

\$35,075,000

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS



**Revenue Bonds (The Jackson Laboratory)
Series 2007**

Date of Original Issuance: September 12, 2007

Due: July 1, as shown below

This Reoffering Memorandum sets forth certain information supplementary to that contained in the Official Statement dated September 5, 2007 (the "Official Statement"), relating to the ABAG Finance Authority for Nonprofit Corporations Revenue Bonds (The Jackson Laboratory) Series 2007 (the "Bonds") issued by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") in the aggregate principal amount set forth above.

The information set forth in this Reoffering Memorandum is supplementary to that contained in the Official Statement and should be read together with the Official Statement, which Official Statement is attached hereto as Exhibit A and incorporated herein by reference. Except as set forth herein, this Reoffering Memorandum does not update, modify or replace the information contained in the Official Statement, which contains information only as of its date. Unless otherwise defined in this Reoffering Memorandum, all terms used herein shall have the same meanings as those terms have in the Official Statement.

As described in the Official Statement, a portion of the proceeds of the Bonds were used by The Jackson Laboratory (the "Borrower") to refund a portion of certain outstanding revenue bonds issued by the Authority on behalf of the Borrower and to pay costs incurred in connection with the issuance of the Bonds. The remainder of the proceeds of the Bonds are being used by the Borrower to finance the acquisition, construction, furnishing and/or equipping of certain research facilities of the Borrower and to pay capitalized interest on a portion of the Bonds, as described in the Official Statement.

The Bonds were issued pursuant to an Indenture of Trust, dated as of September 1, 2007 (the "Indenture"), by and between the Authority and Wells Fargo Bank, N.A., as trustee, as auction rate securities ("ARS") in a 7-day Auction Period in denominations of \$25,000 or any integral multiple thereof. The Bonds are fully-registered bonds registered in the name of a nominee of The Depository Trust Company, which acts as securities depository for the Bonds. The Borrower has elected to convert the Bonds from the Auction Period to a Fixed Rate Period pursuant to the Indenture. On April 23, 2008 (the "Fixed Rate Conversion Date"), the Bonds will be converted from ARS to bonds bearing interest at Fixed Rates, as set forth below. After the Fixed Rate Conversion Date, interest on the Bonds will be payable semiannually on January 1 and July 1 of each year, commencing July 1, 2008.

After the Fixed Rate Conversion Date, the Bonds will be subject to optional and mandatory redemption prior to their respective stated maturities as described herein.

MATURITY SCHEDULE

\$2,675,000 Serial Bonds

| <u>Maturity (July 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP†</u> | <u>Maturity (July 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP†</u> |
|--------------------------|-------------------------|----------------------|--------------|---------------|--------------------------|-------------------------|----------------------|--------------|---------------|
| 2008 | \$225,000 | 2.250% | 2.250% | 00037C MQ0 | 2013 | \$275,000 | 3.800% | 3.800% | 00037C MV9 |
| 2009 | 225,000 | 2.500 | 2.500 | 00037C MR8 | 2014 | 275,000 | 4.000 | 4.000 | 00037C MW7 |
| 2010 | 250,000 | 3.000 | 3.000 | 00037C MS6 | 2015 | 300,000 | 4.125 | 4.125 | 00037C MX5 |
| 2011 | 250,000 | 3.300 | 3.300 | 00037C MT4 | 2016 | 300,000 | 4.300 | 4.300 | 00037C MY3 |
| 2012 | 250,000 | 3.600 | 3.600 | 00037C MU1 | 2017 | 325,000 | 4.500 | 4.500 | 00037C MZ0 |

\$32,400,000 5.750% Term Bonds due July 1, 2037 Yield 5.750% CUSIP† 00037C NA4

Banc of America Securities LLC

Dated: April 3, 2008

† CUSIP Copyright 1999-2008, a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard & Poor's a division of The McGraw-Hill Companies, Inc.

This Reoffering Memorandum does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”), The Jackson Laboratory (the “Borrower”) or Banc of America Securities LLC (the “Remarketing Agent”) to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

The Remarketing Agent has provided the following sentence for inclusion in this Reoffering Memorandum: The Remarketing Agent has reviewed the information in this Reoffering Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

Estimates and opinions included in this Reoffering Memorandum should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Reoffering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Borrower since the date hereof.

REOFFERING MEMORANDUM

\$35,075,000

**ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
REVENUE BONDS
(THE JACKSON LABORATORY)
SERIES 2007**

GENERAL

Purpose of Reoffering Memorandum

This Reoffering Memorandum, including the cover page and appendices hereto (this “Reoffering Memorandum”), provides certain information in connection with the conversion of \$35,075,000 aggregate principal amount of the ABAG Finance Authority for Nonprofit Corporations Revenue Bonds (The Jackson Laboratory), Series 2007 (the “Bonds”) from an Auction Period to a Fixed Rate Period.

This Reoffering Memorandum sets forth certain information supplementary to that contained in the Official Statement dated September 5, 2007 (the “Official Statement”), relating to the Bonds issued by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”).

The information set forth in this Reoffering Memorandum is supplementary to that contained in the Official Statement and should be read together with the Official Statement, which Official Statement is attached hereto as Exhibit A and incorporated herein by reference. Except as set forth herein, this Reoffering Memorandum does not update, modify or replace the information contained in the Official Statement, which contains information only as of its date. Unless otherwise defined in this Reoffering Memorandum, all terms used herein shall have the same meanings as those terms have in the Official Statement.

The Bonds were issued pursuant to an Indenture of Trust, dated as of September 1, 2007 (the “Indenture”), by and between the Authority and Wells Fargo Bank, N.A., as trustee (the “Trustee”), as auction rate securities in a 7-day Auction Period in denominations of \$25,000 or any integral multiple thereof. The Bonds are fully-registered bonds registered in the name of a nominee of The Depository Trust Company, which acts as securities depository for the Bonds.

The Borrower has elected to convert the Bonds from an Auction Period to a Fixed Rate Period pursuant to the Indenture. On April 23, 2008 (the “Fixed Rate Conversion Date”), the Bonds will be converted from ARS to bonds bearing interest at Fixed Rates, as set forth on the cover page hereof. From the Fixed Rate Conversion Date through the stated maturity or prior redemption of the Bonds, interest on the Bonds will be payable semiannually on January 1 and July 1 of each year, commencing July 1, 2008. See “THE BONDS” herein.

The Bonds will be reoffered to the public by Banc of America Securities LLC (the “Remarketing Agent”). See “REOFFERING.”

The Project

As described in the Official Statement, a portion of the proceeds of the Bonds were used by the Borrower to refund a portion of certain outstanding revenue bonds issued by the Authority on behalf of the Borrower and to pay costs incurred in connection with the issuance of the Bonds. The remainder of the proceeds of the Bonds are being used by the Borrower to finance the acquisition, construction,

furnishing and/or equipping of certain research facilities of the Borrower in Sacramento, California (the "Sacramento Facility") and to pay capitalized interest on a portion of the Bonds, as described in the Official Statement.

As described in the Appendix A to the Official Statement, the Sacramento Facility is being developed initially in two phases. As of February 2008, phase two of the Project had commenced. Contractors have completed the interior demolition, foundational plumbing and electrical work and structural reinforcements, accomplished approximately half of the re-roofing, and begun erecting steel framing and other internal alterations at the Sacramento Facility. The Laboratory received a structural permit for the upcoming work from the City of Sacramento on January 21, 2008 and expects to receive a tenant improvement permit in April 2008. The work originally contemplated for the Project has been performed in accordance with the budget.

In November 2007, the Laboratory's Board approved an expansion of the Project in order to add two more production animal rooms and to complete the structural work for a full second floor (originally expected to be completed at a later date) throughout the remainder of the building. This expansion increases the occupied space by 15,000 square feet, for a total of approximately 100,000 square feet. The additional cost of expansion (approximately \$6.5 million) will be covered by Laboratory funds and not Bond proceeds. Given the larger scope of the Project, completion of all internal improvements is now expected to occur by the end of 2008, with the Laboratory transferring its operations to the Sacramento Facility shortly thereafter.

Continuing Disclosure

In connection with the original issuance of the Bonds, the Borrower entered into a Continuing Disclosure Agreement, dated as of September 1, 2007 (the "Continuing Disclosure Agreement"), with Wells Fargo Bank, N.A., as Trustee and as dissemination agent. A form of the Continuing Disclosure Agreement is set forth in the Official Statement in Appendix F – "FORM OF CONTINUING DISCLOSURE AGREEMENT." In connection with the Conversion of the Bonds to the Fixed Rate Period, the Borrower has agreed to provide quarterly financial statements, consisting of an unaudited balance sheet and a statement of revenue/expenses prepared by the Borrower. See Appendix C – "FORM OF AMENDMENT TO CONTINUING DISCLOSURE AGREEMENT."

Rating

In connection with the Borrower's proposed Conversion of the Bonds to the Fixed Rate Period, Moody's has affirmed the "A1" rating on the Bonds. Any explanation of the significance of such rating may only be obtained from Moody's. There is no assurance that the foregoing rating will remain in effect for any given period of time or that the rating might not be lowered or withdrawn entirely, if in the judgment of the rating agency originally establishing the rating, circumstances so warrant. Except as otherwise provided in the Continuing Disclosure Agreement, the Authority, the Borrower and the Remarketing Agent have not undertaken any responsibility to bring to the attention of the Bondholders any proposed change in or withdrawal of such rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of a rating might have an adverse effect on the market price or marketability of the Bonds.

THE BONDS

General

The Bonds will be reoffered as fully-registered bonds, in book-entry only form, in denominations of \$5,000 or any integral multiple thereof. The Bonds will bear interest at the respective rates and mature on the dates set forth on the cover page of this Reoffering Memorandum. Interest on the Bonds will be payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date"), commencing July 1, 2008. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication unless such date of authentication is after a Record Date and on or before the next succeeding Interest Payment Date, in which event such Bond will bear interest from such Interest Payment Date. Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

So long as the Bonds are book-entry bonds (as described in Appendix C to the Official Statement), payment of the principal of and interest and premium, if any, on the Bonds will be made by wire transfer by the Trustee to DTC, to the account of Cede & Co. In the event the Bonds are no longer book-entry bonds, interest on the Bonds will be paid by the Trustee on the applicable payment dates by wire transfer of immediately available funds on the applicable Record Date to an account specified by the Owner thereof in writing delivered to the Trustee and the principal at maturity will be paid upon presentation and surrender at the Principal Office of the Trustee, provided, however, that if an Owner of \$1,000,000 or more aggregate outstanding principal amount of the Bonds gives the Trustee written notice of such holding accompanied by sufficient wire transfer instructions, the payments of interest on such Owner's Bonds will be payable by wire transfer of immediately available funds. The Record Date with respect to the Bonds will be, whether or not a Business Day, the fifteenth day of the month prior to any Interest Payment Date.

Redemption

Extraordinary Mandatory Redemption. The Bonds are subject to redemption prior to their stated maturity date, at the option of the Authority (exercised as directed by the Borrower), in whole or in part on any date, from hazard insurance or condemnation proceeds received with respect to the Facilities at a redemption price equal to the principal amount thereof, plus interest accrued thereon to the date fixed for redemption, without premium.

Optional Redemption. The Bonds are subject to redemption prior to their maturity date, at the option of the Authority (exercised as directed by the Borrower), in whole or in part, as follows: on July 1, 2015 and on any date thereafter to and including June 30, 2016 at a redemption price equal to 102% of the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption; on July 1, 2016 and on any date thereafter to and including June 30, 2017 at a redemption price equal to 101% of the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption; and on July 1, 2017 and on any date thereafter at a redemption price equal to 100% of the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds are also subject to redemption in part prior to their stated maturity date from Sinking Fund Installments on each July 1 on or after July 1, 2018, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium, as set forth below:

| <u>Payment Date</u> <u>(July 1)</u> | <u>Principal Amount</u> | <u>Payment Date</u> <u>(July 1)</u> | <u>Principal Amount</u> |
|--|-------------------------|--|-------------------------|
| 2018 | \$ 325,000 | 2028 | \$ 675,000 |
| 2019 | 325,000 | 2029 | 700,000 |
| 2020 | 350,000 | 2030 | 725,000 |
| 2021 | 350,000 | 2031 | 750,000 |
| 2022 | 375,000 | 2032 | 3,750,000 |
| 2023 | 575,000 | 2033 | 3,900,000 |
| 2024 | 575,000 | 2034 | 4,050,000 |
| 2025 | 625,000 | 2035 | 4,200,000 |
| 2026 | 625,000 | 2036 | 4,350,000 |
| 2027 | 650,000 | 2037* | 4,525,000 |

*Maturity.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Trustee is required to select the Bonds to be redeemed, from all such Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion deems appropriate and fair; provided, however, that all redemptions will be in Authorized Denominations and that the Bonds which are not redeemed will be in Authorized Denominations.

Notice of Redemption. As long as the Bonds are registered in the name of DTC or its nominee, notice of redemption will be given, and Bonds will be selected for redemption, only as set forth in the Letter of Representations given by the Authority to DTC. See the captions “BOOK-ENTRY SYSTEM” and Appendix C – “BOOK-ENTRY SYSTEM” in the Official Statement.

The Trustee will mail by first-class mail, postage prepaid, to the registered owners of all Bonds to be redeemed, at the registered addresses appearing in the registration books kept for such purpose, notice of redemption at least 30 days prior to the redemption date. Each notice of redemption is required to state the date of such notice, the date of issue of the Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity, the CUSIP numbers, if any, and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. The failure by the Trustee to mail notice of redemption to any one or more of the respective Holders of any Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

Any notice given as described in the above provisions may be rescinded by written notice given to the Trustee by an Authorized Representative of the Borrower no later than five Business Days prior to the date specified for redemption. The Trustee is required to give notice of such rescission as soon thereafter as practicable in the same manner, and to the same Persons, as notice of such redemption was given as described in the previous paragraph.

In addition to the foregoing notice, further notice will be given by the Trustee to certain registered securities depositories and information services as provided in the Indenture, but no defect in such further notice nor any failure to give all or any portion thereof will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed in the Indenture.

DEBT SERVICE SCHEDULE

The following table shows the debt service that will be due on the Bonds in each fiscal year after the Fixed Rate Conversion Date:

| Fiscal Year Ending May 31⁽¹⁾ | Principal | Interest | Total Annual Debt Service |
|--|----------------------|-------------------------|--------------------------------------|
| 2009 | \$ 225,000 | \$ 1,347,544.58 | \$ 1,572,544.58 |
| 2010 | 225,000 | 1,951,912.50 | 2,176,912.50 |
| 2011 | 250,000 | 1,945,350.00 | 2,195,350.00 |
| 2012 | 250,000 | 1,937,475.00 | 2,187,475.00 |
| 2013 | 250,000 | 1,928,850.00 | 2,178,850.00 |
| 2014 | 275,000 | 1,919,125.00 | 2,194,125.00 |
| 2015 | 275,000 | 1,908,400.00 | 2,183,400.00 |
| 2016 | 300,000 | 1,896,712.50 | 2,196,712.50 |
| 2017 | 300,000 | 1,884,075.00 | 2,184,075.00 |
| 2018 | 325,000 | 1,870,312.50 | 2,195,312.50 |
| 2019 | 325,000 | 1,853,656.25 | 2,178,656.25 |
| 2020 | 325,000 | 1,834,968.75 | 2,159,968.75 |
| 2021 | 350,000 | 1,815,562.50 | 2,165,562.50 |
| 2022 | 350,000 | 1,795,437.50 | 2,145,437.50 |
| 2023 | 375,000 | 1,774,593.75 | 2,149,593.75 |
| 2024 | 575,000 | 1,747,281.25 | 2,322,281.25 |
| 2025 | 575,000 | 1,714,218.75 | 2,289,218.75 |
| 2026 | 625,000 | 1,679,718.75 | 2,304,718.75 |
| 2027 | 625,000 | 1,643,781.25 | 2,268,781.25 |
| 2028 | 650,000 | 1,607,125.00 | 2,257,125.00 |
| 2029 | 675,000 | 1,569,031.25 | 2,244,031.25 |
| 2030 | 700,000 | 1,529,500.00 | 2,229,500.00 |
| 2031 | 725,000 | 1,488,531.25 | 2,213,531.25 |
| 2032 | 750,000 | 1,446,125.00 | 2,196,125.00 |
| 2033 | 3,750,000 | 1,316,750.00 | 5,066,750.00 |
| 2034 | 3,900,000 | 1,096,812.50 | 4,996,812.50 |
| 2035 | 4,050,000 | 868,250.00 | 4,918,250.00 |
| 2036 | 4,200,000 | 631,062.50 | 4,831,062.50 |
| 2037 | 4,350,000 | 385,250.00 | 4,735,250.00 |
| 2038 | <u>4,525,000</u> | <u>130,093.75</u> | <u>4,655,093.75</u> |
| Total | \$ 35,075,000 | \$ 46,517,507.08 | \$ 81,592,507.08 |

CERTAIN TAX MATTERS

Since the date of the Official Statement, the U.S. Supreme Court has heard oral argument on *Davis v. Kentucky Department of Revenue of the Finance and Administration Cabinet*, 197 S.W.3d 557 (2006) (“*Davis v. Kentucky*”), a case noted under the caption “TAX MATTERS” in the Official Statement. As of the date of this Reoffering Memorandum, the U.S. Supreme Court has not issued its opinion in *Davis v. Kentucky*.

⁽¹⁾ The Borrower anticipates changing its fiscal year from a fiscal year ending on May 31 to a fiscal year ending on December 31. As of the date of this Reoffering Memorandum, the Borrower has not determined when the change will be implemented. The Borrower will, however, give notice of the change in its fiscal year to the Holders of the Bonds pursuant to the Continuing Disclosure Agreement.

EXHIBIT A
OFFICIAL STATEMENT

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In the opinion of Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Authority and the Borrower described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Bond Counsel is further of the opinion that, under existing law, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein regarding certain other tax considerations.

\$35,075,000

**ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
REVENUE BONDS (THE JACKSON LABORATORY)
SERIES 2007**

**(Auction Rate Securities)****CUSIP No.† 00037CLX6****Dated:** Date of Delivery**Price:** 100%**Due:** July 1, 2037

This cover page contains certain information for general reference only. It is not intended to be a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used but not defined on this cover page shall have the meanings given such terms in the Official Statement.

The ABAG Finance Authority for Nonprofit Corporations Revenue Bonds (The Jackson Laboratory) Series 2007 (the "Bonds") are being issued in fully-registered form in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Bonds. Purchasers of the Bonds will not receive physical certificates representing their beneficial ownership in the Bonds purchased. The principal of and interest and premium, if any, on the Bonds will be payable by Wells Fargo Bank, N.A., as trustee, to DTC. DTC is required to remit such payments to its Participants for subsequent disbursement to the beneficial owners of the Bonds. Beneficial owners' rights will be governed as to such payments, the receipt of notices (including any notice of redemption) and other communications and various other matters by the rules and operating procedures applicable to the DTC book-entry system. See Appendix C – "BOOK-ENTRY SYSTEM" herein.

The Bonds are being issued by the ABAG Finance Authority for Nonprofit Corporations (the "Authority"), which will loan the proceeds of the Bonds to

THE JACKSON LABORATORY

(the "Borrower") pursuant to a Loan Agreement (the "Loan Agreement"). Proceeds of the Bonds will be used by the Borrower to (i) refund a portion of certain outstanding revenue bonds issued by the Authority on behalf of the Borrower, (ii) finance the acquisition, construction, furnishing and/or equipping of certain research facilities of the Borrower, (iii) pay capitalized interest on a portion of the Bonds and (iv) pay costs incurred in connection with the issuance of the Bonds. See "Plan of Finance" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

The Authority is obligated to pay the Bonds solely from the Revenues received from the Borrower under the Loan Agreement and the other funds available therefor under the Indenture. The Borrower's payment obligations under the Loan Agreement are general, unsecured obligations of the Borrower.

The Bonds will be initially issued as auction rate securities in a 7-day Auction Period in denominations of \$25,000 or any integral multiple thereof. Each Auction Period Rate for the Bonds will, except in certain cases, be equal to the annual interest rate that results from the implementation of the Auction Procedures described in Appendix E hereto. At the election of the Borrower, the Bonds may bear interest at Auction Period Rates determined on the basis of a daily Auction Period, 28-day Auction Period, 35-day Auction Period, three-month Auction Period, six-month Auction Period or Flexible Auction Period or may be converted to another Interest Rate Period (including a Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period or Fixed Rate Period) as described herein. The Bonds will be subject to mandatory tender for purchase upon a Conversion to an Interest Rate Period other than the Auction Rate Period; however the Purchase Price of such tendered Bonds will be payable solely from the proceeds of the remarketing of the Bonds upon such Conversion. While the Bonds bear interest at Auction Period Rates, a beneficial owner of a Bond may sell, transfer or dispose of a Bond only in accordance with the Auction Procedures or through a Broker-Dealer for the Bonds. Certain additional terms relating to the Bonds for such 7-day Auction Periods are described on the inside cover hereof.

This Official Statement describes the Bonds only while bearing interest at Auction Period Rates. Investors should not rely upon the information in this Official Statement in the event the Bonds are converted to an Interest Rate Period other than an Auction Rate Period. Rather, investors should rely upon the offering document used in connection with any such Conversion.

THE BONDS ARE SUBJECT TO OPTIONAL AND MANDATORY REDEMPTION, MANDATORY SINKING FUND REDEMPTION AND MANDATORY TENDER FOR PURCHASE PRIOR TO MATURITY, AS DESCRIBED HEREIN.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

The Bonds are offered when, as and if issued by the Authority and accepted by the Underwriter subject to the approval of legality by Nixon Peabody LLP, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriter by Orrick, Herrington & Sutcliffe LLP, for the Authority by Nixon Peabody LLP, and for the Borrower by Ropes & Gray LLP. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about September 12, 2007.

Banc of America Securities LLC

Underwriter and Broker-Dealer for the Bonds

Dated: September 5, 2007.

† CUSIP Copyright 2007, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP service bureau, a division of The McGraw Hill Companies.

\$35,075,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
REVENUE BONDS
(THE JACKSON LABORATORY)
SERIES 2007

(Auction Rate Securities)

The Bonds will bear interest from the date of delivery thereof to September 18, 2007 at an initial Auction Period Rate established by the Underwriter for the Bonds prior to such date of delivery. Thereafter, the Bonds will bear interest for generally successive 7-day Auction Periods, until the Borrower elects to change the Auction Period or Convert the Bonds to another Interest Rate Period, as described herein. See "THE BONDS." Interest will be payable on the initial Interest Payment Date set forth below and thereafter generally on each Wednesday (or the Business Day immediately following each Auction Period for the Bonds). Auctions will be held on the first Auction Date set forth below and thereafter generally on each Tuesday (or the Business Day immediately preceding each Interest Payment Date).

| <i>Initial Interest Payment Date</i> | <i>First Auction Date</i> | <i>Auction Date Generally</i> | <i>Interest Payment Date Generally</i> | <i>Initial Length of Auction Periods Generally</i> |
|--|-------------------------------|-----------------------------------|--|--|
| September 19, 2007 | September 18, 2007 | Tuesday | Wednesday | 7 days |

Wells Fargo Bank, N.A. will act as the initial Auction Agent and Banc of America Securities LLC will act as the initial Broker-Dealer for the Bonds. For additional information relating to the Auction Agent and the Broker-Dealer, see "INVESTMENT CONSIDERATIONS – Certain Considerations Affecting Auction Rate Securities" and "BROKER-DEALER AND AUCTION AGENT."

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”), The Jackson Laboratory (the “Borrower”) or Banc of America Securities LLC (the “Underwriter”) to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

The information set forth herein under the caption “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION – The Authority” has been obtained from the Authority. All other information set forth herein has been obtained from the Borrower and other sources which are believed to be current and reliable, but is not to be construed as a representation by the Authority.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Estimates and opinions included in this Official Statement should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Borrower since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$35,075,000

**ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
REVENUE BONDS
(THE JACKSON LABORATORY)
SERIES 2007**

(Auction Rate Securities)

INTRODUCTION

This Introduction contains only a brief summary of certain of the terms of the Bonds being offered and a full review should be made of the entire Official Statement, including the cover page and the Appendices in order to make an informed investment decision. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

General

This Official Statement, including the cover page and Appendices hereto (this “Official Statement”), provides certain information in connection with the offering of \$35,075,000 aggregate principal amount of the ABAG Finance Authority for Nonprofit Corporations Revenue Bonds (The Jackson Laboratory), Series 2007 (the “Bonds”).

The Bonds will be issued pursuant to the provisions of the Indenture of Trust, dated as of September 1, 2007 (the “Indenture”), between the ABAG Finance Authority for Nonprofit Corporations (the “Authority”) and Wells Fargo Bank, N.A., as trustee (the “Trustee”). The Authority will lend the proceeds of the Bonds to The Jackson Laboratory (the “Borrower”) pursuant to a Loan Agreement, dated as of September 1, 2007, between the Authority and the Borrower (the “Loan Agreement”). Capitalized terms used but not defined herein are defined in Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS.”

The Bonds

This Official Statement describes the Bonds only while bearing interest at Auction Period Rates. Investors should not rely upon the information in this Official Statement in the event the Bonds are converted to a Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period or Fixed Rate Period. Rather, investors should rely upon the offering document used in connection with any such Conversion from an Auction Rate Period to another Interest Rate Period.

The Bonds are being issued initially as auction rate securities or “ARS.” The Bonds will bear interest from the date of delivery thereof to the date set forth on the inside cover page of this Official Statement at an initial Auction Period Rate established by the Underwriter for the Bonds prior to such date of delivery. Thereafter, the Bonds will bear interest for generally successive 7-day Auction Periods, until the Borrower elects to change the Auction Period (to a daily Auction Period, 28-day Auction Period, 35-day Auction Period, three-month Auction Period, six-month Auction Period or Flexible Auction Period) or Convert the Bonds to another Interest Rate Period, as described herein. The Bonds will be subject to mandatory tender for purchase upon a Conversion to an Interest Rate Period other than the Auction Rate Period; however the Purchase Price of such tendered Bonds will be payable solely from the proceeds of the remarketing of the Bonds upon such Conversion.

Interest will be payable on the date set forth on the inside cover page of this Official Statement, and thereafter generally on the Business Day immediately following each Auction Period for the Bonds. Auctions will be held on the first Auction Date set forth on the inside cover page of this Official Statement, and thereafter generally on the Business Day immediately preceding each Interest Payment Date. Each Auction Period Rate for the Bonds will, except in certain cases, be equal to the annual interest rate that results from the implementation of the Auction Procedures summarized in Appendix E — “SUMMARY OF CERTAIN PROVISIONS RELATING TO AUCTION RATE SECURITIES AND THE AUCTION PROCEDURES.” Each such Auction Period Rate will remain in effect until the end of the related Auction Period.

The Auction Dates and Auction Periods for the Bonds are subject to adjustment, as described further herein.

While the Bonds bear interest at an Auction Period Rate, (i) such Bonds are subject to redemption prior to their stated maturity, as described herein and (ii) a beneficial owner thereof may sell, transfer or dispose of a Bond only in accordance with the Auction Procedures or through a Broker-Dealer for the Bonds. See “THE BONDS,” Appendix D — “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” and Appendix E — “SUMMARY OF CERTAIN PROVISIONS RELATING TO AUCTION RATE SECURITIES AND THE AUCTION PROCEDURES” for additional information with respect to the terms of the Bonds.

Sources of Payment of the Bonds

The Authority is obligated to pay the Bonds solely from the Revenues received from the Borrower under the Loan Agreement and the other funds available therefor under the Indenture. Pursuant to the Indenture, the Authority has pledged to the Trustee for the benefit of the Bondholders all of the Revenues received thereunder.

Under the Loan Agreement, the Borrower has pledged its full faith and credit to the payment of the Loan Payments to be made thereunder, which are due in amounts and at the times necessary to pay the principal (whether at maturity or upon acceleration or prior redemption) of, premium, if any, and interest to the date of maturity or redemption of the Bonds, when due. The Borrower has no obligation to make any payments with respect to the Purchase Price of Bonds tendered or deemed tendered for purchase. The Borrower’s payment obligations under the Loan Agreement are general, unsecured obligations of the Borrower. **There will be no reserve fund for the Bonds.** See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS (“ABAG”) OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF

THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

Book-Entry System

When delivered, the Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), which will act as securities depository for the Bonds. Purchases and tenders of the Bonds may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants (as defined in Appendix C). Beneficial Owners (as defined in Appendix C) of the Bonds will not receive physical delivery of certificated securities. Payments of principal or Purchase Price of, premium, if any, and interest on the Bonds are payable by the Trustee to DTC, which will in turn remit such payments to the DTC Participants, which will in turn remit such payments to the Beneficial Owners of the Bonds. In addition, so long as Cede & Co. is the registered owner of the Bonds, the right of any Beneficial Owner to exercise its right to tender its interest in any Bond for purchase and receive payment therefor will be based only upon and subject to the procedures and limitations of the DTC book-entry only system. See Appendix C – “BOOK-ENTRY SYSTEM.”

Purposes

The Authority will lend the proceeds of the Bonds to the Borrower pursuant to the Loan Agreement. Proceeds of the Bonds will be used by the Borrower to (i) refund a portion of certain outstanding revenue bonds issued by the Authority on behalf of the Borrower, (ii) finance the acquisition, construction, furnishing and/or equipping of certain research facilities of the Borrower, (iii) pay capitalized interest on a portion of the Bonds and (iv) pay costs incurred in connection with the issuance of the Bonds. See “PLAN OF FINANCE,” “ESTIMATED SOURCES AND USES OF PROCEEDS” and Appendix A – “INFORMATION CONCERNING THE BORROWER.”

The Borrower

The Borrower is a nonprofit corporation organized and existing under the laws of the State of Maine and qualified to do business in the State of California. The Borrower, also referred to herein as the “Laboratory” or “TJL,” is a mammalian research organization whose mission is to discover the genetic bases for human diseases and to enable research and education in the biomedical community. See Appendix A – “INFORMATION CONCERNING THE BORROWER” for a description of the Borrower and the Laboratory.

Financial Condition of the Borrower

Important information on the financial condition of the Borrower is set forth in Appendix A – “INFORMATION CONCERNING THE BORROWER” and in the Borrower’s financial statements and notes thereto set forth in Appendix B – “FINANCIAL STATEMENTS OF THE BORROWER,” all of which should be carefully reviewed.

Swap Agreements

The Borrower has entered into several interest rate swap agreements to hedge the risk of interest rate changes associated with variable rate borrowings. Neither the Trustee nor the Holders of the Bonds will have any rights under such swap agreements or against the swap providers. See Appendix A – “INFORMATION CONCERNING THE BORROWER” and Appendix B – “FINANCIAL

STATEMENTS OF THE BORROWER” for a description of the Borrower’s interest rate swap agreements. For more information regarding the risks associated with interest rate swap agreements, see “INVESTMENT CONSIDERATIONS – Interest Rate Swaps.”

Certain Information Related to this Official Statement

The descriptions herein of the Indenture, the Loan Agreement and other agreements relating to the Bonds are qualified in their entirety by reference to such documents, and the description of the Bonds is qualified in its entirety by the form thereof and the information with respect thereto included in such documents. See Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – THE INDENTURE” for a brief summary of the rights and duties of the Authority, the rights and remedies of the Trustee and the Bondholders upon an event of default, provisions relating to amendments of the Indenture and procedures for defeasance of Bonds.

All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings ascribed thereto in the Indenture. See Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS.”

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Borrower.

PLAN OF FINANCE

Refunding

In July 2002, the Authority issued the ABAG Finance Authority for Nonprofit Corporations Variable Rate Demand Revenue Bonds (The Jackson Laboratory Issue), Series 2002 (the “Series 2002 Bonds”) pursuant to an indenture of trust, dated as of July 1, 2002 between the Authority and State Street Bank and Trust Company of California, N.A., as predecessor in interest to the current trustee, U.S. Bank National Association (the “2002 Trustee”), in the aggregate principal amount of \$10,000,000. The Series 2002 Bonds are currently outstanding in the principal amount of \$8,945,000, and on October 11, 2007, the Borrower intends to refund \$2,000,000 aggregate principal amount of the Series 2002 Bonds (the “Refunded Bonds”) with the proceeds of a draw on the letter of credit supporting the Series 2002 Bonds (the “2002 Letter of Credit”). A portion of the proceeds of the Bonds will be used to reimburse the 2002 Letter of Credit provider (the “2002 Bank”) for the draw on the 2002 Letter of Credit.

The Project

A portion of the proceeds of the Bonds will be deposited in the Construction Fund and is expected to be applied to finance or reimburse the Borrower for the costs of the acquisition, construction, furnishing and/or equipping of a research facility for the Borrower in Sacramento, California (the “Project”). See Appendix A – “INFORMATION CONCERNING THE BORROWER” for a description of the Project and “INVESTMENT CONSIDERATIONS – Project Completion and Construction Risks.”

ESTIMATED SOURCES AND USES OF PROCEEDS

The following table sets forth the estimated sources and uses of the proceeds of the Bonds and other available funds.

| Estimated Sources of Funds: | |
|---|------------------------|
| Par Amount of the Bonds | \$35,075,000.00 |
| Transfer from Series 2002 Bonds Bond Fund | 224.75 |
| Total Estimated Sources | <u>\$35,075,224.75</u> |
| | |
| Estimated Uses of Funds: | |
| Transfer to 2002 Bank ⁽¹⁾ | \$ 2,016,438.36 |
| Deposit to Construction Fund | 31,598,856.69 |
| Deposit to Revenue Fund ⁽²⁾ | 1,003,023.45 |
| Costs of Issuance ⁽³⁾ | 456,906.25 |
| Total Estimated Uses | <u>\$35,075,224.75</u> |

⁽¹⁾ An amount sufficient to reimburse the 2002 Bank for the draw on the 2002 Letter of Credit made to pay the principal of and interest on the Series 2002 Bonds upon redemption on October 11, 2007. See “PLAN OF FINANCE.”

⁽²⁾ Represents capitalized interest on a portion of the Bonds.

⁽³⁾ Includes underwriter’s discount, legal, financing, consulting fees, rating agency fees, printing costs and other miscellaneous expenses related to the Bonds.

THE BONDS

This Official Statement describes the Bonds only while bearing interest at Auction Period Rates. Investors should not rely upon the information in this Official Statement in the event the Bonds are converted to an Interest Rate Period other than an Auction Rate Period. Rather, investors should rely upon the offering document used in connection with any such Conversion from an Auction Rate Period to another Interest Rate Period.

General

The Bonds initially will be issued as auction rate securities or “ARS” in denominations of \$25,000 or any integral multiple thereof so long as the Bonds are in an Auction Rate Period. The Bonds will be dated their date of delivery and will mature on July 1, 2037. The Bonds will bear interest from the date of their initial issuance to September 18, 2007 at an initial Auction Period Rate established by the Underwriter and thereafter will bear interest at Auction Period Rates (described below under “Applicable ARS Rate”) for generally successive 7-day Auction Periods through the implementation of the Auction Procedures summarized in Appendix E — “SUMMARY OF CERTAIN PROVISIONS RELATING TO AUCTION RATE SECURITIES AND THE AUCTION PROCEDURES.” Each Auction Period Rate for the Bonds will, except in certain cases, be equal to the annual interest rate that results from the implementation of such Auction Procedures. Interest on the Bonds will be payable on September 19, 2007 and thereafter, for so long as the Bonds remain in an Auction Rate Period, on the Business Day immediately following each Auction Period therefor (each, an “Interest Payment Date”). While the Bonds bear interest at Auction Period Rates, a beneficial owner of a Bond may sell, transfer or dispose of a Bond only in accordance with the Auction Procedures or through a Broker-Dealer for the Bonds. **There will be no reserve fund for the Bonds.**

While the Bonds are book-entry bonds, as described below under “Book-Entry System,” payment of the principal of and interest and premium, if any, on the Bonds will be made by wire transfer by the Trustee to DTC, to the account of Cede & Co. In the event the Bonds are no longer book-entry bonds, interest on the Bonds will be paid by the Trustee on the applicable payment dates by wire transfer of immediately available funds on the applicable Record Date to an account specified by the Owner thereof in writing delivered to the Trustee and the principal at maturity will be paid upon presentation and surrender at the Principal Office of the Trustee, provided, however, that if an Owner of \$1,000,000 or more aggregate outstanding principal amount of the Bonds gives the Trustee written notice of such holding accompanied by sufficient wire transfer instructions, the payments of interest on such Owner’s Bonds will be payable by wire transfer of immediately available funds. The Record Date with respect to the Bonds will be the Business Day immediately preceding each Interest Payment Date.

Applicable ARS Rate. So long as the Bonds are ARS, the Bonds will bear interest at rates (the “Applicable ARS Rate”) established pursuant to the Auction Procedures described in Appendix E — “SUMMARY OF CERTAIN PROVISIONS RELATING TO AUCTION RATE SECURITIES AND THE AUCTION PROCEDURES.” An “Auction Period” consists of a daily Auction Period, seven-day Auction Period, 28-day Auction Period, 35-day Auction Period, three-month Auction Period, six-month Auction Period or a Flexible Auction Period. Auctions will be held on September 18, 2007 (the first Auction Date) and thereafter generally on the Business Day immediately preceding each Interest Payment Date. The Applicable ARS Rate will not exceed the Maximum Rate. Interest on the Bonds will be computed on the basis of a 360-day year for the actual number of days elapsed if the ARS are in an Auction Period of 180 days or less. If the ARS are in an Auction Period which is greater than 180 days, interest will be computed on the basis of a 360-day year of twelve 30-day months. If an ARS Payment Default shall have occurred, the Auction Rate for the Auction Period commencing on or immediately after such ARS Payment Default and for each Auction Period thereafter, to and including the Auction Period, if any, during which, or commencing less than two Business Days after, such ARS Payment Default is cured in accordance with the Indenture, will equal the Maximum Rate. If an Auction occurred on the Business Day immediately preceding any such Auction Period, the Auction Rate for such Auction Period will be the Maximum Rate. If the Bonds are no longer book-entry bonds, the Applicable ARS Rate for any Auction Rate Period commencing after the delivery of certificates representing the Bonds shall equal the Maximum Rate. See Appendix E — “SUMMARY OF CERTAIN PROVISIONS RELATING TO AUCTION RATE SECURITIES AND THE AUCTION PROCEDURES.”

