

\$200,000,000

**MONEY MARKET COMMITTED PREFERRED TRUST SECURITIES ("CPS Securities")**

Sutton Capital Trust I — Face Amount \$50,000,000  
Sutton Capital Trust II — Face Amount \$50,000,000  
Sutton Capital Trust III — Face Amount \$50,000,000  
Sutton Capital Trust IV — Face Amount \$50,000,000

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**Issuers**

Each of Sutton Capital Trust I, Sutton Capital Trust II, Sutton Capital Trust III and Sutton Capital Trust IV is offering CPS Securities having an initial aggregate face amount of \$50,000,000 (\$200,000,000 in initial aggregate face amount for all four Trusts). Unless the context otherwise requires, solely for the sake of clarity and simplicity, the term "Trust" means each Sutton Capital Trust as it relates to its respective offering. Holders of CPS Securities issued by one Trust will not have any interest in the assets of, or claim against, any other Trust. Each Trust is formed for the purpose of:

- issuing a series of Money Market Committed Preferred Trust Securities representing undivided beneficial interests in the assets of such Trust;
- investing the proceeds from the issuance of the CPS Securities in a portfolio of eligible assets (the "Eligible Assets"), consisting of commercial paper, at least 80% of which are rated at least "A-1+" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), and all of which are rated at least "A-1" by Standard & Poor's and "Prime-1" by Moody's Investors Service, Inc. ("Moody's"), and satisfying other conditions described in this offering memorandum;
- entering into a put agreement (the "Put Agreement") with Financial Security Assurance Inc. ("FSA"), a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("FSA Holdings");
- upon exercise of the put option (the "Put Option") granted to FSA pursuant to the Put Agreement, purchasing the non-cumulative redeemable perpetual preferred stock of FSA ("FSA Preferred Stock");
- entering into an auction agent agreement (the "Auction Agent Agreement") with The Bank of New York (Delaware) (the "Auction Agent") pursuant to which both the auction rate on the CPS Securities (as described herein) and the dividend rate for the FSA Preferred Stock (as described herein) will be determined;
- making distributions to the holders of the CPS Securities; and
- other activities incidental or necessary to the foregoing.

A Trust will liquidate and dissolve if (1) FSA notifies the Trust that it is electing not to pay the put premium for the next succeeding distribution period that follows the notice by at least three business days, (2) in accordance with the Put Agreement, FSA fails to pay the put premium on a distribution payment date and such failure continues for five business days, (3) FSA elects to have the FSA Preferred Stock bear a fixed rate dividend equal to the fixed-rate equivalent of LIBOR (as defined herein) plus 2.00% (a "Fixed Rate Election"), (4) FSA fails to pay dividends on the FSA Preferred Stock, or the fees and expenses of the Trust, for the related dividend period, (5) FSA fails to pay the

redemption price and such failure continues for five business days or (6) the face amount of a Trust's CPS Securities is less than \$20,000,000, including as a result of a full redemption of the FSA Preferred Stock held by the Trust.

In the event of a liquidation while a Trust holds Eligible Assets, the Trust will distribute to the holders of CPS Securities the proceeds attributable to principal received upon maturity or sale of its Eligible Assets plus accumulated distributions, net of fees and expenses. In the event of a liquidation while a Trust holds FSA Preferred Stock, the Trust will distribute to the holders of CPS Securities the FSA Preferred Stock plus the right to accumulated dividends on the FSA Preferred Stock.

## **FSA**

In making an investment decision with respect to the CPS Securities, you are also making an investment decision with respect to FSA and the FSA Preferred Stock. Accordingly, you should carefully evaluate the risks of an investment in the FSA Preferred Stock. FSA, the principal operating subsidiary of FSA Holdings, provides financial guaranty insurance on asset-backed and municipal obligations.

## **Put Agreement**

Each Trust will enter into a separate Put Agreement with FSA. Under each Put Agreement:

- FSA may exercise its Put Option and cause the related Trust to purchase FSA Preferred Stock.
- As a condition to exercising the Put Option, FSA is required to enter into an Expense Reimbursement Agreement with the respective Trust pursuant to which FSA agrees to pay the fees and expenses of the Trust on every distribution payment date so long as the Trust holds FSA Preferred Stock.
- In the event FSA exercises its Put Option, the Trust will use the portion of the proceeds attributable to principal received upon maturity of its Eligible Assets (and, if applicable, liquidation of any defaulted Eligible Assets), net of fees and expenses, as consideration for the FSA Preferred Stock.
- While a Trust holds Eligible Assets, in accordance with the Put Agreement, FSA will pay the related Trust a put premium.
- Each Put Agreement has no scheduled termination date or maturity, however, it will terminate if (1) FSA notifies the Trust that it is electing not to pay the put premium for the next succeeding distribution period that follows the notice by at least three business days, (2) in accordance with the Put Agreement, FSA fails to pay the put premium on a distribution payment date and such failure continues for five business days, (3) FSA exercises the Put Option, or (4) the face amount of a Trust's CPS Securities is less than \$20,000,000.

## **The CPS Securities**

Unless the context otherwise requires, solely for the sake of clarity and simplicity, the term "CPS Securities" means the certificates issued by each respective Trust representing undivided beneficial interests in the assets of the Trust.

- The initial distribution rate for each Trust's initial distribution period and the initial distribution payment date for each Trust will be as follows:

Issuer	Initial Distribution Rate	Initial Distribution Payment Date
Sutton Capital Trust I.....	1.15%	July 16, 2003
Sutton Capital Trust II.....	1.15%	July 23, 2003
Sutton Capital Trust III.....	1.15%	July 30, 2003
Sutton Capital Trust IV.....	1.15%	August 6, 2003

- With respect to periods in which the related Trust holds Eligible Assets, subsequent distribution periods will consist of 28 days. With respect to periods in which the related Trust holds FSA Preferred Stock, subsequent distribution periods will be 49 days. Upon a Fixed Rate Distribution Event (as defined herein), dividends on the FSA Preferred Stock will be paid every 90 days to the holders of FSA Preferred Stock.

- Subsequent distribution rates on the CPS Securities, regardless of whether a Trust holds Eligible Assets or FSA Preferred Stock, will be the auction rate, subject to a maximum rate, determined in accordance with the auction procedures set forth in this offering memorandum.

While a Trust holds Eligible Assets, the funds available for distribution to the holders of CPS Securities will be limited to payments received on such Eligible Assets, together with the payment of the put premium. The put premium for any period is the auction rate less amounts received on the Eligible Assets (expressed as an annual rate) plus the Trust's fees and expenses (expressed as an annual rate). While a Trust holds FSA Preferred Stock, the funds available for distribution to the holders of CPS Securities will be limited to dividends, calculated at the auction rate and subject to the "maximum rate", payable on the FSA Preferred Stock. In either case, distributions will be passed through to the holders of CPS Securities, on a *pro rata* basis, on each distribution payment date.

- Any loss of principal as a result of a default in respect of an Eligible Asset owned by a Trust will be ratably allocated to the CPS Securities of such Trust.
- Subject to the liquidation and dissolution of a Trust under certain circumstances described in this offering memorandum, the CPS Securities are perpetual securities.
- It is a condition to issuance that the CPS Securities will be rated, at the time of issuance, at least "Aa2" by Moody's and "AA" by Standard & Poor's.

### **FSA Preferred Stock**

FSA Preferred Stock will be issued in one or more series, with each series in an aggregate liquidation preference amount equal to the aggregate face amount of a Trust's outstanding CPS Securities, net of fees and expenses, upon exercise of the Put Option. Unless redeemed by FSA, the FSA Preferred Stock will be perpetual.

For each dividend period, holders of the outstanding FSA Preferred Stock of any series, in preference to the holders of common stock and of any other class of shares ranking junior to the FSA Preferred Stock, provided that dividends on the common stock may be made at all times for the purpose of enabling FSA Holdings to service indebtedness and pay operating expenses, shall be entitled to receive out of any funds legally available therefor when, as and if declared by the Board of Directors of FSA or a duly authorized committee thereof, cash dividends at a rate per share equal to the dividend rate for such series of FSA Preferred Stock for the respective dividend period. Prior to a Fixed Rate Distribution Event, the dividend rate on the FSA Preferred Stock will be the auction rate, subject to the "maximum rate," of the CPS Securities, determined in accordance with the auction procedures described herein. See "Description of CPS Securities – Auction Procedures." Upon a Fixed Rate Distribution Event, the dividend rate on the FSA Preferred Stock will equal the fixed rate equivalent of LIBOR plus 2.00%. A "Fixed Rate Distribution Event" will occur upon any of the following: (1) FSA makes a Fixed Rate Election, (2) FSA fails to pay the dividends on the FSA Preferred Stock for the related dividend period, or (3) FSA fails to pay the fees and expenses of the Trust for the related dividend period pursuant to the Expense Reimbursement Agreement.

Dividends on the FSA Preferred Stock generally will not be cumulative. As long as the FSA Preferred Stock is held by a Trust, dividends will be payable every 49 days. Following a Fixed Rate Distribution Event, dividends will be payable every 90 days to the holders of FSA Preferred Stock.

### **Redemption of FSA Preferred Stock**

After exercise of the Put Option, FSA will have the option to redeem the FSA Preferred Stock held by the related Trust, in whole or in part, beginning 49 days after issuance and every 49 days thereafter consistent with the timing of the auction dates for the related CPS Securities, by paying a redemption price to the Trust in an amount equal to the liquidation preference amount of the FSA Preferred Stock (plus any accrued but unpaid dividends on the FSA Preferred Stock); provided that FSA must redeem all of the FSA Preferred Stock if, after giving effect to a partial redemption, the aggregate liquidation preference amount of the FSA Preferred Stock immediately following such partial redemption would be less than \$20,000,000. If FSA partially redeems the FSA Preferred Stock held by a Trust, the redemption proceeds will be distributed *pro rata* to the holders of the CPS Securities. If FSA fully redeems the preferred stock held by a Trust, the Trust will liquidate and dissolve.

Notwithstanding the foregoing, upon a Fixed Rate Distribution Event, FSA may not redeem the FSA Preferred Stock prior to the second anniversary of such Fixed Rate Distribution Event.

**This investment involves risk. See “RISK FACTORS” beginning on page 17 of this offering memorandum.**

The CPS Securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”), or under any state securities laws, nor are the Trusts registered under the Investment Company Act of 1940, as amended (the “1940 Act”). Therefore, the CPS Securities may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person unless the offer or sale would qualify for a registration exemption from the Securities Act and applicable state securities laws. Accordingly, the CPS Securities are being offered only to eligible purchasers. An “eligible purchaser” is (a) a qualified institutional buyer (a “qualified institutional buyer”) (as defined under the Securities Act) and is also a “qualified purchaser” as defined in Section 2(a)(51) of the 1940 Act and related rules, (b) for United States federal income tax purposes, (i) a “domestic corporation” within the meaning of Section 7701(a)(30)(C) of the Internal Revenue Code of 1986, as amended (the “Code”), (other than an “S Corporation” as defined in Section 1361 of the Code) or (ii) a U.S. person that is generally exempt from income tax under Section 501 of the Code and (c) not a pension or a welfare plan (as defined in Section 3 of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”)). See “Description of the CPS Securities—Purchaser’s Letter and Transfer Restrictions.”

Each Trust is intended to meet the requirements of Treasury Regulation §1.7704-1(h), which excludes from the definition of publicly traded partnership any partnership that does not have more than 100 partners. In order to meet the requirements for this exception, CPS Securities may not be transferred except in a transaction that will not cause the relevant Trust to be deemed a publicly traded partnership, and no purported transfer of CPS Securities, whether pursuant to an auction or otherwise, will be effective if, after giving effect to such transfer, the Trusts will have more than 100 partners.

Additionally, each Trust will not have more than 25 beneficial holders. CPS Securities may not be transferred except in a transaction that will not cause the relevant Trust to have more than 25 beneficial holders, and no purported transfer of CPS Securities, whether pursuant to an auction or otherwise, will be effective if, after giving effect to such transfer, the relevant Trust will have more than 25 beneficial holders.

	Per CPS Security	Total
Price to Investors .....	\$100,000	\$200,000,000*

\*\$50,000,000 for each of the four Trusts.

The CPS Securities will be ready for delivery through the book entry facilities of The Depository Trust Company on or about June 23, 2003.

**Lehman Brothers**

**UBS Investment Bank**

The date of this offering memorandum is June 19, 2003

## EXPLANATORY NOTE

Each Trust is a newly organized Delaware statutory trust. Separate and distinct records will be maintained for each Trust and the assets and liabilities attributable to the CPS Securities. Each Trust will issue only one series of CPS Securities.

Property of a particular Trust, all consideration received from the issue or sale of the CPS Securities of such Trust, together with all assets in which such consideration is invested or reinvested, and all interest, dividends, income, earnings, profits and gains therefrom, will be held by the Trust for the benefit of investors in that Trust and will irrevocably belong to that Trust for all purposes. Investors in any one Trust will not have, and will be conclusively deemed to have waived, any claims to the assets of any other Trust. The assets belonging to each particular Trust will be charged with the liabilities in respect of that Trust and all expenses, costs, charges and reserves attributable to that Trust. Any creditor of any Trust may look only to the assets belonging to that Trust to satisfy such creditor's debt.

## NOTICE TO INVESTORS

The CPS Securities and the FSA Preferred Stock are not, and will not be, registered under the Securities Act or any state securities laws. The CPS Securities are being sold, and any distribution of FSA Preferred Stock to holders of CPS Securities will be made, pursuant to an exemption from the registration requirements of the Securities Act and the applicable state securities laws. The Trusts are not registered under the 1940 Act in reliance on Section 3(c)(7) of the 1940 Act and related rules which in general excludes from the definition of an investment company any issuer whose outstanding securities are purchased only by qualified purchasers as defined under Section 2(a)(51) of the 1940 Act and related rules. You will be required to sign and to deliver to the broker-dealer a purchaser's letter, in the form attached hereto as Exhibit A, in which you will represent, among other things, that you are an eligible purchaser and agree that you will transfer the CPS Securities only through a bid or sell order placed in an auction through a broker-dealer to an eligible purchaser. You may be required to sell the CPS Securities if you do not provide the above-referenced certifications or otherwise comply with the foregoing. You will agree that you are acquiring the CPS Securities for your own account or, if you are acquiring the CPS Securities for the account of one or more other persons over which you have investment discretion, you will sign and deliver a separate purchaser's letter for each such person. In addition, you will agree that, other than in compliance with the purchaser's letter, you will not offer, sell, pledge, hypothecate or otherwise transfer the CPS Securities. California persons may not purchase CPS Securities prior to the initial auction date.

Pursuant to the CPS Securities purchaser's letter attached hereto as Exhibit A, you will agree, if and when the FSA Preferred Stock is distributed to you as a holder of CPS Securities, not to transfer the FSA Preferred Stock except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act and that, other than in compliance with the purchaser's letter relating to the FSA Preferred Stock (a copy of which is attached hereto as Attachment A to Exhibit A), you will not offer, sell, pledge, hypothecate or otherwise transfer the FSA Preferred Stock.

This offering memorandum has been prepared solely for your benefit in connection with your potential purchase of the CPS Securities. Except as expressly permitted by this offering memorandum, any reproduction or distribution of this offering memorandum, in whole or in part, or the disclosure of any of its contents to anyone is prohibited. By accepting delivery of this offering memorandum, you agree to the foregoing, to make no photocopies of this offering memorandum (and documents referred to in this offering memorandum) and, if you do not purchase CPS Securities or execute a purchaser's letter in the form attached hereto as Exhibit A, to return this offering memorandum to Lehman Brothers Inc. or UBS Securities LLC, as the initial purchasers (the "Initial Purchasers") or to the Trust. Notwithstanding anything to the contrary contained in this offering memorandum, you may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated by this offering memorandum, and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure, except that tax treatment and tax structure shall not include the identity of any of the parties referenced herein.

This offering memorandum is being furnished solely to you. Except as provided in this offering memorandum, no person has been authorized to make any representation or give any information with respect to the CPS Securities

offered hereby other than the information contained in this offering memorandum. You should not rely on information other than that contained in, or incorporated by reference into, this offering memorandum or obtained directly from the Trust or FSA. Neither the delivery of this offering memorandum at any time nor any sale made hereunder will imply that there has been no change in the affairs of any Trust or FSA since the date hereof or that the information contained in this offering memorandum is correct as of any time subsequent to the date hereof.

In making an investment decision, you must rely on your own examination of the respective Trust, FSA and the terms of the respective offering, including the merits and risks involved. Neither the CPS Securities nor the FSA Preferred Stock has been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary may be a criminal offense. Also, you must not construe the contents of this offering memorandum as legal or tax advice. You should consult your own counsel, accountant or business adviser as to legal, tax and related matters pertaining to this offering.

None of the Trusts, FSA, the Initial Purchasers or any of their respective affiliates or representatives make any representation to any offeree or purchaser of the CPS Securities regarding such offeree's or purchaser's legal power, authority or right to purchase the CPS Securities or regarding the advisability of investing in securities generally or in the CPS Securities offered hereby. Each prospective purchaser of the CPS Securities must comply with all laws and regulations applicable to it in force in any jurisdiction in which it purchases, offers or sells CPS Securities or possesses or distributes this offering memorandum and must obtain any consent, approval or permission required to be obtained by it for the purchase, offer or sale by it of CPS Securities under the laws and regulations applicable to it in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Trusts, FSA, the Initial Purchasers or any of their respective agents or affiliates shall have any responsibility therefore.

You are hereby offered the opportunity to ask questions and receive answers concerning the terms of the offering and to obtain from the Trusts additional information to the extent that the Trusts possess such information or can acquire it without unreasonable effort or expense (and without divulging information deemed by the Trusts, in their absolute discretion, to be proprietary and confidential), that is necessary to verify the accuracy of the information contained in this offering memorandum or provided pursuant hereto. Requests for additional information with respect to the CPS Securities or auctions should be directed to the Auction Securities Trading Department at Lehman Brothers Inc., 745 Seventh Avenue, New York, New York 10019, telephone: (212) 526-8390 or the TFI Auction Preferred Desk at UBS Financial Services Inc., 800 Harbor Boulevard, Weehawken, New Jersey 07086, telephone: (201) 352-7270. Requests for additional information with respect to each Trust should be directed to the trustee thereof, The Bank of New York at 100 Church Street, 8<sup>th</sup> Floor, New York, NY 10286, Attention: Corporate Trust Division, telephone (212) 437-2862.

By purchasing the CPS Securities, each purchaser will be deemed to have acknowledged that (i) it has been given the opportunity to ask questions of and receive answers from the Trusts and FSA concerning the terms and conditions of the offering and other matters pertaining to an investment in the CPS Securities, (ii) it has been given the opportunity to request and review such additional information necessary to evaluate the merits and risks of a purchase of the CPS Securities and to verify the accuracy of or to supplement the information contained in this offering memorandum to the extent the Trusts possess such information, (iii) it has received all documents and information reasonably necessary to make an investment decision, (iv) it has not relied on the Trusts, FSA, the Initial Purchasers or any of their respective agents or affiliates to investigate the appropriateness of its investment decision and (v) the Initial Purchasers are not responsible for, and are not making any representation to you concerning, the future performance of the Trusts or FSA or the accuracy or completeness of this offering memorandum.

**THE CPS SECURITIES ARE NOT BEING OFFERED TO, AND WILL NOT BE ISSUED OR SOLD TO, ANY PENSION OR WELFARE PLAN (AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")).**

The CPS Securities are being purchased by the Initial Purchasers for resale in the initial auction, subject to prior sale, when, as and if issued to and accepted by the Initial Purchasers. The Initial Purchasers reserve the right to withdraw, cancel or modify such offer and to reject any offers to purchase CPS Securities, in whole or in part.

This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy the CPS Securities to any person in any jurisdiction in which such offer, solicitation or sale is unlawful.

The Trustee has not participated in the preparation of this offering memorandum and assumes no responsibility for its contents.

**For Florida Residents:**

The CPS Securities are offered pursuant to a claim of exemption under Section 517.061 of the Florida Securities and Investor Protection Act and have not been registered under that Act in the state of Florida. All Florida residents (other than exempt institutional investors) have the right to void the purchase of the CPS Securities without penalty within three days of making such purchase.

**For New Hampshire Residents:**

Neither the fact that a registration statement or an application for a license has been filed with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under RSA 421-b is true, complete and not misleading. Neither any such fact nor the fact that an exemption or description is available for a security or a transaction means that the Secretary of State has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client, any representation inconsistent with the provisions of this paragraph.

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## FORWARD LOOKING STATEMENTS

Statements included in this offering memorandum with respect to FSA may represent "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995. Wherever possible, these forward-looking statements have been identified by using words like "believe," "anticipate," "project," "plan," "expect," "intend," "will likely result," or "will continue" and similar expressions. Such statements are subject to certain risks that could cause actual results to differ materially from both historical and presently anticipated earnings. Readers are cautioned not to place undue reliance on any such forward-looking statements, which reflect FSA's plans and expectations and are based on information currently available to it.

The following are some of the factors that could affect FSA's financial performance or cause actual results to differ materially from estimates contained in or underlying the forward-looking statements:

- changes in capital requirements or other criteria of securities rating agencies applicable to financial guaranty insurers in general or to FSA specifically;
- competitive forces, including the conduct of other financial guaranty insurers in general;
- changes in domestic or foreign laws or regulations applicable to FSA, its competitors or its clients;
- changes in accounting principles or practices that may result in a decline in securitization transactions;
- an economic downturn or other economic conditions (such as a rising interest rate environment) adversely affecting transactions insured by FSA or its investment portfolio;
- inadequacy of loss reserves established by FSA;
- temporary or permanent disruptions in cash flow on FSA-insured structured transactions attributable to legal challenges to such structures;
- downgrade or default of one or more of FSA's reinsurers;
- the amount and nature of business opportunities that may be presented to FSA;
- market conditions, including the credit quality and market pricing of securities issued;
- capacity limitations that may impair investor appetite for FSA-insured obligations;
- market spreads and pricing on insured credit default swap exposures, which may result in gain or loss due to mark-to-market accounting requirements;
- prepayment speeds on FSA-insured asset-backed securities and other factors that may influence the amount of installment premiums paid to FSA;
- other factors, most of which are beyond FSA's control.

