be treated as interest income or expense. This exchange gain or loss will equal the difference between (i) the U.S. dollar value of the foreign currency principal amount (i.e., the U.S. Holder's purchase price in units of foreign currency) represented by such Note, determined on the date such Note is disposed of, and (ii) the U.S. dollar value of the foreign currency principal amount represented by such Note, determined on the date such U.S. Holder acquired such Note. Such foreign currency gain or loss (along with any exchange gain or loss attributable to accrued interest income (or OID) paid at the time of such sale, exchange or retirement) will be recognized only to the extent of the total gain or loss realized by the U.S. Holder on the sale, exchange, retirement or other disposition of the Foreign Currency Note (with such total gain or loss determined after accrual of any OID under the rules discussed above). Subject to the rules described above with respect to contingent payment debt instruments and above under "Short Term Notes", any gain or loss realized by a U.S. Holder in excess of such foreign currency gain or loss generally will be capital gain or loss.

A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a Note equal to the U.S. dollar value of such foreign currency, determined at the time of such sale, exchange or retirement. Any gain or loss realized by a U.S. Holder on the sale or other disposition of foreign currency, including its exchange for U.S. dollars or its use to purchase foreign currency notes, will be ordinary income or loss.

Any loss realized on the sale, exchange or retirement of a Foreign Currency Note with amortizable bond premium by a U.S. Holder that has not elected to amortize such bond premium will be a capital loss to the extent of the bond premium. If the election to amortize bond premium is made, amortizable bond premium taken into account on a current basis will reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realized on the amortized bond premium with respect to any period by treating the bond premium amortized during such period as a return of principal.

Pursuant to recently enacted Treasury Regulations (the "Disclosure Regulations"), any taxpayer that has participated in a reportable transaction and who is required to file a U.S. federal income tax return must generally attach a disclosure statement disclosing such taxpayer's participation in the reportable transaction to the taxpayer's tax return for each taxable year for which the taxpayer participates in the reportable transaction. The Disclosure Regulations provide that, in addition to certain other transactions, a loss transaction constitutes a reportable transaction. A loss transaction is any transaction resulting in the taxpayer claiming a loss under section 165 of the Code in an amount equal to or in excess of certain threshold amounts. The Disclosure Regulations specifically provide that a loss resulting from a section 988 transaction will constitute a section 165 loss. In general, a Foreign Currency Note will be subject to the rules governing foreign currency exchange gain or loss. Therefore, any loss realized with respect to a Foreign Currency Note will constitute a section 988 transaction. Based upon the foregoing, in the absence of future administrative pronouncements to the contrary, a U.S. Holder of a Foreign Currency Note that recognizes an exchange loss with respect to the Foreign Currency Notes in an amount that exceeds the loss threshold amount applicable to such U.S. Holder may be required to file a disclosure statement (i.e., IRS Form 8886 or other applicable form) as an attachment to the U.S. Holder's tax return for the first taxable year in which the threshold amount is reached and to any subsequent tax return that reflects any amount of such section 165 loss realized with respect to the Foreign Currency Note.

**Non-U.S. Holders**

Subject to the discussion below concerning backup withholding, the following is a discussion of United States federal income tax considerations generally applicable to Non-U.S. Holders:

(a) payments of principal and interest (including OID) with respect to a note held by or for a Non-U.S. Holder will not be subject to withholding of United States federal income tax, provided that, in

S-45

---

## **Table of Contents**

the case of interest, (i) such interest is not received by a bank on an extension of credit made pursuant to a loan agreement entered in the ordinary course of its trade or business, (ii) such Non-U.S. Holder does not own, actually or constructively, 10% or more of the total combined voting power of all of our classes of stock entitled to vote, (iii) such Non-U.S. Holder is not a controlled foreign corporation, within the meaning of section 957(a) of the Code, that is related, directly or indirectly, to us through stock ownership, (iv) such interest is not contingent interest described in section 871(h)(4)(A) of the Code and (v) the statement requirement set forth in section 871(h) or section 881(c) of the Code (described below) has been fulfilled with respect to such Non-U.S. Holder; and

(b) a Non-U.S. Holder will generally not be subject to United States federal income tax on gain realized on the sale, exchange, retirement or other disposition of a note, unless (i) such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of such sale, exchange, retirement or other disposition and certain other conditions are met or (ii) such gain is effectively connected with the conduct, by such Non-U.S. Holder, of a trade or business in the United States.

Sections 871(h) and 881(c) of the Code require that, in order to obtain the exemption from withholding of United States federal income tax described in paragraph (a) above, either the Non-U.S. Holder or a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business (a Financial Institution) and that is holding the note on behalf of such Non-U.S. Holder must file a statement with the withholding agent to the effect that the Non-U.S. Holder is not a United States person. Such requirement will be fulfilled if the Non-U.S. Holder certifies on IRS Form W-8BEN (or successor form), under penalties of perjury, that it is not a United States person and provides its name and address, or any Financial Institution holding the note on behalf of the Non-U.S. Holder files a statement with the withholding agent to the effect that it has received such a statement from the Non-U.S. Holder (and furnishes the withholding agent with a copy thereof). In addition, in the case of notes held by a foreign intermediary (other than a qualified intermediary) or a foreign partnership (other than a withholding foreign partnership), the foreign intermediary or partnership, as the case may be, generally must provide a properly executed IRS Form W-8IMY (or successor form) and attach thereto an appropriate certification by each foreign beneficial owner or United States payee.

If a Non-U.S. Holder is engaged in a trade or business in the United States, and if amounts treated as interest for United States federal income tax purposes on a note or gain realized on the sale, exchange, retirement or other disposition of a note is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from the withholding of federal income tax described in paragraph (a) above, will, unless otherwise provided by an applicable tax treaty, generally be subject to regular United States federal income tax on such effectively connected income in the same manner as if it were a U.S. Holder. In lieu of the certificate described in the preceding paragraph, such Non-U.S. Holder will be required to provide a properly executed IRS Form W-8ECI (or successor form) to the withholding agent in order to claim an exemption from withholding tax. In addition, if such Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

If a Non-U.S. Holder is not eligible for relief under one of the exceptions described above, it may nonetheless qualify for an exemption from, or reduced rate of, United States withholding tax under an income tax treaty. In general, this exemption or reduced rate of tax applies only if the Non-U.S. Holder provides a properly completed IRS Form W-8BEN claiming benefits under an applicable treaty.

## **Backup Withholding and Information Reporting**

Backup withholding and information reporting requirements generally apply to interest (including OID) and principal payments made to, and to the proceeds of sales by, certain non-corporate U.S. Holders. A U.S. Holder not otherwise

exempt from backup withholding generally can avoid backup withholding by providing a properly-executed IRS Form W-9 (or successor form). In the

S-46

---

## **Table of Contents**

case of a Non-U.S. Holder, backup withholding and information reporting will not apply to payments on, or from the sale, exchange, retirement or other disposition of, a note if a statement referred to in clause (a)(v) of the first paragraph in Non-U.S. Holders above has been received and the payor does not have actual knowledge that the beneficial owner is a United States person. Withholding agents must nevertheless report to the IRS and to each Non-U.S. Holder the amount of interest (including OID) paid with respect to the notes held by each Non-U.S. Holder and the rate of withholding (if any) applicable to each Non-U.S. Holder, and copies of such information returns may be made available under the provisions of a specific tax treaty or agreement to the tax authorities of the country in which the Non-U.S. Holder resides. Non-U.S. Holders should consult their own tax advisors regarding the application of information reporting and backup withholding in their particular situations, the availability of an exemption therefrom, and the procedure for obtaining such an exemption, if available. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against the beneficial owner's United States federal income tax liability provided the required information is furnished to the IRS.

## **European Union Directive on the Taxation of Savings Income**

The European Union has adopted a directive regarding the taxation of savings income, which requires a member state of the European Union to provide to the tax authorities of another member state details of payments of interest and other similar income made by a person within its jurisdiction to an individual or to certain other persons in the other member state, except that Austria, Belgium and Luxembourg may instead impose a withholding system for a transitional period unless during such period they elect otherwise. A number of other countries and territories which are not member states of the European Union (including Switzerland) have adopted similar measures to the directive.

Should any deduction or withholding on account of tax be required to be made, or be made, in accordance with the terms of this section, no additional amounts shall be paid or payable by any trust or by us unless specified in the applicable pricing supplement or funding agreement that additional amounts will be paid. See Description of the Notes European Union Directive on the Taxation of Savings Income.

## **Opinion Regarding Tax Matters**

Prior to the issuance of any notes, we will file with a Current Report on Form 8-K an unqualified opinion of legal counsel regarding the tax treatment of such notes.

## **PLAN OF DISTRIBUTION**

This prospectus supplement relates to the offering of notes by separate trusts from time to time for sale to or through Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, Barclays Capital Inc., Bear, Stearns & Co. Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Goldman, Sachs & Co., J.P. Morgan Securities Inc., Lehman Brothers Inc., Morgan Stanley & Co. Incorporated, UBS Securities LLC and Wachovia Capital Markets, LLC (the Agents) pursuant to a distribution agreement (the Distribution Agreement) among the applicable trust, us, PFG and the Agents. From time to time, we may also appoint one or more other broker-dealers to act as an Agent under the secured medium-term notes program pursuant to the terms of the Distribution Agreement and such Agent will be specified in the applicable pricing supplement. The Agents, individually or in a syndicate, may purchase notes, as principal, from separate trusts from time to time for resale to investors and other purchasers at varying prices relating to prevailing market prices at the time of resale as determined by the applicable Agent or, if so specified in the applicable pricing supplement, for resale at a fixed offering price. However, the applicable trust may agree with an Agent for that Agent to utilize its reasonable efforts on an agency basis on its behalf to solicit offers to purchase notes at 100% of the principal amount thereof, unless otherwise specified in the applicable pricing supplement. In all such cases, a single trust may only issue notes of a single series on the initial date of sale of such notes. No additional notes may thereafter be issued by that trust. Unless

otherwise specified in the applicable pricing supplement, the applicable trust will pay a commission to an Agent, ranging from .150% to

S-47

---

**Table of Contents**

.875% of the principal amount of each note, depending upon its stated maturity, sold through that Agent as its agent. The notes may be sold to United States and foreign institutional and other investors.

Subject to the terms of the Distribution Agreement, concurrently with any offering of notes as described in this prospectus supplement by the applicable trust, a separate trust may issue other notes under our Principal® Life CoreNotes® program or our secured medium-term notes retail program primarily to retail investors or the accompanying prospectus or this prospectus supplement.

Unless otherwise specified in the applicable pricing supplement, any note sold to an Agent as principal will be purchased by that Agent at a price equal to 100% of the principal amount thereof less a percentage of the principal amount equal to the commission applicable to an agency sale of a note of identical maturity. An Agent may sell notes it has purchased from the applicable trust as principal to certain dealers less a concession equal to all or any portion of the discount received in connection with that purchase. An Agent may allow, and dealers may reallow, a discount to certain other dealers. After the initial offering of notes (in the case of notes to be sold on a fixed offering price basis), the concession and the reallowance may be changed.

The applicable trust reserves the right to withdraw, cancel or modify the offer made hereby without notice and may reject offers in whole or in part. Each Agent will have the right, in its discretion reasonably exercised, to reject in whole or in part any offer to purchase notes received by it on an agency basis.

Unless otherwise specified in the applicable pricing supplement, you will be required to pay the purchase price of your notes in immediately available funds in the specified currency in The City of New York on the date of settlement.

Upon issuance, the notes will not have an established trading market. The notes may not be listed on any securities exchange. The Agents may from time to time purchase and sell notes in the secondary market, but the Agents are not obligated to do so. There can be no assurance that a secondary market for the notes will develop or that there will be liquidity in the secondary market if one develops. From time to time, the Agents may make a market in the notes, but the Agents are not obligated to do so and may discontinue any market-making activity at any time.

In connection with an offering of notes purchased by one or more Agents as principal on a fixed offering price basis, the applicable Agents will be permitted to engage in certain transactions that stabilize the price of notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of notes. If those Agents create a short position in notes (i.e., if they sell notes in an amount exceeding the amount referred to in the applicable pricing supplement), they may reduce that short position by purchasing notes in the open market. In general, purchases of notes for the purpose of stabilization or to reduce a short position could cause the price of notes to be higher than it might be in the absence of these type of purchases.

None of us, PFG, the applicable trust or any Agent makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price of notes. In addition, none of us, PFG, the applicable trust or any Agent makes any representation that the Agents will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Agents are underwriters within the meaning of the Securities Act of 1933, as amended, with respect to the notes being distributed, the funding agreement purchased by the trust and the guarantee issued to the trust. We and PFG have agreed, jointly and severally, to indemnify the Agents against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the Agents may be required to make in respect thereof.

With respect to any series of notes as to which affiliates of the indenture trustee will serve as an Agent, the relevant trust will appoint an eligible and unaffiliated entity to serve as indenture trustee with respect to such series of notes, instead of the indenture trustee.

We are a statutory issuer of the notes under the Securities Act of 1933, as amended. In addition, under the Securities Act of 1933, as amended, each trust is a statutory underwriter of the related funding agreement and guarantee.

In the ordinary course of business, the Agents and their affiliates have engaged, and may in the future engage, in investment and commercial banking transactions with us and certain of our affiliates, including PFG.

**Table of Contents**

**\$4,000,000,000**

**Secured Medium-Term Notes (That are also Asset-Backed Securities)  
Due Between Nine Months  
and Thirty Years From  
the Date of Issue  
Issued Through and Obligations of  
Principal Life Income Fundings Trusts  
Secured by Funding Agreements  
Issued by  
Principal Life Insurance Company  
and  
Guarantees Issued by  
Principal Financial Group, Inc.**

**PROSPECTUS SUPPLEMENT**

**Merrill Lynch & Co.  
Banc of America Securities LLC  
Barclays Capital  
Bear, Stearns & Co. Inc.  
Citi  
Credit Suisse  
Deutsche Bank Securities  
Goldman, Sachs & Co.  
JPMorgan  
Lehman Brothers  
Morgan Stanley  
UBS Investment Bank  
Wachovia Securities**

**, 2007**

---

**Table of Contents**

The information in this prospectus supplement is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**PROSPECTUS SUPPLEMENT**

(To prospectus dated \_\_\_\_\_, 2007)

**\$4,000,000,000**

(COMPANY LOGO)

**Principal® Life CoreNotes® (That are also Asset-Backed Securities)  
Due Between Nine Months and Thirty Years From the Date of Issue  
Issued Through and Obligations of  
Principal Life Income Fundings Trusts  
Secured by Funding Agreements Issued by  
Principal Life Insurance Company and  
Guarantees Issued by Principal Financial Group, Inc.**

**Principal Life:** We are Principal Life Insurance Company, an Iowa insurance company, the sponsor of the program and the depositor and issuer of the funding agreements described below. This prospectus supplement relates to the offering, from time to time, through newly established separate and distinct issuing entities in the form of the trusts described below, of one or more series of Principal® Life CoreNotes® (that are also asset-backed securities), which we refer to in this prospectus supplement as notes, in an aggregate principal amount of up to \$4,000,000,000, less any principal amount of notes previously issued under this program pursuant to this prospectus supplement, our secured medium-term notes program issued primarily to institutional investors pursuant to a separate prospectus supplement dated the date hereof, our secured medium-term notes retail program issued primarily to retail investors pursuant to a separate prospectus supplement dated the date hereof or otherwise under the accompanying prospectus.

**Issuing Entities:** The applicable trust will use the net proceeds from the offering of its series of notes to purchase a funding agreement sold to, and deposited into, the applicable trust, by us. Our payment obligations under the funding agreement relating to the applicable series of notes will be fully and unconditionally guaranteed by a guarantee issued by Principal Financial Group, Inc., a Delaware corporation and our indirect parent ( PFG ).

Each trust exists for the exclusive purpose of issuing and selling one series of notes to investors, using the net proceeds from the sale of that series of notes to acquire a funding agreement from us, collaterally assigning and granting a security interest in the applicable funding agreement, and collaterally assigning and granting a security interest in the applicable guarantee, in favor of the indenture trustee, and engaging in other activities necessary or incidental thereto.

The notes are obligations of the applicable issuing entity. The notes are secured medium-term notes that are also asset-backed securities.

You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest in the notes.

**The notes:** The specific terms and conditions of each series of notes will be as set forth in a separate pricing supplement. The notes of each series will:

- be issued by a separate and distinct trust and will be the obligations of that issuing entity;
- provide for payment in U.S. dollars;
- rank as secured indebtedness of the trust secured primarily by a funding agreement issued by us;
- be issued in only one class;
- unless otherwise specified in the applicable pricing supplement, not be listed on any securities exchange;
- unless otherwise specified in the applicable pricing supplement, have a minimum denomination of \$1,000 and integral multiples in excess thereof;
- be in book-entry form;
- represent non-recourse obligations of the trust and be paid only from the assets of that trust;
- represent the trust's obligations only and will not represent obligations of, represent interests in, or be guaranteed by, us, PFG or any of our or its affiliates;
- bear interest at fixed or floating rates, or bear no interest at all;
- pay interest on each series of notes on a monthly, quarterly, semi-annual or annual basis (unless otherwise specified in the applicable pricing supplement);
- have a stated maturity of between 9 months and 30 years from the date of issue;
- have redemption and/or repayment provisions, if applicable, whether mandatory or at the option of the trust or the holders of notes; and
- be sold in the United States to retail investors.

Holders of a series of notes may look only to the trust's rights and title in the funding agreement issued to, and deposited into, the applicable trust by us, the related guarantee issued by PFG and any proceeds of that funding agreement and guarantee held in the trust and not to any other assets or collateral held by any other trust, us or PFG.

Investing in the notes involves risks that are described in the Risk Factors section beginning on page 2 of the accompanying prospectus.

None of the Securities and Exchange Commission (the SEC ), any state securities commission or any state insurance commission has approved or disapproved of these securities or determined if this prospectus supplement, the accompanying prospectus or any pricing supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The trusts may sell notes to the purchasing agent referred to below as principal for resale at a fixed offering price specified in the applicable pricing supplement or at varying prices. The trusts may also explicitly agree with the purchasing agent that it will use its reasonable efforts as agent on the trust's behalf to solicit offers to purchase notes

from such trusts.

**Merrill Lynch & Co.**

The date of this prospectus supplement is \_\_\_\_\_, 2007.

Principal<sup>®</sup> and Principal Financial Group and Design<sup>®</sup> are registered service marks of Principal Financial Services, Inc. and are used under license.

CoreNote<sup>®</sup> is a registered service mark of Merrill Lynch & Co., Inc.

---

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PROSPECTUS SUPPLEMENT</b>	
<u>ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS</u>	S-1
<u>SUMMARY</u>	S-3
<u>DESCRIPTION OF THE NOTES</u>	S-14
<u>DESCRIPTION OF THE FUNDING AGREEMENTS</u>	S-36
<u>MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS</u>	S-37
<u>PLAN OF DISTRIBUTION</u>	S-41
<b>PROSPECTUS</b>	
ABOUT THIS PROSPECTUS	1
RISK FACTORS	2
FORWARD LOOKING INFORMATION	11
WHERE YOU CAN FIND MORE INFORMATION	11
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE	12
USE OF PROCEEDS	13
RATIO OF EARNINGS TO FIXED CHARGES	13
PRINCIPAL LIFE INSURANCE COMPANY AND PRINCIPAL FINANCIAL GROUP, INC	14
DESCRIPTION OF THE TRUSTS	15
DESCRIPTION OF THE NOTES	19
DESCRIPTION OF THE FUNDING AGREEMENTS	31
DESCRIPTION OF THE GUARANTEES	36
FEES AND EXPENSES	37
ERISA CONSIDERATIONS	38
PLAN OF DISTRIBUTION	40
LEGAL MATTERS	41
EXPERTS	42
<u>Form of Distribution Agreement</u>	
<u>Form of Standard Indenture Terms</u>	
<u>Form of Standard Trust Terms</u>	
<u>Form of Funding Agreement</u>	
<u>Form of Guarantee</u>	
<u>Form of Omnibus Instrument</u>	
<u>Form of Closing Instrument</u>	
<u>Form of Custodial Agreement</u>	
<u>Opinion of Karen E. Shaff</u>	
<u>Opinion of Sidley Austin LLP</u>	
<u>Opinion of Sidley Austin LLP</u>	
<u>Form of Expense and Indemnity Agreement</u>	
<u>Form of Expense and Indemnity Agreement</u>	
<u>Form of Expense and Indemnity Agreement</u>	
<u>Form of Expense and Indemnity Agreement</u>	
<u>Statement Regarding Computation of Ratio of Earnings to Fixed Charges</u>	
<u>Consent of Ernst &amp; Young LLP</u>	
<u>Consent of Sidley Austin LLP</u>	
<u>Statement of Eligibility and Qualification</u>	
<u>Form of Institutional Pricing Supplement</u>	
<u>Form of Principal Life Core Notes Pricing Supplement</u>	

**ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS**

This document is a prospectus supplement and supplements a prospectus which is part of the registration statement that we and PFG have filed with the SEC. This prospectus supplement provides you with a general description of the notes being offered, through newly established separate and distinct trusts and the underlying funding agreements and guarantees, and supplements the description of the notes, the underlying funding agreements and guarantees contained in the accompanying prospectus. These notes may be offered from time to time, through trusts, in one or more series of notes with a total initial public offering price or purchase price of up to \$4,000,000,000, less any principal amount of notes previously issued under this program pursuant to this prospectus supplement, our secured medium-term notes program issued primarily to institutional investors pursuant to a separate prospectus supplement dated the date hereof, our secured medium-term notes retail program issued primarily to retail investors pursuant to a separate prospectus supplement dated the date hereof or otherwise under the accompanying prospectus.

The specific terms and conditions of notes being offered and the related funding agreement and guarantee will be contained in a pricing supplement. A copy of that pricing supplement will be provided to you along with a copy of this prospectus supplement and the accompanying prospectus. That pricing supplement also may add, update, supplement or clarify information in this prospectus supplement and the accompanying prospectus. You should carefully review such additional, updated, supplemental or clarifying information contained in the pricing supplement. You should read this prospectus supplement and the

**Table of Contents**

accompanying prospectus and the pricing supplement together with the additional information that is incorporated by reference in this prospectus supplement and the accompanying prospectus. That additional information is described under the heading **Incorporation of Certain Documents by Reference** beginning on page 11 of the accompanying prospectus.

You should rely only on the information incorporated by reference or provided in this prospectus supplement, the accompanying prospectus and the applicable pricing supplement. None of us, PFG, any trust or the purchasing agent has authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. None of us, PFG, any trust or the purchasing agent is making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and the applicable pricing supplement, as well as information PFG previously filed with the SEC and incorporated by reference, is accurate only as of its respective date. The business, financial condition, results of operations and prospects of us and PFG may have changed since that date.

In this prospectus supplement, references to **Principal Life**, **we**, **us** and **our** are to Principal Life Insurance Company, an Iowa life insurance company, references to **PFG** are to Principal Financial Group, Inc., a Delaware corporation and our indirect parent company, and references to **trust** are to the applicable newly established separate and distinct special purpose common law trust, formed in a jurisdiction located in the United States of America specified in the applicable pricing supplement, which actually issues the applicable series of notes. In this prospectus supplement, we refer to each series of Principal<sup>®</sup> Life CoreNotes<sup>®</sup> as a **series of notes** and to Principal Life CoreNotes<sup>®</sup> in general as **notes**.

In this prospectus supplement, references to **United States dollars**, **U.S. dollars** or **\$** are to lawful currency of the United States of America.

**Table of Contents****SUMMARY**

*This section summarizes the material legal and financial terms of the notes and the underlying funding agreements and guarantees that are described in more detail in Description of the Notes beginning on page S-13 of this prospectus supplement, Description of the Funding Agreements beginning on page S-35 of this prospectus supplement, and Description of the Guarantees beginning on page 36 of the accompanying prospectus. Final terms of any particular series of notes are set at the time of sale and will be contained in a pricing supplement relating to that series of notes and the related funding agreement and guarantee. That pricing supplement may add to, update, supplement or clarify the terms contained in this summary. In addition, you should read the more detailed information appearing elsewhere in the accompanying prospectus, this prospectus supplement and the applicable pricing supplement.*

The Trusts	Each series of notes will be issued by a newly established and separately created common law trust. Each trust will be established by GSS Holdings II, Inc., as trust beneficial owner, and U.S. Bank Trust National Association, as trustee, pursuant to a trust agreement (each, a trust agreement ). The assets and liabilities of each trust are separate and distinct from the assets and liabilities of every other trust, us and PFG.
The Sponsor and the Depositor	We are the sponsor of the program and the registrant as a depositor and issuer of the funding agreements under the program.
The Guarantor	PFG is a registrant as the issuer of the guarantees that will fully and unconditionally guarantee our payment obligations under the funding agreements.
Purpose of Trusts	<p>The sole purpose of each trust is to facilitate a program for the issuance of notes to the public. Each trust may only issue one series of notes and such notes will be issued only on the original issue date for such notes. Each series of notes will be secured by only one funding agreement purchased from us by the applicable trust, the principal amount of which may not be increased. Our payment obligations under each funding agreement will be fully and unconditionally guaranteed by PFG. The trust will use the net proceeds received from issuing a series of notes to acquire a funding agreement, for, and to be held in, the trust. The trust will hold the collateral described below pertaining to the applicable series of notes to fund its obligations under that series of notes. Notes issued by the trust will be the direct obligations of the trust and will not be the obligation of any other trust, us or PFG. Holders of notes of a particular series may only look to the funding agreement issued by us, the related guarantee issued by PFG and any proceeds of such funding agreement and guarantee held in the related trust for payment on their notes and not to the assets held in any other trust or by us or PFG.</p> <p>We and PFG are not affiliated with any trust. Neither we, PFG nor any of our officers, directors, subsidiaries or affiliates owns any beneficial</p>

interest in any trust nor has any of these persons or entities entered into any agreement with any trust other than in furtherance of the issuance of notes from time to time as contemplated by this prospectus supplement and the accompanying prospectus.

S-3

---

**Table of Contents**

Neither we, PFG nor any of our officers, directors, subsidiaries or affiliates is affiliated with the trustee, the trust beneficial owner or the indenture trustee relating to the notes.

Below is a diagram showing the parties involved in the issuance of notes by each trust.

We Can Issue Medium-Term Notes and Funding Agreements Directly to Investors

We are able to issue our own medium-term notes directly to investors and do issue funding agreements directly to investors. However, by securing each trust's notes with a funding agreement, such trust's notes are secured by an asset that would have a higher priority in insolvency than our unsecured medium-term notes, if any, and may be entitled to receive a higher investment rating from one or more nationally recognized rating agencies than our unsecured medium-term notes. In addition, funding agreements are very difficult to transfer and have no active secondary market. By securing each trust's notes with a funding agreement, investors may be able to avail themselves of many of the benefits of our funding agreements while benefiting from the liquidity afforded by each trust's medium-term notes.

Purchasing Agent

Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Principal® Life CoreNotes®

This prospectus supplement relates to notes that one or more trusts may issue and sell in the United States to retail and other investors under our Principal® Life CoreNotes® program.

