UNIVERSAL INSURANCE HOLDINGS, INC.
Form 8-K
June 02, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934
June 1, 2011
Date of report (Date of earliest event reported)
Universal Insurance Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	001-33251	65-0231984
(State or other jurisdiction of incorporation or organization)	(Commission file number)	(IRS Employer Identification No.)

1110 W. Commercial Blvd. Suite 100, Fort Lauderdale, Florida 33309
(Address of Principal Executive Offices)
Registrant s telephone number, including area code: (954) 958-1200

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425).
o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12).
o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b)).
o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c)).

ITEM 8.01 Other Events.

On June 1, 2011, Universal Insurance Holdings, Inc. (the Company) announced the completion by Universal Property and Casualty Insurance Company (UPCIC), its wholly-owned subsidiary, of its 2011-2012 reinsurance program effective June 1, 2011. The announcement, a copy of which is furnished as Exhibit 99.1 to this report, is incorporated herein by reference. The following provides a description of the program.

Effective June 1, 2011, UPCIC entered into a quota share reinsurance contract with Everest Re. Under the quota share contract, through May 31, 2012, UPCIC cedes 50% of its gross written premiums, losses and LAE for policies with coverage for wind risk with a ceding commission equal to 25% of ceded gross written premiums. In addition, the quota share contract has a limitation for any one occurrence not to exceed $34,800,000 (of which UPCIC s net liability on the first $34,800,000 of losses in a first event scenario is $17,400,000, in a second event scenario is $17,400,000 and in a third event scenario is $30,000,000) and a limitation from losses arising out of events that are assigned a catastrophe serial number by the Property Claims Services (PCS) office not to exceed $69,600,000. The contract requires UPCIC to reassume 100% of the attritional loss and loss adjustment expense activity from 30% to 37.5% of gross written premium and has a limitation for loss adjustment expenses not to exceed 30% of indemnity losses paid during the contract period. Further, the contract limits the amount of premium which can be deducted for inuring reinsurance to $288,000,000, excluding reinstatement premiums, or $326,000,000, including reinstatement premiums, if any.

Effective June 1, 2011 through May 31, 2012, UPCIC entered into a multiple line excess per risk contract with various reinsurers. Under the multiple line excess per risk contract, UPCIC obtained coverage of $1,400,000 in excess of $600,000 ultimate net loss for each risk and each property loss, and $1,000,000 in excess of $300,000 for each casualty loss. A $7,000,000 aggregate limit applies to the term of the contract. Effective June 1, 2011 through May 31, 2012, UPCIC entered into a property per risk excess contract covering ex-wind only policies. Under the property per risk excess contract, UPCIC obtained coverage of $400,000 in excess of $200,000 for each property loss. A $2,000,000 aggregate limit applies to the term of the contract.

Effective June 1, 2011 through May 31, 2012, under an underlying excess catastrophe contract, UPCIC obtained catastrophe coverage of $140,200,000 in excess of $44,800,000 covering certain loss occurrences including hurricanes. UPCIC entered into this contract with a segregated account, which is owned by the Company, and was established by a third-party reinsurer in accordance with Bermuda law. The Company has secured the obligations of the segregated account by contributing the amount of the segregated account s liability for losses, net of UPCIC s required premium payments, to a trust account. The Company has contributed $31,025,138 of collateral to support the current terms of the June 1, 2011 to June 1, 2012 contract period. In the event of a loss under the terms of this contract, the capital contributed by the Company would be used to pay claims and would have an adverse effect on stockholders equity and cash resources.

Effective June 1, 2011 through May 31, 2012, under excess catastrophe contracts, UPCIC obtained catastrophe coverage of $541,300,000 in excess of $185,000,000 covering certain loss occurrences including hurricanes. The coverage of $541,300,000 in excess of $185,000,000 has a second full limit available to UPCIC; additional premium is calculated pro rata as to amount and 100% as to time, as applicable. Effective June 1, 2011 through May 31, 2012, UPCIC purchased reinstatement premium protection which reimburses UPCIC for its cost to reinstate the catastrophe coverage of the first $399,300,000 (part of $541,300,000) in excess of $185,000,000.

Effective June 1, 2011 through May 31, 2012, UPCIC also obtained subsequent catastrophe event excess of loss reinsurance to cover certain levels of UPCIC s net retention through three catastrophe events including hurricanes. Specifically, UPCIC obtained catastrophe coverage for a second event of $140,200,000 excess of $44,800,000 in excess of $140,200,000 otherwise recoverable. UPCIC also obtained catastrophe coverage for a third event of $155,000,000 excess of $30,000,000 in excess of $310,000,000 otherwise recoverable.