Changes to Length of Auction Period. The Borrower, may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Bonds from a seven-day Auction Period to a period of one day, 28-days, 35-days, three months, six months or a Flexible Auction Period. The Borrower shall initiate the change in the length of the Auction Period by giving written notice to the Authority, the Trustee, the Auction Agent, the Broker-Dealer and the Securities Depository. The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent such Existing Owner submits an Order with respect to such Bonds each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period. See Appendix E — “SUMMARY OF CERTAIN PROVISIONS RELATING TO AUCTION RATE SECURITIES AND THE AUCTION PROCEDURES.”

Changes in Auction Date. During any Auction Rate Period, the Auction Agent, at the direction of the Borrower, may specify an earlier or later Auction Date (but in no event more than five Business

Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of “Auction Date” in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the Borrower’s direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Authority, the Trustee, the Broker-Dealer and the Securities Depository. In the event that Auction Agent is instructed to specify an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction period ends and the Interest Payment Date relating to a Flexible Auction Period shall be adjusted accordingly. See Appendix E — “SUMMARY OF CERTAIN PROVISIONS RELATING TO AUCTION RATE SECURITIES AND THE AUCTION PROCEDURES.”

Converting Rate Periods and Mandatory Tender for Purchase. The Borrower may elect to convert the Bonds to another Rate Period. Upon such Conversion, such Bonds may bear interest based on a Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period or Fixed Rate Period. In order to effect such Conversion, the Borrower shall provide a written direction to the Authority, the Trustee, the Auction Agent and the Broker-Dealer of its the election to Convert the Bonds to another Interest Rate Period. The Trustee shall give notice by first-class mail of a Conversion of the Bonds to another Interest Rate Period to the Owners of the Bonds not less than 30 days prior to the proposed effective date of such other Interest Rate Period (a “Conversion Notice”). Such Conversion Notice will state, among other things, that the interest rate mode on the Bonds is to be Converted, the interest rate mode on the Bonds upon such Conversion, that such Conversion will only occur if the conditions set forth in the Indenture for such Conversion are satisfied, the Conversion Date, the day by which the initial rate for such Interest Rate Determination Method will be determined, the manner by which the rates during such Interest Rate Determination Method may be obtained, the Interest Payment Dates after such Conversion, the redemption provisions and the ratings expected to be assigned to the Bonds upon such Conversion. As long as the Bonds are ARS, the Bonds are subject to mandatory tender for purchase on the first day of any Conversion to a Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period or Fixed Rate Period. For additional information regarding Conversion of the Bonds, see Appendix D — “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – Conversion of the Bonds.”

While the Bonds are ARS, the Bonds will not be supported by a liquidity facility.

Redemption

Extraordinary Mandatory Redemption. The Bonds are subject to redemption prior to their stated maturity date, at the option of the Authority (exercised as directed by the Borrower), in whole or in part on any date, from hazard insurance or condemnation proceeds received with respect to the Facilities at a redemption price equal to the principal amount thereof, plus interest accrued thereon to the date fixed for redemption, without premium.

Optional Redemption. The Bonds are subject to redemption prior to their stated maturity date, at the option of the Authority (exercised as directed by the Borrower), in whole or in part, on any Interest Payment Date at a redemption price equal to the principal amount of such Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium. No optional redemption in part shall occur unless immediately after such redemption there will remain outstanding at least \$5,000,000 in principal amount of the Bonds.

Mandatory Sinking Fund Redemption. The Bonds are also subject to redemption in part prior to their stated maturity date from Sinking Fund Installments set forth in the table below on each July 1 on or after July 1, 2008, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium. Notwithstanding the foregoing, when any Bond is to be so redeemed, if such July 1 is not an Interest Payment Date, the redemption from Sinking Fund Installments will occur on the Interest Payment Date immediately preceding such July 1.

| <u>Payment Date</u> <u>(July 1)</u> | <u>Principal Amount</u> | <u>Payment Date</u> <u>(July 1)</u> | <u>Principal Amount</u> |
|--|-------------------------|--|-------------------------|
| 2008 | \$ 225,000 | 2023 | \$ 575,000 |
| 2009 | 225,000 | 2024 | 575,000 |
| 2010 | 250,000 | 2025 | 625,000 |
| 2011 | 250,000 | 2026 | 625,000 |
| 2012 | 250,000 | 2027 | 650,000 |
| 2013 | 275,000 | 2028 | 675,000 |
| 2014 | 275,000 | 2029 | 700,000 |
| 2015 | 300,000 | 2030 | 725,000 |
| 2016 | 300,000 | 2031 | 750,000 |
| 2017 | 325,000 | 2032 | 3,750,000 |
| 2018 | 325,000 | 2033 | 3,900,000 |
| 2019 | 325,000 | 2034 | 4,050,000 |
| 2020 | 350,000 | 2035 | 4,200,000 |
| 2021 | 350,000 | 2036 | 4,350,000 |
| 2022 | 375,000 | 2037* | 4,525,000 |

*Maturity.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Trustee is required to select the Bonds to be redeemed, from all such Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion deems appropriate and fair; provided, however, that all redemptions will be in Authorized Denominations and that the Bonds which are not redeemed will be in Authorized Denominations.

Notice of Redemption. As long as the Bonds are registered in the name of DTC or its nominee, notice of redemption will be given, and Bonds will be selected for redemption, only as set forth in the Letter of Representations given by the Authority to DTC. See “BOOK-ENTRY SYSTEM” and Appendix C – “BOOK-ENTRY SYSTEM.”

The Trustee will mail by first-class mail, postage prepaid, to the registered owners of all ARS to be redeemed, at the registered addresses appearing in the registration books kept for such purpose, notice of redemption at least 25 days prior to the redemption date. Each notice of redemption is required to state the date of such notice, the date of issue of the Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the maturity, the CUSIP numbers, if any, and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. The failure by the Trustee to mail notice of redemption to any one or more of the respective Holders of any Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

In addition, each notice of redemption will include in the notice of redemption delivered to the Securities Depository (i) a date placed under an item entitled “Publication Date for Securities Depository Purposes” which date shall be three Business Days after the second Auction Date immediately preceding such redemption date (and in the case of a daily Auction Period such date will be three Business Days immediately preceding the date of redemption) (the “Publication Date”) and (ii) an instruction to the Securities Depository to (x) determine on such Publication Date after the Auction held on the immediately preceding Auction Date has settled, the Securities Depository Participants whose Securities Depository positions will be redeemed and the principal amount of such Bonds to be redeemed from each such position (the “Securities Depository Redemption Information”), and (y) notify the Trustee immediately after such determination of (1) the positions of the Securities Depository Participants in such Bonds immediately prior to such Auction settlement, (2) the position of the Securities Depository Participants in such ARS immediately following such Auction settlement, and (3) the Securities Depository Redemption Information.

Any notice given pursuant to the above provisions may be rescinded by written notice given to the Trustee by an Authorized Representative of the Borrower no later than five Business Days prior to the date specified for redemption. The Trustee is required to give notice of such rescission as soon thereafter as practicable in the same manner, and to the same Persons, as notice of such redemption was given pursuant to the previous paragraph.

In addition to the foregoing notice, further notice will be given by the Trustee to certain registered securities depositories and information services as provided in the Indenture, but no defect in such further notice nor any failure to give all or any portion thereof will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed in the Indenture.

BOOK-ENTRY SYSTEM

The Authority, the Borrower, the Trustee, the Tender Agent and the Broker-Dealer will have no responsibility or obligation to any Securities Depository, any Participants in the book-entry system, or the Beneficial Owners with respect to (a) the accuracy of any records maintained by the Securities Depository or any Participant, (b) the payment by the Securities Depository or by any Participant of any amount due to any Participant or Beneficial Owner, respectively, in respect of the principal, Purchase Price of, premium, if any, or interest on any Bond, or (c) the delivery of any notice by the Securities Depository or any Participant.

In the event of the discontinuance of the book-entry system for the Bonds, Bond certificates will be printed and delivered and the following provisions of the Indenture will apply: (a) principal of the Bonds will be payable upon surrender of the Bonds at the principal office of the Trustee and (b) Bonds may be transferred or exchanged for other Bonds of authorized denominations at the designated office of the registrar, without cost to the owner thereof except for any tax or other governmental charge.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge Under the Indenture and the Loan Agreement

The Bonds are special, limited obligations of the Authority, and are payable from and are secured by a pledge of and lien on, all Revenues (subject to disbursement and application in accordance with the Indenture), which are defined in the Indenture as (i) all money held in the funds and accounts created under the Indenture (excluding money and investment earnings thereon in the General Fund, the Costs of Issuance Fund and the Rebate Fund), together with investment earnings thereon prior to disbursement in

accordance with the Indenture; and (ii) all income, revenues, proceeds, obligations, securities and other amounts received by the Trustee derived from or in connection with the proceeds of the Bonds and the Loan Agreement (but excluding amounts payable pursuant to the Loan Agreement as Additional Payments or as indemnification or reimbursement of expenses of the Authority, the Trustee or the Auction Agent).

The obligations of the Borrower under the Loan Agreement constitute a general, unsecured obligation of the Borrower. See Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – THE LOAN AGREEMENT.” **There will be no reserve fund for the Bonds.**

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, ABAG OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

INVESTMENT CONSIDERATIONS

Source of Payment for the Bonds

The Bonds are payable from and secured by the Authority’s pledge of Revenues, which consist primarily of payments to be made by the Borrower under the Loan Agreement. There can be no assurance that income and receipts will be realized by the Borrower in amounts sufficient to make payments under the Loan Agreement and thus sufficient to pay the principal or premium, if any, or interest on the Bonds.

Future economic and other conditions, including, without limitation, the destruction or loss of a substantial portion of the Borrower’s facilities, a reduction in the flow of grant money from the NIH and other public and private sources, litigation, loss of endowment income, a loss of the Borrower’s tax-exempt status, changes in state or federal laws regulating biomedical research, their ability to attract and retain research scientists and scientific staff or reduction in the amounts received by the Borrower through fundraising efforts or an inability to increase contributions through fundraising efforts coupled with any of the foregoing, may adversely affect income and receipts of the Borrower. There can be no assurance that Borrower income and receipts will not decrease. See Appendix A – “INFORMATION CONCERNING THE BORROWER.”

Decrease in Grant Funding

The Borrower's viability is in part dependent on receiving grants from the NIH and other public and private entities to keep researchers and to meet budgetary forecasts. There can be no assurances that the Borrower will continue to be a successful recipient of grants. Furthermore, there can be no assurance that current or projected NIH funding conditions will continue to exist in the future. See Appendix A – "INFORMATION CONCERNING THE BORROWER."

Project Completion and Construction Risks

Permitting for the Project is being submitted to the City of Sacramento in phases, with the second and last permit to be submitted in November 2007. See Appendix A – "INFORMATION CONCERNING THE BORROWER." While the Borrower expects to have the permit approved, there can be no assurance that such permit will be granted or that it will be granted in the form or with the content requested or desired, or on the schedule expected.

Increased costs and delay in the completion of the Project may arise from any number of causes, including but not limited to, adverse weather conditions, unavailability of subcontractors, labor disputes, changes in Project design or unanticipated costs or increased costs of construction and renovation. Any of these events, individually or in combination, could have a material adverse effect on the ability of the Borrower to complete the Project or to complete it as planned and on the schedule described in Appendix A. There can be no assurance that the costs of completing the Project will not increase due to these and other factors, and any such cost increases could have a material adverse effect on the Borrower's financial condition.

Certain Considerations Affecting Auction Rate Securities

Role of Broker-Dealer. Banc of America Securities LLC (the "Broker-Dealer") has been appointed by the issuers or obligors of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers or obligors for its services. Banc of America Securities LLC receives broker-dealer fees from such issuers or obligors at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through Banc of America Securities LLC in such auctions.

The Broker-Dealer is designated in the Broker-Dealer Agreement as the Broker-Dealer to contact Existing Owners and Potential Owners and solicit Bids for the Bonds. The Broker-Dealer will receive Broker-Dealer fees from the Borrower with respect to the Bonds sold or successfully placed through it in Auctions for the Bonds. The Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the Bonds.

Bidding by Broker-Dealer. The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for the Bonds for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because the Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the Bonds and thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction for the Bonds and (ii) the Auction for the Bonds will clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Borrower to serve as a Broker-Dealer in the Auctions for the Bonds, the Broker-Dealer's interests in serving as Broker-Dealer in an Auction for the Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the Bonds. See "Role of Broker-Dealer." The Broker Dealer would not have knowledge of Orders

submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker Dealer Agreement.

The Broker-Dealer is the only Broker-Dealer appointed by the Borrower to serve as Broker-Dealer in the Auctions for the Bonds, and as long as that remains the case it will be the only Broker-Dealer that submits Orders to the Auction Agent in the Auctions for the Bonds. As a result, in such circumstances, the Broker-Dealer may discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The Broker-Dealer routinely places bids in auctions generally for its own account to acquire securities for its inventory, to prevent an “Auction Failure” (which occurs if there are insufficient clearing bids and results in the auction rate being set at the maximum rate) or to prevent an auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities. The Broker-Dealer may place one or more Bids in an Auction for the Bonds for its own account to acquire the Bonds for its inventory, to prevent an Auction Failure or to prevent Auctions for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Bonds. The Broker Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for the Bonds for its own account, the Broker-Dealer also may Bid inside or outside the range of rates that it posts in its Price Talk. See “Price Talk.”

The Broker-Dealer may also encourage Bidding by others in Auctions for the Bonds to prevent an Auction for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Bonds. The Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealer are likely to affect (i) the Auction Rate – including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not Bid and (ii) the allocation of the Bonds being auctioned – including displacing some Bidders who may have their Bids rejected or receive fewer Bonds than they would have received if the Broker-Dealer had not Bid. Because of these practices, the fact that an Auction for the Bonds clears successfully does not mean that an investment in the Bonds involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such Bids in any particular Auction for the Bonds to prevent an Auction Failure or an Auction for the Bonds from clearing at a rate the Broker-Dealer believes does not reflect the market for the Bonds. Investors should not assume that the Broker-Dealer will place Bids or that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealer may cause lower Auction Rates to occur.

The statements herein regarding Bidding by the Broker-Dealer apply only to the Broker-Dealer’s auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the Bonds, if all outstanding Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an “All Hold Auction”). If the Broker-Dealer holds any Bonds for its own account on an Auction Date, it is the Broker Dealer’s practice to submit a Sell Order into the Auction for the Bonds with respect to such Bonds, which would prevent that Auction for the Bonds from being an All Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Bonds, as set forth above. The Broker-Dealer may also encourage additional or revised investor bidding in order to prevent an All-Hold Auction. The Broker-Dealer may, but is not obligated to, advise Existing Holders of the securities that the rate that will apply in an All-Hold Auction is often a lower rate than would apply if Existing Holders submit bids, and such advice, if given, may facilitate the

submission of bids by Existing Holders that would avoid the occurrence of an All-Hold Auction. A Broker-Dealer may, but is not obligated to, encourage additional or revised investor bidding in order to prevent an All-Hold Auction.

Price Talk. Before the start of an Auction for the Bonds, the Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction for the Bonds based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction for the Bonds will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it.

"All-or-Nothing" Bids. The Broker-Dealer will not accept "all-or-nothing" Bids (i.e., Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealer provides no assurance as to the outcome of any Auction. The Broker Dealer also does not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the Bonds will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Bonds purchased or retained in the Auction for the Bonds may be lower than the market rate for similar investments. The Broker-Dealer will not agree before an Auction to buy Bonds from or sell Bonds to a customer after the Auction.

Deadlines. Each particular Auction for the Bonds has a formal deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer imposes an earlier deadline for all customers – called the "Broker-Dealer Deadline" – by which Bidders must submit Bids to the Broker-Dealer. The Broker-Dealer Deadline is subject to change by the Broker-Dealer. Potential Owners should consult with the Broker-Dealer as to its Broker-Dealer Deadline. The Broker-Dealer may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. The Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline and may change Bids it has submitted for its own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealer or generated by the Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition, until one hour after the Auction Agent completes the dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Order contained a clerical error. In the event of such a submission, modification or withdrawal the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

Existing Owner's Ability to Resell Auction Rate Securities May Be Limited. An Existing Owner may sell, transfer or dispose of a Bond (i) in an Auction for the Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Bonds, only to or through a Broker-Dealer.

Existing Owners will be able to sell all of the Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Bonds in the Auction for the Bonds. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the Bonds all, and may not be able to sell any, of the Bonds subject to such Submitted Sell Orders. In such an event, no assurance can be given that Sufficient Clearing Bids will be obtained on any succeeding Auction Date. As discussed above (see “Bidding by Broker-Dealer”), the Broker-Dealer may submit a Bid in an Auction for the Bonds to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealer Bidding in the Auction for the Bonds for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Borrower’s credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to Bid.

Between Auctions for the Bonds, there can be no assurance that a secondary market for the Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Bonds on the terms or at the times desired by an Existing Owner. The Broker-Dealer, in its own discretion, may decide to buy or sell the Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Bonds. However, the Broker-Dealer is not obligated to make a market in the Bonds and may discontinue trading in the Bonds without notice for any reason at any time; and no assurance can be given that the Broker-Dealer will purchase or will otherwise be able to locate a purchaser for Bonds that an Existing Owner may wish to sell between Auctions. Existing Owners who resell between Auctions for the Bonds may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased a Bond through a dealer which is not the Broker-Dealer for the Bonds, such Existing Owner’s ability to sell its Bonds may be affected by the continued ability of its dealer to transact trades for the Bonds through the Broker-Dealer.

The ability to resell the Bonds will depend on various factors affecting the market for the Bonds, including news relating to the Borrower, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in “Securities and Exchange Commission Settlements” below) or press reports, financial reporting cycles and market conditions generally. Demand for the Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions. The Indenture provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice to the Borrower, the Authority and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may terminate the Broker-Dealer Agreement upon 5 Business Days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such termination, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Bonds, with the result that the interest on the Bonds will be determined as described in Appendix E – “SUMMARY OF CERTAIN PROVISIONS RELATING TO AUCTION RATE SECURITIES AND THE AUCTION PROCEDURES.”

Securities and Exchange Commission Settlements. On May 31, 2006, the U.S. Securities and Exchange Commission (the “SEC”) announced that it had settled its investigation of fifteen firms, including Banc of America Securities LLC, that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed. As part of the settlement, Banc of America Securities LLC agreed to pay a civil penalty. Banc of America Securities LLC’s penalty of \$750,000 (rather than the \$1,500,000 penalty assessed to other broker-dealers) was, according to the SEC, based on the quality of Banc of America Securities LLC’s self-monitoring capabilities in the auction rate securities area. In addition, Banc of America Securities LLC, without admitting or denying the SEC’s allegations, agreed to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by Banc of America Securities LLC to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Bonds.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks (the “Settling Auction Agents”), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC’s allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. While Wells Fargo Bank, N.A., the Auction Agent for the Bonds, was not a focus of the investigation or a party to the settlement described in this paragraph, no assurance can be offered as to how such settlement may affect the market for auction rate securities or the Bonds.

Borrower Indebtedness

The Borrower is permitted to incur additional debt under the Loan Agreement. See Appendix D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – LOAN AGREEMENT.” Any indebtedness which may be incurred by the Borrower could have a material effect on the Borrower’s operations, which may, among other things, limit the Borrower’s ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements and other purposes; require the Borrower to dedicate a significant portion of its cash flow to pay principal and interest on the Bonds and its other indebtedness, which will reduce the funds available for working capital, capital expenditures and other general administrative and educational purposes; and limit the Borrower’s ability to plan for and react to changes in its business and industry thereby making the Borrower more vulnerable to adverse changes in general economic, industry and competitive conditions. Any of these factors could have a material adverse effect on the financial condition of the Borrower and its ability to pay Loan Payments with respect to the Bonds.

Interest Rate Swaps

The Borrower has entered into several interest rate swap transactions to hedge the risk of interest rate changes associated with variable rate borrowings. See Appendix A – “INFORMATION CONCERNING THE BORROWER” and Appendix B – “FINANCIAL STATEMENTS OF THE BORROWER.” Neither the Trustee nor the Holders of the Bonds will have any rights under such swap agreements or against the swap providers. The interest rate swaps amortize, or will amortize, in amounts

approximately equal to the amortization of such outstanding bonds so hedged. There is no assurance, however, that such rates will match at all times or at any time. To the extent of a mismatch, the Borrower is exposed to “basis risk” in that the rate it receives from the applicable swap counterparty pursuant to the interest rate swap will not equal the interest rate it is required to pay on such outstanding bonds. The agreement by the applicable swap counterparty to pay certain amounts to the Borrower pursuant to the interest rate swap does not alter or affect the Borrower’s obligations to pay the principal of, premium, if any, or interest on any of the outstanding bonds. No person other than the Borrower will have any rights under the interest rate swaps or against the applicable swap counterparty.

Under certain circumstances, the interest rate swaps may be terminated prior to the maturity of the related outstanding bonds. If the interest rate swaps are terminated under certain market conditions, the Borrower may owe a termination payment to the applicable swap counterparty. Such a termination payment generally would be based upon the market value of the related interest rate swap on the date of termination and could be substantial. In addition, a partial termination of an interest rate swap could occur to the extent that any outstanding bonds hedged with an interest rate swap are redeemed pursuant to an optional redemption. If such an optional redemption occurs, a termination payment related to the portion of the interest rate swap to be terminated will be owed by either the Borrower or the applicable swap counterparty, depending on market conditions. In the event of an early termination of an interest rate swap, there can be no assurance that (i) the Borrower will receive any termination payment payable to it by the applicable swap counterparty, (ii) the Borrower will have sufficient amounts to pay a termination payment payable by it to the applicable swap counterparty or (iii) the Borrower will be able to obtain a replacement swap agreement with comparable terms. The Borrower has credit risk to the extent the applicable swap counterparty’s credit or ability to perform is reduced. The interest rate swaps are and will be subject to periodic “mark-to-market” valuations and at any time may have a negative value to the Borrower.

Insurance Coverage

The insurance requirements imposed by the Loan Agreement are limited, and insurance proceeds may not be available to cover all claims or risks relating to the Project, the Facilities or the Borrower. Litigation could arise from the business activities of the Borrower, including from its status as an employer. Many of these risks are covered by insurance, but some may not be covered completely or at all. See Appendix A – “INFORMATION CONCERNING THE BORROWER.”

Future increases in insurance premiums and future limitations on the availability of certain types of insurance coverage could have an adverse impact on the Borrower’s financial condition and operations and, ultimately, could adversely impact the ability of the Borrower to make Loan Payments.

Investment of Funds Risk

The Borrower invests its money pursuant to investment policies adopted from time to time by its Board of Trustees. See Appendix A – “INFORMATION CONCERNING THE BORROWER” and the audited financial statements of the Borrower attached as Appendix B for information regarding the investments of the Borrower. All investments made by the Borrower contain a degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts invested by the Borrower could have a material adverse effect on the availability of funds for the payment of Loan Payments by the Borrower.

Tax-Exempt Status

The Code imposes a number of requirements that must be satisfied for interest on obligations such as the Bonds to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Bond proceeds, limitations on the investment earnings of Bond proceeds prior to expenditure, a requirement that certain investment earnings on Bond proceeds be paid periodically to the United States and a requirement that the Authority file an information report with the Internal Revenue Service (“IRS”). The Authority and the Borrower have covenanted in certain of the documents referred to herein that they will comply with such requirements.

Failure by the Borrower to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance of the Bonds. Moreover, the occurrence of one or more of the other events described in this section also could adversely affect the exclusion from gross income for federal or State income tax purposes of the interest on the Bonds.

Bond Audit. The IRS has an ongoing program of examining tax-exempt obligations to determine whether, in the view of the IRS, interest on such obligations is properly excluded from gross income for federal income tax purposes, and it is possible that the Bonds may be selected for examination under such program. If an examination is commenced, under current procedures, the IRS will treat the Authority as the relevant taxpayer under the Code, and the holders of the Bonds may have no right to participate.

The Borrower has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel as to the tax-exempt status of the Bonds (see “TAX MATTERS” herein) is not binding on the IRS. An IRS examination of the Bonds could adversely affect the market value and liquidity of the Bonds or result in the loss of the tax-exempt status of the Bonds.

Tax-Exempt Status of the Borrower. The tax-exempt status of the Bonds presently depends upon the maintenance by the Borrower of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including its operation for charitable purposes and its avoidance of transactions which may cause its assets to inure to the benefit of private individuals.

In recent years, the IRS has increased the frequency and scope of its audit and other enforcement activity regarding tax-exempt organizations and such organizations are increasingly subject to a greater degree of scrutiny by the IRS. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in unlawful, private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit organizations, it could do so in the future. Loss of tax-exempt status by the Borrower could result, among other consequences, in the Borrower being in default of certain of its covenants regarding the Bonds. Loss of tax-exempt status of the Borrower also would have material adverse consequences on the financial condition of the Borrower and would cause interest on the Bonds to become taxable.

Less onerous sanctions also have been imposed by the IRS, which sanctions focus enforcement on private persons who transact business with a tax-exempt organization rather than the tax-exempt organization itself, but these sanctions do not replace the other, more severe remedies available to the IRS as mentioned above.

Unrelated Business Taxable Income. In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with

respect to their exempt activities and the generation of unrelated business taxable income (“UBTI”). The Borrower has not historically generated any significant amounts of UBTI. The Borrower may participate in activities which generate UBTI in the future. Management of the Borrower believes it has properly accounted for and reported UBTI; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the tax-exempt status of the Borrower as well as the exclusion from gross income for federal income tax purposes of the interest on the Bonds.

State Income Tax Exemption. The loss by the Borrower of its State income tax exemption could be adverse and material to the Borrower and to the value of the Bonds.

Exemption from Property Taxes. In recent years, state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their real property tax exemptions. The management of the Borrower believes that the site for the Project and, once completed, the Project are or will be exempt from State real property taxes; however, there can be no assurance that this will continue to be the case, and any loss of exemption could have a material adverse effect on the financial condition of the Borrower.

Bankruptcy and Limitations on Enforcement of Remedies

The remedies available to the Trustee or the Owners upon an Event of Default under the Indenture or under the Loan Agreement are in many respects dependent upon judicial actions that are often subject to discretion and delay, and such remedies may not be readily available or may be limited. In particular, under the United States Bankruptcy Code, a bankruptcy case may be filed with respect to the Borrower. In general, the filing of any such petition operates as a stay against enforcement of the terms of the agreements to which the bankrupt entity is a party, and, in the bankruptcy process, executory contracts may be subject to assumption or rejection by the bankrupt party. In the event of any such rejection, the non-rejecting party or its assigns may become an unsecured claimant of the rejecting party. The various legal opinions to be delivered concurrently with the Bonds (including Bond Counsel’s approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise of judicial discretion.

BROKER-DEALER AND AUCTION AGENT

Wells Fargo Bank, N.A. will act as the initial Auction Agent pursuant to an Auction Agreement (the “Auction Agreement”) between the Trustee and the Auction Agent. Banc of America Securities LLC (the “Broker-Dealer”) will act as the initial Broker-Dealer for the Bonds, pursuant to a Broker-Dealer Agreement (the “Broker-Dealer Agreement”) among the Auction Agent, the Broker-Dealer and the Borrower. Both the Auction Agreement and the Broker-Dealer Agreement include termination provisions that generally do not require a replacement Auction Agent or Broker-Dealer, as applicable, to be appointed prior to termination of the relevant agreement. For additional considerations regarding the termination provisions and additional considerations relating to the Broker-Dealer and the Auction Agent, see “INVESTMENT CONSIDERATIONS – Certain Considerations Affecting Auction Rate Securities.”

THE AUTHORITY

The Authority is a joint powers agency duly organized and existing under the laws of the State of California. The Authority was formed pursuant to the terms of a Joint Powers Agreement, dated as of April 1, 1990, as amended as of September 18, 1990 and June 9, 1992 (the “Joint Powers Agreement”),

and the Joint Exercise of Powers Act (constituting Chapter 5, commencing with Section 6500, of Division 7 of Title 1 of the California Government Code) (the “Act”), in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of Authority members with purposes serving the public interest.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, ABAG OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

LEGALITY FOR INVESTMENT IN CALIFORNIA

Obligations issued by the Authority under the Act are, under California law, securities in which all banks, savings banks, trust companies, savings and loan associations, investment companies and other persons carrying on a banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, and all administrators, executors, guardians, trustees and other fiduciaries and all other persons whatsoever, who now are or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest any funds, including capital belonging to them or within their control; and such obligations are securities which may properly and legally be deposited with and received by any state or municipal officer or agency of the State for any purpose for which the deposit of bonds or notes or other obligations of the State is now or may hereafter be authorized by law.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the “Code”), imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the Bonds. Pursuant to the Indenture, the Loan Agreement and the Tax Certificate, the Authority and the Borrower have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority and the Borrower have made certain representations and certifications in the Indenture, the Loan Agreement and the Tax Certificate. Bond Counsel will also rely on the opinion of Ropes & Gray LLP as to all matters

concerning the status of the Borrower as an organization described in Section 501(c)(3) of the Code and exempt from federal income tax under Section 501(a) of the Code. Bond Counsel will not independently verify the accuracy of those representations and certifications or that opinion.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of certain representations and certifications made by the Authority and the Borrower described above, interest on the Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

State Taxes

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from personal income taxation imposed by the State of California. Bond counsel expresses no opinion as to other state or local tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than California.

Ancillary Tax Matters

Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds.

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Bonds is subject to information reporting to the Internal Revenue Service (the "IRS") in a manner similar to interest paid on taxable obligations. In addition, interest on the Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any Federal tax matters other than those described under the caption "TAX MATTERS." Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Bonds for Federal or state income tax purposes, and thus on the value or marketability of the Bonds. This could result from changes to Federal or state income tax rates, changes in the structure of Federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Bonds from gross income for Federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on

the Federal or state income tax treatment of holders of the Bonds may occur. Prospective purchasers of the Bonds should consult their own tax advisers regarding such matters.

On May 21, 2007, the U.S. Supreme Court agreed to hear *Davis v. Kentucky Dep't of Revenue of the Finance and Admin. Cabinet*, 197 S.W.3d 557 (2006), a case that has questioned the permissibility under the U.S. Constitution of the Commonwealth of Kentucky providing for a state income tax exemption for interest on obligations issued by Kentucky or its subdivisions while taxing interest on obligations of other states or their subdivisions. The laws of the State of California currently result in such differing treatment, by exempting interest on obligations of the State and its subdivisions and instrumentalities while taxing the interest on obligations issued by other states or their subdivisions or instrumentalities.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Bonds may affect the tax status of interest on the Bonds. Bond Counsel expresses no opinion as to any Federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the issuance of the Bonds are subject to the approving opinion of Nixon Peabody LLP, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is included herein as Appendix G. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Approval of other legal matters will be passed upon for the Authority by Nixon Peabody LLP, for the Borrower by its counsel, Ropes & Gray LLP, and for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP.

ABSENCE OF MATERIAL LITIGATION

The Authority

There is no litigation that has been served on the Authority or, to the best knowledge of the Authority, that is otherwise pending or threatened seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, the Indenture, the Loan Agreement or any proceeding of the Authority taken with respect to the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or existence or powers of the Authority, or the authority of the Authority to enter into any document relating to the Indenture or the Bonds.

The Borrower

There are no actions, suits or proceedings which have been served on the Borrower or, to the Borrower's knowledge, are otherwise pending or threatened against the Borrower (i) seeking to restrain or enjoin the issuance or delivery of any of the Bonds or the collection of Revenues pledged under the Indenture or the payment of Loan Payments; (ii) in any way contesting or adversely affecting the authority for the issuance of the Bonds or the validity of the Bonds, the Indenture, or the Loan Agreement; (iii) contesting the existence or powers of the Borrower; (iv) which, if determined adversely to it, would materially adversely affect the consummation of the transactions contemplated by the Loan Agreement or the ability of the Borrower to perform its obligations thereunder; or (v) contesting the Borrower's status as an organization described in Section 501(c)(3) of the Code. See also Appendix A – "INFORMATION CONCERNING THE BORROWER."

UNDERWRITING

The Bonds are being purchased by Banc of America Securities LLC (the “Underwriter”). Pursuant to a bond purchase agreement, the Underwriter will agree, subject to certain conditions, to purchase the Bonds from the Authority at an aggregate price of \$34,943,543.75 (being the principal amount of the Bonds of \$35,075,000.00, less an underwriter’s discount of \$131,456.25). The Underwriter is obligated under the bond purchase agreement to purchase all of the Bonds if any are purchased.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell Bonds, and the Authority will not provide any such information. The Borrower has undertaken all responsibilities for any continuing disclosure to the Bondholders as described below, and the Authority shall have no liability to the Bondholders or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “Rule”).

The Borrower has covenanted for the benefit of the Bondholders and beneficial owners of the Bonds to provide to the Trustee for dissemination as described below certain financial information and operating data relating to the Borrower by not later than six months following the end of the Borrower’s fiscal year (which fiscal year currently begins on June 1 of each year and ends on the next succeeding May 31 (each such twelve-month period a “Fiscal Year”)) (the “Annual Report”), commencing with the report for the 2007-08 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Borrower or the Dissemination Agent on behalf of the Borrower with each Nationally Recognized Municipal Securities Information Repository (and with the State Repository, if any). The notices of material events will be filed by the Borrower or the Dissemination Agent on behalf of the Borrower with each Nationally Recognized Municipal Securities Information Repository (and the State Repository, if any). As of the date of this Official Statement, there is no State Repository. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth under the caption Appendix F – “FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriter in complying with the Rule. The Borrower has not made any prior agreements with respect to said Rule to provide annual reports or notices of material events.

RATINGS

Moody’s Investors Service, Inc. (“Moody’s”) has assigned the Bonds a rating of “A1.” Any explanation of the significance of such rating may only be obtained from Moody’s. There is no assurance that the foregoing rating will remain in effect for any given period of time or that the rating might not be lowered or withdrawn entirely, if in the judgment of the rating agency originally establishing the rating, circumstances so warrant. Except as otherwise provided in the Continuing Disclosure Agreement, the Authority, the Borrower, and the Underwriter have not undertaken any responsibility to bring to the attention of the Bondholders any proposed change in or withdrawal of such rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of a rating might have an adverse effect on the market price or marketability of the Bonds.

FINANCIAL STATEMENTS

The statement of financial position of the Borrower as of May 31, 2007, and the related statements of activities and of cash flows for the year then ended, and the report dated August 10, 2007 of

KPMG LLP, independent accountants (the “Auditor”), are included in this Official Statement as Appendix B. In connection with the inclusion of the financial statements and the report of the Auditor thereon in Appendix B to this Official Statement, the Auditor has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report. KPMG LLP has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

MISCELLANEOUS

All quotations from and summaries and explanations of the Act, the Indenture, the Loan Agreement and of other statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions. Copies of the Indenture and the Loan Agreement may be obtained upon request directed to the Underwriter or the Borrower and upon payment of the expenses incurred in connection therewith.

This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the Borrower and purchasers or owners of any of the Bonds.

Appendices A and B hereto contain certain information with respect to the Borrower. The information contained in such Appendices has been furnished by the Borrower and officers and officials of the Borrower, and the Authority makes no representation or warranties whatsoever with respect to the information contained in said Appendices.

The Authority is a conduit issuer and has not prepared or participated in the preparation of this Official Statement and is not responsible for the statements made herein except for the information under the captions “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION—The Authority” and the Authority will not participate in or be responsible for the offering, sale, distribution, or remarketing of the Bonds.

APPENDIX A
INFORMATION CONCERNING THE BORROWER

**The information contained herein as
Appendix A to this Official Statement has been
obtained from The Jackson Laboratory**

INTRODUCTION

The Borrower, The Jackson Laboratory (the “Laboratory”), is an independent, nonprofit mammalian research organization whose mission is to discover the genetic bases for human diseases and to enable research and education in the global biomedical community. The Laboratory conducts genetics research on a wide variety of illnesses including Type 1 and Type 2 diabetes, neurodegenerative diseases such as Alzheimer’s and Parkinson’s, glaucoma, cancer, and leukemia. The Laboratory distributes approximately 3,300 different genetic strains of mice to more than 16,000 investigators in 64 countries and performs research and breeding services for numerous research institutions. The Laboratory also supports education programs for high school and college students and sponsors courses, meetings and training workshops for new and mid-career scientists.

The Laboratory was founded in 1929 by Dr. Clarence Cook Little on the premise that the causes of cancer and other diseases could be discovered through mammalian genetic research. The Laboratory currently has facilities located in Bar Harbor, Maine (the “Maine Facility”), and West Sacramento, California (the “West Sacramento Facility”).

Scientists at the Laboratory have made discoveries in disease pathways that have contributed to several crucial medical advances, such as identification of the link between cancer and viruses, discovery of the genetic component of immunity, use of bone marrow transplants to cure blood disorders and development of important mouse models for, among other diseases, diabetes, obesity and glaucoma.

Since 1983, the Laboratory has been designated a National Cancer Center by the National Cancer Institute. In 2000, the National Institute of Health (“NIH”) funded a major new research program at the Laboratory to increase the number and availability of mouse models for human neurological diseases such as epilepsy, addiction and neurodegenerative disorders. Since 1993, the NIH has helped fund the Laboratory’s repository of over 3,000 strains of mice and associated databases of genetic information, which include data about each strain’s genetic makeup, breeding characteristics, physical traits and development characteristics, as well as references to published research involving each strain (the “Repository”). Scientists worldwide obtain mouse models from the Repository and use the Repository as a means for disseminating to other researchers mouse models developed in their own research.

THE PROJECT AND THE REFUNDING

The breeding and management of genetically unique mice currently takes place in the Maine Facility and the leased West Sacramento Facility. A portion of the proceeds of the Bonds will be used to finance or reimburse the Laboratory for the purchase, modification and equipping of a new California facility for the Laboratory’s mouse production, distribution and external research services facility to be located in Sacramento near the Sacramento International Airport and the intersection of Interstates 80 and 5 (the “Sacramento Facility”).