Secured Medium-Term Notes Program

Included in the registration statement, of which this prospectus supplement is a part, is another prospectus supplement relating to notes that may be issued and sold to institutional investors by newly established trusts under the related secured medium-term notes program. The terms of the secured medium-term notes are identical in all material respects to the terms of the notes to be

**Table of Contents**

sold under this Principal® Life CoreNotes® program, as described in this prospectus supplement, except that the secured medium-term notes:

may be issued as amortizing notes;

may be denominated in one or more foreign currencies;

will not contain a survivor's option, permitting optional repayment of notes of a series of notes, subject to certain limitations, prior to maturity, if requested, following the death of the beneficial owner of notes of that series of notes; and

may contain a provision providing for the redemption of the notes if we are required to pay additional amounts on the related funding agreement pursuant to the applicable pricing supplement and we exercise our right to redeem the funding agreement.

**Secured Medium-Term Notes Retail Program** Included in the registration statement, of which this prospectus supplement is a part, is another prospectus supplement relating to notes that may be issued and sold to retail investors by newly established trusts under the related secured medium-term notes retail program. The terms of the secured medium-term notes retail program are identical in all material respects to the terms of the notes to be sold under this Principal® Life CoreNotes® program. However, unlike the Principal® Life CoreNotes® program, the notes issued and sold under the secured medium-term notes retail program may be distributed by one or more agents which may include Merrill Lynch, Pierce, Fenner & Smith Incorporated.

**Amount** The trusts may collectively issue up to a maximum aggregate principal amount of \$4,000,000,000 of notes in connection with this prospectus supplement, less any principal amount of notes previously issued under this program pursuant to this prospectus supplement, our secured medium-term notes program pursuant to a separate prospectus supplement dated the date hereof, our secured medium-term notes retail program pursuant to a separate prospectus supplement dated the date hereof or otherwise under the accompanying prospectus.

**Flow of Funds** Other than during the occurrence and continuance of an event of default under the notes of a trust, amounts received by or on behalf of the trust will be paid:

*first*, to amounts due under the notes; and

*second*, with respect to any remaining funds, in accordance with the applicable trust agreement.

During the occurrence and continuance of an event of default under the notes of a trust, amounts received by or on behalf of the trust will be paid:

S-5

---

**Table of Contents**

*first*, to the payment of the reasonable and customary expenses and counsel fees incurred by the indenture trustee and any other amounts due and unpaid to the indenture trustee, in an aggregate amount of no more than \$250,000 for all notes issued under the program, to the extent not paid pursuant to the applicable expense and indemnity agreement;

*second*, to amounts due under the notes; and

*third*, with respect to any remaining funds, in accordance with the applicable trust agreement.

See Description of the Notes Application of Money Collected Under the Indenture in the accompanying prospectus.

Since we and PFG are registrants, purchasers of notes may proceed directly against us and PFG to enforce their rights under the United States federal and state securities laws. The right of such purchasers to proceed against us, with respect to the applicable funding agreement, under the United States federal and state securities laws, is no different than if we had issued the funding agreement directly to such purchasers. The right of such purchasers to proceed against PFG, with respect to the applicable guarantee, under the United States federal and state securities laws is no different than if PFG had issued the guarantee directly to such purchasers.

Terms of the Notes:

*Status*

Each series of notes will be the unconditional, direct, non-recourse, secured and unsubordinated obligations of the applicable trust. Each series of notes will be secured by the collateral relating to that series of notes.

Each series of notes may be accelerated in the payment of principal and outstanding interest if an event of default under the notes occurs. Upon the occurrence of an event of default, the indenture trustee (described below), on behalf of the holders of notes, may only proceed against the collateral held in the related trust.

The notes of each series are not, and will not be, obligations of, or guaranteed by, us or any other insurance company or any affiliate of ours, including PFG. The notes will not benefit from any insurance guarantee fund coverage or any similar protection.

*Principal*

The principal amount of each series of notes will be payable on its stated maturity date, as specified in the applicable pricing supplement, at the corporate trust office of the paying agent, acting in its capacity as servicer, or any other place the relevant trust designates.



**Table of Contents***Interest*

Notes of a series may bear interest at a fixed interest rate or a floating interest rate, or bear no interest at all. Each series of notes that bears interest at a fixed interest rate ( fixed rate notes ) will bear interest from the date of original issuance at a fixed rate per year, as specified in the applicable pricing supplement, until the principal is paid. Interest, if any, will be payable monthly, quarterly, semi-annually or annually on each interest payment date and on the maturity date, as specified in the applicable pricing supplement. Interest also will be paid on the date of redemption or repayment if a series of notes is redeemed or repaid prior to maturity. Interest, with respect to fixed rate notes, will be computed on the basis of a 360-day year of twelve 30-day months, unless otherwise specified in the applicable pricing supplement. Each series of notes that bear interest at a floating interest rate ( floating rate notes ) will bear interest from the date of original issuance at a rate determined by reference to a base rate, which may be adjusted by a spread and/or spread multiplier, as specified in the applicable pricing supplement, until the principal is paid. The pricing supplement will designate one or more of the following interest rate bases, along with the index maturity for that interest rate basis:

the CD Rate;

the CMT Rate;

the Commercial Paper Rate;

the Constant Maturity Swap Rate;

the Federal Funds Open Rate;

the Federal Funds Rate;

LIBOR;

the Prime Rate; or

the Treasury Rate.

*Payment of Principal and Interest*

Principal and interest payments, if any, on any series of notes will be made solely from the proceeds of a funding agreement purchased with respect to such series of notes for, and to be held in, the related trust, and the full and unconditional guarantee issued by PFG of our payment obligations under the relevant funding agreement.

*Maturities*

Unless otherwise specified in the applicable pricing supplement, each series of notes will mature between nine months and 30 years from its date of original issuance on the last scheduled interest payment date, as specified in the applicable pricing supplement.

*Redemption and Repayment*

A trust will redeem its series of notes if we redeem the funding agreement securing such series of notes. Except as otherwise specified in the accompanying prospectus, this prospectus supplement or the applicable pricing supplement, the funding agreement securing a series of notes will not be redeemable by

S-7

---

**Table of Contents**

us and no series of notes will be repayable at the option of the holder prior to their stated maturity date. Unless otherwise specified in the applicable pricing supplement, the notes will not be subject to any sinking fund.

Each trust may issue a series of notes which may be redeemed by the issuing trust when 20% or more of the original principal balance is outstanding. Notes that may be redeemed at a time when 20% or more of the original principal amount of such notes are outstanding will be designated in their title as callable in the applicable pricing supplement.

*Survivor's Option*

A series of notes may contain a provision (which we refer to as the survivor's option) permitting optional repayment of notes of that series prior to maturity, if requested, following the death of the beneficial owner of notes of that series, so long as the notes either were purchased by the deceased beneficial owner within ninety (90) days of their issuance or were held by the deceased beneficial owner for a period of six (6) months immediately prior to such death. Your notes may not be repaid in this manner unless the pricing supplement for your series of notes provides for the survivor's option. If the pricing supplement for your series of notes provides for the survivor's option, the funding agreement securing your series of notes will contain a provision which will allow the applicable trust to tender the funding agreement in whole or in part to us. The ability of the applicable trust to tender the funding agreement related to a series of notes that contain a survivor's option, however, will be subject to certain limitations set by us. As a result, your right to exercise the survivor's option is subject to limits set by us with respect to the relevant funding agreement. We have the discretionary right to limit:

the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under the Principal® Life CoreNotes® program as to which exercises of any put option by any trust shall be accepted by us in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under the Principal® Life CoreNotes® program and the secured medium-term notes retail program as of the end of the most recent calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement;

the aggregate principal amount of funding agreements securing the notes as to which exercises of any put option by the applicable trust attributable to notes as to which the survivor's option has been exercised by the authorized



**Table of Contents**

representative of any individual deceased beneficial owner to \$250,000 in any calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement; and

the aggregate principal amount of the funding agreement securing a series of notes as to which exercises of any put option by the applicable trust shall be accepted in any calendar year as set forth in the applicable funding agreement and the applicable pricing supplement. Additional details on the survivor's option are described in this prospectus supplement in the section entitled "Description of the Notes - Repayment Upon Exercise of Survivor's Option" on page S-30.

**Withholding Tax**

All amounts due in respect of the notes of any series, the related guarantee and the related funding agreement will be made without any applicable withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by law. Unless otherwise specified in the applicable pricing supplement, none of the notes, the related guarantee, or the related funding agreement will provide for the payment of additional amounts relating to any required withholding or deduction imposed or levied on payments in respect of a series of notes, the related guarantee or the related funding agreement. As a result, unless otherwise specified in the applicable pricing supplement, the risk of any such withholding or deduction, whether or not as a result of a change in law or otherwise, will be borne by the holders of such series of notes.

**Material United States Federal Income Tax Considerations**

We intend to take the position, for United States federal income tax purposes, that each trust will be disregarded and that the notes will be treated as representing our indebtedness (the "Intended Tax Characterization"). Each holder of a note (or any beneficial interest therein), by acceptance of the note (or beneficial interest therein), agrees to the Intended Tax Characterization. Accordingly, holders of the notes generally will have the same United States federal income tax consequences from the purchase of the notes as they would have had if they purchased a debt obligation issued directly by us. Prospective purchasers of the notes must carefully consider the tax consequences of the ownership and disposition of the notes set forth under "Material United States Federal Income Tax Considerations."

**Fees and Expenses**

We will pay the costs and expenses incurred by a trust under the expense and indemnity agreements with each of the indenture trustee, the custodian, the trust beneficial owner and the

**Table of Contents**

trustee (on behalf of itself and each trust formed in connection with the issuance of a series of notes) and any additional service provider appointed from time to time.

Under each expense and indemnity agreement, we will pay certain costs and expenses relating to the offering, sale, issuance and administration of any series of notes and certain costs, expenses and taxes incurred by a trust and will indemnify the indenture trustee, the custodian, the trust beneficial owner, the trustee, each trust and additional service providers appointed from time to time with respect to certain matters. See **Fees and Expenses** in the accompanying prospectus. We anticipate that the indenture trustee fees for the program will be approximately \$215 per year for each series of notes.

Denominations; Currency

Unless otherwise specified in the applicable pricing supplement, the notes will be issued and sold in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. The notes of each series will be denominated in, and payments of principal, premium, if any, and/or interest, and any other amounts in respect of the notes, will be made in U.S. dollars.

Listing

Unless otherwise specified in the applicable pricing supplement, your series of notes will not be listed on any securities exchange.

Form of Notes

The trusts will sell notes in the United States only. Each series of notes will be issued in book-entry form only and cleared through The Depository Trust Company ( **DTC** or the **depository** ). Each book-entry note will be held by the indenture trustee as custodian for **DTC** or its nominee. We do not intend to issue notes in certificated form.

Collateral

The notes of any series will be secured by the right, title and interest of the applicable trust in and to (1) the relevant funding agreement held in that trust, (2) the related guarantee issued by PFG to the trust fully and unconditionally guaranteeing our payment obligations under the funding agreement, (3) all proceeds of the funding agreement and the guarantee and all amounts and instruments on deposit from time to time in the related collection account, (4) all books and records pertaining to the relevant funding agreement and the related guarantee and (5) all rights of the trust pertaining to the foregoing.

Each series of notes will be secured by the collateral held in the applicable trust. The trust will collaterally assign and grant a security interest in the related funding agreement and the related guarantee in favor of the indenture trustee for the benefit of the holders of notes of the applicable series.

Under the custodial agreement (the **custodial agreement** ) entered into among the indenture trustee, Bankers Trust Company, N.A. (the **custodian** ) and the trustee (on behalf of each trust to be formed in

connection with the issuance of a series of notes), upon the collateral assignment of and grant of security interest in the funding agreement and the guarantee related

S-10

---

**Table of Contents**

to a series of notes of a trust, the custodian will hold the funding agreement and the guarantee, on behalf of the indenture trustee in the State of Iowa.

Funding Agreements

A funding agreement is a type of insurance company product in which the purchaser, usually an institutional investor, pays the insurance company a deposit and, in turn, receives scheduled payments of principal and interest. The deposit we receive on the issuance of a funding agreement will be part of our general account and not allocated to any of our separate accounts. Our general account is the account which contains all of our assets and liabilities other than those held in our separate accounts. (Separate accounts are segregated accounts which are established for certain products that we sell. A separate account holds assets and liabilities specifically related to one or more products and segregates these assets and liabilities from the assets and liabilities of all other separate accounts and the assets and liabilities of our general account.) Since the deposit made under any funding agreement will be part of our general account, our obligations under each funding agreement will be the obligations of our general account, rather than the obligations of any separate account. As such, we will invest the proceeds from the sale of funding agreements in a portfolio of assets which along with our other general account assets will be used to meet our contractual obligations under the funding agreements and our other general account obligations. We will earn the spread differential between the cost of our obligations under the funding agreements and the yield on our invested assets. We may periodically, consistent with our past practice and subject to all applicable regulatory restrictions on our insurance operations, dividend a portion of the spread income to PFG.

Each trust will use the net proceeds received from the sale of its series of notes to purchase a funding agreement issued by us, the terms of which will be set forth in the applicable pricing supplement. The funding agreement will have a deposit amount equal to the sum of the principal amount (or issue price in the case of discount notes) of the related series of notes and the amount of the beneficial interest in the related trust. The rate at which the funding agreement bears interest will be equal to the rate of interest, if any, on the related series of notes. The funding agreement will otherwise have substantially similar payment and other terms to the related series of notes.

Each funding agreement is our unsecured obligation. See Ratings below.

In the event of our impairment or insolvency, the Iowa Insurance Commissioner will be authorized and directed to commence delinquency proceedings for the purpose of liquidating, rehabilitating, reorganizing or conserving us pursuant to Iowa Code Sections 507C.4, 507C.12, 507C.13, 507C.14 and 507C.16. In conducting delinquency

proceedings, claims are

S-11

---

**Table of Contents**

prioritized and an order of distribution is specified pursuant to Iowa Code Section 507C.42. There are nine classes within the priority scheme, with each successive class being fully junior to the preceding class. Class 1 priority is given to the costs and expenses of administration of the insurer during the delinquency proceedings and Class 2 priority is given to the claims (1) of the insurer's policyholders, (2) of guaranty associations, (3) under funding agreements of the insurer, (4) for an insufficiency in the assets of a separate account and (5) for unearned premium. We believe that, in a properly prepared and presented case, a court applying Iowa law would conclude that loss claims of principal and interest in respect of each funding agreement would be accorded Class 2 priority under Iowa Code Section 507C.42 and paid equally in priority with our other policyholders. See Description of the Funding Agreements in the accompanying prospectus.

**Guarantees**

Our payment obligations under the funding agreement issued to each trust will be fully and unconditionally guaranteed by PFG under a guarantee issued by PFG to the trust as described in the accompanying prospectus. Each guarantee will be an unsecured, unsubordinated, contingent obligation of PFG. See Description of the Guarantees in the accompanying prospectus.

**Ratings**

Unless otherwise indicated in the applicable pricing supplement, the notes will have an issue credit rating of AA from Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (Standard & Poor's). Standard & Poor's has rated the program AA. If Standard & Poor's changes the program rating, the new program rating will be specified in the applicable pricing supplement. We expect the program to be rated Aa2 by Moody's Investors Service, Inc. (Moody's). If Moody's changes the program rating, the new program rating will be specified in the applicable pricing supplement. Notes of a series will be issued under the program only in the event that, at the time of issuance of such series of notes, at least one nationally recognized rating agency would assign an investment grade rating to such series of notes and the funding agreement securing such series of notes.

**Indenture, Indenture Trustee and Servicer**

Each trust will issue its series of notes to the public pursuant to an indenture between that trust and Citibank, N.A., in its capacity as indenture trustee. See Description of the Notes General Indenture. The indenture trustee will act as servicer with respect to the program. The indenture is subject to the Trust Indenture Act of 1939, as amended. The indenture trustee is not affiliated with any trust, us or PFG.

**Administration of the Trusts**

U.S. Bank Trust National Association, a national banking association, will be each trust's sole trustee (the trustee). The trustee will not be obligated in any way to make payments under or in respect of the notes. The trustee is not affiliated with us or PFG.



**Table of Contents**

Trust Beneficial Owner

GSS Holdings II, Inc., a Delaware corporation, will be the sole beneficial owner of each trust (the trust beneficial owner). The beneficial interest of each trust:

will be purchased by the trust beneficial owner for \$15 (or in the case of a trust that issues discount notes, such other amount as corresponds to the discount on such notes), unless otherwise specified in the applicable pricing supplement;

will be issued in book-entry form only;

will entitle the trust beneficial owner to receive payments in respect thereof on the same terms as the payments to be made to the holders of notes of the related series; and

will be subordinated to the related series of notes.

The trust beneficial owner will receive periodic distributions on its beneficial interest at the same rate and on the same day that holders of notes of the related series receive interest payments. On the maturity date of the trust beneficial owner's beneficial interest and the related series of notes, the trust will redeem the principal amount of the related series of notes to the holders of such notes and the principal amount of the beneficial interest to the trust beneficial owner.

The trust beneficial owner is not affiliated with us or PFG.

Governing Law

The notes and each indenture will be governed by, and construed in accordance with, the laws of the State of New York. Each guarantee issued by PFG will be governed by, and construed in accordance with, the laws of the State of New York. The trust agreement for the applicable trust will be governed by, and construed in accordance with, the laws of the jurisdiction in which it is formed. Each funding agreement will be governed by the laws of the State of Iowa.

**Table of Contents**

**DESCRIPTION OF THE NOTES**

The following description of the material provisions of the notes supplements the general description of the notes provided in the accompanying prospectus. You should therefore review the accompanying prospectus carefully. You should carefully review the information in this prospectus supplement. The pricing supplement for each offering of notes will contain the specific information and terms and conditions for that offering. As such, you should carefully review the information contained in the pricing supplement, including any description of the method of calculating interest on any note. The applicable pricing supplement may also add, update, supplement or clarify information contained in this prospectus supplement or the accompanying prospectus. It is important for you to consider the information contained in the accompanying prospectus, this prospectus supplement, the applicable pricing supplement, the indenture and the notes in making your investment decision.

This section describes some technical concepts and uses some capitalized terms that are not defined in the prospectus supplement. You should refer to the form of indenture and the form of note certificates filed as exhibits to the registration statement (of which this prospectus supplement and the accompanying prospectus are a part) for the full description of those concepts and complete definitions of these terms.

**General**

***Indenture***

Each trust will issue one series of notes, subject to and entitled to the benefits of a separate indenture between the trust and the indenture trustee, which will adopt and incorporate the standard indenture terms. Such notes will be issued only on the original issue date for such notes. With respect to a particular trust, we refer to the applicable indenture and the standard indenture terms as the indenture. Each series of notes will be the subject of a pricing supplement. The indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended. For a description of the terms of the indenture, see Descriptions of the Notes beginning on page 18 of the accompanying prospectus.

At the date of this prospectus supplement, the notes offered pursuant to this prospectus supplement are limited to an aggregate initial public offering price or purchase price of up to \$4,000,000,000. This amount is subject to reduction as a result of the issuance of notes of notes previously under this program, our secured medium-term notes program or otherwise under the accompanying prospectus.

***Collateral***

The notes of a series will be the trust's unconditional, direct, non-recourse, secured and unsubordinated obligations. Under the indenture, the funding agreement issued to and deposited into a trust by us, in exchange for the proceeds received by the trust from the offering of its series of notes and trust beneficial interest, will be collaterally assigned by the trust, and the trust will grant a security interest in the funding agreement, to the indenture trustee for the benefit of the holders of the related series of notes. A trust may purchase only one funding agreement from us and the principal amount of the funding agreement may not be increased. The trust will also collaterally assign and grant a security interest in the guarantee issued by PFG to the trust in favor of the indenture trustee for the benefit of the holders of the related series of notes. Each series of notes will be secured by a security interest in the collateral, consisting of:

the relevant funding agreement;

the related guarantee issued by PFG to the trust, which fully and unconditionally guarantees our payment obligations under the relevant funding agreement;

all proceeds of the relevant funding agreement and the relevant guarantee and all amounts and instruments on deposit from time to time in the related collection account;

all books and records pertaining to the relevant funding agreement and the related guarantee; and

all of the trust's rights pertaining to the foregoing.

Under the custodial agreement, upon the collateral assignment and grant of security interest in the funding agreement and the guarantee related to a series of notes of a trust, the custodian will

S-14

---

**Table of Contents**

hold the funding agreement and the guarantee, on behalf of the indenture trustee in the State of Iowa.

***Ranking***

The notes of a series of a trust will rank equally among themselves.

***Pricing Options***

Notes that bear interest will either be fixed rate notes or floating rate notes, or a combination of fixed rate and floating rate, as specified in the applicable pricing supplement. A trust may also issue discount notes as specified in the applicable pricing supplement.

***Pricing Supplement***

The pricing supplement relating to the offering of a series of notes will describe the following terms:

the principal amount for the note;

whether the note:

(1) is a fixed rate note,

(2) is a floating rate note, and/or

(3) is a discount note that does not bear any interest currently or bears interest at a rate that is below market rates at the time of issuance;

the price at which the note will be issued, which will be expressed as a percentage of the aggregate principal amount or face amount;

the original issue date on which the note will be issued;

the stated maturity date;

if the note is a fixed rate note, the rate per annum at which the note will bear any interest and the Interest Payment Date frequency;

if the note is a floating rate note, relevant terms such as:

(1) the Interest Rate Basis,

(2) the Initial Interest Rate,

(3) the Interest Reset Period or the Interest Reset Dates,

(4) the Interest Payment Dates,

(5) the Index Maturity,

- (6) any Maximum Interest Rate,
- (7) any Minimum Interest Rate,
- (8) the spread and/or spread multiplier, and
- (9) any other terms relating to the particular method of calculating the interest rate for the note and whether and how the spread and/or spread multiplier may be changed prior to the stated maturity date;

whether the authorized representative of the beneficial owner of a beneficial interest in the note will have the right to seek repayment upon the death of the beneficial owner as described under Repayment Upon Exercise of Survivor's Option on page S-30;

whether the note may be redeemed by the trust, or repaid at the option of the holder, prior to the stated maturity date and the terms of its redemption or repayment, provided that any such redemption or repayment will be accompanied by the simultaneous redemption or repayment of the relevant funding agreement;

any special United States federal income tax considerations relating to the purchase, ownership and disposition of the note;

the jurisdiction of formation of the trust; and

any other terms of the note provided in the accompanying prospectus to be set forth in a pricing supplement or that are otherwise consistent with the provisions of the indenture under which the note will be issued.

### ***Maturity***

Unless otherwise specified in the applicable pricing supplement, each series of notes will mature on a day between nine months and 30 years from its date of original issuance on the last scheduled interest payment date (the stated maturity date), as specified in the applicable pricing supplement, unless the principal of such series becomes due and payable prior to the stated maturity date, whether,

## **Table of Contents**

as applicable, by the declaration of acceleration of maturity, notice of redemption by the trust, notice of a beneficial owner's exercise of his or her option to elect repayment or otherwise (we refer to the stated maturity date or any date prior to the stated maturity date on which the particular series of notes becomes due and payable, as the case may be, as the maturity date with respect to the principal of such series of notes repayable on that date).

### ***Currency***

The notes of each series will be denominated in, and payments of principal, premium, if any, and/or interest, if any, and any other amounts in respect of the notes will be made in, U.S. dollars.

### **Form of Notes; Denominations**

Each trust will issue each note in book-entry form represented by one or more fully registered book-entry securities registered in the name of Cede & Co., the nominee of The Depository Trust Company, as depository. Each book-entry note will be held by the indenture trustee as custodian for the depository. Unless otherwise specified in the applicable pricing supplement, the minimum denominations of each note will be \$1,000 and integral multiples of \$1,000 in excess thereof.

### ***Transfers and Exchanges***

Book-entry notes may be transferred or exchanged only through the depository. See Book-Entry Notes. No service charge will be imposed for any such registration of transfer or exchange of notes, but the trust may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with such transfer or exchange (other than certain exchanges not involving any transfer).

### ***Listing***

Unless otherwise specified in the applicable pricing supplement, your series of notes will not be listed on any securities exchange.

### ***Business Day***

As used in this prospectus supplement, *business day* means:

any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in The City of New York; and

for purposes of LIBOR determination dates for floating rate notes (as defined below) based on LIBOR (as defined below) the day must also be a London Banking Day, which means a day on which commercial banks are open for business (including dealings in the LIBOR Currency (as defined below)) in London.

### **Payments of Principal and Interest**

Principal of and interest on the notes will be paid to owners of a beneficial interest in the notes in accordance with the arrangements then in place between the paying agent and DTC as depository and its participants as described under

Book-Entry Notes. Notes of a series may bear interest at a fixed interest rate ( *fixed rate notes* ) or at a floating interest rate ( *floating rate notes* ).

### **Fixed Rate Notes**

Each series of fixed rate notes will bear interest at a fixed rate from and including its date of issue or from and including the most recent interest payment date as to which interest has been paid or made available for payment until the principal is paid or made available for payment. The applicable pricing supplement will specify the fixed interest rate per annum applicable to each note and the frequency with which interest is payable. Interest, including interest for any partial period, will be computed on the basis of a 360-day year of twelve 30-day months. Each payment of interest, including interest to be paid at maturity, will include interest to, but excluding, the date that the interest payment is due.

Interest on notes that bear interest at fixed rates will be payable in arrears on each interest payment date to the registered holder at the close of business on the record date except that interest, if any, due at maturity will be paid to the person to whom the principal of the note is paid. Unless otherwise specified in the applicable pricing supplement, the record date will be the day that is fifteen (15) calendar days preceding the applicable interest payment date, whether or not a business day. Unless otherwise specified in the applicable pricing

**Table of Contents**

supplement, the interest payment dates for fixed rate notes will be as follows:

<b>Interest Payment Frequency</b>	<b>Interest Payment Dates</b>
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third calendar month, beginning in the third calendar month following the month the note was issued.
Semi-annual	Fifteenth day of every sixth calendar month, beginning in the sixth calendar month following the month the note was issued.
Annual	Fifteenth day of every twelfth calendar month, beginning in the twelfth calendar month following the month the note was issued.

If any interest payment date or the maturity date of a fixed rate note falls on a day that is not a business day, the applicable trust will make the required payment of principal, premium, if any, and/or interest, if any on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

Interest rates that each trust offers on the fixed rate notes may differ depending upon, among other factors, the aggregate principal amount of notes purchased in any single transaction. Notes with different variable terms other than interest rates may also be offered by other trusts concurrently to different investors. Other trusts may change interest rates or formulas and other terms of notes from time to time, but no change of terms will affect any note any other trust has previously issued or as to which any other trust has accepted an offer to purchase.

**Floating Rate Notes**

Interest on each series of floating rate notes will be determined by reference to the applicable Interest Rate Basis or Interest Rate Bases, which may, as described below, include:

- the CD Rate;
- the CMT Rate;
- the Commercial Paper Rate;
- the Constant Maturity Swap Rate;
- the Federal Funds Open Rate;
- the Federal Funds Rate;
- LIBOR;
- the Prime Rate; or
- the Treasury Rate.