FSA cautions that the foregoing list of important factors is not exhaustive. In any event, such forward-looking statements made by FSA speak only as of the date on which they are made, and FSA does not undertake any obligation to update or revise such statements as a result of new information, future events or otherwise.

## WHERE YOU CAN FIND MORE INFORMATION

FSA, the issuer of the FSA Preferred Stock, is the principal operating subsidiary of FSA Holdings. FSA Holdings is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports and other information with the SEC, which include information relating to FSA. These reports and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

Copies of FSA's financial statements prepared in accordance with statutory accounting standards are available from FSA. In addition, while any CPS Securities or shares of FSA Preferred Stock, if, as and when issued, remain outstanding, FSA will make available upon request, to any holder and any prospective purchaser of the CPS Securities or, if applicable, the FSA Preferred Stock, the information required pursuant to Rule 144A(d)(4) under the Securities Act during any period in which FSA is not subject to Section 13 or 15(d) of the Exchange Act. Any such request should be directed to FSA's administrative offices.

The address of FSA's administrative offices and its telephone number are 350 Park Avenue, New York, New York 10022 and (212) 826-0100.

We have incorporated into this document by reference only that information which relates to FSA filed with (or furnished to) the SEC by FSA Holdings which is listed below. Any information referenced in this way is considered part of this offering memorandum. Those portions of the following documents relating to FSA, which have been filed with (or furnished to) the SEC by FSA Holdings, have been incorporated by reference into this document:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed on March 28, 2003; and
- Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003, filed on May 14, 2003.

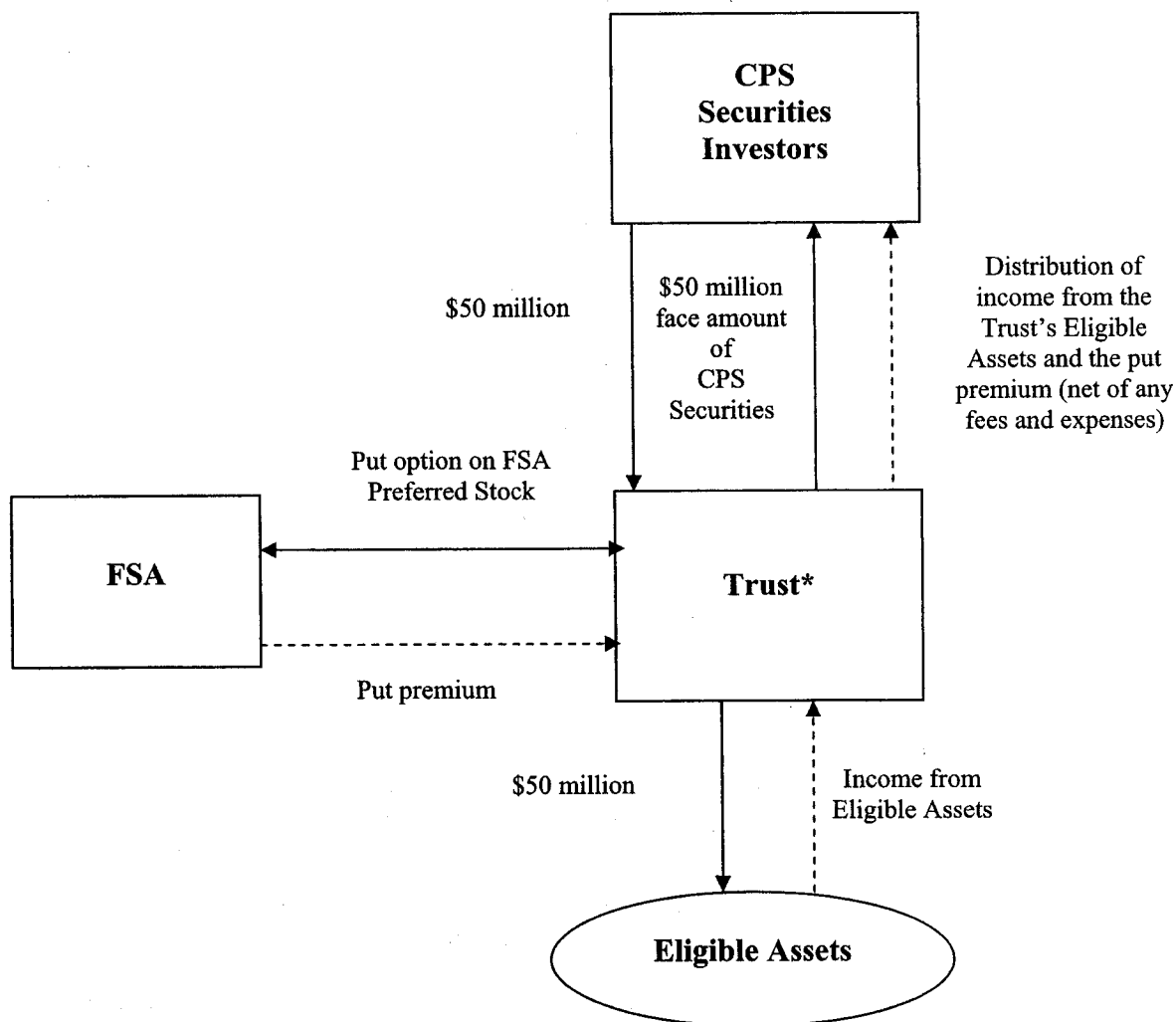
FSA will provide without charge, upon written or oral request, a copy of any or all of the documents which are incorporated by reference in this offering memorandum, other than exhibits which are specifically incorporated by reference into those documents. Requests should be directed to FSA's administrative offices. FSA Holdings has no obligation and provides no guarantee with respect to either the offering or the performance of the CPS Securities or the FSA Preferred Stock. Accordingly, only those portions of the reports and other information filed with the SEC by FSA Holdings which specifically discuss or relate to FSA should be reviewed as a source of information with respect to FSA, other than that which is contained in this offering memorandum. You are advised to consult any further disclosures FSA or FSA Holdings make on related subjects in FSA Holdings' reports to the SEC. FSA is not obligated to make filings with the SEC.

### TRANSACTION OVERVIEW

The following diagram provides a summary of the structure and the flow of funds on the closing date. The diagram does not purport to be complete and is qualified in its entirety by, and you should read it in conjunction with, the more detailed information regarding the transactions included elsewhere in this offering memorandum.

Each Trust will enter into transactions on the closing date in order to:

- (1) issue its CPS Securities for a total of \$50,000,000;
- (2) purchase a portfolio of Eligible Assets for \$50,000,000; and
- (3) enter into a Put Agreement with FSA.



\* Each Trust will issue \$50,000,000 of CPS Securities and enter into a Put Agreement with FSA.

## THE OFFERING

*The following summary information does not purport to be complete and is qualified in its entirety by reference to, and should be read in conjunction with, the more detailed information and financial statements, and the related notes thereto, included elsewhere or incorporated by reference in this offering memorandum. Unless the context otherwise requires, references to any Trust means each Trust, in each instance as it relates to its respective offering. The terms "CPS Securities" and "CPS Security" mean the one series of the CPS Securities issued by each Trust.*

**Issuers .....** Each of Sutton Capital Trust I, Sutton Capital Trust II, Sutton Capital Trust III and Sutton Capital Trust IV is issuing \$50,000,000 of CPS Securities.

Each Trust is a newly created statutory trust organized under the Delaware Statutory Trust Act. Each Trust is solely responsible for its obligations. All property of a Trust, and all consideration received from the issue or sale of the CPS Securities of such Trust, together with all Eligible Assets in which such consideration is invested or reinvested and all interest, dividends, income, earnings, profits and gains therefrom, will be held by the Trust for the benefit of investors in that Trust. Holders of CPS Securities issued by one Trust will not have any interest in the assets of, or claim against, any other Trust. Each Trust will be treated as a partnership for U.S. federal income tax purposes. In addition, UBS Financial Services Inc. will acquire 1/100<sup>th</sup> of a CPS Security, having an initial face value of \$1,000, of Trusts I and III, and Lehman Brothers Inc. will acquire 1/100<sup>th</sup> of a CPS Security, having an initial face value of \$1,000, of Trusts II and IV, in order to act as the tax matters partner for each such Trust, respectively. Each Trust has been formed for the purpose of:

- issuing CPS Securities, with each CPS Security representing an undivided beneficial interest in the Trust's assets;
- investing the net proceeds from the issuance and sale of the CPS Securities in a portfolio of Eligible Assets (all of which will mature within 28 days of investment therein) and holding the Eligible Assets for the benefit of investors in that Trust;
- making distributions to the holders of CPS Securities;
- entering into a Put Agreement with FSA, an Auction Agent Agreement with the Auction Agent and an Investment Management Agreement with the Investment Manager;
- upon exercise of the Put Option granted to FSA pursuant to the Put Agreement, purchasing the FSA Preferred Stock; and
- engaging in other activities incidental or necessary to the foregoing.

Under each Trust's Declaration of Trust, there will be a trustee that will be an entity that maintains its principal place of business in the State of Delaware. Initially, The Bank of New York (Delaware), a Delaware banking corporation, referred to as the "Trustee," will act as trustee of the Trusts. See "The Trustee" in this offering memorandum. Holders of more than 50% of the aggregate face amount of all outstanding

CPS Securities of any Trust have the right to appoint, remove or replace the Trustee of such Trust, provided that at least one replacement trustee will have its principal place of business in the State of Delaware.

A Trust will liquidate and dissolve if (1) FSA notifies the Trust that it is electing not to pay the put premium for the next succeeding distribution period that follows the notice by at least three business days, (2) in accordance with the Put Agreement, FSA fails to pay the put premium on a distribution payment date and such failure continues for five business days, (3) FSA makes a Fixed Rate Election, (4) FSA fails to pay dividends on the FSA Preferred Stock, or the fees and expenses of the Trust, for the related dividend period, (5) FSA fails to pay the redemption price and such failure continues for five business days or (6) the face amount of a Trust's CPS Securities is less than \$20,000,000, including as a result of a full redemption of the FSA Preferred Stock held by the Trust.

In the event of a liquidation while a Trust holds Eligible Assets, the Trust will distribute to the holders of CPS Securities the proceeds attributable to principal received upon maturity or sale of its Eligible Assets plus accumulated distributions, net of fees and expenses. In the event of a liquidation while a Trust holds FSA Preferred Stock, the Trust will distribute to the holders of CPS Securities the FSA Preferred Stock plus the right to accumulated dividends on the FSA Preferred Stock.

A summary of the material terms of the rights of the holders of the CPS Securities, including economic rights, rights to information and voting rights, is described under "Description of CPS Securities" in this offering memorandum.

**Securities Offered .....** CPS Securities, face amount \$100,000 per CPS Security.

<b>Issuer</b>	<b>Initial Aggregate Face Amount</b>
Sutton Capital Trust I	\$50,000,000
Sutton Capital Trust II	\$50,000,000
Sutton Capital Trust III	\$50,000,000
Sutton Capital Trust IV	\$50,000,000

**Ratings .....** It is a condition to issuance that the CPS Securities will be rated, at the time of issuance, at least "Aa2" by Moody's and "AA" by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency without notice. Each rating should be evaluated independently of any other rating.

**Distributions .....** The initial distribution rate for each Trust's initial distribution period and the initial distribution payment date for each Trust will be as follows:

<b>Issuer</b>	<b>Initial Distribution Rate</b>	<b>Initial Distribution Payment Date</b>
Sutton Capital Trust I	1.15%	July 16, 2003
Sutton Capital Trust II	1.15%	July 23, 2003
Sutton Capital Trust III	1.15%	July 30, 2003
Sutton Capital Trust IV	1.15%	August 6, 2003

Each subsequent distribution period for the CPS Securities will commence on and include the distribution payment date for such CPS Securities for the preceding distribution period and end on and exclude the distribution payment date of the then current distribution period and, so long as Eligible Assets are held by a Trust, will be 28 days long. If FSA Preferred Stock is held by a Trust, the subsequent distribution period will be 49 days long. Following a Fixed Rate Distribution Event, dividends will be paid every 90 days to the holders of FSA Preferred Stock.

Generally, subject to a "maximum rate," in each subsequent distribution period, you will receive cash distributions at a rate per CPS Security equal to the auction rate for the CPS Securities. Distributions payable on the CPS Securities with respect to a distribution period will be computed by multiplying the applicable distribution rate by a fraction, the numerator of which will be the actual number of days in the distribution period and the denominator of which will be 360 which, in turn, will be multiplied by the aggregate outstanding face amount of such CPS Securities. While a Trust holds Eligible Assets, the funds available for distribution to the holders of CPS Securities will be limited to payments received on such Trust's Eligible Assets together with the payment of the put premium, calculated as the auction rate less amounts received on the Trust's Eligible Assets (expressed as a per annum rate) plus the Trust's fees and expenses (expressed as a per annum rate). While a Trust holds FSA Preferred Stock, the funds available for distribution to holders of CPS Securities will be limited to dividends received from FSA on the FSA Preferred Stock.

The distribution payment date for each distribution period will be the first business day of the next distribution period for the applicable CPS Securities. If a distribution payment date is not a business day, the distribution payment will be made on the next business day following such distribution payment date.

If all existing holders of the CPS Securities of a Trust indicate a desire to hold such CPS Securities without regard to the auction rate, the distribution rate payable on the CPS Securities of such Trust for the next distribution period will be the distribution rate per annum equal to 95% of the 30-day LIBOR Rate on the auction date for the next distribution period. See "Description of CPS Securities—Auction Procedures."

The "maximum rate" is the maximum distribution rate that can result from an auction. The maximum rate on any auction date will mean the rate (expressed as a percentage rounded to one one-thousandth (.001) of 1.000%) that is equal to the sum of (A) the 30-day LIBOR Rate on the auction date for the applicable distribution period, plus (B) the applicable rate as determined by reference to the following table:

<b>Prevailing Rating of FSA's Financial Strength*</b>		
<b>Moody's</b>	<b>Standard &amp; Poor's</b>	<b>Applicable Rate</b>
"Aaa"	"AAA"	1.50%
below "Aaa"	below "AAA"	2.00%

\* In the event of a split rating, the lower rating will prevail

FSA will take all reasonable action necessary to enable Moody's and Standard & Poor's to continue providing ratings for FSA, but if Moody's or Standard & Poor's ceases to make such ratings available, then the maximum rate will be based on the ratings then available (whether from Moody's or from Standard & Poor's) and FSA will take all reasonable action to obtain a rating from another nationally recognized rating agency. See "Description of CPS Securities—Auction Procedures."

So long as the CPS Securities are held of record by a nominee of DTC, distributions will be paid to the nominee of DTC on each distribution payment date for the CPS Securities.

The record date for the determination of holders of CPS Securities entitled to receive payment of a distribution declared thereon will be, except as otherwise noted, the open of business on the business day next preceding the distribution payment date.

#### **Eligible Assets Guidelines .....**

The Investment Manager will manage each Trust's portfolio of Eligible Assets in accordance with the following guidelines in order to obtain and maintain a rating of at least "Aa2" by Moody's and "AA" by Standard & Poor's with respect to the related CPS Securities. Each Trust:

- will invest solely in commercial paper that had an initial maturity of 60 days or less upon issuance, and that matures, with respect to each distribution period, no later than the auction date for the next succeeding distribution period; provided, that such commercial paper will mature on or as close as practicable to such auction date, but no later than such auction date; provided further, that commercial paper rated "A-1" by Standard & Poor's, at the time of investment, must have had an initial maturity of 30 days or less;
- will not sell Eligible Assets, unless there is a default (as described in "Description of CPS Securities—Eligible Assets Guidelines") of which the Investment Manager becomes aware using its standard credit monitoring procedures;
- will invest in Eligible Assets, at least 80% of which are rated, at the time of investment, at least "A-1+" by Standard & Poor's, and all of which, at the time of investment, are rated at least "A-1" by

Standard & Poor's and "Prime-1" by Moody's; the portfolio of Eligible Assets will not contain any commercial paper on credit watch or under review for downgrade by Standard & Poor's or Moody's, respectively, at the time of investment;

- with respect to commercial paper issued by corporations, will invest in such commercial paper only if the corporation's long-term indebtedness is rated, at the time of investment, at least "A1" by Moody's;
- may invest up to 10% of its assets in commercial paper issued by a single issuer; for purposes of this guideline, asset backed commercial paper will be treated as having been issued by different issuers provided that such issuers have different sponsors; and
- may invest up to 25% of its assets in commercial paper issued by issuers in a single industry; for purposes of this guideline, asset backed commercial paper will be treated as a separate industry based on the character of the asset class (for example: receivables, credit cards, mortgages, etc. would each be a separate industry).

Notwithstanding the foregoing, a Trust may not purchase any securities issued or insured by FSA or any company controlling, controlled by or under common control with FSA, except for FSA Preferred Stock acquired pursuant to the Put Agreement. In addition, to the extent that funds can not be fully invested in commercial paper as described above due to a lack of supply in the market, the Investment Manager will invest such funds in short-term U.S. Treasury securities that had an initial maturity of one year or less upon issuance and that mature no later than the auction date for the next succeeding distribution date.

A Standard & Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt considered short-term in the relevant market. A rating of "A-1" indicates that the commercial paper's degree of safety regarding timely payment is strong. Commercial paper determined to possess extremely strong safety characteristics is denoted "A-1+." Moody's commercial paper ratings are opinions of the ability of issuers to repay punctually promissory obligations not having an original maturity in excess of 9 months. "Prime-1" issuers or related institutions are considered to have a superior capacity for repayment of short term promissory obligations. Prime-1 repayment capacity will normally be evidenced by the following characteristics: leading market positions in well-established industries; high rates of return on funds employed; conservative capitalization structures with moderate reliance on debt and ample asset protection; broad margins in earnings coverage of fixed financial charges and high internal cash-generation; and well established access to a range of financial markets and assured sources of alternative liquidity.

The foregoing guidelines may be amended or supplemented from time to time without a vote of the holders upon receipt from Standard & Poor's and Moody's of written confirmation that such amendment or supplement (i) is necessary to maintain the then current rating on the CPS Securities by Standard & Poor's and Moody's, or (ii) would not



cause a reduction by Standard & Poor's and Moody's in the then current rating of the CPS Securities.

**Investment Manager.....**

Pursuant to an Investment Management Agreement between The Bank of New York, as the investment manager (the "Investment Manager"), and each Trust, the Investment Manager advises and, through a power-of attorney, administers the investment activities of each Trust so that each Trust's portfolio of Eligible Assets is within specified investment categories and, taken together, satisfies specified portfolio composition requirements. See "Eligible Assets Guidelines" in this offering memorandum. The Investment Manager's responsibilities include (i) establishing trading accounts on behalf of the Trusts, (ii) enforcing each Trust's rights with respect to its Eligible Assets, (iii) providing certain reports to the related Trust with respect to its Eligible Assets, and (iv) appointing a custodian to hold Eligible Assets on behalf of each Trust.

The Investment Manager of any Trust may be replaced by the affirmative vote of the holders of a majority in face amount of such Trust's CPS Securities.

**Auction Procedures .....**

Separate auctions for each distribution period (other than the initial distribution period) for the CPS Securities issued by each Trust will be held on the last business day next preceding such distribution period (each an "auction date"). On each auction date, each existing holder may submit orders through one of the broker-dealers to the auction agent as follows:

- hold order—indicating its desire to hold without regard to the auction rate for the next distribution period.
- bid—indicating its desire to sell if the auction rate for the next distribution period is less than the rate specified in such bid.
- sell order—indicating its desire to sell without regard to the auction rate for the next distribution period.

An order must be submitted in respect of a whole number of CPS Securities.

An existing holder may submit different types of orders in an auction. An existing holder that offers to purchase additional CPS Securities is, for purposes of such offer, treated as a potential holder with respect to such securities as described below. A hold order will be deemed to have been submitted on behalf of an existing holder if an order is not submitted on behalf of such existing holder for any reason, including the failure of a broker-dealer to submit such existing holder's order to the auction agent in a timely manner. A bid by an existing holder specifying a rate higher than the maximum rate will be treated as a sell order.

Potential holders of CPS Securities are those persons who submit bids in which they offer to purchase a whole number of CPS Securities if the auction rate for the next distribution period is not less than the rate specified in such bid. A bid by a potential holder specifying a rate higher than the maximum rate on the auction date will not be accepted.

If sufficient clearing bids have been made (that is, if the aggregate number of CPS Securities subject to bids by potential holders specifying rates equal to or lower than the maximum rate exceeds or is equal to the aggregate number of CPS Securities subject to sell orders), the auction rate will be the lowest rate specified in the submitted bids which, taking into account such rate and all lower rates bid by existing holders and potential holders, would result in existing holders and potential holders owning all CPS Securities available for purchase in the auction.

If sufficient clearing bids have not been made (other than because all of the outstanding CPS Securities are subject to hold orders), then the auction rate will be the maximum rate for the next succeeding distribution period. In addition, existing holders that have submitted sell orders will not be able to sell in the auction all or any of their CPS Securities subject to such sell orders. Thus, under certain circumstances, you may not be able to liquidate your investment. If all of the CPS Securities are subject to hold orders, the auction rate will be the distribution rate per annum equal to 95% of the 30-day LIBOR Rate on the auction date.