Effective June 1, 2011 through May 31, 2012, under an excess catastrophe contract specifically covering risks located in Georgia, North Carolina and South Carolina, UPCIC obtained catastrophe coverage of 50% of $24,800,000 in excess of $10,000,000 and 100% of $20,000,000 in excess of $34,800,000 covering certain loss occurrences including hurricanes. Both coverages have a second full limit available to UPCIC; additional premium is calculated pro rata as to amount and 100% as to time, as applicable. The cost of UPCIC s excess catastrophe contracts specifically covering risks in Georgia, North Carolina and South Carolina is $3,873,000.

UPCIC also obtained coverage from the Florida Hurricane Catastrophe Fund (FHCF). The approximate coverage is estimated to be for 90% of $1,193,000,000 in excess of $465,000,000. Also at June 1, 2011, the FHCF made available, and UPCIC obtained, $10,000,000 of additional catastrophe excess of loss coverage with one free reinstatement of coverage to carriers qualified as Limited Apportionment Companies or companies that participated in the Insurance Capital Build-Up Incentive Program, such as UPCIC. This particular layer of coverage is $10,000,000 in excess of $34,800,000.

The total cost of UPCIC s multiple line excess and property per risk reinsurance program effective June 1, 2011 through May 31, 2012 is $4,575,000, of which UPCIC s cost is $2,575,000, and the quota share reinsurer s cost is the remaining $2,000,000. The total cost of UPCIC s underlying excess catastrophe contract is $111,402,920. The total cost of UPCIC s private catastrophe reinsurance program effective June 1, 2011 through May 31, 2012 is $135,804,000, of which UPCIC s cost is 50%, or $67,902,000, and the quota share reinsurer s cost is the remaining 50%. In addition, UPCIC purchases reinstatement premium protection as described above, the cost of which is $22,414,376. UPCIC s cost of the subsequent catastrophe event excess of loss reinsurance is $19,847,300. The estimated premium that UPCIC plans to cede to the FHCF for the 2011 hurricane season is $74,600,526 of which UPCIC s cost is 50%, or $37,300,263, and the quota share reinsurer s cost is the remaining 50%. UPCIC is also participating in the additional coverage option for Limited Apportionment Companies or companies that participated in the Insurance Capital Build-Up Incentive Program offered by the FHCF, the premium for which is $5,000,000, of which UPCIC s cost is 50%, or $2,500,000, and the quota share reinsurer s cost is the remaining 50%. UPCIC is responsible for insured losses related to catastrophic events in excess of coverage provided by its reinsurance program. UPCIC also remains responsible for insured losses notwithstanding the failure of any reinsurer to make payments otherwise due to UPCIC. UPCIC s inability to satisfy valid insurance claims resulting from catastrophic events could have a material adverse effect on the Company s business, financial condition and results of operations.

The largest private participants in UPCIC s reinsurance program continue to include leading reinsurance companies such as Everest Re, Renaissance Re and Lloyd s of London syndicates.

ITEM 9.01 Financial Statements and Exhibits

(d) Exhibits:

99.1 Press Release, dated June 1, 2011.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 1, 2011

UNIVERSAL INSURANCE HOLDINGS, INC.

By: /s/ George R. De Heer
George R. De Heer
Chief Financial Officer

of the market value of the two companies prior to the merger using market values as of the day immediately before Russell determines that the action or event is final.

Between a constituent and a non-constituent: If the acquiring company is not a member of a Russell index, Russell will analyze the transaction to determine whether it constitutes a reverse merger. A reverse merger occurs when the acquiring company is a private, non-publicly traded company or OTC company, and the acquisition results in a transaction whereby a new publicly traded company is created that meets all of the requirements for inclusion in a Russell index based on market capitalization using the opening price on the day after the merger or acquisition is considered final. In such a case, the newly formed entity will be placed in the Russell 2000® Index, if appropriate, and the acquired company simultaneously removed from the Russell 2000® Index, after the close of the market on the day after the merger is considered final. If the event does not qualify as a reverse merger, the acquired company is deleted after the action is determined to be final.

Reincorporation Members of a Russell U.S. index, like the Russell 2000® Index , that reincorporate to another country and continue to trade in the United States and companies that reincorporate to the United States during the year are analyzed for assignment by Russell during annual reconstitution. Members that reincorporate in another country and no longer trade in the United States are immediately deleted from the Russell U.S. indices.