The applicable pricing supplement will specify certain terms of the particular series of notes that bears interest at floating rates, including:

whether the note that bears interest at floating rates is:

a Regular Floating Rate Note; or

a Floating Rate/Fixed Rate Note;

the Fixed Rate Commencement Date, if applicable;

Fixed Interest Rate, if applicable;

Interest Rate Basis or Interest Rate Bases;

Initial Interest Rate, if any;

Interest Reset Dates;

Interest Payment Dates;

Index Maturity;

Maximum Interest Rate and/or Minimum Interest Rate;

spread and/or spread multiplier; or

if one or more of the applicable Interest Rate Bases is LIBOR, the LIBOR Currency and LIBOR Page.

The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on:

if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date (as defined below) immediately preceding that Interest Reset Date; or

if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

**Table of Contents**

The spread is the number of basis points (one one-hundredth of a percentage point) specified in the applicable pricing supplement to be added to or subtracted from the related Interest Rate Basis or Interest Rate Bases applicable to a series of notes that bears interest at floating rates. The spread multiplier is the percentage specified in the applicable pricing supplement of the related Interest Rate Basis or Interest Rate Bases applicable to a series of notes that bears interest at floating rates by which the Interest Rate Basis or Interest Rate Bases will be multiplied to determine the applicable interest rate. The Index Maturity is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Interest Rate Bases will be calculated.

Interest rates that each trust offers on its floating rate notes may differ from the rate offered by other trusts depending upon, among other factors, the aggregate principal amount of notes purchased in any single transaction. Notes with different variable terms other than interest rates may also be offered by other trusts concurrently to different investors. Other trusts may change interest rates or formulas and other terms of notes from time to time, but no change of terms will affect any note any other trust has previously issued or as to which any other trust has accepted an offer to purchase.

***Regular Floating Rate Notes***

Unless a series of floating rate notes is designated as a series of Floating Rate/Fixed Rate Notes, or as having an addendum attached or having other/additional provisions apply, in each case relating to a different interest rate formula, such series of notes that bears interest at floating rates will be a series of Regular Floating Rate Notes and will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

plus or minus the applicable spread, if any; and/or

multiplied by the applicable spread multiplier, if any.

Commencing on the first Interest Reset Date, as specified in the relevant pricing supplement, the rate at which interest on a series of Regular Floating Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate.

***Floating Rate/Fixed Rate Notes***

If a series of notes that bears interest at floating rates is designated as a series of Floating Rate/Fixed Rate Notes, such series of notes that bears interest at floating rates will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

plus or minus the applicable spread, if any; and/or

multiplied by the applicable spread multiplier, if any.

Commencing on the first Interest Reset Date, the rate at which interest on a series of Floating Rate/Fixed Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that:

the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate, as specified in the relevant pricing supplement; and

the interest rate in effect commencing on the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified in the applicable pricing supplement, or, if not so specified, the interest rate

in effect on the day immediately preceding the Fixed Rate Commencement Date.

***Interest Reset Dates***

The applicable pricing supplement will specify the dates on which the rate of interest on a series of notes that bears interest at floating rates will be reset (each, an Interest Reset Date ), and the period between Interest Reset Dates will be the Interest Reset Period. Unless otherwise specified in the applicable pricing supplement, the Interest Reset Dates will be, in the case of a series of floating rate notes which reset:

*daily* each business day;

*weekly* the Wednesday of each week, with the exception of weekly reset series of notes that bear interest

**Table of Contents**

at floating rates as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week;

*monthly* the fifteenth day of each calendar month;

*quarterly* the fifteenth day of March, June, September and December of each year;

*semi-annually* the fifteenth day of the two months of each year specified in the applicable pricing supplement; and

*annually* the fifteenth day of the month of each year specified in the applicable pricing supplement; provided, however, that, with respect to any series of Floating Rate/Fixed Rate Notes, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date.

If any Interest Reset Date for any series of notes that bears interest at floating rates would otherwise be a day that is not a business day, the particular Interest Reset Date will be postponed to the next succeeding business day, except that in the case of a series of notes that bears interest at floating rates as to which LIBOR is an applicable Interest Rate Basis and that business day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding business day.

***Interest Determination Dates***

The interest rate applicable to a series of notes that bears interest at floating rates for an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular Interest Determination Date, which will be:

*with respect to the Federal Funds Open Rate* the related Interest Reset Date;

*with respect to the Federal Funds Rate and the Prime Rate* the business day immediately preceding the related Interest Reset Date;

*with respect to the CD Rate, the Commercial Paper Rate, and the CMT Rate* the second business day preceding the related Interest Reset Date;

*with respect to the Constant Maturity Swap Rate* the second U.S. Government Securities business day (as defined under Constant Maturity Swap Rate below) preceding the related Interest Reset Date; provided, however, that if, after attempting to determine the Constant Maturity Swap Rate (as described under Constant Maturity Swap Rate below), such rate is not determinable for a particular Interest Determination Date (the original interest determination date), then such Interest Determination Date shall be the first U.S. Government Securities business day preceding the original interest determination date for which the Constant Maturity Swap Rate can be determined as described under Constant Maturity Swap Rate below;

*with respect to LIBOR* the second London Banking Day preceding the related Interest Reset Date.; and

*with respect to the Treasury Rate* the day of the week in which the related Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (i.e., Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday);

provided, however, that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday.

Unless otherwise specified in the applicable pricing supplement, the Interest Determination Date pertaining to a series of floating rate notes that bears interest at the interest rate of which is determined with reference to two or more Interest Rate Bases

## **Table of Contents**

will be the latest business day which is at least two business days before the related Interest Reset Date for the applicable note that bears interest at floating rates on which each Interest Reset Basis is determinable.

### ***Calculation Dates***

The indenture trustee will be the Calculation Agent, unless otherwise specified in the applicable pricing supplement. The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to LIBOR, which will be determined on the particular Interest Determination Date. Upon request of the registered holder of a series of floating rate notes, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest Reset Date with respect to the particular series of floating rate notes. The Calculation Date, if applicable, pertaining to any Interest Determination Date will be the earlier of:

the tenth calendar day after the particular Interest Determination Date or, if such day is not a business day, the next succeeding business day; or

the business day immediately preceding the applicable Interest Payment Date or the maturity date, as the case may be.

### ***Maximum and Minimum Interest Rates***

A series of notes that bears interest at floating rates may also have either or both of the following if specified in the applicable pricing supplement:

a maximum numerical limitation, or ceiling, that may accrue during any Interest Reset Period (a Maximum Interest Rate); and

a minimum numerical limitation, or floor, that may accrue during any Interest Reset Period (a Minimum Interest Rate).

In addition to any Maximum Interest Rate that may apply to a series of notes that bears interest at floating rates, the interest rate on a series of floating rate notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application.

### ***Interest Payments***

Unless otherwise specified in the applicable pricing supplement or in this prospectus supplement, interest on each series of notes that bears interest at floating rates will be payable on the date(s) as set forth below (each, an Interest Payment Date with respect to such series of notes that bears interest at floating rates). Unless otherwise specified in the applicable pricing supplement, the record date will be the day that is fifteen (15) calendar days preceding the applicable interest payment date, whether or not a business day. Unless otherwise specified in the applicable pricing supplement, the Interest Payment Dates will be, in the case of a series of floating rate notes which reset:

*daily, weekly or monthly* the fifteenth day of each calendar month or on the fifteenth day of March, June, September and December of each year, as specified in the applicable pricing supplement;

*quarterly* the fifteenth day of March, June, September and December of each year;

*semi-annually* the fifteenth day of the two months of each year specified in the applicable pricing supplement; and

*annually* the fifteenth day of the month of each year specified in the applicable pricing supplement.

In addition, the maturity date will also be an Interest Payment Date.

If any Interest Payment Date other than the maturity date for any series of floating rate notes would otherwise be a day that is not a business day, such Interest Payment Date will be postponed to the next succeeding business day, except that in the case of a series of floating rate notes as to which LIBOR is an applicable Interest Rate Basis and that business day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding business day. If the maturity date of a series of floating rate notes falls on a day that

**Table of Contents**

is not a business day, the trust will make the required payment of principal, premium, if any, and interest or other amounts on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

All percentages resulting from any calculation on floating rate notes will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards. For example, 9.876545% (or .09876545) would be rounded to 9.87655% (or .0987655). All dollar amounts used in or resulting from any calculation on floating rate notes will be rounded to the nearest cent.

With respect to each series of floating rate notes, accrued interest is calculated by multiplying the principal amount of such floating rate note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Reset Period. The interest factor for each day will be computed by dividing the interest rate applicable to such day by 360, in the case of a series of floating rate notes as to which the CD Rate, the Commercial Paper Rate, the Federal Funds Open Rate, the Federal Funds Rate, LIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of a series of floating rate notes as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. In the case of a series of notes that bears interest at floating rates as to which the Constant Maturity Swap Rate is the Interest Rate Basis, the interest factor for each day will be computed by dividing the number of days in the interest period by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months (unless (i) the last day of the interest period is the 31st day of a month but the first day of the interest period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the interest period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)). The interest factor for a series of floating rate notes as to which the interest rate is calculated with reference to two or more Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified in the applicable pricing supplement applied.

The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions.

***CD Rate***

CD Rate means:

- (1) the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) (as defined below) under the caption CDs (secondary market); or
- (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption CDs (secondary market); or
- (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for negotiable United States dollar certificates of deposit of major United States money market banks for negotiable

United States certificates of deposit with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time; or

(4) if the dealers so selected by the Calculation Agent are not quoting as

S-21

---

**Table of Contents**

mentioned in clause (3), the CD Rate in effect on the particular Interest Determination Date.

H.15(519) means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.

H.15 Daily Update means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/update>, or any successor site or publication.

***CMT Rate***

CMT Rate means:

(1) if Reuters Page FRBCMT is specified in the applicable pricing supplement:

(a) the percentage equal to the yield for United States Treasury securities at constant maturity having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) under the caption Treasury Constant Maturities, as the yield is displayed on the Reuters Service ( Reuters ) (or any successor service) on page FRBCMT (or any other page as may replace the specified page on that service) ( Reuters Page FRBCMT ), for the particular Interest Determination Date; or

(b) if the rate referred to in clause (a) does not so appear on Reuters Page FRBCMT, the percentage equal to the yield for United States Treasury securities at constant maturity having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption Treasury Constant Maturities; or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519); or

(d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the purchasing agent or its affiliates) (each, a Reference Dealer ), selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained

**Table of Contents**

and neither the highest nor the lowest of the quotations shall be eliminated; or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date; or

(2) if CMT Reuters Page FEDCMT is specified in the applicable pricing supplement:

(a) the percentage equal to the one-week or one-month, as specified in the applicable pricing supplement average yield for United States Treasury securities at constant maturity having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) opposite the caption Treasury Constant Maturities, as the yield is displayed on Reuters (or any successor service) (on page FEDCMT or any other page as may replace the specified page on that service) ( Reuters Page FEDCMT ), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

(b) if the rate referred to in clause (a) does not so appear on Reuters Page FEDCMT, the percentage equal to the one-week or one-month, as specified in the applicable pricing supplement, average yield for United States Treasury securities at constant maturity having the particular Index Maturity and for the week or month, as applicable, preceding the particular Interest Determination Date as published in H.15(519) opposite the caption Treasury Constant Maturities; or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the one-week or one-month, as specified in the applicable pricing supplement, average yield for United States Treasury securities at constant maturity having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately

**Table of Contents**

preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

(d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time; or

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on that Interest Determination Date.

If two United States Treasury securities with an original maturity greater than the Index Maturity specified in the applicable pricing supplement have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

***Commercial Paper Rate***

Commercial Paper Rate means:

(1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity

**Table of Contents**

specified in the applicable pricing supplement as published in H.15(519) under the caption Commercial Paper Nonfinancial; or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Money Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption Commercial Paper Nonfinancial; or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is Aa , or the equivalent, from a nationally recognized statistical rating organization; or

(4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date.

Money Market Yield means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where D refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and M refers to the actual number of days in the applicable Interest Reset Period.

**Constant Maturity Swap Rate**

Constant Maturity Swap Rate means:

(1) the rate for U.S. dollar swaps with the designated maturity specified in the applicable pricing supplement, expressed as a percentage, which appears on Reuters Screen (or any successor service) TGM42276 Page as of 11:00 A.M., New York City time, on the particular Interest Determination Date; or

(2) if the rate referred to in clause (1) does not appear on Reuters Screen (or any successor service) TGM42276 Page by 2:00 P.M., New York City time, on such Interest Determination Date, a percentage determined on the basis of the mid-market semi-annual swap rate quotations provided by the reference banks (as defined below) as of approximately 11:00 A.M., New York City time, on such Interest Determination Date, and, for this purpose, the semi-annual swap rate means the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with a term equal to the designated maturity specified in the applicable pricing supplement commencing on the Interest Reset Date and in a representative amount (as defined below) with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an actual/360 day count basis, is equivalent to USD-LIBOR-BBA with a designated maturity specified in the applicable pricing supplement. The Calculation Agent will request the principal New York City office of each of the reference banks to provide a quotation of its rate. If at least three quotations are provided, the rate for that Interest Determination Date will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest); or

(3) if at least three quotations are not received by the Calculation Agent as mentioned in clause (2), the Constant

S-25

---

**Table of Contents**

Maturity Swap Rate in effect on the particular Interest Determination Date.

U.S. Government Securities business day means any day except for Saturday, Sunday, or a day on which The Bond Market Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

Representative amount means an amount that is representative for a single transaction in the relevant market at the relevant time.

Reference banks mean five leading swap dealers in the New York City interbank market, selected by the Calculation Agent, after consultation with us.

***Federal Funds Rates***

Federal Funds Open Rate means the rate set forth on Reuters (or any successor service) on page 5 (or any other page as may replace the specified page on that service) for an Interest Determination Date underneath the caption

FEDERAL FUNDS in the row titled OPEN. If the rate is not available for an Interest Determination Date, the rate for that Interest Determination Date shall be the Federal Funds Rate as determined below.

Federal Funds Rate means:

(1) the rate as of the particular Interest Determination Date for United States dollar federal funds as published in H.15 (519) under the caption EFFECT and displayed on Reuters (or any successor service) on page FEDFUNDS1 (or any other page as may replace the specified page on that service) ( Reuters Page FEDFUNDS1 ); or

(2) if the rate referred to in clause (1) does not so appear on Reuters Page FEDFUNDS1 or is not so published by 5:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption Federal Funds (Effective); or

(3) if the rate referred to in clause (2) is not so published by 5:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date will be the rate for the first preceding day for which such rate is set forth in H.15(519) under the caption Federal Funds (Effective) , as such rate is displayed on Reuters Page FEDFUNDS1.

***LIBOR***

LIBOR means:

(1) the rate for deposits in the LIBOR Currency having the Index Maturity specified in the applicable pricing supplement, commencing on the related Interest Reset Date, that appears on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or

(2) if no rate appears on the particular Interest Determination Date on the LIBOR Page as specified in clause (1), the rate calculated by the Calculation Agent as the arithmetic mean of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which may include affiliates of the purchasing agent), in the London interbank market selected by the Calculation Agent to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank

market at approximately 11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or

(3) if fewer than two offered quotations referred to in clause (2) are provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include affiliates of the

S-26

---

**Table of Contents**

purchasing agent), in that principal financial center selected by the Calculation Agent for loans in the LIBOR Currency to leading European banks, having the particular Index Maturity and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or

(4) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (3), LIBOR in effect on the particular Interest Determination Date.

LIBOR Currency means the currency specified in the applicable pricing supplement as to which LIBOR shall be calculated or, if no currency is specified in the applicable pricing supplement, United States dollars.

LIBOR Page means the display on Reuters (or any successor service) on the page specified in the applicable pricing supplement (or any other page as may replace that page on that service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

***Prime Rate***

Prime Rate means:

(1) the rate on the particular Interest Determination Date as published in H.15(519) under the caption Bank Prime Loan ; or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption Bank Prime Loan; or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on Reuters Screen US PRIME 1 Page (as defined below) as the applicable bank's prime rate or base lending rate as of 11:00 A.M., New York City time, on that Interest Determination Date; or

(4) if fewer than four rates referred to in clause (3) are so published by 3:00 p.m., New York City time, on the related Calculation Date, the rate calculated by the Calculation Agent as the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on that Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in The City of New York selected by the Calculation Agent; or

(5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), the Prime Rate in effect on the particular Interest Determination Date.

Reuters Screen US PRIME 1 Page means the display on Reuters Monitor Money Rates Service (or any successor service) on the US PRIME 1 page (or any other page as may replace that page on that service) for the purpose of displaying prime rates or base lending rates of major United States banks.

***Treasury Rate***

Treasury Rate means:

(1) the rate from the auction held on the Treasury Rate Interest Determination Date (the Auction ) of direct obligations of the United States ( Treasury Bills ) having the Index Maturity specified in the applicable pricing supplement under the caption INVESTMENT RATE on the display on Reuters (or any successor service) on page USAUCTION 10 (or any other page as may replace that page on that service) ( Reuters USAUCTION 10 ) or page USAUCTION 11 (or any other page as may replace that page on that service) ( Reuters USAUCTION 11 ); or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M.,

S-27

---

**Table of Contents**

New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption U.S. Government Securities/Treasury Bills/Auction High ; or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury; or

(4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption U.S. Government Securities/Treasury Bills/Secondary Market; or

(5) if the rate referred to in clause (4) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption U.S. Government Securities/Treasury Bills/Secondary Market ; or

(6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include the purchasing agent or its affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable pricing supplement; or

(7) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date.

Bond Equivalent Yield means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where D refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, N refers to 365 or 366, as the case may be, and M refers to the actual number of days in the applicable Interest Reset Period.

**Discount Notes**

A trust may issue a series of notes ( Discount Notes ) that has an Issue Price (as specified in the applicable pricing supplement) that is less than the principal amount thereof by an amount that is equal to or greater than the *de minimis* amount. The *de minimis* amount is equal to 0.25% multiplied by the product of the principal amount of the notes and the number of full years to the stated maturity date. A series of Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a series of Discount Notes and par is referred to as the Discount. In the event of redemption, repayment or acceleration of maturity of a series of Discount Notes, the amount payable to the holders of such series of Discount Notes will be

equal to the sum of:

the Issue Price (increased by any accruals of Discount); and

any unpaid interest accrued on such series of Discount Notes to the maturity date.

Unless otherwise specified in the applicable pricing supplement, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a series of Discount Notes, a

S-28

---

**Table of Contents**

Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable series of Discount Notes (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the applicable series of Discount Notes and an assumption that the maturity of such series of Discount Notes will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a series of Discount Notes (the Initial Period) is shorter than the compounding period for such series of Discount Notes, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided in the preceding sentence. The accrual of the applicable Discount may differ from the accrual of original issue discount for purposes of the Internal Revenue Code of 1986, as amended, certain series of Discount Notes may not be treated as having original issue discount within the meaning of such Code, and certain series of notes other than Discount Notes may be treated as issued with original issue discount for United States federal income tax purposes. See Material United States Federal Income Tax Considerations.

Each trust may issue a series of notes which may be redeemed by the issuing trust when 20% or more of the original principal balance of such notes is outstanding, which are referred to as callable notes. In the case of Discount Notes that may be redeemed at a time when 20% or more of such notes are outstanding, such notes will be designated in their title as callable in the applicable pricing supplement. Unless otherwise specified in the applicable pricing supplement, such series of notes will be otherwise subject to the redemption provisions specified under Optional Redemption; Optional Repayment; No Sinking Fund.

**Optional Redemption; Optional Repayment; No Sinking Fund**

In the case of notes that are not discount notes, if an optional redemption date is specified in the pricing supplement relating to a series of notes, and we have redeemed the related funding agreement in full or in part, as applicable, the related trust will redeem the series of notes secured by such funding agreement, in full or in part as applicable, prior to the stated maturity date of such series of notes. Such redemptions shall be made in whole or from time to time in part in increments of \$1,000 or any other integral multiple of an authorized denomination specified in the applicable pricing supplement (provided that any remaining principal amount thereof shall be at least \$1,000 or other minimum authorized denomination applicable thereto), at a redemption price equal to 100% of the unpaid principal amount to be redeemed, together with unpaid interest, if any, accrued thereon to, but excluding, the date of redemption. The trust must give written notice to the holders of the particular series of notes to be redeemed not more than 60 nor less than 30 calendar days prior to the date of redemption.

Each trust may issue a series of notes which may be redeemed by the issuing trust when 20% or more of the original principal balance of such notes is outstanding, which are referred to as callable notes and will be designated in their title as callable in the relevant pricing supplement. Unless otherwise specified in the applicable pricing supplement, such series of notes will otherwise be subject to the redemption provisions specified herein. For a discussion of the redemption of discount notes, see Discount Notes.

If fewer than all of the notes are to be redeemed, DTC will select the notes to be redeemed not more than 60 calendar days prior to the redemption date by lot or, if the notes are not in book-entry form, the indenture trustee will do so, in its reasonable discretion, by lot or on a pro rata basis in accordance with its customary procedures. If any note is redeemed in part only, a new note in principal amount equal to the unredeemed principal portion will be issued.

If an optional repayment right is specified in the pricing supplement relating to a series of notes, such notes may be subject to repayment at the option of the holders of such series of notes on any repayment date specified in the applicable pricing supplement. Exercise of the repayment option under the notes by the holders will also require the

applicable trust to exercise a corresponding repayment option under the applicable funding agreement. On any such repayment date, unless otherwise specified in the applicable pricing supplement, the

S-29

---

**Table of Contents**

notes shall be repayable in whole or in part in increments of \$1,000 at the option of the holders thereof at a repayment price equal to 100% of the principal amount thereof to be repaid, together with interest thereon payable to the date of repayment. A holder of a series of notes exercising its repayment right must submit to the indenture trustee at its corporate trust office, or at such other place or places of which the relevant trust has notified such holder, the notes to be repaid together with the option to elect repayment form attached to the notes not more than 60 nor less than 30 calendar days prior to the date of repayment. Exercise of such repayment right by a holder shall be irrevocable. If a holder requests repayment in part only, a new note in principal amount equal to the principal portion of the notes not repaid will be issued.

None of the trusts will issue notes that may be repaid at the option of the holders prior to the stated maturity if such issuance would cause the relevant trust to fail to satisfy the applicable requirements for exemption under Rule 3a-7 under the Investment Company Act of 1940, as amended, and all applicable rules, regulations and interpretations thereunder.

Only DTC may exercise a repayment option in respect of notes issued in book-entry form. Accordingly, beneficial owners of notes that desire to exercise their repayment option, if any, with respect to all or any portion of such notes, must instruct the participant through which they own their interest to direct DTC to exercise the repayment option on their behalf by delivering the duly completed election form to the indenture trustee as aforesaid. In order to ensure that the election form is received by the indenture trustee on a particular day, the applicable beneficial owner must so instruct the participant through which it owns its interest before such participant's deadline for accepting instructions for that day. Participants may have different deadlines for accepting instructions from their customers. Accordingly, a beneficial owner should consult the participant through which it owns its interest in the notes for the participant's deadline for receiving payment instructions. In addition, at the time such instructions are given, each such beneficial owner will cause such participant to transfer such beneficial owner's interest in the notes issued in book-entry form, on DTC's records, to the indenture trustee.

No series of notes will be subject to, or entitled to the benefit of, any sinking fund unless otherwise specified in the applicable pricing supplement.

**Repayment Upon Exercise of Survivor's Option**

The survivor's option is the trust's agreement with the beneficial owner of a note to repurchase that note in whole or in part prior to maturity if requested, following the death of the beneficial owner of notes of that series, so long as the notes either were purchased by the deceased beneficial owner within ninety (90) days of their issuance or were held by the deceased beneficial owner for a period of six (6) months prior to such death. Unless otherwise specified in the applicable pricing supplement, the estate of the deceased beneficial owner of a note will be eligible to exercise the survivor's option.

Subject to the limitations described below, upon the valid exercise of the survivor's option, the proper tender of that note for repayment and the tender and acceptance of that portion of the funding agreement related to such note, a trust will repay any of its notes pursuant to the survivor's option by or on behalf of a person that has the legal authority to act on behalf of the note's deceased owner. Unless otherwise specified in the applicable pricing supplement, the repurchase price will be 100% of the unpaid principal amount plus accrued interest to, but excluding, the date of repayment.

Unless otherwise set forth in the applicable pricing supplement for your series of notes, the funding agreement securing your series of notes will contain a provision which will allow the trust to tender the funding agreement in whole or in part to us. A trust's ability to tender the funding agreement related to a series of notes that contain a survivor's option will be subject to certain limitations set by us. As a result, your right to exercise the survivor's option

is subject to limits set by us with respect to the relevant funding agreement. We have the discretionary right to limit:

the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under the Principal® Life CoreNotes® program as to which exercises of any put option by any trust shall be accepted by us in any calendar year to an amount equal to the greater of

S-30

---

**Table of Contents**

\$2,000,000 or 2% of the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under the Principal<sup>®</sup> Life CoreNotes<sup>®</sup> program and the secured medium-term note retail program as of the end of the most recent calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement;

the aggregate principal amount of funding agreements securing the notes as to which exercises of any put option by the applicable trust attributable to notes as to which the survivor's option has been exercised by the authorized representative of any individual deceased beneficial owner to \$250,000 in any calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement; and

the aggregate principal amount of the funding agreement securing a series of notes as to which exercises of any put option by the applicable trust shall be accepted in any calendar year as set forth in the applicable funding agreement and the applicable pricing supplement.

In any such event, a trust shall similarly be required to limit the aggregate principal amount of notes as to which exercises of the survivor's option shall be accepted by the trust from authorized representatives of deceased beneficial owners. In addition, the exercise of the survivor's option will not be permitted for a principal amount less than \$1,000 or if such exercise will result in a note with a principal amount of less than \$1,000 to remain outstanding. All other questions, other than with respect to the right to limit the aggregate principal amount of notes subject to the survivor's option that will be accepted as to any series of notes or in any calendar year, regarding the eligibility or validity of any exercise of the survivor's option will be determined by the trustee for the trust, in its sole discretion, which determination will be final and binding on all parties. The indenture trustee, upon written request by the authorized representative of the deceased beneficial owner of notes, will request the trustee to provide the status of the remaining program and series limitations for such calendar year on the exercise of any survivor's option.

The trust will accept elections to exercise the survivor's option in the order received by the trustee of the trust. Notes that are not repaid in any calendar year due to the application of the limits described above will be treated as though they had been tendered on the first day of the following calendar year in the order in which they were originally tendered. Subject to the limitations described above, notes accepted for repayment will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of acceptance.

If repayment of a note submitted for repayment pursuant to a valid exercise of the survivor's option is not accepted or is to be delayed, the trustee of the trust will deliver a written notice by first-class mail to the depositary that states the reason that repayment of that particular note has not been accepted or will be delayed.

A valid exercise of the survivor's option may not be withdrawn.