The auction procedures provide in certain circumstances for a *pro rata* allocation of CPS Securities for purchase and sale, which may result in an existing holder continuing to hold or selling, or a potential holder purchasing, a number of CPS Securities that is less than the number of CPS Securities specified in its order. Such a result might occur if an existing holder fails to deliver CPS Securities sold in an auction.

The auction procedures also require the broker-dealers to reject bids from purchasers who do not provide a signed copy of the purchaser's letter attached hereto as Exhibit A.

**Delayed Auction; Delayed  
Auction Rate; Delayed  
Auction Period.....**

Following any allocation of any loss of principal or interest with respect to Eligible Assets held by a Trust realized on or after the third business day preceding an auction date or on an auction date, the then outstanding aggregate face amount of that Trust's CPS Securities will be reduced in integral increments of \$100,000 to reflect such loss and the auction date for such CPS Securities will be delayed by three (3) business days. See "—Loss Participation." The delayed auction for such CPS Securities will be held on the third business day next following the previously scheduled auction date.

During the delayed auction period, distributions on the aggregate face amount of the CPS Securities of a Trust (as reduced by the amount of principal or interest lost on the Eligible Assets of that Trust) will accrue at the delayed auction rate.

The delayed auction period for the CPS Securities of a Trust will mean the period from and including the previously scheduled distribution payment date for the distribution period in which the loss occurred to and excluding the first business day after the delayed auction date.

The delayed auction rate during the delayed auction period will mean the rate (expressed as a percentage rounded to one-thousandth (.001) of 1.000%) that is equal to the sum of (A) the 30-day LIBOR Rate on the

originally scheduled auction date for such delayed auction period, plus (B) 150 basis points (1.50%); provided that if the prevailing rating of FSA's financial strength drops below "Aaa" or below "AAA", the delayed auction rate will be the 30-day LIBOR Rate on the originally scheduled auction date plus 200 basis points (2.00%).

Distributions (or amounts equal to accrued and unpaid distributions) payable on a Trust's CPS Securities with respect to a delayed auction period will be computed by multiplying the delayed auction rate by a fraction, the numerator of which will be the actual number of days in the delayed auction period and the denominator of which will be 360, which, in turn, will be multiplied by the aggregate outstanding face amount of such CPS Securities.

Distributions on the CPS Securities of a Trust for the then effective distribution period and the distributions payable on such Trust's CPS Securities as a result of the delayed auction (which will include the delayed auction period put premium) will be paid on the business day next following the delayed auction date.

The distribution period next following any delayed auction period will be a short period and will begin on and include the distribution payment date for the delayed auction period and will end on and exclude the distribution payment date on which it would have ended if the next preceding distribution period for such CPS Securities had not been delayed.

**Loss Participation .....**

If the Investment Manager becomes aware of a default in the Eligible Assets of a Trust using its standard credit monitoring procedures at any time prior to the third business day preceding the date on which any auction for such Trust is held, the Investment Manager will dispose of the defaulted Eligible Asset as soon as practicable, but in any event, on or before the next auction date. For these purposes, "default" shall mean the failure of an issuer of any Eligible Asset owned by a Trust to pay when due principal of or interest on any of its indebtedness to third parties (which failure constitutes an event of default under such indebtedness and allows holders of the issuer's indebtedness to accelerate the repayment of such indebtedness) or the bankruptcy, dissolution, insolvency, liquidation, receivership or winding-up of any entity that has issued commercial paper owned by the Trust or any equivalent or analogous proceedings or the voluntary or involuntary filing of any document, certificate or other instrument to commence any such action.

On each auction date and on each date on which a Trust sells an Eligible Asset, the Investment Manager will determine and inform the Trustee whether the Trust has suffered a loss of principal or interest. Losses of principal or interest, if any, will be allocated to the holders of the CPS Securities of the affected Trust, by reducing, on a *pro rata* basis, the number of CPS Securities owned by each holder. Following a loss of principal or interest, each holder of CPS Securities will own a number of CPS Securities equal to (A)(i) the aggregate face amount of CPS Securities owned by the holder immediately prior to the loss of principal or interest, minus (ii) the *pro rata* portion of the loss of principal or interest allocated to such holder, divided by (B) \$100,000, with the result of such calculation being rounded down to the nearest whole number of CPS Securities having a face amount of \$100,000. If

a loss of interest would cause a Trust to have insufficient returns on the Eligible Assets when added to the put premium to make distributions on its CPS Securities at the auction rate, the Trust will return to investors a portion of their capital to assure that distributions on the CPS Securities for that period will be made at the auction rate and such loss will be included in the foregoing calculation. The face amount of any fractional CPS Securities rounded down pursuant to the preceding formula (other than any fractional CPS Securities owned by Lehman Brothers Inc. or UBS Financial Services Inc., as applicable, as tax matters partner) will be distributed to the holder in cash as soon as practicable and, in any event, no later than the distribution payment date next following such loss. Losses of principal or interest will be allocated as soon as practicable following the date on which they are realized and, in any event, no later than 3:00 p.m. on the auction date following such loss. The reduction of the face amount of each holder's CPS Securities will be deemed to occur on the date on which the loss is realized. For these purposes, "loss" means the failure of a Trust to receive a repayment of principal when due (not including any grace period), a payment of interest when due (not including any grace period) and, upon the sale of an Eligible Asset, receipt by the Trust of less than it paid for the Eligible Asset plus the earnings on the Eligible Asset (and on any replacement Eligible Assets acquired with the proceeds of such sale) for the entire respective distribution period.

A Trust will liquidate and dissolve if the face amount of its CPS Securities is less than \$20,000,000 or upon certain events described under "-Liquidation."

In addition, since FSA's put premium is calculated as a percentage of the face amount of the outstanding CPS Securities of a Trust, any loss on such Trust's Eligible Assets will proportionally reduce the aggregate amount of the put premium payable to such Trust by FSA for future distribution periods. Further, if FSA exercises a Put Option, the amount of FSA Preferred Stock the Trust is able to purchase will be reduced by the amount of any such loss.

**Liquidation.....** A Trust will liquidate and dissolve if:

- FSA notifies the Trust that it is electing not to pay the put premium for the next succeeding distribution period that follows the notice by at least three business days;
- in accordance with the Put Agreement, FSA fails to pay the put premium on a distribution payment date and such failure continues for five business days;
- FSA makes a Fixed Rate Election;
- FSA fails to pay dividends on the FSA Preferred Stock, or the fees and expenses of the Trust, for the related dividend period;
- FSA fails to pay the redemption price and such failure continues for five business days; or
- the face amount of a Trust's CPS Securities is less than \$20,000,000, including as a result of a full redemption of the FSA Preferred Stock held by the Trust.

In the event of a liquidation while a Trust holds Eligible Assets, the Trust will distribute to the holders of CPS Securities the proceeds attributable to principal received upon sale or maturity of its Eligible Assets plus accumulated distributions, net of fees and expenses. In the event of a liquidation while a Trust holds FSA Preferred Stock, the Trust will distribute to the holders of CPS Securities the FSA Preferred Stock plus the right to accumulated dividends on the FSA Preferred Stock.

**Put Agreement .....**

Each Trust has entered into a separate Put Agreement with FSA, pursuant to which:

- FSA has the right to cause each Trust to purchase the FSA Preferred Stock in an amount equal to the portion of the proceeds attributable to principal received upon maturity of its Eligible Assets (and, if applicable, liquidation of defaulted Eligible Assets), net of fees and expenses;
- FSA will pay a put premium to a Trust on each distribution payment date until the termination of the Put Agreement; and
- The put premium will be in an amount equal to the product of (A) the auction rate on the CPS Securities for the respective distribution period less the excess of (i) the Trust's stated return on the Eligible Assets for such distribution period (expressed as an annual rate) over (ii) the expenses of the Trust for such distribution period (expressed as an annual rate), (B) the aggregate face amount of the CPS Securities of the Trust outstanding on the date the put premium is calculated, and (C) a fraction, the numerator of which will be the actual number of days in such distribution period and the denominator of which will be 360. The put premium will be calculated for each distribution period on the auction date (which is the last business day of the preceding distribution period);

Each Put Agreement has no scheduled termination date or maturity, however, it will terminate if (1) FSA notifies the Trust that it is electing not to pay the put premium for the next succeeding distribution period that follows the notice by at least three business days, (2) in accordance with the Put Agreement, FSA fails to pay the put premium on a distribution payment date and such failure continues for five business days, (3) FSA exercises the Put Option, or (4) the face amount of a Trust's CPS Securities is less than \$20,000,000.

So long as FSA Preferred Stock is held by the Trust, for every distribution period, the Trust will receive from FSA on the distribution payment date for such distribution period, dividends payable on the FSA Preferred Stock at the auction rate described in this offering memorandum.

As a condition to exercising a Put Option under the Put Agreement, FSA is required to enter into an Expense Reimbursement Agreement with the respective Trust pursuant to which FSA agrees it will pay the fees and expenses of the Trust on every distribution payment date while the Trust holds FSA Preferred Stock.

**FSA Preferred Stock .....**

FSA Preferred Stock will be issued in one or more series, with each series in an aggregate liquidation preference amount equal to the aggregate face amount of a Trust's outstanding CPS Securities, net of fees and expenses, upon exercise of the Put Option. Unless redeemed by FSA, the FSA Preferred Stock will be perpetual.

For each dividend period, holders of the outstanding FSA Preferred Stock of any series, in preference to the holders of common stock and of any other class of shares ranking junior to the FSA Preferred Stock, provided that dividends on the common stock may be made at all times for the purpose of enabling FSA Holdings to service indebtedness and pay operating expenses, shall be entitled to receive out of any funds legally available therefor when, as and if declared by the Board of Directors of FSA or a duly authorized committee thereof, cash dividends at a rate per share equal to the dividend rate for such series of FSA Preferred Stock for the respective dividend period. Prior to a Fixed Rate Distribution Event, the dividend rate on the FSA Preferred Stock will be the auction rate, subject to the "maximum rate," of the CPS Securities, determined in accordance with the auction procedures described herein. See "Description of CPS Securities – Auction Procedures." Upon a Fixed Rate Distribution Event, the dividend rate on the FSA Preferred Stock will equal the fixed rate equivalent of LIBOR plus 2.00%. A "Fixed Rate Distribution Event" will occur upon any of the following: (1) FSA makes a Fixed Rate Election, (2) FSA fails to pay the dividends on the FSA Preferred Stock for the related dividend period, or (3) FSA fails to pay the fees and expenses of the Trust for the related dividend period pursuant to the Expense Reimbursement Agreement. Dividends on the FSA Preferred Stock generally will not be cumulative. As long as the FSA Preferred Stock is held by a Trust, dividends will be payable every 49 days. Following a Fixed Rate Distribution Event, dividends will be payable every 90 days to the holders of FSA Preferred Stock.

**Redemption .....**

After exercise of the Put Option, FSA will have the option to redeem the FSA Preferred Stock held by the related Trust, in whole or in part, beginning 49 days after issuance and every 49 days thereafter consistent with the timing of the auction dates for the related CPS Securities, by paying a redemption price to the Trust in an amount equal to the liquidation preference amount of the FSA Preferred Stock (plus any accrued but unpaid distribution for the then current distribution period, as applicable) as follows:

- if FSA partially redeems the FSA Preferred Stock held by a Trust, the redemption proceeds will be distributed *pro rata* to the holders of the CPS Securities (and a corresponding reduction in the aggregate face amount of CPS Securities will be made); provided that FSA must redeem all of the FSA Preferred Stock if after giving effect to the partial redemption, the aggregate liquidation preference amount of the FSA Preferred Stock held by such Trust next following such redemption would be less than \$20,000,000;
- if FSA fully redeems the preferred stock held by a Trust, the Trust will liquidate and dissolve; and
- FSA may not redeem the FSA Preferred Stock from the holders for a period of two years following a Fixed Rate Distribution Event.

**Purchaser's Letter  
and Transfer**

**Restrictions .....**

You will be required to sign and deliver to one of the broker-dealers the purchaser's letter attached hereto as Exhibit A, in which you will agree, among other things, that (i) you are a qualified purchaser and also a qualified institutional buyer, (ii) you will transfer the CPS Securities only pursuant to a bid or sell order placed in an auction to or through a broker-dealer to an eligible purchaser and (iii) all of the outstanding CPS Securities will be represented by a global certificate registered in the name of DTC or its nominee. You will not be entitled to receive any certificate representing any CPS Securities that you acquire, and your ownership of CPS Securities will be maintained in book-entry form by DTC for your DTC participant. See "Description of CPS Securities—Purchaser's Letter and Transfer Restrictions" and the form of purchaser's letter attached hereto as Exhibit A.

The FSA Preferred Stock, if and when issued, will not be registered under the Securities Act. You will agree in the CPS Securities purchaser's letter attached hereto as Exhibit A that, if and when the FSA Preferred Stock is issued to you as the holder of CPS Securities, you will not transfer the FSA Preferred Stock except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act and that, other than in compliance with the purchaser's letter relating to the FSA Preferred Stock (a copy of which is attached hereto as Attachment A to Exhibit A) you will not offer, sell, pledge, hypothecate or otherwise transfer the FSA Preferred Stock.

Execution of a purchaser's letter is not a commitment to purchase CPS Securities in the offering made hereby, in any auction or otherwise, but is a condition precedent to purchasing CPS Securities or participating in an auction. Terms of a purchaser's letter may be waived or modified only with the consent of the broker-dealers.

No public or other market is expected to develop for the CPS Securities outside of the auction process. See "Risk Factors—Liquidity of the CPS Securities."

**Settlement.....**

Settlement of purchases and sales of CPS Securities in auctions will be made on the applicable distribution payment date. Purchasers will make payment through their DTC participants in same-day funds to DTC against delivery to their respective DTC participants. DTC will make payment to the sellers' DTC participants in accordance with DTC's normal procedures which provide for payment against delivery by its participants in same-day funds.

**Taxation.....**

Each Trust will be treated as a partnership for United States federal income tax purposes and not as an association taxable as a corporation, assuming that there are not more than 100 partners of the Trusts. Accordingly, you will be required to include in income your distributive share of the income, gain, loss, credit and deduction of the Trust, regardless of any cash distributions on the CPS Securities. Prior to FSA's exercise of the Put Option, such income will consist primarily of income attributable to the respective Trust's Eligible Assets and the put premium. See "Certain United States Federal Income Tax Considerations" for a more detailed discussion.

<b>Change in Law .....</b>	In the event there is (i) a change in any law, rule or regulation, (ii) a judicial decision or (iii) a pronouncement of any administrative or professional standards setting body, in each case that would adversely affect any of the terms of the Trust Declaration (as defined herein) or the obligations of the parties thereto, the parties shall use their reasonable efforts to determine by negotiation and discussion the manner in which to address the impact of such change, decision or pronouncement, as the case may be, provided that, no amendment may be made to the Trust Declaration that would materially and adversely alter the rights, terms and preferences of the CPS Securities without the approval of a majority in face amount of the CPS Securities.
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## **RISK FACTORS**

*You should consider carefully the information set forth or incorporated by reference in this offering memorandum and, in particular, should evaluate the following risks in connection with an investment in the CPS Securities.*

### **The Trust's Ability to Make Payments**

Each Trust is a newly formed Delaware statutory trust, and the CPS Securities are limited recourse obligations. While a Trust holds Eligible Assets, its ability to make distributions on its CPS Securities will depend entirely on the periodic payments such Trust receives on its portfolio of Eligible Assets and the payment of the put premium by FSA under such Trust's Put Agreement with FSA, after the payment of all fees and expenses of the Trust. If returns on Eligible Assets are insufficient, the Trust may be forced to return to investors a portion of their capital to meet its distribution obligations and, accordingly, reduce the aggregate face amount of the Trust's CPS Securities. If a Trust liquidates and dissolves while it holds Eligible Assets, you will receive the proceeds of the Eligible Assets upon liquidation, net of fees and expenses. While a Trust holds FSA Preferred Stock, its ability to make distributions on its CPS Securities will depend entirely on the payment of dividends by FSA on the FSA Preferred Stock held by that Trust. As a condition to exercising a Put Option under the Put Agreement, FSA is required to enter into an Expense Reimbursement Agreement with the respective Trust pursuant to which FSA will pay the fees and expenses of the Trust on every distribution payment date so long as the Trust holds FSA Preferred Stock. If FSA fails to pay dividends on the FSA Preferred Stock or fails to pay the fees and expenses of the Trust when due, the Trust will liquidate and dissolve, thereby distributing to holders of its CPS Securities the FSA Preferred Stock.

None of the Initial Purchasers, the Trustee, the Auction Agent, the broker-dealers, any of their affiliates or any of the directors, officers, members, partners or security holders of the foregoing or any other person or entity will be obligated to make payments on the CPS Securities. Holders of the CPS Securities of a Trust will have undivided beneficial interests in all amounts available to the Trust for distribution and not yet distributed for whatever reason. The CPS Securities are not guaranteed or insured by any person or entity.

Distributions on the CPS Securities will be made every 28 days, or following the exercise of the Put Option, every 49 days. Upon a Fixed Rate Distribution Event, dividends on the FSA Preferred Stock will be paid every 90 days to the holders of FSA Preferred Stock. You should not invest in the CPS Securities if you desire to receive distributions on a predictable schedule.

### **Risks Associated with the Financial Condition of FSA**

If FSA exercises its Put Option to sell FSA Preferred Stock to the Trust while FSA is in financial distress, the FSA Preferred Stock may be of little or no value. In the event FSA fails to pay dividends in full on the FSA Preferred Stock for 18 consecutive months, the authorized number of members of the board of directors of FSA will be increased by two, and the holders of the FSA Preferred Stock, voting as a single class, will be entitled to fill the vacancies so created by electing two additional directors. There can be no assurance that this remedy will be adequate. Accordingly, you should carefully evaluate the risks associated with an investment in FSA. See the portions of the reports and other information filed with the SEC by FSA Holdings, incorporated by reference in this offering memorandum, for a description of the risks associated with an investment in FSA. The supplemental auction procedures may limit your ability to sell CPS Securities in an auction, and may cause the Auction Agent to favor bids submitted by existing holders.

### **Loss Participation Associated with Defaulting Eligible Assets**

An issuer of commercial paper held in a Trust's portfolio of Eligible Assets may default on interest payments or fail to repay principal when due to the Trust or to any third party. If a Trust does not receive payments of interest or repayments of principal on the Eligible Assets or, upon the sale of an Eligible Asset, if a Trust receives less from such sale (or from the reinvestment of the proceeds of such sale) than it paid to acquire such Eligible Asset plus the stated return on the Eligible Asset for the entire distribution period, the Trust will allocate such losses on such Eligible Assets *pro rata* to the holders of its CPS Securities. Such allocation of losses will reduce the aggregate face

amount of the CPS Securities of such Trust. The decrease in the aggregate face amount of the CPS Securities will reduce for future distribution periods the distributions thereon, as such distributions are a percentage of the aggregate face amount of the CPS Securities. Also, the put premium payable by FSA under the Put Agreement with such Trust will be reduced as the put premium is determined as a percentage of the aggregate face amount of CPS Securities outstanding from time to time. If FSA exercises the Put Option, the amount of FSA Preferred Stock that the Trust will purchase under the Put Agreement also will be reduced by the amount of any such loss on the Eligible Assets.

### **Ranking**

As a result of your ownership of the CPS Securities, you will have the indirect rights of an owner of a beneficial interest with respect to the portfolio of Eligible Assets of the Trust in which you invest. However, if FSA exercises a Put Option, your claims with respect to payments on the FSA Preferred Stock will constitute the rights of an equity investor in FSA. Such rights would be subordinate to those of all creditors of FSA, including holders of insurance policies written by FSA, and to the right of FSA Holdings to receive dividends on the common stock of FSA in amounts sufficient to pay interest on borrowed money and for operating expenses. See "Description of the FSA Preferred Stock—Preferences."

### **Liquidity of the CPS Securities**

There is currently no market for the CPS Securities. The Trusts are not and will not be registered under the 1940 Act, and the CPS Securities have not been and will not be registered under the Securities Act. Therefore, the CPS Securities will be subject to significant transfer restrictions (including transfer certification procedures). In addition, your ability to dispose of the CPS Securities will be largely dependent on the success of the auctions. If there are insufficient clearing bids in an auction, investors that have executed sell orders will not be able to sell in that auction all or any of the CPS Securities which are the subject of such sell order. FSA may be more likely to exercise a Put Option under a Put Agreement during times of financial distress. Accordingly, auctions with respect to the CPS Securities may be more likely to fail, and the Trusts, after the exercise of the Put Option, may be required to hold the FSA Preferred Stock for an indefinite period of time. There is no assurance that any particular auction will be successful and neither the Trust nor the broker-dealers are obligated to take any action to ensure that an auction will be successful.

### **Limitation on the Number of Beneficial Holders of a Trust's CPS Securities**

Each Trust is intended to meet the requirements of Treasury Regulation §1.7704-1(h), which excludes from the definition of publicly traded partnership any partnership that does not have more than 100 partners. In order to meet the requirements for this exception, CPS Securities may not be transferred except in a transaction that will not cause the relevant Trust to be deemed a publicly traded partnership, and no purported transfer of CPS Securities, whether pursuant to an auction or otherwise, will be effective if, after giving effect to such transfer, the Trusts will have more than 100 partners.