The Sacramento Facility will be developed within an existing building that was constructed in 1991 and purchased by the Laboratory in March 2007 and consists of 117,000 square feet before expansion. In the first phase, the Laboratory intends to add 58,000 square feet of second floor space, bringing the total area to approximately 175,000 square feet. Approximately 75,250 square feet will be occupied space, housing vivaria space, sterile supply areas, clean rooms, lab space for in-vivo research, warehouses and administrative offices, and approximately 15,500 square feet will be reserved for mechanical and information technology equipment. The second phase will involve equipment installation and other customizations of the laboratory spaces to make the Sacramento Facility suitable for the Laboratory’s research. The remainder of the building, comprising approximately 84,250 square feet, will be reserved for future expansion.

Construction is currently in the first phase, with the Laboratory having already brought the building back to a clean shell and started the below slab-utilities work and performed select internal demolition. As of August 2007, architectural design for the entire building is nearly complete and the Laboratory has hired the contractor to perform the structural work to add a second floor.

Phase two is expected to begin in October 2007, with the solicitation of bids for construction of internal improvements from a list of pre-qualified vendors experienced in research facility construction. Construction of interior improvements is expected to begin in October 2007.

Permitting is being submitted to the City of Sacramento in phases. The first permit, which was for structural upgrades to add the second floor, has been approved. The second permit, scheduled for submission by mid-November 2007, will be for all other improvements, including interior walls, finishes, mechanical systems, electrical and fire protection.

Completion of all internal improvements is expected to occur in late fall of 2008. Upon completion of the Sacramento Facility, the Laboratory will vacate the West Sacramento Facility and transfer its operations to the Sacramento Facility. The expanded, refurbished Sacramento Facility will immediately provide nearly twice the area available at the West Sacramento Facility (90,000 square feet, including mechanical space) and will be built out in future stages to approximately 200,000 square feet.

A portion of the proceeds of the Bonds will also be used to refund the Refunded Bonds, to pay capitalized interest on a portion of the Bonds and to pay costs of issuance. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF PROCEEDS” in the front portion of this Official Statement.

GOVERNANCE AND MANAGEMENT

Governance of the Laboratory is vested in a Board of Trustees (the “Board”), which provides strategic direction, financial oversight, and fundraising support. The Board of Scientific Advisors (the “BSO”) exercises primary oversight of the scientific activities of the Laboratory, including research, education, training and genetics resources programs, and advises the Board and the director of the Laboratory (the “Director”) on recruitment and promotion of scientific staff and scientific collaborations. The Board appoints the Director, who also holds the titles of President and Chief Executive Officer and who, in consultation with the Board Chair, recommends to the Board for consideration the other members of the Senior Management Team. The Board is then responsible for electing a Chief Financial Officer, Chief Operating Officer, Secretary, Treasurer and such other officers as the Board deems necessary.

Board of Trustees

Following a recent structural reorganization approved on August 17, 2007 by the Board’s predecessor (the Board of Governing Trustees), the Board consists of 15 to 27 members, including the Director and the chair of the BSO, and the President of the National Council (an organization responsible for coordinating the activities of Laboratory supporters nationwide), each of whom serve *ex officio*. Board members are divided into three approximately equal classes, with each member serving a three-year term and eligible for re-election, subject to a limit of four consecutive terms. In order to institute the staggered board structure, two-thirds of the initial Board, which took office in August 2007, will serve less than three years. The Board meets at least four times each year. The members of the Board (the “Trustees”) and their occupations are as follows:

| Name | Occupation | Current Term Expires |
|-----------------------------|--|-----------------------------|
| Robert C. Beck | Senior Member, Beck, Mack & Oliver, L.L.C. | 2010 |
| David R. Cabot | Principal, Winward Investments Management | 2009 |
| Ross E. Dworman | RD Capital | 2009 |
| David D. Elliman | Director and Principal, Elmrock Capital, Inc. | 2010 |
| Peter F. Gerrity, Secretary | President, Gerrity Company, Inc. | 2009 |
| Richard W. Grace | Vice President, HRH Company | 2008 |
| Richard S. Gurin | President, Board of Directors, Coastal Holdings | 2010 |
| William S. Harwood, Esq. | Partner, Verrill Dana, L.L.P. | 2009 |
| Leo Holt | President, Holt Oversight & Logistical Technologies | 2008 |
| Weslie R. Janeway | President, Pyewacker Foundation | 2010 |
| Nancy J. Kelley, J.D. | Interim Executive Director/CEO, Schepens Retina Associates Foundation | 2008 |
| Richard S. Lannamann | Vice Chair, Spencer Stuart & Associates | 2010 |
| Sam R. Little | Architect, Boles, Smyth Associates, Inc. | 2008 |
| Terry Magnuson, Ph.D. | Chair, Department of Genetics; Director, Carolina Center for Genome Sciences, University of North Carolina | <i>Ex officio</i> |
| Tom P. Maniatis, Ph.D. | Thomas H. Lee Professor of Molecular Biology, Harvard University | 2010 |
| William Rudolf | President, William Rudolf, Inc. | <i>Ex officio</i> |
| Edward L. Samek, Treasurer | Principal, Samek Solutions | 2009 |
| Henry F. Sears, M.D. | President, Chino Venture Partners | 2009 |
| Shirley M. Tilghman, Ph.D. | President, Princeton University | 2010 |
| Daniel R. Tishman | Chairman and CEO, Tishman Construction Corporation | 2008 |
| Richard P. Woychik, Ph.D. | President and Director, The Jackson Laboratory | <i>Ex officio</i> |
| Brian F. Wruble | General Partner, Odyssey Partners, L.P. | 2009 |

The Board also recognizes three other classes of trustees who have all the rights and privileges of the Trustees, except that of voting. Life Trustees include former Board Chairs. Trustees Emeriti include persons who had served on the Board (or its predecessor) for at least twelve years. Honorary Trustees include persons who have contributed significantly to the growth or reputation of the Laboratory.

The Board delegates certain of its functions to standing committees. The permanent standing committees are the Executive Committee, the Audit Committee, the Nominating and Governance Committee, the Compensation and Human Resources Committee, the Advancement Committee and the Finance Committee. Additional standing committees may be established by the Board from time to time, and the Board may assign to such committees whatever legally delegable duties and powers it deems advisable.

Board of Scientific Overseers

The BSO is composed of at least nine members. Members are elected by the Board from a slate of candidates nominated by the BSO's four-person nominating committee, which consists of one person

elected by the Laboratory's research staff and three appointed by the BSO's chair from the BSO's membership. Members of the BSO serve for three-year terms and may be appointed for a second term; upon completion of a second term, a member of the BSO must wait at least one year before regaining eligibility for reelection to the BSO. In addition to exercising primary oversight of the scientific activities of the Laboratory, the BSO provides guidance to the Laboratory and the Board regarding the quality of services performed at the Laboratory.

Senior Management

The Director is responsible for leading and administering the Laboratory. Following the strategic imperatives adopted by the Board, the Director develops the scientific and operating plans. Senior management is responsible for carrying out these plans. Below is a brief biography and job description of each member of the senior management team.

Richard P. Woychik, Ph.D., Director. Dr. Richard Woychik has served as the Director of the Laboratory since 2002. Dr. Woychik's academic career includes 11 years at Oak Ridge National Laboratory and Case Western Reserve University. In December 1998, Dr. Woychik became the head of the Parke-Davis Laboratory for Molecular Genetics for Warner Lambert Pharmaceutical. In January 2001, he became the chief scientific officer at Lynx Therapeutics. Dr. Woychik completed his undergraduate and Master's degrees at the University of Wisconsin, Madison, and earned his Ph.D. in molecular biology at Case Western Reserve University in 1984.

Charles E. Hewett, Ph.D., Vice President and Chief Operating Officer. Since 2004, Dr. Hewett has served as Vice President and Chief Operating Officer of the Laboratory. In this capacity, among other responsibilities, he is General Manager of JAX[®] Mice & Services, the Laboratory's nonprofit genetics research resources and services business. Prior to joining the Laboratory, Dr. Hewett was CEO of Atlantic Energy Partners and Neptune Regional Transmission System from their founding in 1999 through April 2004, during which time he also served as vice president and secretary to the board of the Cianbro Companies in Pittsfield, Maine. He has held executive posts in state government, the international pharmaceutical industry, energy generation, and in natural resource management. He is a graduate in political economy from Williams College and holds a Master of Forest Science, and a Ph.D. in natural resource development from Yale University. Dr. Hewett chairs the board of HealthInfoNet and serves as a director of Bangor Savings Bank, College of the Atlantic, John Bapst Memorial High School and the Kind Acts Foundation.

Robert E. Braun, Ph.D., Incoming Associate Director/Chair of Research. Dr. Braun recently accepted the position of Associate Director/Chair of Research of the Laboratory and will be moving his lab to the Laboratory in the fall of 2007. His current position is Professor, Department of Genome Sciences, University of Washington School of Medicine and Director, Specialized Cooperative Centers Program in Reproductive Research and Co-Director, Specialized Cooperative Centers Program in Contraceptive Research. After receiving a joint B.A. in molecular cellular developmental biology, chemistry and mathematics from the University of Colorado and his Ph.D. in microbiology from the Tufts University School of Medicine, Dr. Braun was a Postdoctoral Fellow in the Department of Biochemistry and Howard Hughes Medical Institute, University of Washington. Dr. Braun continued his research career at the University of Washington, spending a year as a visiting scientist at the Laboratory in 2001-2002. Along with his assumption of the Associate Director role, Dr. Braun will continue research in mammalian reproductive genetics.

Leah Rae Donahue, Ph.D., Director of Genetic Resource Science. Dr. Donahue oversees the scientific and resource generating activities of Genetic Resource Science ("GRS"), a group of Ph.D. scientists and research assistants who are engaged in development and implementation of new

technologies that enable expanded use of the mouse in biomedical research. GRS scientists provide complete and easily accessible information pertinent to using mice as research tools, and initiate and manage large-scale resource-generating projects. Dr. Donahue also manages the GRS Repository operations, including the importation of new mouse strains, curation of mouse strains, maintenance of the JAX[®] Strain database, and distribution of Repository strains. Dr. Donahue holds a Ph.D. in nutrition sciences from the University of Maine and has over 17 years of experience developing mouse models of human disease. She also has expertise in endocrinology, skeletal biology, and craniofacial dysmorphologies.

Michael E. Hyde, Vice President for Advancement and External Relations. Mr. Hyde joined the Laboratory in May 2006. He oversees philanthropy, government relations, public relations and marketing, in addition to supervising a staff of 19. His previous position was as vice president for University Relations at Alfred University in Alfred, New York where he led the private institution's fundraising, alumni, public relations and state government liaison efforts since 1977. Mr. Hyde holds undergraduate and graduate degrees from the University of Missouri, Columbia.

Barbara B. Knowles, Ph.D., Vice President for Education & External Collaborations. Dr. Knowles has been a member of the Scientific Staff and the Senior Management Team of the Laboratory since 1993. Prior to that she served for 27 years as a Professor at the Wistar Institute of Anatomy and Biology and as a Wistar Professor of Microbiology and a Wistar Professor of Pathology and Laboratory Medicine at the University of Pennsylvania. Dr. Knowles graduated from Middlebury College in Vermont and holds an M.S. and a Ph.D. in zoology from Arizona State University. Following receipt of these degrees, she was a postdoctoral fellow in the Department of Genetics at the University of California, Berkeley.

Linda A. Jensen, Chief Financial Officer. Ms. Jensen joined the Laboratory as the Chief Financial Officer in October 2005. In her role, Ms. Jensen oversees Budgets & Planning, Financial Services and Treasury. Outside of the Laboratory, Ms. Jensen serves on the Finance Committee of the Abbe Museum. She is also a member of the Treasurers' Club of Boston and the Financial Executives International, formerly serving as an officer in both of these organizations. Prior to her employment at the Laboratory, Ms. Jensen was the Vice President – Finance and Chief Financial Officer at Select Energy Services in Natick, Massachusetts for 18 years. Ms. Jensen earned her M.S. degree in management from Massachusetts Institute of Technology and her B.B.A. from the University of Michigan.

SCIENTIFIC STAFF

As of August 31, 2007, the Laboratory employed more than 500 research personnel, including nearly 200 with Ph.D., M.D., or D.V.M. degrees. The balance of the research staff is comprised of technical support staff. In addition to the research laboratories of the 37 principal investigators (each, a "Principal Investigator"), the Laboratory has a centralized scientific services group made up of approximately 160 scientists and technicians who provide genotyping, histology, phenotyping, microscopy, reproductive technologies, computational biology services and surgical services to the Principal Investigators' laboratories. The Laboratory plans to increase the research staff to 45 Principal Investigators and, in 2006, completed a 41,000 square foot building which added 15,200 square feet of research space to accommodate the anticipated new staff at its Maine Facility.

The Laboratory scientists frequently publish their discoveries in nationally - circulated scientific journals. Over the last 30 months, Laboratory scientists have published 141 papers, 18 of which are in the top-30 journals of all peer-reviewed scientific journals as ranked by "impact factor" by *Journal Citation Reports*. Research conducted by Laboratory scientists is frequently cited in articles by other scientists and JAX[®] Mice have been referenced in more than 15,000 peer-reviewed publications.

SCIENTIFIC PROGRAMS

Throughout the Laboratory's history, its scientists have used a variety of biological approaches to understand the genetic components of many human health problems including cancer, diabetes, Auto Immune Deficiency Syndrome ("AIDS"), anemias, heart disease, muscular dystrophy, reproductive disorders, transplantation rejection and aging. Research is conducted within the laboratories of Principal Investigators, in interdisciplinary centers, and through collaborations with other institutions. The Laboratory also sponsors a wide range of education programs to share its knowledge gained through research and mouse production.

Research Focus

Historically, the Laboratory has conducted research programs in six major areas:

- Cancers
- Bioinformatics and Computational Biology
- Developmental Biology & Aging
- Immunology/Hematology
- Metabolic Diseases
- Neurobiology & Sensory Disorders

Cancers. Some cancer studies at the Laboratory focus on basic immunological pathways and their connection with the disease; others investigate models of cancer, including cervical, mammary, ovarian, liver and prostate cancers and leukemia. Current research efforts include isolating and characterizing leukemia stem cells; developing improved drug therapies for chronic myeloid leukemia and B-cell acute lymphoblastic leukemia; working to eliminate brain tumor stem cells to block existing tumor growth and inhibit recurrence; investigating the earliest stages of breast cancer; revealing how gene expression changes during the formation of ovarian granulosa cell tumors; and others.

Bioinformatics and Computational Biology. Bioinformatics is the application of computers and databases to store and retrieve biological information, and computational biology refers to the development of software and computational methods that addresses specific biological questions. The Bioinformatics department consists of Principal Investigators, software engineers, database editors, user support, and administrative support. Contributions from the Laboratory to the field of Bioinformatics include two award-winning databases: The Encyclopedia of the Mouse Genome and the Mouse Genome Database ("MGD"), and one of the first gene expression databases, the Gene Expression Database for Mouse Development ("GXD") which allows researchers to obtain information about gene expression patterns. The Laboratory provides access to the MGD and GXD free of charge to the nonprofit scientific community and encourages researchers worldwide to contribute their new discoveries to these databases.

Developmental Biology & Aging. The work of exploring the blueprint for mammalian development from conception to death falls into three broad categories - fertilization, embryology, and aging. Developmental biology research initiatives include development of culture conditions associated with measuring egg development and *in vitro* fertilization and piecing together gene pathways in embryogenesis. Aging-related topics involve the general study of senescence (aging) and the onset of diseases associated with old age, plus focused investigations into the role of the regulation of hormones in aging and the age-related decline in the ability of cells to proliferate and renew.

Immunology/Hematology. The genetic basis for immune function can be studied using defined models for disease. One topic of current research involves the exploration of aspects of Type 1 diabetes, an autoimmune disease, including the use of a mouse model that produces a novel protein associated with

preventing the immune system from destroying the insulin-producing cells of the pancreas. Another project is understanding the role of FcRn, an immune system protein, in protective immunity to intestinal pathogens and in defense against infectious organisms.

Metabolic Diseases. Researchers at the Laboratory are investigating many different aspects of metabolic disease, including obesity, diabetes, atherosclerosis, gallstone formation, hypertension, and glaucoma. Several Laboratory investigators are working to decipher the genetic basis for these diseases, which could ultimately lead to finding cures. Projects include investigation of the molecular links between PPAR γ (a metabolic regulatory protein), fat cell function and susceptibility to metabolic disease such as Type 2 diabetes; investigation of molecular pathways underlying human metabolic disorders including obesity and Type 2 diabetes; investigation of factors that influence bone mineral density in the study of osteoporosis and bone-fracturing; genetic and biological basis of inherited anemias; and complex trait analysis to identify genes influencing atherosclerosis, hypertension, HDL cholesterol, and cholesterol gallstone formation.

Neurobiology & Sensory Deficits. Research at the Laboratory involves discovering gene mutations that can cause debilitating central nervous system diseases. Other projects for Laboratory investigators involve exploring the genetic bases for epilepsy and sensory disorders and elucidating the function of specific cell types in the brain. Researchers have recently discovered ways that protein miscoding can lead to neurodegeneration and how neuroprotective radiation and bone marrow treatment can prevent glaucoma in mice. They have also located new entry points into pathways important in retinal degeneration and neovascularization.

Collaborations

The Laboratory's independent research is supported by collaborations with other research institutions to share scientific services, genetic and bioinformatics resources, and conduct joint training and education programs. With the University of Maine and the Maine Medical Center Research Institute, the Laboratory offers an interdisciplinary, inter-institutional graduate degree program in functional genomics of model organisms. As part of this program, several of the Laboratory's Principal Investigators teach courses and mentor student research in the biological, physical and computational sciences. The Laboratory has also entered into two different memoranda of understanding to carry out and promote interdisciplinary research, the first with Eastern Maine Healthcare Systems, a subsidiary of the University of Maine, and the second with the University of Maine and the Maine Medical Center Research Center Institute.

Education Program

The Laboratory is dedicated to educating and training students and scientists at all stages of their careers. Every year the Laboratory conducts a 10-week summer program for high school and college students, providing an opportunity to conduct a research project under the tutelage of a staff scientist in a working laboratory setting. This program has been frequently cited by scientists as the reason for pursuing a scientific career, and two alumni of the program were recognized as Nobel Laureates in Physiology and Medicine in 1975. In addition to the summer student program, the Laboratory presents an extensive series of courses and conferences, which include numerous lectures by eminent researchers and workshops on topics of mouse husbandry and technical information processing. With Johns Hopkins University as co-organizer, the Laboratory also hosts a Short Course in Medical and Experimental Mammalian Genetics each summer for biomedical investigators, clinicians, and advanced graduate students.

Since its founding, the Laboratory has also sponsored several research positions at its facilities that enable selected high school, college and postgraduate students to work with staff scientists. Post-doctoral fellows are recruited based on their particular research interests and are mentored to prepare the scientists for careers as independent investigators. In addition, the Laboratory fosters the educational aspect of its mission by sharing its cumulative knowledge with researchers around the world through its sponsored strain distribution program, technical information services, and access to the Repository.

JAX[®] MICE & SERVICES

The Laboratory provides the world's largest selection of mouse models to the worldwide research community. These models support research into the causes and genetic components of many diseases including cancers, Type 1 and Type 2 diabetes, obesity, cardiovascular disease, and neurological and immune system disorders.

To be used as research tools, mice must be bred, husbanded, and distributed according to strict genetic and health standards. To meet the demand for its mice, the Laboratory maintains production-size colonies in state-of-the-art vivariums, with specially designed air-handling systems, autoclave systems for sterilizing all material entering the rooms, shower-in facilities and specially designed ventilated racks. The Laboratory's facilities are staffed with approximately 300 animal care technicians, material handling staff, and production planners. The American Association for Accreditation of Laboratory Animal Care reviews the Laboratory's animal care policies and procedures to assure adherence to the guidelines maintained by the National Research Council Commission on Life Sciences. The Laboratory's breeding and husbandry program in Maine was last accredited on November 14, 2006, for three years. The program in California was last accredited on March 9, 2007, for three years and will transfer automatically from the West Sacramento Facility to the new Sacramento Facility.

The Laboratory's Genetic Resource Science group consists of a scientific staff of 30 persons devoted to maintaining Web-accessible data resources on JAX[®] Mice, developing new research tools for using mice, such as methods to "knock out" or "knock in" genes, add human genetic material to mice, and improve mouse husbandry methods. As mice are provided to the Repository, this group curates information from published research papers that provide knowledge about each mouse model. The Genetic Resource Science Group collects all of the available research, breeding, genetic, physiological, and other data on the mouse, and stores it in the appropriate Repository databases.

In addition to providing mouse models, the Laboratory offers services in breeding, mouse reproductive technologies, and *in vivo* research to scientists outside the Laboratory. Laboratory study directors and technical staff work with researchers to develop customized or standardized studies and to execute the studies. For example, Laboratory staff has assisted researchers with the design and implementation of various studies, including discovering and validating drug targets, conducting compound efficacy testing and mouse model characterization, and exploring genetic influences on toxicity.

The Laboratory also breeds and manages mouse colonies for scientists, including the provision of special diets and the dosing, phenotyping, *in vivo* testing, and preconditioning of mouse models. In addition to maintaining staff focused on the propagation and transportation of mice, the Laboratory maintains customer support and technical staff to assist the research community in selecting mouse models appropriate for individual research programs.

PLANT AND EQUIPMENT

Facilities

The Maine Facility, Jackson Laboratory's main campus, consists of 145 acres of land with 700,000 square feet of buildings located primarily at 600 Main Street, Bar Harbor, Maine. The West Sacramento Facility is located at 960 Riverside Parkway, West Sacramento, California in 42,000 square feet of leased space. See "THE PROJECT AND THE REFUNDING" for a description of the Sacramento Facility to be constructed with a portion of the proceeds of the Bonds.

Equipment

Technologies and systems on which the Laboratory relies include electron, light and confocal microscopy, spectral karyotyping, DNA Analyzer for automated fluorescence-based allele typing and sequence detection and sequencing, automated liquid-handling systems for high-throughput molecular applications, real time sequence detection, flow cytometric analysis and cell sorting (three-laser cytometer and magnetic bead systems), Bio-Plex System for the multiplexed analysis of cytokines/chemokines, endocrines, and phosphorylated proteins, chip- and bead-based gene expression profiling systems, high-frequency ultrasound, micro computed tomography, micro-manipulators for pronuclear and blastocyst injection, high-performance parallel computing, statistical data and image analysis, laboratory information management systems and a storage area network for data storage and archiving. The Laboratory is the site of the first Leica 4-Pi multi-photon confocal microscope in North America. The Laboratory provides its research staff with access to a host of additional bioinformatics databases and analytical tools and many other specialized facilities.

Propagation, storage and distribution of mice requires considerable specialized equipment including individually ventilated cage units, rack systems for animal housing, direct HEPA filtered cage changing stations, tunnel washers and rack washers, autoclaves, controlled rate freezers and alarmed nitrogen tank storage for cryopreservation. This equipment also requires diagnostic surveillance, testing services and veterinary oversight.

FINANCIAL OPERATIONS

The Laboratory has two major sources of funding: grants supporting research and the sale of JAX[®] Mice & Services. In addition, the Laboratory relies on investment earnings and fundraising. Each source of funding is discussed below.

Grants

Grants provide approximately 42% of the Laboratory's operating revenue. For the fiscal year ended May 31, 2007, the Laboratory received approximately \$63 million in government and other private and public grants and contracts, including \$57 million from the federal government, primarily from the NIH. Other grantors include the Ellison Medical Foundation, American Heart Association, Juvenile Diabetes Research Foundation and March of Dimes.

The Jackson Laboratory
Sources of Grants and Contracts Revenue
For the Fiscal Years Ended May 31
(in thousands)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| NIH | \$52,388 | \$56,617 | \$58,272 | \$58,349 | \$56,067 |
| Other Federal Agencies | 1,010 | 1,961 | 1,123 | 738 | 432 |
| Foundations | 3,681 | 3,002 | 3,633 | 4,290 | 6,003 |
| Other | 631 | 220 | 256 | 160 | 283 |
| Total | \$57,710 | \$61,800 | \$63,284 | \$63,537 | \$62,785 |

Since 2005, the NIH has funded approximately 21% of the applications it receives. With its focus on research, the Laboratory consistently exceeds the NIH average, receiving grants for approximately 34% of the applications it submitted in fiscal year 2007. This success reflects the Laboratory's resources devoted to supporting the development and submission of grants and its alignment with NIH research priorities. Even when the end of the double-digit increases in NIH budgets in 2003 resulted in a decline in award rates, the Laboratory continued to outpace the average grant application success rate.

NIH awards are generally for a period of three to five years and provide budgets to cover direct and indirect costs. Direct costs are those costs directly related to a research project, including wages of scientists and technicians, supplies and grant-specific equipment. In addition, federal grants cover indirect costs, which are also incurred in the performing of research, but have been incurred for purposes common to all of the Laboratory's operations. Indirect costs include interest on long-term debt, depreciation, utilities, occupancy and facilities costs, and general and administrative services such as accounting, purchasing, human resources and the library.

The federal Office of Management and Budget has established regulations to govern indirect cost reimbursement recovery principles and procedures to ensure that the federal government bears a fair share of the total costs associated with research programs. While the cost principles are intended to provide for sharing and allocation of indirect costs, certain costs are not allowable. For example, fundraising and other specified miscellaneous costs are not reimbursable. The Laboratory is in the second year of a three-year indirect cost-rate agreement negotiated with the U.S. Department of Health and Human Services that provides for indirect cost rates of 71%, 73% and 74% for fiscal years 2007 through 2009, respectively. These rates are applicable to all federal grants that allow overhead. The indirect costs that are recovered with respect to any individual grant are determined by applying the negotiated indirect cost rate to the total of the applicable grant's direct costs. The next indirect cost rate negotiation will be based on the actual cost ratios experienced in fiscal year 2008. Foundation grants and federal training grants carry various indirect rates ranging from zero to the full federal negotiated rate.

Sales of JAX[®] Mice & Services

Revenue received from the sale of mice and services to the research community represents approximately 53% of the Laboratory's operating revenue. The Laboratory believes it is the largest supplier to academic institutions, although it supplies a relatively small portion of pharmaceutical and biotechnology industry needs for research mice. The largest customer for Laboratory mice is the NIH, which represents approximately 2% of all JAX[®] Mice & Services sales. The top ten customers account for approximately 13% of mouse sales.

Based on volume, the world's largest supplier of research mice is Charles River Laboratories Inc. ("CRL"), which also supplies many other types of animal research models. The Laboratory has entered into an agreement with CRL, whereby CRL distributes its mice in specified international regions and, under the oversight of the Laboratory, propagates selected mouse strains for distribution in Europe and Japan. CRL pays the Laboratory a royalty for the mice it propagates and adds a distributor's mark-up for mice propagated in Bar Harbor but distributed to customers overseas.

Investment Policy and Return

Under the Laboratory's investment policy, the Board is responsible for establishing the level of risk that the organization is willing to assume in its investment strategy. The current strategy is preservation of capital with prudent risk tolerance. The investment subcommittee of the finance committee (the "Investment Subcommittee") is responsible for allocating investments consistent with the risk profile and selecting investment managers with the goal of earning a superior return for the amount of risk assumed. The Investment Subcommittee has established investment criteria and operating policies and procedures for evaluation of investment managers and investment vehicles. The Investment Subcommittee is responsible for due diligence in the selection of managers and for monitoring the performance of managers. The Investment Subcommittee reports to the finance committee and the Board quarterly.

The Investment Subcommittee is made up of professional investors who meet quarterly to evaluate performance and approve any changes in the portfolio. The philosophy of the Investment Subcommittee is to select experienced and disciplined investment managers within each investment category. Diversification is achieved through investments in domestic and international common stocks, bonds, cash equivalents, and alternative investments such as timber, real estate, long/short equity, distressed/special situation debt. Additional diversification is achieved by allocating assets to various investment styles within asset classes and retaining investment managers with complementary investment philosophies, styles, and approaches. From time to time, an investment professional performs an analysis of the portfolio. Management is not aware of any non-compliance with the investment policy.

Investment return utilized for operations and other investment returns represents approximately 3% of the Laboratory's operating revenue. The Laboratory earns interest on its short-term investment of treasury cash. Treasury cash represents accumulated operating surpluses earmarked for support of research and training and capital projects. All cash in excess of requirements for minimum balances is invested in short-term fixed income vehicles. From time to time, the Laboratory has invested a small portion of its treasury cash in equities or other investment vehicles.

Return earned on donor-restricted endowment funds is allocated to operations in accordance with the donor's wishes. In addition, the Board may allocate additional return on endowment investments to the support of operations. For the fiscal years ended May 31, 2005, 2006 and 2007, no additional return was allocated to operations. Prior to 2005, the Board allocated 5% of the rolling 36-month average endowment balance to support annual operations.

Other Revenue

Other revenue consists of fees charged for conferences, royalties, license fees, and other miscellaneous sources of revenue. In addition, under material transfer agreements for donated mouse strains, the Laboratory has the right to portions of royalties received by donee institutions from subsequent commercial recipients of Laboratory mice distributed.

To date, the Laboratory has not received significant revenue from intellectual property licenses. However, the Laboratory recently expanded its technology transfer staff and has 47 patent applications pending. In addition, the Laboratory recently entered into a licensing agreement with Bar Harbor BioTechnology, Inc. (“BH Bio”), a company founded by one of TJJ’s Principal Investigators to develop and sell gene-based molecular profiling technologies. The Laboratory has entered into a licensing agreement with BH Bio authorizing the company, in exchange for an equity interest, to use certain TJJ-developed patents and technical information in the manufacture and sale of its genetic tests. BH Bio also subleases space from the Laboratory at market rates. The Laboratory holds 5.2% of BH Bio’s common stock and has a right to purchase additional shares to prevent dilution of its stake; however, it is too early to determine if any value will be generated from the licensing agreement.

Fundraising Programs

Private philanthropy, excluding foundation grants, represents 1.5% of the Laboratory’s operating revenue. Recognizing that the current level of NIH funding for research would inhibit the expansion of its research efforts, the Laboratory has renewed its efforts to seek private philanthropy. In May 2006, the Laboratory hired a new Vice President of Advancement and External Relations, with the intent of revitalizing its fundraising capability. Building from the current annual base of approximately \$2.5 million in gifts, the Laboratory plans to increase annual support from donors. Attracting and retaining these sources of funds is the responsibility of the Advancement office, as assisted by the Board and senior management.

FINANCIAL INFORMATION

The following summaries of financial information of the Laboratory are derived from the financial statements for the fiscal years ended May 31, 2004, 2005, 2006, and 2007, which were audited by KPMG LLP, independent auditors, and from the financial statements for the fiscal year ended May 31, 2003, which were audited by PricewaterhouseCoopers, independent auditors.

Statement of Activity

The following table is a summary statement of activities for each of the fiscal years in the five-year period ended May 31, 2007.

| | Fiscal Years ended May 31 (in thousands) | | | | |
|---|---|------------------|------------------|------------------|------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| REVENUES, GAINS AND OTHER SUPPORT | | | | | |
| Grants and Contracts | \$ 57,710 | \$ 61,800 | \$ 63,284 | \$ 63,537 | \$ 62,785 |
| Sale of Mice and Services | 55,653 | 62,224 | 69,626 | 74,605 | 80,012 |
| Contributions | 1,157 | 1,645 | 1,701 | 1,781 | 2,316 |
| Long-term investment return utilized | 2,159 | 541 | 636 | 666 | 711 |
| Other investment return | 933 | 912 | 988 | 1,549 | 3,734 |
| Other | 923 | 882 | 969 | 1,081 | 1,008 |
| Total Revenues, Gains and Other Support | <u>\$118,535</u> | <u>\$128,004</u> | <u>\$137,204</u> | <u>\$143,219</u> | <u>\$150,566</u> |
| EXPENSES | | | | | |
| Research | \$ 50,774 | \$ 53,849 | \$ 55,298 | \$ 59,238 | \$ 64,228 |
| JAX [®] Mice & Services | 44,226 | 43,575 | 41,997 | 45,594 | 49,355 |
| Training | 1,824 | 2,012 | 2,061 | 2,930 | 3,334 |
| Management and General | 21,758 | 23,599 | 21,307 | 21,112 | 26,566 |
| Impairment of JAX West assets | | | | | 1,942 |
| Total Expenses | <u>\$118,582</u> | <u>\$123,035</u> | <u>\$120,663</u> | <u>\$128,874</u> | <u>\$145,425</u> |
| EXCESS OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES | (47) | 4,969 | 16,541 | 14,345 | 5,141 |
| Investment Return (Shortfall) in Excess of Amount Designated for Current Operations | 323 | 6,734 | 2,286 | 7,911 | 11,057 |
| Grants and Contributions for endowment and plant | 10,385 | 12,274 | 15,110 | 9,196 | 4,170 |
| Unrealized change in fair value of interest rate swaps | (3,395) | 3,544 | (2,976) | 4,536 | (858) |
| Loss on Debt Extinguishment ⁽¹⁾ | (2,258) | | | | |
| Other | (2,405) | 752 | (3,355) | (1,155) | |
| CHANGE IN NET ASSETS | <u>\$ 2,603</u> | <u>\$ 28,273</u> | <u>\$ 27,606</u> | <u>\$ 34,833</u> | <u>\$ 19,510</u> |
| NET ASSETS, BEGINNING OF YEAR | <u>\$136,622</u> | <u>\$139,225</u> | <u>\$167,498</u> | <u>\$195,104</u> | <u>\$229,937</u> |
| NET ASSETS, END OF YEAR | <u>\$139,225</u> | <u>\$167,498</u> | <u>\$195,104</u> | <u>\$229,937</u> | <u>\$249,447</u> |

⁽¹⁾ The loss was generated by the defeasance of previously issued bonds as part of the issuance of the Series 2002 Bonds. Such loss represents the write-off of unamortized issuance costs and discounts and termination costs related to the early repayment.

Sources of Revenue

The following table sets forth the percentage of total revenues, gains and other support of the Laboratory by source for each of the fiscal years in the five-year period ended May 31, 2007.

| | Fiscal Years ended May 31 | | | | |
|---|----------------------------------|-------------|-------------|-------------|-------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Grants and Contracts | 48.7% | 48.3% | 46.1% | 44.4% | 41.7% |
| Sale of Mice and Services | 47.0% | 48.6% | 50.7% | 52.1% | 53.1% |
| Contributions | 1.0% | 1.3% | 1.2% | 1.2% | 1.5% |
| Long-term investment return utilized | 1.8% | 0.4% | 0.5% | 0.5% | 0.5% |
| Other investment return | 0.8% | 0.7% | 0.7% | 1.1% | 2.5% |
| Other | 0.8% | 0.7% | 0.7% | 0.8% | 0.7% |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

Summary Balance Sheet

The following table shows the balance sheet of the Laboratory as of May 31 for each of the fiscal years in the five-year period ended May 31, 2007.

| | Fiscal Years ended May 31 (in thousands) | | | | |
|---|---|------------------|------------------|------------------|------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 5,553 | \$ 12,316 | \$ 27,956 | \$ 24,695 | \$ 32,467 |
| Working capital investments | 11,186 | 19,631 | 24,680 | 35,576 | 22,168 |
| Receivables and Other Assets | 17,780 | 20,261 | 19,888 | 23,660 | 19,705 |
| Pledges Receivable - net | 3,702 | 4,475 | 2,680 | 1,852 | 794 |
| Restricted Cash & Funds Held by Trustee | 26,675 | 15,177 | 3,648 | 3,965 | 5,315 |
| Investments | 50,374 | 57,325 | 59,927 | 68,098 | 80,101 |
| Property – net | 125,286 | 134,921 | 149,444 | 160,777 | 178,921 |
| TOTAL ASSETS | \$240,556 | \$264,106 | \$288,223 | \$318,623 | \$339,471 |
| LIABILITIES | | | | | |
| Accounts Payable and Accrued Expenses | \$ 24,490 | \$ 22,607 | \$ 25,738 | \$ 22,256 | \$ 23,582 |
| Deposits and deferred revenue | 11,106 | 9,347 | 3,923 | 4,343 | 5,922 |
| Debt | 65,735 | 64,654 | 63,458 | 62,087 | 60,520 |
| TOTAL LIABILITIES | \$101,331 | \$ 96,608 | \$ 93,119 | \$ 88,686 | \$ 90,024 |
| NET ASSETS | | | | | |
| Unrestricted | \$114,154 | \$ 40,387 | \$169,337 | \$205,013 | \$222,150 |
| Temporarily Restricted | 18,324 | 19,921 | 18,320 | 17,372 | 19,482 |
| Permanently Restricted | 6,747 | 7,190 | 7,447 | 7,552 | 7,815 |
| TOTAL NET ASSETS | \$139,225 | \$ 67,498 | \$195,104 | \$229,937 | \$249,447 |
| TOTAL LIABILITIES AND NET ASSETS | \$240,556 | \$164,106 | \$288,223 | \$318,623 | \$339,471 |

Investment in Securities

The following table sets forth the investments of the Laboratory at fair value as of May 31 for each of the five fiscal years in the period ended May 31, 2007.

| | Fiscal Years ended May 31 (in thousands) | | | | |
|---|---|------------------------|------------------------|-------------------------|-------------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Working Capital Investments | | | | | |
| Fixed Income Securities | \$10,292 | \$17,230 | \$24,530 | \$ 35,551 | \$ 22,143 |
| Equity Securities | 621 | 1,138 | 146 | 25 | 25 |
| Cash and equivalents | 273 | 1,263 | 4 | | |
| Total Working Capital Investments | <u>\$11,186</u> | <u>\$19,631</u> | <u>\$24,680</u> | <u>\$ 35,576</u> | <u>\$ 35,576</u> |
| Long-term Investments | | | | | |
| U. S. Treasury Securities | | | 11,418 | 10,974 | 9,767 |
| Fixed Income Securities | 4,210 | 5,903 | | | |
| Equity Securities | 7,196 | 7,397 | 2,567 | | 2,129 |
| Domestic and international institutional equity funds | 10,801 | 13,518 | 28,358 | 39,246 | 47,485 |
| Domestic and international institutional bond funds | 6,045 | 2,363 | 2,678 | 3,052 | 3,625 |
| Private Equity and hedge funds | 16,006 | 20,868 | 9,036 | 9,734 | 13,234 |
| Real estate and timber funds | 1,159 | 1,482 | 3,810 | 3,518 | 1,743 |
| Cash and equivalents | 4,957 | 5,794 | 2,060 | 1,574 | 2,118 |
| Total Long-term Investments | <u>\$50,374</u> | <u>\$57,325</u> | <u>\$59,927</u> | <u>\$ 68,098</u> | <u>\$ 80,101</u> |
| Total Investments | <u>\$61,560</u> | <u>\$76,956</u> | <u>\$84,607</u> | <u>\$103,674</u> | <u>\$102,269</u> |

Debt Coverage

The table below sets forth the Laboratory's income available for debt service and the maximum annual debt service requirements of the Laboratory for the five fiscal years ended May 31, 2007.

| | Fiscal Years ended May 31 (in thousands) | | | | |
|--|---|-----------------|-----------------|-----------------|-----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Change in Unrestricted Net Assets | \$ 11,226 | \$ 26,233 | \$ 28,950 | \$ 35,676 | \$ 17,137 |
| Less: Unrealized (Gains) and Losses | (1,696) | (5,560) | (2,339) | (7,723) | (10,725) |
| Add Back: Interest Expense | 754 | 1,153 | 1,465 | 1,775 | 2,594 |
| Add Back: Depreciation and Amortization | 10,296 | 11,592 | 11,393 | 12,596 | 16,398 |
| Revenues Available for Debt Service | <u>\$20,580</u> | <u>\$33,418</u> | <u>\$39,469</u> | <u>\$42,324</u> | <u>\$25,404</u> |
| Maximum Annual Debt Service | \$ 754 | \$ 2,972 | \$ 2,675 | \$ 3,160 | \$ 4,174 |
| Long-Term Debt Service Coverage Ratio | 27.3 | 11.2 | 14.8 | 13.4 | 6.1 |

Capitalization

The following table sets forth the capitalization for all funds of the Laboratory at May 31, 2007, and as adjusted to reflect the issuance of the Bonds, computed as if such issuance had occurred on such date.

| | As of May 31, 2007 | |
|---|---------------------------|--------------------|
| | Actual | As Adjusted |
| | (in thousands) | |
| Debt | \$ 60,520 | \$ 93,595 |
| Total Net Assets | <u>249,447</u> | <u>249,447</u> |
| TOTAL CAPITALIZATION | \$309,967 | \$343,042 |
| Percentage of Debt to Total Capitalization | 20% | 27% |

MANAGEMENT'S DISCUSSION AND ANALYSIS

As a nonprofit corporation, the Laboratory manages operations with the goal of producing sufficient resources to accomplish its missions of research and education, generate funds for future development of programs and provide operating flexibility. During the last five fiscal years, the Laboratory has generated an increase in net assets in each fiscal year; however, there can be no assurance that such increases will continue or that the Laboratory will generate revenues sufficient to meet its obligations, including the Loan Payments.