To exercise the survivor's option with respect to a book-entry note, the deceased owner's authorized person must provide the following items to the DTC participant through which the relevant beneficial interest is owned (for a discussion of DTC and its participants, see [About the Depositary](#)):

a written instruction to the participant to notify DTC of the authorized person's desire to obtain a payment pursuant to the exercise of the survivor's option;

appropriate evidence (a) that the person has authority to act on behalf of the deceased owner, (b) of the death of the beneficial owner, (c) that the deceased was the beneficial owner of the notes at the time of death and (d) that the beneficial owner acquired the interest in the note either within ninety (90) days

Edgar Filing: PRINCIPAL FINANCIAL GROUP INC - Form S-3  
of their issuance or at least six (6) months prior to the

S-31

---

**Table of Contents**

date of death of such beneficial owner;

if the beneficial interest in the relevant note is held by a nominee of the deceased owner, a certificate from the nominee attesting to the deceased owner's ownership of a beneficial interest in that note;

a written request for repayment signed by the authorized person for the deceased owner with signature guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States;

if applicable, a properly executed assignment or endorsement;

tax waivers and any other instruments or documents reasonably required to establish the validity of the ownership of the beneficial interest in the related note and the claimant's entitlement to payment; and

any additional information reasonably required to document the ownership or authority to exercise the survivor's option and to cause the repayment of the related note.

In turn, on the basis of this information, the participant will be required to deliver to the indenture trustee a properly completed repayment election form to exercise the survivor's option, together with evidence satisfactory to the indenture trustee from the participant stating that it represents the deceased owner of the beneficial interest in the relevant note. The indenture trustee will then deliver these items to the trustee and will provide the trustee with any additional information (after receipt from the participant) the trustee may request in connection with such exercise.

Apart from our discretionary right to limit the principal amount of notes as to which the survivor's option may be exercised in any calendar year as described above, the trustee will determine all other questions regarding the eligibility or validity of any exercise of the survivor's option. The trustee's determination will be final and binding on all parties.

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others will be treated as the death of the owner of that note, and the entire principal amount so owned will be eligible for repayment.

The death of a person owning a note by tenancy in common will be treated as the death of the owner of that note only with respect to the deceased owner's interest in the note held by tenancy in common. However, if a note is held by husband and wife as tenants in common, the death of either spouse will be treated as the death of the owner of the note and the entire principal amount so owned will be eligible for repayment.

The death of a person who was a lifetime beneficiary of a trust that owns a note will be treated as the death of the owner of the note to the extent of that person's interest in the trust. The death of a person who was a tenant by the entirety or joint tenant in a tenancy which is the beneficiary of a trust that owns a note will be treated as the death of the owner of the note. The death of an individual who was a tenant in common in a tenancy which is the beneficiary of a trust that owns a note will be treated as the death of the owner of the note only with respect to the deceased person's beneficial interest in the note, unless a husband and wife are the tenants in common, in which case the death of either will be treated as the death of the owner of the note.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note will be treated as the death of the owner of the note if the beneficial interest can be established to the trustee's satisfaction. This will be done in typical cases of nominee ownership, such as ownership under the Uniform Transfers of Gifts to Minors Act, community property or other joint ownership arrangements between a

husband and wife and lifetime custodial and trust arrangements.

The applicable participant will be responsible for disbursing payments received from the indenture trustee, acting in its capacity as servicer, to the authorized person for the deceased owner.

Annex A to this prospectus supplement is the repayment election form for use by DTC participants in exercising the survivor's option. Copies of

S-32

---

## **Table of Contents**

this form may be obtained from the trustee at its corporate trust office located at 100 Wall Street, 16th Floor, New York, New York 10005, attention: Corporate Trust Administration, telephone number: (212) 361-6184.

If applicable, the applicable trust will comply with the requirements of Section 14(e) of the Securities Exchange Act of 1934, as amended, the related regulations and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders.

## **Purchase of Notes by Us**

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us will be surrendered to the indenture trustee for cancellation. Concurrently with the surrender to the indenture trustee of any note, the funding agreement related to such note will be similarly redeemed.

If applicable, such applicable trust will comply with the requirements of Section 14(e) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repurchase of the notes by us.

## **Tax Redemption**

If a tax event as to the relevant funding agreement occurs, we will have the right to redeem the funding agreement and, upon such redemption, the applicable trust will redeem its series of notes in the same manner described under

Optional Redemption; Optional Repayment; No Sinking Fund above. For further discussion of tax event redemption, see Description of the Funding Agreements Early Redemption for Tax Event in the accompanying prospectus.

## **Security; Non-Recourse Obligations**

Each series of notes will be solely the obligations of the related trust and will not be guaranteed by any person, including but not limited to us, PFG, the purchasing agent, any of our or their affiliates or any other trust. A trust's obligations under its series of notes will be secured by all of its rights and title in a funding agreement issued by us, the payment obligations of which are guaranteed by the related guarantee issued by PFG to the trust and other rights and assets included in the applicable collateral held in the trust.

Since we will be the sole obligor under the funding agreement and PFG will be the sole obligor under the related guarantee, the trust's ability to meet its obligations, and your ability to receive payments from the trust, with respect to each applicable series of notes, will be principally dependent upon our ability to perform our obligations under the applicable funding agreement held in the relevant trust and PFG's ability to perform its obligations under the guarantee of our payment obligations under the related funding agreement. However, you will have no direct contractual rights against us or PFG under the funding agreement or the guarantee, respectively. Under the terms of the funding agreement and related guarantee, recourse rights to us or PFG, respectively, will belong to the trust, its successors and its permitted assignees, but only with respect to the relevant trust. In connection with the offering and sale of a series of notes, the trust will collaterally assign and grant a security interest in the relevant funding agreement for such series of notes to, and the trust will collaterally assign and grant a security interest in the related guarantee in favor of, the indenture trustee for the benefit of the holders of such series of notes. Accordingly, recourse to us under such funding agreement and to PFG under the related guarantee will be enforceable only by the indenture trustee as a secured party on behalf of the holders of such series of notes by directing the indenture trustee under the limited circumstances described in the accompanying prospectus under Description of the Notes Certain Rights of Holders. See also Description of the Notes Nonrecourse Enforcement in the accompanying prospectus.

Since we and PFG are registrants, purchasers of notes may proceed directly against us and PFG to enforce their rights under the United States federal and state securities laws. The right by such purchasers to proceed against us, with respect to the applicable funding agreement, under the United States federal and state securities laws is no different than if we had issued the funding agreement directly to such purchasers. The right by such purchasers to proceed against PFG, with respect to the applicable guarantee, under the United States federal and state securities laws is no different than if PFG had issued the guarantee directly to such purchasers.

S-33

---

## **Table of Contents**

### **Book-Entry Notes**

We have established a depository arrangement, on behalf of the trusts, with DTC with respect to the book-entry notes, the terms of which are summarized below.

All book-entry notes having the same terms will be represented by one or more global securities. Each global security will be deposited with, or on behalf of, DTC and will be registered in the name of DTC or its nominee. No global security may be transferred or exchanged except as a whole by DTC or a nominee of DTC to DTC or to another nominee of DTC, or by DTC or another nominee of DTC to a successor of DTC or a nominee of a successor to DTC. So long as DTC or its nominee is the registered holder of a global security, DTC or its nominee will be the sole owner of the related book-entry notes represented thereby for all purposes under the indenture. Except as otherwise provided below, the beneficial owners of the global security or securities represented by book-entry notes will not be entitled to receive physical delivery of definitive notes and will not be considered the registered holders of the book-entry notes for any purpose under the indenture and no global security representing book-entry notes will be exchangeable or transferable. As a result, to exercise any rights of a registered holder under the indenture, a beneficial owner must rely on the procedures of DTC and, if the beneficial owner is not a participant, on the procedures of the participant or participants through which the beneficial owner owns its interest. The laws of some jurisdictions require that some purchasers of securities take physical delivery of securities in definitive form. These laws may limit the ability to transfer beneficial interests in a global security represented by book-entry notes.

Each global security representing book-entry notes will be exchangeable for definitive notes having the same terms in a like aggregate principal amount only if:

the trust notifies the indenture trustee that the trust wishes in its sole discretion to exchange the global security for definitive notes;

an event of default on the notes of that series has occurred and has not been cured; or

DTC notifies us that it is unwilling or unable to continue as a clearing system for the global securities, or we have become aware that it has ceased to be a clearing agency registered under the Securities Exchange Act of 1934, as amended and, in either case, a successor clearing system is not appointed by us within 60 calendar days after receiving the notice from DTC or becoming aware that DTC is no longer registered.

If any of these events occurs, the appropriate trust will print and deliver definitive notes. Definitive notes issued under these circumstances will be registered in the names of the beneficial owners of the related global securities as provided to the indenture trustee by the participants identified by DTC.

### **About the Depository**

The following is based on information furnished by DTC:

DTC will act as securities depository for the book-entry notes. The book-entry notes will be issued as fully registered securities in the name of Cede & Co. (DTC's nominee) or another name requested by DTC. One fully registered global security will be issued for each issue of a series of book-entry notes in the aggregate principal amount of that issue and will be deposited with, or on behalf of, DTC. If the aggregate principal amount of any issue exceeds DTC's limit for a single global security, then the global securities will be issued in the form of one or more global securities having a principal amount equal to DTC's limit and one or more additional global securities representing any remaining principal amount.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for securities that direct participants deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between direct participants

S-34

---

## **Table of Contents**

accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers (including the purchasing agent), banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ( DTCC ). DTCC, in turn, is owned by a number of direct participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly ( indirect participants ). The DTC rules applicable to its direct and indirect participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Under DTC's system, purchases of book-entry notes must be made by or through direct participants, which will receive a credit for the book-entry notes on DTC's records. The ownership interest of the actual purchaser is in turn recorded on the records of the direct and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which they entered into the transaction. Transfers of ownership interests in book-entry notes are accomplished by entries made on the books of the direct and indirect participants acting on behalf of the beneficial owners. Beneficial owners will not receive definitive notes unless use of the book-entry system is discontinued as described above.

To facilitate subsequent transfers, all global securities representing the book-entry notes deposited with, or on behalf of, DTC will be registered in the name of DTC's nominee, Cede & Co., or any other name that DTC requests. The deposit of global securities with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the book-entry notes; DTC's records reflect only the identity of the direct participants to whose accounts the book-entry notes are credited, which may or may not be the beneficial owners. DTC's participants are responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications from DTC to direct participants, from direct participants to indirect participants and from direct participants and indirect participants to beneficial owners are governed by arrangements among them and are subject to statutory and regulatory requirements.

*Neither DTC nor Cede & Co.* will consent or vote with respect to global securities. Under its usual procedures, DTC mails an omnibus proxy to a company as soon as possible after a record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the book-entry notes are credited on the record date (identified in a listing attached to the omnibus proxy).

The trust will make payments on the global securities in immediately available funds to Cede & Co. or any other nominee named by DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that date. Payments by participants to beneficial owners are governed by standing instructions and customary practices and are subject to statutory and regulatory requirements. The trust and the trustee are responsible only for making payments to DTC; DTC is responsible for disbursing those payments to its direct participants and the direct participants (and any indirect participants) are solely responsible for disbursing those payments to the beneficial owners.

Any redemption notices will be sent to Cede & Co. If less than all of the book-entry notes having the same terms are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each direct participant in

those notes to be redeemed.

A beneficial owner must give notice of any election to have its book-entry notes repaid through its participant to the indenture trustee. Delivery of

S-35

---

**Table of Contents**

the book-entry notes will be effected by causing the relevant direct participant to transfer the relevant part of its interest in the global securities to the indenture trustee on DTC's records.

DTC may discontinue providing its services as securities depository at any time by giving reasonable notice to us or the indenture trustee. If we do not obtain a successor securities depository, the applicable trust will print and deliver definitive notes.

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). If we do so, the applicable trust will print and deliver definitive notes.

**DESCRIPTION OF THE FUNDING AGREEMENTS**

Each trust will use the net proceeds from the issuance of a series of notes to the public and the issuance of the trust beneficial interest to the trust beneficial owner to purchase a funding agreement. The funding agreement will have substantially similar payment and other terms to the related series of notes. The funding agreement may be interest bearing or non-interest bearing. A funding agreement may bear interest at either a fixed or a floating rate, or a combination of fixed and floating rates, as specified in the applicable pricing supplement. The calculation of the interest rate, the dates of interest and maturity payments and such other payment terms on the funding agreement will be determined in the same manner as described above under Description of the Notes. An amount equal to the funding agreement deposit plus accrued but unpaid interest, if any, and accrued discount, if any (in the case of a discount funding agreement) will be payable on its stated maturity date, as specified in the applicable pricing supplement.

The pricing supplement relating to a series of notes will describe the following pricing terms of the related funding agreement:

the deposit amount for the funding agreement;

whether the funding agreement:

(1) is a fixed rate funding agreement,

(2) is a floating rate funding agreement, and/or

(3) is a discount funding agreement that does not bear interest currently or bears interest at a rate that is below market rates at the effective date;

the price at which the funding agreement will be issued, which will be expressed as a percentage of the aggregate deposit amount or face amount;

the effective date on which the funding agreement will be issued;

the stated maturity date;

if the funding agreement is a fixed rate funding agreement, the rate per annum at which the funding agreement will bear any interest and the interest payment date frequency;

if the funding agreement is a floating rate funding agreement, relevant terms such as:

(1) the interest rate basis,

- (2) the initial interest rate,
- (3) the interest reset period or the interest reset dates,
- (4) the interest payment dates,
- (5) the index maturity,
- (6) any maximum interest rate,
- (7) any minimum interest rate,
- (8) the spread and/or spread multiplier, and
- (9) any other terms relating to the particular method of calculating the interest rate for the funding agreement and whether and how the spread and/or spread multiplier may be changed prior to stated maturity;

whether the funding agreement may be redeemed by us, or repaid at the option of the trust, prior to the stated maturity and the terms of its redemption or repayment; provided in either case the relevant series of notes will

S-36

---

**Table of Contents**

contain substantially the same redemption and repayment terms and no funding agreement may be redeemed or repaid without the simultaneous redemption or repayment of the related series of notes; and

any other terms of the funding agreement.

For a more detailed discussion of the funding agreements, see **Description of the Funding Agreements** in the accompanying prospectus.

**MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

The following is a general discussion of the material United States federal income tax considerations relating to the purchase, ownership and disposition of the notes by initial purchasers of the notes who are Holders (as defined below), purchase the notes at their issue price (determined as set forth below) and hold the notes as capital assets within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the **Code**). The statements set forth in the following discussion, to the extent they constitute matters of United States federal income tax law or legal conclusions with respect thereto, represent the opinion of Sidley Austin LLP, special United States income tax counsel to us. This discussion does not address all of the tax considerations that may be relevant to prospective purchasers in light of their particular circumstances or to persons subject to special rules under United States federal tax laws, such as certain financial institutions, insurance companies, real estate investment trusts, dealers in securities, tax-exempt entities, non-U.S. persons, persons who hold the notes as part of a straddle, hedging, conversion or other integrated transaction, persons who mark their securities to market for United States federal income tax purposes or U.S. persons whose functional currency (as defined in section 985 of the Code) is not the U.S. dollar. In addition, this discussion does not address the effect of any state, local or foreign tax laws or the effect of the U.S. federal alternative minimum tax. Accordingly, prospective purchasers are advised to consult their own tax advisors with respect to their individual circumstances.

This discussion is based on the Code, the Treasury Regulations promulgated thereunder and administrative and judicial pronouncements, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. Except where indicated, this discussion does not describe the tax consequences of holding a note that is treated as a variable rate debt instrument or a contingent payment debt instrument under applicable Treasury Regulations, and a general summary of any materially different federal income tax considerations relating to any such note will be included in the relevant pricing supplement.

For purposes of the following discussion, the term **Holder** means a beneficial owner of a note who or which is, for United States federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States or of any political subdivision thereof or (iii) an estate or trust treated as a United States person under section 7701(a)(30) of the Code. This discussion does not address the tax considerations that may be relevant to a person who or which is not a Holder.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership, and special rules, not discussed in this prospectus supplement or the accompanying prospectus, may apply to such partners and partnerships. Such persons should consult their own tax advisors in that regard.

**Classification of the Notes and the Trust**

We intend to take the position, for United States federal income tax purposes, that each trust will be disregarded and that the notes will be treated as representing our indebtedness (the **Intended Tax Characterization**). Each Holder of a note (or any beneficial interest therein), by acceptance of the note (or beneficial interest), agrees to treat the trust with

respect to which the note was issued and the note consistently with the Intended Tax Characterization.

Notwithstanding the Intended Tax Characterization, it is possible that a trust could be viewed as a separate entity for United States federal income tax purposes. Sidley Austin LLP is of the opinion

S-37

---

**Table of Contents**

that, under current law and assuming full compliance with the terms of the trust agreement and the indenture (and certain other documents), and based on certain facts and assumptions contained in such opinion, each trust will not be classified as an association (or publicly traded partnership) taxable as a corporation for United States federal income tax purposes. Accordingly, whether the Intended Tax Characterization is respected or not, each trust will not be treated as a taxable entity for United States federal income tax purposes. If a trust is viewed as a separate entity rather than disregarded, each Holder of a note (or any beneficial interest therein) agrees to treat the trust as a grantor trust and the notes as undivided ownership interests in such trust. If this were the case, a Holder would be required to include in income, consistent with its method of accounting, its pro rata share of any amounts paid to the relevant trust to satisfy expenses and would be entitled to deduct, consistent with its method of accounting, its pro rata share of any such expenses as provided in sections 162 and 212 of the Code. If the Holder is an individual, trust or estate, or to the extent the Holder's income is reportable on the income tax return of an individual, trust or estate, the deduction for such person's share of such expenses will be allowed only to the extent that all of such person's miscellaneous itemized deductions, including such person's share of the relevant trust's expenses, exceed two percent of such person's adjusted gross income. In addition, an individual's itemized deductions may be subject to other limitations. Accordingly, Holders who are individuals, or whose income is reported in whole or in part on the income tax return of a United States citizen or resident, should consult their tax advisors with respect to such deductions.

The remainder of this summary assumes that the Intended Tax Characterization is correct.

**Interest and Original Issue Discount**

Each Holder will include in income payments of qualified stated interest (as described below) in respect of such note, in accordance with such Holder's method of accounting for United States federal income tax purposes, as ordinary interest income. In general, if the issue price of a note, determined by the first price at which a substantial amount of the notes of the related series are sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers), is less than the stated redemption price at maturity (as described below) of such note by an amount equal to or more than a *de minimis* amount, a Holder will be considered to have purchased such note with original issue discount (OID). In general, the *de minimis* amount is equal to 1/4 of one percent of the stated redemption price at maturity multiplied by the number of complete years to maturity from the issue date of such note. If a Holder acquires a note with OID, then regardless of such Holder's method of accounting, such Holder will be required to accrue its pro rata share of OID on such note on a constant-yield basis and include such accruals in gross income, whether or not such Holder has received any cash payment on the notes. Any amount not treated as OID because it is less than the *de minimis* amount generally must be included in income (generally as gain from the sale of notes) as principal payments are received in the proportion that each such payment bears to the original principal amount of the note. Special rules apply to notes with a fixed maturity of one year or less. See Short Term Notes.

Stated redemption price at maturity means the sum of all payments to be made on a note other than payments of qualified stated interest. Qualified stated interest generally means stated interest that is unconditionally payable at least annually at a single fixed rate or, in the case of a variable rate debt instrument (as defined below), at a single qualified floating rate or single objective rate (as such terms are defined below).

In the case of a variable rate debt instrument with interest payable at a single qualified floating rate or a single objective rate, the amount of qualified stated interest and the amount of OID, if any, that accrues during an accrual period is generally determined assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate (each as defined below), the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate or (ii) in the case of an objective rate (as defined below, and other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the debt instrument, and the qualified stated interest (or, if there is no qualified stated interest, OID) allocable to an accrual period is

increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period pursuant to clause (i) or (ii), as

S-38

---

**Table of Contents**

applicable. Special rules apply to a variable rate debt instrument that provides for stated interest at a fixed rate under certain circumstances. If a note is a variable rate debt instrument but interest is payable at other than a single qualified floating rate or a single objective rate, special rules apply that are not discussed in this prospectus supplement or the accompanying prospectus.

A **variable rate debt instrument** is a debt instrument that (i) has an issue price that does not exceed the total noncontingent principal payments by more than an amount equal to the lesser of (a) 0.015 multiplied by the product of such total noncontingent principal payments and the number of complete years to maturity of the instrument (or, in the case of a note providing for the payment of any amount other than qualified stated interest prior to maturity, multiplied by the weighted average maturity of the note) or (b) 15 percent of the total noncontingent principal payments, (ii) provides for stated interest (compounded or paid at least annually) at (A) one or more qualified floating rates, (B) a single fixed rate and one or more qualified floating rates, (C) a single objective rate or (D) a single fixed rate and a single objective rate that is a qualified inverse floating rate, (iii) except as provided in (i), does not provide for any principal payments that are contingent, and (iv) provides that a qualified floating rate or objective rate in effect at any time during the term of the instrument is set at the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A **qualified floating rate** is generally a floating rate under which variations in the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the debt instrument is denominated. A multiple of a qualified floating rate is not a qualified floating rate unless the relevant multiplier is (i) fixed at a number that is greater than 0.65 but not more than 1.35 or (ii) fixed at a number that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate. A variable rate is not considered a qualified floating rate if the variable rate is subject to a cap, floor, governor (i.e., a restriction on the amount of increase or decrease in the stated interest rate) or similar restriction that is reasonably expected as of the issue date to cause the yield on the note to be significantly more or less than the expected yield determined without the restriction (other than a cap, floor, governor or similar restriction that is fixed throughout the term of the note).

An **objective rate** is a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on objective financial or economic information, *provided, however*, that an objective rate will not include a rate based on information that is within the control of the issuer (or certain related parties of the issuer) or that is unique to the circumstances of the issuer (or certain related parties of the issuer), such as dividends, profits or the value of the issuer's stock. A **qualified inverse floating rate** is an objective rate (x) that is equal to a fixed rate minus a qualified floating rate and (y) the variations in which can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate (disregarding any caps, floors, governors or similar restrictions that would not, as described above, cause a rate to fail to be a qualified floating rate). Notwithstanding the first sentence of this paragraph, a rate is not an objective rate if it is reasonably expected that the average value of the rate during the first half of the note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the note's term. The Internal Revenue Service ( IRS ) may designate rates other than those specified above that will be treated as objective rates. As of the date of this prospectus supplement, no other rates have been designated.

If interest on a note is stated at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period, and the value of the variable rate on the issue date is intended to approximate the fixed rate, the fixed rate and the variable rate together constitute a single qualified floating rate or objective rate. A fixed rate and a variable rate will be conclusively presumed to meet the requirements of the preceding sentence if the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 0.25 percentage points (25 basis points).

If a floating rate note does not qualify as a variable rate debt instrument or otherwise provides for contingent payments, or if a fixed rate note provides for contingent payments, such note may constitute a contingent payment debt instrument.

## **Table of Contents**

A note that is a contingent payment debt instrument is generally taxable as follows:

First, we are required to determine, as of the issue date, the comparable yield for the note. The comparable yield is generally the yield at which we would issue a fixed rate debt instrument with terms and conditions similar to those of the note (including the level of subordination, term, timing of payments and general market conditions, but not taking into consideration the riskiness of the contingencies or the liquidity of the note), but not less than the applicable federal rate based on the overall maturity of the note (the AFR). In certain cases where a contingent payment debt instrument is marketed or sold in substantial part to tax-exempt investors or other investors for whom the prescribed inclusion of interest is not expected to have a substantial effect on their U.S. federal tax liability, the comparable yield for the note, without proper evidence to the contrary, is presumed to be the AFR.

Second, we are required to construct a projected schedule of payments (the Schedule). The Schedule is determined as of the issue date and generally remains in place throughout the term of the note. The Schedule includes each noncontingent payment and a projected payment for each contingent payment. The Schedule must produce the comparable yield determined as set forth above.

Third, each Holder will be required to treat all interest on the notes as OID and accrue such interest on a constant yield basis under the usual rules applicable to OID based on the comparable yield of the notes.

Fourth, appropriate adjustments are made to the OID determined under the foregoing rules to account for any differences between actual contingent payments and the projected payments on the Schedule.

Differences between the actual contingent payments made to a Holder in such Holder's taxable year and the projected payments for such taxable year are generally aggregated and taken into account, in the case of a positive difference, as additional interest income, or, in the case of a negative difference, first as a reduction in OID for such year and thereafter, subject to certain limitations, as ordinary loss, or, in certain cases, as a reduction in the amount realized by the Holder on the sale, exchange or retirement of the contingent payment debt instrument. We are required to provide to each holder of notes a copy of the Schedule. Our determination of the Schedule must be used by a Holder unless the Schedule is unreasonable and such Holder discloses to the IRS that it is using a different schedule. In general, any gain realized by a Holder on the sale, exchange, retirement or other disposition of a note that is a contingent payment debt instrument prior to the time no contingent payments remain is treated as interest income. In general, any loss on such a note is treated as ordinary loss to the extent it does not exceed such Holder's prior interest inclusions on the note (net of negative adjustments). The above described treatment of contingent payment debt instruments assumes that the instrument is properly treated as debt for U.S. federal tax purposes.

## **Premiums**

If the amount paid by a Holder for a note exceeds the stated redemption price at maturity of the note, the Holder generally will be considered to have purchased the note at a premium equal in amount to such excess. In this event, the Holder may elect to amortize such premium, generally on a constant-yield basis, as an offset to interest income. In the case of a note that may be redeemed prior to maturity, the premium is calculated assuming the trust and the Holder will exercise or not exercise redemption rights in a manner that maximizes the Holder's yield. It is unclear how premium is calculated when the redemption date or the amount of any redemption premium is uncertain. The election to amortize bond premium, once made, will apply to all debt obligations held or subsequently acquired by the electing Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

## **Short-Term Notes**

Notes that have a fixed maturity of one year or less ( Short-Term Notes ) will be treated as issued with OID. In general, an individual or other Holder that uses the cash method of accounting is not required to accrue such OID unless the Holder elects to do so. If such an election is not made, any gain recognized by such Holder on the sale, exchange, retirement or other disposition of Short-Term Notes will be ordinary income to the extent of the OID accrued on a straight-line basis, or upon election under the constant yield method (based on

## **Table of Contents**

daily compounding), through the date of sale, exchange, retirement or other disposition, and a portion of the deduction otherwise allowable to such Holder for interest on borrowings allocable to Short-Term Notes will be deferred until a corresponding amount of income is realized. Holders who report income for United States federal income tax purposes under the accrual method of accounting and certain other Holders are required to accrue OID related to a Short-Term Note as ordinary income on a straight-line basis unless an election is made to accrue the OID under a constant yield method (based on daily compounding). A Holder of a Short-Term Note may elect to apply the foregoing rules (except for the rule characterizing gain on sale, exchange or retirement as ordinary) with respect to acquisition discount rather than OID. Acquisition discount is the excess of the stated redemption price at maturity of the Short-Term Note over the Holder's basis in the Short-Term Note. This election applies to all obligations acquired by the Holder on or after the first day of the first taxable year to which such election applies, unless revoked with the consent of the IRS. A Holder's tax basis in a Short-Term Note is increased by the amount included in such Holder's income on such a Note.

## **Sale, Exchange, Retirement or Other Disposition of Notes**

In general, a Holder will have a tax basis in the note equal to the cost of the note to the Holder, increased by any amount includible in income by the Holder as OID and reduced (but not below zero) by any amortized premium and any payments other than qualified stated interest. Subject to the rules described above with respect to contingent payment debt instruments and above under Short-Term Notes, upon a sale, exchange, retirement or other disposition (including upon exercise of a survivor's option) of a note, a Holder will generally recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other disposition (less any amount realized that is attributable to accrued but unpaid interest, which will constitute ordinary income if not previously included in income) and the Holder's tax basis in such note. Any such gain or loss will be long-term capital gain or loss if the Holder held the note for more than one year at the time of disposition. A Holder that is an individual is entitled to preferential treatment for net long-term capital gains. The ability of a Holder to offset capital losses against ordinary income is limited.