The maximum number of beneficial holders for each Trust shall be 25. Each of the broker-dealers will be limited in the number of bids it may submit to the Auction Agent so that the aggregate number of partners and holders represented by all of the bids submitted does not exceed the 100 partner and 25 holder limitations. UBS Financial Services Inc. generally will be limited to bids representing twenty holders of Trusts I and III, and five holders of Trusts II and IV. Lehman Brothers Inc. generally will be limited to bids representing twenty holders of Trusts II and IV and five holders of Trusts I and III. Such limitations may affect an investor's access to an auction. In addition, if, notwithstanding such limitations on the bids submitted, the CPS Securities issued by any Trust would be held by more than 25 holders as a result of an auction for such Trust, the Auction Agent will follow supplemental auction procedures to seek to obtain sufficient clearing bids consistent with the 25 holder limitation. These procedures could result in a higher distribution rate than would otherwise result from an auction or result in a failure if sufficient clearing bids do not exist.

### **Dividends on FSA Preferred Stock Generally Not Cumulative**

Dividends on the FSA Preferred Stock are generally discretionary and non-cumulative. If dividends are declared on the FSA Preferred Stock, such dividends, if paid, may only be paid out of legally available funds. FSA will have no obligation to either (i) declare dividends for any past dividend period with respect to which dividends were not declared, or (ii) declare dividends for any future dividend periods on such FSA Preferred Stock; provided that the FSA Preferred Stock will be cumulative under the circumstances described in "Description of the FSA Preferred Stock – Dividends."

### **The Dividend Rate on the FSA Preferred Stock is Subject to Certain Limitations**

Prior to the Fixed Rate Distribution Event, the Dividend Rate will be equal to the auction rate on the CPS Securities, but not more than the "maximum rate" related to the prevailing ratings of FSA's financial strength. There can be no assurance that this rate is adequate to compensate holders of CPS Securities for the risks of holding CPS Securities. In the event FSA is in financial distress, the rate determined at auction might otherwise exceed the applicable maximum rate but, under such circumstances, the distribution rate shall be limited to the maximum rate. As a result, you may be required to hold your CPS Securities longer than you would like, at a distribution rate lower than what would otherwise be the case.

In addition, upon a Fixed Rate Distribution Event, you will be required to exchange your CPS Securities for FSA Preferred Stock. A Fixed Rate Distribution Event may occur at any time, including when interest rates are at historically low levels or when FSA is in financial distress. In either circumstance, the dividend rate will then be fixed at a rate which may be low relative to the risks of holding the FSA Preferred Stock. In the event the dividend rate is so fixed below what market conditions would otherwise dictate, you may have difficulty selling your FSA Preferred Stock other than at a loss.

### **Rights of Beneficial Owners May Be Limited by Book-Entry System**

Your ownership of the CPS Securities will be registered electronically with DTC. The lack of physical certificates could:

- result in payment delays on your CPS Securities because the Trustee will be sending distributions on the certificates to DTC instead of directly to you;
- make it difficult for you to pledge your CPS Securities if physical certificates are required by the party demanding the pledge; and
- hinder your ability to resell your CPS Securities because some investors may be unwilling to buy securities that are not in physical form. See "Book-Entry Procedures" in this offering memorandum.

### **Reduction or Withdrawal of Ratings**

Each rating agency rating the CPS Securities or the FSA Preferred Stock may change or withdraw its initial ratings at any time in the future if, in its judgment, circumstances warrant a change. No person is obligated to maintain the ratings at their initial levels. If a rating agency reduces or withdraws its rating on the CPS Securities or the FSA Preferred Stock, the liquidity and market value of the affected CPS Securities is likely to be reduced.

### **Legality of Investment**

You are responsible for determining whether you have the legal power, authority and right to purchase the CPS Securities. The Initial Purchasers, FSA, the Trustee and their respective affiliates express no view as to your legal power, authority or right to purchase the CPS Securities. You are urged to consult your own legal advisors as to such matters. You must be able to make the representations and warranties in "Description of the CPS Securities—Purchaser's Letter and Transfer Restrictions" in this offering memorandum.

## FSA

FSA is a New York domiciled stock insurance company that is primarily engaged in the business of providing financial guaranty insurance on asset-backed and municipal obligations. The financial strength of FSA is rated "Triple-A" by the major securities rating agencies and obligations insured by FSA are generally awarded "Triple-A" ratings by reason of such insurance. FSA was the first insurance company organized to insure asset-backed obligations and has been a leading insurer of asset-backed obligations (based on number of transactions insured) since its inception in 1985. FSA expanded the focus of its business in 1990 to include financial guaranty insurance of municipal obligations. FSA is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands.

FSA owns FSA Insurance Company ("FSAIC"), which in turn owns Financial Security Assurance International Ltd. ("FSA International") and Financial Security Assurance (U.K.) Limited ("FSA-UK"). FSAIC is an Oklahoma domiciled insurance company that primarily provides reinsurance to FSA. FSA International is a Bermuda domiciled insurance company that primarily provides financial guaranty insurance for transactions outside United States and European markets as well as reinsurance to FSA. FSA-UK is a United Kingdom domiciled insurance company that primarily provides financial guaranty insurance for transactions in the United Kingdom and other European markets. All such insurance company subsidiaries are wholly-owned, except that XL Capital Ltd owns a minority interest in FSA International.

The value of the insurance product sold by FSA is generally a function of the "rating" applied to obligations insured by FSA. The insurance financial strength, insurer financial strength and claims-paying ability, as the case may be, of FSA and its operating insurance company subsidiaries is rated "Aaa" by Moody's and "AAA" by S&P, Fitch Ratings and Rating and Investment Information, Inc. Such ratings reflect only the views of the respective rating agencies, are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies. These rating agencies periodically review the business and financial condition of FSA, focusing on the insurer's underwriting policies and procedures and the quality of the obligations insured, and publish their ratings and supporting analyses. FSA's ability to compete with other Triple-A rated financial guarantors, and its results of operations and financial condition, would be materially adversely affected by any reduction in its ratings.

FSA is a wholly owned subsidiary of FSA Holdings, which is an indirect subsidiary of Dexia S.A., a publicly held Belgian corporation. Dexia S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of FSA Holdings or FSA is obligated to pay any debt of FSA or any claim under any insurance policy issued by FSA or to make any additional contribution to the capital of FSA. Accordingly, you should make your investment decision solely on the basis of FSA.

FSA insures a variety of asset-backed obligations, including obligations backed by residential mortgage loans, consumer or trade receivables, corporate loans and bonds, government debt and multifamily mortgage loans. Asset-backed obligations insured by FSA include payment obligations of counterparties and issuers under synthetic obligations such as credit default swaps and credit-linked notes structured to have risks similar to more traditional forms of asset-backed structures. FSA has insured a broad array of municipal obligations. FSA has also insured investor-owned utility first mortgage bonds and sale/leaseback obligation bonds. In 1990, FSA ceased writing insurance backed by commercial mortgage loans, and today retains only minor net insurance in force in that sector. FSA has also insured obligations of financial institutions and, on a short-term basis, obligations of highly rated corporate obligors. In recent years, FSA has insured obligations in connection with various cross-border and municipal leases. In some cases, FSA has insured obligations already carrying insurance from other monoline guarantors, with FSA generally obligated to pay claims on a "second-to-pay" basis, following a default by both the underlying obligor and the first-to-pay financial guarantor. FSA insures guaranteed investment contracts and other investment agreements offered through subsidiaries of FSA Holdings, FSA Capital Markets Services LLC and FSA Capital Management Services LLC.

FSA is subject to the insurance laws of the State of New York (the "New York Insurance Law"), and is also subject to the insurance laws of the other states in which it is licensed to transact insurance business. FSAIC is an Oklahoma domiciled insurance company also licensed in New York and subject to the New York Insurance Law. FSA and its domestic insurance company subsidiary (FSAIC) are required to file quarterly and annual statutory

financial statements in each jurisdiction in which they are licensed, and are subject to statutory restrictions concerning the types and quality of investments and the filing and use of policy forms and premium rates. FSA's accounts and operations are subject to periodic examination by the Superintendent of Insurance of the State of New York (the "New York Superintendent") and other state insurance regulatory authorities.

FSA's ability to pay dividends is dependent upon FSA's financial condition, results of operations, cash requirements, rating agency confirmation of non-impairment of FSA's ratings and other related factors, and is also subject to restrictions contained in the New York Insurance Law and applicable insurance laws of other states. Under New York Insurance Law, FSA may pay dividends out of statutory earned surplus, provided that, together with all dividends declared or distributed by FSA during the preceding 12 months, the dividends do not exceed the lesser of (i) 10% of policyholders' surplus as of its last statement filed with the New York Superintendent or (ii) adjusted net investment income during this period.

FSA's financial statements are included as exhibits to the Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission by FSA Holdings and may be reviewed at the EDGAR web site maintained by the Securities and Exchange Commission and at FSA Holdings's website, <http://www.fsa.com>. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by FSA, which are prepared in accordance with statutory accounting standards and generally differ from generally accepted accounting principles, are available upon request to the State of New York Insurance Department.

FSA's principal executive offices are located at 350 Park Avenue, New York, New York 10022 and its telephone number is (212) 826-0100.

#### **USE OF PROCEEDS**

Each Trust will initially use the net proceeds received from the offering of CPS Securities, which are estimated to be approximately \$50,000,000 (\$200,000,000 in the aggregate for all four Trusts), to purchase a portfolio of Eligible Assets. If FSA exercises the Put Option with respect to a Trust, that Trust will use the portion of the proceeds attributable to principal received upon maturity of its Eligible Assets (and, if applicable, liquidation of defaulted Eligible Assets), net of fees and expenses, to purchase FSA Preferred Stock.

#### **DESCRIPTION OF CPS SECURITIES**

Each Trust will issue \$50,001,000 face amount of CPS Securities pursuant to the terms of an amended and restated declaration of trust dated on or about June 23, 2003 (each a "Trust Declaration"). The following summary of the material terms and provisions of the CPS Securities is not complete and is subject to, and qualified in its entirety by, reference to each Trust Declaration and the Delaware Statutory Trust Act. A copy of each Trust Declaration is available upon request from the Trustee.

##### **General**

Pursuant to each Trust Declaration, each Trust will hold legal title to its assets for the benefit of the holders of the CPS Securities. Each CPS Security represents undivided beneficial interests in the property of the related Trust, including the amounts, if any, available for distribution and not yet distributed to the holders of CPS Securities. Holders of CPS Securities issued by one Trust will not have any interest in the assets of, or claim against, any other Trust. The Trust Declaration deems the CPS Securities to be equity securities of the Trust. A Trust may not issue any securities other than CPS Securities.

##### **The Trustee**

The Bank of New York (Delaware) will be the initial Trustee under each Trust Declaration. The Trustee is appointed to satisfy Section 3807 of the Delaware Statutory Trust Act (12 Del.C., Section 3801 *et seq.*) (the "Statutory Trust Act") which requires that at least one trustee of a Delaware statutory trust have its principal place of business in Delaware, and to accept legal process served on the Trust in the State of Delaware and execute any certificates required to be filed with the Secretary of State of the State of Delaware that the Trustee is required to

execute under Section 3811 of the Statutory Trust Act. The Trustee assumes no liability for, and makes no representation as to, the accuracy of the information contained in this offering memorandum. While a Trust holds Eligible Assets, the fees and expenses of the Trustee will be paid from the assets of the Trust including the Trust's interests in the Put Agreement. As a condition to exercising a Put Option, FSA is required to enter into an Expense Reimbursement Agreement with the related Trust pursuant to which FSA agrees to pay the fees and expenses of the Trust on every distribution payment date so long as the Trust holds FSA Preferred Stock.

## Distributions

*Distribution Dates and Rates.* The initial distribution rate for each Trust's initial distribution period and the initial distribution payment date for each Trust will be as follows:

Issuer	Initial Distribution Rate	Initial Distribution Payment Date
Sutton Capital Trust I	1.15%	July 16, 2003
Sutton Capital Trust II	1.15%	July 23, 2003
Sutton Capital Trust III	1.15%	July 30, 2003
Sutton Capital Trust IV	1.15%	August 6, 2003

Other than in the event of a delayed auction (as described below under "CPS Securities Auction Procedures—Delayed Auction"), each subsequent distribution period for the CPS Securities will commence on and include the distribution payment date for the preceding distribution period and end on and exclude the distribution payment date of the then current distribution period. If a Trust holds Eligible Assets, each subsequent distribution period will be 28 days long. If a Trust holds FSA Preferred Stock, each subsequent distribution period will be 49 days long. Upon a Fixed Rate Distribution Event, dividends on the FSA Preferred Stock will be paid every 90 days. Other than in the event of a delayed auction, the distribution payment date for each distribution period will be the first business day of the next distribution period. If a distribution payment date is not a business day, the distribution payment will be made on the next business day following such distribution payment date.

In the event of a delayed auction, the distribution period will be extended by three (3) business days. However, the distribution period following a delayed auction period will be a short period and will begin on and include the distribution payment date for the delayed auction period and will end on and exclude the distribution payment date on which it would have ended if the immediately preceding distribution period for such CPS Securities had not been delayed. In the event of a delayed auction, the distribution payment date will be the first business day following the delayed auction date.

If a distribution payment date is not a business day because the New York Stock Exchange is closed or banks in The City of New York, New York are closed for business due to an act of God, natural disaster, act of war, civil or military disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services or the distribution payable on such date can not be paid for any such or similar reason, then:

- (i) the distribution payment date for the affected distribution period shall be the next business day on which such distributions can be paid;
- (ii) the affected distribution period shall end on the day it would have ended had such event not occurred and the distribution payment date had remained the scheduled date;
- (iii) the next distribution period will begin and end on the dates on which it would have begun and ended had such event not occurred and the distribution payment date remained the scheduled date; and
- (iv) no interest shall accrue in respect of such delay in payment of distributions.

A "business day" is a day on which the New York Stock Exchange is open for trading and which is not a Saturday, Sunday or any other day on which the banks in The City of New York, New York are authorized or obligated by law to close. Notwithstanding the preceding sentence, if any provision of the CPS Securities requires the determination of the 30-day LIBOR Rate as of any date and no rate is quoted on such date because such date is not a business day in London, then the 30-day LIBOR Rate on the next preceding business day in London shall be the 30-day LIBOR Rate for the purposes of such determination.

*Calculation of Subsequent Distribution Rates.* Subject to a "maximum rate," in each subsequent distribution period and prior to a Fixed Rate Distribution Event, you will receive cash distributions at a rate per CPS Security equal to the auction rate for the CPS Securities as determined pursuant to the auction procedures described below. With respect to Eligible Assets held by a Trust, funds available for distribution to the holders of a Trust's CPS Securities will be limited solely to payments received on such Trust's Eligible Assets together with the payment of the put premium by FSA, net of any fees or expenses. With respect to FSA Preferred Stock held by a Trust, funds available for distribution to the holders of a Trust's CPS Securities will be limited solely to dividends received from FSA on such Trust's FSA Preferred Stock. In either case, distributions will be passed through to the holders of CPS Securities, on a *pro rata* basis, on each distribution payment date. Generally, distributions payable on a Trust's CPS Securities with respect to a distribution period will be computed by multiplying the auction rate for that period by a fraction, the numerator of which will equal the actual number of days in the distribution period and the denominator of which will be 360 which, in turn, will be multiplied by the then outstanding aggregate face amount of such CPS Securities.

If on any auction date an auction is not held for any reason, the auction rate for the next succeeding distribution period generally will equal the "maximum rate" on such auction date. See "—Maximum Rate" in this offering memorandum. However, if an auction date is not a business day because the New York Stock Exchange is closed or banks in The City of New York, New York are closed for business due to an act of God, natural disaster, act of war, civil or military disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services or the Auction Agent is not able to conduct an auction in accordance with the auction procedures for any reason, then the auction rate for the next distribution period shall be the auction rate determined on the previous auction date.

Distributions payable on a Trust's CPS Securities with respect to a delayed auction period will be computed by multiplying the delayed auction rate by a fraction, the numerator of which will be the actual number of days in the delayed auction period and the denominator of which will be 360 which, in turn, will be multiplied by the then outstanding aggregate face amount of such CPS Securities. The delayed auction rate during the delayed auction period will mean the rate (expressed as a percentage rounded to the one-thousandth (.001) of 1.000%) that is equal to the sum of (A) the 30-day LIBOR Rate on the auction date for such delayed auction period, plus (B) 150 basis points (1.50%); provided that if the prevailing rating of FSA's financial strength is rated below "Aaa" by Moody's or below "AAA" by Standard & Poor's, the delayed auction rate will be such 30-day LIBOR Rate plus 200 basis points (2.00%). The delayed auction period for the CPS Securities of a Trust will mean the period from and including the previously scheduled distribution payment date for the distribution period in which the loss occurred to and excluding the first business day after the delayed auction date.

Gains and losses on the Eligible Assets will be allocated to holders of the CPS Securities on a *pro rata* basis. Consequently, if a Trust does not receive sufficient payments in respect of the Trust's Eligible Assets or FSA does not pay the put premium, the related Trust will not have sufficient earnings, after the payment of fees and expenses, to make the corresponding payments on its CPS Securities and you will receive a return of capital as a portion of that Trust's distribution. A loss of principal or interest in the portfolio of Eligible Assets held by the Trust as a result of a default will be allocated to the CPS Securities. The aggregate face amount of the CPS Securities will be reduced to reflect the allocation of such loss. A Trust will liquidate and dissolve if, among other things, the face amount of its CPS Securities is less than \$20,000,000. Similarly, the amounts used to calculate the put premium due under the Put Agreement and the amount of FSA Preferred Stock that FSA can put to the Trust under the Put Agreement will be reduced to reflect this reduction in the face amount of the CPS Securities. Any such reduction to the face amount of the CPS Securities will proportionately reduce the amount of future distributions payable on the CPS Securities. Further, if FSA exercises a Put Option, the amount of FSA Preferred Stock the Trust is able to purchase will be reduced to reflect such loss.

The record date for the determination of holders of a Trust's CPS Securities entitled to receive payment of a distribution declared thereon will be the open of business on the business day immediately preceding the distribution payment date.

While a Trust holds Eligible Assets, undistributed amounts will be invested by the Trust in Eligible Assets. While a Trust holds FSA Preferred Stock, undistributed amounts will be held in an overnight or "sweep" account.

*Eligible Assets Guidelines.* The Investment Manager will manage each Trust's portfolio of Eligible Assets in accordance with the following guidelines in order to obtain and maintain a rating of at least "Aa2" by Moody's and "AA" by Standard & Poor's with respect to the related CPS Securities. Each Trust:

- will invest solely in commercial paper that had an initial maturity of 60 days or less upon issuance, and that matures, with respect to each distribution period, no later than the auction date for the next succeeding distribution period, provided, that such commercial paper will mature on or as close as practicable to such auction date, but no later than such auction date; provided further that commercial paper rated "A-1" by Standard & Poor's, at the time of investment, must have had an initial maturity of 30 days or less;
- will not sell Eligible Assets, unless there is a default (as described below) of which the Investment Manager becomes aware using its standard credit monitoring procedures;
- will invest in Eligible Assets, at least 80% of which are rated, at the time of investment, at least "A-1+" by Standard & Poor's, and all of which, at the time of investment, are rated at least "A-1" by Standard & Poor's and "Prime-1" by Moody's; the portfolio of Eligible Assets will not contain any commercial paper on credit watch or under review for downgrade by Standard & Poor's or Moody's, respectively, at the time of investment;
- with respect to commercial paper issued by corporations, will invest in such commercial paper only if the corporation's long-term indebtedness is rated, at the time of investment, at least "A1" by Moody's;
- may invest up to 10% of its assets in commercial paper issued by a single issuer; for purposes of this guideline, asset backed commercial paper will be treated as having been issued by different issuers provided that such issuers have different sponsors; and
- may invest up to 25% of its assets in commercial paper issued by issuers in a single industry; for purposes of this guideline, asset backed commercial paper will be treated as a separate industry based on the character of the asset class (for example: receivables, credit cards, mortgages, etc. would each be a separate industry).

Notwithstanding the foregoing, a Trust may not purchase any securities issued or insured by FSA or any company controlling, controlled by or under common control with FSA, except for FSA Preferred Stock acquired pursuant to the Put Agreement. In addition, to the extent that funds can not be fully invested in commercial paper as described above due to a lack of supply in the market, the Investment Manager will invest such funds in U.S. Treasury securities that had an initial maturity of one year or less upon issuance and that mature no later than the auction date for the next succeeding distribution date.

If there is a default in the Eligible Assets of which the Investment Manager becomes aware using its standard credit monitoring procedures, then the Investment Manager shall dispose of the defaulted Eligible Asset as soon as practicable, but in any event, on or before the next auction date, provided that such default occurred on or prior to the third business day preceding such auction date. For purposes of this guideline, "default" shall mean the failure of an issuer of any Eligible Asset owned by a Trust to pay, when due, principal of or interest on any of its indebtedness to third parties (which failure constitutes an event of default under such indebtedness and allows holders of the issuer's indebtedness to accelerate the repayment of such indebtedness) or the bankruptcy, dissolution, insolvency, liquidation, receivership or winding-up of an issuer of any Eligible Asset owned by a Trust or any equivalent or analogous proceedings or the voluntary or involuntary filing of any document, certificate or other instrument to commence any such action.

A Standard & Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt considered short-term in the relevant market. A rating of "A-1" indicates that the commercial paper's degree of safety regarding timely payment is strong. Commercial paper determined to possess extremely strong safety characteristics is denoted "A-1+." Moody's commercial paper ratings are opinions of the ability of issuers to repay punctually promissory obligations not having an original maturity in excess of 9 months. "Prime-1" issuers or related institutions are considered to have a superior capacity for repayment of short term promissory obligations. Prime-1 repayment capacity will normally be evidenced by the following characteristics: leading market positions in well-established industries; high rates of return on funds employed; conservative capitalization structures with



moderate reliance on debt and ample asset protection; broad margins in earnings coverage of fixed financial charges and high internal cash-generation; and well established access to a range of financial markets and assured sources of alternative liquidity.