Rights Offerings Rights offered to shareholders are reflected in the index on the date the offer expires for non-transferable rights and on the ex-date for transferable rights. In both cases, the price is adjusted to account for the value of the right on the ex-date and the shares are increased according to the terms of the offering on that date. Rights issued in anticipation of a take-over event are excluded from this treatment.

Spin-offs and Initial Public Offerings The only additions between reconstitution dates result from spin-offs and initial public offerings. Spin-off companies are added to the parent company s index and capitalization tier of membership, if the spin-off is large enough. To be eligible, the spun-off company s total market capitalization must be greater than the market-adjusted total market capitalization of the smallest security in the Russell 3000E Index at the latest reconstitution. Eligible initial public offerings are added to the Russell 2000® Index at the end of each calendar quarter.

Tender Offers A company acquired as the result of a tender offer is removed when the offer has fully expired and when it is determined that the company will finalize the process with a short-form merger. Because this information is typically not available until after the close, the company will be removed the day after the process is final at the last traded market price.

Delisted and Halted Stocks When stocks are deleted from the index as a result of exchange de-listing or reconstitution, the price used will be the closing primary exchange price on the day the action is final (t), or the following day (t+1) using the closing OTC bulletin board price. Halted securities are not removed from the index until the time they are actually delisted from the exchange. If a security is halted, it remains in the index at the last traded price until the security resumes trading or is officially delisted.

Bankruptcy and Voluntary Liquidations Companies that file for a Chapter 7 liquidation bankruptcy or have filed a liquidation plan will be removed from the index at the time of the bankruptcy filing; whereas companies filing for a Chapter 11 reorganization bankruptcy will remain a member of the index, unless the company is de-listed from the primary exchange, in which case normal de-listing rules apply. If a company files for bankruptcy, is delisted and it can be confirmed that it will not trade OTC, Russell may remove the stock at a nominal price of $0.0001.

Stock Distributions A price adjustment for stock distributions is applied on the ex-date of the distribution. When the number of shares for the distribution is fixed, Russell increases the number of shares on the ex-date. When the number of shares is an undetermined amount based on future earnings and profits, Russell increases the number of shares on the pay-date.

Updates to Share Capital Changes to shares outstanding due to buybacks (including Dutch auctions), secondary offerings, merger activity with a non-index member and other potential changes are generally updated at the end of the month in which the change is reflected in vendor-supplied updates. Russell verifies this information using publicly available information filed with the Securities and Exchange Commission. Russell only applies such changes if the aggregate change in the number of shares outstanding is greater than 5%. The float factor determined during the most recent annual reconstitution is applied to this figure, and only the available shares will be added to the index. No such changes are made in June due to the most recent annual reconstitution.

License Agreement between Frank Russell Company and the Bank

Frank Russell Company (FRC) and the Bank have entered into a non-exclusive license agreement providing for the license to the Bank, and certain of its affiliates, in exchange for a fee, of the right to use the Russell 2000® Index in connection with securities, including the Notes. The Russell 2000® Index is owned and published by FRC.

The license agreement between FRC and the Bank provides that the following language must be set forth in this pricing supplement:

The Notes are not sponsored, endorsed, sold or promoted by FRC . FRC makes no representation or warranty, express or implied, to the owners of the Notes or any member of the public regarding the advisability of investing in securities generally or in the Notes particularly, or the ability of the Russell 2000® Index to track general stock market performance. FRC s only relationship to the Bank is the licensing of certain trademarks and trade names of Russell and of the Russell 2000® Index which is determined, composed and calculated by FRC without regard to the Bank or the Notes. FRC has no obligation to take the needs of the Bank or the owners of the Notes into consideration in determining, composing or calculating the Russell 2000® Index. FRC is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of the Notes to be issued or in the determination or calculation of the equation by which the Notes are to be converted into cash. FRC has no obligation or liability in connection with the administration, marketing or trading of the Notes.

FRC DOES NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN AND FRC SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN. FRC MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY THE BANK, OWNERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN. FRC MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN.

WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL FRC HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

Russell 2000® is a trademark of FRC and has been licensed for use by the Bank. The Notes are not sponsored, endorsed, sold or promoted by FRC and FRC makes no representation regarding the advisability of investing in the Notes.