Research and Training

Revenue. Growth in grant revenue is dependent upon attracting and retaining researchers who are successful in obtaining funding from the NIH and other sources. Reflecting the decrease in NIH funding and the three- to five-year cycle of grants, revenue growth rates decreased from 15% in 2003 to essentially level funding in 2006 and 2007. Fiscal year 2003 marks the end of the NIH's doubling of its research funding over the five-year period from 1999 to 2003. Federal budget issues created by the war in Iraq and hurricane devastation resulted in flat NIH funding in 2005 and a slight reduction in 2006. The NIH responded to the sudden leveling in funding appropriations by deferring many grant applications and by reducing the amount of funds awarded in later years of multi-year awards.

The Laboratory has managed the suspension of NIH funding increases by providing interim funding to its investigators who were deferred to the next application cycle, assisting with amended applications to improve the likelihood of funding on the second or third submission, and responding to a greater number of NIH requests for applications. These applications are often for large resource or center grants, for which the Laboratory is a prime candidate because of its significant provision of mouse models to other researchers. Recently recruited scientists have attracted NIH funding in advance of the expected five-to-seven year time horizon for achieving full external funding for their scientific programs, providing evidence that NIH is continuing to fund new scientists.

Grant revenue also includes variations in the Laboratory's indirect cost reimbursement rate from year to year and the mix of funding sources. The Laboratory's indirect cost rate ranged from 63% in

fiscal year 2002 to 71% in fiscal year 2007. The percentage of grants receiving full indirect cost reimbursement ranged from 90% in fiscal year 2002 and 88% in fiscal year 2007.

Additionally, open contracts and grants for federally sponsored research are subject to NIH audit adjustments, including disallowance of direct and indirect costs. In the event of such an audit, the Laboratory might be required to repay the previously reimbursed portion of any unallowable or unallocable costs. Although authorizations for grants from federal agencies have been funded in the past years, they are subject to annual congressional appropriations and payment. Competition for available research funding is intense and federal funding is subject to governmental budgetary pressure. No assurance can be given that such programs will continue at current levels. A loss or significant reduction of such programs could have a material adverse effect on the Laboratory's activities and financial position. The Laboratory's management is not currently aware that any such programs will be discontinued or materially reduced.

Expenditures. Research expenditures include not only the grant-funded direct expenses but also Laboratory support of recently hired principal investigators, interim support for senior scientists who have lost grant funding, gift funded research, and a portion of core scientific and laboratory animal health services, as well as the related facility costs. Interim support is only provided if it is expected that the investigator will attract grant support in the near future. The Laboratory budgets funding each year for support of new scientists based on the expectation that new scientists will attract an increasing amount of funds each year until they are able to support their research activities within six years.

Growth in research expenses mirrors the growth rate in research revenue as staff scientists match their programs to funds available. Growth in fiscal year 2003 expenses reflected the addition of 43,000 square feet of research and support space and additional interest costs from the related borrowing. Growth in fiscal years 2004 – 2006 research expenses was slightly higher than the growth in research revenue, since the Laboratory has provided funds for new researchers and interim support to existing researchers. The increase in fiscal year 2007 reflects the addition of a research building at the Maine Facility.

Training expenditures reflect the variation in the cost to run various programs. The increase in costs in fiscal year 2007 reflects the reclassification of post-doctoral positions from research costs to training costs to align with the Laboratory's management structure.

JAX® Mice & Services

Revenue. The growth in mice and services revenue is driven by biomedical researchers' need for the genetic quality and health status of JAX® Mice models. In addition, over the last five years, an expansion of mouse-related research services offered by the Laboratory has contributed to the growth in revenue.

Revenue growth has been driven by a combination of growth in the number of mice sold, price increases, and changes in the mix of mice sold.

**The Jackson Laboratory
Growth in Mice and Services Revenue
(in thousands)**

| | Fiscal year ended May 31, | | | | |
|-----------------------|---------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| Mice | | | | | |
| <i>Number Shipped</i> | 2,084 | 2,102 | 2,375 | 2,477 | 2,488 |
| Mice Revenue | \$50,530 | \$53,211 | \$55,991 | \$59,982 | \$63,706 |
| Services and Other | 5,123 | 9,013 | 13,635 | 14,623 | 16,306 |
| Total | \$55,653 | \$62,224 | \$69,626 | \$74,605 | \$80,012 |

Price increases have ranged from three to five percent in any given year.

As part of its mission, the Laboratory seeks to provide the most comprehensive selection of mouse models with extensive scientific information on each model. Over the last five years, the Laboratory has increased its outreach efforts to the research community, offering greater technical and administrative support for the use of the mouse as a research model. Through field staff, a team that responds to questions from the research community and its publications, the Laboratory provides current information on particular disease models and research tools. Much of the academic research is supported by the NIH or other foundations, and growth in mouse sales to academic researchers has built upon growth in NIH budgets. Although NIH budgets have remained essentially static in the last three years, mouse sales have continued to grow at a modest pace.

Expenditures. A large portion of JAX[®] Mice & Services costs are fixed costs related to the specialized facilities such as depreciation, utilities, interest, and maintenance. These costs typically increase incrementally as additional facilities are added. Variable costs such as labor, feed, water, bedding, and other direct costs tend to follow the volume of mice bred and distributed. Administrative costs for activities such as order entry, outreach efforts, recruiting and training increase as sales volume increases and as initiatives, such as in the Worldwide Web presence and improved technical support are undertaken. Costs were reduced in fiscal year 2004 due to restructuring and streamlining processes that allowed the elimination of one level of operational management. Further cost reductions were generated in fiscal year 2005 through productivity improvement. Operational costs were reduced through lower animal care staff turnover, improved training, and as well through capital investments to enhance productivity. New animal cage racking reduced required animal care time. Time and motion studies of material handling, animal care training, and other operating procedures resulted in re engineering of processes and money saving improvements. Costs in fiscal year 2006 and fiscal year 2007 increased at a rate greater than revenue as the outreach and technical support staff was expanded. The Laboratory also incurred additional expenses related to implementing an order entry and inventory management system.

Contributions

A capital campaign, underway from 2002 to 2006, resulted in an average of nearly \$12 million per year of grants and contributions for the Laboratory's endowment and facilities. With the focus on the capital campaign, annual contributions in support of operations remained fairly steady from 2002-2006 at approximately \$1.7 million per year. The efforts of a new Vice President of Advancement and External Affairs and greater emphasis on annual fundraising led to an increase in annual contributions in support of operations in fiscal year 2007.

Management and General Expenditures

Management and general expenses are incurred by departments that support the entire Laboratory operation and cannot be allocated solely to a particular program. The increase in fiscal year 2004 expenses represents benefit costs in excess of the benefit rate used to allocate benefit costs to the program areas. In fiscal year 2005, the benefit rate outpaced costs incurred, bringing costs back in line. Reductions in costs related to an IT system implementation also assisted in reducing costs in fiscal year 2005. Open positions in fiscal year 2006 and a change in the allocation method for benefit costs resulted in a slight reduction in fiscal year 2006. The increase in fiscal year 2007 reflects the addition of senior management positions, support for board reorganization, reassignment of advancement staff working on the capital campaign to operations as well as expansion of advancement expenses, increased investment in information technology, and greater management training. The expenditures are viewed as an investment in positioning the Laboratory to generate additional philanthropic support.

Investment Return

The investment return in excess of amounts designated for current operations fluctuated significantly over the last five fiscal years due to a change in the Board's endowment spending policy and investment market conditions. Until fiscal year 2004, the Laboratory spent 5% of the three year rolling average endowment balance for operations. The Board changed this policy in fiscal year 2004 to limit spending only to the amount required by donor restrictions. This change increased the investment return in excess of the amount designated for current operations in fiscal years 2004 – 2007. During this same period, the Laboratory realigned its investments to reduce volatility and enhance predictable returns.

The Laboratory's endowment investment spending policy is currently being reviewed to provide greater support for operations. The value of the Laboratory's investments has grown over the last five years. However, if a new spending policy is adopted, growth from retained return will most likely be at a slower rate. Market conditions will also cause fluctuations in investment returns in the future. Variations in market performance may affect the Laboratory's level of earnings from its investments.

Historical Performance

Fiscal Year 2007 Compared to Fiscal Year 2006. Overall revenue increased \$7.3 million, or 5%, in fiscal year 2007. With growth in volume, particularly in relatively specialized models, and price increases, JAX[®] Mice & Services contributed to most of the growth in revenue and expense. Investment income increased \$2.2 million due to higher interest rates and better cash management. Grant revenue fell by approximately \$0.8 million due to a six month delay in the renewal of the Laboratory's \$2.2 million annual cancer center core grant. Operating expenses, excluding an adjustment to record the impairment of assets located in California, increased by \$14.6 million, or 11%. A \$5 million increase in research costs was driven by the addition of a new 41,000 square-foot research facility at the Maine Facility, greater financial support of new investigators and interim funding for PIs, as well as greater computational and scientific service support. JAX[®] Mice & Services costs increased by \$3.8 million, representing increases in direct costs related to sales and additional field and technical support, as well as costs related to the implementation of a new order entry and inventory system. Management and general expenses reflect Board initiatives to reorganize the governance of the Laboratory, add senior management, expand advancement efforts, improve information technology infrastructure, and management capabilities. Investment returns reflected better market conditions and higher average portfolio balances. Grants and contributions for endowment and plant declined with the completion of the capital campaign in fiscal year 2006

Fiscal Year 2006 Compared to Fiscal Year 2005. Overall revenue increased \$6 million, or 4%, in fiscal year 2006, with JAX[®] Mice & Services accounting for \$5 million of the increase. The balance is made up of modest increases in all of the other sources of revenue and support. Costs increased \$8.2 million, or 7%, with research and JAX[®] Mice & Services each experiencing cost increases of approximately \$4 million. Direct cost of research increased by approximately \$1.2 million to fund new scientists and indirect costs increased by approximately \$2.7 million reflecting expanded space and greater administrative costs. JAX[®] Mice & Services cost increases reflect the increase in sales.

Fiscal Year 2005 Compared to Fiscal Year 2004. Overall revenue increased by \$9.2 million, or 7%, with research grants and contracts growing by \$1.5 million, or 2%, and JAX[®] Mice & Services growing \$7.4 million, or 12%. Growth in both areas reflects the last of the NIH's doubling of its external research funding over five years, ending in the government's fiscal year 2003. With grants awarded on a 3 or 5 year cycle, the leveling of NIH budgets did not fully impact the Laboratory's grant revenue until the Laboratory's fiscal year 2006. The expansion of mouse related services added approximately \$4 million in revenue. Total expenses decreased by \$2.4 million, or 2%, as cost reductions put in place in fiscal year 2004 took full effect in fiscal year 2005 including scaling back the original operations in California to better match the revenue level, discontinuing an implementation of an order entry and inventory system, reducing the level of JAX[®] Mice & Services administrative overhead, and reducing administrative costs through fully charging benefit costs to the programs, and holding administrative staffing levels.

Fiscal Year 2004 Compared to Fiscal Year 2003. Overall revenue increased by \$9.5 million, or 8%, as grant-supported research expanded by 7%, and JAX[®] Mice & Services expanded by 12%. The growth in grants reflected the impact of the NIH increase in funded research between fiscal years 1999 and 2003, particularly in the Laboratory's areas of scientific focus. As grants are typically awarded from three to five years, the impact continued to be apparent through the Laboratory's fiscal year 2005. In addition to the demand for mice, which also reflected robust NIH research funding levels, the expansion of the California facility in 2003 allowed JAX[®] Mice & Services to better serve the West Coast research community. Mouse-related research services such as in vivo testing and custom breeding also expanded. In fiscal year 2004, the Board reduced the amount of endowment income used to support operations to the amount required by donor restrictions.

Overall, expenses increased by \$4 million, or 4%, reflecting a 6% increase in research expenses and a decrease in JAX[®] Mice & Services expenses. Research expenses grew in response to the growth in the grant-sponsored programs. The growth rate is lower than the grant revenue as the additional programs were conducted in the existing space. In response to a large increase in JAX[®] Mice & Services expenses in the prior year, the Laboratory reduced the division's operating and outreach expenses in fiscal year 2004. Management and administrative costs increased due to unapplied benefit costs and an increase in senior management costs resulting from a transition in several senior positions.

Historical Discussion of Financial Position

Assets. The Laboratory's cash and working capital investments that have accumulated over the five-year period as operating surpluses have been earmarked for future research support or capital projects. As of May 31, 2007, the Laboratory had \$64 million of capital projects approved, but not yet fully expended, including the project to be financed with proceeds from the Bonds. Receivables and other assets reflect the growth in revenue and the asset related to mark to market adjustment of interest rate swaps.

In 2002, the Laboratory launched an expansion plan to add two research buildings at the Maine Facility. To fund the expansion, the Laboratory launched a capital campaign and issued additional debt in the form of variable rate bonds in the aggregate principal amount of \$56,135,000 (the "Maine Bonds"). The increase in restricted funds held by Trustees in 2003 reflects the balance of funds received from the bond issuances. Approximately \$3.5 million of restricted funds represent grant monies received but not yet expended.

The increases in fixed assets reflect the construction of additional laboratory and vivaria space at the Maine and West Sacramento Facilities. In addition, the Laboratory invested in information technology infrastructure and scientific equipment each year.

Liabilities. Accounts payable and accrued expense increase with the operating budget. Additional variability in year end accounts payable and accrued expense balance is caused by the number of days of payroll accrual required and the number of days since the last weekly accounts payable check run. Deferred revenue includes grants funded in advance of expenditure and deposits collected in advance of JAX[®] Mice & Services work. In 2003 and 2004, the Laboratory received Maine state grants in advance of expending the grants on construction.

As of August 31, 2007, the Maine Bonds were outstanding in the aggregate principal of \$50,290,000 and the Series 2002 Bonds were outstanding in the aggregate principal amount of \$8,945,000. Both bond issues have 30 year terms with annual principal payments.

At various dates from July 2002 to July 2007, the Laboratory entered into interest rate swap agreements with fixed rates ranging between 2.859% and 4.14% against 67.000% of LIBOR. The notional amounts of the swap agreements amortize at the same rate as the bonds. The Laboratory intends to maintain the existing swap agreements.

In anticipation of the issuance of the Bonds, the Borrower has entered into two additional interest rate swap transactions with an affiliate of the Underwriter (the "Swap Counterparty"). Under the terms of the first swap transaction, the Borrower has agreed to pay to the Swap Counterparty a fixed rate of interest of 3.42630% on an initial notional amount equal to the principal amount of the Series 2002 Bonds, after giving effect to the refunding of \$2,000,000 principal amount of the Series 2002 Bonds, and the Swap Counterparty has agreed to pay the Borrower 67% of three-month LIBOR, based on a like notional amount. The first swap terminates on November 1, 2008. Under the terms of the second swap

transaction, the Borrower has agreed to pay to the Swap Counterparty a fixed rate of interest of 3.79380% on an initial notional amount approximately equal to the principal amount of the Bonds and the Swap Counterparty has agreed to pay the Borrower 67% of three-month LIBOR, based on a like notional amount. The second swap terminates on July 1, 2037, which coincides with the last maturity date of the Bonds. Under certain circumstances the swap agreements may be terminated early. In that event, the Borrower may be obligated to make a payment to one or more of the counterparties or may receive a payment from one or more of the counterparties, either of which may be substantial. For more information regarding the risks associated with interest rate exchange agreements, see “INVESTMENT CONSIDERATIONS—Interest Rate Swaps” in the front portion of this Official Statement.

OTHER MATTERS

Future Financing Plans

The Laboratory has no current plans to borrow funds after the issuance of the Bonds for facilities or other capital expenditures. Management believes that capital requirements will be satisfied through cash flow from JAX[®] Mice & Services and funding depreciation.

Insurance

The Laboratory maintains commercial general liability insurance with a limit of \$1 million for each occurrence and \$3 million in the annual aggregate. Excess liability coverage is provided through an umbrella policy with a limit of \$25 million for each occurrence and in the annual aggregate. The Laboratory also maintains property damage insurance on a blanket, all risks, extended-coverage basis, including boiler and machinery insurance in the amount of \$443 million with a deductible of \$100,000. Coverage excludes mouse sickness, infestation, and disease, but includes terrorist coverage. Other insurance includes business interruption, directors’ and officers’ liability, automobile, employee dishonesty, and professional liability coverage. All such coverage is obtained from commercial carriers.

Employees

As of May 31, 2007, the Laboratory had a total of 1,319 employees, including 1,210 full-time and 40 post doctoral fellows. Of the 1,319 total employees, 536 are laboratory/scientific staff and 428 are in the JAX[®] Mice & Services operations, which includes GRS animal care staff. The balance of employees (355) is administrative. There are no collective bargaining agreements and management considers relations with employees satisfactory.

Pension Plan and Other Benefits

The Laboratory provides a comprehensive benefits package for its regular employees with a choice of health care coverage, life insurance, long term disability insurance and a 403(b) defined contribution plan. The Laboratory pays the entire cost for long-term disability coverage and basic life insurance coverage. Employees contribute approximately 22% of health care costs. After an employee has worked for the Laboratory for six months, the Laboratory contributes 5% of the employee’s salary and matches up to another 5% of salary to the 403(b) plan. The Laboratory also has a defined benefit plan, which was frozen in 1995.

Employees may voluntarily participate in dental coverage, short term disability, additional life insurance coverage, dependent care assistance. The Laboratory is self-insured for medical and dental costs and carries a stop loss policy. The Laboratory also provides post-retirement medical benefits for retired employees hired before 2003 who have either reached age 62 or are at least 55 years old and have

an aggregate combination of age and service of at least 85 years. With the adoption of FAS 158 requiring full recognition of the liability for post-retirement benefits in fiscal year 2008, the Laboratory expects to record a liability of approximately \$12.5 million in fiscal year 2008. It is expected that funding of this liability will continue on an as-incurred basis.

As of May 31, 2007, the benefit obligations owed under the defined pension plan were approximately \$5.3 million, with approximately \$3.9 million funded. Retiree medical benefit obligations totaled, as of May 31, 2007, approximately \$18.5 million, of which approximately \$6.1 million is included in accrued expenses, and no amount is fully funded. More information is provided in Section 7, *Employee Benefits*, of the Financial Statements attached hereto as Appendix B.

Litigation

The Laboratory is a party to certain administrative actions arising from the ordinary course of its business activities. In the opinion of management, if any such action were to be decided adversely to the Laboratory's interests, any liability that might result would not be significant and would not affect the ability of the Laboratory to meet its obligations with respect to the Bonds.

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APPENDIX B

FINANCIAL STATEMENTS OF THE BORROWER

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THE JACKSON LABORATORY

Financial Statements

May 31, 2007 and 2006

(With Independent Auditors' Report Thereon)



KPMG LLP
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Boston, MA 02110-2371

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Independent Auditors' Report

The Board of Governing Trustees
The Jackson Laboratory:

We have audited the accompanying statements of financial position of The Jackson Laboratory (the Laboratory) as of May 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Laboratory's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Laboratory as of May 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

August 10, 2007

THE JACKSON LABORATORY

Statements of Financial Position

May 31, 2007 and 2006

(In thousands)

| Assets | 2007 | 2006 |
|---------------------------------------|-------------------|----------------|
| Cash and equivalents | \$ 32,467 | 24,695 |
| Working capital investments | 22,168 | 35,576 |
| Accounts receivable, net | 12,274 | 15,590 |
| Contributions receivable, net | 794 | 1,852 |
| Other assets | 7,431 | 8,070 |
| Restricted cash | 5,315 | 3,965 |
| Long-term investments | 80,101 | 68,098 |
| Long-lived assets, net | 178,921 | 160,777 |
| Total assets | \$ <u>339,471</u> | <u>318,623</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 23,582 | 22,256 |
| Deposits and deferred revenue | 5,922 | 4,343 |
| Bonds payable, net | 60,520 | 62,087 |
| Total liabilities | <u>90,024</u> | <u>88,686</u> |
| Net assets: | | |
| Unrestricted | 222,150 | 205,013 |
| Temporarily restricted | 19,482 | 17,372 |
| Permanently restricted | 7,815 | 7,552 |
| Total net assets | <u>249,447</u> | <u>229,937</u> |
| Total liabilities and net assets | \$ <u>339,471</u> | <u>318,623</u> |

See accompanying notes to financial statements.

THE JACKSON LABORATORY

Statement of Activities

Year ended May 31, 2007

(In thousands)

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|---|--------------------------|-----------------------------------|-----------------------------------|-----------------------|
| Operating activities: | | | | |
| Revenues and other support: | | | | |
| Grants | \$ 62,785 | — | — | 62,785 |
| Contributions | 1,242 | 1,074 | — | 2,316 |
| JAX Mice and Services | 80,012 | — | — | 80,012 |
| Long-term investment return utilized | 711 | — | — | 711 |
| Other investment return | 3,734 | — | — | 3,734 |
| Other revenue | 1,008 | — | — | 1,008 |
| Total revenues | <u>149,492</u> | <u>1,074</u> | <u>—</u> | <u>150,566</u> |
| Net assets released from restrictions | 1,066 | (1,066) | — | — |
| Total revenues and other support | <u>150,558</u> | <u>8</u> | <u>—</u> | <u>150,566</u> |
| Expenses: | | | | |
| Research | 64,228 | — | — | 64,228 |
| JAX Mice and Services | 49,355 | — | — | 49,355 |
| Training | 3,334 | — | — | 3,334 |
| Institutional support | 26,566 | — | — | 26,566 |
| JAX West Impairment | 1,942 | — | — | 1,942 |
| Total expenses | <u>145,425</u> | <u>—</u> | <u>—</u> | <u>145,425</u> |
| Increase (decrease) in net assets from operating activities | <u>5,133</u> | <u>8</u> | <u>—</u> | <u>5,141</u> |
| Nonoperating activities: | | | | |
| Grants and contributions | 3,861 | 46 | 263 | 4,170 |
| Long-term investment return in excess of amount utilized | 8,110 | 2,947 | — | 11,057 |
| Unrealized net losses on interest-rate swaps | (858) | — | — | (858) |
| Net assets released from restrictions for capital purposes | 891 | (891) | — | — |
| Increase in net assets from nonoperating activities | <u>12,004</u> | <u>2,102</u> | <u>263</u> | <u>14,369</u> |
| Increase in net assets | 17,137 | 2,110 | 263 | 19,510 |
| Net assets, beginning of year | <u>205,013</u> | <u>17,372</u> | <u>7,552</u> | <u>229,937</u> |
| Net assets, end of year | \$ <u><u>222,150</u></u> | <u><u>19,482</u></u> | <u><u>7,815</u></u> | <u><u>249,447</u></u> |

See accompanying notes to financial statements.

THE JACKSON LABORATORY

Statement of Activities

Year ended May 31, 2006

(In thousands)

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|--------------|
| Operating activities: | | | | |
| Revenues and other support: | | | | |
| Grants | \$ 63,537 | — | — | 63,537 |
| Contributions | 1,152 | 629 | — | 1,781 |
| JAX Mice and Services | 74,605 | — | — | 74,605 |
| Long-term investment return utilized | 554 | 112 | — | 666 |
| Other investment return | 1,549 | — | — | 1,549 |
| Other revenue | 1,081 | — | — | 1,081 |
| Total revenues | 142,478 | 741 | — | 143,219 |
| Net assets released from restrictions | 1,164 | (1,164) | — | — |
| Total revenues and other support | 143,642 | (423) | — | 143,219 |
| Expenses: | | | | |
| Research | 59,238 | — | — | 59,238 |
| JAX Mice and Services | 45,594 | — | — | 45,594 |
| Training | 2,930 | — | — | 2,930 |
| Institutional support | 21,112 | — | — | 21,112 |
| Total expenses | 128,874 | — | — | 128,874 |
| Increase (decrease) in net assets from operating activities | 14,768 | (423) | — | 14,345 |
| Nonoperating activities: | | | | |
| Grants and contributions | 9,091 | — | 105 | 9,196 |
| Long-term investment return in excess of amount utilized | 5,933 | 1,978 | — | 7,911 |
| Unrealized net gains on interest-rate swaps | 4,536 | — | — | 4,536 |
| Other changes, net | (1,155) | — | — | (1,155) |
| Net assets released from restrictions for capital purposes | 2,503 | (2,503) | — | — |
| Increase (decrease) in net assets from nonoperating activities | 20,908 | (525) | 105 | 20,488 |
| Increase (decrease) in net assets | 35,676 | (948) | 105 | 34,833 |
| Net assets, beginning of year | 169,337 | 18,320 | 7,447 | 195,104 |
| Net assets, end of year | \$ 205,013 | 17,372 | 7,552 | 229,937 |

See accompanying notes to financial statements.

THE JACKSON LABORATORY

Statements of Cash Flows

Years ended May 31, 2007 and 2006

(In thousands)

| | 2007 | 2006 |
|---|-------------|-------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 19,510 | 34,833 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,456 | 12,596 |
| JAX West impairment | 1,942 | — |
| Realized and unrealized net investment gains | (11,057) | (7,911) |
| Unrealized net changes in fair value of interest-rate swaps | 858 | (4,546) |
| Loss on disposal of long-lived assets | 281 | 649 |
| Contributions restricted for long-term investment | (263) | (135) |
| Grants and contributions for acquisition and construction of long-lived assets | (3,907) | (9,061) |
| Changes in operating assets and liabilities | 4,716 | (1,575) |
| Net cash provided by operating activities | 26,536 | 24,850 |
| Cash flows from investing activities: | | |
| Decrease in funds held by bond trustee, net | — | 752 |
| Purchases of long-lived assets | (34,516) | (25,576) |
| Proceeds from sales of investments | 30,559 | 5,182 |
| Purchases of investments | (18,097) | (16,341) |
| Net cash used by investing activities | (22,054) | (35,983) |
| Cash flows from financing activities: | | |
| Repayments of bonds payable | (1,580) | (1,385) |
| Repayments of capital lease obligations | (358) | (767) |
| Contributions restricted for long-term investment | 163 | 135 |
| Grants and contributions for acquisition and construction of long-lived assets | 5,065 | 9,889 |
| Net cash provided by financing activities | 3,290 | 7,872 |
| Net increase in cash and equivalents | 7,772 | (3,261) |
| Cash and equivalents, beginning of year | 24,695 | 27,956 |
| Cash and equivalents, end of year | \$ 32,467 | 24,695 |
| Cash paid for interest | \$ 2,594 | 2,504 |

See accompanying notes to financial statements.

THE JACKSON LABORATORY

Notes to Financial Statements

May 31, 2007 and 2006

(In thousands)

(1) Background

The Jackson Laboratory (the Laboratory) is a not-for-profit independent mammalian and biomedical research organization. The mission of the Laboratory is threefold: to (1) conduct basic biomedical research; (2) train and educate scientists worldwide; and (3) provide genetic resources to the global scientific community. The Laboratory's purpose is to increase knowledge of the development, growth and reproduction of physiological and inborn ailments through research utilizing genetically defined experimental animals.

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Laboratory as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained in perpetuity. Generally, the donors of these assets permit the Laboratory to use all or part of the income earned and/or capital gains, if any, on related investments for general or specific purposes.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Laboratory and/or the passage of time. These include contributions received (including unconditional promises to give), income, appreciation, and remainder interests that are restricted by law or that carry donor-imposed restrictions that will either expire with the passage of time or which may be fulfilled and removed by actions of the Laboratory. Appreciation on endowment funds may be expended under the standards of the Maine Uniform Management of Institutional Funds Act, other applicable laws, and in accordance with donor-imposed restrictions, if any. Based on this state law, the Laboratory has classified such appreciation as temporarily restricted until appropriated for expenditure by the Board of Governing Trustees.

Unrestricted Net Assets – Net assets not subject to donor imposed stipulations.

Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expiration of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Promises to give that are scheduled to be received after

THE JACKSON LABORATORY

Notes to Financial Statements

May 31, 2007 and 2006

(In thousands)

the statement of financial position dates are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

The Laboratory reports contributions of long-lived assets as unrestricted nonoperating support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as unrestricted nonoperating support provided the long-lived assets are acquired or placed in service in the same reporting period; otherwise, the contributions are reported as temporarily restricted support until the assets are acquired or placed in service.

Dividends, interest and net gains (losses) on long-term investments are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment;
- as increases (decreases) in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the current use of the income and/or net gains; and
- as increases (decreases) in unrestricted net assets in all other cases.

Donor-directed changes to their original restrictions made in subsequent periods are reported as reclassifications between the applicable net asset classes.

(b) *Restricted Cash*

Payments received under grants in advance of expenditures are classified as restricted cash as receipts are restricted to the uses allowed under the grants.

(c) *Operating and Nonoperating Activities*

The statements of activities report changes in net assets from operating and nonoperating activities.

Operating activities consist of the Laboratory's ongoing research and training programs, including JAX[®] Mice & Services. Included in operating revenue is investment return appropriated to support operations under the spending formula approved by the Board of Governing Trustees, as described below in note 2(d). Also included in operating revenue are grant reimbursements of \$858 and \$1,449 in 2007 and 2006, respectively, for the purchase of equipment that becomes the property of the Laboratory upon acquisition. Depreciation charged to operating activities from grant-funded equipment purchased in current and prior years was \$1,134 and \$1,459 in 2007 and 2006, respectively.

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Nonoperating revenue includes items not related to the Laboratory's recurring operations. Accordingly, contributions for the acquisition of long-lived assets for which restrictions are met in the same reporting period, net assets released from restrictions for the acquisition of long-lived assets, unrestricted bequests, investment return in excess of the amount appropriated under the Laboratory's spending formula, investment return on funds held by bond trustees, and grant revenue to acquire land and buildings are all reported as nonoperating activities. Unrealized changes in the fair value of interest-rate swaps, and changes in additional minimum liabilities of employee benefit plans are also presented as nonoperating activities.

(d) *Long-Term Investment Spending Formula*

The Board of Governing Trustees annually appropriates, as part of the approved operating budget, a portion of long-term investment return for spending. In 2007 and 2006, this appropriation was generally equal to 5% of the rolling three-year average fair value of investments attributable to donor-restricted endowment funds which specify that the income be spent for specific purposes.

(e) *Revenue from Grants and Contracts*

The Laboratory recognizes revenue from grants and contracts as related costs are incurred. Payments received in advance of expenditures, including capital grants from the State of Maine, are recorded as deferred revenue until expended; related cash received in advance is reported as restricted cash. The Laboratory received approximately 37% and 40% of its public support and revenue from grants and contracts with the National Institutes of Health (NIH) in 2007 and 2006, respectively. Indirect costs are billed and recovered as direct costs are incurred and represented \$21,909 and \$22,009, respectively, of revenue from grants in 2007 and 2006. The loss or significant reduction of these and other federal programs could have a material adverse effect on the Laboratory's operations. However, the Laboratory is not aware that any such programs will be discontinued or materially reduced. In addition, direct and indirect costs charged to federal programs are subject to audit and possible future adjustment. Management believes that the Laboratory is in compliance with applicable laws and regulations and that any possible adjustments would not be material to the financial statements.

(f) *Revenue from Provision of Genetic Resources and Services*

Revenue from providing genetic resources and services is recognized when the resources are shipped or the services are provided and is included in JAX[®] Mice & Services revenue. Accounts receivable are reported net of allowance for uncollectibles.

(g) *Programmatic Expenses*

Expenses are presented on a programmatic basis. Indirect expenses, including costs related to the operation and maintenance of long-lived assets, depreciation and interest, are allocated on the basis of square footage utilized by the program categories.

All direct and indirect costs of fund raising are expensed as incurred and are included in institutional support and nonoperating activities in the statement of activities. Total fund-raising expenses were

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\$1,213 and \$1,492 in 2007 and 2006, respectively. In 2007, all of the fund-raising expenses were included in institutional support and in 2006, \$935 was included in institutional support and \$557 was included in nonoperating activity related to the capital campaign.

(h) *Statements of Cash Flows*

For the purpose of the statement of cash flows, the Laboratory considers investments with maturities at date of purchase of three months or less to be cash equivalents. Because the statement of cash flows is prepared in accordance with a prescribed format under U.S. generally accepted accounting principles, certain items included in operations for purposes of the statement of activities differ from items reported as cash flows from operating activities.

(i) *Investments*

Investments are reported at fair value. Fair value of debt securities and readily marketable equity securities held directly by the Laboratory are based on quotations from national securities exchanges. Shares in mutual funds are based on share values reported by the funds.

The Laboratory also holds shares or units in alternative investment funds involving hedge, private equity and real estate strategies. Such funds may hold securities or other financial instruments for which a ready market exists and are priced accordingly. In addition, such funds may hold assets which require the estimation of fair values in the absence of readily determinable market values. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. The Laboratory reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Because of the inherent uncertainty of valuation for these investments, such estimates may differ from values that may have been determined had a ready market existed, and the differences could be significant. The agreements underlying participation in such alternative investment funds may limit the Laboratory's ability to liquidate its interests in such investments for a period of time.

(j) *Long-Lived Assets*

Long-lived assets are reported at cost at date of acquisition or at fair value at date of donation in the case of gifts. For assets placed in service, depreciation is provided using the straight-line method over the estimated useful lives of the assets. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset lives is not capitalized. The Laboratory's threshold for capitalizing assets is \$5 for equipment and \$20 for building improvements.

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Depreciation is provided on a straight-line basis over the following estimated useful lives:

| | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 15 to 50 |
| Land improvements | 5 to 15 |
| Equipment | 3 to 15 |

Interest costs are capitalized, to the extent material, in accordance with Statement of Financial Accounting Standards (SFAS) No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*.

The Laboratory applies the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, to recognize and measure impairment of long-lived assets, assets held for sale and to report related discontinued operations. Management reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying value of a long-lived asset may not be recoverable. Based on the Board of Governing Trustees' decision in February 2007 to relocate its California operation (JAX West), management determined that certain long-lived assets located at the existing facility were impaired. As a result, a charge of \$1,942 was accrued for the write-down of the assets to fair value. In addition, the useful lives of the remaining assets, with a net carrying value of \$2,352 as of May 31, 2007, have been adjusted to accelerate the depreciation so that they will be fully depreciated by the time the assets will be abandoned, which is expected in November 2008. No long-lived assets were impaired as of May 31, 2006.

The Laboratory receives awards from various granting agencies that allow for the purchase of certain assets, mainly scientific equipment. These assets are depreciated in accordance with the aforementioned policy. The assets become the property of the Laboratory upon acquisition, unless the grant specifically states otherwise.

Effective June 1, 2005, the Laboratory adopted Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143*, to account for conditional asset retirement obligations that existed as of that date and as new obligations are incurred. Once the Laboratory determines an obligation exists, it assesses whether or not the amount of the obligation can be reasonably estimated. If the amount of the obligation can be reasonably estimated, the Laboratory records the present value of the obligation, the corresponding cost is capitalized and the liability is accreted to fair value each reporting period until settled. The effect of this adoption on the 2006 financial statements was not material.

(k) Issuance of Bonds

Bond issuance costs are deferred as other assets, and original issue premiums (discounts) are recorded as adjustments to the carrying value of the related bonds. Such issuance costs and premiums (discounts) are amortized (accreted) over the life of the related bonds.

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(l) Inventories

Inventories, consisting of consumable supplies, are stated at the lower of cost or market, with cost determined on the moving-average method for laboratory and stockroom items, and standard cost (adjusted for purchase-price variances) for mice materials.