The foregoing guidelines may be amended or supplemented from time to time without a vote of the holders upon receipt from Standard & Poor's and Moody's of written confirmation that such amendment or supplement (i) is necessary to maintain the then current rating on the CPS Securities by Standard & Poor's and Moody's, or (ii) would not cause a reduction by Standard & Poor's and Moody's in the then current rating of the CPS Securities.

*Eligible Assets and Expenses Information.* On the auction date, the Trustee shall furnish the broker-dealers with the amount of the Trust's expenses (expressed in basis points) for the related distribution period. In addition, while the Trust holds Eligible Assets, on or prior to 11:00 a.m. on the auction date, the Investment Manager will provide the Trustee, who will, in turn, furnish to the broker-dealers, a list setting forth the Eligible Assets and the stated return on such Eligible Assets for the related distribution period. Existing holders and potential holders of the CPS Securities may obtain this information by calling the Auction Trading Department at Lehman Brothers Inc., telephone: (212) 526-8390 or the TFI Auction Preferred Desk at UBS Financial Services Inc., telephone: (201) 352-7270.

### **Transfer Restrictions**

Each Trust is intended to meet the requirements of Treasury Regulation §1.7704-1(h), which excludes from the definition of publicly traded partnership any partnership that does not have more than 100 partners. In order to meet the requirements of this exception, CPS Securities may not be transferred except in a transaction that will not cause the relevant Trust to be deemed a publicly traded partnership, and no purported transfer of CPS Securities, whether pursuant to an auction or otherwise, will be effective if, after giving effect to such transfer, the Trusts will have more than 100 partners.

Additionally, each Trust will not have more than 25 beneficial holders. CPS Securities may not be transferred except in a transaction that will not cause the relevant Trust to have more than 25 beneficial holders, and no purported transfer of CPS Securities, whether pursuant to an auction or otherwise, will be effective if, after giving effect to such transfer, the relevant Trust will have more than 25 beneficial holders.

### **Auction Participants**

*Existing Holders and Potential Holders.* Participants in each auction for a Trust's CPS Securities will include existing holders and potential holders. An "existing holder" of a Trust's CPS Securities will mean any person who is listed as the owner of such CPS Security on the records of the Auction Agent at the close of business on the business day prior to such auction. A "potential holder" will mean any person, including any existing holder, interested in acquiring a Trust's CPS Securities (or, in the case of an existing holder, additional CPS Securities of that series). Persons wishing to participate in an auction are required to sign and deliver a purchaser's letter, in the form attached hereto as Exhibit A, to one of the broker-dealers.

By purchasing a Trust's CPS Securities, whether in an auction or otherwise, each prospective purchaser of such CPS Securities or its broker-dealer agrees and will be deemed to have agreed:

- (i) to participate in auctions on the terms described below;
- (ii) to have its beneficial interest of CPS Securities maintained at all times in book-entry form by DTC (or a successor securities depository) for the account of its agent member (a member or participant in DTC), which in turn will maintain records of such beneficial ownership, and to authorize such agent member to disclose to the Auction Agent and the broker-dealers such information with respect to such beneficial ownership as the Auction Agent or a broker-dealer may request;
- (iii) that a sell order placed by an existing holder will constitute an irrevocable offer to sell the number of CPS Securities subject thereto at a price of 100% of their face amount;

(iv) that a bid placed by an existing holder will constitute an irrevocable offer to sell the number of CPS Securities subject thereto at a price of 100% of their face amount if the rate specified in such bid is greater than, or in some cases equal to, the auction rate determined in the auction;

(v) that a bid placed by a potential holder will constitute an irrevocable offer to purchase the number of CPS Securities subject thereto at a price of 100% of their face amount if the rate specified in such bid is less than or equal to the auction rate determined in the auction; and

(vi) to all of the other terms and conditions of investing in the CPS Securities as set forth in the Trust Declaration, the Auction Agent Agreement, the broker-dealer agreements, the purchaser's letter and related documents.

The term "DTC" means The Depository Trust Company or another registered securities depository selected by the Trust, which maintains a book-entry system in respect of the CPS Securities offered hereby.

The number of CPS Securities purchased or sold may be subject to proration procedures. Each purchase or sale of any CPS Securities pursuant to an auction will be made for settlement on the first business day following the auction date at a price equal to 100% of the face amount thereof, except as described under the auction procedures below. The Auction Agent is entitled to rely upon the terms of any order submitted to it by one of the broker-dealers.

*Auction Agent.* Pursuant to an Auction Agent Agreement with each Trust, The Bank of New York (Delaware) will be the initial auction agent. The Auction Agent will at all times be (a) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in Delaware, and having a combined capital stock, surplus and undivided profits of at least \$15,000,000, or (b) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$15,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Auction Agent Agreement. The Auction Agent is entitled to receive a fee under the Auction Agent Agreement.

*Broker-Dealers.* Pursuant to a Broker-Dealer Agreement with each Trust and the Auction Agent, each of Lehman Brothers Inc. and UBS Financial Services Inc. will be an initial broker-dealer. Existing holders and potential holders may participate in auctions only by submitting orders (in the manner described below) through one of the broker-dealers.

## **Auction Procedures**

*Auction Dates.* Separate auctions will be conducted on the respective auction dates for the CPS Securities issued by each Trust. Auctions to establish the auction rate payable with respect to the CPS Securities issued by each Trust will be held on the respective auction date for each Trust by application of the auction procedures described below.

With respect to each subsequent distribution period, auctions for each Trust will be held on the business day prior to the beginning of each succeeding distribution period. While a Trust holds Eligible Assets, each subsequent distribution period will be 28 days long. While a Trust holds FSA Preferred Stock, each subsequent distribution period will be 49 days long.

*Adjustment for Loss of Principal of or Interest on Eligible Assets.* Prior to 1:00 p.m. and again, prior to 3:00 p.m. on the auction date, the Investment Manager will inform the Trustee whether the Eligible Assets of the Trust whose CPS Securities are the subject of the auction has suffered a loss of principal or interest with respect to the Eligible Assets of a Trust during the preceding distribution period. If the Trust has experienced a loss of principal or interest with respect to the Eligible Assets of a Trust, the aggregate face amount of the CPS Securities issued by the Trust will be reduced by the aggregate amount of principal and interest (including accreted interest) lost since the last adjustment. Losses of principal and interest (including accreted interest), if any, on such Eligible Assets will be allocated to the holders of the CPS Securities of the respective Trust by reducing on a *pro rata* basis, the number of CPS Securities owned by each holder. Following a loss of principal or interest (including accreted interest), each holder of CPS Securities will own a number of CPS Securities equal to (A)(i) the aggregate face amount of CPS Securities owned by the holder immediately prior to the loss of principal or interest, minus (ii) the

*pro rata* portion of the loss of principal or interest allocated to the holder, divided by (B) \$100,000 rounded down to the nearest whole number of CPS Securities having a face amount of \$100,000. If a loss of principal or interest would cause a Trust to have insufficient returns on the Eligible Assets when added to the put premium to make distributions on its CPS Securities at the auction rate, the Trust will return to investors a portion of their capital to assure that distributions on the CPS Securities will be made at the auction rate. The face amount of any fractional CPS Securities rounded down pursuant to the preceding formula (other than any fractional CPS Securities owned by Lehman Brothers Inc. or UBS Financial Services Inc., as applicable, as tax matters partner) will be distributed to the holder in cash as soon as practicable and, in any event, no later than the distribution payment date next following such auction date or delayed auction date, as the case may be. A Trust will liquidate and dissolve if, among other things, the face amount of its CPS Securities is less than \$20,000,000.

A Trust will be deemed to have incurred a loss of principal or interest (i) upon the maturity of one of its Eligible Assets, if the Eligible Asset fails to repay the Trust's original investment in the Eligible Asset or interest (including accreted interest) thereon when due or (ii) upon the sale of one of its Eligible Assets, if the Trust receives an amount less than the amount of its original investment in the Eligible Asset plus the stated return on the Eligible Asset for the entire period. All amounts received by a Trust upon the maturity of an Eligible Asset or upon the sale of an Eligible Asset will be characterized as the repayment of principal until the amount of the Trust's initial investment in the Eligible Asset has been fully repaid, and any additional amounts received upon maturity or sale of the Eligible Asset will be characterized as a return on the principal amount invested in the Eligible Asset. The Investment Manager will not recalculate the face amount for the CPS Securities of a Trust if the CPS Securities of such Trust have not realized a loss since the last auction date.

The Trustee will inform the Auction Agent and the broker-dealers of the face amount of a Trust's CPS Securities prior to 1:00 p.m. and, again, prior to 3:00 p.m. on the auction date. If any loss with respect to the Eligible Assets is reported prior to 3:00 p.m., the auction date will be delayed by three (3) business days. Notwithstanding the preceding sentence, if a loss is reported by the Investment Manager to the Trustee, who in turn reports such loss to the Auction Agent and the broker-dealers, more than three (3) business days prior to the auction date, and such loss is announced to investors prior to the auction date, the face amount of the CPS Securities will be adjusted without a delay period. In addition, the Trustee will inform DTC of any reduction to the number of a Trust's CPS Securities outstanding and work with DTC to make the necessary adjustments on the books and records of DTC.

*Delayed Auction.* If, within three (3) business days prior to an auction date or on an auction date, the face amount of the CPS Securities of a Trust is adjusted to allocate any loss of principal or interest with respect to the Eligible Assets of that Trust, the auction date of such CPS Securities will be delayed by three (3) business days. During the delayed auction period, distributions on the CPS Securities of such Trust (as reduced by the amount of principal and interest lost on the Eligible Assets of that Trust) will accrue at the delayed auction rate. The delayed auction period for the CPS Securities of a Trust will mean the period from and including the originally scheduled distribution payment date for the distribution period in which the loss occurred to and excluding the first business day after the delayed auction date. The delayed auction rate during the delayed auction period will mean the rate (expressed as a percentage rounded to the one-thousandth (.001) of 1.00%) that is equal to the sum of (A) the 30-day LIBOR Rate on the originally scheduled auction date plus (B) 150 basis points (1.50%); provided that if the prevailing rating of FSA's financial strength drops below "Aaa" by Moody's or below "AAA" by Standard & Poor's, the delayed auction rate will be such 30-day LIBOR Rate plus 200 basis points (2.00%). Distributions payable on a Trust's CPS Securities with respect to a delayed auction period will be computed by multiplying the delayed auction rate by a fraction, the numerator of which will be the actual number of days in the delayed auction period and the denominator of which will be 360, which in turn will be multiplied by the aggregate outstanding face amount of such CPS Securities (as reduced by the amount of principal and interest lost on the Eligible Assets of that Trust). Distributions on the CPS Securities of a Trust for any distribution period extended as a result of a loss of principal or interest plus the distributions payable on such CPS Securities for the related delayed auction period (which will include the delayed auction put premium) will be paid on the business day next following the delayed auction date.

*Submission of Orders.* Prior to 1:00 p.m., New York City time, on each auction date or such other time on any auction date by which the broker-dealers are required to submit orders to the Auction Agent as specified by the Auction Agent from time to time:

(i) each existing holder of CPS Securities may submit to one of the broker-dealers an order, by telephone or otherwise, consisting of information as to:

(a) the face amount of outstanding CPS Securities, if any, held by such existing holder which such existing holder desires to continue to hold without regard to the auction rate for the next succeeding distribution period;

(b) the face amount of outstanding CPS Securities, if any, held by such existing holder, which such existing holder offers to sell if the auction rate for the next succeeding distribution period will be less than the rate per annum specified by such existing holder; or

(c) the face amount of outstanding CPS Securities, if any, held by such existing holder which such existing holder offers to sell without regard to the auction rate for the next succeeding distribution period;

(ii) in addition to the information specified in (i) above, each existing holder that is an investment manager, fiduciary or a person that is submitting orders on behalf of more than one beneficial owner of the CPS Securities must submit to one of the broker-dealers an order, by telephone or otherwise, consisting of information as to:

(a) the number of accounts for which the order is being submitted (including accounts which are not submitting orders in the auction, which would be deemed hold orders);

(b) the face amount of outstanding CPS Securities held by such accounts; and

(c) the nature of the order for each account (i.e., hold, bid or sell orders), and if there is more than one order per account, the number of shares of CPS Securities per order; and

(iii) the broker-dealers may contact potential holders by telephone or otherwise to determine the face amount of CPS Securities which each such potential holder offers to purchase if the auction rate for the next succeeding distribution period is not less than the bid specified by such potential holder.

The communication to a broker-dealer of the foregoing information is referred to in this offering memorandum as an "order." An existing holder or a potential holder placing an order is in this offering memorandum referred to as a "bidder."

Subject to the provisions described below under "Validity of Orders," a bid by an existing holder will constitute an irrevocable offer to sell:

(i) the face amount of CPS Securities specified in such bid if the auction rate is less than the rate specified in such bid; or

(ii) such face amount or a lesser face amount of CPS Securities to be determined as set forth in "Acceptance and Rejection of Orders" below, if the auction rate is equal to the rate specified in such bid.

Subject to the provisions described below under "Validity of Orders," a sell order by an existing holder will constitute an irrevocable offer to sell the face amount of outstanding CPS Securities specified in such sell order.

Subject to the provisions described below under "Validity of Orders," a bid by a potential holder will constitute an irrevocable offer to purchase:

(i) the face amount of CPS Securities specified in such bid if the auction rate is higher than the rate specified in such bid; or

(ii) such face amount or a lesser face amount of CPS Securities as set forth in "Acceptance and Rejection of Orders" below, if the auction rate is equal to the rate specified in such bid.

If any rate specified in any bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate down to the next highest one-thousandth (0.001) of 1.000%.

If an order or orders covering all outstanding CPS Securities held by any existing holder is not submitted to the Auction Agent prior to the submission deadline for any reason, including the failure of a broker-dealer to submit such existing holder's order to the Auction Agent in a timely manner, the Auction Agent will deem a hold order to have been submitted on behalf of such existing holder covering the face amount of outstanding CPS Securities held by such existing holder and not subject to an order submitted to the Auction Agent.

**Neither a Trust nor 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 holder or potential holder, nor will any such party be responsible for failure by DTC, as securities depository, to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers.**

If a broker-dealer submits an order for its own account in any auction, it may have an advantage over other bidders, if any, because it would have knowledge of any orders placed through it in that auction.

None of FSA, any affiliate thereof, or any holder of a fractional CPS Security may submit an order in any auction.

An existing holder may submit different types of orders in an auction with respect to the CPS Securities then held by such existing holder. An existing holder that offers to purchase additional CPS Securities is, for purposes of such offer, treated as a potential holder with respect to such securities. For information concerning the priority given to different types of orders placed by existing holders, see "Validity of Orders" below.

Each of the broker-dealers will be limited in the number of bids it may submit to the Auction Agent so that the aggregate number of partners and holders represented by all of the bids submitted does not exceed the 100 partner and 25 holder limitations. UBS Financial Services Inc. will be limited to bids representing twenty holders of Trusts I and III, and five holders of Trusts II and IV. Lehman Brothers Inc. will be limited to bids representing twenty holders of Trusts II and IV and five holders of Trust I and III.

**Maximum Rate.** The maximum rate is the maximum distribution rate that can result from an auction. Any bid specifying a rate higher than the maximum rate will (i) be treated as a sell order if submitted by an existing holder and (ii) not be accepted if submitted by a potential holder.

The "maximum rate" on any date of determination will mean the rate (expressed as a percentage rounded to the nearest one-thousandth (.001) of 1.000%) that is equal to the sum of (A) the 30-day LIBOR Rate on the auction date for the applicable distribution period, plus (B) the applicable rate as determined by reference to the following table:

**Prevailing Rating of FSA's Financial Strength\***

Moody's	Standard & Poor's	Applicable Rate
"Aaa"	"AAA"	1.50%
below "Aaa"	below "AAA"	2.00%

\* In the event of a split rating, the lower rating will prevail

FSA will take all reasonable action necessary to enable Moody's and Standard & Poor's to provide a rating for FSA, but if Moody's or Standard & Poor's ceases to make such rating available, then the maximum rate will be based on the ratings then available (whether from Moody's or from Standard & Poor's) and FSA will take all reasonable steps to obtain a rating from another nationally recognized rating agency.

If all outstanding CPS Securities of a Trust are subject to hold orders (as described below), the distribution rate for the next distribution period will be the distribution rate per annum equal to 95% of the 30-day LIBOR Rate on the auction date for such distribution period. See "Determination of Sufficient Clearing Bids and Winning Bid Rate," "Acceptance and Rejection of Orders" and "Validity of Orders" below.

"30-day LIBOR Rate" on any date means the 30-day LIBOR rate as published by the British Bankers Association as of 11:00 a.m., London time on such date.

*Validity of Orders.* If any existing holder submits through a broker-dealer to the Auction Agent one or more orders covering in the aggregate more than the face amount of outstanding CPS Securities held by such existing holder, such orders will be considered valid as follows and in the order of priority set forth below:

(i) all hold orders will be considered valid, but only up to and including, in the aggregate, the face amount of CPS Securities held by such existing holder, and if the aggregate face amount of CPS Securities subject to such hold orders exceeds the aggregate face amount of CPS Securities held by such existing holder, the aggregate face amount of CPS Securities subject to each such hold order will be reduced to the aggregate face amount of CPS Securities held by such existing holder;

(ii) (a) any bid will be considered valid up to and including the excess of the face amount of CPS Securities held by such existing holder over the aggregate face amount of CPS Securities subject to any hold orders referred to in paragraph (i) above;

(b) subject to subparagraph (a) above, if more than one bid with the same rate is submitted on behalf of such existing holder and the aggregate face amount of CPS Securities subject to such bids is greater than such excess, such bids will be considered valid up to and including the amount of such excess and the face amount of CPS Securities subject to each bid with the same rate will be reduced to the face amount of CPS Securities equal to such excess;

(c) subject to subparagraphs (a) and (b) above, if more than one bid with different rates is submitted on behalf of such existing holder, such bids will be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the face amount of such excess; and

(d) in any event, the aggregate face amount of CPS Securities, if any, subject to bids not valid under this paragraph (ii) will be treated as the subject of a bid by a potential holder at the rate therein specified; and

(iii) all sell orders will be considered valid up to and including the excess of the amount of CPS Securities held by such existing holder over the aggregate face amount of CPS Securities subject to hold orders referred to in paragraph (i) above and valid bids referred to in paragraph (ii) above; *provided* that if the aggregate face amount of CPS Securities subject to such sell orders exceeds the aggregate face amount of CPS Securities held by such existing holder, the aggregate face amount of CPS Securities subject to each such sell order will be reduced *pro rata* to cover the aggregate face amount of CPS Securities held by such existing holder.

If more than one bid for CPS Securities is submitted on behalf of any potential holder, each bid submitted will be a separate bid with the rate and amount therein specified. Any bid or sell order submitted by an existing holder not equal to an integral multiple of the face amount of the CPS Securities will be rejected and be deemed a hold order. Any bid submitted by a potential holder not equal to an integral multiple of the face amount of CPS Securities will be rejected. Any order submitted in an auction by a broker-dealer to the Auction Agent prior to the submission deadline on any auction date will be irrevocable, except in the case of a delayed auction, in which new orders will be submitted on the delayed auction date.

*Determination of Sufficient Clearing Bids and Winning Bid Rate.* Not earlier than the submission deadline on each auction date, the Auction Agent will assemble all valid submitted orders and will determine the excess of the total face amount of CPS Securities on such auction date over the sum of the aggregate face amount of CPS Securities subject to hold orders (such excess being hereinafter referred to as the "available CPS Securities"), and whether sufficient clearing bids have been made in the auction. "Sufficient clearing bids" will have been made if the number of CPS Securities that are the subject of bids by potential holders specifying rates not higher than the applicable maximum rate equals or exceeds the number of CPS Securities that are the subject of sell orders (including the number of CPS Securities subject to bids by existing holders specifying rates higher than the applicable maximum rate).

If sufficient clearing bids have been made, the Auction Agent will determine the lowest rate specified in the bids which, taking into account the rates in the bids of existing holders, would result in existing holders continuing to hold an aggregate amount of CPS Securities which, when added to the amount of CPS Securities to be purchased by potential holders, based on the rates in their bids, would equal not less than the face amount of available CPS Securities. In such event, the winning bid rate will be the auction rate for the next succeeding distribution period.

If sufficient clearing bids have not been made (other than because all of the outstanding CPS Securities are subject to hold orders), the auction rate will be the maximum rate for the next succeeding distribution period. In such case, existing holders delivering sell orders will not be able to sell in the auction all or any of their CPS Securities subject to such sell orders. Thus, under certain circumstances, existing holders may not be able to liquidate their investment. If all of the existing holders indicate a desire to hold all of the CPS Securities without regard to the auction rate, the auction rate payable on the CPS Securities for the next distribution period will be equal to 95% of the 30-day LIBOR Rate on the auction date.

*Acceptance and Rejection of Orders.* Existing holders will continue to hold the face amount of CPS Securities (as adjusted by any loss in the Trust's Eligible Assets) that are subject to hold orders and, based on the determination made as described under "Determination of Sufficient Clearing Bids and Winning Bid Rate" above, bids and sell orders will be accepted or rejected subject to the discretion of the Auction Agent to round and allocate certain CPS Securities as described below.