## **Backup Withholding and Information Reporting**

Backup withholding and information reporting requirements generally apply to interest (including OID) and principal payments made to, and to the proceeds of sales by, certain non-corporate Holders. A Holder not otherwise exempt from backup withholding generally can avoid backup withholding by providing a properly-executed e IRS Form W-9 (or successor form). Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against the beneficial owner's United States federal income tax liability provided the required information is furnished to the IRS.

## **Opinion Regarding Tax Matters**

Prior to the issuance of any notes, we will file with a Current Report on Form 8-K an unqualified opinion of legal counsel regarding the tax treatment of such notes.

## **PLAN OF DISTRIBUTION**

This prospectus supplement relates to the offering of notes by separate trusts from time to time for sale to or through Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Purchasing Agent, pursuant to a distribution agreement (the Distribution Agreement) among the applicable trust, us, PFG and the agents named therein. The trusts may not sell notes offered under this Principal® Life CoreNotes® program to or through any brokers or dealers other than the Purchasing Agent. Under the terms of the Distribution Agreement, one or more separate trusts may also sell notes to or through agents primarily to institutional investors under our secured medium-term notes program or retail investors

under our secured medium-term notes retail program. The Purchasing Agent may purchase notes, as principal, from the applicable trust for resale to investors at a fixed offering price or at varying prices relating to prevailing market prices at the time of resale as determined by the Purchasing Agent. The applicable trust may agree with the Purchasing Agent that the Purchasing Agent will

S-41

---

**Table of Contents**

utilize its reasonable efforts on an agency basis on its behalf to solicit offers to purchase notes at 100% of the principal amount thereof, unless otherwise specified in the applicable pricing supplement. In all such cases, a single trust may only issue notes of a single series on the initial date of sale of such notes. No additional notes may thereafter be issued by that trust. Unless otherwise specified in the applicable pricing supplement, the applicable trust will pay a commission to the Purchasing Agent, ranging from .125% to 2.00% of the principal amount of each note, depending upon its stated maturity, sold through the Purchasing Agent as its agent. The applicable trust may negotiate commissions with respect to notes with stated maturities in excess of 20 years that are sold through the Purchasing Agent as the trust's agent at the time of the related sale. The notes may be sold in the United States to retail, institutional and other investors.

Subject to the terms of the Distribution Agreement, concurrently with any offering of notes as described in this prospectus supplement by the applicable trust, a separate trust may issue other notes under our secured medium-term notes program primarily to institutional investors, our secured medium-term notes retail program primarily to retail investors or the accompanying prospectus or this prospectus supplement.

Unless otherwise specified in the applicable pricing supplement, any note sold to the Purchasing Agent as principal will be purchased by the Purchasing Agent at a price equal to 100% of the principal amount thereof less a percentage of the principal amount equal to the commission applicable to an agency sale of a note of identical maturity. The Purchasing Agent may sell notes it has purchased from the applicable trust as principal to other National Association of Securities Dealers, Inc. dealers in good standing at a concession. Unless otherwise specified in the applicable pricing supplement, the concession allowed to any dealer will not, during the distribution of the notes, be in excess of the concession the Purchasing Agent will receive from the applicable trust. After the initial offering of notes, the offering price (in the case of notes to be sold on a fixed offering price basis), the concession and any reallowance may be changed.

The applicable trust reserves the right to withdraw, cancel or modify the offer made hereby without notice and may reject offers in whole or in part. The Purchasing Agent will have the right, in its discretion reasonably exercised, to reject in whole or in part any offer to purchase notes received by it on an agency basis.

Unless otherwise specified in the applicable pricing supplement, you will be required to pay the purchase price of your notes in immediately available funds in United States dollars in The City of New York on the date of settlement.

Upon issuance, the notes will not have an established trading market. The notes may not be listed on any securities exchange. The Purchasing Agent may from time to time purchase and sell notes in the secondary market, but the Purchasing Agent is not obligated to do so. There can be no assurance that a secondary market for the notes will develop or that there will be liquidity in the secondary market if one develops. From time to time, the Purchasing Agent may make a market in the notes, but the Purchasing Agent is not obligated to do so and may discontinue any market-making activity at any time.

In connection with an offering of notes purchased by the Purchasing Agent as principal on a fixed offering price basis, the Purchasing Agent will be permitted to engage in certain transactions that stabilize the price of notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of notes. If the Purchasing Agent creates a short position in notes (i.e., if they sell notes in an amount exceeding the amount referred to in the applicable pricing supplement), they may reduce that short position by purchasing notes in the open market. In general, purchases of notes for the purpose of stabilization or to reduce a short position could cause the price of notes to be higher than it might be in the absence of these type of purchases.

None of us, PFG, any trust or the Purchasing Agent makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price

of notes. In addition, none of us, PFG, any trust or the Purchasing Agent makes any representation that the Purchasing Agent will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Purchasing Agent is an underwriter within the meaning of the Securities Act of 1933, as amended, with respect to the notes being distributed,

**Table of Contents**

the funding agreement purchased by the trust and the guarantee issued to the trust. We and PFG have agreed, jointly and severally, to indemnify the Purchasing Agent against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the Purchasing Agent may be required to make in respect thereof.

We are a statutory issuer of the notes under the Securities Act of 1933, as amended. In addition, under the Securities Act of 1933, as amended, each trust is a statutory underwriter of the related funding agreement and guarantee.

In the ordinary course of business, the Purchasing Agent and its affiliates have engaged, and may in the future engage, in investment and commercial banking transactions with us and certain of our affiliates.

Broker-dealers and securities firms have executed dealer agreements with the Purchasing Agent and have agreed to market and sell the notes in accordance with the terms of those agreements and applicable laws and regulations.

**Table of Contents**

**ANNEX A**

**REPAYMENT ELECTION FORM**

**Principal Life Insurance Company  
Principal<sup>®</sup> Life CoreNotes<sup>®</sup>  
Cusip Number**

To: [Name of Trust] (the TRUST )

The undersigned financial institution (the FINANCIAL INSTITUTION ) represents the following:

The Financial Institution has received a request for repayment from the executor or other authorized representative (the AUTHORIZED REPRESENTATIVE ) of the deceased beneficial owner listed below (the DECEASED BENEFICIAL OWNER ) of Principal Life CoreNotes<sup>®</sup> (CUSIP No. ) (the NOTES ).

At the time of his or her death, the Deceased Beneficial Owner owned Notes in the principal amount listed below.

The Deceased Beneficial Owner acquired the Notes either within ninety (90) days of their issuance or at least six (6) months before the date of death of such Deceased Beneficial Owner.

The Financial Institution currently holds such notes as a direct or indirect participant in The Depository Trust Company (the DEPOSITARY ).

The Financial Institution agrees to the following terms:

The Financial Institution shall follow the instructions (the INSTRUCTIONS ) accompanying this Repayment Election Form (this FORM ).

The Financial Institution shall make all records specified in the Instructions supporting the above representations available to U.S. Bank Trust National Association (the TRUSTEE ) or the [Name of Trust] (the TRUST ) for inspection and review within five business days of the Trustee's or the Trust's request.

If the Financial Institution, the Trustee or the Trust, in any such party's reasonable discretion, deems any of the records specified in the Instructions supporting the above representations unsatisfactory to substantiate a claim for repayment, the Financial Institution shall not be obligated to submit this Form, and the Trustee or Trust may deny repayment. If the Financial Institution cannot substantiate a claim for repayment, it shall notify the Trustee immediately.

Repayment elections may not be withdrawn.

The Financial Institution agrees to indemnify and hold harmless the Trustee and the Trust against and from any and all claims, liabilities, costs, losses, expenses, suits and damages resulting from the Financial Institution's above representations and request for repayment on behalf of the Authorized Representative.

The Notes will be repaid on the first Interest Payment Date to occur at least 20 calendar days after the date of acceptance of the notes for repayment, unless such date is not a business day, in which case the date of repayment shall be the next succeeding business day.

Subject to the Trust's rights to limit the aggregate principal amount of Notes as to which exercises of the survivor's option shall be accepted in any one calendar year, all questions as to the eligibility or validity of any exercise of the survivor's option will be determined by the Trustee, in its sole discretion, which determination shall be final and binding on all parties.

A-1

---

**Table of Contents**

**REPAYMENT ELECTION FORM**

- (1) **Name of Deceased Beneficial Owner**
- (2) **Date of Death**
- (3) **Name of Authorized Representative Requesting Repayment**
- (4) **Name of Financial Institution Requesting Repayment**
- (5) **Signature of Authorized Representative of Financial Institution Requesting Repayment**
- (6) **Principal Amount of Requested Repayment**
- (7) **Date of Election**
- |  |  |
|--|--|
| (8) Financial Institution Representative Name:<br>Phone Number:<br>Fax Number:<br>Mailing Address (no P.O. Boxes): | (9) Wire instructions for payment:<br>Bank Name:<br>ABA Number:<br>Account Name:<br>Account Number:<br>Reference (optional): |
|--|--|

**TO BE COMPLETED BY THE TRUSTEE:**

- (A) **Election Number\*:**
- (B) **Delivery and Payment Date:**
- (C) **Principal Amount:**
- (D) **Accrued Interest:**
- (E) **Date of Receipt of Form by the Trustee:**
- (F) **Date of Acknowledgment by the Trustee:**

\* To be assigned by the Trustee upon receipt of this Form. An acknowledgement, in the form of a copy of this document with the assigned Election Number, will be returned to the party and location designated in item (8) above.

**Table of Contents**

**INSTRUCTIONS FOR COMPLETING REPAYMENT ELECTION FORM AND EXERCISING REPAYMENT OPTION**

Capitalized terms used and not defined herein have the meanings defined in the accompanying Repayment Election Form.

1. Collect and retain for a period of at least three years (1) satisfactory evidence of the authority of the Authorized Representative, (2) satisfactory evidence of death of the Deceased Beneficial Owner, (3) satisfactory evidence that the Deceased Beneficial Owner beneficially owned, at the time of his or her death, the notes being submitted for repayment, (4) satisfactory evidence that the notes being submitted for repayment either were purchased by the Deceased Beneficial Owner within ninety (90) days of their issuance or were acquired by the Deceased Beneficial Owner at least six (6) months before the date of the death of such Deceased Beneficial Owner and (5) any necessary tax waivers. For purposes of determining whether the notes will be deemed beneficially owned by an individual at any given time, the following rules shall apply:

If a note (or a portion thereof) is beneficially owned by tenants by the entirety or joint tenants, the note (or relevant portion thereof) will be regarded as beneficially owned by a single owner. Accordingly, the death of a tenant by the entirety or joint tenant will be deemed the death of the beneficial owner and the entire principal amount so owned will become eligible for repayment.

The death of a person beneficially owning a note (or a portion thereof) by tenancy in common will be deemed the death of the beneficial owner only with respect to the deceased owner's interest in the note (or relevant portion thereof) so owned, unless a husband and wife are the tenants in common, in which case the death of either will be deemed the death of the beneficial owner and the entire principal amount so owned will be eligible for repayment.

A note (or a portion thereof) beneficially owned by a trust will be regarded as beneficially owned by each beneficiary of the trust to the extent of that beneficiary's interest in the trust (however, a trust's beneficiaries collectively cannot be beneficial owners of more notes than are owned by the trust). The death of a beneficiary of a trust will be deemed the death of the beneficial owner of the notes (or relevant portion thereof) beneficially owned by the trust to the extent of that beneficiary's interest in the trust. The death of an individual who was a tenant by the entirety or joint tenant in a tenancy which is the beneficiary of a trust will be deemed the death of the beneficiary of the trust. The death of an individual who was a tenant in common in a tenancy which is the beneficiary of a trust will be deemed the death of the beneficiary of the trust only with respect to the deceased holder's beneficial interest in the note, unless a husband and wife are the tenants in common, in which case the death of either will be deemed the death of the beneficiary of the trust.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interest in a note (or a portion thereof) will be deemed the death of the beneficial owner of that note (or relevant portion thereof), regardless of the registration of ownership, if such beneficial interest can be established to the satisfaction of the Trustee. Such beneficial interest will exist in many cases of street name or nominee ownership, custodial arrangements, ownership by a trustee, ownership under the Uniform Transfers of Gifts to Minors Act and community property or other joint ownership arrangements between spouses. Beneficial interest will be evidenced by such factors as the power to sell or otherwise dispose of a note, the right to receive the proceeds of sale or disposition and the right to receive interest and principal payments on a note.

2. Indicate the name of the Deceased Beneficial Owner on line (1).

3. Indicate the date of death of the Deceased Beneficial Owner on line (2).
4. Indicate the name of the Authorized Representative requesting repayment on line (3).
5. Indicate the name of the Financial Institution requesting repayment on line (4).

A-3

---

**Table of Contents**

6. Affix the authorized signature of the Financial Institution's representative on line (5). THE SIGNATURE MUST BE MEDALLION SIGNATURE GUARANTEED.

7. Indicate the principal amount of notes to be repaid on line (6).

8. Indicate the date this Form was completed on line (7).

9. Indicate the name, mailing address (no P.O. boxes, please), telephone number and facsimile-transmission number of the party to whom the acknowledgment of this election may be sent in item (8).

10. Indicate the wire instruction for payment on line (9).

11. Leave lines (A), (B), (C), (D), (E) and (F) blank.

12. Mail or otherwise deliver an original copy of the completed Form to:

Citibank, N.A.  
Citibank Agency & Trust  
388 Greenwich Street, 14th Floor  
New York, New York 10013

13. FACSIMILE TRANSMISSIONS OF THE REPAYMENT ELECTION FORM WILL NOT BE ACCEPTED.

14. If the acknowledgement of the Trustee's receipt of this Form, including the assigned Election Number, is not received within ten days of the date such information is sent to Citibank, N.A., contact the Trustee at 100 Wall Street, 16th Floor, New York, New York 10005, attention: Corporate Trust Administration, telephone number: (212) 361-6184.

15. For assistance with this Form or any questions relating thereto, please contact U.S. Bank Trust National Association at 100 Wall Street, 16th Floor, New York, New York 10005, attention: Corporate Trust Administration, telephone number: (212) 361-6184.

**Table of Contents**

**\$4,000,000,000**

**Principal® Life CoreNotes® (That are also Asset-Backed Securities)  
Due Between Nine Months and Thirty Years  
From the Date of Issue  
Issued Through and Obligations of  
Principal Life Income Fundings Trusts  
Secured by Funding Agreements  
Issued by  
Principal Life Insurance Company  
and  
Guarantees Issued by  
Principal Financial Group, Inc.**

**==**

**PROSPECTUS SUPPLEMENT**

**Merrill Lynch & Co.**

**, 2007**

Principal® is a registered service mark of Principal Financial Services, Inc. and is used under license.  
CoreNotes® is a registered service mark of Merrill Lynch & Co., Inc.

---

**Table of Contents**

The information in this prospectus supplement is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**PROSPECTUS SUPPLEMENT**

(To prospectus dated \_\_\_\_\_, 2007)

**\$4,000,000,000**

PRINCIPAL FINANCIAL GROUP LOGO

**Secured Medium-Term Retail Notes (That are also Asset-Backed Securities)  
Due Between Nine Months and Thirty Years From the Date of Issue  
Issued Through and Obligations of  
Principal Life Income Fundings Trusts  
Secured by Funding Agreements Issued by  
Principal Life Insurance Company and  
Guarantees Issued by Principal Financial Group, Inc.**

**Principal Life:** We are Principal Life Insurance Company, an Iowa insurance company, the sponsor of the program and the depositor and issuer of the funding agreements described below. This prospectus supplement relates to the offering, from time to time, through newly established separate and distinct issuing entities in the form of the trusts described below, of one or more series of secured medium-term notes (that are also asset-backed securities), which we refer to in this prospectus supplement as notes, in an aggregate principal amount of up to \$4,000,000,000, less any principal amount of notes previously issued under this program pursuant to this prospectus supplement, our secured medium-term notes program issued primarily to institutional investors pursuant to a separate prospectus supplement dated the date hereof, our Principal<sup>®</sup> Life CoreNotes<sup>®</sup> program issued primarily to retail investors pursuant to a separate prospectus supplement dated the date hereof or otherwise under the accompanying prospectus.

**Issuing Entities:** The applicable trust will use the net proceeds from the offering of its series of notes to purchase a funding agreement sold to, and deposited into, the applicable trust, by us. Our payment obligations under the funding agreement relating to the applicable series of notes will be fully and unconditionally guaranteed by a guarantee issued by Principal Financial Group, Inc., a Delaware corporation and our indirect parent ( PFG ).

The notes are obligations of the applicable issuing entity. The notes are secured medium-term notes that are also asset-backed securities.

Each trust exists for the exclusive purpose of issuing and selling one series of notes to investors, using the net proceeds from the sale of that series of notes to acquire a funding agreement from us, collaterally assigning and granting a security interest in the applicable funding agreement, and collaterally assigning and granting a security interest in the applicable guarantee, in favor of the indenture trustee, and engaging in other activities necessary or incidental thereto.

You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest in the notes.

**The notes:** The specific terms and conditions of each series of notes will be as set forth in a separate pricing supplement. The notes of each series will:

- be issued by a separate and distinct trust and will be the obligations of that issuing entity;
- provide for payment in U.S. dollars;
- rank as secured indebtedness of the trust secured primarily by a funding agreement issued by us;
- be issued in only one class;
- unless otherwise specified in the applicable pricing supplement, not be listed on any securities exchange;
- unless otherwise specified in the applicable pricing supplement, have a minimum denomination of \$1,000 and integral multiples in excess thereof;
- be in book-entry form;
- represent non-recourse obligations of the trust and be paid only from the assets of that trust;
- represent the trust's obligations only and will not represent obligations of, represent interests in, or be guaranteed by, us, PFG or any of our or its affiliates;
- bear interest at fixed or floating rates, or bear no interest at all;
- pay interest on each series of notes on a monthly, quarterly, semi-annual or annual basis (unless otherwise specified in the applicable pricing supplement);
- have a stated maturity of between 9 months and 30 years from the date of issue;
- have redemption and/or repayment provisions, if applicable, whether mandatory or at the option of the trust or the holders of notes; and
- be sold in the United States to retail investors.

Holders of a series of notes may look only to the trust's rights and title in the funding agreement issued to, and deposited into, the applicable trust by us, the related guarantee issued by PFG and any proceeds of that funding agreement and guarantee held in the trust and not to any other assets or collateral held by any other trust, us or PFG.

**Investing in the notes involves risks that are described in the Risk Factors section beginning on page 2 of the accompanying prospectus.**

**None of the Securities and Exchange Commission (the SEC), any state securities commission or any state insurance commission has approved or disapproved of these securities or determined if this prospectus supplement, the accompanying prospectus or any pricing supplement is truthful or complete. Any representation to the contrary is a criminal offense.**

The trusts may sell notes to the agents specified in the applicable pricing supplement (each an Agent ) as principal for resale at a fixed offering price specified in the applicable pricing supplement or at varying prices. The trusts may also explicitly agree with the Agents that they will use their reasonable efforts as Agents on the trust s behalf to solicit offers to purchase notes from such trusts.

The date of this prospectus supplement is \_\_\_\_\_, 2007.

---

## TABLE OF CONTENTS

	<b>Page</b>
<b>PROSPECTUS SUPPLEMENT</b>	
<u>ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS</u>	S-1
<u>SUMMARY</u>	S-3
<u>DESCRIPTION OF THE NOTES</u>	S-14
<u>DESCRIPTION OF THE FUNDING AGREEMENTS</u>	S-36
<u>MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS</u>	S-37
<u>PLAN OF DISTRIBUTION</u>	S-41
<b>PROSPECTUS</b>	
<u>ABOUT THIS PROSPECTUS</u>	1
<u>RISK FACTORS</u>	2
<u>FORWARD LOOKING INFORMATION</u>	11
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	11
<u>INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE</u>	12
<u>USE OF PROCEEDS</u>	13
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	13
<u>PRINCIPAL LIFE INSURANCE COMPANY AND PRINCIPAL FINANCIAL GROUP, INC.</u>	14
<u>DESCRIPTION OF THE TRUSTS</u>	15
<u>DESCRIPTION OF THE NOTES</u>	19
<u>DESCRIPTION OF THE FUNDING AGREEMENTS</u>	31
<u>DESCRIPTION OF THE GUARANTEES</u>	36
<u>FEES AND EXPENSES</u>	37
<u>ERISA CONSIDERATIONS</u>	38
<u>PLAN OF DISTRIBUTION</u>	40
<u>LEGAL MATTERS</u>	41
<u>EXPERTS</u>	42

### ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS

This document is a prospectus supplement and supplements a prospectus which is part of the registration statement that we and PFG have filed with the SEC. This prospectus supplement provides you with a general description of the notes being offered, through newly established separate and distinct trusts and the underlying funding agreements and guarantees, and supplements the description of the notes, the underlying funding agreements and guarantees contained in the accompanying prospectus. These notes may be offered from time to time, through trusts, in one or more series of notes with a total initial public offering price or purchase price of up to \$4,000,000,000, less any principal amount of notes previously issued under this program pursuant to this prospectus supplement, our secured medium-term notes program issued primarily to institutional investors pursuant to a separate prospectus supplement dated the date hereof, our Principal® Life CoreNotes® program issued primarily to retail investors pursuant to a separate prospectus supplement dated the date hereof or otherwise under the accompanying prospectus.

The specific terms and conditions of notes being offered and the related funding agreement and guarantee will be contained in a pricing supplement. A copy of that pricing supplement will be provided to you along with a copy of this prospectus supplement and the accompanying prospectus. That pricing supplement also may add, update, supplement

or clarify information in this prospectus supplement and the accompanying prospectus. You should carefully review such additional, updated, supplemental or clarifying information contained in the pricing supplement. You should read this prospectus supplement and the accompanying prospectus and the

S-1

---

**Table of Contents**

pricing supplement together with the additional information that is incorporated by reference in this prospectus supplement and the accompanying prospectus. That additional information is described under the heading Incorporation of Certain Documents by Reference beginning on page 11 of the accompanying prospectus.

You should rely only on the information incorporated by reference or provided in this prospectus supplement, the accompanying prospectus and the applicable pricing supplement. None of us, PFG, any trust or any Agent has authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. None of us, PFG, any trust or any Agent is making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and the applicable pricing supplement, as well as information PFG previously filed with the SEC and incorporated by reference, is accurate only as of its respective date. The business, financial condition, results of operations and prospects of us and PFG may have changed since that date.

In this prospectus supplement, references to Principal Life, we, us and our are to Principal Life Insurance Company, an Iowa life insurance company, references to PFG are to Principal Financial Group, Inc., a Delaware corporation and our indirect parent company, and references to trust are to the applicable newly established separate and distinct special purpose common law trust, formed in a jurisdiction located in the United States of America specified in the applicable pricing supplement, which actually issues the applicable series of notes. In this prospectus supplement, we refer to each series of secured medium-term notes as a series of notes and to secured medium-term notes in general as notes.

In this prospectus supplement, references to United States dollars, U.S. dollars or \$ are to lawful currency of the United States of America.

**Table of Contents****SUMMARY**

*This section summarizes the material legal and financial terms of the notes and the underlying funding agreements and guarantees that are described in more detail in Description of the Notes beginning on page S-13 of this prospectus supplement, Description of the Funding Agreements beginning on page S-35 of this prospectus supplement, and Description of the Guarantees beginning on page 36 of the accompanying prospectus. Final terms of any particular series of notes are set at the time of sale and will be contained in a pricing supplement relating to that series of notes and the related funding agreement and guarantee. That pricing supplement may add to, update, supplement or clarify the terms contained in this summary. In addition, you should read the more detailed information appearing elsewhere in the accompanying prospectus, this prospectus supplement and the applicable pricing supplement.*

**The Trusts**

Each series of notes will be issued by a newly established and separately created common law trust. Each trust will be established by GSS Holdings II, Inc., as trust beneficial owner, and U.S. Bank Trust National Association, as trustee, pursuant to a trust agreement (each, a trust agreement). The assets and liabilities of each trust are separate and distinct from the assets and liabilities of every other trust, us and PFG.

**The Sponsor and the Depositor**

We are the sponsor of the program and the registrant as the depositor and issuer of the funding agreements under the program.

**The Guarantor**

PFG is a registrant as the issuer of the guarantees that will fully and unconditionally guarantee our payment obligations under the funding agreements.

**Purpose of Trusts**

The sole purpose of each trust is to facilitate a program for the issuance of notes to the public. Each trust may only issue one series of notes and such notes will be issued only on the original issue date for such notes. Each series of notes will be secured by only one funding agreement purchased from us by the applicable trust, the principal amount of which may not be increased. Our payment obligations under each funding agreement will be fully and unconditionally guaranteed by PFG. The trust will use the net proceeds received from issuing a series of notes to acquire a funding agreement, for, and to be held in, the trust. The trust will hold the collateral described below pertaining to the applicable series of notes to fund its obligations under that series of notes. Notes issued by the trust will be the direct obligations of the trust and will not be the obligation of any other trust, us or PFG. Holders of notes of a particular series may only look to the funding agreement issued by us, the related guarantee issued by PFG and any proceeds of such funding agreement and guarantee held in the related trust for payment on their notes and not to the assets held in any other trust or by us or PFG.

We and PFG are not affiliated with any trust. Neither we, PFG nor any of our officers, directors, subsidiaries or affiliates owns any beneficial interest in any trust nor has any of these persons or entities entered into any agreement with any trust other than in furtherance of the issuance of notes from

S-3

---

**Table of Contents**

time to time as contemplated by this prospectus supplement and the accompanying prospectus.

Neither we, PFG nor any of our officers, directors, subsidiaries or affiliates is affiliated with the trustee, the trust beneficial owner or the indenture trustee relating to the notes.

Below is a diagram showing the parties involved in the issuance of notes by each trust.

**We Can Issue Medium-Term Notes and Funding Agreements Directly to Investors**

We are able to issue our own medium-term notes directly to investors and do issue funding agreements directly to investors. However, by securing each trust's notes with a funding agreement, such trust's notes are secured by an asset that would have a higher priority in insolvency than our unsecured medium-term notes, if any, and may be entitled to receive a higher investment rating from one or more nationally recognized rating agencies than our unsecured medium-term notes. In addition, funding agreements are very difficult to transfer and have no active secondary market. By securing each trust's notes with a funding agreement, investors may be able to avail themselves of many of the benefits of our funding agreements while benefiting from the liquidity afforded by each trust's medium-term notes.

**Agents**

One or more Agents will be specified in the applicable pricing supplement.

**Secured Medium-Term Notes Retail Program**

This prospectus supplement relates to notes that one or more trusts may issue and sell in the United States to retail and other investors under our secured medium-term notes retail program.