(m) Derivative Instruments

The Laboratory utilizes interest-rate swap agreements with separate counterparties to effectively convert its variable-rate debt to fixed rates and not for speculative purposes. In addition, the Laboratory utilizes foreign currency hedges to fix the exchange rate on payments due under contracts denominated in a currency other than dollars and option contracts on fuel oil to hedge fuel costs. The Laboratory applies SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, to such instruments. SFAS No. 133 requires the swaps' fair value and changes therein to be recognized in the Laboratory's financial statements. Differences between the fixed and variable rates in effect at each interest due date are settled net under each swap, increasing or decreasing interest expense. The foreign currency hedge is structured to approximate the dates and amounts due in foreign currency. Each hedge is settled at the end of the month. The fair value of the net termination value (cost) of each swap is measured at each reporting date and presented as an asset (liability) using techniques such as discounted cash flow analysis and option pricing models that incorporate assumptions about future market interest or exchange rates, as appropriate.

(n) Fair Value of Financial Instruments

SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires the Laboratory to disclose fair value information about all financial instruments, whether or not recognized in the statement of financial position, for which it is practicable to estimate fair value. The Laboratory's financial instruments not carried at fair value are carried at net realizable value, which approximates fair value, in the statement of financial position. Such financial instruments consist of cash and equivalents, receivables from customers, grantors and donors, and accounts payable and accrued expenses. Because the Laboratory's bonds payable are at variable rates, their carrying values approximate their fair values.

(o) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Management estimates requiring the application of significant judgment include obligations under pension and postretirement plans, liabilities under self-insured plans, allowances for uncollectible receivables, and valuations of interest-rate swaps and certain alternative investments.

(p) Reclassifications

Certain 2006 information has been reclassified to conform with the 2007 presentation.

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(q) Tax Status

The Laboratory is a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from federal income taxes pursuant to Section 501(a) of the Code.

(3) Receivables

(a) Accounts Receivable

Accounts receivable consisted of the following as of May 31:

| | 2007 | 2006 |
|--|-------------|-------------|
| Due from provision of genetic resources and services | \$ 8,502 | 7,924 |
| Amounts reimbursable under grants and contracts | 4,176 | 8,087 |
| | 12,678 | 16,011 |
| Less allowance for uncollectibles | (404) | (421) |
| Accounts receivable, net | \$ 12,274 | 15,590 |

(b) Contributions Receivable

Contributions receivable consisted of the following as of May 31:

| | 2007 | 2006 |
|--|-------------|-------------|
| Expected to be collected in: | | |
| One year or less | \$ 580 | 1,445 |
| Between one and five years | 254 | 491 |
| | 834 | 1,936 |
| Less present value discount (1.8% to 3.8%) and allowance for uncollectibles | (40) | (84) |
| Contributions receivable, net | \$ 794 | 1,852 |

Contributions receivable were restricted for the following purposes as of May 31:

| | 2007 | 2006 |
|---|-------------|-------------|
| Restricted for: | | |
| Acquisition and construction of long-lived assets | \$ 432 | 1,321 |
| Other programs and activities | 362 | 531 |
| Contributions receivable, net | \$ 794 | 1,852 |

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(In thousands)

(4) Investments

Investments at fair value consisted of the following as of May 31:

| | <u>2007</u> | <u>2006</u> |
|---|-------------------|----------------|
| Working capital investments: | | |
| Fixed-income securities | \$ 22,143 | 35,551 |
| Equity securities | 25 | 25 |
| Total working capital investments | <u>22,168</u> | <u>35,576</u> |
| Long-term investments: | | |
| U.S. Treasury securities | 9,767 | 10,974 |
| Equity securities | 2,129 | — |
| Domestic and international institutional equity funds | 47,485 | 39,246 |
| Domestic and international institutional bond funds | 3,625 | 3,052 |
| Private equity and hedge funds | 13,234 | 9,734 |
| Real estate and timber funds | 1,743 | 3,518 |
| Cash and equivalents | 2,118 | 1,574 |
| Total long-term investments | <u>80,101</u> | <u>68,098</u> |
| Total investments | \$ <u>102,269</u> | <u>103,674</u> |

Total investment return from working capital investments, long-term investments, and restricted cash consisted of the following for the years ended May 31:

| | <u>2007</u> | <u>2006</u> |
|------------------------|------------------|---------------|
| Realized net gains | \$ 332 | 128 |
| Unrealized net gains | 10,725 | 7,783 |
| Interest and dividends | 4,445 | 2,215 |
| Total return | \$ <u>15,502</u> | <u>10,126</u> |

Following is a reconciliation of total investment return to amounts reported in the statements of activities for the years ended May 31:

| | <u>2007</u> | <u>2006</u> |
|---|------------------|---------------|
| Long-term investment return utilized – operating activities | \$ 711 | 666 |
| Other investment return – operating activities | 3,734 | 1,549 |
| Long-term investment return in excess of amounts utilized – nonoperating activities | 11,057 | 7,911 |
| Total return | \$ <u>15,502</u> | <u>10,126</u> |

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Under the terms of certain limited partnership agreements, the Laboratory is obligated to remit additional funding periodically as capital or liquidity calls are exercised by investment managers. The Laboratory had outstanding commitments to such limited partnerships of \$1,508 and \$1,248 as of May 31, 2007 and 2006, respectively.

(5) Long-Lived Assets

Long-lived assets consisted of the following as of May 31:

| | 2007 | 2006 |
|-------------------------------|-------------|-------------|
| Land and improvements | \$ 4,390 | 2,488 |
| Buildings and improvements | 222,400 | 205,403 |
| Construction in progress | 11,861 | 5,711 |
| Equipment | 61,369 | 52,735 |
| | 300,020 | 266,337 |
| Less accumulated depreciation | (121,099) | (105,560) |
| | \$ 178,921 | 160,777 |

Accounts payable for acquisition and construction of long-lived assets were \$836 and \$897 as of May 31, 2007 and 2006, respectively.

Commitments to third parties for the purchase of equipment, space renovation and construction projects were \$5,739 and \$11,679 as of May 31, 2007 and 2006, respectively.

(6) Bonds Payable and Related Instruments

(a) Bonds Payable

Bonds payable consisted of the following as of May 31:

| | 2007 | 2006 |
|---|-------------|-------------|
| Finance Authority of Maine Revenue Bonds (FAME bonds) | \$ 51,700 | 53,065 |
| Association of Bay Area Government for California Variable Rate Revenue Bonds (ABAG bonds) | 9,165 | 9,380 |
| | 60,865 | 62,445 |
| Less unamortized discount | (345) | (358) |
| Bonds payable, net | \$ 60,520 | 62,087 |

Unamortized bond-issuance costs, which are included in other assets, were \$556 and \$578 as of May 31, 2007 and 2006, respectively.

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The FAME bonds were issued on June 13, 2002 in the amount of \$56,135. Interest is at a variable weekly rate (3.89% and 3.52% as of May 31, 2007 and 2006, respectively) not to exceed 10%. The bonds mature serially through July 1, 2031. As long as the FAME bonds have not been converted to a fixed rate, bond holders may tender and receive 100% of principal. The Laboratory has entered into a remarketing agreement with an investment banker to sell any bonds tendered for payment.

The ABAG bonds were issued on July 30, 2002 in the amount of \$10,000. Interest is at a variable weekly rate (3.79% and 3.44% as of May 31, 2007 and 2006, respectively). The bonds mature serially through July 1, 2032.

As security for the FAME bonds and ABAG bonds, the Laboratory has a letter of credit effective through June 12, 2008, with a financial institution. As of May 31, 2007 and 2006, this letter of credit remained unused. An annual maintenance fee equal to 0.35% of the balance, or \$216, is charged to the Laboratory by the financial institution and is included in interest expense.

The letter of credit related to the FAME bonds and ABAG bonds contains certain restrictive covenants, including limitations on obtaining additional debt, restrictions on the purchase and sale of assets and maintenance of minimum levels of unrestricted investments. In addition, the Laboratory must meet certain financial ratios semi-annually. The Laboratory was in compliance with all such covenants as of May 31, 2007 and 2006.

(b) *Maturities of Bonds Payable*

Scheduled annual principal repayments as of May 31, 2007, were as follows:

| | <u>Amount due</u> |
|---------------------|-------------------|
| Year ending May 31: | |
| 2008 | \$ 1,630 |
| 2009 | 1,690 |
| 2010 | 1,750 |
| 2011 | 1,810 |
| 2012 | 1,875 |
| Thereafter | <u>52,110</u> |
| Total | <u>\$ 60,865</u> |

(c) *Interest-Rate Swaps*

At May 31, 2007, the Laboratory had various interest-rate swap agreements to effectively convert its \$60,865 variable-rate borrowings to fixed rates through 2031-2032. The swaps' notional amounts amortize at the same rate as the related debt principal. As of May 31, 2007 and 2006, total swap liabilities (included in accounts payable and accrued expenses) were \$744 and \$386, respectively, and total swap assets (included in other assets) were \$1,605 and \$2,105, respectively.

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(In thousands)

As of May 31, 2007, the following interest-rate swap agreements were outstanding:

| Counterparty | Issue date | Effective date | Expiration date | Remaining notional amount | Swap fixed rate | Fair value at May 31 | |
|------------------|------------|----------------|-----------------|---------------------------|-----------------|------------------------|-------|
| | | | | | | asset (liability) 2007 | 2006 |
| Morgan Stanley | 06/12/02 | 07/01/02 | 07/01/12 | \$ 13,815 | 3.655% | \$ (94) | (9) |
| Bank of America | 06/12/02 | 07/01/02 | 07/01/22 | 13,815 | 3.920 | (359) | (212) |
| Bank of America | 06/11/03 | 07/01/03 | 07/01/31 | 14,955 | 2.859 | 1,022 | 1,263 |
| Morgan Stanley | 05/05/05 | 07/01/05 | 07/01/32 | 18,280 | 3.271 | 583 | 842 |
| Morgan Stanley* | 06/20/03 | 07/01/12 | 07/01/31 | 11,340 | 4.410 | (269) | (154) |
| Bank of America* | 06/20/03 | 07/01/22 | 07/01/31 | 5,905 | 4.000 | (22) | (11) |
| Totals | | | | | | \$ 861 | 1,719 |

* Represents a separate forward swap that effectively extends the initial swap expiration date through the related debt maturity date.

Interest rate volatility, remaining outstanding principal and time to maturity will affect each swap's fair value at subsequent reporting dates. To the extent the Laboratory holds a swap through its expiration date, the swap's fair value will reach zero.

(7) Employee Benefits

(a) *Defined Contribution Retirement Plan*

Subject to meeting certain eligibility requirements, all employees participate in a defined contribution 403(b) retirement plan administered by the Laboratory. Participants may invest their account balances with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF) and/or Principal Financial Group. All regular full- and part-time employees working at least 20 hours per week are eligible to participate in the plan after reaching age 21 and completing six months of service. The Laboratory contributes 5% of an employee's earnings with each bi-weekly payroll. In addition, the Laboratory matches employee contributions up to another 5% of earnings. Employees vest in the employer contribution as follows: Fifty percent after two full years of employment and 100% after four years of employment. Contribution expense was \$5,529 and \$4,972 in 2007 and 2006, respectively.

The Laboratory also maintains a Non-Qualified Plan authorized under Section 457(b) of the Internal Revenue Code. This plan allows employees, subject to the maximum contribution limits in the 403(b) plans, to contribute up to an additional \$15 of their salary to the plan. The Laboratory does not provide a matching contribution.

(b) *Defined Benefit Retirement Plan*

Prior to October 1, 1995, employees other than scientific and management staff participated in a contributory defined benefit pension plan (Pension Plan), the assets of which are administered by Principal Financial Group. Contributions by the Laboratory to the defined benefit plan are based upon Employee Retirement Income Security Act of 1974 (ERISA) minimum funding requirements. The Laboratory contributed \$76 and \$291 for the years ended May 31, 2007 and 2006, respectively.

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The Board has authorized the Retirement Committee to terminate the defined benefit retirement plan at the most appropriate time in the future.

In addition, the Laboratory has a supplemental pension obligation under an employment agreement. The present value of the obligation is included in accrued expenses and is funded through a split interest life insurance arrangement. The cash value of the insurance policy is included in other assets.

(c) *Postretirement Medical Plan*

For employees hired before 2003, the Laboratory maintains a postretirement medical plan covering retired employees and their dependents meeting certain eligibility requirements. The Laboratory has not funded the postretirement plan, other than to pay current benefits totaling \$558 and \$602 in 2007 and 2006, respectively. Contributions by retired employees are required for coverage of dependents. Retired plan participants are generally eligible to receive benefits beginning at age 62. In 2003, the Laboratory amended the plan to allow certain qualified employees aged 55 to 62 years with an aggregate combination of age and service of at least 85 years to receive benefits on retirement prior to age 62, resulting in an unrecognized prior service cost of \$193 and \$214 as of May 31, 2007 and 2006, respectively.

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(d) Combined Disclosures – Defined Benefit Pension and Postretirement Medical Plans

The Laboratory uses an annual measurement date of May 31 to determine the benefit obligations for its plans. Following are significant required disclosures on a combined basis:

Benefit obligations and funded status of the plans for the years ended May 31 were as follows:

| | Pension plan benefits | | Retiree medical benefits | |
|---|------------------------------|----------------|---------------------------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Changes in benefit obligations: | | | | |
| Benefit obligation at beginning of year | \$ 5,091 | 5,657 | 13,076 | 11,355 |
| Service cost | — | — | 846 | 806 |
| Interest cost | 304 | 284 | 801 | 585 |
| Actuarial (gain) loss | 70 | (654) | 6,667 | 932 |
| Medicare Part D subsidy | — | — | (2,283) | — |
| Benefits paid | <u>(189)</u> | <u>(196)</u> | <u>(558)</u> | <u>(602)</u> |
| Benefit obligation at end of year | <u>5,276</u> | <u>5,091</u> | <u>18,549</u> | <u>13,076</u> |
| Changes in plan assets: | | | | |
| Fair value of plan assets at beginning of year | 3,700 | 3,583 | — | — |
| Actual return on plan assets | 337 | 22 | — | — |
| Employer contribution | 76 | 291 | 558 | 602 |
| Benefits paid | <u>(189)</u> | <u>(196)</u> | <u>(558)</u> | <u>(602)</u> |
| Fair value of plan assets at end of year | <u>3,924</u> | <u>3,700</u> | <u>—</u> | <u>—</u> |
| Funded status | (1,352) | (1,391) | (18,549) | (13,076) |
| Unrecognized net actuarial loss | 1,349 | 1,491 | 11,369 | 7,285 |
| Unrecognized prior service cost | — | — | 193 | 215 |
| Unrecognized net transition asset | — | — | 847 | 952 |
| Additional minimum liability | <u>(1,349)</u> | <u>(1,491)</u> | <u>—</u> | <u>—</u> |
| Accrued benefit cost recognized in the statements of financial position | <u>\$ (1,352)</u> | <u>(1,391)</u> | <u>(6,140)</u> | <u>(4,624)</u> |

Accrued benefit cost is included in accounts payable and accrued expenses.

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Net periodic benefit cost consisted of the following components for the years ended May 31:

| | Pension plan benefits | | Retiree medical benefits | |
|------------------------------------|------------------------------|-------------|---------------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ — | — | 846 | 806 |
| Interest cost | 305 | 284 | 801 | 585 |
| Expected return on assets | (202) | (202) | — | — |
| Amortization of prior service cost | — | — | 21 | 21 |
| Amortization of transition asset | — | — | 106 | 105 |
| Medicare Part D subsidy | — | — | (82) | — |
| Amortization of net actuarial loss | 75 | 109 | 382 | 388 |
| Net periodic benefit cost | \$ <u>178</u> | <u>191</u> | <u>2,074</u> | <u>1,905</u> |

Weighted average assumptions used to determine benefit obligations as of May 31 were as follows:

| | Pension plan benefits | | Retiree medical benefits | |
|-------------------------------|------------------------------|-------------|---------------------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Discount rate | 6.00% | 6.00% | 6.00% | 6.25% |
| Rate of compensation increase | N/A | N/A | N/A | N/A |

Weighted average assumptions used to determine net periodic benefit cost for the years ended May 31 were as follows:

| | Pension plan benefits | | Retiree medical benefits | |
|--|------------------------------|-------------|---------------------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Discount rate | 6.00% | 5.00% | 6.25% | 5.25% |
| Expected long-term return on plan assets | 5.50 | 5.50 | N/A | N/A |
| Rate of compensation increase | N/A | N/A | N/A | N/A |

The expected long-term rate of return has been established based on the ongoing investment of pension plan assets in a portfolio of high-quality, government-backed, fixed-income securities. The components of the expected long-term rate of return include annual expectations for a risk-free rate of return of 2.50% per year, plus long-term annual inflation of 3.00% per year.

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The assumed health care cost trend rates at May 31 were as follows:

| | <u>2007</u> | <u>2006</u> |
|---|-------------|-------------|
| Health care cost trend rate assumed for next year | 10.00% | 9.00% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 5.00 | 4.50 |
| Year that the rate reaches the ultimate trend rate | 2013 | 2009 |

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| | <u>One- percentage- point increase</u> | <u>One- percentage- point decrease</u> |
|--|--|--|
| Effect on total of service and interest cost | \$ 401 | 312 |
| Effect on postretirement benefit obligation | 3,323 | 2,655 |

The Laboratory's defined benefit pension plan weighted average asset allocations as of May 31, 2007 and 2006, by asset category, were as follows:

| | <u>2007</u> | <u>2006</u> |
|-----------------|-------------|-------------|
| Asset category: | | |
| Debt securities | 78% | 76% |
| Equities | 22 | 20 |
| Cash and other | — | 4 |
| Total | <u>100</u> | <u>100</u> |

The Laboratory maintains an investment policy for the defined benefit pension plan through the Retirement Committee. Since it is expected that the pension plan will be terminated in the near future, the investment policy guidelines suggest that the assets will be held in short-term, government-backed fixed-income securities, and cash as needed to pay current benefits.

The Laboratory expects to make future contributions of \$425 to its defined benefit pension plan and \$503 (net of retiree contributions and Medicare Part D subsidy) to its postretirement benefit plan in fiscal 2008.

THE JACKSON LABORATORY

Notes to Financial Statements

May 31, 2007 and 2006

(In thousands)

The Laboratory's estimated future benefit payments are as follows:

| | Pension plan benefits | Retiree medical benefits (net of Part D) |
|---------------------|----------------------------------|---|
| Year ending May 31, | | |
| 2008 | 177 | 503 |
| 2009 | 197 | 572 |
| 2010 | 202 | 645 |
| 2011 | 220 | 698 |
| 2012 | 248 | 782 |
| 2013 through 2016 | 1,804 | 4,843 |

(e) *The Medicare Prescription Drug Improvement and Modernization Act of 2003*

The Medicare Prescription Drug Improvement and Modernization Act of 2003 established a federal subsidy to sponsors of retiree health care benefit plans that provide certain levels of prescription drug benefits. This subsidy has been applied for the 2007 fiscal year. Accordingly, the subsidy has been considered in the measurement of accumulated postretirement benefit obligation and related net periodic benefit cost in the accompanying financial statements and notes.

(f) *Health-care and Workers' Compensation Programs*

The Laboratory is self-insured for the costs of health-care coverage not funded by employees. Funds provided by employees for health-care coverage during 2007 and 2006 were \$2,751 and \$2,431, respectively. Third-party insurance covers annual aggregate costs over \$13,244. The Laboratory's expense under the plan during 2007 and 2006 was \$7,184 and \$6,077, respectively. Accruals for known unpaid claims and estimated claims incurred but not reported are based on actual claims experience and other factors. As of May 31, 2007 and 2006, such accruals amounted to \$1,362 and \$1,328, respectively, and are included in accounts payable and accrued expenses.

The Laboratory also participates in a group workers' compensation self-insured trust fund (the Fund). Workers' compensation expense, which amounted to \$467 and \$490 in 2007 and 2006, respectively, is determined based on annual premiums to the Fund plus the Laboratory's pro-rata share of any excess of liabilities over plan assets and dividends received. Individual claims in excess of \$150 are covered by insurance held by the Fund.

(g) *Deferred Compensation Program*

The Laboratory has a deferred compensation program under Section 457(f) of the Internal Revenue Code under which a portion of key employees' compensation is deferred and vested over time. The Laboratory funds the deferred compensation obligation through a Rabbi Trust.

THE JACKSON LABORATORY

Notes to Financial Statements

May 31, 2007 and 2006

(In thousands)

(h) SFAS No. 158

Beginning with the fiscal year ending May 31, 2008, the Laboratory will follow the provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans*. SFAS 158 will require, among other things, that the incremental amount to record the unfunded status of the post-retirement medical plan be accrued on the statement of financial position as a reduction of unrestricted net assets.

(8) Restricted Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of May 31:

| | 2007 | 2006 |
|--|-------------|-------------|
| Contributions receivable, net | \$ 694 | 1,852 |
| Unappropriated endowment gains | 15,391 | 12,444 |
| Restricted for acquisition and construction of long-lived assets | 644 | 482 |
| Restricted for research, training and other programs | 2,753 | 2,594 |
| | \$ 19,482 | 17,372 |

(b) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of May 31:

| | 2007 | 2006 |
|--------------------------|-------------|-------------|
| Endowments for: | | |
| Research | \$ 4,561 | 4,542 |
| Training | 589 | 538 |
| Other programs | 623 | 618 |
| General purposes | 1,942 | 1,854 |
| Contributions receivable | 100 | — |
| | \$ 7,815 | 7,552 |

THE JACKSON LABORATORY

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May 31, 2007 and 2006

(In thousands)

(c) Net Assets Released From Restrictions

Net assets released from restrictions consisted of the following for the years ended May 31:

| | 2007 | 2006 |
|---|-------------|-------------|
| Operating activities: | | |
| Research programs | \$ 827 | 1,053 |
| Training programs | 230 | 74 |
| Other | 9 | 37 |
| | 1,066 | 1,164 |
| Nonoperating activities: | | |
| Acquisition and construction of long-lived assets | 891 | 2,503 |
| Total net assets released from restrictions | \$ 1,957 | 3,667 |

(9) Commitments and Contingencies

(a) Leases

The Laboratory leases laboratory, warehouse, and office space, and other equipment under leases accounted for as operating leases having remaining terms from one to five years. Certain of these leases have renewal options. Total rental expense was \$1,104 and \$1,947 in 2007 and 2006, respectively.

Future minimum lease payments under operating leases as of May 31, 2007, were as follows:

| | Operating leases |
|------------------------------|-----------------------------|
| Year ending May 31: | |
| 2008 | \$ 592 |
| 2009 | 425 |
| 2010 | 117 |
| 2011 | 30 |
| 2012 | 30 |
| Total minimum lease payments | \$ 1,194 |

The Laboratory subleases office space with remaining terms of 15 months to five years. Sublease rent is \$69 for fiscal year 2008 and \$30 per year through 2012. One of the subleases is renewable annually as of September 1 through September 30, 2009.

THE JACKSON LABORATORY

Notes to Financial Statements

May 31, 2007 and 2006

(In thousands)

(b) *Legal Claims*

The Laboratory is subject to certain legal proceedings and claims that arose in the ordinary course of conducting its activities. Management has determined, after consultation with legal counsel, that the Laboratory has defensible positions and that any ultimate liabilities not covered by insurance will not materially affect the Laboratory's financial position.

(10) *Related Party Transactions*

The Laboratory purchases insurance services, legal services, and consulting assistance from firms in which Trustees hold partner or officer positions. In addition, the Laboratory subleases space and licenses intellectual property to a company headed by a Senior Scientist at the Laboratory. All of the transactions were provided either on an expenses only arrangement or at an arm's length basis. The Laboratory is a co-investor with two Trustees in a limited partnership established to invest in a venture fund. Further, the Laboratory maintains deposits in a bank in which an officer of the Laboratory serves on the Board of Directors. The bank was selected in a competitive process.

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APPENDIX C

BOOK-ENTRY SYSTEM

General

The Depository Trust Company, New York, NY (“DTC”) will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities without coupons registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Bond will be issued for each of the Bonds, each in the aggregate principal amount of such Bond, and will be deposited with DTC.

DTC, the world’s largest depository, 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 agency” within the meaning of the New York Uniform Commercial Code, and a “clearing District” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“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’ 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, 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”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owner(s). Beneficial Owner(s) will not receive Bonds representing their ownership interests in the Bonds, except in the event that use of the book entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owner(s) of the Bonds; DTC’s records reflect only identity of the Direct Participants to whose accounts such Bonds are credited, which may or

may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC if less than all of the Bonds within a issue are being redeemed. DTC's practice is to determine, by lot, the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Borrower or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Borrower or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owner(s) will be the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry System

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority, the Borrower or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, physical certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Borrower believes to be reliable, but neither the Authority nor the Borrower takes any responsibility for the accuracy thereof.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY

DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of the legal documents which are not described elsewhere in the Official Statement. These summaries do not purport to be comprehensive and reference should be made to the Loan Agreement and the Indenture for a full and complete statement of their provisions. All capitalized terms not defined in the Official Statement have the meanings set forth in the Bond Indenture and the Loan Agreement.

DEFINITIONS

The following are definitions of certain terms used in the Official Statement including the summaries of the Indenture and the Loan Agreement. Appendix E contains additional definitions of certain terms used in the Official Statement.

“AA’ Financial Commercial Paper Rate” means, as of any date of determination, the interest equivalent of the 30-day rate on financial commercial paper placed on behalf of issuers whose corporate bonds are rated “AA” by S&P, or the equivalent of such rating by S&P or another nationally recognized securities rating agency, as such 30-day rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination. If, however, the Federal Reserve Bank of New York does not make available any such rate, then the “AA” Financial Commercial Paper Rate shall be the arithmetic average of the interest equivalent of the 30-day rate on commercial paper placed on behalf of such issuers, as quoted to the Auction Agent on a discount basis or otherwise, by the commercial paper dealers, as of the close of business on the Business Day immediately preceding such date of determination. If any commercial paper dealer does not quote a commercial paper rate required to determine the “AA” Financial Commercial Paper Rate, the “AA” Financial Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining commercial paper dealer or commercial paper dealers. For purposes of this definition, the “interest equivalent” of a rate stated on a discount basis (a “discount rate”) for commercial paper of a given day’s maturity shall be equal to the product of (i) 100 multiplied by (ii) the quotient (rounded upward to the next higher one thousandth (.001) of 1%) of (x) the discount rate (expressed in decimals) divided by (y) the difference between (1) 1.00 and (2) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) multiplied by the number of days from (and including) the date of determination to (but excluding) the date on which such commercial paper matures and the denominator of which shall be 360.

“Act” means Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California, as now in effect and as it may from time to time hereafter be amended or supplemented.

“Additional Payments” means the payments to be made by the Borrower to the Trustee or the Authority pursuant to the Loan Agreement.

“Administrative Fees and Expenses” means any application, commitment, financing or similar fee charged or reimbursement for administrative or other expenses incurred by the Authority or the Trustee, including Additional Payments.

“After-Tax Equivalent Rate” means, on any date of determination, the interest rate per annum equal to the “AA” Financial Commercial Paper Rate on such date.

“All Hold Rate” will have the meaning specified in the Auction Procedures of the Indenture.

“Alternate Daily Index” means an index which is a composite of bid-side yields of obligations (a) which (i) provide for a daily adjustment of the interest rate and (ii) must be purchased on demand of the owner thereof on the same day on which notice is given and (b) the interest on which is Tax-Exempt.

“Alternate Liquidity Facility” means a line of credit, letter of credit, standby purchase agreement or similar liquidity facility acceptable to the Bond Insurer, if any, issued by a Liquidity Facility Provider and delivered or made available to the Tender Agent in accordance with the Loan Agreement which replaces the Liquidity Facility then in effect.

“Applicable Percentage” means, with respect to Bonds which are ARS on any date of determination, the percentage determined, based on Moody’s or S&P ratings of such ARS, in effect at the close of business on the Business Day immediately preceding such date, or, if such ARS are then rated by both Moody’s and S&P, based on the lower of such ratings on such Business Day, as set forth below:

| Credit Ratings | | Applicable Percentage |
|----------------|----------------|-----------------------|
| <u>Moody’s</u> | <u>S&P</u> | |
| “Aaa” | “AAA” | 175% |
| “Aa” | “AA” | 175% |
| “A” | “A” | 175% |
| “Baa” | “BBB” | 200% |
| Below “Baa” | Below “BBB” | 265% |

provided, that if any ARS are not then rated by Moody’s or S&P, the Applicable Percentage with respect to such ARS shall be 265% of the Index on such date. For purposes of this definition, S&P rating categories of “AAA”, “AA”, “A” and “BBB,” and Moody’s rating categories of “Aaa,” “Aa,” “A” and “Baa” shall refer to and include the respective rating categories correlative thereto if either or both of such rating agencies shall have changed or modified their generic rating categories or if Moody’s or S&P shall not rate, or no longer rate, the ARS or shall have been replaced.

“ARS” means, on any date, all Bonds which on such date bear interest as auction rate securities pursuant to the Indenture and the Auction Procedures applicable thereto.

“ARS Beneficial Owner” means the Person who is the Beneficial Owner of ARS according to the records of (i) the Securities Depository or its participants while such ARS are in book-entry form or (ii) the Trustee while such ARS are not in book-entry form.

“ARS Interest Payment Date” will have the meaning ascribed to the term “Interest Payment Date” in Appendix E to the Official Statement.

“ARS Payment Default” means (i) a default in the due and punctual payment of any installment of interest on ARS, or (ii) a default in the due and punctual payment of any principal of or premium, if any, on ARS at stated maturity or pursuant to a mandatory redemption.

“ARS Period” or “Auction Rate Period” will have the meaning set forth in Appendix E to the Official Statement.

“Auction” will have the meaning set forth in Appendix E to the Official Statement.

“Auction Agent” will have the meaning set forth in Appendix E to the Official Statement.

“Auction Agent Agreement” will have the meaning set forth in Appendix E to the Official Statement.

“Auction Date” will have the meaning set forth in Appendix E to the Official Statement.

“Auction Period” will have the meaning set forth in Appendix E to the Official Statement.

“Auction Procedures” means, with respect to ARS, the provisions contained in the Auction and Settlement Procedures as summarized in Appendix E to the Official Statement.

“Auction Rate” has the meaning set forth in Appendix E to the Official Statement.

“Authority” means, ABAG Finance Authority for Nonprofit Corporations, a joint exercise of powers agency organized and existing under the laws of the State.

“Authorized Denomination” means with respect to any Bonds in an ARS Period, \$25,000 and any integral multiple of \$25,000 in excess thereof.

“Authorized Representative” means, with respect to the Authority, its President, Chief Financial Officer, Secretary or any other person as may be designated and authorized to sign for the Authority, and, with respect to the Borrower, the Chief Financial Officer, or any other officer designated in writing by the Chief Financial Officer.

“Beneficial Owner” means, any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries).

“Bid” has the meaning set forth in Appendix E to the Official Statement.

“Bonds” means ABAG Finance Authority For Nonprofit Corporations Revenue Bonds (The Jackson Laboratory) Series 2007 issued under the Indenture.

“Bond Counsel” means an attorney at law or a firm of attorneys, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, who is or are selected by the Authority and acceptable to the Bond Insurer, if any, and is or are duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“Bond Insurance Policy” means any applicable financial guaranty insurance policy issued by a Bond Insurer insuring the payment when due of principal of and interest on the Bonds.

“Bond Insurer” means, any issuer of a Bond Insurance Policy.

“Bond Insurer Event of Insolvency” means the occurrence and continuance of one or more of the following events: (i) the issuance, under the applicable laws of any state of the United States, of an order of rehabilitation, liquidation or dissolution of the Bond Insurer; (ii) the commencement by the Bond Insurer of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in

effect including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for itself or any substantial part of its property; (iii) the consent by the Bond Insurer to any relief referred to in the preceding clause (ii) in an involuntary case or other proceeding commenced against it; (iv) the making by the Bond Insurer of a general assignment for the benefit of creditors; (v) the failure by the Bond Insurer to pay in general its debts as they become due; or (vi) the initiation by the Bond Insurer of any action to authorize any of the foregoing.

“Bond Purchase Fund” means the fund by that name established pursuant to the Interest Rate Determination Method Provisions.

“Bond Year” means each one-year period that ends at the close of business on the day in the calendar year that is selected by the Borrower. The first and last Bond Years may be short periods. If no day is selected by the Borrower before the earlier of the final maturity of the Bonds or the date that is five years after Date of Issuance, each Bond Year ends on each anniversary of the Date of Issuance and on the final maturity of the Bonds.

“Book-Entry Bonds” means any Bonds which are then held in book-entry form as provided in the Indenture.

“Borrower” means The Jackson Laboratory, a Maine nonprofit corporation qualified to do business in the State of California, and its successors or assigns permitted pursuant to the Loan Agreement.

“Broker-Dealer” shall have the meaning set forth in Appendix E to the Official Statement.

“Broker-Dealer Agreement” will have the meaning set forth in the Appendix E to the Official Statement.

“Business Day” means any day other than (i) a Saturday or a Sunday, or (ii) a day on which the Bond Insurer, if any, or commercial banks in the city (or cities) in which is located the Principal Office of the Trustee, or any other paying agent, are authorized or required by law or executive order to close, or (iii) a day on which the New York Stock Exchange is closed.

“Calendar Week” means the period of seven (7) days from and including Wednesday of any week to and including Tuesday of the next following week; provided, however, that the initial Calendar Week with respect to each Weekly Rate Period will commence on the first day of such Weekly Rate Period and will end on the next succeeding Tuesday; and provided further that the final Calendar Week with respect to each Weekly Rate Period will commence on the Wednesday immediately preceding the last day of such Weekly Rate Period and will end on the last day of such Weekly Rate Period.

“Certificate,” “Statement,” “Request” and “Requisition” of the Authority or the Borrower means, respectively, a written certificate, statement, request or requisition signed in the name of the Authority by an Authorized Representative of the Authority, or in the name of the Borrower by an Authorized Representative of the Borrower. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument will include the statements provided for in the Indenture.

“Change of Tax Law” means, with respect to any ARS Beneficial Owner, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final

regulation promulgated by the United States Treasury after the Date of Issuance, which (a) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (b) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

“Code” means the Internal Revenue Code of 1986, as amended, together with corresponding and applicable final, temporary or proposed regulations and revenue rulings issued or amended with respect thereto by the United States Treasury Department or Internal Revenue Service, to the extent applicable to the Bonds. All references in the Indenture to Sections, paragraphs or other subdivisions of the Code or the regulations promulgated thereunder will be deemed to be references to correlative provisions of any predecessor or successor code or regulations promulgated thereunder.

“Commercial Paper Rate” means the interest rate on any Bonds established from time to time pursuant to the Interest Rate Determination Method Provisions.

“Commercial Paper Rate Period” means each period during which any Bonds bear interest at Commercial Paper Rates in accordance with the Interest Rate Determination Method Provisions.

“Commercial Paper Rate Term” means, with respect to the Bonds in a Commercial Paper Rate Period, the period determined pursuant to the Interest Rate Determination Method Provisions during which such Bonds bear interest at a particular Commercial Paper Rate.

“Computation Date” means the date on which the Remarketing Agent establishes a Fixed Rate, which date will be any Business Day selected by the Remarketing Agent during the period from and including the date of receipt of a Conversion Notice relating to a Fixed Rate Conversion to and including the Business Day next preceding the proposed Conversion Date.

“Construction Fund” means the fund by that name established pursuant to the Indenture.

“Continuing Disclosure Agreement” means any continuing disclosure agreement or certificate executed between the Borrower and the Trustee, in its capacity as Dissemination Agent, which complies with S.E.C. Rule 15c2-12.

“Conversion” or “Convert” means the adjustment from time to time in accordance with the terms of the Interest Rate Determination Method Provisions from one Interest Rate Determination Method to another.

“Conversion Date” means the date any Conversion becomes effective in accordance with the Interest Rate Determination Method Provisions (or, with respect to notices, time periods and requirements in connection with the proceedings for such Conversion, the day on which it is proposed that such Conversion occur).

“Conversion Notice” will have the meaning set forth in the Interest Rate Determination Method Provisions.

“Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

“Daily Put Bonds” will have the meaning set forth in the Interest Rate Determination Method Provisions.

“Daily Rate” means the interest rate on the Bonds established from time to time pursuant to the Interest Rate Determination Method Provisions.

“Daily Rate Index” means, on any Business Day, the Tax-Exempt Daily Interest Rate (“TEDIR”) established by the Remarketing Agent at its principal office as of the opening of business on such Business Day as a base rate of interest which is indicative of current bid-side yields of securities the interest on which is Tax-Exempt and which are repriced and can be tendered for payment on any Business Day; provided, that, if TEDIR shall not be established as aforesaid, the Daily Rate Index for any Business Day shall be an Alternate Daily Index selected by the Remarketing Agent or, if no such Alternate Daily Index shall have been so selected, shall be the sum of (A) the product of (i) the interest rate for thirty-day taxable commercial paper (prime paper placed through dealers) announced for such day by the Federal Reserve Bank of New York, converted to a coupon equivalent rate, multiplied by (ii) 1 minus the maximum federal income tax rate payable by individuals at the time on interest income, plus (B) 2.00% or, if interest on the Bonds is an item of tax preference in determining alternative minimum taxable income (as evidenced by an Opinion of Bond Counsel), 2.25%.

“Daily Rate Period” means any period during which the Bonds bear interest at a Daily Rate.

“Date of Issuance” means September 11, 2007.

“Dissemination Agent” means Wells Fargo Bank, N.A., a national banking association, or its successor appointed pursuant to the Continuing Disclosure Agreement.

“Electronic Notice” means notice given through means of telecopy, telegraph, telegram, telex, facsimile transmission or other similar electronic means of communication confirmed by writing or written transmission.

“Event of Default” means any of the events specified in the Indenture.

“Existing Owner” shall have the meaning set forth in Appendix E to the Official Statement.

“Facilities” means, as of any date, those facilities then owned and operated by the Borrower as research facilities.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel, addressed to the Authority, the Remarketing Agent (if any), the Broker-Dealer (if any), the Auction Agent (if any), the Bond Insurer, if any, the Borrower and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the laws of the State and the Indenture and will not result in the inclusion of interest on the Bonds in gross income for federal income tax purposes.