Historical Information

The following table sets forth the quarterly high and low closing levels for the Reference Asset, based on daily closing levels. The closing level of the Reference Asset on July 30, 2012 was 791.58. ***Past performance of the Reference Asset is not indicative of the future performance of the Reference Asset.***

Quarter Begin	Quarter End	Quarterly High	Quarterly Low	Quarterly Close
1/2/2009	3/31/2009	514.71	343.26	422.75
4/1/2009	6/30/2009	531.68	429.16	508.28
7/1/2009	9/30/2009	620.69	479.27	604.28
10/1/2009	12/31/2009	634.07	562.40	625.39
1/4/2010	3/31/2010	690.30	586.49	678.64
4/1/2010	6/30/2010	741.92	609.49	609.49
7/1/2010	9/30/2010	677.64	590.03	676.14
10/1/2010	12/31/2010	792.35	669.45	783.65
1/3/2011	3/31/2011	843.55	773.18	843.55
4/1/2011	6/30/2011	865.29	777.20	827.43
7/1/2011	9/30/2011	858.11	643.42	644.16
10/3/2011	12/31/2011	765.43	609.49	740.92
1/3/2012	3/31/2012	846.13	747.28	830.30
4/2/2012	6/30/2012	840.63	737.24	798.49
7/2/2012*	7/30/2012*	818.49	767.75	791.58

* As of the date of this pricing supplement, available information for the third calendar quarter of 2012 includes data for the period from July 2, 2012 through July 30, 2012. Accordingly, the Quarterly High, Quarterly Low and Quarterly Close data indicated are for this shortened period only and do not reflect complete data for the third calendar quarter of 2012.

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The graph below illustrates the performance of the Reference Asset from January 2, 2002 through July 30, 2012. The dotted line represents a hypothetical Buffer Level of 672.843, which is equal to 85% of the closing level of the Reference Asset on July 30, 2012. In addition, below the graph is a table setting forth the year on year percentage gain or loss in the level of the Reference Asset. ***Past performance of the Reference Asset is not indicative of the future performance of the Reference Asset.***

Start of Period	End of Period	Percentage Increase or Decrease
7/30/2002	7/30/2003	17.93%
7/30/2003	7/30/2004	16.60%
7/30/2004	7/30/2005	23.85%
7/30/2005	7/30/2006	2.60%
7/30/2006	7/30/2007	11.94%
7/30/2007	7/30/2008	-8.34%
7/30/2008	7/30/2009	-22.40%
7/30/2009	7/30/2010	16.69%
7/30/2010	7/30/2011	21.81%
7/30/2011	7/30/2012	-0.16%

We obtained the information regarding the historical performance of the Reference Asset in the tables and graph above from Bloomberg Financial Markets.

We make no representation or warranty as to the accuracy or completeness of the information obtained from Bloomberg Financial Markets and have not undertaken an independent review or due diligence of the information. The historical performance of the Reference Asset should not be taken as an indication of its future performance, and no assurance can be given as to the Final Level of the Reference Asset. We cannot give you assurance that the performance of the Reference Asset will result in any positive return on your initial investment.

SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)

Scotia Capital (USA) Inc. or one of our affiliates will purchase the Notes at the Principal Amount and, as part of the distribution of the Notes, will sell the Notes to Goldman, Sachs & Co. at a discount and underwriting commissions of $2.50 per $1,000 Principal Amount of Notes in connection with the distribution of the Notes. In accordance with the terms of a distributor accession letter, Goldman, Sachs & Co. has been appointed as a distribution agent under the distribution agreement and may purchase Notes from The Bank of Nova Scotia or its affiliates. Scotia Capital (USA) Inc. will also receive a structuring and development fee of up to $0.50 per $1,000 Principal Amount of Notes.

In addition, Scotia Capital (USA) Inc. or another of its affiliates or agents may use the product prospectus supplement to which this pricing supplement relates in market-making transactions after the initial sale of the Notes. While Scotia Capital (USA) Inc. may make markets in the Notes, it is under no obligation to do so and may discontinue any market-making activities at any time without notice. See the sections titled Supplemental Plan of Distribution in the accompanying prospectus supplement and product prospectus supplement.

The price at which you purchase the Notes includes costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the Notes, as set forth above. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the Notes. As a result, you may experience an immediate and substantial decline in the market value of your Notes on the Issue Date.

We expect that delivery of the Notes will be made against payment therefor on or about the fifth business day following the date of pricing of the Notes (this settlement cycle being referred to as T+5). Under Rule 15c6-1 of the Securities and Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the Trade Date will be required, by virtue of the fact that each Note initially will settle in five business days (T+5), to specify alternative settlement arrangements to prevent a failed settlement.