**Secured Medium-Term Notes Program**

Included in the registration statement, of which this prospectus supplement is a part, is another prospectus supplement

**Table of Contents**

relating to notes that may be issued and sold to institutional investors by newly established trusts under the related secured medium-term notes program. The terms of the secured medium-term notes are identical in all material respects to the terms of the notes to be sold under this program, as described in this prospectus supplement, except that the secured medium-term notes:

may be issued as amortizing notes;

may be denominated in one or more foreign currencies;

will not contain a survivor's option, permitting optional repayment of notes of a series of notes, subject to certain limitations, prior to maturity, if requested, following the death of the beneficial owner of notes of that series of notes; and

may contain a provision providing for the redemption of the notes if we are required to pay additional amounts on the related funding agreement pursuant to the applicable pricing supplement and we exercise our right to redeem the funding agreement.

Principal® Life CoreNotes® Program

Included in the registration statement, of which this prospectus supplement is a part, is another prospectus supplement relating to notes that may be issued and sold to retail investors by newly established trusts under the related Principal® Life CoreNotes® Program. The terms of the Principal® Life CoreNotes® Program are identical in all material respects to the terms of the notes to be sold under this program. However, unlike the Principal® Life CoreNotes® Program, the notes issued and sold under this program may be distributed by one or more Agents which may include Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Amount

The trusts may collectively issue up to a maximum aggregate principal amount of \$4,000,000,000 of notes in connection with this prospectus supplement, less any principal amount of notes previously issued under this program pursuant to this prospectus supplement, our secured medium-term notes program pursuant to a separate prospectus supplement dated the date hereof, our Principal® Life CoreNotes® program pursuant to a separate prospectus supplement dated the date hereof or otherwise under the accompanying prospectus.

Flow of Funds

Other than during the occurrence and continuance of an event of default under the notes of a trust, amounts received by or on behalf of the trust will be paid:

*first*, to amounts due under the notes; and

*second*, with respect to any remaining funds, in accordance  
with the applicable trust

S-5

---

**Table of Contents**

agreement. During the occurrence and continuance of an event of default under the notes of a trust, amounts received by or on behalf of the trust will be paid:

*first*, to the payment of the reasonable and customary expenses and counsel fees incurred by the indenture trustee and any other amounts due and unpaid to the indenture trustee, in an aggregate amount of no more than \$250,000 for all notes issued under the program, to the extent not paid pursuant to the applicable expense and indemnity agreement;

*second*, to amounts due under the notes; and

*third*, with respect to any remaining funds, in accordance with the applicable trust agreement.

See Description of the Notes Application of Money Collected Under the Indenture in the accompanying prospectus.

Since we and PFG are registrants, purchasers of notes may proceed directly against us and PFG to enforce their rights under the United States federal and state securities laws. The right of such purchasers to proceed against us, with respect to the applicable funding agreement, under the United States federal and state securities laws, is no different than if we had issued the funding agreement directly to such purchasers. The right of such purchasers to proceed against PFG, with respect to the applicable guarantee, under the United States federal and state securities laws is no different than if PFG had issued the guarantee directly to such purchasers.

Terms of the Notes:  
*Status*

Each series of notes will be the unconditional, direct, non-recourse, secured and unsubordinated obligations of the applicable trust. Each series of notes will be secured by the collateral relating to that series of notes.

Each series of notes may be accelerated in the payment of principal and outstanding interest if an event of default under the notes occurs. Upon the occurrence of an event of default, the indenture trustee (described below), on behalf of the holders of notes, may only proceed against the collateral held in the related trust.

The notes of each series are not, and will not be, obligations of, or guaranteed by, us or any other insurance company or any affiliate of ours, including PFG. The notes will not

**Table of Contents**

benefit from any insurance guarantee fund coverage or any similar protection.

*Principal*

The principal amount of each series of notes will be payable on its stated maturity date, as specified in the applicable pricing supplement, at the corporate trust office of the paying agent, acting in its capacity as servicer, or any other place the relevant trust designates.

*Interest*

Notes of a series may bear interest at a fixed interest rate or a floating interest rate, or bear no interest at all. Each series of notes that bears interest at a fixed interest rate ( fixed rate notes ) will bear interest from the date of original issuance at a fixed rate per year, as specified in the applicable pricing supplement, until the principal is paid. Interest, if any, will be payable monthly, quarterly, semi-annually or annually on each interest payment date and on the maturity date, as specified in the applicable pricing supplement. Interest also will be paid on the date of redemption or repayment if a series of notes is redeemed or repaid prior to maturity. Interest, with respect to fixed rate notes, will be computed on the basis of a 360-day year of twelve 30-day months, unless otherwise specified in the applicable pricing supplement. Each series of notes that bear interest at a floating interest rate ( floating rate notes ) will bear interest from the date of original issuance at a rate determined by reference to a base rate, which may be adjusted by a spread and/or spread multiplier, as specified in the applicable pricing supplement, until the principal is paid. The pricing supplement will designate one or more of the following interest rate bases, along with the index maturity for that interest rate basis:

- the CD Rate;
- the CMT Rate;
- the Commercial Paper Rate;
- the Constant Maturity Swap Rate;
- the Federal Funds Open Rate;
- the Federal Funds Rate;
- LIBOR;
- the Prime Rate; or
- the Treasury Rate.

*Payment of Principal and Interest*

Principal and interest payments, if any, on any series of notes will be made solely from the proceeds of a funding agreement purchased with respect to such series of notes for, and to be held in, the related trust, and the full and unconditional guarantee issued by PFG of our payment obligations under the relevant funding agreement.

*Maturities*

Unless otherwise specified in the applicable pricing supplement, each series of notes will mature between nine months

S-7

---

**Table of Contents**

and 30 years from its date of original issuance on the last scheduled interest payment date, as specified in the applicable pricing supplement.

*Redemption and Repayment*

A trust will redeem its series of notes if we redeem the funding agreement securing such series of notes. Except as otherwise specified in the accompanying prospectus, this prospectus supplement or the applicable pricing supplement, the funding agreement securing a series of notes will not be redeemable by us and no series of notes will be repayable at the option of the holder prior to their stated maturity date. Unless otherwise specified in the applicable pricing supplement, the notes will not be subject to any sinking fund.

Each trust may issue a series of notes which may be redeemed by the issuing trust when 20% or more of the original principal balance is outstanding. Notes that may be redeemed at a time when 20% or more of the original principal amount of such notes are outstanding will be designated in their title as *callable* in the applicable pricing supplement.

*Survivor's Option*

A series of notes may contain a provision (which we refer to as the *survivor's option*) permitting optional repayment of notes of that series prior to maturity, if requested, following the death of the beneficial owner of notes of that series, so long as the notes either were purchased by the deceased beneficial owner within ninety (90) days of their issuance or were held by the deceased beneficial owner for a period of six (6) months immediately prior to such death. Your notes may not be repaid in this manner unless the pricing supplement for your series of notes provides for the *survivor's option*. If the pricing supplement for your series of notes provides for the *survivor's option*, the funding agreement securing your series of notes will contain a provision which will allow the applicable trust to tender the funding agreement in whole or in part to us. The ability of the applicable trust to tender the funding agreement related to a series of notes that contain a *survivor's option*, however, will be subject to certain limitations set by us. As a result, your right to exercise the *survivor's option* is subject to limits set by us with respect to the relevant funding agreement. We have the discretionary right to limit:

the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under the secured medium-term notes retail program as to which exercises of any put option by any trust shall be accepted by us in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under the secured medium-term notes retail program and the Principal® Life



**Table of Contents**

CoreNotes® program as of the end of the most recent calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement;

the aggregate principal amount of funding agreements securing the notes as to which exercises of any put option by the applicable trust attributable to notes as to which the survivor's option has been exercised by the authorized representative of any individual deceased beneficial owner to \$250,000 in any calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement; and

the aggregate principal amount of the funding agreement securing a series of notes as to which exercises of any put option by the applicable trust shall be accepted in any calendar year as set forth in the applicable funding agreement and the applicable pricing supplement. Additional details on the survivor's option are described in this prospectus supplement in the section entitled "Description of the Notes – Repayment Upon Exercise of Survivor's Option" on page S-30.

**Withholding Tax**

All amounts due in respect of the notes of any series, the related guarantee and the related funding agreement will be made without any applicable withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by law. Unless otherwise specified in the applicable pricing supplement, none of the notes, the related guarantee, or the related funding agreement will provide for the payment of additional amounts relating to any required withholding or deduction imposed or levied on payments in respect of a series of notes, the related guarantee or the related funding agreement. As a result, unless otherwise specified in the applicable pricing supplement, the risk of any such withholding or deduction, whether or not as a result of a change in law or otherwise, will be borne by the holders of such series of notes.

**Material United States Federal Income Tax Considerations**

We intend to take the position, for United States federal income tax purposes, that each trust will be disregarded and that the notes will be treated as representing our indebtedness (the "Intended Tax Characterization"). Each holder of a note (or any beneficial interest therein), by acceptance of the note

**Table of Contents**

(or beneficial interest therein), agrees to the Intended Tax Characterization. Accordingly, holders of the notes generally will have the same United States federal income tax consequences from the purchase of the notes as they would have had if they purchased a debt obligation issued directly by us. Prospective purchasers of the notes must carefully consider the tax consequences of the ownership and disposition of the notes set forth under Material United States Federal Income Tax Considerations.

Fees and Expenses

We will pay the costs and expenses incurred by a trust under the expense and indemnity agreements with each of the indenture trustee, the custodian, the trust beneficial owner and the trustee (on behalf of itself and each trust formed in connection with the issuance of a series of notes) and any additional service provider appointed from time to time.

Under each expense and indemnity agreement, we will pay certain costs and expenses relating to the offering, sale, issuance and administration of any series of notes and certain costs, expenses and taxes incurred by a trust and will indemnify the indenture trustee, the custodian, the trust beneficial owner, the trustee, each trust and additional service providers appointed from time to time with respect to certain matters. See Fees and Expenses in the accompanying prospectus.

We anticipate that the indenture trustee fees for the program will be approximately \$215 per year for each series of notes.

Denominations; Currency

Unless otherwise specified in the applicable pricing supplement, the notes will be issued and sold in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. The notes of each series will be denominated in, and payments of principal, premium, if any, and/or interest, and any other amounts in respect of the notes, will be made in U.S. dollars.

Listing

Unless otherwise specified in the applicable pricing supplement, your series of notes will not be listed on any securities exchange.

Form of Notes

The trusts will sell notes in the United States only. Each series of notes will be issued in book-entry form only and cleared through The Depository Trust Company ( DTC or the depository ). Each book-entry note will be held by the indenture trustee as custodian for DTC or its nominee. We do not intend to issue notes in certificated form.

Collateral

The notes of any series will be secured by the right, title and interest of the applicable trust in and to (1) the relevant funding agreement held in that trust, (2) the related guarantee issued by PFG to the trust fully and unconditionally guaranteeing our

payment obligations under the funding agreement, (3) all proceeds of the funding agreement and the guarantee and all amounts and instruments on deposit from time to time in the related collection account, (4) all books and records

S-10

---

**Table of Contents**

pertaining to the relevant funding agreement and the related guarantee and (5) all rights of the trust pertaining to the foregoing.

Each series of notes will be secured by the collateral held in the applicable trust. The trust will collaterally assign and grant a security interest in the related funding agreement and the related guarantee in favor of the indenture trustee for the benefit of the holders of notes of the applicable series.

Under the custodial agreement (the custodial agreement ) entered into among the indenture trustee, Bankers Trust Company, N.A. (the custodian ) and the trustee (on behalf of each trust to be formed in connection with the issuance of a series of notes), upon the collateral assignment of and grant of security interest in the funding agreement and the guarantee related to a series of notes of a trust, the custodian will hold the funding agreement and the guarantee, on behalf of the indenture trustee in the State of Iowa.

Funding Agreements

A funding agreement is a type of insurance company product in which the purchaser, usually an institutional investor, pays the insurance company a deposit and, in turn, receives scheduled payments of principal and interest. The deposit we receive on the issuance of a funding agreement will be part of our general account and not allocated to any of our separate accounts. Our general account is the account which contains all of our assets and liabilities other than those held in our separate accounts. (Separate accounts are segregated accounts which are established for certain products that we sell. A separate account holds assets and liabilities specifically related to one or more products and segregates these assets and liabilities from the assets and liabilities of all other separate accounts and the assets and liabilities of our general account.) Since the deposit made under any funding agreement will be part of our general account, our obligations under each funding agreement will be the obligations of our general account, rather than the obligations of any separate account. As such, we will invest the proceeds from the sale of funding agreements in a portfolio of assets which along with our other general account assets will be used to meet our contractual obligations under the funding agreements and our other general account obligations. We will earn the spread differential between the cost of our obligations under the funding agreements and the yield on our invested assets. We may periodically, consistent with our past practice and subject to all applicable regulatory restrictions on our insurance operations, dividend a portion of the spread income to PFG.

Each trust will use the net proceeds received from the sale of its series of notes to purchase a funding agreement issued by us, the terms of which will be set forth in the applicable pricing supplement. The funding agreement will have a deposit amount

equal to the sum of the principal amount (or issue

S-11

---

**Table of Contents**

price in the case of discount notes) of the related series of notes and the amount of the beneficial interest in the related trust. The rate at which the funding agreement bears interest will be equal to the rate of interest, if any, on the related series of notes. The funding agreement will otherwise have substantially similar payment and other terms to the related series of notes.

Each funding agreement is our unsecured obligation. See Ratings below.

In the event of our impairment or insolvency, the Iowa Insurance Commissioner will be authorized and directed to commence delinquency proceedings for the purpose of liquidating, rehabilitating, reorganizing or conserving us pursuant to Iowa Code Sections 507C.4, 507C.12, 507C.13, 507C.14 and 507C.16. In conducting delinquency proceedings, claims are prioritized and an order of distribution is specified pursuant to Iowa Code Section 507C.42. There are nine classes within the priority scheme, with each successive class being fully junior to the preceding class. Class 1 priority is given to the costs and expenses of administration of the insurer during the delinquency proceedings and Class 2 priority is given to the claims (1) of the insurer's policyholders, (2) of guaranty associations, (3) under funding agreements of the insurer, (4) for an insufficiency in the assets of a separate account and (5) for unearned premium. We believe that, in a properly prepared and presented case, a court applying Iowa law would conclude that loss claims of principal and interest in respect of each funding agreement would be accorded Class 2 priority under Iowa Code Section 507C.42 and paid equally in priority with our other policyholders. See Description of the Funding Agreements in the accompanying prospectus.

## Guarantees

Our payment obligations under the funding agreement issued to each trust will be fully and unconditionally guaranteed by PFG under a guarantee issued by PFG to the trust as described in the accompanying prospectus. Each guarantee will be an unsecured, unsubordinated, contingent obligation of PFG. See Description of the Guarantees in the accompanying prospectus.

## Ratings

Unless otherwise indicated in the applicable pricing supplement, the notes will have an issue credit rating of AA from Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (Standard & Poor's). Standard & Poor's has rated the program AA. If Standard & Poor's changes the program rating, the new program rating will be specified in the applicable pricing supplement. We expect the program to be rated Aa2 by Moody's Investors Service, Inc. (Moody's). If Moody's changes the program rating, the new program rating will be specified in the applicable pricing supplement. Notes of a series will be issued under the

program only in the event that, at the time of

S-12

---

**Table of Contents**

issuance of such series of notes, at least one nationally recognized rating agency would assign an investment grade rating to such series of notes and the funding agreement securing such series of notes.

Indenture, Indenture Trustee and Servicer

Each trust will issue its series of notes to the public pursuant to an indenture between that trust and Citibank, N.A., in its capacity as indenture trustee. See Description of the Notes General Indenture. The indenture trustee will act as servicer with respect to the program. The indenture is subject to the Trust Indenture Act of 1939, as amended. The indenture trustee is not affiliated with any trust, us or PFG.

Administration of the Trusts

U.S. Bank Trust National Association, a national banking association, will be each trust's sole trustee (the trustee). The trustee will not be obligated in any way to make payments under or in respect of the notes. The trustee is not affiliated with us or PFG.

Trust Beneficial Owner

GSS Holdings II, Inc., a Delaware corporation, will be the sole beneficial owner of each trust (the trust beneficial owner). The beneficial interest of each trust:

will be purchased by the trust beneficial owner for \$15 (or in the case of a trust that issues discount notes, such other amount as corresponds to the discount on such notes), unless otherwise specified in the applicable pricing supplement;

will be issued in book-entry form only;

will entitle the trust beneficial owner to receive payments in respect thereof on the same terms as the payments to be made to the holders of notes of the related series; and

will be subordinated to the related series of notes.

The trust beneficial owner will receive periodic distributions on its beneficial interest at the same rate and on the same day that holders of notes of the related series receive interest payments. On the maturity date of the trust beneficial owner's beneficial interest and the related series of notes, the trust will redeem the principal amount of the related series of notes to the holders of such notes and the principal amount of the beneficial interest to the trust beneficial owner.

The trust beneficial owner is not affiliated with us or PFG.

Governing Law

The notes and each indenture will be governed by, and construed in accordance with, the laws of the State of New York. Each guarantee issued by PFG will be governed by, and construed in

accordance with, the laws of the State of New York. The trust agreement for the applicable trust will be governed by, and construed in accordance with, the laws of the jurisdiction in which it is formed. Each funding agreement will be governed by the laws of the State of Iowa.

S-13

---

**Table of Contents**

**DESCRIPTION OF THE NOTES**

The following description of the material provisions of the notes supplements the general description of the notes provided in the accompanying prospectus. You should therefore review the accompanying prospectus carefully. You should carefully review the information in this prospectus supplement. The pricing supplement for each offering of notes will contain the specific information and terms and conditions for that offering. As such, you should carefully review the information contained in the pricing supplement, including any description of the method of calculating interest on any note. The applicable pricing supplement may also add, update, supplement or clarify information contained in this prospectus supplement or the accompanying prospectus. It is important for you to consider the information contained in the accompanying prospectus, this prospectus supplement, the applicable pricing supplement, the indenture and the notes in making your investment decision.

This section describes some technical concepts and uses some capitalized terms that are not defined in the prospectus supplement. You should refer to the form of indenture and the form of note certificates filed as exhibits to the registration statement (of which this prospectus supplement and the accompanying prospectus are a part) for the full description of those concepts and complete definitions of these terms.

**General**

***Indenture***

Each trust will issue one series of notes, subject to and entitled to the benefits of a separate indenture between the trust and the indenture trustee, which will adopt and incorporate the standard indenture terms. Such notes will be issued only on the original issue date for such notes. With respect to a particular trust, we refer to the applicable indenture and the standard indenture terms as the indenture. Each series of notes will be the subject of a pricing supplement. The indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended. For a description of the terms of the indenture, see Descriptions of the Notes beginning on page 18 of the accompanying prospectus.

At the date of this prospectus supplement, the notes offered pursuant to this prospectus supplement are limited to an aggregate initial public offering price or purchase price of up to \$4,000,000,000. This amount is subject to reduction as a result of the issuance of notes of notes previously under this program, our secured medium-term notes program or otherwise under the accompanying prospectus.

***Collateral***

The notes of a series will be the trust's unconditional, direct, non-recourse, secured and unsubordinated obligations. Under the indenture, the funding agreement issued to and deposited into a trust by us, in exchange for the proceeds received by the trust from the offering of its series of notes and trust beneficial interest, will be collaterally assigned by the trust, and the trust will grant a security interest in the funding agreement, to the indenture trustee for the benefit of the holders of the related series of notes. A trust may purchase only one funding agreement from us and the principal amount of the funding agreement may not be increased. The trust will also collaterally assign and grant a security interest in the guarantee issued by PFG to the trust in favor of the indenture trustee for the benefit of the holders of the related series of notes. Each series of notes will be secured by a security interest in the collateral, consisting of:

the relevant funding agreement;

the related guarantee issued by PFG to the trust, which fully and unconditionally guarantees our payment obligations under the relevant funding agreement;

all proceeds of the relevant funding agreement and the relevant guarantee and all amounts and instruments on deposit from time to time in the related collection account;

all books and records pertaining to the relevant funding agreement and the related guarantee; and

all of the trust's rights pertaining to the foregoing.

Under the custodial agreement, upon the collateral assignment and grant of security interest in the funding agreement and the guarantee related to a series of notes of a trust, the custodian will

**Table of Contents**

hold the funding agreement and the guarantee, on behalf of the indenture trustee in the State of Iowa.

***Ranking***

The notes of a series of a trust will rank equally among themselves.

***Pricing Options***

Notes that bear interest will either be fixed rate notes or floating rate notes, or a combination of fixed rate and floating rate, as specified in the applicable pricing supplement. A trust may also issue discount notes as specified in the applicable pricing supplement.

***Pricing Supplement***

The pricing supplement relating to the offering of a series of notes will describe the following terms:

the principal amount for the note;

whether the note:

(1) is a fixed rate note,

(2) is a floating rate note, and/or

(3) is a discount note that does not bear any interest currently or bears interest at a rate that is below market rates at the time of issuance;

the price at which the note will be issued, which will be expressed as a percentage of the aggregate principal amount or face amount;

the original issue date on which the note will be issued;

the stated maturity date;

if the note is a fixed rate note, the rate per annum at which the note will bear any interest and the Interest Payment Date frequency;

if the note is a floating rate note, relevant terms such as:

(1) the Interest Rate Basis,

(2) the Initial Interest Rate,

(3) the Interest Reset Period or the Interest Reset Dates,

(4) the Interest Payment Dates,

(5) the Index Maturity,

- (6) any Maximum Interest Rate,
- (7) any Minimum Interest Rate,
- (8) the spread and/or spread multiplier, and
- (9) any other terms relating to the particular method of calculating the interest rate for the note and whether and how the spread and/or spread multiplier may be changed prior to the stated maturity date;

whether the authorized representative of the beneficial owner of a beneficial interest in the note will have the right to seek repayment upon the death of the beneficial owner as described under Repayment Upon Exercise of Survivor's Option on page S-30;

whether the note may be redeemed by the trust, or repaid at the option of the holder, prior to the stated maturity date and the terms of its redemption or repayment, provided that any such redemption or repayment will be accompanied by the simultaneous redemption or repayment of the relevant funding agreement;

any special United States federal income tax considerations relating to the purchase, ownership and disposition of the note;

the jurisdiction of formation of the trust; and

any other terms of the note provided in the accompanying prospectus to be set forth in a pricing supplement or that are otherwise consistent with the provisions of the indenture under which the note will be issued.

### ***Maturity***

Unless otherwise specified in the applicable pricing supplement, each series of notes will mature on a day between nine months and 30 years from its date of original issuance on the last scheduled interest payment date (the stated maturity date), as specified in the applicable pricing supplement,

## **Table of Contents**

unless the principal of such series becomes due and payable prior to the stated maturity date, whether, as applicable, by the declaration of acceleration of maturity, notice of redemption by the trust, notice of a beneficial owner's exercise of his or her option to elect repayment or otherwise (we refer to the stated maturity date or any date prior to the stated maturity date on which the particular series of notes becomes due and payable, as the case may be, as the maturity date with respect to the principal of such series of notes repayable on that date).

### ***Currency***

The notes of each series will be denominated in, and payments of principal, premium, if any, and/or interest, if any, and any other amounts in respect of the notes will be made in, U.S. dollars.

### ***Form of Notes; Denominations***

Each trust will issue each note in book-entry form represented by one or more fully registered book-entry securities registered in the name of Cede & Co., the nominee of The Depository Trust Company, as depository. Each book-entry note will be held by the indenture trustee as custodian for the depository. Unless otherwise specified in the applicable pricing supplement, the minimum denominations of each note will be \$1,000 and integral multiples of \$1,000 in excess thereof.

### ***Transfers and Exchanges***

Book-entry notes may be transferred or exchanged only through the depository. See Book-Entry Notes. No service charge will be imposed for any such registration of transfer or exchange of notes, but the trust may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with such transfer or exchange (other than certain exchanges not involving any transfer).

### ***Listing***

Unless otherwise specified in the applicable pricing supplement, your series of notes will not be listed on any securities exchange.

### ***Business Day***

As used in this prospectus supplement, "business day" means:

any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in The City of New York; and

for purposes of LIBOR determination dates for floating rate notes (as defined below) based on LIBOR (as defined below) the day must also be a London Banking Day, which means a day on which commercial banks are open for business (including dealings in the LIBOR Currency (as defined below)) in London.

### **Payments of Principal and Interest**

Principal of and interest on the notes will be paid to owners of a beneficial interest in the notes in accordance with the arrangements then in place between the paying agent and DTC as depository and its participants as described under Book-Entry Notes. Notes of a series may bear interest at a fixed interest rate ( "fixed rate notes" ) or at a floating interest

rate ( floating rate notes ).

**Fixed Rate Notes**

Each series of fixed rate notes will bear interest at a fixed rate from and including its date of issue or from and including the most recent interest payment date as to which interest has been paid or made available for payment until the principal is paid or made available for payment. The applicable pricing supplement will specify the fixed interest rate per annum applicable to each note and the frequency with which interest is payable. Interest, including interest for any partial period, will be computed on the basis of a 360-day year of twelve 30-day months. Each payment of interest, including interest to be paid at maturity, will include interest to, but excluding, the date that the interest payment is due.

Interest on notes that bear interest at fixed rates will be payable in arrears on each interest payment date to the registered holder at the close of business on the record date except that interest, if any, due at maturity will be paid to the person to

**Table of Contents**

whom the principal of the note is paid. Unless otherwise specified in the applicable pricing supplement, the record date will be the day that is fifteen (15) calendar days preceding the applicable interest payment date, whether or not a business day. Unless otherwise specified in the applicable pricing supplement, the interest payment dates for fixed rate notes will be as follows:

**Interest Payment****Frequency****Interest Payment Dates**

Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third calendar month, beginning in the third calendar month following the month the note was issued.
Semi-annual	Fifteenth day of every sixth calendar month, beginning in the sixth calendar month following the month the note was issued.
Annual	Fifteenth day of every twelfth calendar month, beginning in the twelfth calendar month following the month the note was issued.

If any interest payment date or the maturity date of a fixed rate note falls on a day that is not a business day, the applicable trust will make the required payment of principal, premium, if any, and/or interest, if any on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

Interest rates that each trust offers on the fixed rate notes may differ depending upon, among other factors, the aggregate principal amount of notes purchased in any single transaction. Notes with different variable terms other than interest rates may also be offered by other trusts concurrently to different investors. Other trusts may change interest rates or formulas and other terms of notes from time to time, but no change of terms will affect any note any other trust has previously issued or as to which any other trust has accepted an offer to purchase.

**Floating Rate Notes**

Interest on each series of floating rate notes will be determined by reference to the applicable Interest Rate Basis or Interest Rate Bases, which may, as described below, include:

the CD Rate;

the CMT Rate;

the Commercial Paper Rate;

the Constant Maturity Swap Rate;

the Federal Funds Open Rate;

the Federal Funds Rate;

LIBOR;

the Prime Rate; or

the Treasury Rate.

The applicable pricing supplement will specify certain terms of the particular series of notes that bears interest at floating rates, including:

whether the note that bears interest at floating rates is:

a Regular Floating Rate Note; or

a Floating Rate/Fixed Rate Note;

the Fixed Rate Commencement Date, if applicable;

Fixed Interest Rate, if applicable;

Interest Rate Basis or Interest Rate Bases;

Initial Interest Rate, if any;

Interest Reset Dates;

Interest Payment Dates;

Index Maturity;

Maximum Interest Rate and/or Minimum Interest Rate;

spread and/or spread multiplier; or

if one or more of the applicable Interest Rate Bases is LIBOR, the LIBOR Currency and LIBOR Page.

