

defer payment of some or all of the taxes on the QEF's undistributed income subject to an interest charge on the deferred amount. Prospective purchasers of Income Notes should be aware that the Collateral Debt Obligations may be purchased by the Issuer with substantial original issue discount. As a result, the Issuer may have significant ordinary earnings from such instruments, but the receipt of cash attributable to such earnings may be deferred, perhaps for a substantial period of time. In addition, under certain circumstances, Interest Proceeds may be used to pay principal of the Senior Notes or to purchase additional Collateral Debt Obligations. Thus, absent an election to defer payment of taxes, U.S. holders that make a QEF election may owe tax on significant "phantom" income.

The Issuer will provide, upon request, all information that a U.S. holder of Income Notes making a QEF election is required to obtain for U.S. federal income tax purposes (e.g., the U.S. holder's *pro rata* share of ordinary income and net capital gain), will provide, upon request, a "PFIC Annual Information Statement" as described in Treasury Regulation 1.1295-1 (or in any successor IRS release or Treasury regulation), including all representations and statements required by such statement, and will take any other reasonable steps to facilitate such election. The Issuer shall also elect to calculate and report the amount and category of each type of long-term capital gain as provided in Section 1(h) of the Code that was recognized by the Issuer with respect to each taxable year of the Issuer.

If a U.S. holder does not make a timely QEF election for the year in which it acquired its Income Notes and the PFIC rules are otherwise applicable, such holder will be subject to a special tax at ordinary income rates on so-called "excess distributions," including both certain distributions from the Issuer and gain on the sale of Income Notes. The amount of income tax on excess distributions will be increased by an interest charge to compensate for tax deferral, calculated as if excess distributions were earned ratably over the period the taxpayer held its PFIC stock. In many cases, the tax on excess distributions will be more onerous than the treatment applicable if a timely QEF election were made. Classification as a PFIC may also have other adverse tax consequences including, in the case of individuals, the denial of a "step up" in the basis of the Income Notes at death.

Where a QEF election is not timely made by a U.S. holder for the year in which it acquired its Income Notes, but is made for a later year, the excess distribution rules can be avoided by making an election to recognize gain from a deemed sale of the Income Notes at the time when the QEF election becomes effective. A U.S. holder should consult with its own advisors regarding the U.S. federal income tax consequences of investing in a PFIC and the desirability of making the QEF election.

U.S. HOLDERS OF INCOME NOTES SHOULD CONSIDER CAREFULLY WHETHER TO MAKE A QEF ELECTION WITH RESPECT TO THE INCOME NOTES AND THE CONSEQUENCES OF NOT MAKING SUCH AN ELECTION.

Investment in a Controlled Foreign Corporation. Depending on the degree of ownership of the Income Notes by U.S. Shareholders, the Issuer may be a controlled foreign corporation ("CFC"). In general, a foreign corporation will be a CFC if more than 50% of the shares of the corporation, measured by combined voting power or value, is held, directly or indirectly, by U.S. Shareholders. A U.S. Shareholder ("U.S. Shareholder"), for this purpose, is any U.S. person that possesses 10% or more of the combined voting power of all classes of shares of a corporation. It is possible that the IRS would assert that the Income Notes are voting securities and that U.S. holders possessing 10% or more of such voting securities are U.S. Shareholders. If this argument were successful and more than 50% of the Income Notes were held by such U.S. Shareholders, the Issuer would be treated as a CFC.

Under the rules applicable to CFCs, subject to certain exceptions, a U.S. Shareholder of the Issuer at the end of a taxable year of the Issuer would be required to recognize ordinary income in an amount equal to that person's *pro rata* share of the "subpart F income" of the Issuer for the year. Among other items, and subject to certain exceptions, "subpart F income" includes interest, gains from the sale of securities and income from certain notional principal contracts (e.g., swaps and caps). It is likely that substantially all of the Issuer's income will be subpart F income. If more than 70% of the Issuer's income is subpart F income, then 100% of its income will be so treated.

Under the rules applicable to CFCs, a U.S. Shareholder of the Issuer would be taxable on the subpart F income of the Issuer under the CFC regime and not under the PFIC rules previously described. As a result, to the extent subpart F income of the Issuer includes net capital gains, such gains will be treated as ordinary income of the