Conflicts of Interest

Each of Scotia Capital (USA) Inc. and Scotia Capital Inc. is an affiliate of the Bank and, as such, has a conflict of interest in this offering within the meaning of FINRA Rule 5121. In addition, the Bank will receive the gross proceeds from the initial public offering of the Notes, thus creating an additional conflict of interest within the meaning of Rule 5121. Consequently, the offering is being conducted in compliance with the provisions of Rule 5121. Neither Scotia Capital (USA) Inc. nor Scotia Capital Inc. is permitted to sell Notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Scotia Capital (USA) Inc., Goldman, Sachs & Co. and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Scotia Capital (USA) Inc., Goldman, Sachs & Co. and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Bank, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, Scotia Capital (USA) Inc., Goldman, Sachs & Co. and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Bank. Scotia Capital (USA) Inc., Goldman, Sachs & Co. and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

CERTAIN CANADIAN INCOME TAX CONSEQUENCES

See Certain Income Tax Consequences Certain Canadian Income Tax Considerations at page S-20 of the Prospectus Supplement dated February 29, 2012.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The U.S. federal income tax consequences of your investment in the Notes are uncertain. No statutory, judicial or administrative authority directly discusses how the Notes should be treated for U.S. federal income tax purposes. We intend to treat the Notes as pre-paid cash-settled derivative contracts, Pursuant to the terms of the Notes, you agree to treat the Notes in this manner for all U.S. federal income tax purposes. If your Notes are so treated, you should generally recognize short-term capital gain or loss upon the sale, exchange or payment on maturity in an amount equal to the difference between the amount you receive at such time and the amount that you paid for your Notes.

For a more detailed discussion of the United States federal income tax consequences with respect to your Notes, you should carefully consider the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences in the accompanying product prospectus supplement and the discussion set forth in Certain United States Income Tax Considerations of the accompanying prospectus supplement. In particular, U.S. holders (as defined in the prospectus supplement) should review the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences Supplemental U.S. Tax Considerations U.S. Holders in the product prospectus supplement and Non-U.S. Holders (as defined in the prospectus supplement) should review the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences Supplemental U.S. Tax Considerations Non-U.S. Holders in the product prospectus supplement. U.S. holders should also review the discussion under Medicare Tax , Treasury Regulations Requiring Disclosure of Reportable Transactions , Information With Respect to Foreign Financial Assets and Information Reporting and Backup Withholding under Certain Incon Tax Consequences Certain United States Income Tax Considerations in the prospectus supplement.

We will not attempt to ascertain whether the issuer of any of the constituent stocks in the Reference Asset would be treated as a passive foreign investment company within the meaning of Section 1297 of the Internal Revenue Code of 1986, as amended (the Code) or a United States real property holding corporation within the meaning of Section 897 of the Code. If the issuer of one or more of such stocks were so treated, certain adverse U.S. federal income tax consequences could possibly apply. You should refer to any available information filed with the SEC by the issuers of the constituent stocks in the Reference Asset and consult your tax advisor regarding the possible consequences to you in this regard.

Because other characterizations and treatments are possible the timing and character of income in respect of the Notes might differ from the treatment described above. You should carefully review the discussion set forth in Alternative Treatments in the product prospectus supplement for the possible tax consequences of different characterizations or treatment of your Notes for U.S. federal income tax purposes. It is possible, for example, that the Internal Revenue Service (IRS) might treat the Notes as a series of derivative contracts, each of which matures on the next rebalancing date of the reference asset, in which case you would be treated as disposing of the Notes on each rebalancing date in return for a new derivative contract that matures on the next rebalancing date, and you would recognize capital gain or loss on each rebalancing date.

The IRS has also issued a notice that may affect the taxation of the Notes. According to the notice, the IRS and the Treasury Department are actively considering whether the holder of an instrument such as the Notes should be required to accrue ordinary income on a current basis, and they are seeking comments on the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the Notes will ultimately be required to accrue ordinary income currently and this could be applied on a retroactive basis. Holders are urged to consult their tax advisors concerning the significance, and the potential impact, of the above considerations. We intend to treat the Notes for U.S. federal income tax purposes in accordance with the treatment described above unless and until such time as the Treasury Department and the IRS determine that some other treatment is more appropriate.

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES TO THEM OF ACQUIRING, HOLDING AND DISPOSING OF NOTES AND RECEIVING PAYMENTS UNDER THE NOTES.