The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on:

if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date (as defined

**Table of Contents**

below) immediately preceding that Interest Reset Date; or

if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

The spread is the number of basis points (one one-hundredth of a percentage point) specified in the applicable pricing supplement to be added to or subtracted from the related Interest Rate Basis or Interest Rate Bases applicable to a series of notes that bears interest at floating rates. The spread multiplier is the percentage specified in the applicable pricing supplement of the related Interest Rate Basis or Interest Rate Bases applicable to a series of notes that bears interest at floating rates by which the Interest Rate Basis or Interest Rate Bases will be multiplied to determine the applicable interest rate. The Index Maturity is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Interest Rate Bases will be calculated.

Interest rates that each trust offers on its floating rate notes may differ from the rate offered by other trusts depending upon, among other factors, the aggregate principal amount of notes purchased in any single transaction. Notes with different variable terms other than interest rates may also be offered by other trusts concurrently to different investors. Other trusts may change interest rates or formulas and other terms of notes from time to time, but no change of terms will affect any note any other trust has previously issued or as to which any other trust has accepted an offer to purchase.

***Regular Floating Rate Notes***

Unless a series of floating rate notes is designated as a series of Floating Rate/Fixed Rate Notes, or as having an addendum attached or having other/additional provisions apply, in each case relating to a different interest rate formula, such series of notes that bears interest at floating rates will be a series of Regular Floating Rate Notes and will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

plus or minus the applicable spread, if any; and/or

multiplied by the applicable spread multiplier, if any.

Commencing on the first Interest Reset Date, as specified in the relevant pricing supplement, the rate at which interest on a series of Regular Floating Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate.

***Floating Rate/Fixed Rate Notes***

If a series of notes that bears interest at floating rates is designated as a series of Floating Rate/Fixed Rate Notes, such series of notes that bears interest at floating rates will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

plus or minus the applicable spread, if any; and/or

multiplied by the applicable spread multiplier, if any.

Commencing on the first Interest Reset Date, the rate at which interest on a series of Floating Rate/Fixed Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that:

the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate, as specified in the relevant pricing supplement; and

the interest rate in effect commencing on the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified in the applicable pricing supplement, or, if not so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

***Interest Reset Dates***

The applicable pricing supplement will specify the dates on which the rate of interest on a series of notes that bears interest at floating rates will be reset (each, an Interest Reset Date ), and the period between Interest Reset Dates will be the Interest Reset Period. Unless otherwise specified

**Table of Contents**

in the applicable pricing supplement, the Interest Reset Dates will be, in the case of a series of floating rate notes which reset:

*daily* each business day;

*weekly* the Wednesday of each week, with the exception of weekly reset series of notes that bear interest at floating rates as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week;

*monthly* the fifteenth day of each calendar month;

*quarterly* the fifteenth day of March, June, September and December of each year;

*semi-annually* the fifteenth day of the two months of each year specified in the applicable pricing supplement; and

*annually* the fifteenth day of the month of each year specified in the applicable pricing supplement;

provided, however, that, with respect to any series of Floating Rate/Fixed Rate Notes, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date.

If any Interest Reset Date for any series of notes that bears interest at floating rates would otherwise be a day that is not a business day, the particular Interest Reset Date will be postponed to the next succeeding business day, except that in the case of a series of notes that bears interest at floating rates as to which LIBOR is an applicable Interest Rate Basis and that business day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding business day.

***Interest Determination Dates***

The interest rate applicable to a series of notes that bears interest at floating rates for an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular Interest Determination Date, which will be:

*with respect to the Federal Funds Open Rate* the related Interest Reset Date;

*with respect to the Federal Funds Rate and the Prime Rate* the business day immediately preceding the related Interest Reset Date;

*with respect to the CD Rate, the Commercial Paper Rate, and the CMT Rate* the second business day preceding the related Interest Reset Date;

*with respect to the Constant Maturity Swap Rate* the second U.S. Government Securities business day (as defined under Constant Maturity Swap Rate below) preceding the related Interest Reset Date; provided, however, that if, after attempting to determine the Constant Maturity Swap Rate (as described under Constant Maturity Swap Rate below), such rate is not determinable for a particular Interest Determination Date (the original interest determination date), then such Interest Determination Date shall be the first U.S. Government Securities business day preceding the original interest determination date for which the Constant Maturity Swap Rate can be determined as described under Constant Maturity Swap Rate below;

*with respect to LIBOR* the second London Banking Day preceding the related Interest Reset Date; and

*with respect to the Treasury Rate* the day of the week in which the related Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (i.e., Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday); provided, however,

S-19

---

**Table of Contents**

that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday.

Unless otherwise specified in the applicable pricing supplement, the Interest Determination Date pertaining to a series of floating rate notes that bears interest at the interest rate of which is determined with reference to two or more Interest Rate Bases will be the latest business day which is at least two business days before the related Interest Reset Date for the applicable note that bears interest at floating rates on which each Interest Reset Basis is determinable.

***Calculation Dates***

The indenture trustee will be the Calculation Agent, unless otherwise specified in the applicable pricing supplement. The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to LIBOR, which will be determined on the particular Interest Determination Date. Upon request of the registered holder of a series of floating rate notes, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest Reset Date with respect to the particular series of floating rate notes. The Calculation Date, if applicable, pertaining to any Interest Determination Date will be the earlier of:

the tenth calendar day after the particular Interest Determination Date or, if such day is not a business day, the next succeeding business day; or

the business day immediately preceding the applicable Interest Payment Date or the maturity date, as the case may be.

***Maximum and Minimum Interest Rates***

A series of notes that bears interest at floating rates may also have either or both of the following if specified in the applicable pricing supplement:

a maximum numerical limitation, or ceiling, that may accrue during any Interest Reset Period (a Maximum Interest Rate); and

a minimum numerical limitation, or floor, that may accrue during any Interest Reset Period (a Minimum Interest Rate).

In addition to any Maximum Interest Rate that may apply to a series of notes that bears interest at floating rates, the interest rate on a series of floating rate notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application.

***Interest Payments***

Unless otherwise specified in the applicable pricing supplement or in this prospectus supplement, interest on each series of notes that bears interest at floating rates will be payable on the date(s) as set forth below (each, an Interest Payment Date with respect to such series of notes that bears interest at floating rates). Unless otherwise specified in the applicable pricing supplement, the record date will be the day that is fifteen (15) calendar days preceding the applicable interest payment date, whether or not a business day. Unless otherwise specified in the applicable pricing supplement, the Interest Payment Dates will be, in the case of a series of floating rate notes which reset:

*daily, weekly or monthly* the fifteenth day of each calendar month or on the fifteenth day of March, June, September and December of each year, as specified in the applicable pricing supplement;

*quarterly* the fifteenth day of March, June, September and December of each year;

*semi-annually* the fifteenth day of the two months of each year specified in the applicable pricing supplement; and

*annually* the fifteenth day of the month of each year specified in the applicable pricing supplement.

In addition, the maturity date will also be an Interest Payment Date.

S-20

---

**Table of Contents**

If any Interest Payment Date other than the maturity date for any series of floating rate notes would otherwise be a day that is not a business day, such Interest Payment Date will be postponed to the next succeeding business day, except that in the case of a series of floating rate notes as to which LIBOR is an applicable Interest Rate Basis and that business day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding business day. If the maturity date of a series of floating rate notes falls on a day that is not a business day, the trust will make the required payment of principal, premium, if any, and interest or other amounts on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

All percentages resulting from any calculation on floating rate notes will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards. For example, 9.876545% (or .09876545) would be rounded to 9.87655% (or .0987655). All dollar amounts used in or resulting from any calculation on floating rate notes will be rounded to the nearest cent.

With respect to each series of floating rate notes, accrued interest is calculated by multiplying the principal amount of such floating rate note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Reset Period. The interest factor for each day will be computed by dividing the interest rate applicable to such day by 360, in the case of a series of floating rate notes as to which the CD Rate, the Commercial Paper Rate, the Federal Funds Open Rate, the Federal Funds Rate, LIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of a series of floating rate notes as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. In the case of a series of notes that bears interest at floating rates as to which the Constant Maturity Swap Rate is the Interest Rate Basis, the interest factor for each day will be computed by dividing the number of days in the interest period by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months (unless (i) the last day of the interest period is the 31st day of a month but the first day of the interest period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the interest period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)). The interest factor for a series of floating rate notes as to which the interest rate is calculated with reference to two or more Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified in the applicable pricing supplement applied.

The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions.

***CD Rate***

CD Rate means:

- (1) the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) (as defined below) under the caption CDs (secondary market); or
- (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption CDs (secondary market); or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in The City of New York (which may include an

S-21

---

**Table of Contents**

Agent or its affiliates) selected by the Calculation Agent for negotiable United States dollar certificates of deposit of major United States money market banks for negotiable United States certificates of deposit with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time; or

(4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the CD Rate in effect on the particular Interest Determination Date.

H.15(519) means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.

H.15 Daily Update means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/update>, or any successor site or publication.

***CMT Rate***

CMT Rate means:

(1) if Reuters Page FRBCMT is specified in the applicable pricing supplement:

(a) the percentage equal to the yield for United States Treasury securities at constant maturity having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) under the caption Treasury Constant Maturities, as the yield is displayed on Reuters Service ( Reuters ) (or any successor service) on page FRBCMT (or any other page as may replace the specified page on that service) ( Reuters Page FRBCMT ), for the particular Interest Determination Date; or

(b) if the rate referred to in clause (a) does not so appear on Reuters Page FRBCMT, the percentage equal to the yield for United States Treasury securities at constant maturity having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption Treasury Constant Maturities; or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519); or

(d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include an Agent or its affiliates) (each, a Reference Dealer ), selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative

**Table of Contents**

for a single transaction in the securities in that market at that time; or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date; or

(2) if CMT Reuters Page FEDCMT is specified in the applicable pricing supplement:

(a) the percentage equal to the one-week or one-month, as specified in the applicable pricing supplement average yield for United States Treasury securities at constant maturity having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) opposite the caption Treasury Constant Maturities, as the yield is displayed on Reuters (or any successor service) (on page FEDCMT or any other page as may replace the specified page on that service) ( Reuters Page FEDCMT ), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

(b) if the rate referred to in clause (a) does not so appear on Reuters Page FEDCMT, the percentage equal to the one-week or one-month, as specified in the applicable pricing supplement, average yield for United States Treasury securities at constant maturity having the particular Index Maturity and for the week or month, as applicable, preceding the particular Interest Determination Date as published in H.15(519) opposite the caption Treasury Constant Maturities; or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the one-week or one-month, as specified in the

**Table of Contents**

applicable pricing supplement, average yield for United States Treasury securities at constant maturity having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

(d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time; or

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on that Interest Determination Date;

If two United States Treasury securities with an original maturity greater than the Index Maturity specified in the applicable pricing supplement have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

**Table of Contents**

***Commercial Paper Rate***

Commercial Paper Rate means:

- (1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) under the caption Commercial Paper Nonfinancial; or
- (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Money Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption Commercial Paper Nonfinancial; or
- (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New York (which may include an Agent or its affiliates) selected by the Calculation Agent for commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is Aa , or the equivalent, from a nationally recognized statistical rating organization; or
- (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date.

Money Market Yield means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where D refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and M refers to the actual number of days in the applicable Interest Reset Period.

***Constant Maturity Swap Rate***

Constant Maturity Swap Rate means:

- (1) the rate for U.S. dollar swaps with the designated maturity specified in the applicable pricing supplement, expressed as a percentage, which appears on the Reuters Screen (or any successor service) TGM42276 Page as of 11:00 A.M., New York City time, on the particular Interest Determination Date; or
- (2) if the rate referred to in clause (1) does not appear on the Reuters Screen (or any successor service) TGM42276 Page by 2:00 P.M., New York City time, on such Interest Determination Date, a percentage determined on the basis of the mid-market semi-annual swap rate quotations provided by the reference banks (as defined below) as of approximately 11:00 A.M., New York City time, on such Interest Determination Date, and, for this purpose, the semi-annual swap rate means the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with a term equal to the designated maturity specified in the applicable pricing supplement commencing on the Interest Reset Date and in a

representative amount (as defined below) with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an actual/360 day count basis, is equivalent to USD-LIBOR-BBA with a designated maturity specified in the applicable pricing supplement. The Calculation Agent will request the principal New York City office of each of the reference banks to provide a quotation of its rate. If at least three quotations are provided, the rate for that Interest Determination Date will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest

S-25

---

**Table of Contents**

quotation (or, in the event of equality, one of the lowest); or

(3) if at least three quotations are not received by the Calculation Agent as mentioned in clause (2), the Constant Maturity Swap Rate in effect on the particular Interest Determination Date.

U.S. Government Securities business day means any day except for Saturday, Sunday, or a day on which The Bond Market Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

Representative amount means an amount that is representative for a single transaction in the relevant market at the relevant time.

Reference banks mean five leading swap dealers in the New York City interbank market, selected by the Calculation Agent, after consultation with us.

***Federal Funds Rates***

Federal Funds Open Rate means the rate set forth on Reuters (or any successor service) on page 5 (or any other page as may replace the specified page on that service) for an Interest Determination Date underneath the caption

FEDERAL FUNDS in the row titled OPEN. If the rate is not available for an Interest Determination Date, the rate for that Interest Determination Date shall be the Federal Funds Rate as determined below.

Federal Funds Rate means:

(1) the rate as of the particular Interest Determination Date for United States dollar federal funds as published in H.15 (519) under the caption EFFECT and displayed on Reuters (or any successor service) on page FEDFUNDS1 (or any other page as may replace the specified page on that service) ( Reuters Page FEDFUNDS1 ); or

(2) if the rate referred to in clause (1) does not so appear on Reuters Page FEDFUNDS1 or is not so published by 5:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption Federal Funds (Effective); or

(3) if the rate referred to in clause (2) is not so published by 5:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date will be the rate for the first preceding day for which such rate is set forth in H.15(519) under the caption Federal Funds (Effective), as such rate is displayed on the Reuters Page FEDFUNDS1.

***LIBOR***

LIBOR means:

(1) the rate for deposits in the LIBOR Currency having the Index Maturity specified in the applicable pricing supplement, commencing on the related Interest Reset Date, that appears on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or

(2) if no rate appears on the particular Interest Determination Date on the LIBOR Page as specified in clause (1), the rate calculated by the Calculation Agent as the arithmetic mean of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which may

include affiliates of an Agent), in the London interbank market selected by the Calculation Agent to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or

(3) if fewer than two offered quotations referred to in clause (2) are provided as requested, the rate calculated by

S-26

---

**Table of Contents**

the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include affiliates of an Agent), in that principal financial center selected by the Calculation Agent for loans in the LIBOR Currency to leading European banks, having the particular Index Maturity and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or

(4) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (3), LIBOR in effect on the particular Interest Determination Date.

LIBOR Currency means the currency specified in the applicable pricing supplement as to which LIBOR shall be calculated or, if no currency is specified in the applicable pricing supplement, United States dollars.

LIBOR Page means the display on Reuters (or any successor service) on the page specified in the applicable pricing supplement (or any other page as may replace that page on that service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

***Prime Rate***

Prime Rate means:

(1) the rate on the particular Interest Determination Date as published in H.15(519) under the caption Bank Prime Loan ; or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption Bank Prime Loan; or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen US PRIME 1 Page (as defined below) as the applicable bank's prime rate or base lending rate as of 11:00 A.M., New York City time, on that Interest Determination Date; or

(4) if fewer than four rates referred to in clause (3) are so published by 3:00 p.m., New York City time, on the related Calculation Date, the rate calculated by the Calculation Agent as the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on that Interest Determination Date by three major banks (which may include affiliates of an Agent) in The City of New York selected by the Calculation Agent; or

(5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), the Prime Rate in effect on the particular Interest Determination Date.

Reuters Screen US PRIME 1 Page means the display on Reuters Monitor Money Rates Service (or any successor service) on the US PRIME 1 page (or any other page as may replace that page on that service) for the purpose of displaying prime rates or base lending rates of major United States banks.

***Treasury Rate***

Treasury Rate means:

(1) the rate from the auction held on the Treasury Rate Interest Determination Date (the Auction ) of direct obligations of the United States ( Treasury Bills ) having the Index Maturity specified in the applicable pricing supplement under the caption INVESTMENT RATE on the display on Reuters (or any successor service) on page USAUCTION 10 (or any other page as may replace that page on that service) ( Reuters USAUCTION 10 ) or page USAUCTION 11 (or any other page

S-27

---

**Table of Contents**

as may replace that page on that service) ( Reuters USAUCTION 11 ); or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption U.S. Government Securities/Treasury Bills/Auction High ; or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury; or

(4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption U.S. Government Securities/Treasury Bills/Secondary Market; or

(5) if the rate referred to in clause (4) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption U.S. Government Securities/Treasury Bills/Secondary Market ; or

(6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include an Agent or its affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable pricing supplement; or

(7) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date.

Bond Equivalent Yield means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where D refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, N refers to 365 or 366, as the case may be, and M refers to the actual number of days in the applicable Interest Reset Period.

**Discount Notes**

A trust may issue a series of notes ( Discount Notes ) that has an Issue Price (as specified in the applicable pricing supplement) that is less than the principal amount thereof by an amount that is equal to or greater than the de minimis amount. The de minimis amount is equal to 0.25% multiplied by the product of the principal amount of the notes and the number of full years to the stated maturity date. A series of Discount Notes may not bear any interest currently or

may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a series of Discount Notes and par is referred to as the Discount. In the event of redemption, repayment or acceleration of maturity of a series of Discount Notes, the amount payable to the holders of such series of Discount Notes will be equal to the sum of:

the Issue Price (increased by any accruals of Discount); and

any unpaid interest accrued on such series of Discount Notes to the maturity date.

S-28

---

**Table of Contents**

Unless otherwise specified in the applicable pricing supplement, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a series of Discount Notes, a Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable series of Discount Notes (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the applicable series of Discount Notes and an assumption that the maturity of such series of Discount Notes will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a series of Discount Notes (the Initial Period ) is shorter than the compounding period for such series of Discount Notes, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided in the preceding sentence. The accrual of the applicable Discount may differ from the accrual of original issue discount for purposes of the Internal Revenue Code of 1986, as amended, certain series of Discount Notes may not be treated as having original issue discount within the meaning of such Code, and certain series of notes other than Discount Notes may be treated as issued with original issue discount for United States federal income tax purposes. See Material United States Federal Income Tax Considerations.

Each trust may issue a series of notes which may be redeemed by the issuing trust where 20% or more of the original principal balance of such notes is outstanding, which are referred to as callable notes. In the case of Discount Notes that may be redeemed at a time when 20% or more of such notes are outstanding, such notes will be designated in their title as callable in the applicable pricing supplement. Unless otherwise specified in the applicable pricing supplement, such series of notes will be otherwise subject to the provisions specified under Optional Redemption; Optional Repayment; No Sinking Fund.

**Optional Redemption; Optional Repayment; No Sinking Fund**

In the case of notes that are not discount notes, if an optional redemption date is specified in the pricing supplement relating to a series of notes, and we have redeemed the related funding agreement in full or in part, as applicable, the related trust will redeem the series of notes secured by such funding agreement, in full or in part as applicable, prior to the stated maturity date of such series of notes. Such redemptions shall be made in whole or from time to time in part in increments of \$1,000 or any other integral multiple of an authorized denomination specified in the applicable pricing supplement (provided that any remaining principal amount thereof shall be at least \$1,000 or other minimum authorized denomination applicable thereto), at a redemption price equal to 100% of the unpaid principal amount to be redeemed, together with unpaid interest, if any, accrued thereon to, but excluding, the date of redemption. The trust must give written notice to the holders of the particular series of notes to be redeemed not more than 60 nor less than 30 calendar days prior to the date of redemption.

Each trust may issue a series of notes which may be redeemed by the issuing trust where 20% or more of the original principal balance of such notes is outstanding, which are referred to as callable notes and will be designated in their title as callable in the relevant pricing supplement. Unless otherwise specified in the applicable pricing supplement, such series of notes will otherwise be subject to the redemption provisions specified herein. For a discussion of the redemption of discount notes, see Discount Notes.

If fewer than all of the notes are to be redeemed, DTC will select the notes to be redeemed not more than 60 calendar days prior to the redemption date by lot or, if the notes are not in book-entry form, the indenture trustee will do so, in its reasonable discretion, by lot or on a pro rata basis in accordance with its customary procedures. If any note is redeemed in part only, a new note in principal amount equal to the unredeemed principal portion will be issued.

If an optional repayment right is specified in the pricing supplement relating to a series of notes, such notes may be subject to repayment at the option of the holders of such series of notes on any repayment date specified in the applicable

**Table of Contents**

pricing supplement. Exercise of the repayment option under the notes by the holders will also require the applicable trust to exercise a corresponding repayment option under the applicable funding agreement. On any such repayment date, unless otherwise specified in the applicable pricing supplement, the notes shall be repayable in whole or in part in increments of \$1,000 at the option of the holders thereof at a repayment price equal to 100% of the principal amount thereof to be repaid, together with interest thereon payable to the date of repayment. A holder of a series of notes exercising its repayment right must submit to the indenture trustee at its corporate trust office, or at such other place or places of which the relevant trust has notified such holder, the notes to be repaid together with the option to elect repayment form attached to the notes not more than 60 nor less than 30 calendar days prior to the date of repayment. Exercise of such repayment right by a holder shall be irrevocable. If a holder requests repayment in part only, a new note in principal amount equal to the principal portion of the notes not repaid will be issued.

None of the trusts will issue notes that may be repaid at the option of the holders prior to the stated maturity if such issuance would cause the relevant trust to fail to satisfy the applicable requirements for exemption under Rule 3a-7 under the Investment Company Act of 1940, as amended, and all applicable rules, regulations and interpretations thereunder.

Only DTC may exercise a repayment option in respect of notes issued in book-entry form. Accordingly, beneficial owners of notes that desire to exercise their repayment option, if any, with respect to all or any portion of such notes, must instruct the participant through which they own their interest to direct DTC to exercise the repayment option on their behalf by delivering the duly completed election form to the indenture trustee as aforesaid. In order to ensure that the election form is received by the indenture trustee on a particular day, the applicable beneficial owner must so instruct the participant through which it owns its interest before such participant's deadline for accepting instructions for that day. Participants may have different deadlines for accepting instructions from their customers. Accordingly, a beneficial owner should consult the participant through which it owns its interest in the notes for the participant's deadline for receiving payment instructions. In addition, at the time such instructions are given, each such beneficial owner will cause such participant to transfer such beneficial owner's interest in the notes issued in book-entry form, on DTC's records, to the indenture trustee.

No series of notes will be subject to, or entitled to the benefit of, any sinking fund unless otherwise specified in the applicable pricing supplement.

**Repayment Upon Exercise of Survivor's Option**

The survivor's option is the trust's agreement with the beneficial owner of a note to repurchase that note in whole or in part prior to maturity if requested, following the death of the beneficial owner of notes of that series, so long as the notes either were purchased by the deceased beneficial owner within ninety (90) days of their issuance or were held by the deceased beneficial owner for a period of six (6) months prior to such death. Unless otherwise specified in the applicable pricing supplement, the estate of the deceased beneficial owner of a note will be eligible to exercise the survivor's option.

Subject to the limitations described below, upon the valid exercise of the survivor's option, the proper tender of that note for repayment and the tender and acceptance of that portion of the funding agreement related to such note, a trust will repay any of its notes pursuant to the survivor's option by or on behalf of a person that has the legal authority to act on behalf of the note's deceased owner. Unless otherwise specified in the applicable pricing supplement, the repurchase price will be 100% of the unpaid principal amount plus accrued interest to, but excluding, the date of repayment.

Unless otherwise set forth in the applicable pricing supplement for your series of notes, the funding agreement securing your series of notes will contain a provision which will allow the trust to tender the funding agreement in

whole or in part to us. A trust's ability to tender the funding agreement related to a series of notes that contain a survivor's option will be subject to certain limitations set by us. As a result, your right to exercise the survivor's option is subject to limits set by us with respect to the relevant funding agreement. We have the discretionary right to limit:

the aggregate principal amount of all funding agreements securing all

S-30

---

**Table of Contents**

outstanding series of notes issued under the secured medium-term notes retail program as to which exercises of any put option by any trust shall be accepted by us in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under the secured medium-term notes retail program and the Principal® Life CoreNotes® program as of the end of the most recent calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement;

the aggregate principal amount of funding agreements securing the notes as to which exercises of any put option by the applicable trust attributable to notes as to which the survivor's option has been exercised by the authorized representative of any individual deceased beneficial owner to \$250,000 in any calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement; and

the aggregate principal amount of the funding agreement securing a series of notes as to which exercises of any put option by the applicable trust shall be accepted in any calendar year as set forth in the applicable funding agreement and the applicable pricing supplement.

In any such event, a trust shall similarly be required to limit the aggregate principal amount of notes as to which exercises of the survivor's option shall be accepted by the trust from authorized representatives of deceased beneficial owners. In addition, the exercise of the survivor's option will not be permitted for a principal amount less than \$1,000 or if such exercise will result in a note with a principal amount of less than \$1,000 to remain outstanding. All other questions, other than with respect to the right to limit the aggregate principal amount of notes subject to the survivor's option that will be accepted as to any series of notes or in any calendar year, regarding the eligibility or validity of any exercise of the survivor's option will be determined by the trustee for the trust, in its sole discretion, which determination will be final and binding on all parties. The indenture trustee, upon written request by the authorized representative of the deceased beneficial owner of notes, will request the trustee to provide the status of the remaining program and series limitations for such calendar year on the exercise of any survivor's option.

The trust will accept elections to exercise the survivor's option in the order received by the trustee of the trust. Notes that are not repaid in any calendar year due to the application of the limits described above will be treated as though they had been tendered on the first day of the following calendar year in the order in which they were originally tendered. Subject to the limitations described above, notes accepted for repayment will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of acceptance.

If repayment of a note submitted for repayment pursuant to a valid exercise of the survivor's option is not accepted or is to be delayed, the trustee of the trust will deliver a written notice by first-class mail to the depository that states the reason that repayment of that particular note has not been accepted or will be delayed.

A valid exercise of the survivor's option may not be withdrawn.

To exercise the survivor's option with respect to a book-entry note, the deceased owner's authorized person must provide the following items to the DTC participant through which the relevant beneficial interest is owned (for a discussion of DTC and its participants, see [About the Depository](#)):

a written instruction to the participant to notify DTC of the authorized person's desire to obtain a payment pursuant to the exercise of the survivor's option;

appropriate evidence (a) that the person has authority to act on behalf of the deceased owner, (b) of the death of the beneficial owner, (c) that the deceased was the beneficial owner of

S-31

---

**Table of Contents**

the notes at the time of death and (d) that the beneficial owner acquired the interest in the note either within ninety (90) days of their issuance or at least six (6) months prior to the date of death of such beneficial owner;

if the beneficial interest in the relevant note is held by a nominee of the deceased owner, a certificate from the nominee attesting to the deceased owner's ownership of a beneficial interest in that note;

a written request for repayment signed by the authorized person for the deceased owner with signature guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States;

if applicable, a properly executed assignment or endorsement;

tax waivers and any other instruments or documents reasonably required to establish the validity of the ownership of the beneficial interest in the related note and the claimant's entitlement to payment; and

any additional information reasonably required to document the ownership or authority to exercise the survivor's option and to cause the repayment of the related note.