“Fiscal Year” means the duly adopted fiscal year of the Borrower, initially the period from June 1 through May 31 of each year.

“Fitch” means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Borrower by notice in writing to the Authority and the Trustee and acceptable to the Bond Insurer, if any.

“Fixed Rate” means the fixed rate borne by the Bonds from the Fixed Rate Conversion Date, which rate will be established in accordance with the Interest Rate Determination Method Provisions.

“Fixed Rate Conversion Date” means the date on which the Bonds begin to bear interest for a Fixed Rate Period.

“Fixed Rate Period” means the period from and including the Fixed Rate Conversion Date to and including the maturity date for the Bonds.

“General Fund” means the fund by that name established by the Trustee pursuant to the Indenture.

“Holder,” “Bondholder” or “Owner” means the owner of a Bond as identified on the registration books of the Trustee.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“Index” will have the meaning specified in Appendix E to the Official Statement.

“Installment Computation Date” means the last day of the fifth and each succeeding fifth Bond Year.

“Insurance Agreement” means any Insurance Agreement, entered into by and between the Borrower and a Bond Insurer.

“Interest Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

“Interest Payment Date” means each Conversion Date, with respect to ARS, the applicable ARS Interest Payment Date, and as to each Bond, the final maturity date of such Bond.

“Interest Rate Determination Method” means any of the methods of determining the interest rate on the Bonds from time to time as described in the Interest Rate Determination Method Provisions of the Indenture.

“Interest Rate Determination Method Provisions” means the variable rate provisions relating to the Bonds, as set forth in the Indenture.

“Interest Rate Period” means any Daily Rate Period, Commercial Paper Rate Period, Fixed Rate Period, Auction Rate Period or Weekly Rate Period.

“Investment Proceeds” means, with respect to the Bonds, any amounts actually or constructively received from investing the proceeds from the sale of such issue.

“Investment Securities” means any of the investment securities identified in the Indenture that at the time are legal investments for moneys held thereunder and then proposed to be invested therein.

“Issuance Costs” means all costs and expenses of issuance of the Bonds, including, but not limited to:

- (a) underwriter’s discount or fee;

(b) counsel fees, including bond counsel, underwriter's counsel, Authority's counsel, and Borrower's counsel, as well as any other specialized counsel fees incurred in connection with the issuance of the Bonds;

(c) financial advisor fees and expenses incurred in connection with the issuance of the Bonds;

(d) initial fees and expenses of the Trustee, including Trustee counsel fees and expenses in connection with the issuance of the Bonds;

(e) costs of printing the Official Statement for the Bonds;

(f) publication or copying costs associated with the proceedings relating to the Bonds; and

(g) initial fees and expenses, of the Authority (including the Authority's initial bond administration fee) and the Rating Agency relating to the Bonds.

"Liquidity Agreement" means, with respect to any Liquidity Facility, the agreement or agreements between the Borrower and the applicable Liquidity Provider, as originally executed or as it or they may from time to time be replaced, supplemented or amended in accordance with the provisions thereof, providing for the issuance of the Liquidity Facility and the reimbursement of the Liquidity Provider for payments thereunder, together with any related pledge agreement, security agreement or other security document.

"Liquidity Facility" means any initial letter of credit, guarantee, standby purchase agreement, or other support arrangement with respect to the Purchase Price of any Bond, or any combination of the foregoing, provided by the Borrower with respect to the Conversion of Bonds to a Variable Rate pursuant to the Interest Rate Determination Method Provisions and any Alternate Liquidity Facility for such initial Liquidity Facility. A Liquidity Facility and the related Liquidity Agreement may be a single document.

"Liquidity Provider" means the issuer or issuers or other provider or providers of a Liquidity Facility with respect to any Bonds as permitted under the Interest Rate Determination Method Provisions (except the Borrower), and the respective successors and assigns of the business thereof and any surviving, resulting or transferee entity with or into which it may be consolidated or merged or to which it may transfer all or substantially all of its business.

"Liquidity Provider Bonds" means any Bonds purchased pursuant to a Liquidity Facility as provided in the Interest Rate Determination Method Provisions for so long as such Bonds are held by or for the account of, or are pledged to, the applicable Liquidity Provider in accordance with the Interest Rate Determination Method Provisions.

"Loan Agreement" means that certain loan agreement by and between the Authority and the Borrower, dated as of September 1, 2007, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

"Loan Default Event" means any of the events specified in the Loan Agreement.

"Loan Payments" means the payments so designated and required to be made by the Borrower pursuant to the Loan Agreement.

"Maturity Date" means July 1, 2037.

“Maximum Rate” means: (i) with respect to Bonds other than ARS or Liquidity Provider Bonds, the lesser of (a) twelve percent (12%) per annum and (b) the Maximum Lawful Rate; (ii) with respect to ARS the lesser of (i) the Applicable Percentage of the higher of (a) the After-Tax Equivalent Rate on such date and (b) the Index on such date, and (ii) 12% per annum; provided, that in no event will the Maximum Rate be more than the Maximum Lawful Rate and (iii) with respect to Liquidity Provider Bonds, the Maximum Lawful Rate.

“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Borrower by notice in writing to the Authority and the Trustee.

“Nationally Recognized Municipal Securities Information Repository” or “NRMSIR” means each such repository identified by the Securities Exchange Commission as such from time to time at its web site (currently, <http://www.sec.gov/info/municipal/nrmsir.htm>).

“New Money Bonds” means the Project Bonds plus the Bonds, the proceeds of which are deposited in the Costs of Issuance Fund pursuant to the Indenture for purposes of paying Costs of Issuance related to the Project Bonds.

“Opinion of Bond Counsel” means an Opinion of Counsel by a nationally recognized bond counsel firm experienced in matters relating to the exclusion from gross income for federal income tax purposes of interest payable on obligations of state and political subdivisions.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority, the Trustee or the Borrower) selected by the Borrower and not objected to by the Trustee. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel will include the statements provided for in the Indenture.

“Optional Redemption Account” means the account by that name in the Redemption Fund established pursuant to the Indenture.

“Order” has the meaning set forth in Appendix E to the Official Statement.

“Outstanding,” when used as of any particular time with reference to the Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority will have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) referred to in the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which a Securities Depository holds Book-Entry Bonds as securities depository.

“Person” means an individual, corporation, firm, association, partnership, limited liability company, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Potential Owner” will have the meaning set forth in Appendix E to the Official Statement.

“Principal Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

“Principal Office” means the agency office of the Trustee located in Providence, Rhode Island, or such other or additional offices as may be specified to the Authority, the Borrower and the Bond Insurer, if any, with respect to either the Trustee or Bond Registrar.

“Project” means the improvements as more fully described in the Loan Agreement.

“Project Bonds” means the Bonds, the proceeds of which are deposited in the Construction Fund and the Capitalized Interest Account pursuant to the Indenture.

“Purchase Date” means any date on which any Bond is required to be purchased pursuant to the Interest Rate Determination Method Provisions.

“Purchase Price” means an amount equal to 100% of the principal amount of any Tendered Bond, plus accrued and unpaid interest thereon to but not including the date of purchase; provided, however, if the date of such purchase occurs after the Record Date applicable to the interest accrued on such Bond from the last occurring Interest Payment Date, then the Purchase Price will not include accrued and unpaid interest, which will be paid to the Bondowner of record on the applicable Record Date.

“Rate” means the interest rate applicable to the Bonds as provided in the Indenture.

“Rate Index” means the Alternate Daily Index or the Daily Rate Index, as the context may require.

“Rating Agency” means Fitch, Moody’s or S&P to the extent they then are providing or maintaining a rating on the Bonds at the request of the Borrower, or in the event that Fitch, Moody’s or S&P no longer maintains a rating on the Bonds, any other nationally recognized rating agency then providing or maintaining a rating on the Bonds at the request of the Borrower and approved by the Bond Insurer, if any.

“Rating Category” means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

“Rating Confirmation” means written evidence from each Rating Agency then rating the Variable Rate Bonds to the effect that, following one of the events which requires a Rating Confirmation, the Bonds will be rated in the highest short-term rating category (without regard to rating subcategories) of such Rating Agency either (i) as a result of the provision of a particular Liquidity Facility or (ii) based on the credit of the Bond Insurer, if any, the Borrower and the applicable Liquidity Facility.

“Rebate Fund” means the Rebate Fund established pursuant to the Indenture.

“Record Date” means (i) the Business Day immediately preceding the applicable Interest Payment Date during a Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period;

(ii) whether or not a Business Day, the fifteenth day of the month prior to any Interest Payment Date with respect to any Fixed Rate Period; and (iii) the Business Day immediately preceding an Interest Payment Date during an ARS Period.

“Redemption Fund” means the fund by that name established pursuant to the Indenture.

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“Refunded Bonds” means, \$2,000,000 of the Authority’s Variable Rate Demand Revenue Bonds (The Jackson Laboratory Issue) Series 2002 currently outstanding in the aggregate principal amount of \$8,945,000.

“Refunded Bonds Letter of Credit” means the Irrevocable Direct Pay Letter of Credit, dated as of July 1, 2002, and amended and restated as of November 1, 2005, issued by the Refunded Bonds Letter of Credit Bank in connection with the Refunded Bonds.

“Refunded Bonds Letter of Credit Bank” means Bank of America, N.A., as issuer of the Refunded Bonds Letter of Credit.

“Refunded Bonds Trustee” means U.S. Bank National Association, as trustee for the Refunded Bonds.

“Refunding Bonds” means the Bonds, the proceeds of which are transferred to the Refunded Bonds Letter of Credit Bank pursuant to the Indenture.

“Regulations” means the Treasury Regulations promulgated under the provisions of the Internal Revenue Code of 1986.

“Remarketing Agent” means, as the context may require, any Remarketing Agent designated for the Bonds in the Interest Rate Determination Method Provisions and any successor to such initial Remarketing Agent appointed pursuant to the Interest Rate Determination Method Provisions.

“Revenue Fund” means the fund by that name established pursuant to the Indenture.

“Revenues” means the amounts pledged under the Indenture to the payment of the principal of, redemption premium, if any, and interest on the Bonds, including the following: (a) all money held in the funds and accounts, together with investment earnings thereon received by the Trustee and which the Trustee is authorized to receive, hold and apply pursuant to the terms of the Indenture (excluding money and investment earnings thereon in the General Fund, the Costs of Issuance Fund and the Rebate Fund); and (b) all income, revenues, proceeds, obligations, securities and other amounts received by the Trustee and derived from or in connection with proceeds of the Bonds and the Loan Agreement, but excluding amounts payable as Additional Payments or amounts due under the Insurance Agreement and the indemnification or reimbursement of the Authority, the Trustee and the Auction Agent.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated

by the Borrower by notice in writing to the Authority and the Trustee and acceptable to the Bond Insurer, if any.

“Securities Depository” means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in the Indenture.

“Securities Depository Participant” means any broker-dealer, bank or other financial institution for which a Securities Depository holds Bonds as Security Depository from time to time.

“Sell Order” has the meaning set forth in Appendix E to the Official Statement.

“SIFMA Index” means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry and Financial Market Association (“SIFMA”) or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Trustee, and effective from such date.

“Sinking Fund Installment” means the amount required by the Indenture to be paid by the Authority on any single date for the retirement of any Bonds.

“Special Redemption Account” means the account by that name in the Redemption Fund established pursuant to the Indenture.

“State” means the State of California.

“Submitted Hold Orders” has the meaning set forth in Appendix E to the Official Statement.

“Sufficient Clearing Bids” has the meaning set forth in the Appendix E to the Official Statement.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized thereunder.

“Tax Certificate” means the tax certificate and agreement dated the Date of Issuance executed by the Borrower and the Authority and as it may be amended or supplemented from time to time.

“Tax-Exempt” means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from the gross income of the Owners thereof (other than any Owner who is a “substantial user” of facilities financed with such obligations or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

“Tax-Exempt Securities” means bonds, notes or other securities the interest on which is Tax-Exempt.

“Tender Agent” means any tender agent appointed in connection with the Interest Rate Determination Method Provisions.

“Tender Agent Agreement” means each such agreement between the Borrower and a Tender Agent, and any similar agreement with a successor Tender Agent, in each case as from time to time in effect.

“Tendered Bond” means any Bond (or any portion of a Bond) tendered or deemed tendered for purchase pursuant to the Interest Rate Determination Method Provisions.

“Trustee” means Wells Fargo Bank, N.A., a national banking association organized and existing under and by virtue of the laws of the United States of America, or its successor, as Trustee as provided in the Indenture.

“Trustee Fee” means, with respect to the Bonds, an amount payable on an annual basis in advance (except that the first payment accrued through the next annual payment date will be made in accordance with the letter agreement, between the Trustee and the Borrower as amended from time to time, with respect to the payment of all fees and expenses.

“Valuation Date” means January 1 and July 1 of each year or the immediately succeeding Business Day if such January 1 and July 1 is not a Business Day or on any other date at the request of the Borrower.

“Variable Rate” means any of the Daily Rate, the Weekly Rate or the Commercial Paper Rate.

“Variable Rate Bonds” means any Bonds that bears interest at a Variable Rate.

“Variable Rate Period” means each period during which any Bonds bear interest at a Variable Rate.

“Weekly Put Bonds” will have the meaning set forth in the Interest Rate Determination Method Provisions.

“Weekly Rate” means the interest rate on any Bonds established for a Calendar Week in accordance with the Interest Rate Determination Method Provisions.

“Weekly Rate Period” means each period during which any Bonds bear interest at Weekly Rates.

THE LOAN AGREEMENT

The Loan Agreement provides the terms of the loan of the proceeds of the Bonds to the Borrower and the repayment of and security for such loan by the Borrower. Certain provisions of the Loan Agreement are summarized below; this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.

Loan of Proceeds, Payment of Bonds and Project Modification.

(A) The Borrower agrees that it will pay Loan Payments to the Trustee, for the account of the Authority, all sums necessary for the payment of the debt service on the Bonds, as follows:

(1) By 9:00 a.m., Pacific time, on or prior to the fourth Business Day immediately preceding each Interest Payment Date and any date on which principal of the Bonds is due and payable (whether at maturity, by redemption or by acceleration as provided in the Indenture) with respect to the Bonds and continuing until the principal of and premium, if any,

and interest on the Bonds will have been fully paid (or provision for the payment thereof will have been made as provided in the Indenture), the Borrower will pay in funds which will be immediately available as of such time and date, as an installment in repayment of the loan from the Authority under the Loan Agreement, a sum equal to the aggregate amount payable on such date as principal of (whether at maturity, by redemption or by acceleration as provided in the Indenture) and premium, if any, and interest on the Bonds, at the Principal Corporate Trust Office of the Trustee.

(2) Each payment made pursuant to paragraph (1) above will at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, becoming due and payable on the Bonds on each Interest Payment Date and any date on which principal of the Bonds is due and payable; provided that on July 1 in each year, any amount held by the Trustee in the Revenue Fund on the due date for a Loan Payment under the Loan Agreement will be credited against the installment due on such date to the extent available for such purpose under the terms of the Indenture; and provided further that, subject to the provisions of this paragraph, if at any time the amounts held by the Trustee in the Revenue Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Bonds as such payments become due, the Borrower will be relieved of any obligation to make any further payments under the provisions of the Loan Agreement. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Revenue Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption or acceleration) and interest and premium, if any, on the Bonds as such payments become due, the Borrower will forthwith pay such deficiency as a Loan Payment under the Loan Agreement.

(B) [Reserved]

(C) If the Borrower fails to make any payment required under the Loan Agreement by the due date, the Trustee will promptly notify the Authority, such notice to be given by telephone, telecopy or telegram followed by written notice.

(D) The Borrower may revise the Project from time to time, provided that the Corporation will first file with the Authority and the Trustee a Certificate describing the proposed revision and certifying that such revision (i) will not result in the Project or any portion thereof failing to qualify for financing under the Act, (ii) will not result in the completion of the Project after a date set forth in the Loan Agreement (unless such revision is necessary for reasons beyond the reasonable control of the Borrower), and (iii) does not increase the estimated unpaid costs of the Project beyond the sum of (a) the amount then in the Construction Fund (or held by the Borrower for Project purposes), (b) any investment income reasonably anticipated to be derived from the investment of moneys originally deposited in the Construction Fund, and (c) any other amount reasonably anticipated to be available therefor.

Additional Payments.

In addition to the Loan Payments required to be made by the Borrower, the Borrower will also pay to the Trustee or to the Authority, as the case may be, Additional Payments as follows: (a) all taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated in the Loan Agreement (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding any taxes based upon the capital and/or income of the Trustee or any other person other than the Borrower; provided, however, that the Borrower will

have the right to protest any such taxes or assessments and to require the Authority or the Trustee, as the case may be, at the Borrower's expense, to protest and contest any such taxes or assessments assessed or levied upon them and that the Borrower will have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would materially adversely affect the rights or interests of the Authority or the Trustee; (b) the reasonable annual (or other regular) fees and expenses of the Trustee and its agents pursuant to the Indenture, and all reasonable fees, charges and expenses of the Trustee for any extraordinary services rendered by the Trustee under the Indenture, including without limitation any amounts payable to the Trustee by the Authority from Additional Payments pursuant to the Indenture, as and when the same become due and payable; (c) the reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements or opinions or provide such other services as are reasonably required under the Loan Agreement, the Auction Agent Agreement, any Broker Dealer Agreement, the Indenture or the Tax Certificate; (d) the annual fee of the Authority and the fees and reasonable expenses of the Authority in connection with the loan to the Borrower under the Loan Agreement, the Bonds, the Indenture or any other documents contemplated by those documents, including without limitation reasonable expenses incurred by counsel to the Authority in connection with any litigation which may at any time be instituted involving such loan or the Bonds, the Indenture or any other related documents and reasonable expenses incurred by the Authority in supervision and inspection of the Borrower and its operations with respect to the use and application of such loan; and (e) such amounts as may be necessary to satisfy the rebate requirements in accordance with the Tax Certificate and to pay the cost of calculation of such rebate requirements.

Obligations of the Borrower Unconditional.

The Borrower pledges its full faith and credit to the payments it is required to make under the Loan Agreement. The obligations of the Borrower to make the Loan Payments and Additional Payments and to perform and observe the other agreements on its part contained in the Loan Agreement will be absolute and unconditional general obligations of the Borrower. Until such time as the principal of and premium, if any, and interest on all Bonds will have been fully paid (or provision for the payment thereof will have been made as provided in the Indenture), the Borrower (i) will not suspend or discontinue any Loan Payments or Additional Payments, (ii) will perform and observe all of its other agreements contained in the Loan Agreement and (iii) will not terminate the Loan Agreement for any cause, including, without limiting the generality of the foregoing, any change in the laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement. The Loan Agreement will be deemed and construed to be a "net contract," and the Borrower will pay absolutely net the Loan Payments, Additional Payments and all other payments required thereunder, free of any deductions, without abatement, diminution or set-off other than those expressly provided therein.

Prepayments.

The Borrower may at any time prepay all or any part of the Loan Payments payable under the Loan Agreement by providing written notice at least ten (10) days prior to the last day by which the Trustee is permitted to give notice pursuant to the Indenture to the Trustee, the Bond Insurer, if any, the Remarketing Agent (if any), the Auction Agent (if any) and the Authority specifying the date of such prepayment, for the purposes and at the prices set forth in the Indenture, and the Authority agrees that the Trustee will accept such prepayments when the same are tendered by the Borrower. All such prepayments will be deposited in the Revenue Fund and credited against the Loan Payments in the order of their due date or, at the election of the Borrower exercised in a Request of the Borrower, used for the redemption of Outstanding Bonds of such maturities, in the amounts and on the redemption dates

specified in such Request; provided that the redemption date will be such as to comply with the optional redemption provisions of the Indenture and the notice provisions of the Indenture. Notwithstanding any such prepayment, the Borrower will not be relieved of its obligations under the Loan Agreement until all of the Bonds have been fully paid and retired (or provision for payment thereof will have been made as provided in the Indenture). Prepayments to be used to redeem Bonds pursuant to the Indenture will be deposited into the Special Redemption Account. Prepayments to be used to redeem Bonds pursuant to the Indenture will be deposited into the Optional Redemption Account.

The Borrower may also prepay all of its indebtedness under the Loan Agreement by providing for the payment of the Bonds in accordance with the Indenture, and, upon such prepayment, the Authority will provide for the defeasance of the Bonds in accordance with the Indenture.

If the Borrower is not in default in the payment of any Loan Payments or Additional Payments, the Authority, at the request of the Borrower, at any time when the aggregate moneys in the Revenue Fund established pursuant to the Indenture, including any prepayment deposited therein under the foregoing paragraph, are sufficient to effect redemption of all or part of the then Outstanding Bonds, and if such Bonds are then redeemable under the provisions of the Indenture, will forthwith take all steps that may be necessary to effect such redemption in accordance with the Request of the Borrower. The Authority agrees that it will redeem the Bonds pursuant to the Indenture only pursuant to a Request of the Borrower.

Maintenance of Corporate Existence; Consolidation, Merger, Sale or Transfer Under Certain Conditions.

(A) The Borrower covenants and agrees that, so long as any of the Bonds are Outstanding, it will maintain its existence as a nonprofit public benefit corporation qualified to do business in the State and an organization described in Section 501(c)(3) of the Code and will not dissolve, sell or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it or acquire all or substantially all of the assets of any person or entity. Notwithstanding the foregoing, the Borrower may, without violating the covenants contained in the Loan Agreement, consolidate with or merge into another corporation, or acquire or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entirety and thereafter dissolve, if:

- (1) The surviving, resulting or transferee corporation, as the case may be:
 - (a) assumes in writing, if such corporation is not the Borrower, all of the obligations of the Borrower under the Loan Agreement;
 - (b) is not, after such transaction, otherwise in default under any provisions of the Loan Agreement; and
 - (c) is an organization described in Section 501(c)(3) of the Code, or a corresponding provision of the federal income tax laws then in effect.

(2) The Authority and the Trustee will have received a Certificate of the Borrower to the effect that the covenants under the Loan Agreement will be met after such consolidation, merger, sale or transfer; and

(3) The Trustee and the Authority will have received an Opinion of Bond Counsel to the effect that under existing law, such merger, consolidation, sale, acquisition or other transfer will not

cause interest on the Bonds to be included in gross income for federal income tax purposes under Section 103 of the Code.

(B) If a merger, consolidation, sale or other transfer is effected, as provided in the Loan Agreement, the provisions of the Loan Agreement will continue in full force and effect, and no further merger, consolidation, sale or transfer will be effected except in accordance with the provisions of the Loan Agreement.

(C) The Borrower covenants and agrees to notify the Authority in writing within ten (10) Business Days following any merger, acquisition or affiliation involving the Borrower and an entity which has, or an entity affiliated with an entity which has, entered into a loan, lease or similar agreement with the Authority.

Insurance; Condemnation Proceeds.

So long as any Bonds remain Outstanding, the Borrower will maintain or cause to be maintained with respect to the Facilities, with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried in connection with similar facilities located in the State of a nature similar to that of the Borrower, which insurance will include property damage, fire and extended coverage, public liability and property damage liability insurance in amounts estimated to indemnify the reasonably estimated damage, loss or liability. The Borrower will at all times also maintain worker's compensation coverage as required by the laws of the State.

If the Authority or the Trustee will so request in a Request of the Authority or the Trustee, the Borrower will provide to the Authority summaries or other evidence of its insurance coverage. All policies will name the Trustee and Authority as insured parties, beneficiary or loan payee as its interest may appear.

If prior to payment in full of the Bonds (or provision being made for payment in full in accordance with the provisions of the Indenture) any part of the Facilities is destroyed or damaged or taken under the exercise of the power of eminent domain and the operation of the remaining Facilities not so destroyed or damaged or taken might not, in the reasonable judgment of the Borrower, generate sufficient revenues to provide for the payment, as they become due of all Loan Payments and Additional Payments thereafter required with respect to the Bonds, the Borrower will either (i) apply the insurance or condemnation proceeds, together with applicable self-insurance reserves, to repair or replace the Facilities so destroyed or damaged or taken in such a manner that the operation of the resulting Facilities will, in the reasonable judgment of the Borrower, result in sufficient revenues being generated to provide for all payments required under the Loan Agreement, or (ii) to the maximum extent possible use the net insurance or condemnation proceeds, together with applicable self-insurance reserves, to prepay Loan Payments and redeem the Bonds in accordance with the provisions of the Loan Agreement and the Indenture.

Financial Statements of the Borrower and Reporting of Other Information.

The Borrower will furnish the following to the Authority and, upon request, the Trustee, so long as any Bonds remain Outstanding:

(A) its audited financial statements certified by an independent public accountant selected by the Borrower as of the end of each of its fiscal years as soon as accepted by its Board of Trustees but in any event within one hundred twenty (120) days after the end thereof, and to the Trustee each year such additional copies of its audited annual financial statements as the Trustee will reasonably request;

(B) a copy of any notice from a Rating Agency to the effect that any of the Borrower's unsecured debt is being rated or re-rated; and

(C) promptly upon the request of the Authority, or the Trustee, such other information regarding the financial position, results of operations, business or prospects of the Borrower as such party may reasonably request from time to time.

Inspection.

The Borrower will, at any reasonable time and from time to time, upon five (5) days prior written notice, permit the Authority and the Trustee, and their respective representatives and agents to (i) inspect the premises and the books and records of the Borrower for the purpose of verifying compliance by the Borrower with the covenants contained in the Loan Agreement and all of the terms of the Act, (ii) examine and make copies of and abstracts from the records and books of account of the Borrower, (iii) discuss the affairs, finances and accounts of the Borrower with any of its officers or directors and (iv) communicate with the Borrower's independent certified public accountants.

Tax Covenants.

(A) The Borrower covenants that it will not take any action, or fail to take any action, if such action or failure to take such action would result in the interest on the Bonds not being excluded from gross income for federal income tax purposes under Section 103 of the Code. Without limiting the generality of the foregoing, the Borrower covenants that it will comply with the requirements of the Tax Certificate, which is incorporated in the Loan Agreement as if fully set forth therein. This covenant will survive the payment in full or the defeasance of the Bonds.

(B) In the event that at any time the Borrower is of the opinion that for purposes of the Loan Agreement it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Borrower will so instruct the Authority and the Trustee in a Request of the Borrower accompanied by an Opinion of Bond Counsel.

(C) Notwithstanding any provisions of the Loan Agreement, if the Borrower provides to the Trustee and the Authority an Opinion of Bond Counsel to the effect that any specified action required under the Loan Agreement is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the Loan Agreement and the Tax Certificate, and the covenants under the Loan Agreement will be deemed to be modified to that extent.

Liquidity Facility; Alternate Liquidity Facility.

(A) The Borrower will furnish a Liquidity Facility for any Variable Rate Bonds (or, if a Liquidity Facility is then in existence, an Alternate Liquidity Facility in substitution for the Liquidity Facility then in effect) to the Tender Agent to provide for the purchase of such Bonds upon their optional or mandatory tender in accordance with the Interest Rate Determination Method Provisions. Any Liquidity Facility (or Alternate Liquidity Facility) must be approved by the Bond Insurer, if any, and must cover: accrued interest (computed at the Maximum Rate then in effect on the basis of a 365/366-day year and actual days elapsed) for the maximum number of days between Interest Payment Dates permitted under that Interest Rate Determination Method plus such additional number of days as will be required in order to obtain or maintain a rating on the Bonds being Converted, provided that if the number of days of interest coverage provided by the Liquidity Facility is being changed from the number of days previously in place, the Trustee will have also received a Rating Confirmation. The Borrower will give at

least thirty (30) days' advance written notice to the Authority, the Bond Trustee, the applicable Bond Insurer, if any, and the Tender Agent of (i) its intent to furnish a Liquidity Facility or Alternate Liquidity Facility for the Bonds to the Tender Agent, which notice will specify the nature of such Liquidity Facility, the identity of the Liquidity Facility Provider and the proposed effective date of the Liquidity Facility and (ii) its intent to terminate a Liquidity Facility then in effect, which notice will specify the proposed termination date for such Liquidity Facility. The provision of any Liquidity Facility is subject to the conditions that (i) the bank or banks or financial institution(s) issuing such Liquidity Facility and the form and content of such Liquidity Facility are reasonably acceptable to the Bond Insurer, if any, for the related Bonds and the term of such Liquidity Facility meets the requirements set forth in this paragraph; (ii) an opinion of counsel to the Liquidity Provider reasonably acceptable to the Bond Trustee and the related Bond Insurer, if any, in form and substance acceptable to the related Bond Insurer is delivered to the Authority, the Bond Trustee and such Bond Insurer, if any, and, in addition, to the effect that the exemption of the Bonds (or any securities evidenced thereby) from the registration requirements of the Securities Act of 1933, as amended, and the exemption of the Indenture from qualification under the Trust Indenture Act of 1939, as amended, will not be impaired by the delivery of such Liquidity Facility or that the applicable registration or qualification requirements of such acts have been satisfied; and (iii) a Favorable Opinion of Bond Counsel is delivered to the Authority, the Bond Trustee and the Bond Insurer, if any.

(B) If a Liquidity Facility has been delivered to the Tender Agent in accordance with the Loan Agreement, the Borrower (i) will maintain the Liquidity Facility or an Alternate Liquidity Facility, in an amount equal to the amount set forth in the Loan Agreement for such Bonds prior to its termination, and (ii) will not voluntarily terminate the Liquidity Facility or any Alternate Liquidity Facility without the written consent of the related Bond Insurer, if any, at least thirty (30) days written notice to the Bond Trustee and the Tender Agent.

(C) So long as the related Bond Insurer, if any, is not in default under its Bond Insurance Policy, such Bond Insurer may require the Borrower to provide an Alternate Liquidity Facility (upon at least thirty (30) days' notice to the Borrower, the Authority and the Bond Trustee) subject to the approval of the related Bond Insurer if the Liquidity Provider receives a long-term rating downgrading below the top two highest short-term Rating Categories by S&P or Moody's.

Payment of Purchase Price of Bonds.

(A) In accordance with the Interest Rate Determination Method Provisions, the Borrower will provide or cause to be provided a Liquidity Facility in order to effect a conversion from any ARS Interest Period to any other Interest Rate Period (except a Fixed Rate Period effective to the Maturity Date).

(B) The Borrower agrees that, if a Liquidity Facility is not in effect with respect to the Bonds or if the Liquidity Facility Provider has not paid the full amount required by the Indenture at the times required under the Indenture, it will pay to the Tender Agent all amounts necessary for the purchase of such Bonds pursuant to the Interest Rate Determination Method Provisions and not deposited with the Tender Agent by the Remarketing Agent from the proceeds of the sale of such Bonds pursuant to the Interest Rate Determination Method Provisions. Each such payment by the Borrower to the Tender Agent pursuant to the Loan Agreement will be in immediately available funds and paid to the Tender Agent at its Principal Office by 2:00 p.m., New York City time, on each date upon which a payment is to be made pursuant to the Indenture.

(C) If the Fixed Rate Conversion Date for the Bonds is established pursuant to the Indenture, the obligations of the Borrower pursuant to the Loan Agreement with respect to the Bonds will be terminated following the Fixed Rate Conversion Date.

Continuing Disclosure.

The Borrower covenants and agrees that it will comply with and carry out all of the continuing disclosure requirements of Securities and Exchange Commission Rule 15c2-12, as applicable. Notwithstanding any other provision of the Loan Agreement, failure of the Borrower to comply with the such requirements will not be considered an event of default thereunder and the Trustee will have no right to accelerate all installments of the Loan Payments pursuant to the Loan Agreement as a result thereof, however, the Trustee at the written request of the Holders of at least a majority of the aggregate principal amount in Outstanding Bonds, will, (but only to the extent the Trustee has been tendered funds in an amount satisfactory to it or it has been otherwise indemnified from and against any loss, liability, cost or expense, including without limitation, fees and expense of its counsel and agents and additional fees and charges of the Trustee) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Borrower to comply with its obligations under the Loan Agreement. For purposes of the Loan Agreement, “Beneficial Owner” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

Events of Default.

The following will be “events of default” under the Loan Agreement, and the terms “events of default” or “default” will mean, whenever they are used in the Loan Agreement, any one or more of the following events:

(A) The Borrower fails to make any payment described under in paragraphs (A) and (B) under the heading “Loan of Proceeds, Payment of Bonds and Project Modification” by its due date or the Borrower fails to make any other Loan Payment or Additional Payment by its due date, and failure continues for two (2) Business Days after such due date; or

(B) The Borrower fails to observe and perform any material covenant, condition or agreement on its part to be observed or performed under the Loan Agreement other than as referred to in paragraph (A) above for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the Borrower by the Authority, the Trustee or the Bond Insurer, if any, provided, however, if the failure stated in the notice is correctable but cannot be corrected within the applicable period, the Trustee will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the default is corrected; or

(C) Any of the representations or warranties of the Borrower made in the Loan Agreement or in any other document, certificate or writing furnished by the Borrower to the Authority in connection with the application for or the negotiation of the Loan Agreement or the issuance of the Bonds was false or incorrect in any material respect when made; or

(D) There is an unexcused default by the Borrower under any agreement or instrument to which it is a party relating to the borrowing of money either (i) in failing to pay any installment of principal or interest in an aggregate amount of \$250,000 or more, which default will not have been waived or excused within 90 days after the Borrower received notice of such default or (ii) as a result of which indebtedness in an amount of \$1,000,000 or more will have been accelerated and declared to be due and payable prior to its date of maturity; or

(E) The Borrower applies for or consents to the appointment of any receiver, trustee, or similar officer for it or for all or any substantial part of its property or admits in writing its inability to pay its debts as they mature; or such a receiver, trustee or similar officer is appointed without the application or consent of the Borrower and such appointment continues undischarged for a period of sixty (60) days; or the Borrower institutes (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding is instituted (by petition, application or otherwise) against the Borrower and remains undischarged for a period of sixty (60) days; or the Borrower makes a general assignment for the benefit of creditors; or

(F) Any default under the Insurance Agreement.

Remedies on Default.

In the event any of the Bonds shall at the time be Outstanding and unpaid (and provision for the payment thereof shall not have been made as provided in the Indenture) and any event of default referred to under the heading “Events of Default” above shall have happened and be continuing the Authority or the Trustee may, with the consent of the Bond Insurer, if any, and shall, at the direction of the Bond Insurer, if any, take any one or more of the following remedial steps:

(A) The Authority or the Trustee may, at its option, declare all installments of Loan Payments to be immediately due and payable, whereupon the same shall become immediately due and payable.

(B) The Authority or the Trustee may take whatever action at law or in equity that may appear necessary or desirable to collect the payments then due and thereafter to become due under the Loan Agreement, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, condition or covenant of the Borrower under the Loan Agreement.

THE INDENTURE

General.

The Indenture sets forth the terms of each of the Bonds, the nature and extent of the security, various rights of the Bondholders, rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Certain provisions of the Indenture are summarized below. Other provisions are summarized in the Official Statement under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.” This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

THE BONDS

Terms of the Bonds; Registration; Denominations; Payment of Principal and Interest

(A) The Bonds will be issued as fully registered Bonds without coupons in Authorized Denominations. The Bonds initially will be registered in the name of “Cede & Co.,” as nominee of the Securities Depository, and initially will be evidenced by one Bond certificate in the total aggregate principal amount of the Bonds. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Indenture.

The Bonds will be dated the Date of Issuance. The Bonds will be numbered in consecutive numerical order from 1 upwards.

(B) (1) The Bonds will bear interest, payable in lawful money of the United States of America, at the rates determined pursuant to the Indenture from the date thereof.

(C)

(1) The Bonds will mature on the Maturity Date.

(2) The Sinking Fund Installments established for the Bonds pursuant to the Indenture will be redesignated as maturity dates and Sinking Fund Installments on the Fixed Rate Conversion Date for the Bonds as follows:

(i) If the Fixed Rate Conversion Date is on or before July 1, 2008, principal of the Bonds will mature (i) in ten serial maturities in amounts equal to the Sinking Fund Installments established for such dates pursuant to the Indenture commencing on the July 1 immediately succeeding the Fixed Rate Conversion Date, and on July 1 of each of the succeeding years, and (ii) in a term maturity on the Maturity Date for the Bonds.

(ii) If the Fixed Rate Conversion Date is after July 1, 2008, principal of the Bonds will mature in serial maturities in principal amounts equal to the Sinking Fund Installments established for such dates pursuant to the Indenture commencing on the July 1 immediately succeeding the Fixed Rate Conversion Date and on July 1 of each of the succeeding years.

(iii) Sinking Fund Installments for each term maturity established pursuant to paragraph (i) above shall be in principal amounts equal to the Sinking Fund Installments established for such dates pursuant to the Indenture for the Bonds and be payable on July 1 of each year commencing on July 1 of the year immediately following the next preceding maturity date of Bonds and ending on the Maturity Date for the Bonds.

(iv) Notwithstanding anything above to the contrary, if, due to the serialization of the Bonds pursuant to the Indenture, a Favorable Opinion of Bond Counsel cannot be delivered, then no such serialization shall occur.

(v) In accordance with the Indenture, the Trustee shall select the Bonds of each maturity date by lot.

(3) The principal or Redemption Price of the Bonds will be payable in lawful money of the United States of America at the Principal Office of the Trustee upon surrender of the Bonds to the Trustee for cancellation; provided that the Trustee may agree with the Holder of any Bond that such Holder may, in lieu of surrendering the same for a new Bond, endorse on such Bond a record of partial payment of the principal of such Bond in the form set forth in the Indenture:

The Trustee will maintain a record of each such partial payment made in accordance with the foregoing agreement and such record of the Trustee will be conclusive. Such partial payment will be valid upon payment of the amount thereof to the Holder of such Bond, and the Authority and the Trustee will be fully released and discharged from all liability to the extent of such payment regardless of whether such endorsement will or will not have been made upon such Bond by the Holder thereof and regardless of any error or omission in such endorsement.

(D) The Bonds will be subject to redemption as provided in the Indenture.

(E) The Trustee will identify all payments (whether made by check or by wire transfer) of interest, principal and premium by CUSIP number of the Bonds.

Transfer of Bonds.

Subject to the provisions of the Indenture, any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the Indenture, by the Person in whose name it is registered, in person or by such Person's duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee.