If sufficient clearing bids exist:

(i) existing holders' bids specifying any rate that is higher than the winning bid rate will be accepted, thus requiring each such existing holder to sell the aggregate face amount of CPS Securities subject to such bids;

(ii) existing holders' bids specifying any rate that is lower than the winning bid rate will be rejected, thus entitling each such existing holder to continue to hold the aggregate face amount of CPS Securities subject to such bids;

(iii) potential holders' bids specifying any rate that is lower than the winning bid rate will be accepted;

(iv) each existing holder's bids specifying a rate that is equal to the winning bid rate will be rejected, thus entitling each such existing holder to continue to hold the aggregate face amount of CPS Securities subject to such bid, unless the aggregate face amount of CPS Securities subject to all such bids is greater than the face amount of CPS Securities (the "remaining amount") equal to the excess of the available CPS Securities over the aggregate face amount of CPS Securities subject to bids described in subparagraphs (ii) and (iii) above, in which event such bid of such existing holder will be rejected in part, and such existing holder will be entitled to continue to hold the face amount of CPS Securities subject to such bid but only in an amount equal to the aggregate face amount of CPS Securities obtained by multiplying the remaining amount by a fraction, the numerator of which is the face amount of CPS Securities held by such existing holder subject to such bid and the denominator of which is the sum of the face amount of outstanding CPS Securities subject to such bids made by all such existing holders that specified a rate equal to the winning bid rate; and

(v) each potential holder's bid specifying a rate that is equal to the winning bid rate will be accepted but only in an amount equal to the face amount of CPS Securities obtained by multiplying the excess of the aggregate face amount of available CPS Securities over the aggregate face amount of CPS Securities subject to bids described in subparagraphs (ii), (iii) and (iv) above by a fraction, the numerator of which is the aggregate face amount of CPS Securities subject to such bid and the denominator of which is the sum of the face amount of CPS Securities subject to bids made by all such potential holders that specified a rate equal to the winning bid rate.

If sufficient clearing bids have not been made (other than because all of the CPS Securities are subject to hold orders):

(i) existing holders' bids specifying any rate that is equal to or lower than the applicable maximum rate will be rejected, thus entitling each such existing holder to continue to hold the aggregate face amount of CPS Securities subject to such submitted bids;

(ii) potential holders' bids specifying any rate that is equal to or lower than the applicable maximum rate will be accepted, thus requiring such potential holders to purchase the aggregate face amount of CPS Securities subject to such bids; and

(iii) each existing holder's bids specifying any rate that is higher than the applicable maximum rate and the sell order of each existing holder will be accepted, thus entitling each existing holder that submitted any such bid or sell order to sell the CPS Securities subject to such bid or sell order, but in both cases only in a face amount equal to the aggregate face amount of CPS Securities obtained by multiplying the aggregate face amount of CPS Securities subject to bids described in clause (ii) above by a fraction, the numerator of which is the aggregate face amount of CPS Securities held by such existing holder subject to such bid or sell order and the denominator of which is the aggregate face amount of CPS Securities subject to all such bids and sell orders.

If all CPS Securities are subject to hold orders, all bids will be rejected.

If, as a result of the procedures described in paragraph (ii) or (iii) immediately above, any existing holder would be entitled or required to sell, or any potential holder would be entitled or required to purchase, a fraction of a share of CPS Securities, the Auction Agent will, in such manner as it will, in its sole discretion, determine, round up or down the number of CPS Securities to be purchased or sold by any existing holder or potential holder (other than any fractional CPS Securities owned by Lehman Brothers Inc. or UBS Financial Services Inc., as applicable, as tax matters partner) so that only whole CPS Securities will be entitled to be purchased or sold by each potential holder or existing holder even if such allocation results in one or more of such potential holders not purchasing any CPS Securities.

#### **Supplemental Auction Procedures to Limit the Maximum Number of Holders**

*Maximum Number of Holders.* The maximum number of beneficial holders for a Trust's CPS Securities shall be 25 (the "maximum number of holders"). If FSA or a broker-dealer determines (and provides written notice thereof to the Auction Agent prior to 10:00 a.m., New York City time, on any auction date) or if the Auction Agent determines, that as a result of allocations of CPS Securities made by the Auction Agent in an auction in accordance with the procedures described above, there is a significant possibility that the number of holders of a Trust's CPS Securities would be greater than the maximum number of holders, the Auction Agent shall (1) in consultation with FSA and the broker-dealers, review the ownership of the CPS Securities to determine whether any person has been counted more than once in determining the number of holders and (2) in consultation with the broker-dealers and with any other persons that the Auction Agent determines would become existing holders of CPS Securities on behalf of more than one holder, determine the number of beneficial holders of CPS Securities on behalf of which such broker-dealer and other persons would hold CPS Securities, and if after completing such determination and eliminating all persons that have been counted more than once, the number of holders of CPS Securities would nonetheless be greater than the maximum number of holders, then the Auction Agent shall make a new determination of the results of such auction as follows, in the following order of priority:

(i) (a) if one or more bids of existing holders specifying the winning bid rate would have been accepted in part, or one or more bids of potential holders specifying the winning bid rate would have been rejected in part, and the Auction Agent determines (in consultation with the broker-dealers) that the acceptance or rejection in whole or in part of one or more bids of existing holders specifying the winning bid rate or the acceptance or rejection in whole or in part of one or more bids of potential holders specifying the winning bid rate would cause the number of holders to be less than or equal to the maximum number of holders, then to that extent such bids shall be accepted or rejected, as the case may be; and if necessary;

(b) if the Auction Agent determines (in consultation with the broker-dealers) that (1) the rejection in whole or in part of one or more bids of existing holders specifying a rate or rates lower than the maximum rate but higher than the rate which would have been the winning bid rate, or the acceptance in whole or in part of one or more bids of potential holders specifying such a rate or rates and (2) the rejection in whole or in part of one or more bids of potential holders specifying a rate or rates equal to or lower than the rate which would have been the winning bid rate, would cause the number of holders to be less than or equal to the maximum number of holders, then to that extent such bid of any existing holder that is so rejected or any such bid of any potential holder that is so accepted and the highest rate specified in any such bid of any existing holder that is so rejected or any such bid of any potential holder that is so accepted shall be the winning bid rate; provided that, to the



extent practicable, bids of existing holders which would have been accepted specifying a lower rate shall be rejected, and bids of potential holders specifying a lower rate shall be accepted, before such bids specifying a higher distribution rate; and provided further that subject to the foregoing proviso, to the extent practicable, bids of potential holders which would have been accepted specifying a higher rate shall be rejected before such bids specifying a lower rate, and bids of existing holders specifying a rate shall be rejected before bids of potential holders specifying the same rate are accepted; or

(ii) if the Auction Agent determines, in consultation with the broker-dealers, that the application of the foregoing procedures could not result in the number of holders being less than or equal to the maximum number of holders, then sufficient clearing bids shall be deemed not to exist for such auction and the "maximum rate" shall be the rate for the next succeeding distribution period for the CPS Securities held by the Trust and sell orders shall be accepted, in the sole discretion of the Auction Agent, only to the extent that their acceptance would not cause the number of holders to exceed the maximum number of holders for such Trust; provided that to the extent practicable, bids of potential holders specifying a lower rate shall be accepted before bids of potential holders specifying a higher rate.

### **Liquidation and Dissolution**

A Trust will liquidate and dissolve if (1) FSA notifies the Trust that it is electing not to pay the put premium for the next succeeding distribution period that follows the notice by at least three business days, (2) in accordance with the Put Agreement, FSA fails to pay the put premium on a distribution payment date and such failure continues for five business days, (3) FSA makes a Fixed Rate Election, (4) FSA fails to pay dividends on the FSA Preferred Stock, or the fees and expenses of the Trust, for the related dividend period, (5) FSA fails to pay the redemption price and such failure continues for five business days or (6) the face amount of a Trust's CPS Securities is less than \$20,000,000, including as a result of a full redemption of the FSA Preferred Stock held by the Trust.

In the event of a liquidation while a Trust holds Eligible Assets, the Trust will distribute to the holders of CPS Securities the proceeds attributable to principal received upon maturity or sale of its Eligible Assets plus accumulated distributions, net of fees and expenses. In the event of a liquidation while a Trust holds FSA Preferred Stock, the Trust will distribute to the holders of CPS Securities the FSA Preferred Stock plus the right to accumulated dividends on the FSA Preferred Stock.

### **Voting, Amendment to the Declaration of Trust and Removal of Investment Manager and Broker-Dealers**

Holders of CPS Securities will be entitled to vote as a single class on all matters submitted to the vote of the holders of such securities. Each CPS Security will have one vote on all matters submitted to the vote of the holders.

So long as any CPS Securities are outstanding, any amendment, restatement or revision to the Trust Declaration that would adversely alter the rights, terms or preferences of the CPS Securities generally may be effected only with the approval of the holders of at least a majority in face amount of the CPS Securities voting on such matter, except as described below.

No amendment to a Trust Declaration shall be made, and any such purported amendment shall be void and ineffective (i) unless, in the case of any purported amendment that affects the rights or powers of the Trustee, the Trustee consents to such amendment, and (ii) if the result of such amendment would be (A) to cause the Trust to be classified as an association or a publicly traded partnership taxable as a corporation for United States federal income tax purposes or (B) to cause the Trust to be deemed to be an investment company required to be registered under the 1940 Act.

If the consent of the holders of the CPS Securities is required with respect to any amendment, modification or waiver of the terms of or rights or preferences under, or other matter in respect of, the CPS Securities, the Trust or any agreement to which the Trust is a party, the Trustee shall request the direction of the holders of the CPS Securities with respect to such matter and shall vote with respect thereto in the same manner and proportion as directed by the holders of the CPS Securities providing direction. Prior to taking any other legal action with respect to any trust property, the Trustee shall request the direction of the holders of the CPS Securities with respect to such legal action and shall act with respect to such legal action as directed by a majority in the aggregate face amount of all outstanding CPS Securities, provided the Trustee has received an opinion of tax counsel to the effect that for

United States federal income tax purposes, the Trust will not be classified as an association or publicly traded partnership taxable as a corporation after consummation of such action.

The unanimous consent of the holders of the CPS Securities is required in order to amend a Trust Declaration with respect (i) to the liability, and limitations thereon, of the sponsor, the Trustee (any such amendment that affects the Trustee shall require the consent of the Trustee) and any of their affiliates, (ii) to the right of holders of CPS Securities to vote on matters submitted to the vote of the holders of the CPS Securities, (iii) to the provisions governing amendments to the Trust Declaration and (iv) to the rights of the holders of CPS Securities to receive distributions on the CPS Securities in accordance with their terms, including distributions in connection with a liquidation of the Trust.

Notwithstanding the foregoing, a Trust Declaration may be amended without the consent of the holders of the CPS Securities (i) to cure any ambiguity, (ii) to correct or supplement any provision in the Trust Declaration that may be defective or inconsistent with any other provision of the Trust Declaration or (iii) to conform to any change in the 1940 Act or written change in interpretation or application of the rules and regulations promulgated thereunder by any legislative body, court, government agency or regulatory authority; provided that any such amendment made pursuant to clauses (i) through (iii) of this paragraph shall be void if such amendment materially adversely affects the holders of CPS Securities or FSA.

Pursuant to the terms of a Trust Declaration, the holders of the CPS Securities have the right to vote on certain liquidations of the Trust.

So long as the FSA Preferred Stock is held by the Trust, the Trust will vote the FSA Preferred Stock in accordance with the vote of a majority of the holders of the CPS Securities, as determined by the Trust pursuant to the terms of the Trust Declaration.

The broker-dealers or the Investment Manager of any Trust may be replaced by the affirmative vote of the holders of a majority in face amount of such Trust's CPS Securities.

### **Investment Management Agreement**

Each Trust has entered into a separate agreement (each an "Investment Management Agreement") with The Bank of New York, as the investment manager (the "Investment Manager"). The information contained in this paragraph has been provided by the Investment Manager, and no assurance can be given nor is any representation made by FSA or the Initial Purchasers as to its accuracy or completeness. The Investment Manager was founded in 1784 by Alexander Hamilton and is the nation's oldest bank. It is the principal subsidiary of The Bank of New York Company, Inc. (NYSE: BK), a financial holding company. With over \$81 billion in total assets as of December 31, 2002, The Bank of New York Company, Inc. provides a complete range of banking and other financial services to corporations and individuals worldwide through its basic businesses, namely, Securities Servicing and Global Payment Services, Corporate Banking, BNY Asset Management and Private Client Services, Retail Banking, and Global Market Services. The Trustee is an affiliate of the Investment Manager. While a Trust holds Eligible Assets, the fees and expenses of the Trustee will be paid from the assets of a Trust including the Trust's interests in the Put Agreement.

As each Trust's attorney-in-fact, the Investment Manager has full power to supervise and direct the investment of the Eligible Assets of such Trust deposited in a separate account or accounts to be managed by the Investment Manager. The Investment Manager will manage each Trust's portfolio of Eligible Assets in accordance with the investment guidelines described in the Investment Management Agreement, as they may be modified from time by written agreement of the applicable Trust and the Investment Manager. See "Description of CPS Securities – Distributions – Eligible Asset Guidelines." The Investment Manager's responsibilities include (i) establishing trading accounts on behalf of the Trusts, (ii) enforcing each Trust's rights with respect to its Eligible Assets, (iii) providing certain reports to the related Trust with respect to its Eligible Assets, and (iv) appointing a custodian to hold Eligible Assets on behalf of each Trust.

On each auction date, the Investment Manager will provide the Trustee with a list setting forth the applicable Trust's Eligible Assets for the next distribution period and the stated return on such Eligible Assets. In addition, on each auction date and on each date that the Investment Manager disposes of defaulted securities following a default,

the Investment Manager will determine and inform the Trustee whether the applicable Trust has suffered a loss of principal or interest.

In the absence of willful misconduct or gross negligence on its part, the Investment Manager will not be liable for any act or omission or for any error of judgment in managing the Trusts' accounts.

The Investment Manager will be entitled to receive an annual fee, payable in installments on every Distribution Payment Date, as specified in a fee schedule described in each Investment Management Agreement.

Each Investment Management Agreement may be terminated at any time by either party upon 30-day prior written notice to the other party.

#### **Purchaser's Letter and Transfer Restrictions**

As a condition to purchasing any CPS Securities, each prospective purchaser of the CPS Securities will be required to sign and deliver to one of the broker-dealers a purchaser's letter, a form of which is attached to this offering memorandum as Exhibit A, in which such prospective purchaser will agree, among other things:

- (i) to participate in auctions on the terms set forth herein;
- (ii) that any bid or sell order placed by such purchaser shall constitute an irrevocable offer to purchase or sell the CPS Securities subject to such bid or sell order, or such lesser number of CPS Securities as such purchaser shall be required to sell or purchase as a result of such auction, in accordance with the terms set forth in this offering memorandum; that a failure by such purchaser or a broker-dealer to place a bid or sell order with respect to the CPS Securities owned by such purchaser shall be deemed to constitute a hold order;
- (iii) that any purchase of CPS Securities made by such purchaser shall be for its own account or for the account of one or more other persons for which it is acting as trustee or agent with complete investment discretion and with authority to bind such party and, if for the account of any such other person or persons, such purchaser has completed a separate purchaser's letter for each such beneficial owner; that such purchase is not made with a view to any public resale or distribution thereof; that such purchaser will inform one of the broker-dealers prior to any purchase and each auction the number of accounts for which it is acting, the face amount of the CPS Securities held by such accounts and the nature of the order for each account (in the event of more than one order per account, the number of shares of CPS Securities per order);
- (iv) that such purchaser or the party for whom it is acting is (a) a qualified institutional buyer and is also a qualified purchaser, (b) for United States federal income tax purposes, (i) a "domestic corporation" within the meaning of Section 7701(a)(30)(C) of the Code (other than an "S Corporation" as defined in Section 1361 of the Code) or (ii) a U.S. person that is generally exempt from income tax under Section 501 of the Code and (c) not a pension or welfare plan (collectively, an "eligible purchaser");
- (v) that each purchaser of CPS Securities will not transfer such CPS Securities in an auction to any person if, in the reasonable judgment of the Trust or one of the broker-dealers, the transferee beneficial owner of such CPS Securities is not an eligible purchaser;
- (vi) that, subject to certain exceptions, to be a qualified purchaser, entities must have \$25 million in "investments" as defined in Rule 2(a)(51)-(1) of the 1940 Act;
- (vii) that the CPS Securities and the FSA Preferred Stock, if and when issued, have not been, and will not be, registered under the Securities Act or any state securities laws and, accordingly, such securities may not be reoffered, resold or otherwise pledged, hypothecated or transferred unless so registered or an applicable exemption from the registration requirements of the Securities Act and any state securities laws is available; and that such purchasers shall transfer CPS Securities only pursuant to a bid or sell order placed in an auction to or through one of the broker-dealers to an eligible purchaser;
- (viii) each Trust is intended to meet the requirements of Treasury Regulation §1.7704-1(h), which excludes from the definition of publicly traded partnership any partnership that does not have more than 100 partners. In order to

meet the requirements for this exception, CPS Securities may not be transferred except in a transaction that will not cause the relevant Trust to be deemed a publicly traded partnership, and no purported transfer of CPS Securities, whether pursuant to an auction or otherwise, will be effective if, after giving effect to such transfer, the Trusts will have more than 100 partners. In addition, the maximum number of beneficial holders for each Trust shall be 25;

(ix) that the Trust is not registered as an investment company under the 1940 Act, and is exempt from registration as such by virtue of Section 3(c)(7) of the 1940 Act, which excludes from the definition of investment company any issuer whose outstanding securities (other than short-term paper) are beneficially owned exclusively by persons that are qualified purchasers and which has not made and does not propose to make a public offering of its securities;

(x) that if such purchaser is a registered investment company, it is not acquiring the CPS Securities if after giving effect to such acquisition it would beneficially own or have investment and voting discretion over more than 3% of the then outstanding CPS Securities issued by all Trusts;

(xi) that if the prospective purchaser is not an eligible purchaser that satisfies the requirements or representations of the purchaser's letter at the time it acquires the CPS Securities or an interest therein, the purchaser shall, upon demand of a Trust and in any event within ten business days after receiving such demand, sell all of its CPS Securities or interests therein to a transferee whom such purchaser and the Trust reasonably believes is an eligible purchaser that satisfies the requirements or representations of the purchaser's letter; that until further notice from the Trust, prior to the transfer of any CPS Securities, each purchaser thereof shall be required to deliver to the broker-dealers a purchaser's letter and that any purported purchase or transfer of the CPS Securities in violation of such measures shall be null and void; and that the Trust may withhold payments from holders who fail to satisfy the foregoing;

(xii) to have all of the outstanding CPS Securities represented by a global certificate registered in the name of DTC or its nominee, and that such purchaser shall not be entitled to receive any certificate representing any CPS Securities which it acquires, and that the ownership of the CPS Securities as to which such purchaser is the existing holder shall be maintained in book-entry form by DTC, for the account of its participant, which in turn shall maintain such records of such purchaser's beneficial ownership, and to authorize such DTC participant to disclose to the Auction Agent such information with respect to such purchaser's beneficial ownership as the Auction Agent may request;

(xiii) to acknowledge that the broker-dealers participating in an auction may purchase CPS Securities and submit orders in auctions for its own account and that, because all orders must be submitted through the broker-dealers, the broker-dealers may have knowledge of orders placed through it in any such auction;

(xiv) that the offering memorandum was prepared solely for the benefit of prospective eligible purchasers in connection with their potential purchase of CPS Securities in a transaction exempt from the registration requirements of the Securities Act and the applicable state securities laws; that except as explicitly permitted by the purchaser's letter, the prospective investor shall not reproduce or distribute the offering memorandum, in whole or in part, or disclose any of its contents to any other person; that if the prospective investor does not execute and deliver a purchaser's letter to the Trust or the broker-dealer in order to become eligible to purchase CPS Securities in the private placement or in subsequent auctions, the prospective investor shall return the offering memorandum to the Trust or the broker-dealer as soon as practicable, as required by the prospective investor's acceptance of delivery of the offering memorandum. Notwithstanding anything to the contrary contained in this offering memorandum, you may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated by this offering memorandum, and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure, except that tax treatment and tax structure shall not include the identity of any of the parties referenced herein;

(xv) that partial deliveries of CPS Securities purchased may be made to such purchaser and such deliveries shall constitute good delivery as set forth in this offering memorandum;

(xvi) that in making decisions as to whether to purchase or sell any CPS Securities or, if issued, the FSA Preferred Stock, such purchaser must rely on its own examination of the particular Trust, FSA and the terms of the CPS Securities and the FSA Preferred Stock, and that neither the Auction Agent nor any broker-dealer, by

participating in auctions, shall be deemed to make any recommendation regarding the merits of any investment in the CPS Securities or the FSA Preferred Stock by such purchaser, and that neither the Auction Agent nor any broker-dealer has any obligation to supply to such purchaser any information concerning the Trust, the CPS Securities, FSA or the FSA Preferred Stock;

(xvii) that a restrictive legend to the following effect shall be placed on the certificates representing the CPS Securities and stop-transfer instructions shall be issued to the transfer agent for the CPS Securities:

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER ANY STATE SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT TO A PERSON WHO HAS SIGNED A PURCHASER'S LETTER IN SUBSTANTIALLY THE FORM ATTACHED AS EXHIBIT A TO THE OFFERING MEMORANDUM DATED JUNE 19, 2003 RELATING TO THE SECURITIES AND FURTHER IS (A) A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A OF THE SECURITIES ACT, AND A "QUALIFIED PURCHASER" AS DEFINED IN SECTION 2(A)(51) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, AND RELATED RULES (THE "1940 ACT"), AND IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS; (B) FOR UNITED STATES FEDERAL INCOME TAX PURPOSES, (1) A "DOMESTIC CORPORATION" WITHIN THE MEANING OF SECTION 7701(A)(30)(C) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (OTHER THAN AN "S CORPORATION" AS DEFINED IN SECTION 1361 OF THE CODE) OR (2) A U.S. PERSON THAT IS GENERALLY EXEMPT FROM INCOME TAX UNDER SECTION 501 OF THE CODE; AND (C) NOT A PENSION OR A WELFARE PLAN (EACH AS DEFINED IN SECTION 3 OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED).