In turn, on the basis of this information, the participant will be required to deliver to the indenture trustee a properly completed repayment election form to exercise the survivor's option, together with evidence satisfactory to the indenture trustee from the participant stating that it represents the deceased owner of the beneficial interest in the relevant note. The indenture trustee will then deliver these items to the trustee and will provide the trustee with any additional information (after receipt from the participant) the trustee may request in connection with such exercise.

Apart from our discretionary right to limit the principal amount of notes as to which the survivor's option may be exercised in any calendar year as described above, the trustee will determine all other questions regarding the eligibility or validity of any exercise of the survivor's option. The trustee's determination will be final and binding on all parties.

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others will be treated as the death of the owner of that note, and the entire principal amount so owned will be eligible for repayment.

The death of a person owning a note by tenancy in common will be treated as the death of the owner of that note only with respect to the deceased owner's interest in the note held by tenancy in common. However, if a note is held by husband and wife as tenants in common, the death of either spouse will be treated as the death of the owner of the note and the entire principal amount so owned will be eligible for repayment.

The death of a person who was a lifetime beneficiary of a trust that owns a note will be treated as the death of the owner of the note to the extent of that person's interest in the trust. The death of a person who was a tenant by the entirety or joint tenant in a tenancy which is the beneficiary of a trust that owns a note will be treated as the death of the owner of the note. The death of an individual who was a tenant in common in a tenancy which is the beneficiary of a trust that owns a note will be treated as the death of the owner of the note only with respect to the deceased person's beneficial interest in the note, unless a husband and wife are the tenants in common, in which case the death of either will be treated as the death of the owner of the note.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note will be treated as the death of the owner of the note if the beneficial interest can be established to

the trustee's satisfaction. This will be done in typical cases of nominee ownership, such as ownership under the Uniform Transfers of Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife and lifetime custodial and trust arrangements.

S-32

---

## **Table of Contents**

The applicable participant will be responsible for disbursing payments received from the indenture trustee, acting in its capacity as servicer, to the authorized person for the deceased owner.

Annex A to this prospectus supplement is the repayment election form for use by DTC participants in exercising the survivor's option. Copies of this form may be obtained from the trustee at its corporate trust office located at 100 Wall Street, 16th Floor, New York, New York 10005, attention: Corporate Trust Administration, telephone number: (212) 361-6184.

If applicable, the applicable trust will comply with the requirements of Section 14(e) of the Securities Exchange Act of 1934, as amended, the related regulations and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders.

### **Purchase of Notes by Us**

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us will be surrendered to the indenture trustee for cancellation. Concurrently with the surrender to the indenture trustee of any note, the funding agreement related to such note will be similarly redeemed.

If applicable, such applicable trust will comply with the requirements of Section 14(e) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repurchase of the notes by us.

### **Tax Redemption**

If a tax event as to the relevant funding agreement occurs, we will have the right to redeem the funding agreement and, upon such redemption, the applicable trust will redeem its series of notes in the same manner described under **Optional Redemption; Optional Repayment; No Sinking Fund** above. For further discussion of tax event redemption, see **Description of the Funding Agreements Early Redemption for Tax Event** in the accompanying prospectus.

### **Security; Non-Recourse Obligations**

Each series of notes will be solely the obligations of the related trust and will not be guaranteed by any person, including but not limited to us, PFG, any Agent, any of our or their affiliates or any other trust. A trust's obligations under its series of notes will be secured by all of its rights and title in a funding agreement issued by us, the payment obligations of which are guaranteed by the related guarantee issued by PFG to the trust and other rights and assets included in the applicable collateral held in the trust.

Since we will be the sole obligor under the funding agreement and PFG will be the sole obligor under the related guarantee, the trust's ability to meet its obligations, and your ability to receive payments from the trust, with respect to each applicable series of notes, will be principally dependent upon our ability to perform our obligations under the applicable funding agreement held in the relevant trust and PFG's ability to perform its obligations under the guarantee of our payment obligations under the related funding agreement. However, you will have no direct contractual rights against us or PFG under the funding agreement or the guarantee, respectively. Under the terms of the funding agreement and related guarantee, recourse rights to us or PFG, respectively, will belong to the trust, its successors and its permitted assignees, but only with respect to the relevant trust. In connection with the offering and sale of a series of notes, the trust will collaterally assign and grant a security interest in the relevant funding agreement for such series of notes to, and the trust will collaterally assign and grant a security interest in the related guarantee in favor of, the indenture trustee for the benefit of the holders of such series of notes. Accordingly, recourse to us under such funding agreement and to PFG under the related guarantee will be enforceable only by the indenture trustee as a secured party

on behalf of the holders of such series of notes by directing the indenture trustee under the limited circumstances described in the accompanying prospectus under Description of the Notes Certain Rights of Holders. See also Description of the Notes Nonrecourse Enforcement in the accompanying prospectus.

Since we and PFG are registrants, purchasers of notes may proceed directly against us and PFG to enforce their rights under the United States federal and state securities laws. The right by such purchasers to proceed against us, with respect to the applicable funding agreement, under the United States federal and state securities laws is no different than if we had issued the funding agreement directly to such purchasers. The right by such

## **Table of Contents**

purchasers to proceed against PFG, with respect to the applicable guarantee, under the United States federal and state securities laws is no different than if PFG had issued the guarantee directly to such purchasers.

### **Book-Entry Notes**

We have established a depository arrangement, on behalf of the trusts, with DTC with respect to the book-entry notes, the terms of which are summarized below.

All book-entry notes having the same terms will be represented by one or more global securities. Each global security will be deposited with, or on behalf of, DTC and will be registered in the name of DTC or its nominee. No global security may be transferred or exchanged except as a whole by DTC or a nominee of DTC to DTC or to another nominee of DTC, or by DTC or another nominee of DTC to a successor of DTC or a nominee of a successor to DTC. So long as DTC or its nominee is the registered holder of a global security, DTC or its nominee will be the sole owner of the related book-entry notes represented thereby for all purposes under the indenture. Except as otherwise provided below, the beneficial owners of the global security or securities represented by book-entry notes will not be entitled to receive physical delivery of definitive notes and will not be considered the registered holders of the book-entry notes for any purpose under the indenture and no global security representing book-entry notes will be exchangeable or transferable. As a result, to exercise any rights of a registered holder under the indenture, a beneficial owner must rely on the procedures of DTC and, if the beneficial owner is not a participant, on the procedures of the participant or participants through which the beneficial owner owns its interest. The laws of some jurisdictions require that some purchasers of securities take physical delivery of securities in definitive form. These laws may limit the ability to transfer beneficial interests in a global security represented by book-entry notes.

Each global security representing book-entry notes will be exchangeable for definitive notes having the same terms in a like aggregate principal amount only if:

the trust notifies the indenture trustee that the trust wishes in its sole discretion to exchange the global security for definitive notes;

an event of default on the notes of that series has occurred and has not been cured; or

DTC notifies us that it is unwilling or unable to continue as a clearing system for the global securities, or we have become aware that it has ceased to be a clearing agency registered under the Securities Exchange Act of 1934, as amended and, in either case, a successor clearing system is not appointed by us within 60 calendar days after receiving the notice from DTC or becoming aware that DTC is no longer registered.

If any of these events occurs, the appropriate trust will print and deliver definitive notes. Definitive notes issued under these circumstances will be registered in the names of the beneficial owners of the related global securities as provided to the indenture trustee by the participants identified by DTC.

### **About the Depository**

The following is based on information furnished by DTC:

DTC will act as securities depository for the book-entry notes. The book-entry notes will be issued as fully registered securities in the name of Cede & Co. (DTC's nominee) or another name requested by DTC. One fully registered global security will be issued for each issue of a series of book-entry notes in the aggregate principal amount of that issue and will be deposited with, or on behalf of, DTC. If the aggregate principal amount of any issue exceeds DTC's limit for a

single global security, then the global securities will be issued in the form of one or more global securities having a principal amount equal to DTC's limit and one or more additional global securities representing any remaining principal amount.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds

**Table of Contents**

securities that its direct participants deposit with it. DTC also facilitates the settlement among direct participants of transactions in deposited securities, such as transfers and pledges, through electronic computerized book-entry changes in direct participants' accounts. This eliminates the need for physical movement of securities certificates. DTC's direct participants include securities brokers and dealers (including the Agents), banks, trust companies, clearing corporations and other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to DTC's system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its direct and indirect participants are on file with the SEC.

Under DTC's system, purchases of book-entry notes must be made by or through direct participants, which will receive a credit for the book-entry notes on DTC's records. The ownership interest of the actual purchaser is in turn recorded on the records of the direct and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which they entered into the transaction. Transfers of ownership interests in book-entry notes are accomplished by entries made on the books of the direct and indirect participants acting on behalf of the beneficial owners. Beneficial owners will not receive definitive notes unless use of the book-entry system is discontinued as described above.

To facilitate subsequent transfers, all global securities representing the book-entry notes deposited with, or on behalf of, DTC will be registered in the name of DTC's nominee, Cede & Co., or any other name that DTC requests. The deposit of global securities with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the book-entry notes; DTC's records reflect only the identity of the direct participants to whose accounts the book-entry notes are credited, which may or may not be the beneficial owners. DTC's participants are responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications from DTC to direct participants, from direct participants to indirect participants and from direct participants and indirect participants to beneficial owners are governed by arrangements among them and are subject to statutory and regulatory requirements.

Neither DTC nor Cede & Co. will consent or vote with respect to global securities. Under its usual procedures, DTC mails an omnibus proxy to a company as soon as possible after a record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the book-entry notes are credited on the record date (identified in a listing attached to the omnibus proxy).

The trust will make payments on the global securities in immediately available funds to Cede & Co. or any other nominee named by DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that date. Payments by participants to beneficial owners are governed by standing instructions and customary practices and are subject to statutory and regulatory requirements. The trust and the trustee are responsible only for making payments to DTC; DTC is responsible for disbursing those payments to its direct participants and the direct participants (and any indirect participants) are solely responsible for disbursing those payments to the beneficial owners.

Any redemption notices will be sent to Cede & Co. If less than all of the book-entry notes having the same terms are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each direct participant in those notes to be redeemed.

A beneficial owner must give notice of any election to have its book-entry notes repaid through its participant to the indenture trustee. Delivery of the book-entry notes will be effected by causing the relevant direct participant to transfer the relevant part of its interest in the global securities to the indenture trustee on DTC's records.

DTC may discontinue providing its services as securities depository at any time by giving

**Table of Contents**

reasonable notice to us or the indenture trustee. If we do not obtain a successor securities depository, the applicable trust will print and deliver definitive notes.

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). If we do so, the applicable trust will print and deliver definitive notes.

**DESCRIPTION OF THE FUNDING AGREEMENTS**

Each trust will use the net proceeds from the issuance of a series of notes to the public and the issuance of the trust beneficial interest to the trust beneficial owner to purchase a funding agreement. The funding agreement will have substantially similar payment and other terms to the related series of notes. The funding agreement may be interest bearing or non-interest bearing. A funding agreement may bear interest at either a fixed or a floating rate, or a combination of fixed and floating rates, as specified in the applicable pricing supplement. The calculation of the interest rate, the dates of interest and maturity payments and such other payment terms on the funding agreement will be determined in the same manner as described above under Description of the Notes. An amount equal to the funding agreement deposit plus accrued but unpaid interest, if any, and accrued discount, if any (in the case of a discount funding agreement) will be payable on its stated maturity date, as specified in the applicable pricing supplement.

The pricing supplement relating to a series of notes will describe the following pricing terms of the related funding agreement:

the deposit amount for the funding agreement;

whether the funding agreement:

(1) is a fixed rate funding agreement,

(2) is a floating rate funding agreement, and/or

(3) is a discount funding agreement that does not bear interest currently or bears interest at a rate that is below market rates at the effective date;

the price at which the funding agreement will be issued, which will be expressed as a percentage of the aggregate deposit amount or face amount;

the effective date on which the funding agreement will be issued;

the stated maturity date;

if the funding agreement is a fixed rate funding agreement, the rate per annum at which the funding agreement will bear any interest and the interest payment date frequency;

if the funding agreement is a floating rate funding agreement, relevant terms such as:

(1) the interest rate basis, (2) the initial interest rate,

(3) the interest reset period or the interest reset dates,

(4) the interest payment dates,

- (5) the index maturity,
- (6) any maximum interest rate,
- (7) any minimum interest rate,
- (8) the spread and/or spread multiplier, and
- (9) any other terms relating to the particular method of calculating the interest rate for the funding agreement and whether and how the spread and/or spread multiplier may be changed prior to stated maturity;

whether the funding agreement may be redeemed by us, or repaid at the option of the trust, prior to the stated maturity and the terms of its redemption or repayment; provided in either case the relevant series of notes will contain substantially the same redemption and repayment terms and no funding agreement may be redeemed or repaid without the simultaneous redemption or repayment of the related series of notes; and

S-36

---

**Table of Contents**

any other terms of the funding agreement.

For a more detailed discussion of the funding agreements, see Description of the Funding Agreements in the accompanying prospectus.

**MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

The following is a general discussion of the material United States federal income tax considerations relating to the purchase, ownership and disposition of the notes by initial purchasers of the notes who are Holders (as defined below), purchase the notes at their issue price (determined as set forth below) and hold the notes as capital assets within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the Code). The statements set forth in the following discussion, to the extent they constitute matters of United States federal income tax law or legal conclusions with respect thereto, represent the opinion of Sidley Austin LLP, special United States income tax counsel to us. This discussion does not address all of the tax considerations that may be relevant to prospective purchasers in light of their particular circumstances or to persons subject to special rules under United States federal tax laws, such as certain financial institutions, insurance companies, real estate investment trusts, dealers in securities, tax-exempt entities, non-U.S. persons, persons who hold the notes as part of a straddle, hedging, conversion or other integrated transaction, persons who mark their securities to market for United States federal income tax purposes or persons whose functional currency (as defined in section 985 of the Code) is not the U.S. dollar. In addition, this discussion does not address the effect of any state, local or foreign tax laws or the effect of the U.S. federal alternative minimum tax. Accordingly, prospective purchasers are advised to consult their own tax advisors with respect to their individual circumstances.

This discussion is based on the Code, the Treasury Regulations promulgated thereunder and administrative and judicial pronouncements, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. Except where indicated, this discussion does not describe the tax consequences of holding a note that is treated as a variable rate debt instrument or a contingent payment debt instrument under applicable Treasury Regulations, and a general summary of any materially different federal income tax considerations relating to any such note will be included in the relevant pricing supplement.

For purposes of the following discussion, the term Holder means a beneficial owner of a note who or which is, for United States federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or of any political subdivision thereof or (iii) an estate or trust treated as a United States person under section 7701(a)(30) of the Code. This discussion does not address the tax considerations that may be relevant to a person who or which is not a Holder.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership, and special rules, not discussed in this prospectus supplement or the accompanying prospectus, may apply to such partners and partnerships. Such persons should consult their own tax advisors in that regard.

**Classification of the Notes and the Trust**

We intend to take the position, for United States federal income tax purposes, that each trust will be disregarded and that the notes will be treated as representing our indebtedness (the Intended Tax Characterization). Each Holder of a note (or any beneficial interest therein), by acceptance of the note (or beneficial interest), agrees to treat the trust with respect to which the note was issued and the note consistently with the Intended Tax Characterization.

Notwithstanding the Intended Tax Characterization, it is possible that a trust could be viewed as a separate entity for United States federal income tax purposes. Sidley Austin LLP is of the opinion that, under current law and assuming full compliance with the terms of the trust agreement and the indenture (and certain other documents), and based on certain facts and assumptions contained in such opinion, each trust will not be classified as an association (or publicly traded partnership) taxable as a corporation for United States federal income tax purposes. Accordingly, whether the Intended

S-37

---

**Table of Contents**

Tax Characterization is respected or not, each trust will not be treated as a taxable entity for United States federal income tax purposes. If a trust is viewed as a separate entity rather than disregarded, each Holder of a note (or any beneficial interest therein) agrees to treat the trust as a grantor trust and the notes as undivided ownership interests in such trust. If this were the case, a Holder would be required to include in income, consistent with its method of accounting, its pro rata share of any amounts paid to the relevant trust to satisfy expenses and would be entitled to deduct, consistent with its method of accounting, its pro rata share of any such expenses as provided in sections 162 and 212 of the Code. If the Holder is an individual, trust or estate, or to the extent the Holder's income is reportable on the income tax return of an individual, trust or estate, the deduction for such person's share of such expenses will be allowed only to the extent that all of such person's miscellaneous itemized deductions, including such person's share of the relevant trust's expenses, exceed two percent of such person's adjusted gross income. In addition, an individual's itemized deductions may be subject to other limitations. Accordingly, Holders who are individuals, or whose income is reported in whole or in part on the income tax return of a United States citizen or resident, should consult their tax advisors with respect to such deductions.

The remainder of this summary assumes that the Intended Tax Characterization is correct.

**Interest and Original Issue Discount**

Each Holder will include in income payments of qualified stated interest (as described below) in respect of such note, in accordance with such Holder's method of accounting for United States federal income tax purposes, as ordinary interest income. In general, if the issue price of a note, determined by the first price at which a substantial amount of the notes of the related series are sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers), is less than the stated redemption price at maturity (as described below) of such note by an amount equal to or more than a *de minimis* amount, a Holder will be considered to have purchased such note with original issue discount (OID). In general, the *de minimis* amount is equal to 1/4 of one percent of the stated redemption price at maturity multiplied by the number of complete years to maturity from the issue date of such note. If a Holder acquires a note with OID, then regardless of such Holder's method of accounting, such Holder will be required to accrue its pro rata share of OID on such note on a constant-yield basis and include such accruals in gross income, whether or not such Holder has received any cash payment on the notes. Any amount not treated as OID because it is less than the *de minimis* amount generally must be included in income (generally as gain from the sale of notes) as principal payments are received in the proportion that each such payment bears to the original principal amount of the note. Special rules apply to notes with a fixed maturity of one year or less. See Short Term Notes.

Stated redemption price at maturity means the sum of all payments to be made on a note other than payments of qualified stated interest. Qualified stated interest generally means stated interest that is unconditionally payable at least annually at a single fixed rate or, in the case of a variable rate debt instrument (as defined below), at a single qualified floating rate or single objective rate (as such terms are defined below).

In the case of a variable rate debt instrument with interest payable at a single qualified floating rate or a single objective rate, the amount of qualified stated interest and the amount of OID, if any, that accrues during an accrual period is generally determined assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate (each as defined below), the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate or (ii) in the case of an objective rate (as defined below, and other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the debt instrument, and the qualified stated interest (or, if there is no qualified stated interest, OID) allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period pursuant to clause (i) or (ii), as applicable. Special rules apply to a variable rate debt instrument that provides for stated interest at a fixed rate under certain circumstances. If a note is a

variable rate debt instrument but interest is payable at other than a single qualified floating rate or a single objective rate, special rules apply that are not discussed in this prospectus supplement or the accompanying prospectus.

S-38

---

**Table of Contents**

A **variable rate debt instrument** is a debt instrument that (i) has an issue price that does not exceed the total noncontingent principal payments by more than an amount equal to the lesser of (a) 0.015 multiplied by the product of such total noncontingent principal payments and the number of complete years to maturity of the instrument (or, in the case of a note providing for the payment of any amount other than qualified stated interest prior to maturity, multiplied by the weighted average maturity of the note) or (b) 15 percent of the total noncontingent principal payments, (ii) provides for stated interest (compounded or paid at least annually) at (A) one or more qualified floating rates, (B) a single fixed rate and one or more qualified floating rates, (C) a single objective rate or (D) a single fixed rate and a single objective rate that is a qualified inverse floating rate, (iii) except as provided in (i), does not provide for any principal payments that are contingent, and (iv) provides that a qualified floating rate or objective rate in effect at any time during the term of the instrument is set at the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

A **qualified floating rate** is generally a floating rate under which variations in the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which a debt instrument is denominated. A multiple of a qualified floating rate is not a qualified floating rate unless the relevant multiplier is (i) fixed at a number that is greater than 0.65 but not more than 1.35 or (ii) fixed at a number that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate. A variable rate is not considered a qualified floating rate if the variable rate is subject to a cap, floor, governor (i.e., a restriction on the amount of increase or decrease in the stated interest rate) or similar restriction that is reasonably expected as of the issue date to cause the yield on the note to be significantly more or less than the expected yield determined without the restriction (other than a cap, floor, governor or similar restriction that is fixed throughout the term of the note).

An **objective rate** is a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on objective financial or economic information, *provided, however*, that an objective rate will not include a rate based on information that is within the control of the issuer (or certain related parties of the issuer) or that is unique to the circumstances of the issuer (or certain related parties of the issuer), such as dividends, profits or the value of the issuer's stock. A **qualified inverse floating rate** is an objective rate (x) that is equal to a fixed rate minus a qualified floating rate and (y) the variations in which can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate (disregarding any caps, floors, governors or similar restrictions that would not, as described above, cause a rate to fail to be a qualified floating rate). Notwithstanding the first sentence of this paragraph, a rate is not an objective rate if it is reasonably expected that the average value of the rate during the first half of the note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the note's term. The Internal Revenue Service ( IRS ) may designate rates other than those specified above that will be treated as objective rates. As of the date of this prospectus supplement, no other rates have been designated.

If interest on a note is stated at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period, and the value of the variable rate on the issue date is intended to approximate the fixed rate, the fixed rate and the variable rate together constitute a single qualified floating rate or objective rate. A fixed rate and a variable rate will be conclusively presumed to meet the requirements of the preceding sentence if the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 0.25 percentage points (25 basis points).

If a floating rate note does not qualify as a variable rate debt instrument or otherwise provides for contingent payments, or if a fixed rate note provides for contingent payments, such note may constitute a contingent payment debt instrument. A note that is a contingent payment debt instrument is generally taxable as follows:

First, we are required to determine, as of the issue date, the comparable yield for the note. The comparable yield is generally the yield at which we would issue a fixed rate debt instrument with terms and conditions similar to those of

the note (including the level of subordination, term, timing of payments and general market conditions, but not

S-39

---

## **Table of Contents**

taking into consideration the riskiness of the contingencies or the liquidity of the note), but not less than the applicable federal rate based on the overall maturity of the notes (the AFR ). In certain cases where a contingent payment debt instrument is marketed or sold in substantial part to tax-exempt investors or other investors for whom the prescribed inclusion of interest is not expected to have a substantial effect on their U.S. federal tax liability, the comparable yield for the note, without proper evidence to the contrary, is presumed to be the AFR.

Second, we are required to construct a projected schedule of payments (the Schedule ). The Schedule is determined as of the issue date and generally remains in place throughout the term of the note. The Schedule includes each noncontingent payment and a projected payment for each contingent payment. The Schedule must produce the comparable yield determined as set forth above.

Third, each Holder will be required to treat all interest on the notes as OID and accrue such interest on a constant yield basis under the usual rules applicable to OID based on the comparable yield of the notes.

Fourth, appropriate adjustments are made to the OID determined under the foregoing rules to account for any differences between actual contingent payments and the projected payments on the Schedule.

Differences between the actual contingent payments made to a Holder in such Holder's taxable year and the projected payments for such taxable year are generally aggregated and taken into account, in the case of a positive difference, as additional interest income, or, in the case of a negative difference, first as a reduction in OID for such year and thereafter, subject to certain limitations, as ordinary loss, or, in certain cases, as a reduction in the amount realized by the Holder on the sale, exchange or retirement of the contingent payment debt instrument. We are required to provide to each holder of notes a copy of the Schedule. Our determination of the Schedule must be used by a Holder unless the Schedule is unreasonable and such Holder discloses to the IRS that it is using a different schedule. In general, any gain realized by a Holder on the sale, exchange, retirement or other disposition of a note that is a contingent payment debt instrument prior to the time no contingent payments remain is treated as interest income. In general, any loss on such a note is treated as ordinary loss to the extent it does not exceed such Holder's prior interest inclusions on the note (net of negative adjustments). The above described treatment of contingent payment debt instruments assumes that the instrument is properly treated as debt for U.S. federal tax purposes.

## **Premiums**

If the amount paid by a Holder for a note exceeds the stated redemption price at maturity of the note, the Holder generally will be considered to have purchased the note at a premium equal in amount to such excess. In this event, the Holder may elect to amortize such premium, generally on a constant-yield basis, as an offset to interest income. In the case of a note that may be redeemed prior to maturity, the premium is calculated assuming the trust and the Holder will exercise or not exercise redemption rights in a manner that maximizes the Holder's yield. It is unclear how premium is calculated when the redemption date or the amount of any redemption premium is uncertain. The election to amortize bond premium, once made, will apply to all debt obligations held or subsequently acquired by the electing Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

## **Short-Term Notes**

Notes that have a fixed maturity of one year or less ( Short-Term Notes ) will be treated as issued with OID. In general, an individual or other Holder that uses the cash method of accounting is not required to accrue such OID unless the Holder elects to do so. If such an election is not made, any gain recognized by such Holder on the sale, exchange, retirement or other disposition of Short-Term Notes will be ordinary income to the extent of the OID accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date

of sale, exchange, retirement or other disposition, and a portion of the deduction otherwise allowable to such Holder for interest on borrowings allocable to Short-Term Notes will be deferred until a corresponding amount of income is realized. Holders who report income for United States federal income tax purposes under the accrual method of accounting and certain other Holders are required to accrue OID related to a Short-Term Note as ordinary income on

## **Table of Contents**

a straight-line basis unless an election is made to accrue the OID under a constant yield method (based on daily compounding). A Holder of a Short-Term Note may elect to apply the foregoing rules (except for the rule characterizing gain on sale, exchange or retirement as ordinary) with respect to acquisition discount rather than OID. Acquisition discount is the excess of the stated redemption price at maturity of the Short-Term Note over the Holder's basis in the Short-Term Note. This election applies to all obligations acquired by the Holder on or after the first day of the first taxable year to which such election applies, unless revoked with the consent of the IRS. A Holder's tax basis in a Short-Term Note is increased by the amount included in such Holder's income on such a Note.

## **Sale, Exchange, Retirement or Other Disposition of Notes**

In general, a Holder of a note will have a tax basis in the note equal to the cost of the note to the Holder, increased by any amount includible in income by the Holder as OID and reduced (but not below zero) by any amortized premium and any payments other than qualified stated interest. Subject to the rules described above with respect to contingent payment debt instruments and above under Short-Term Notes, upon a sale, exchange, retirement or other disposition (including upon exercise of a survivor's option) of a note, a Holder will generally recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other disposition (less any amount realized that is attributable to accrued but unpaid interest, which will constitute ordinary income if not previously included in income) and the Holder's tax basis in such note. Any such gain or loss will be long-term capital gain or loss if the Holder held the note for more than one year at the time of disposition. A Holder that is an individual is entitled to preferential treatment for net long-term capital gains. The ability of a Holder to offset capital losses against ordinary income is limited.

## **Backup Withholding and Informa**