Whenever any Bond or Bonds will be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds, of the same maturity and for a like aggregate principal amount. The Trustee will require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer, and the Trustee may also require the Bondholder requesting such transfer to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such transfer. The Trustee will not be required to transfer (i) any Bond during the fifteen (15) days preceding the date of redemption set forth in a notice of redemption, or (ii) any Bond called for redemption.

Exchange of Bonds.

The Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds of other Authorized Denominations of the same maturity. The Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange and the Trustee may also require the Bondholder requesting such exchange to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such exchange. The Trustee shall not be required to exchange (i) any Bond during the fifteen (15) days immediately preceding the date on which notice of redemption of Bonds is given or (ii) any Bond called for redemption.

APPLICATION OF PROCEEDS

Establishment and Application of Costs of Issuance Fund.

The Trustee will establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." Moneys deposited in said fund shall be used to pay Costs of Issuance with respect to the Bonds upon Requisition of the Borrower filed with the Trustee, which will be in substantially the form set forth in the Indenture. At the end of six months from the date of initial execution and delivery of the Bonds, or upon earlier receipt of a Statement of the Borrower that amounts in said fund are no longer required for the payment of such Costs of Issuance, said fund shall be terminated, and any amounts then remaining in said fund will be transferred to the Construction Fund. Upon such transfer, the Costs of Issuance Fund will be closed.

Establishment and Application of Construction Fund.

(A) The Trustee will establish, maintain and hold in trust a separate fund designated as the "Construction Fund."

(B) The moneys in the Construction Fund will be used and withdrawn by the Trustee, as directed by Requisition of the Borrower, substantially in the form set forth in the Indenture, submitted by the Authorized Representative of the Borrower, to pay the costs of the Project.

(C) Before any payment from the Construction Fund will be made, the Authorized Representative of the Borrower will file or cause to be filed with the Trustee a Requisition of the Borrower stating: (a) the item number of such payment; (b) the name of the Person to whom each such payment is due, which may be the Borrower in the case of reimbursement for costs of the Project theretofore paid by the Borrower; (c) the respective amounts to be paid; (d) the purpose by general classification for which each obligation to be paid was incurred; (e) that obligations in the stated amounts have been incurred by the Borrower and are presently due and payable and that each item thereof is a proper charge against the Construction Fund and has not been previously paid therefrom; (f) that there has not been filed with or served upon the Borrower notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the Persons named in such Requisition of the Borrower, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law; and (g) that the balance remaining in the Construction Fund after payment of such amounts, together with any investment income reasonably anticipated to be deposited in the Construction Fund pursuant to the Indenture and any other funds reasonably anticipated to be available therefor, will be sufficient to pay the costs of completing the Project.

(D) Upon receipt of each such Requisition of the Borrower, the Trustee, within three (3) Business Days, so long as there exists available moneys, will pay the amount set forth in such Requisition of the Borrower as directed by the terms thereof out of the Construction Fund. The Trustee need not make any such payment if it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment. The Trustee may rely on each Requisition in making disbursements and shall not be required to verify the truth or accuracy of any Requisition.

(E) Upon the completion of acquisition, construction, improvement and equipping of the Project, but in any event not later than 30 days following such completion, the Trustee will be furnished with a certificate of the Borrower, stating to the effect the date of such completion (the "Completion Date") and that (i) the Project has been completed, (ii) payment, or provision therefor, of the cost of the Project has been made except for any costs not then due and payable or the liability for payment of which is being contested or disputed by the Borrower, (iii) no Event of Default exists under the Loan Agreement, and (iv) the acquisition, construction, improvement and equipping of the Project have been completed as of the Completion Date. Thereupon, any balance in the Construction Fund not reserved for the payment of the cost of the Project shall be deposited into the Capitalized Interest Account and applied pursuant to the Indenture. Upon such transfer, the Construction Fund shall be closed.

Establishment and Application of Capitalized Interest Account.

The Trustee shall establish, maintain and hold in trust a separate account within the Revenue Fund, designated as the "Capitalized Interest Account" (the "Capitalized Interest Account"). All the moneys in the Capitalized Interest Account shall be applied by the Trustee to the payment of the interest on the New Money Bonds as it comes due until such account is depleted.

REVENUES

Pledge and Assignment; Revenue Fund.

(A) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, there are pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (other than the Bond Purchase Fund and the Rebate Fund). Said pledge will constitute a lien on and security interest in such assets and will attach, be perfected and be valid and binding from and after delivery by the Trustee of the Bonds, without any physical delivery thereof or further act.

(B) The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds and the Bond Insurer, if any, all of the Revenues and other assets pledged in the Indenture and all of the right, title and interest of the Authority in the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses to the extent payable to the Authority, (ii) any rights of the Authority to reimbursement or indemnification, (iii) the obligation of the Borrower to make deposits pursuant to the Tax Certificate and (iv) as otherwise expressly set forth in the Loan Agreement). The Trustee will be entitled to and will collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee. The Trustee also will be entitled to and will take all steps, actions and proceedings to enforce all of the rights of the Authority (other than those specifically retained by the Authority) under the Indenture or Loan Agreement, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and all of the obligations of the Borrower under the Loan Agreement.

(C) All Revenues will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee is directed to establish, maintain and hold in trust, except as otherwise provided in the Indenture and except that all moneys received by the Trustee and required by the Loan Agreement to be deposited in any account of the Redemption Fund, shall be promptly deposited in such account of the Redemption Fund. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Allocation of Revenues.

On or before the dates specified below, the Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee is directed to establish and maintain within the Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

FIRST: on or before each Interest Payment Date, to the Interest Account, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said amount of interest; and

SECOND: to the Principal Account, on or before each July 1, commencing July 1, 2008, the amount of the Sinking Fund Installment becoming due and payable on such July 1, until the balance in said account is equal to said amount of such Sinking Fund Installment;

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be retained in the Revenue Fund and will be allocated and applied as provided in the Loan Agreement and the Indenture.

Application of Interest Account.

All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

Application of Principal Account.

(A) All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to purchase or redeem or pay Sinking Fund Installments or pay principal of the Bonds at maturity as provided within the Indenture.

(B) On each Sinking Fund Installment date established pursuant to the Indenture, the Trustee shall apply the Sinking Fund Installment required on that date to the redemption (or payment at maturity, as the case may be) of Bonds, upon the notice and in the manner provided in the Indenture; provided that, at any time prior to giving such notice of such redemption, the Trustee may apply moneys in the Principal Account to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed in writing by the Borrower, except that the purchase price (excluding accrued interest) shall not exceed the par amount of the Bonds so purchased. If, during the twelve-month period immediately preceding a Sinking Fund Installment payment date, the Trustee has purchased Bonds with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the Borrower has deposited Bonds with the Trustee (together with a Request of the Borrower, to apply such Bonds to the Sinking Fund Installment due on said date), or Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Sinking Fund Installment, such Bonds shall be applied, to the extent of the full principal amount thereof, to reduce said Sinking Fund Installment. All Bonds purchased or deposited pursuant to this subsection, if any, shall be cancelled by the Trustee. The Bonds purchased from the Principal Account, purchased or redeemed from the Redemption Fund, or deposited by the Borrower with the Trustee shall be allocated first to the next succeeding Sinking Fund Installment, then as a credit against such future Sinking Fund Installments as the Borrower may specify in writing.

Application of Redemption Fund.

The Trustee shall establish, maintain and hold in trust a fund separate from any other fund established and maintained under the Indenture designated as the "Redemption Fund" and within the Redemption Fund a separate Optional Redemption Account and Special Redemption Account. All amounts deposited in the Optional Redemption Account and Special Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and in the Special Redemption Account; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon direction of an Authorized Representative of the Borrower, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as an Authorized Representative of the Borrower may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds; and provided further that, in the case of the Optional Redemption Account, in lieu of redemption at such

next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Payments in order of their due date as set forth in a Request of an Authorized Representative of the Borrower.

General Fund.

The Trustee shall establish, maintain and hold in trust a fund separate from any other fund established and maintained under the Indenture designated the “General Fund.” The Trustee shall deposit into the General Fund the amounts received from the Borrower as Additional Payments and amounts due to the Bond Insurer under the Insurance Agreement, if any. The Trustee also shall deposit into the General Fund payments received from the Borrower as payment for the costs of calculation of the Rebate Requirement (as defined below). The Trustee shall apply such money solely for the following purposes, in the following order of priority:

- (A) to the Trustee for the payment of Trustee Fees;
- (B) to the Bond Insurer for payment of any amounts due under the Insurance Agreement, if any;
- (C) to the Trustee and then to the Authority for costs required to be paid or reimbursed under the Loan Agreement or the Indenture other than Trustee Fees; and
- (D) to the Authority for the cost of calculating the Rebate Requirement.

Rebate Fund.

(A) *Establishment.* The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. All amounts at any time on deposit in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the requirements to make rebate payments to the United States (the “Rebate Requirement”) pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder (the “Rebate Regulations”). Such amounts shall be free and clear of any lien under the Indenture and shall be governed by the Indenture and by the Tax Certificate.

(B) *Deposit.* Within 90 days of the end of each Bond Year (except as provided in the Indenture, in which case the time shall be 60 days), (a) the Borrower, pursuant to the Tax Certificate, shall calculate or cause to be calculated with respect to the Bonds the amount that would be considered “rebateable arbitrage” within the meaning of Section 1.148-2(a) of the Rebate Regulations, using as the “computation date” for this purpose the end of such Bond Year and shall provide the Authority with a copy of such calculations, and (b) upon the Borrower’s written direction, the Trustee shall deposit to the Rebate Fund from deposits from the Borrower, if and to the extent required, amounts sufficient to cause the balance in the Rebate Fund to be equal to the amount of “rebateable arbitrage” so calculated.

(C) The Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with the preceding sentence if the amount on deposit in the Rebate Fund prior to the deposit required to be made under the Indenture exceeds the amount of “rebateable arbitrage” calculated in accordance with the preceding sentence. Such excess may be withdrawn from the Rebate Fund to the extent permitted under the Indenture. The Borrower shall not be required to calculate the amount of “rebateable arbitrage” within the meaning of Section 1.148-2(a) of the Rebate Regulations, and the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with the Indenture, with respect to all or a portion of the proceeds of the Bonds (including amounts treated as proceeds of the Bonds) (a) to the

extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code, whichever is applicable, and otherwise qualify for the exception to the Rebate Requirement pursuant to whichever of said sections is applicable, or (b) to the extent such proceeds are subject to an election by the Borrower under Section 148(f)(4)(C)(vii) of the Code to pay a 1 1/2% penalty in lieu of arbitrage rebate in the event any of the percentage expenditure requirements of Section 148(f)(4)(C) are not satisfied, or (c) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a “bona fide debt service fund.” In such event, and with respect to such amounts, the Borrower shall provide written direction to the Trustee that the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with the Indenture.

(D) *Withdrawal Following Payment of Bonds.* Any funds remaining in the Rebate Fund after redemption and final payment of all the Bonds and any amounts described in the Indenture, or provisions made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees to the Trustee and the Authority, shall be withdrawn by the Trustee and remitted to the Borrower.

(E) *Withdrawal for Payment of Rebate.* Upon the Corporation’s written direction, but subject to the exceptions contained in the Indenture to the requirement to calculate “rebatable arbitrage” and make deposits to the Rebate Fund, the Trustee shall pay to the United States, from amounts on deposit in the Rebate Fund, not later than 60 days after the end of (a) the fifth Bond Year, and (b) each fifth Bond Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the sum of (x) the “rebatable arbitrage” calculated as of the end of such Bond Year in accordance with Section 1.148-2 of the Rebate Regulations, and (y) all previous rebate payments; and not later than 60 days after the payment of all Bonds, an amount equal to 100% of the “rebatable arbitrage” calculated as of the date of such payment (and any income attributable to the rebatable arbitrage determined to be due and payable) in accordance with Section 1.148-2 of the Rebate Regulations.

(F) *Rebate Payments.* Each payment required to be made under the Indenture shall be made to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255 (or to such other place as is then required) on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038 T (or to such other place as is then required), which shall be completed by the Borrower for execution by the Authority and provided to the Trustee.

(G) *Deficiencies in the Rebate Fund.* In the event that, prior to the time any payment is required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Borrower shall calculate the amount of such deficiency and direct the Trustee to deposit an amount received from the Borrower equal to such deficiency into the Rebate Fund prior to the time such payment is due.

(H) *Withdrawals of Excess Amounts.* In the event that immediately following the calculation required by the Indenture, but prior to any deposit made thereunder, the amount on deposit in the Rebate Fund exceeds the amount of “rebatable arbitrage” calculated in accordance with the Indenture, upon written instructions from the Borrower, the Trustee shall withdraw the excess from the Rebate Fund and credit such excess to the Interest Fund.

(I) *Record Keeping.* The Borrower shall retain records of all determinations made under the Indenture until six years after the retirement of the last obligation of the Bonds.

(J) *Survival of Defeasance.* Notwithstanding anything in the Indenture to the contrary, the Rebate Requirements shall survive the defeasance of the Bonds.

COVENANTS

Continuing Disclosure.

Pursuant to the Loan Agreement, the Borrower has undertaken all responsibility for compliance with continuing disclosure requirements, and the Authority will have no liability to the Holders of the Bonds or any other Person with respect to S.E.C. Rule 15c2-12. Notwithstanding any other provision of the Indenture, failure of the Borrower or the Dissemination Agent to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Rule) or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, and upon receipt of indemnification satisfactory to it shall) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations under the Loan Agreement or to cause the Trustee to comply with its obligations under the Loan Agreement.

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

Events of Default.

The following events shall be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise or default in the redemption of any Bonds from Sinking Fund Installments in the amount and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) failure to pay the Purchase Price of any Bond tendered when such payment is due;

(D) default in any material respect by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Borrower by the Trustee, or to the Authority, the Borrower and the Trustee or by the Bond Insurer, if any, or the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding, unless (i) the Trustee and the Bond Insurer, if any, shall agree in writing to an extension of such time prior to its expiration or (ii) if the breach or failure be such that it cannot be corrected within the applicable period, corrective action is instituted by the Authority within the applicable period and is being diligently pursued; or

(E) a Loan Default Event.

Upon actual knowledge of the existence of any Event of Default, the Trustee shall notify the Borrower, the Authority and the Bond Insurer, if any, in writing as soon as practicable; provided, however, that the Trustee need not provide notice of any Loan Default Event if the Borrower has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Trustee, the Authority and the Bond Insurer, if any. Additionally, the Trustee shall immediately notify the Bond Insurer, if any, if at any time there are insufficient moneys to make any payments of principal of and/or

interest on the Bonds and immediately upon the occurrence of any Event of Default under the Indenture and shall provide such additional information as the Bond Insurer, if any, shall reasonably request.

Acceleration of Maturities.

Whenever any Event of Default referred to in the Indenture shall have happened and be continuing, the Trustee may (with the consent of the Bond Insurer, if any), and at the direction of the Bond Insurer, if any, shall, take the following remedial steps:

(A) In the case of an Event of Default described above in paragraphs (A), (B) or (C) under the heading “Events of Default”, the Trustee may notify the Authority of such Event of Default and declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture to the contrary notwithstanding;

(B) In the case of an Event of Default described above in paragraph (D) under the heading “Event of Default”, the Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under the Indenture; and

(C) In the case of an Event of Default described above in paragraph (E) under the heading “Event of Default”, the Trustee may take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

Notwithstanding any other provision of the Indenture or any right, power or remedy existing at law or in equity or by statute, the Trustee shall not under any circumstance in which an Event of Default has occurred declare the entire unpaid aggregate principal amount of the Bonds Outstanding to be immediately due and payable except if consented to by the Bond Insurer, if any.

Any such declaration is further subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the Borrower shall deposit with the Trustee a sum sufficient to pay all the principal (including any Sinking Fund Installments) or redemption price of and installments of interest on the Bonds, payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Trustee, and if any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Notice of such declaration having been given as aforesaid, anything to the contrary contained in the Indenture or in the Bonds to the contrary notwithstanding, interest shall cease to accrue on such Bonds from and after the date set forth in such notice (which shall be not more than seven days from the date of such declaration).

Nothing contained in the Indenture, however, shall require the Trustee to exercise any remedies in connection with an Event of Default unless the Trustee shall have actual knowledge or shall have received written notice of such Event of Default.

Notwithstanding the foregoing provisions, the Trustee shall not without the written consent of the Bond Insurer, if any, (i) declare the principal of the Bonds, or the interest accrued with respect thereto, to be due and payable immediately, or (ii) rescind and annul any declaration of acceleration or waive any default under the Indenture with respect to the Bonds.

Application of Revenues and other Funds After Default.

If an Event of Default the occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to the provisions of the Indenture and other than moneys required to be deposited in the Rebate Fund or the Bond Purchase Fund) will be applied by the Trustee as follows and in the following order:

(A) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture; and

(B) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture as follows:

(1) Unless the principal of all of the Bonds the have become or have been declared due and payable,

FIRST: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

SECOND: To the payment to the Persons entitled thereto of the unpaid principal (including Sinking Fund Installments) or Redemption Price of any Bonds which the have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available will not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds the have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available will not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference; and

(C) To the extent not included in paragraph (2) above, to the payment of all amounts then due under the Indenture and under the Insurance Agreement to the Bond Insurer, if any; and

(D) To the payment of any Rebate Requirement then due to the federal government of the United States of America.

Trustee to Represent Bondholders.

Under the Indenture the Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as Trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, the Loan Agreement, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding (and in either case subject to the rights of the Bond Insurer, if any, with respect to the enforcement of remedies related to the Bonds, as described in the Indenture) and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it will deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, the Loan Agreement, the Act or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other amounts and assets pledged under the Indenture, pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee will follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%). All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings.

Anything in the Indenture to the contrary notwithstanding, the Bond Insurer, if any, will, but in the event such Bond Insurer, if any, is in default under the Bond Insurance Policy, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding will, have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee thereunder, provided that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction. Upon the occurrence of an Event of Default, the Bond Insurer, if any, may direct the Trustee to effect an adjustment of the interest rate on the Bonds to a Weekly Rate, a Fixed Rate or Commercial Paper Rates, or to change the Auction Period for the ARS, all in accordance with the provisions of the Indenture.

Limitation on Bondholders' Right to Sue.

No Holder of any Bond will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Loan Agreement, the Act or any other applicable law with respect to such Bond, unless (1) such Holder will have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds then Outstanding will have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name, provided, however, that if more than one such request is received by the Trustee from the Holders, the Trustee will, upon consent of the Bond Insurer, if any, follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%); (3) the Bond Insurer, if any, will have consented to the action requested by such Holders; (4) such Holder or said Holders will have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (5) the Trustee will have refused or omitted to comply with such request for a period of sixty (60) days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee.

In the Indenture such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy thereunder or under law; it being understood and intended that no one or more Holders of Bonds will have any right in any manner whatever by such Holder's or Holders' action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Loan Agreement, the Act or other applicable law with respect to the Bonds, except in the manner therein provided, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted.

(A) The Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consent of the Borrower and the Bond Insurer, if any (or, in the event that the Bond Insurer, if any, is in default of its obligations under the Bond Insurance Policy, the Holders of not less than a majority in aggregate principal amount of Bonds Outstanding) will have been filed with the Trustee and after receipt of a Favorable Opinion of Bond Counsel; provided that if such modification or amendment will, by its terms, not take effect so long as any particular Bonds and maturity remain Outstanding, the consent of the Holder of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under this heading. No such modification or amendment will (1) extend the stated maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof or change the Purchase Price to be paid to Holders tendering their Bonds, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds, the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all

Bonds then Outstanding. It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to the Indenture, the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee and to the Auction Agent and the Broker-Dealer at the addresses set forth in the Indenture. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture. A copy of any Supplemental Indenture entered into between the Authority and the Trustee must be provided to the Bond Insurer, if any.

(B) The Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into with the consent of the Borrower and the Bond Insurer, if any, but without the necessity of obtaining the consent of any Bondholders, only (i) to the extent permitted by law and (ii) after receipt by the Trustee of an approving Favorable Opinion of Bond Counsel, for any purpose that will not materially adversely affect the interests of the Holders, including (without limitation) for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge, assignment or surrender will materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which will not materially adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially adversely affect the interests of the Holders of the Bonds;

(4) to evidence or give effect to, or to conform to the terms and provisions of, any Liquidity Facility;

(5) to evidence or give effect to, or to conform to the terms and provisions of, any insurance policy, letter of credit or other credit enhancement for the Bonds;

(6) to facilitate and implement any book entry system (or any termination of a book entry system) with respect to the Bonds;

(7) to maintain the exclusion from gross income of interest payable with respect to the Bonds;

(8) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds;

(9) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondholders; or

(10) to make any modification or amendment to the Indenture which will be effective upon the remarketing of Bonds following the mandatory tender of the Bonds.

(C) The Trustee may in its discretion, but will not be obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(D) Copies of any Supplemental Indenture consented to by the Bond Insurer, if any, must be sent to S&P.

DEFEASANCE

Discharge of Indenture.

The Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

(A) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount to pay when due or redeem all Bonds then Outstanding; or

(C) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority will also pay or cause to be paid all other sums payable thereunder by the Authority and the Borrower will have paid all Administrative Fees and Expenses payable to the Authority pursuant to the Loan Agreement, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds will not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture (except as otherwise provided) will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Trustee will cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and will execute and deliver to the Authority all such instruments as may be necessary to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the Borrower all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund will be subject to the provisions of the Indenture.

(D) Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, (a) notice of such redemption will have been given as in the Indenture provided or provision satisfactory to the Trustee will have been made for the giving of such notice, and (b) the Trustee, the Bond Insurer, if any, and the Authority will have received (i) a verification report prepared by independent certified public accountants, or other verification agent (which may be the

Remarketing Agent) satisfactory to the Trustee, to the effect that the payment of the principal of and redemption premium, if any, and interest on such Bonds then Outstanding and any and all other amounts required to be paid under the provisions of the Indenture has been provided for in the manner set forth in the Indenture, and (ii) a Favorable Opinion of Bond Counsel addressed and delivered to the Trustee, the Bond Insurer, if any, and the Authority to the effect that so providing for the payment of such Bonds will not adversely affect the exclusion of the interest on such Bonds from gross income for federal income tax purposes, then all liability of the Authority in respect of such Bonds will cease, terminate and be completely discharged, except only that thereafter the Holder thereof will be entitled to payment of the principal of and interest on such Bonds by the Authority, and the Authority will remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture. With respect to a full satisfaction and discharge of any Bonds, the Bond Insurer, if any, will receive an Opinion of Counsel to the effect that such Bonds have been defeased in accordance with the Indenture.

Notwithstanding anything in this Section to the contrary, if the interest on or principal of the Bonds will have been paid by the Bond Insurer, if any, pursuant to the Bond Insurance Policy, if any, the obligations of the Authority the Indenture and under the Bonds will not be deemed discharged or satisfied, the Bonds will remain Outstanding for all purposes of the Indenture, the assignment and pledge contained in the Indenture and all obligations of the Authority under the Indenture will continue to exist and run to the benefit of the Bond Insurer, if any, and the Bond Insurer will be subrogated to the rights of Holders of the Bonds including, without limitation, any rights that such Holders of Bonds may have in respect of securities law violations arising from the offer and sale of the Bonds.

Payment of Bonds After Discharge of Indenture.

Notwithstanding any provision of the Indenture to the contrary, any money held by the Trustee for the payment of principal or premium, if any, or interest on any Bonds and remaining unclaimed for such period of time as would render such funds subject to escheat under applicable escheat laws, will be escheated by the Trustee on behalf of the Borrower to the appropriate governmental authority under applicable escheat laws; provided, however, that prior to the escheat of such unclaimed funds the Trustee will (at the expense of the Borrower) provide such notice to Holders of Bonds which have not yet been paid at the addresses shown for such Holders on the registration books maintained by the Trustee as may be required under applicable escheat laws; and provided further, that if the Borrower will cause to be delivered to the Trustee an Opinion of Counsel to the effect that such unclaimed funds (or some portion of such unclaimed funds) are not subject to escheat under applicable escheat laws (and will not, under then existing escheat laws, become subject to escheat with the passage of time), then the Trustee will deliver such unclaimed funds to the Borrower free from the trusts created by the Indenture, and all liability of the Trustee with respect to such unclaimed funds will thereupon cease.

INTEREST RATE DETERMINATION PROVISIONS

ARS Provisions.

(A) Payments with Respect to ARS.

(i) Interest on ARS will accrue from and including, as applicable, the Date of Issuance, the Conversion Date or the most recent ARS Interest Payment Date to which interest has been paid or duly provided for.

(ii) The Trustee will determine the aggregate amount of interest payable in accordance with subsection (vi) below and as summarized in Appendix E to the Official

Statement with respect to ARS on each ARS Interest Payment Date. The Trustee shall promptly notify the Securities Depository of its calculations.

(iii) Interest on ARS will be computed on the basis of a 360-day year for the actual number of days elapsed if the ARS are in an Auction Period of 180 days or less. If the ARS are in an Auction Period which is greater than 180 days, interest will be computed on the basis of a 360-day year of twelve 30-day months. The Initial Period will be as set forth in Appendix E to the Official Statement. The Auction Rate for the Initial Period will be determined by each Broker-Dealer. The Auction Rate for each Auction Period after the Initial Period will be the Auction Rate determined in accordance with Appendix E of the Indenture; provided that:

(A) if, on any Auction Date for the ARS, an Auction is not held for any reason other than contemplated in the Indenture, then the Auction Rate for the ARS for the next succeeding Auction Period will equal the Auction Rate in effect on the day immediately preceding such Auction Date; and

(B) in the event that the Maximum Rate shall be in effect for the lesser of three such Auction Periods or 30 days, the Borrower shall promptly initiate proceedings to Convert the ARS to another Interest Rate Determination Method acceptable to the Bond Insurer, if any.

(iv) Notwithstanding the foregoing:

(A) if the ARS are no longer Book-Entry Bonds, the Auction Rate for any Auction Period commencing after the delivery of Bonds representing the ARS will equal the Maximum Rate; or

(B) if an ARS Payment Default will have occurred, the Auction Rate for the Auction Period commencing on or immediately after such ARS Payment Default and for each Auction Period thereafter, to and including the Auction Period, if any, during which, or commencing less than two Business Days after, such ARS Payment Default is cured in accordance with the Indenture, will equal the Maximum Rate on the first day of each such Auction Period, provided that if an Auction occurred on the Business Day immediately preceding any such Auction Period, the Auction Rate for such Auction Period shall be the Maximum Rate.

(v) Medium of Payment.

(A) The principal of and premium, if any, and interest on ARS will be payable in any currency of the United States of America which on the respective dates for payment thereof is legal tender for the payment of public and private debts. The principal of and premium, if any, and interest on ARS (other than at maturity) will be payable by wire transfer in immediately available funds to the registered owner thereof on the Record Date at the address of such registered owner as it appears on the Bond Register.

(B) The principal of each ARS at maturity will be paid upon presentation and surrender thereof at the Principal Office of the Trustee.

(C) Unless otherwise requested by the Securities Depository, payments of the principal of ARS, at maturity or upon redemption, and payments of interest on ARS made by wire transfer, will be made by the Trustee (from available funds held under the

Indenture) in immediately available funds, provided, however, that such method of payment may be modified by written agreement among the Trustee, the Securities Depository and the Auction Agent.

(vi) Computation of Interest Distributable on ARS. The amount of interest distributable to ARS Beneficial Owners, in respect of each \$25,000 in principal amount thereof for any Auction Period or part thereof, will be calculated by the Trustee by applying the Auction Rate (as provided to it by the Auction Agent), for such Auction Period or part thereof, to the principal amount of \$25,000, multiplying such sum by the actual number of days in such Auction Period or part thereof divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upward).

(vii) ARS Defaulted Interest.

(A) The Trustee will determine not later than 2:00 p.m., New York City time, on each ARS Interest Payment Date, whether an ARS Payment Default has occurred. If an ARS Payment Default has occurred, the Trustee will, not later than 2:30 p.m. New York City time on such Business Day, send a Notice of ARS Payment Default to the Auction Agent, the Authority, the Bond Insurer, if any, and the Broker-Dealer by telecopy or similar means and, if such ARS Payment Default is cured, the Trustee shall immediately send a Notice of Cure of ARS Payment Default to the Auction Agent, the Authority, the Bond Insurer, if any, and the Broker-Dealer by telecopy or similar means.

(B) ARS Defaulted Interest will forthwith cease to be payable to the ARS Beneficial Owner on the relevant Record Date by virtue of having been such ARS Beneficial Owner and such ARS Defaulted Interest will be payable to the Person in whose name the ARS with respect to such ARS Payment Default occurred are registered at the close of business on a special Record Date fixed therefor by the Trustee, which shall not be more than fifteen days and not less than ten days prior to the date of the proposed payment of ARS Defaulted Interest. The Trustee shall promptly notify the Borrower and the Bond Insurer, if any, of the special Record Date and at the Borrower's expense mail to each ARS Beneficial Owner of an ARS as to which ARS Defaulted Interest is payable, not less than ten days before the special Record Date, notice of the date of the proposed payment of such ARS Defaulted Interest.

(viii) Calculation of Maximum Rate for ARS and All Hold Rate. The Auction Agent will calculate the Maximum Rate and the All Hold Rate on each Auction Date. If the ARS are no longer Book-Entry Bonds, the Trustee shall calculate the Maximum Rate on the Business Day immediately preceding each ARS Interest Payment Date after the delivery of Bonds representing the ARS. If an ARS Payment Default has occurred, the Auction Agent will calculate the Maximum Rate on the first day of (i) each Auction Period commencing on or after the date of the occurrence and during the continuance of such ARS Payment Default and (ii) any ARS Interest Period commencing less than two Business Days after the cure of any ARS Payment Default. The Auction Agent will determine the Index and will determine the "AA" Financial Commercial Paper Rate for each ARS Interest Period other than the first ARS Interest Period. The determination by the Trustee or the Auction Agent of the "AA" Financial Commercial Paper Rate, Maximum Rate and All Hold Rate will (in the absence of manifest error) be final and binding upon all ARS Beneficial Owners and all other parties. The Auction Agent shall promptly advise the Trustee of the "AA" Financial Commercial Paper Rate, ARS Maximum Rate and All Hold Rate.

(ix) Notification of Rates, Amounts and Payment Dates. On the Business Day preceding each ARS Interest Payment Date with respect to the ARS, the Trustee shall advise the Securities Depository, so long as the ARS are Book-Entry Bonds, of the amount of interest distributable in respect of each \$25,000 in principal amount (taken without rounding to the nearest .000001) of ARS for any Auction Period or part thereof.

(x) Auction Agent.

(i) The Auction Agent will be appointed by the Trustee at the written direction of the Borrower, to perform the functions specified in the Indenture. The Trustee will not be liable for any action taken, suffered or omitted by the Auction Agent. The Auction Agent will signify its acceptance of the duties and obligations imposed upon it thereunder by a written instrument, delivered to the Borrower, the Trustee, the Authority and the Broker-Dealer which will set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Authority, the Borrower and the Trustee.

(ii) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Bonds with the same rights as if such entity were not the Auction Agent.

(iii) The Auction Agent is acting as Auction Agent in connection with Auctions. In the absence of willful misconduct, negligent failure to act or negligence on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or any error of judgment made by it in the performance of its duties under the Auction Agent Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent will have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

(iv) The Auction Agent shall not be responsible or liable for any failure or delay in the performance of its obligation under this Indenture arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fire; flood; wars; terrorism; similar military disturbances; sabotage; epidemic; riots; interruptions; loss or malfunctions of utilities, computer (hardware or software) or communications services; accidents; labor disputes; acts of civil or military authority or governmental action; it being understood that the Auction Agent shall use commercially reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as reasonably practicable under the circumstances.

(v) The Auction Agent will be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Indenture and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least ninety (90) days notice to the Borrower, the Authority, the Bond Insurer, if any, and the Trustee. The Auction Agent may be removed at any time by the Borrower by written notice, delivered to the Auction Agent, the Authority, the Bond Insurer, if any, and the Trustee. Upon any such resignation or removal, the Trustee at the direction of the Borrower and

with the approval of the Bond Insurer, if any, shall appoint a successor Auction Agent meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties until its successor has been appointed by the Trustee; provided, however, that if a successor Auction Agent has not been appointed within 45 days of the giving of such notice of resignation or removal of the Auction Agent, the Auction Agent may petition a court of competent jurisdiction to appoint a substitute Auction Agent. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the Borrower, the Authority and the Trustee even if a successor Auction Agent has not been appointed.

(xi) Broker-Dealers.

(i) The Borrower may, from time to time, appoint one or more Persons to serve as Broker-Dealers under Broker-Dealer Agreements in connection with the Bonds and shall be responsible for providing such Broker-Dealer Agreements to the Trustee and the Auction Agent. The Trustee shall not be liable for any actions or omissions of any Broker-Dealer.

(ii) Any Broker-Dealer may be removed at any time at the written request of the Borrower.

(xii) Provisions Relating to Auctions. None of the Authority, the Borrower, the Trustee or the Auction Agent will be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner, nor will any of the Authority, the Borrower, the Trustee or the Auction Agent be responsible for failure by any Securities Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers. None of the Authority, the Borrower, the Trustee, the Broker-Dealers or the Auction Agent will have any liability in the event that there are not Sufficient Clearing Bids from time to time pursuant to the Auction Procedures.

(xiii) Agreement of Owners. By purchasing ARS, whether in an Auction or otherwise, each prospective purchaser of ARS or its Broker-Dealer will be deemed to have agreed to the provisions for the replacement of the Auction Agent and any Broker-Dealer as provided in the Indenture, and relevant agreements among the Borrower, the Trustee, the Auction Agent and each Broker-Dealer, as appropriate.

Conversion of Interest Rate Determination Method.

(A) Right of Conversion. The Interest Rate Determination Method for any Outstanding Bonds is subject to Conversion from time to time at the direction of an Authorized Representative of the Borrower with the prior written consent of the Remarketing Agent, if any, and the Bond Insurer, if any, (other than if the Conversion is from a Daily Rate to a Weekly Rate, in which case no such consent shall be required) and the Liquidity Provider, if any (if such consent is required by the terms of the Liquidity Agreement), with such right to be exercised by written notice (such notice being the "Conversion Notice") to the Liquidity Provider, if any, for the Bonds to be Converted, the Bond Insurer, if any, the Authority, the Trustee, the Remarketing Agent, if any, the Auction Agent, if any, and the Broker-Dealer, if any, as follows:

(i) at least thirty-five (35) Business Days prior to the effective date of such proposed Conversion, in the event of a Conversion to a Daily Rate, Weekly Rate, Commercial Paper Rate or Auction Rate; and

(ii) at least sixty (60) days prior to the proposed Fixed Rate Conversion Date.

The Conversion Notice must be accompanied by (i) a Favorable Opinion of Bond Counsel with respect to the Conversion, and (ii) other than in connection with a Conversion to a Fixed Rate or from an Auction Rate, a Rating Confirmation if at the same time as the Bonds are Converted there will be the addition of a Liquidity Facility, a change of Liquidity Provider or any modification of the Liquidity Facility applicable to such Bonds including, but not limited to, a modification of such Liquidity Facility to increase the amount of accrued interest required to be included in the Liquidity Facility (as specified in the Indenture in connection with a Conversion to a Variable Rate).

(B) Limitations. Any Conversion pursuant to paragraph (A) above under the heading “Right of Conversion” must comply with the following:

(i) the Conversion Date must be an Interest Payment Date on which the Bonds designated for Conversion may be subject to mandatory tender pursuant to the applicable provisions of Appendix E to the Official Statement;

(ii) the Conversion Date must be a Business Day;

(iii) the Liquidity Facility Bonds after a Conversion to a Variable Rate must be approved by the Bond Insurer, if any, and must cover: accrued interest (computed at the Maximum Rate then in effect on the basis of a 365/366-day year and actual days elapsed) for the maximum number of days between Interest Payment Dates permitted under that Interest Rate Determination Method plus such additional number of days as shall be required in order to obtain or maintain a rating on the Bonds being Converted, provided that if the number of days of interest coverage provided by the Liquidity Facility is being changed from the number of days previously in place, the Trustee shall have also received a Rating Confirmation;

(iv) no Conversion will become effective unless the Favorable Opinion of Bond Counsel referred to in Appendix E to the Official Statement is redelivered on (and as of) the Conversion Date and all Outstanding Bonds are successfully remarketed in the new Interest Rate Determination Method on the Conversion Date;

(v) upon Conversion of the Bonds to a Fixed Rate or an Auction Rate, an Authorized Representative of the Borrower may provide in the Conversion Notice to the Liquidity Provider a request for termination of the Liquidity Facility and any such termination shall be effective upon such Conversion;

(vi) prior to a Fixed Rate Conversion Date or any Conversion from a Variable Rate Period to an Auction Period, the Authority and the Trustee shall have received a continuing disclosure agreement with respect to the Bonds imposing obligations upon the Borrower or any other responsible party to comply with the requirements of S.E.C. Rule 15c2-12, as it may from time to time be amended or supplemented;

(vii) in the case of any Conversion of the Bonds from an ARS Period to a Variable Rate Period, prior to the Conversion Date the Borrower shall have appointed a Remarketing Agent with respect to such Bonds;

(viii) in the case of any Conversion of the Bonds, to an ARS Period, prior to the Conversion Date, the Borrower shall have appointed an Auction Agent and a Broker-Dealer with respect to such Bonds, and there shall have been executed and delivered with respect to such Bonds an Auction Agent Agreement and a Broker-Dealer Agreement; and

(ix) prior to any Conversion of the Bonds to an ARS Period, the Borrower will receive a firm underwriting commitment or contract to purchase the Bonds from an investment bank or other purchaser.