THE SECURITIES OFFERED HEREBY MAY BE TRANSFERRED ONLY PURSUANT TO A BID OR SELL ORDER PLACED IN AN AUCTION CONDUCTED IN ACCORDANCE WITH THE AUCTION PROCEDURES SET FORTH IN THE TRUST'S AMENDED AND RESTATED DECLARATION OF TRUST (THE "DECLARATION OF TRUST") TO A PERSON WHO QUALIFIES AS A TRANSFEREE PURSUANT TO THE PRECEDING PARAGRAPH. ANY PURPORTED TRANSFER OF SECURITIES OF THE TRUST THAT WOULD VIOLATE THESE TRANSFER RESTRICTIONS IS DEEMED BY THE DECLARATION OF TRUST TO BE VOID AND OF NO LEGAL EFFECT WHATSOEVER. ANY INTENDED TRANSFEREE IN SUCH A PURPORTED TRANSFER SHALL NOT BECOME OR BE THE HOLDER OF SUCH SECURITIES FOR ANY PURPOSE, INCLUDING BUT NOT LIMITED TO THE RECEIPT OF DISTRIBUTIONS ON SUCH SECURITIES, AND SUCH INTENDED TRANSFEREE SHALL BE DEEMED TO HAVE NO INTEREST WHATSOEVER IN SUCH SECURITIES. IN SUCH A CASE, THE PURPORTED TRANSFEROR IS DEEMED BY THE DECLARATION OF TRUST TO CONTINUE TO BE THE HOLDER OF THE SECURITIES NOTWITHSTANDING THE PURPORTED TRANSFER OF THE SECURITIES.

THE TRUST IS INTENDED TO MEET THE REQUIREMENTS OF TREASURY REGULATION §1.7704-1(H), WHICH EXCLUDES FROM THE DEFINITION OF PUBLICLY TRADED PARTNERSHIP ANY PARTNERSHIP THAT DOES NOT HAVE MORE THAN 100 PARTNERS. IN ORDER TO MEET THE REQUIREMENTS FOR THIS EXCEPTION, CPS SECURITIES MAY NOT BE TRANSFERRED EXCEPT IN A TRANSACTION THAT WILL NOT CAUSE THE TRUST TO BE DEEMED A PUBLICLY TRADED PARTNERSHIP, AND NO PURPORTED TRANSFER OF CPS SECURITIES, WHETHER PURSUANT TO AN AUCTION OR OTHERWISE, WILL BE EFFECTIVE IF, AFTER GIVING EFFECT TO SUCH TRANSFER, THE TRUSTS WILL HAVE MORE THAN 100 PARTNERS. IN ADDITION, THE MAXIMUM NUMBER OF BENEFICIAL HOLDERS FOR EACH TRUST SHALL BE 25.

THE TRUST RESERVES THE RIGHT TO MODIFY THE FORM OF CERTIFICATES REPRESENTING THE CPS SECURITIES FROM TIME TO TIME TO REFLECT ANY CHANGES IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THEIR PURCHASE OR RESALE AND/OR IF IT SO DETERMINES,

REQUEST THAT THE CPS SECURITIES EVIDENCED HEREBY BE REGISTERED IN THE NAMES OF PERSONS OTHER THAN THE DEPOSITORY TRUST COMPANY OR ITS NOMINEE OR A SUCCESSOR DEPOSITORY OR ITS NOMINEE. THE CPS SECURITIES AND RELATED DOCUMENTATION INCLUDING THIS LEGEND MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THE CPS SECURITIES TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE REALE OR TRANSFER OF SECURITIES SUCH AS THE CPS SECURITIES GENERALLY. EACH HOLDER OF THIS CERTIFICATE SHALL BE DEEMED, BY THE ACCEPTANCE OF THIS CERTIFICATE, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

(xviii) that it shall not sell or otherwise transfer CPS Securities to, and each purchaser represents and covenants that it is not acquiring such CPS Securities for or on behalf of, and shall not transfer such CPS Securities to, any pension or welfare plan (as defined in Section 3 of ERISA);

(xix) that it shall treat for all tax purposes (1) each Trust as owning the Eligible Assets and having written a put option to FSA and (2) the put premiums received by the Trust from FSA as items of short-term capital gain at the end of each distribution period; and

(xx) that it shall inform the addressees of the purchaser's letter promptly of any material change in the information specified in the purchaser's letter with respect to such prospective purchaser or any person for whose account it is acting.

The Trust, the broker-dealers and others will rely upon the truth and accuracy of the representations and agreements made in a purchaser's letter, and each acquisition of CPS Securities will be deemed to constitute the concurrence in such representations and agreements being binding on the existing holder. If any of the representations or warranties made by the existing holder in a purchaser's letter are no longer accurate (or if any such representation or warranty as to a prospective purchaser ceases to be accurate), the existing holder (or prospective purchaser) must promptly notify its agent member. Each existing holder will be required to supply promptly any documentation, including any opinions of counsel, requested by the Trust or the broker-dealers at any time to confirm any of the representations and warranties or other agreements made in such purchaser's letter. If an existing holder fails to comply with the foregoing restrictions, or if at any time any representations or warranties contained in an existing holder's purchaser's letter cease to be accurate, the Trust may require such existing holder to submit a sell order with respect to some or all of the CPS Securities held by such existing holder at the next auction or to promptly sell some or all of such existing holder's CPS Securities to a broker-dealer or another third party; provided, however, that no broker-dealer will be required to purchase any such CPS Securities.

A form of the purchaser's letter is included as Exhibit A to this offering memorandum. **Execution of a purchaser's letter is not a commitment to purchase CPS Securities in the offering made hereby, in any auction or otherwise, but is a condition precedent to purchasing CPS Securities.** A broker-dealer may require each prospective purchaser to execute and deliver to such broker-dealer a purchaser's letter in a form different from that attached hereto, provided that such different form will contain, in addition to any other information, all of the same information, representations and agreements as the form attached hereto.

The Trustee may rely upon, as evidence of the identities of the existing holders, a list of the initial existing holders of the series of CPS Securities provided by the broker-dealers, the results of auctions in respect of the series and notices from any broker-dealer of any existing holder with respect to such existing holder's transfer of CPS Securities of the series to another person. The Trustee will be required to register a transfer of beneficial ownership of CPS Securities from an existing holder to another person only if such transfer is made to a person that has delivered a signed purchaser's letter to one of the broker-dealers and if (i) such transfer is pursuant to an auction or (ii) the Trustee has been notified in writing by such existing holder, the agent member of DTC of such existing holder or the broker-dealer of such existing holder of such transfer and that such transfer complies with the requirements of the purchaser's letter. The Trustee will rescind a transfer of CPS Securities if the Auction Agent is notified by the broker-dealer of any person that purchased or sold such CPS Securities in an auction of the failure of such CPS Securities to be transferred as a result of the auction. Any such notice will be effective for an auction only if received by the Auction Agent by 3:00 p.m., New York City time, on the business day preceding the related auction date.

## **Transfer Restrictions; Certification Requirements; Mandatory Transfer**

The CPS Securities may only be transferred to an eligible purchaser. Until further notice from a Trust, prior to the transfer of any CPS Securities of that Trust, all purchasers will be required to deliver to the Trust and one of the broker-dealers the purchaser's letter. See "—Purchaser's Letter and Transfer Restrictions" above. Any purported purchase or transfer of the CPS Securities in violation of such measures will be void and without any legal effect whatsoever. The purchaser understands and acknowledges that a Trust may also require the sale of its CPS Securities held by persons that fail to provide such certifications or otherwise comply with the foregoing.

## **Settlement Procedures**

The Auction Agent will advise the broker-dealers of the auction rate for the next distribution period and, if such order was a bid or sell order, whether such bid or sell order was accepted or rejected, in whole or in part, by telephone not later than 3:30 p.m., New York City time, on each auction date. The broker-dealers are required to (i) advise each bidder on whose behalf such broker-dealer submitted an order of the auction rate for the next distribution period and, if such order was a bid or a sell order, whether such bid or sell order was accepted or rejected, in whole or in part, (ii) confirm purchases and sales with each bidder purchasing or selling CPS Securities as a result of the auction and (iii) advise each such bidder to give instructions to its participant to pay the purchase price against delivery of such CPS Securities or to deliver such CPS Securities against payment therefor, as appropriate. The Trustee will record each transfer of CPS Securities on the registry of existing holders to be maintained by the Trustee.

In accordance with DTC's normal procedures, on the business day after the auction date, the transactions described above will be executed through DTC and the accounts of the respective participants at DTC will be debited and credited and CPS Securities delivered (by book-entry) as necessary to effect the purchases and sales of CPS Securities as determined in the auction. Purchasers are required to make payment through their DTC participants in same-day funds to DTC against delivery through their participants. DTC will make payment in accordance with its normal procedures, which now provide for payment against delivery by its participants in same-day funds.

If any existing holder selling CPS Securities in an auction fails to deliver such CPS Securities, the broker-dealer of any person that was to have purchased CPS Securities in such auction may deliver to such person a face amount of CPS Securities that is less than the face amount of CPS Securities that otherwise was to be purchased by such person but in any event equal to an integral multiple of the face amount of the CPS Securities. In such event, the face amount of CPS Securities to be delivered will be determined by such broker-dealer. Delivery of such lesser face amount of CPS Securities will constitute good delivery.

## **Auction Agent Agreement**

The Bank of New York (Delaware) will be the initial Auction Agent. The Auction Agent will act solely as agent for the Trusts in performing its duties under the Auction Agent Agreement. In the absence of willful misconduct or gross negligence on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agent Agreement, and will not be liable for any error of judgment made in good faith unless it will have been grossly negligent in the performance of its duties under the Auction Agent Agreement.

The Auction Agent will be entitled to receive a fee as set forth in the Auction Agent Agreement.

## **Broker-Dealer Agreements**

On each distribution payment date, the broker-dealers (which, as disclosed above under "— Auction Participants," initially will be Lehman Brothers Inc. and UBS Financial Services Inc.) will be entitled to receive a fee with respect to the auction held in connection with the distribution period to which the distribution payment date relates (or in respect of the initial placement of the CPS Securities in the case of the initial distribution payment date) in an amount initially equal to the product of (i) a fraction, the numerator of which is the number of days in the applicable distribution period and the denominator of which is 360, and (ii) the broker-dealer fee rate (which initially will be the initial broker-dealer fee rate), and (iii) the aggregate face amount of the CPS Securities placed by

such broker-dealer in connection with the respective auction plus the aggregate face amount of CPS Securities subject to valid hold orders (all such fees are collectively referred to herein as the "broker-dealer fee").

The term "broker-dealer fee rate" means the prevailing rate received by broker-dealers for rendering comparable services to others. The Auction Agent will advise the Trusts at least annually of its view of such prevailing rate. If the then-current broker-dealer fee rate is not, in the opinion of the Auction Agent, the prevailing rate, the Trusts will change the broker-dealer fee rate so that it equals such prevailing rate. The term "initial broker-dealer fee rate" means 0.25% per annum.

Each broker-dealer agreement provides that if any existing holder on whose behalf a broker-dealer submitted a bid or sell order that is accepted in whole or in part fails to instruct DTC to deliver securities by book entry against payment therefor, such broker-dealer may instruct DTC to deliver a lesser face amount of such securities by book entry on behalf of such existing holder against payment therefor. Upon notice to the Auction Agent, such partial delivery will constitute good delivery. The delivery of funds by a broker-dealer for the purchase of CPS Securities by a potential holder on behalf of whom the broker-dealer submitted an order will not relieve such potential holder of any liability to such broker-dealer for payment for such CPS Securities. Each broker-dealer agreement provides that neither the Trust, nor the Auction Agent will have any responsibility or liability with respect to the failure of a potential holder, existing holder or DTC to deliver CPS Securities or to pay for CPS Securities purchased or sold pursuant to an auction or otherwise. As long as Cede & Co., or any other nominee for DTC, continues to hold the CPS Securities, no share certificates will need to be delivered by any existing holder to reflect any transfer of CPS Securities effected by an auction.

Each broker-dealer agreement provides that a broker-dealer, if it has delivered a signed purchaser's letter, may submit orders in auctions for its own account, unless a Trust notifies such broker-dealer that it may no longer do so, in which case such broker-dealer may continue to submit only hold orders and sell orders for its own accounts. If a broker-dealer submits an order for its own account in any auction, it may have knowledge of orders placed through it in that auction and therefore have an advantage over other bidders. In its broker-dealer agreement, each broker-dealer agrees to handle customer orders in accordance with its respective duties under applicable securities laws and regulations.

Each broker-dealer agreement provides that such broker-dealer agreement can be terminated upon 30 days' notice by any of the parties to that agreement to the other parties thereto. If a broker-dealer is replaced for any reason, Holders of the CPS Securities of the applicable Trust that desire to continue to participate in auctions would be required to open an account with the replacement broker-dealer, if any (if they do not already have one) and comply with any other policies and procedures of such broker-dealer.

## **DESCRIPTION OF THE PUT AGREEMENT**

Each Trust has entered into a Put Agreement with FSA. The following summary of the terms of the Put Agreement is qualified in its entirety by reference to the Put Agreement. A copy of the Put Agreement is available upon request from the Trustee or FSA.

### **General**

FSA, at its option, may cause a Trust to purchase FSA Preferred Stock. The Trust will use the portion of the proceeds attributable to principal received upon maturity of its Eligible Assets (and, if applicable, liquidation of defaulted Eligible Assets), net of fees and expenses, as consideration for the FSA Preferred Stock. FSA can exercise the Put Option upon no more than 15 nor less than 10 days' written notice to the Trustee. Settlement of the Put Option will occur on the next distribution payment date.

As a condition to exercising a Put Option under a Put Agreement, FSA is required to enter into an Expense Reimbursement Agreement with the respective Trust pursuant to which FSA agrees to pay the fees and expenses of the Trust on every distribution payment date while the Trust holds FSA Preferred Stock.



## **Put Premium**

Pursuant to the Put Agreement, FSA will pay a put premium to a Trust on each distribution payment date except (1) during any period when the FSA Preferred Stock that has been put to a Trust is held by that Trust or (2) upon termination of the Put Agreement as described below under "—Termination of the Put Agreement." The put premium will be in an amount equal to the product of (A) the auction rate on the CPS Securities for the respective distribution period less the excess of (i) the Trust's stated return on the Eligible Assets for such distribution period (expressed as an annual rate) over (ii) the expenses of the Trust for such distribution period (expressed as an annual rate), (B) the aggregate face amount of the CPS Securities of the Trust outstanding on the date the put premium is calculated, and (C) a fraction, the numerator of which will be the actual number of days in such distribution period and the denominator of which will be 360.

The put premium will be calculated for each distribution period on the auction date (which is the last business day of the preceding distribution period). In the event of a delayed auction, FSA will pay the applicable Trust a put premium (to be calculated by the Trustee) for the delayed auction period on a substantially similar basis, calculated with respect to the "maximum rate". See "Description of CPS Securities – Distributions – Calculation of Subsequent Distribution Rates."

On the auction date, the Trustee shall furnish the broker-dealers with the amount of the Trust's expenses (expressed in basis points) for the related distribution period. In addition, while a Trust holds Eligible Assets, on or prior to 11:00 a.m. on the auction date, the Investment Manager will provide the Trustee, who will, in turn, furnish to the broker-dealers, a list setting forth the Eligible Assets and the stated return on such Eligible Assets for the related distribution period. Existing holders and potential holders of the CPS Securities may obtain this information by calling the Auction Trading Department at Lehman Brothers Inc., telephone: (212) 526-8390 or the TFI Auction Preferred Desk at UBS Financial Services Inc., telephone: (201) 352-7270.

## **Redemption of FSA Preferred Stock**

FSA may redeem FSA Preferred Stock as described under "Description of the FSA Preferred Stock—Redemption of FSA Preferred Stock."

## **Termination of the Put Agreement**

Each Put Agreement has no scheduled termination date or maturity. It terminates if (1) FSA notifies the Trust that it is electing not to pay the put premium for the next succeeding distribution period that follows the notice by at least three business days, (2) in accordance with the Put Agreement, FSA fails to pay the put premium on a distribution payment date and such failure continues for five business days, (3) FSA exercises the Put Option, or (4) the face amount of a Trust's CPS Securities is less than \$20,000,000.

## **Amendment and Assignment**

The Put Agreement may only be amended with the prior written consent of FSA and the Trust (which consent must be obtained from a majority of the holders of the CPS Securities pursuant to the Declaration of Trust).

Neither the Trust nor FSA may assign its rights or obligations under the Put Agreement to any other person, except that FSA may assign its rights and obligations under the Put Agreement to another person as a result of a merger of FSA with another person, or as a result of a sale of all or substantially all of the assets of FSA to another person if:

- the other person expressly assumes all of the rights and obligations of FSA under the Put Agreement; and
- immediately following the merger, acquisition or sale of all or substantially all of the assets of FSA, the financial strength rating of the other person is at least as high as the financial strength rating of FSA immediately prior to such merger, acquisition or sale.

## BOOK-ENTRY PROCEDURES

DTC will act as securities depository for the CPS Securities. Except as described in this offering memorandum, the CPS Securities will be issued only as global, fully registered securities (the "Global Securities") and registered in the name of Cede & Co. as nominee of DTC. For each series of CPS Securities, one or more fully registered Global Security certificates, representing the total aggregate number of CPS Securities of the series issued and sold in this offering, will be issued and deposited with DTC, as securities depository. Each such Global Security certificate will bear a legend to the effect that it is issued subject to the provisions restricting the transfer of CPS Securities contained in the applicable Trust Declaration. As long as the distribution rate on the CPS Securities is based upon the results of an auction, Cede & Co. will be the holder of record of all CPS Securities, and existing holders of the CPS Securities will not receive certificates representing their ownership interest in such CPS Securities.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act (as defined in this offering memorandum). DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks and trust companies that clear transactions through or maintain a custodial relationship with a Direct Participant either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the SEC.

Purchasers of CPS Securities may hold their interests therein directly through DTC if they are Direct Participants in such system, or indirectly through organizations which are Direct Participants or Indirect Participants in such system.

Beneficial owners will not receive written confirmation from DTC of their purchases, but beneficial owners are expected to receive written confirmation providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the beneficial owners hold CPS Securities. Transfers of ownership interests in the CPS Securities will be accomplished by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the CPS Securities except in the event that use of the book-entry system for the CPS Securities is discontinued. So long as the class or series of CPS Securities is represented by one or more Global Securities and DTC is the securities depository, all interests in such CPS Securities will be subject to the procedures and requirements of DTC.

To facilitate subsequent transfers, all the CPS Securities deposited by Participants with DTC will be registered in the name of DTC's nominee, Cede & Co. The deposit of CPS Securities with DTC and their registration in the name of Cede & Co. will effect no change in beneficial ownership. DTC will have no knowledge of the actual beneficial owners of the CPS Securities. DTC's records will reflect only the identity of the Direct Participants to whose accounts such CPS Securities are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by 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 that may be in effect from time to time.

Redemption notices will be sent by FSA to Cede & Co.

Neither DTC nor Cede & Co. will itself consent or vote with respect to the CPS Securities. Under its usual procedures, DTC will mail an omnibus proxy to the Direct Participants as soon as possible after the relevant record

date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the CPS Securities are credited on the record date (identified in a listing attached to the omnibus proxy). Each Trust believes that the arrangements among DTC, Direct and Indirect Participants and beneficial owners will enable the beneficial owners to exercise rights equivalent in substance to the rights that could have been exercised by a direct holder of the CPS Securities.

Payments of distributions on the CPS Securities will be made to DTC. DTC's practice is to credit the accounts of Direct Participants on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers in bearer form or registered in "street name," and such payments will be the responsibility of such Participants and not of DTC or a Trust, subject to any statutory or regulatory requirements to the contrary that may be in effect from time to time. Payment of distributions to DTC is the responsibility of the Trusts, disbursements of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payment to the beneficial owners is the responsibility of Direct and Indirect Participants.

Transfers between Direct Participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds.

Except as provided in this offering memorandum, a beneficial owner of an interest in a Global Security will not be entitled to receive physical delivery of CPS Securities. Accordingly, each beneficial owner must rely on the procedures of DTC, the Direct Participants and the Indirect Participants to exercise any rights under the CPS Securities.

The information in this section concerning DTC and its book-entry system has been obtained from sources that the Trusts believe to be reliable, but the Trusts take no responsibility for the accuracy thereof.

The Trusts will not have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial interests.

#### **Discontinuance of DTC's Services**

Subject to obtaining an opinion of a nationally recognized tax counsel with experience in such matters that there will be no adverse income or franchise tax consequences under the laws of New York or general corporation or unincorporated business tax consequences under the laws of The City of New York upon the issuance of CPS Securities in certificated form, a Global Security will be exchangeable for CPS Securities registered in the names of persons other than DTC or its nominee or a successor depositary or its nominee only if (i) DTC or such successor depositary, as applicable, notifies a Trust that it is unwilling or unable to continue as a depositary for such Global Security and no successor depositary will have been appointed by the Trust within 90 days of such notice, (ii) DTC or such successor depositary, as applicable, at any time, ceases to be a clearing agency registered under the Exchange Act at which time DTC or such successor depositary, as applicable, is required to be so registered to act as such depositary and no successor depositary will have been appointed, (iii) a Trust determines that such Global Security will be so exchangeable by the Trust within 90 days, or (iv) a Trust voluntarily elects to discontinue the use of the book-entry transfer system. Any Global Security that is exchangeable pursuant to the preceding sentence will be exchangeable for CPS Securities registered in such names as DTC or any successor depositary or the Trust, as applicable, will direct. Each certificated CPS Security will bear a legend as set forth in its respective purchaser's letter.