(C) Contents of Conversion Notice. The Conversion Notice must specify: (i) the proposed Conversion Date, (ii) the new Interest Rate Determination Method to take effect, (iii) whether the Liquidity Facility, if any, then in effect for the Bonds being Converted will remain in effect and, if applicable, the terms upon which the Owners of such Bonds shall have the option to tender such Bonds for purchase during the applicable Interest Rate Determination Method, (iv) if a new Liquidity Facility will be in effect after the proposed Conversion Date, the name of the Liquidity Provider and the form and terms of such Liquidity Facility, and (v) if the Conversion is to an ARS Period, the initial Auction Period for the Bonds during such ARS Period. The Trustee shall promptly notify the Remarketing Agent of receipt of a Conversion Notice and of the Favorable Opinion of Bond Counsel required pursuant to the Indenture.

(D) Notice to Owners. Upon receipt of a Conversion Notice from an Authorized Representative of the Borrower, as soon as possible, but in any event not less than thirty (30) days prior to the proposed Conversion Date, the Trustee will give notice by first-class mail to the Owners and the Bond Insurer, if any, which notice will state in substance:

(i) that the interest rate on such Bonds shall be Converted to the specified Interest Rate Determination Method on the applicable Conversion Date if the conditions specified in the Indenture (and generally described in such notice) are satisfied on or before such date;

(ii) the applicable Conversion Date;

(iii) the day by which the initial rate for such Interest Rate Determination Method will be determined and the manner by which the Rates during such Interest Rate Determination Method may be obtained;

(iv) the Interest Payment Dates after such Conversion;

(v) with respect to any Conversion to a Weekly Rate Period, that subsequent to the Conversion and subject to the terms and conditions of the Indenture, the Owners or Beneficial Owners will have the right to tender such Bonds for purchase upon not less than seven (7) days' notice and the procedures for such tender;

(vi) with respect to any Conversion to a Daily Rate Period, that subsequent to the Conversion and subject to the terms and conditions of the Indenture, the Owners or Beneficial Owners will have the right to tender such Bonds for purchase on any Business Day and the procedures for such tender;

(vii) the redemption provisions that will pertain to such Bonds during such Interest Rate Period;

(viii) the ratings which are expected to be assigned to such Bonds upon such Conversion;

(ix) that the Borrower has delivered to the Trustee a Favorable Opinion of Bond Counsel with respect to the Conversion;

(x) that the Interest Rate Determination Method for such Bonds will not be Converted unless the Favorable Opinion of Bond Counsel referred to above is redelivered to the Trustee on (and as of) the Conversion Date and all such Bonds are successfully remarketed in the new Interest Rate Determination Method on the Conversion Date;

(xi) the CUSIP numbers or other identification information of such Bonds;

(xii) that, except as provided in the Indenture with respect to a proposed Conversion from an ARS Period, all the Bonds are subject to mandatory tender for purchase pursuant to the Indenture on the Conversion Date (whether or not the proposed Conversion becomes effective on such date) at the applicable Purchase Price and generally describing the Proper Delivery of such Bonds to receive the Purchase Price thereof; and

(xiii) that, to the extent that there will be on deposit with the Trustee on the applicable Conversion Date an amount of money sufficient to pay the Purchase Price thereof, all Bonds not delivered to the Trustee on or prior to the Conversion Date will be deemed to be Undelivered Bonds which were properly tendered for purchase and will cease to constitute or represent a right on behalf of the Owner thereof to the payment of principal thereof or interest thereon and will represent and constitute only the right to payment of the Purchase Price on deposit with the Trustee, without interest accruing thereon on and after the Purchase Date.

(E) Failure of Conditions to be Met. If the Borrower fails to deliver to the Trustee, and the Liquidity Provider by 10:00 a.m., New York City time, on the Conversion Date, the Favorable Opinion of Bond Counsel required by the Indenture or if the Remarketing Agent has not successfully remarketed all of the Outstanding Bonds to be Converted in the new Interest Rate Determination Method, (i) the Interest Rate Determination Method for such Bonds shall not be Converted but, except for ARS which will continue to be owned by the owners thereof, such Bonds will continue to be subject to mandatory tender for purchase on the Conversion Date specified in the Conversion Notice and will be purchased on the Conversion Date specified in the Conversion Notice; and (ii) all Bonds, including ARS, will continue to bear interest at the Interest Rate Determination Method in effect immediately prior to the proposed Conversion Date specified in the Conversion Notice; provided, however, that notwithstanding anything to the contrary provided in the Indenture, the rate of interest on such Bonds and, if applicable, any Commercial Paper Rate Term, shall be determined on the proposed Conversion Date and, in the case of ARS, the ARS will bear interest at the Maximum Rate until the next succeeding Auction Period that commences at least two Business Days and no more than seven Business Days following such proposed Conversion Date, then at the Auction Rate. In such event, the Authority, the Borrower, the Trustee and the Owners of the Bonds which were to be Converted to another Interest Rate Determination Method will be restored (except as aforesaid with respect to the purchase of Bonds other than ARS) to their former positions and rights under the Indenture, and all rights of the Authority, the Borrower and the Trustee under the Indenture will continue as if no such proceedings for the Conversion of the Interest Rate Determination Method for the Bonds had taken place. The Trustee will immediately notify by telephone the Liquidity Provider, if any, for the Bonds, the Authority, and the Remarketing Agent, if any, in the event the Bonds are not Converted on the proposed Conversion Date as provided in the Indenture.

(F) Notice Failure No Bar. Failure of an Owner to receive the notice described in the preceding paragraph or any defect therein, shall not affect the validity of any interest rate or continuation of or change in the Interest Rate Determination Method for any of the Bonds or extend the period for tendering any of the Bonds for purchase, and the Trustee will not be liable to any Owner by reason of the failure of an Owner to receive such notice or any defect therein.

(G) No Conversion During Continuance of Event of Default. No Conversion will occur under the Indenture if an Event of Default shall have occurred and be continuing thereunder.

(H) Rescission of Election. Notwithstanding anything to the contrary contained in the Indenture, the Borrower may rescind any Conversion Notice for the Bonds given pursuant to the Indenture by giving written notice thereof, prior to the proposed Conversion Date, to the Authority, the Trustee, the Bond Insurer, if any, the Liquidity Provider, if any, and the Remarketing Agent, if any, and if such Bonds are in an ARS Period, to the Auction Agent and each Broker-Dealer. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Owners of the Bonds pursuant to the Indenture, then the Conversion Notice previously delivered by the Borrower pursuant to the Indenture will be of no force and effect.

If the Trustee receives notice from the Borrower of rescission of Conversion from a Variable Rate Period after the Trustee has given notice to the Owners of the Bonds pursuant to the Indenture, then such Bonds will continue to be subject to mandatory tender for purchase on the Conversion Date specified in the Conversion Notice and the Interest Rate Period for such Bonds will automatically adjust to, or continue as, a Weekly Rate Period on the Conversion Date specified in the Conversion Notice. No Favorable Opinion of Bond Counsel will be required in connection with the automatic adjustment to a Weekly Rate Period pursuant to this paragraph. If the Trustee receives notice from the Borrower of rescission of a Conversion from an ARS Period after the Trustee has given notice to the Owners of such Bonds pursuant to the Indenture, then the Bonds shall continue in an ARS Period in the manner provided in the Indenture in the case of a failed Conversion from an ARS Period.

(I) Conversion of Liquidity Provider Bonds. Notwithstanding anything to the contrary contained in the Indenture, if all of the Outstanding Bonds are Liquidity Provider Bonds, such Bonds may be Converted to a Fixed Rate Period with, so long as the Bond Insurer is not in default under the Bond Insurance Policy, the prior written consent of the Bond Insurer, if any. Such Conversion to a Fixed Rate Period will occur without the need to satisfy such conditions to Conversion set forth in the Indenture as will be acceptable to the Liquidity Provider, the Trustee, the Remarketing Agent, the Bond Insurer, if any, and the Borrower provided that on such Conversion Date the Borrower will deliver to the Trustee and the Bond Insurer, if any, a Favorable Opinion of Bond Counsel with respect to such Conversion addressed to the Trustee, the Bond Insurer, if any, and the Authority.

Mandatory Tender for Purchase.

(A) The Bonds will be subject to mandatory tender for purchase and purchased (but solely from the funds provided therefor pursuant to The Indenture) at the applicable Purchase Price upon the occurrence of any of the following events stated below:

(i) except as provided in paragraph (E) under the heading “Conversion of Interest Rate Determination Methods” with respect to a Conversion from an ARS Period, on the Conversion Date to a new Interest Rate Determination Method specified in a Conversion Notice;

(B) The Trustee will give notice by first class mail to the Bond Insurer, if any, the Liquidity Provider and the Bondowners at their addresses shown on the registration books kept by the Trustee, not

later than the thirtieth (30th) day prior to the date on which the Bonds are subject to mandatory tender as described in paragraph (A)(i) under this heading, which notice shall be in the form of the notice required by the Indenture.

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APPENDIX E

SUMMARY OF CERTAIN PROVISIONS RELATING TO AUCTION RATE SECURITIES AND THE AUCTION PROCEDURES

Both the definitions in Article I and the Auction Procedures in Article II of this Appendix E are subject to modification or amendment pursuant to Schedule I of this Appendix E. In the event of any conflict between Article I or Article II and Schedule I of this Appendix E, Schedule I shall prevail. Any reference herein to “Series” such as “a Series of Bonds” or “Bonds of a Series” shall not apply if there is only one Series of Bonds.

ARTICLE I

DEFINITIONS OF CERTAIN TERMS

In addition to the words and terms otherwise defined in the Indenture, the following words and terms as used in this Appendix E (hereinafter “this Appendix”) and elsewhere in the Indenture have the following meanings with respect to Bonds in an Auction Rate Period unless the context or use indicates another or different meaning or intent or the definition has been changed, modified or expanded in Schedule I:

“Agent Member” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“All Hold Rate” has the meaning set forth in Schedule I.

“ARS Conversion Date” means with respect to Bonds, the date on which the Bonds of such Series convert from an interest rate period other than an Auction Rate Period and begin to bear interest at the Auction Period Rate.

“ARS Period” or “Auction Rate Period” means any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of the Bonds.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be the party named in Schedule I.

“Auction Agent Agreement” means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix with respect to the Bonds while such Bonds bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

“Auction Date” means with respect to any Series of Bonds:

(a) *Daily Auction Period.* If the Bonds are in a Daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a Daily Auction Period to another Auction Period,

(b) *Flexible Auction Period.* If the Bonds are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) *Other Auction Periods.* If the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date);

provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a Daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and

provided, further, that if the Bonds are in a Daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a Daily Auction Period to another Auction Period, there shall be an Auction for the last Daily Auction Period. On the Business Day preceding the conversion from a Daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

“Auction Desk” means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

“Auction Period” means with respect to each Series of Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to a Series of Bonds in a Daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a Daily Auction Period to another Auction Period, in which case the Daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven-day Auction Period.* With respect to a Series of Bonds in a Seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

| (A) | (B) | (C) |
|---------------------------------|--|--|
| When Auctions Occur on this day | Auction Period Generally Begins this day | Auction Periods Generally End this day |
| Friday | Monday | Sunday |
| Monday | Tuesday | Monday |
| Tuesday | Wednesday | Tuesday |
| Wednesday | Thursday | Wednesday |
| Thursday | Friday | Thursday |

(d) *28-day Auction Period.* With respect to a Series of Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to a Series of Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to a Series of Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to a Series of Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding date set forth in Schedule I;

Provided, however, that if there is a conversion of a Series of Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a Daily Auction Period to a Seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a Daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in

column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a Daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a Seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another Seven-day period.

“Auction Period Rate” means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.04 of this Appendix; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

“Auction Procedures” means the procedures for conducting Auctions for Bonds during an Auction Rate Period set forth in this Appendix.

“Auction Rate” means for each Series of Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate for such Series of Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such Series of Bonds.

“Authorized Denominations” means \$25,000, or such other amount specified in Schedule I, and integral multiples thereof so long as the Bonds bear interest at the Auction Period Rate, notwithstanding anything else in the Indenture to the contrary.

“Available Bonds” means, for each Series of Bonds on each Auction Date, the number of Units of Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Borrower and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Borrower. The “Broker-Dealer of record” with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Owner of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the Borrower and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix, as such agreement may from time to time be amended or supplemented.

“Broker-Dealer Deadline” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“Business Day” in addition to any other definition of “Business Day” included in the Indenture, while Bonds bear interest at the Auction Period Rate, the term Business Day shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

“Clerical Error” means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer’s Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a “Clerical Error” is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

“Conversion Date” means the date on which any Series of the Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

“Electronic Means” means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“Error Correction Deadline” means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

“Existing Owner” means a Person who is the beneficial owner of Bonds; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“Flexible Auction Period” means with respect to a Series of Bonds,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Series of Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next

succeeding day which is followed by a Business Day, (ii) in the case of a Series of Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Series of Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Series of Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Series of Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Series of Bonds.

“Hold Order” means an Order to hold the Bonds as provided in Section 2.01(a) of this Appendix or such an Order deemed to have been submitted as provided in Section 2.01(c) of this Appendix.

“Index” has the meaning set forth in Schedule I.

“Initial Period” has the meaning set forth in Schedule I.

“Interest Payment Date” with respect to Bonds of a Series bearing interest at Auction Period Rates, means, notwithstanding anything else in the Indenture to the contrary, the first Interest Payment Date for such Series of Bonds as set forth in Schedule I and thereafter (unless changed by Schedule I) (a) when used with respect to any Auction Period other than a Daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a Daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Bonds would be payable if such Bonds bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds of such Series becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

“Maximum Rate” has the meaning set forth in Schedule I.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“Record Date” means, notwithstanding anything else in the Indenture, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

“Schedule I” means Schedule I to this Appendix.

“Securities Depository” means, notwithstanding anything else in the Indenture to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the Borrower.

“Sell Order” has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

“Submission Deadline” means, unless changed by Schedule I, 1:00 p.m., New York City time, on each Auction Date not in a Daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a Daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Trustee or the Borrower pursuant to the Auction Agent Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association’s Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by the Trustee or the Borrower. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

“Submitted Bid” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“Submitted Hold Order” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“Submitted Order” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“Submitted Sell Order” has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

“Sufficient Clearing Bids” means for each Series of Bonds, an Auction for which the number of Units of such Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

“Units” has the meaning set forth in Section 2.02(a)(iii) of this Appendix.

“Borrower” has the meaning set forth in Schedule I.

“Winning Bid Rate” means for each Series of Bonds, the lowest rate specified in any Submitted Bid of such Series which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such Series.

ARTICLE II

AUCTION PROCEDURES

Section 2.01. Orders by Existing Owners and Potential Owners. (a) Prior to the Broker-Dealer Deadline for each Series of Bonds on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next

succeeding Auction Period without regard to the Auction Rate for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a Daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a “Hold Order,” an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a “Bid,” and an Order containing the information referred to in clause (i)(C) above is referred to as a “Sell Order.”

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a Daily Auction Period):

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in subsection (a)(v) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

- (ii) A Sell Order by an Existing Owner shall constitute an offer to sell:
 - (A) the principal amount of Bonds specified in such Sell Order; or
 - (B) such principal amount or a lesser principal amount of Bonds as described in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.
- (iii) A Bid by a Potential Owner shall constitute an offer to purchase:
 - (A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or
 - (B) such principal amount or a lesser principal amount of Bonds as described in subsection (a)(vi) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.
- (c) Anything herein to the contrary notwithstanding:
 - (i) If an Order or Orders covering all of the Bonds of a particular Series held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds of a particular Series to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.
 - (ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in Sections 2.02(e)(ii) and 2.02(f); and
 - (iii) for purposes of any Auction other than during a Daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a Daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent.

- (a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for Bonds of a Series, all Orders with respect to Bonds of such Series

accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(b) below:

- (i) the name of the Broker-Dealer;
- (ii) the number of Bidders placing Orders, if requested by the Auction Agent;
- (iii) the aggregate number of Units of Bonds of such Series, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Bonds;
- (iv) to the extent that such Bidder is an Existing Owner:
 - (A) the number of Units of Bonds of such Series, if any, subject to any Hold Order placed by such Existing Owner;
 - (B) the number of Units of Bonds of such Series, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and
 - (C) the number of Units of Bonds of such Series, if any, subject to any Sell Order placed by such Existing Owner; and
- (v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units of Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) None of the Authority, the Borrower, the Trustee or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

(A) In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section 2.02(f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section 2.02(f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a Daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to

which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

- (h) Nothing contained herein shall preclude the Auction Agent from:
 - (i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Bonds; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or
 - (ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

Section 2.03. Treatment of Orders by the Auction Agent. Anything herein to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of this Section 2.03 and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a particular Series are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of the Bonds of such Series subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner

up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, of such Bonds of such Series subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units of Bonds of such Series equal to the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of the Bonds of such Series considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units of Bonds of such Series considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a Daily Auction Period, if an Auction Agent has been notified by the Trustee, Authority or Borrower that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a Daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Trustee, Authority or Borrower has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the Bonds of a particular Series is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds of a particular Series to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for

which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

Section 2.04. Determination of Auction Period Rate. (a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each Series of Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for each Series of Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a “Submitted Hold Order,” a “Submitted Bid” or a “Submitted Sell Order,” as the case may be, and collectively as a “Submitted Order”) and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under “Determination of Auction Period Rate” if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under “Determination of Auction Period Rate” if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii)(A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i)(B) or (ii)(B) above, an Auction shall be held on the last Business Day of the Auction Period as

so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

(d) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a Seven-day Auction Period.

(e) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

Section 2.05. Allocation of Bonds.

(a) In the event of Sufficient Clearing Bids for a Series of Bonds, Submitted Orders for each Series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate

equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a Series of Bonds, Submitted Orders for each Series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Bonds subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

Section 2.06. Notice of Auction Period Rate. (a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to each Series of Bonds for which an Auction was held on such Auction Date:

(i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the number of Units of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the number of Units of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate number of Units of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the number of Units of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each Series of Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a Daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the number of Units of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Borrower, Authority and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

Section 2.07. Index.

(a) If for any reason on any Auction Date the Index shall not be determined as provided in Schedule I, the Index shall be the Index for the Auction Period ending on such Auction Date.

(b) The determination of the Index as provided in Schedule I and herein shall be conclusive and binding upon the Authority, the Borrower, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

Section 2.08. Miscellaneous Provisions Regarding Auctions.

(a) In this Appendix, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Period with respect to each Series of Bonds, the provisions of the Indenture and the definitions contained therein and described in this Appendix, including without limitation the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended pursuant to the Indenture by obtaining the consent of the owners of all affected Outstanding Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds as required by the Indenture, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Borrower and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the Authority that it is unwilling or unable to continue as registered owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Authority within 90 days after the Authority receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Authority and the Trustee.

(d) Unless specifically provided in Schedule I, the Auction Agent shall continue to implement the Auction Procedures notwithstanding the occurrence of an Event of Default under the Indenture.

During an Auction Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other

disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Section 2.09. Changes in Auction Period or Auction Date.

(a) Changes in Auction Period.

(i) During any Auction Rate Period, the Borrower, may, with the consent of the Bond Insurer, if any, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Bonds of a Series among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. The Borrower shall initiate the change in the length of the Auction Period by giving written notice to the Authority, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Bonds of such Series.

(iii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Bonds of any Series, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds of such Series if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a Seven-day Auction Period.

(b) *Changes in Auction Date.* During any Auction Rate Period, the Auction Agent, at the direction of the Borrower, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the Borrower's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Authority, the Borrower and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction Period ends and the Interest Payment Date relating to a Flexible Auction Period shall be adjusted accordingly.

(c) *Changes Resulting from Unscheduled Holidays.* If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and

Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by a majority of the Broker-Dealers (based on the number of Units for which a Broker-Dealer is listed as the Broker-Dealer in the Existing Owner Registry maintained by the Auction Agent pursuant to Section 2.2(a) of the Auction Agreement), and, if there is not a majority so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date, and the Interest Payment Date and the Auction Period shall be adjusted accordingly.

SCHEDULE I TO AUCTION PROCEDURES

In the event of any conflict between this Schedule I and the forepart of Appendix E, this Schedule I shall prevail.

DEFINITIONS

“All Hold Rate” means, as of any Auction Date, 85% of the Index in effect on such Auction Date for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 130% of the Index in effect on such Auction Date for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

“Auction Agent” shall initially be Wells Fargo Bank, N. A.

“Auction Date” shall include as part of the definition the first Auction Date which shall be September 18, 2007.

“Auction Period” shall include in the *Six-month Auction Period* either June 30 or December 31.

“Authorized Denomination” means \$25,000 unless another amount is specified here.

“Index” means on any Auction Date with respect to Bonds in any Auction Period of 35 days or less the Securities Industry and Finance Markets Association (SIFMA) Municipal Swap Index. The Index with respect to Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in *The Wall Street Journal* or such other source as may be mutually agreed upon by the Borrower and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Borrower. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, *i.e.* a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

“Initial Period” means the period from the Date of Issuance to but not including September 18, 2007.

“Interest Payment Date” includes the first Interest Payment Date which shall be September 19, 2007.

“Maximum Rate” means with respect to ARS, on any date of determination, the interest rate per annum equal to the lesser of (i) the Applicable Percentage of the higher of (A) the After-Tax Equivalent Rate on such date and (B) the Index on such date, and (ii) 12% per annum; provided, that in no event shall the Maximum Rate be more than the Maximum Lawful Rate. The definitions of Applicable Percentage, After-Tax Equivalent Rate and Maximum Lawful Rate shall have the meanings set forth in the Indenture.

AUCTION PROCEDURES

Determination of Auction Period Rate. The percentage of the Index in Section 2.04(c) is 100% for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 130% for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of September 1, 2007, is executed and delivered by The Jackson Laboratory (the “Borrower”) and Wells Fargo Bank, N.A., as trustee and as dissemination agent (the “Trustee” and “Dissemination Agent”) in connection with the issuance of ABAG Finance Authority for Nonprofit Corporations Revenue Bonds (The Jackson Laboratory) Series 2007 (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2007 (the “Indenture”), between the ABAG Finance Authority for Nonprofit Corporations (the “Authority”) and the Trustee. The proceeds of the Bonds are being loaned by the Authority to the Borrower pursuant to a Loan Agreement, dated as of September 1, 2007 (the “Loan Agreement”), between the Authority and the Borrower. Pursuant to Section 6.12 of the Indenture and Section 19 of the Loan Agreement, the Borrower and the Trustee covenant and agree as follows:

SECTION I. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Borrower and the Trustee for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (defined below). The Borrower and the Trustee acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Agreement, and has no liability to any person, including any Holder or Beneficial Owner of the Bonds, with respect to the Rule.

SECTION II. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Borrower pursuant to, and as described in, Sections III. and IV. of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the person designated by the Borrower on the signature page hereof or such person’s designee, or such other person as the Borrower shall designate in writing to the Trustee and Dissemination Agent from time to time.

“Dissemination Agent” shall mean Wells Fargo Bank, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Borrower and which has filed with the Trustee a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section V.A. of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission may be found at the following internet address: <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission.

SECTION III. Provision of Annual Reports.

A. The Borrower shall, or, upon written direction, shall cause the Dissemination Agent to, not later than six months after the end of the Borrower’s fiscal year (presently as indicated on the signature page hereof), commencing with the report for the 2007-2008 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section IV. of this Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section IV. of this Disclosure Agreement; provided that the audited financial statements of the Borrower may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Borrower’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section V.F.

B. Not later than fifteen (15) Business Days prior to the date specified in subsection A for providing the Annual Report to the Repositories, the Borrower shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Borrower and the Dissemination Agent to determine if the Borrower is in compliance with the first sentence of subsection A.

C. If the Trustee is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection A, the Trustee shall send a notice to each Repository, the Authority, the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

D. The Dissemination Agent shall:

1. determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

2. file a report with the Borrower, the Authority and the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

SECTION IV. Content of Annual Reports. The Borrower’s Annual Report shall contain or include by reference the following:

A. The audited financial statements of the Borrower for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If the Borrower’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section III.A., the Annual Report shall contain unaudited financial statements in a format similar to the financial statements required for the fiscal year being audited, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

B. The completed form attached hereto as Exhibit B or such other form which contains substantially the same information.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Borrower is an “obligated person” (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Borrower shall clearly identify each such other document so included by reference.

SECTION V. Reporting of Significant Events.

A. Pursuant to the provisions of this Section V., the Borrower shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on debt service reserves reflecting financial difficulties.
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds.

B. The Trustee shall, as soon as reasonably practicable, of a Responsible Officer’s obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative, inform such person of the event, and request that the Borrower promptly notify the Trustee in writing whether or not to report the event pursuant to subsection F below. The Trustee shall have no duty to

determine the materiality of any such Listed Events. For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Indenture.

C. Whenever the Borrower obtains knowledge of the occurrence of a Listed Event, because of a notice from the Trustee pursuant to subsection B or otherwise, the Borrower shall as soon as possible determine if such event would be material under applicable federal securities laws.

D. If the Borrower has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Borrower shall promptly notify the Trustee and Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection F.

E. If in response to a request under subsection B, the Borrower determines that the Listed Event would not be material under applicable federal securities laws, the Borrower shall so notify the Trustee and Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection F.

F. If the Dissemination Agent has been instructed by the Borrower to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository with a copy to the Borrower. Notwithstanding the foregoing, notice of Listed Events described in subsections A.4. and A.5. need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture.

SECTION VI. Termination of Reporting Obligation. The Borrower’s and the Trustee’s obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Borrower’s obligations under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Borrower and the original Borrower shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Borrower shall give notice of such termination or substitution in the same manner as for a Listed Event under Section V.F.

SECTION VII. Dissemination Agent. The Borrower may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Borrower pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Borrower shall be the Dissemination Agent. The Dissemination Agent may resign by providing 30 days written notice to the Borrower and the Trustee.

SECTION VIII. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Borrower, Dissemination Agent and the Trustee may amend this Disclosure Agreement (and the Trustee and Dissemination Agent shall agree to any amendment so requested by the Borrower provided, the Trustee and Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

A. If the amendment or waiver relates to the provisions of Sections III.A, IV. or V.A., it may only be made in connection with a change in circumstances that arises from a change in legal

requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

B. The undertaking herein, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

C. The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Borrower shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borrower. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section V.F., and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION IX. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Borrower chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Borrower shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION X. Default. In the event of a failure of the Borrower or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee shall at the written request of any Participating Underwriter or the Holders of at least 25% of the Outstanding Bonds, and upon provision of indemnification satisfactory to the Trustee, or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Borrower or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION XI. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee and Dissemination Agent shall be entitled to the provisions thereof. The Dissemination Agent and Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Borrower agrees to indemnify and save the Dissemination Agent and Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or

performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities, costs and expenses (including attorneys fees) due to the Dissemination Agent's or Trustee's respective fraud, violation of law, whether willful or negligent, negligence, willful misconduct or breach of this Disclosure Agreement. The Dissemination Agent shall be paid compensation by the Borrower for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the Borrower, the Bondholders, or any other party. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Borrower in a timely manner and in a form suitable for filing. The obligations of the Borrower under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION XII. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

| | |
|---|---|
| To the Borrower: | At the address set forth for the Borrower on the signature page hereof. |
| To the Trustee and Dissemination Agent: | Wells Fargo Bank, N.A. 10 Orms Street, Suite 325 Providence, Rhode Island 02904 |

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION XIII. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Borrower, the Trustee, the Dissemination Agent, the Participating Underwriters, and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION XIV. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

THE JACKSON LABORATORY

By: _____
Authorized Representative

WELLS FARGO BANK, N.A.,
as Trustee and Dissemination Agent

By: _____
Authorized Officer

| | |
|---------------------------------------|---|
| Borrower's Notice Address: | The Jackson Laboratory 610 Main Street Bar Harbor, Maine 04609-1526 Attention: Chief Financial Officer |
| Borrower's Disclosure Representative: | Chief Financial Officer |
| Borrower's Fiscal Year: | May 31 |

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: ABAG Finance Authority for Nonprofit Corporations
Name of Bond Issue: \$35,075,000 ABAG Finance Authority for Nonprofit Corporations
Revenue Bonds (The Jackson Laboratory) Series 2007
Name of Borrower: The Jackson Laboratory
Date of Issuance: September __, 2007

NOTICE IS HEREBY GIVEN that the Borrower has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.12 of the Indenture, dated as of September 1, 2007, between the Authority and Trustee and by Section 19 of the Loan Agreement, dated as of September 1, 2007, between the Authority and the Borrower. [The Borrower anticipates that the Annual Report will be filed by _____.]

Dated: _____

WELLS FARGO BANK, N.A., as Trustee

By: _____

cc: Borrower

EXHIBIT B

**THE JACKSON LABORATORY
CONTINUING DISCLOSURE ANNUAL REPORT**

Operating Data

Non-Financial

Please answer each of the following questions:

- a) Has there been a change in the name or titles of officers since the last annual report?
(Check one)

Yes No If yes, please indicate name and title.

- b) Please describe any new material litigation, or a material result in a material litigation since the date of the last report. _____

- c) Please describe any significant sale, destruction or loss of real property or other material assets relating to the Borrower, since the date of the last report.

Please update the following information for the most recent or fiscal year. Only the data for the most recent fiscal year need to be included in your annual report:

Financial

- a) *Please attach a copy of your most recent financial statements.*

Material Events

- a) Please review Section V of the Continuing Disclosure Agreement and confirm that no material Listed Event has occurred. Please describe any material Listed Event that has occurred since the date of the last report.

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APPENDIX G

PROPOSED FORM OF BOND COUNSEL OPINION

Upon the issuance of the Bonds, Nixon Peabody LLP, Bond Counsel, proposes to render its final approving opinion with respect thereto in substantially the following form:

September __, 2007

ABAG Finance Authority for
Nonprofit Corporations
101 Eighth Street
Oakland, California 94607

Re: ABAG Finance Authority for Nonprofit Corporations
Revenue Bonds (The Jackson Laboratory) Series 2007
(Final Opinion of Bond Counsel)

Ladies and Gentlemen:

We have acted as bond counsel to the ABAG Finance Authority for Nonprofit Corporations (the "Authority") in connection with the Authority's issuance of \$_____ aggregate principal amount of its Revenue Bonds (The Jackson Laboratory) Series 2007 (the "Bonds"). The Bonds are issued by the Authority pursuant to the provisions of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (commencing with Section 6500) (the "Act") and an indenture of trust, dated as of September 1, 2007 (the "Indenture"), between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The proceeds of the sale of the Bonds will be used to make a loan to The Jackson Laboratory, a Maine nonprofit corporation qualified to do business in the State of California (the "Corporation"), pursuant to a loan agreement, dated as of September 1, 2007 (the "Loan Agreement"), between the Authority and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Indenture.

In such connection, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such instruments, certificates and documents as we have deemed necessary or appropriate for the purposes of the opinions rendered below. In such examination, we have assumed the genuineness of all signatures, the authenticity and due execution of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, without having conducted any independent investigation, we have relied upon, and assumed the accuracy and truthfulness of, the aforesaid instruments, certificates and documents.

In rendering the opinions set forth below, we have relied upon, among other things, certain representations and covenants made by the parties in this transaction, including in the Indenture, the Loan Agreement and the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 in respect of the Bonds (the "Tax Certificate"). We call your attention to the fact that there are certain requirements with which the Authority and the Corporation must comply after the date of issuance of the Bonds in order for the interest on the Bonds to remain excluded from gross income for federal income tax purposes

We have relied on the opinion of Ropes & Gray LLP, counsel to the Corporation, regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that such opinion is subject to a number of qualifications and limitations. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have undertaken neither to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Certificate may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations contained in applicable law regarding legal remedies against the Authority. We undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion herein with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds have been duly authorized and issued under the Indenture.
2. The Indenture has been duly authorized, executed and delivered by the Authority and constitutes the legally valid and binding obligation of the Authority enforceable in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of the principal of, premium, if any, and interest on the Bonds, of the Revenues (as that term is defined in the Indenture) except the Rebate Fund, subject to the provisions of the Indenture permitting the application of moneys and securities held by the Trustee under the terms of the Indenture for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Authority in the Loan Agreement (to the extent more particularly described in the Indenture).
3. The Loan Agreement has been duly authorized, executed and delivered by the Authority and constitutes the legally valid and binding obligation of the Authority enforceable in accordance with its terms.
4. The Bonds constitute legally valid and binding limited obligations of the Authority enforceable in accordance with their terms and the terms of the Indenture. Neither the faith and credit nor the taxing power of the Authority, the State of California or of any political subdivision thereof is pledged to the payment of the principal of or the premium, if any, or interest on the Bonds. The Bonds are not a debt of the Authority or the State of California, and neither the Authority nor the State of California is liable for the payment thereof.

5. The Internal Revenue Code of 1986, as amended (the “Code”), sets forth certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the Bonds. Pursuant to the Indenture, the Loan Agreement and the Tax Certificate, the Authority and the Corporation have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the Authority and the Corporation have made certain representations and certifications in the Indenture, the Loan Agreement and the Tax Certificate. We have not and will not independently verify the accuracy of those representations and certifications.

Under existing law and assuming compliance with the aforementioned covenant, and the accuracy of the aforementioned representations and certifications, interest on the Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

6. Interest on the Bonds is exempt from California personal income taxes.

Except as stated in the preceding three paragraphs, we express no opinion as to any Federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

Respectfully submitted,

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EXHIBIT B

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Fixed Rate Conversion Date]

ABAG Finance Authority for Nonprofit Corporations
Metro Center
101 Eighth Street
Oakland, CA 94607-4756

Wells Fargo Bank, N.A.
as Trustee and Auction Agent
10 Orms St., Suite 325
Providence, RI 02904
Attention: Corporate Trust Dept.

Banc of America Securities, LLC
as Remarketing Agent
1633 Broadway, 29th Floor
New York, New York 10019
Attention: Public Finance

The Jackson Laboratory
600 Main Street
Bar Harbor, ME 04609

Ladies and Gentlemen:

We have examined a record of proceedings relating to the conversion on the date hereof of the Interest Rate Determination Method of the ABAG Finance Authority For Nonprofit Corporations Revenue Bonds (The Jackson Laboratory) Series 2007 (the "Bonds") from the method of determining the interest rate on the Bonds while they are ARS to the method for determining the fixed rate to be borne by the Bonds set forth in Section 2.03(f) of Exhibit A to the Indenture (the "Conversion"). The Bonds were issued by the ABAG Finance Authority for Nonprofit Corporations (the "Authority"), a joint exercise of powers authority organized and operating under the provisions of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California (the "Act"). We have also examined such certificates, documents, records and matters of law as we have deemed necessary for the purpose of rendering the opinions hereinafter set forth.

The Bonds were issued under and pursuant to the Act and the Indenture of Trust between the Authority and Wells Fargo Bank, N.A., as the Trustee, dated as of September 1, 2007 (the "Indenture"). Capitalized terms used but not defined herein have the respective meanings given to them in the Indenture.

We are of the opinion that:

1. The Conversion is authorized by the laws of the State and the Indenture.
2. The Conversion will not result in the inclusion of interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

Very truly yours,

EXHIBIT C

FORM OF AMENDMENT TO CONTINUING DISCLOSURE AGREEMENT

This Amendment to Continuing Disclosure Agreement, dated as of April 1, 2008 (this “Amendment”), is executed and delivered by The Jackson Laboratory (the “Borrower”) and Wells Fargo Bank, N.A., as trustee and as dissemination agent (the “Trustee” and “Dissemination Agent”), in connection with the conversion of the ABAG Finance Authority for Nonprofit Corporations Revenue Bonds (The Jackson Laboratory) Series 2007 (the “Bonds”) to a Fixed Rate Period, and amends and supplements the Continuing Disclosure Agreement, dated as of September 1, 2007 (the “Original Disclosure Agreement”), among the Borrower, the Trustee and the Dissemination Agent. The Original Disclosure Agreement, as amended and supplemented by this Amendment, is referred to as the “Disclosure Agreement.” Capitalized terms used but undefined herein shall have the meanings ascribed thereto in the Original Disclosure Agreement.

SECTION 1. Definitions. The following terms shall have the following meanings:

“Quarterly Report” shall mean the Borrower’s quarterly financial statements, consisting of an unaudited balance sheet and a statement of revenue/expenses prepared by the Borrower.

“Quarterly Report Dates” means February 28 or 29, as applicable, August 31 and November 30 of each year.

SECTION 2. Provision of Annual and Quarterly Reports. *Section III of the Original Disclosure Agreement is hereby amended by deleting Section III and replacing Section III in its entirety with the following:*

A. The Borrower shall, or, upon written direction, shall cause the Dissemination Agent to, (i) not later than six months after the end of the Borrower’s fiscal year (presently as indicated on the signature page hereof), commencing with the report for the 2007-2008 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section IV. of the Disclosure Agreement, and (ii) not later than 45 days after each Quarterly Report Date, commencing with the Quarterly Report for August 31, 2008, provide to each Repository a Quarterly Report. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section IV. of the Disclosure Agreement; provided that the audited financial statements of the Borrower may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Borrower’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section V.F.

B. Not later than fifteen (15) Business Days prior to the date specified in subsection A for providing the Annual Report or the Quarterly Report, as applicable, to the Repositories, the Borrower shall provide the Annual Report or the Quarterly Report, as applicable, to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date the Trustee has not received a copy of the Annual Report or Quarterly Report, as applicable, the Trustee shall contact the Borrower and the Dissemination Agent to determine if the Borrower is in compliance with the first sentence of subsection A.

C. If the Trustee is unable to verify that an Annual Report or Quarterly Report, as applicable, has been provided to the Repositories by the date required in subsection A, the Trustee shall

send a notice to each Repository, the Authority, the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached to the Disclosure Agreement as Exhibit A.

D. The Dissemination Agent shall:

1. determine each year prior to the date for providing the Annual Report or the Quarterly Report, as applicable, the name and address of each National Repository and the State Repository, if any; and

2. file a report with the Borrower, the Authority and the Trustee certifying that the Annual Report or the Quarterly Report, as applicable, has been provided pursuant to the Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

SECTION 3. Effect of Amendment. Except as amended by this Amendment, the Original Disclosure Agreement shall remain in full force and effect. This Amendment shall inure solely to the benefit of the Authority, the Borrower, the Trustee, the Dissemination Agent, the Participating Underwriters, and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION XIV. Counterparts. This Amendment may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

THE JACKSON LABORATORY

By: _____
Authorized Representative

WELLS FARGO BANK, N.A.,
as Trustee and Dissemination Agent

By: _____
Authorized Officer

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