If the Global Securities are exchanged pursuant to the above paragraph, distributions on the CPS Securities may, at the Trust's option, be paid by check mailed to the persons entitled thereto as shown on the register maintained by the registrar and transfer agent. Notwithstanding the foregoing, a holder of \$5 million or more in aggregate principal amount of CPS Securities will be entitled to receive distributions, if any, on any distribution payment date by wire transfer of immediately available funds if appropriate wire transfer instructions have been received in writing by a Trust not less than 15 days prior to such payment date. Any such wire transfer instructions received by the Trust will remain in effect until revoked by such holder.

Upon issuance in certificated form, holders of CPS Securities will be required to submit to the registrar and transfer agent a duly completed purchaser's letter attached hereto, unless the registrar and transfer agent then currently has in its records a purchaser's letter duly completed by such holder that is dated less than 12 months prior to the date of the issuance of the CPS Securities in certificated form. In addition, any resale or other transfer of CPS Securities issued in certificated form or any interest therein requires the submission to the registrar and transfer agent of a duly completed purchaser's letter from the potential transferee. In addition, the Trust may require additional information and evidence that such sale or transfer does not cause the Trust to become subject to registration or regulation under the 1940 Act. Each Trust reserves the right to modify the form of the purchaser's letter from time to time to reflect any changes in applicable law or regulation (or the interpretation thereof) or in the practices relating to the ownership, resale or other transfer of securities such as the CPS Securities and/or, if it so determines, discontinue the requirement that such certifications be delivered.

### DESCRIPTION OF THE FSA PREFERRED STOCK

The restated charter of FSA authorizes the issuance of FSA Preferred Stock, in one or more series, each series in an aggregate liquidation preference amount equal to the aggregate face amount of a Trust's outstanding CPS Securities, net of fees and expenses, upon exercise of a Put Option. No authorized but unissued capital stock of FSA may be issued without the approval of the Superintendent of Insurance of the State of New York, who has delivered a letter to FSA approving the issuance of the FSA Preferred Stock upon exercise of a Put Option and in accordance with the provisions of the restated charter. The following summary of the material terms and provisions of the FSA Preferred Stock does not purport to be complete and is subject to, and qualified in its entirety by reference to, FSA's restated charter. A copy of FSA's restated charter is available upon request from FSA or the Initial Purchasers.

#### Dividends

*Preferences.* For each dividend period, holders of the outstanding FSA Preferred Stock of any series, in preference to the holders of common stock and of any other class of shares ranking junior to the FSA Preferred Stock, shall be entitled to receive out of any funds legally available therefor when, as and if declared by the Board of Directors of FSA or a duly authorized committee thereof, cash dividends at a rate per share equal to the Dividend Rate. See "—Dividend Rate on the FSA Preferred Stock" in this offering memorandum.

So long as any FSA Preferred Stock shall be outstanding, no dividends, except dividends payable in common stock or other shares ranking junior to the FSA Preferred Stock, shall be paid or declared or any distribution be made on the common stock or any other shares ranking junior to the FSA Preferred Stock, nor shall any common stock be purchased, retired or otherwise acquired by FSA, unless all dividends on the FSA Preferred Stock for the then current dividend period shall have been declared and paid or a sum sufficient for payment thereof set apart. However, dividends on the common stock may be made at all times for the purpose of, and only in such amounts as are necessary for, enabling FSA Holdings or any successor thereto to service its indebtedness for borrowed money as such payments become due or to pay its operating expenses; provided that no such dividends may be applied towards the payment of, or setting apart a sum sufficient for the payment of, any dividends on the common stock of FSA Holdings unless all dividends on the FSA Preferred Stock shall have been declared and paid or a sum sufficient for payment thereof shall have been set apart.

No dividends may be paid upon or declared or set apart for any series of FSA's preferred stock ranking on parity as to dividends with the FSA Preferred Stock for any dividend period unless at the same time a like proportionate dividend for the same dividend period, ratable in proportion to the respective auction rates fixed therefore, shall be paid upon or declared and set apart for all of the series of FSA's preferred stock ranking on parity as to dividends with the FSA Preferred Stock then issued and outstanding and entitled to receive such dividends.

If dividends are not paid in full upon the FSA Preferred Stock or upon any other capital stock of FSA ranking on a parity as to dividends with the FSA Preferred Stock, dividends may be declared upon shares of the FSA Preferred Stock and any other such parity shares, but only if such dividends are declared *pro rata* so that the amount of dividends declared per share on the FSA Preferred Stock and such other shares shall in all cases bear to each other the same ratio that the amount of dividends per share on the shares of the FSA Preferred Stock and such other parity shares bear to each other.

*Dividends shall be non-cumulative.* Generally, dividends shall be non-cumulative. However, dividends shall be cumulative during such period of time commencing on the first day of any dividend period in which dividends on the common stock have been declared while all accrued and unpaid dividends on the FSA Preferred Stock for the then current dividend period have not been declared and paid on the respective dividend payment date or a sum sufficient for payment thereof has not been set apart, and ending on the date that all accumulated and unpaid dividends have been declared and paid or a sum sufficient for payment thereof has been set apart. If FSA fails to pay dividends on the FSA Preferred Stock or fails to pay the fees and expenses of the Trust when due, the Trust will liquidate and dissolve, thereby distributing to holders of its CPS Securities the FSA Preferred Stock.

*Dividend Payment Dates.* While a Trust holds FSA Preferred Stock and prior to a Fixed Rate Distribution Event, for each distribution period, dividends on the FSA Preferred Stock will be paid on the related distribution payment date for the Trust's CPS Securities. Each distribution period will be 49 days long, beginning with the date the FSA Preferred Stock is put to the Trust. The distribution payment date for each distribution period will be the first business day of the next distribution period. Upon a Fixed Rate Distribution Event, dividends on the FSA Preferred Stock will be paid every 90 days to the holders of the FSA Preferred Stock.

Each dividend declared shall be payable to the holder or holders of record of a series of FSA Preferred Stock as of the business day immediately preceding the applicable dividend payment date for such series. So long as the FSA Preferred Stock are held of record by the nominee of DTC, dividends will be paid to the nominee of DTC on each dividend payment date for each respective series. DTC will credit the accounts of the agent members of existing holders of the FSA Preferred Stock in accordance with DTC's normal procedures, which provide for payment in same-day funds. The agent member of an existing holder will be responsible for holding or disbursing such payments to such existing holder in accordance with the instructions of such existing holder.

*Dividend Rate on the FSA Preferred Stock.* Following the exercise of a Put Option and the issuance of the FSA Preferred Stock, the rate per annum of dividends on the FSA Preferred Stock (the "Dividend Rate") will be equal to (i) for each dividend period prior to a Fixed Rate Distribution Event, the auction rate for the related CPS Securities, determined as described below under "—CPS Securities Auctions," or (ii) for each dividend period following a Fixed Rate Distribution Event, a rate equal to the fixed-rate equivalent of LIBOR (as defined below) plus 200 basis points (2.00%). The fixed-rate equivalent will be determined by using the "bid" 30-year U.S. dollar swap rate quoted on page 19901 on Moneyline Telerate Service at 11:00 a.m. New York time on the LIBOR Determination Date (as defined below); *provided, however*, that if the 30-year U.S. dollar swap rate is not available, the fixed-rate equivalent will be determined by using the "bid" 10-year U.S. dollar swap rate.

"LIBOR" shall mean on the LIBOR Determination Date, the interest rate for the applicable Dividend Period determined by the Auction Agent on the basis of the British Bankers' Association "Interest Settlement Rate" for three-month deposits in U.S. dollars as found on Telerate page 3750 as of 11:00 a.m. London time on such LIBOR Determination Date. Such Interest Settlement Rates currently are based on rates quoted by 16 British Bankers' Association designated banks as being in the view of such banks, the offered rate at which deposits are being quoted to prime banks in the London interbank market. Such Interest Settlement Rates are calculated by eliminating the four highest rates and the four lowest rates, averaging the eight remaining rates, carrying the result (expressed as a percentage) out to six decimal places, and rounding to five decimal places. As used in this offering memorandum "Telerate page 3750" means the display designated as page 3750 on Moneyline Telerate Service. If on any LIBOR Determination Date the Auction Agent cannot determine LIBOR on the basis of the method set forth above, LIBOR shall be the rate per annum the Auction Agent determines to be either (a) the arithmetic mean (rounding such arithmetic mean upwards if necessary to the nearest whole multiple of 1/16%) of the three-month U.S. Dollar lending rate that New York City banks selected by the Auction Agent are quoting on the relevant LIBOR Determination Date to the principal London offices of at least two leading banks in the London interbank market or (b) in the event such arithmetic mean cannot be determined by the Auction Agent, the lowest three-month U.S. Dollar lending rate that the New York City banks selected by the Auction Agent quoting on such LIBOR Determination Date to leading European banks. The establishment of LIBOR on each LIBOR Determination Date by the Auction Agent shall (in the absence of manifest error) be final and binding. "LIBOR Determination Date" means the second London business day prior to the commencement of the first Dividend Period following the Fixed Rate Distribution Event.

*CPS Securities Auctions.* An auction to determine the auction rate for CPS Securities, and hence the Dividend Rate on the FSA Preferred Stock for each dividend period prior to a Fixed Rate Distribution Event, generally will be

held on the last business day of the preceding distribution period for the CPS Securities and in accordance with the procedures set forth in this offering memorandum under "Description of CPS Securities—Auction Procedures." If on any auction date an auction is not held for any reason (other than because such date is not determined to be an auction date until after it has passed), the auction rate for the next succeeding distribution period shall equal the "maximum rate". However, if an auction date is not a business day because the New York Stock Exchange is closed for business due to an act of God, natural disaster, act of war, civil or military disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services or the Auction Agent is not able to conduct an auction in accordance with the auction procedures for any reason, then the auction rate for the next distribution period shall be the auction rate determined on the previous auction date.

Notwithstanding anything else set forth in this offering memorandum, if a dividend payment date is not a business day because the New York Stock Exchange is closed for business due to an act of God, natural disaster, act of war, civil or military disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services or the dividend payable on such date can not be paid for any such or similar reason, then:

- (i) the dividend payment date for the affected dividend period shall be the next business day on which FSA and its paying agent, if any, are able to cause the dividend to be paid using their reasonable best efforts;
- (ii) the affected dividend period shall end on the day it would have ended had such event not occurred and the dividend payment date had remained the scheduled date;
- (iii) the next dividend period will begin and end on the dates on which it would have begun and ended had such event not occurred and the dividend payment date remained the scheduled date; and
- (iv) no interest shall accrue in respect of such delay in payment of dividends.

#### **Redemption of FSA Preferred Stock**

After exercise of the Put Option, FSA will have the option to redeem the FSA Preferred Stock held by the related Trust, in whole or in part, beginning 49 days after issuance and every 49 days thereafter consistent with the timing of auction dates, by paying cash to the Trust in an amount equal to \$100,000 per share of FSA Preferred Stock (plus any accrued but unpaid dividends); provided, however, that FSA must redeem all of the FSA Preferred Stock if, after giving effect to a partial redemption, the aggregate liquidation preference amount of the FSA Preferred Stock immediately following such partial redemption would be less than \$20,000,000. If FSA partially redeems the FSA Preferred Stock held by a Trust, the redemption proceeds will be distributed *pro rata* to the holders of the CPS Securities (and a corresponding reduction in the aggregate face amount of the CPS Securities will be made). Pursuant to the Put Agreement, if FSA fully redeems the preferred stock held by a Trust, the Trust will liquidate and dissolve. Notwithstanding the foregoing, upon a Fixed Rate Distribution Event, FSA may not redeem the FSA Preferred Stock prior to the second anniversary of such Fixed Rate Distribution Event.

Notice of every such redemption shall be mailed to the holders of the FSA Preferred Stock, not less than 10 days nor more than 15 days prior to the date fixed for such redemption. At any time before or after a notice of redemption has been given, FSA may deposit the aggregate redemption price of the FSA Preferred Stock to be redeemed with any bank or trust company in New York, New York, with directions to pay the holders of the FSA Preferred Stock being redeemed, the redemption price on surrender of the stock certificate or certificates held by such holders. Upon the making of such deposit such holders shall cease to be shareholders with respect to such shares, and after such notice shall have been given and such deposit shall have been made, such holders shall have no interest in or claim against FSA with respect to such shares except only to receive such money from such bank or trust company without interest.

#### **Par Value and Liquidation Preference**

In the event of a voluntary or involuntary liquidation, dissolution or winding up of FSA, holders of the FSA Preferred Stock will be entitled to receive the liquidation preference amount per share plus accrued and unpaid dividends thereon to and including the date the liquidation preference amount is paid. The FSA Preferred Stock will have a par value of \$1,000 per share and a liquidation preference amount per share of \$100,000. Payment of the

liquidation preference amount will be made on the first dividend payment date after the Board of Directors of FSA approves the liquidation of FSA.

Unless and until payment in full has been made to the holders of the FSA Preferred Stock and to holders of all shares of other classes or series ranking on parity with the FSA Preferred Stock, of the liquidating distributions to which they are entitled, upon liquidation, dissolution or winding up of FSA, no dividends or distributions may be made to the holders of the common stock or on any other class or series of capital stock ranking junior to the FSA Preferred Stock and no purchase, redemption or other acquisition by FSA may be made in respect of such stock or any such parity shares. After any payment of the full amount of the liquidating distributions to which they are entitled, the holders of FSA Preferred Stock will have no right or claim to any of the remaining assets of FSA. In the event that, upon any such voluntary or involuntary dissolution, liquidation or winding up, the available assets of FSA are insufficient to pay the amount of the liquidating distributions on all of the then outstanding FSA Preferred Stock, the holders shall share in any such distribution of assets on a *pro rata* basis.

The merger or consolidation of FSA into or with any other corporation, or the merger of any other corporation into it, or the sale, lease or conveyance of all or substantially all the property or business of FSA, shall not be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary.

A dividend or distribution of all or substantially all of the assets of FSA to the holders of FSA's common stock or a repurchase or redemption of all or substantially all of the common stock of FSA shall be deemed to be a dissolution, liquidation or winding up of FSA.

#### **Voting Rights**

Except as set forth in this offering memorandum, the holders of FSA Preferred Stock shall have no special voting rights and their consent shall not be required for taking any corporate action.

The affirmative vote of the holders of at least a majority of the FSA Preferred Stock at the time outstanding, given in person or by proxy at a meeting called for the purpose at which the holders of FSA Preferred Stock shall vote separately as a class, shall be necessary to effect any one or more of the following:

- any amendment, alteration or repeal of any of the provisions of FSA's restated charter or bylaws that would adversely affect the rights or preferences of the holders of FSA Preferred Stock, including, without limitation, the issuance of any equity securities of FSA senior to the FSA Preferred Stock with respect to the right to receive dividends or distributions upon a voluntary or involuntary liquidation, dissolution or winding up of the affairs of FSA; provided that neither an amendment to the restated charter nor the bylaws so as to authorize or create, or to increase the authorized or outstanding amount of, FSA Preferred Stock or of any shares of any class ranking on a parity with or junior to the FSA Preferred Stock, nor an amendment to the restated charter or bylaws so as to increase the number of directors of FSA shall be deemed to adversely affect the rights or preferences of the holders of FSA Preferred Stock; provided further, that if such amendment, alteration or repeal affects adversely the rights or preferences of one or more but not all of the series of FSA Preferred Stock at the time outstanding, only the affirmative vote of the holders of at least a majority of the number of the shares at the time outstanding of the series so affected shall be required;
- any merger, sale of assets or voluntary liquidation; provided that FSA may enter into a plan of merger, sale of assets or voluntary liquidation if, following such merger, sale of assets or voluntary liquidation, there are no other preferred securities outstanding that are senior to the FSA Preferred Stock and the FSA Preferred Stock is exchanged for preferred stock or securities of the surviving corporation having the same rights and preferences as the FSA Preferred Stock.

So long as the FSA Preferred Stock is held by the Trust, the Trust will vote the FSA Preferred Stock in accordance with the vote of a majority of the holders of the CPS Securities, as determined by the Trust pursuant to the terms of the Trust Declaration.

If FSA has failed to pay dividends in full on the FSA Preferred Stock for 18 consecutive months or funds sufficient to pay such dividends in full shall not have been deposited with the Auction Agent, the authorized number

of members of the Board of Directors of FSA shall automatically be increased by two and the holders of record of FSA Preferred Stock, voting as a single class, will be entitled to fill the vacancies so created by electing two additional directors (the "Preferred Stock Directors"), subject to New York regulatory approval, at the next regularly scheduled meeting of FSA's Board of Directors. The Preferred Stock Directors will cease to serve on FSA's Board of Directors upon the payment in full by FSA of all such accrued dividends on the FSA Preferred Stock and without any further action on the part of the Board of Directors or the holders of the FSA Preferred Stock.

#### **Transfer Restrictions**

The FSA Preferred Stock, if and when issued, will be issued in a transaction exempt from the registration requirements of the Securities Act and the applicable state securities laws and each purchaser will be required to deliver to FSA a purchaser's letter, a copy of which is attached hereto as Exhibit A. Accordingly, if and when issued, the FSA Preferred Stock cannot be offered, sold or otherwise transferred except pursuant to an exemption from the registration requirements of the Securities Act and the applicable state securities laws.

A restrictive legend to the following effect shall be placed on the certificates representing the FSA Preferred Stock prior to the Resale Restriction Termination Date (as defined below):

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAW. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A OF THE SECURITIES ACT AND (2) AGREES THAT IT WILL NOT PRIOR TO (X) THE DATE WHICH IS TWO YEARS (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144(K) UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF (OR OF ANY PREDECESSOR OF THIS SECURITY) OR THE LAST DAY ON WHICH FINANCIAL SECURITY ASSURANCE INC. ("FSA") OR ANY AFFILIATE OF FSA WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAWS (THE "RESALE RESTRICTION TERMINATION DATE"), OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (A) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (B) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (C) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT FSA, THE TRUST AND THE BANK OF NEW YORK (DELAWARE), AS TRUSTEE, SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (B) OR (C) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERMS "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATIONS UNDER THE SECURITIES ACT.



## **CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

Based on the advice of Cravath, Swaine & Moore LLP, special tax counsel to the Trusts, the following is a general discussion of the principal United States federal income tax consequences of the acquisition, ownership and disposition of CPS Securities. This discussion is based on the United States Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed Treasury regulations, revenue rulings, administrative interpretations and judicial decisions, in each case as currently in effect, all of which are subject to change, possibly with retroactive effect. This discussion is also based in part on certain representations of Lehman Brothers and the holders of the CPS Securities.

The following discussion applies only to a holder (as defined below) of CPS Securities. It does not address all aspects of the United States federal income taxation of the CPS Securities that may be relevant to an investor in light of such investor's particular circumstances or to an investor in CPS Securities who is subject to special treatment under the United States federal income tax laws, such as a financial institution, an insurance company, a tax-exempt organization, a dealer in securities or currencies, an investor whose functional currency is not the U.S. dollar, a trader in securities who elects to apply a mark-to-market method of tax accounting, or a person holding CPS Securities as part of a hedging transaction, "straddle," synthetic security, conversion transaction, or other integrated transaction, or who has entered into a "constructive sale" with respect to the CPS Securities.

As used in this section, the term "holder" means a beneficial owner of CPS Securities that is an initial investor holding CPS Securities as capital assets within the meaning of Section 1221 of the Code and is, for United States federal income tax purposes, a corporation, or other entity taxable as a corporation, created or organized under the laws of the United States or any political subdivision thereof.

**The conclusions set forth herein are not binding on the Internal Revenue Service (the "IRS") or the courts. No ruling has been sought from the IRS with respect to these conclusions. No assurances can be given that the IRS will not take a position under current law contrary to the summary in this offering memorandum, or that a court would not uphold any such position. Before investing in CPS Securities, potential investors are urged to consult their own tax advisers with regard to the United States federal income tax consequences of purchasing, owning and disposing of the CPS Securities, as well as any consequences under the laws of any state, local or foreign taxing jurisdiction.**

### **Classification of the Trusts**

Each Trust will be treated as a partnership for United States federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, assuming that there are not more than 100 partners of the Trusts for purposes of Treasury Regulations Section 1.7704-1(h). As a partnership, each Trust is not a taxable entity for United States federal income tax purposes and incurs no United States federal income tax liability. Accordingly, each holder will be considered a partner and will be required to take into account its distributive share of items of income, gain, deduction, loss and credit of the Trust in computing its United States federal income tax liability, regardless of whether distributions are made to the holder.

### **Taxation of the Holders of CPS Securities**

Special tax counsel believes that prior to the exercise of the Put Option, each Trust will be treated for United States federal income tax purposes as owning the Eligible Assets and having written a put option to FSA. The following discussion assumes this characterization to be correct. Prospective holders of CPS Securities should consult with their tax advisers regarding the consequences to them of possible alternate characterizations. By purchasing CPS Securities, each holder agrees that it will treat its CPS Securities in a manner consistent with such characterization for all tax purposes.

*Current Income.* Prior to the exercise of the put option, it is expected that the items of income of the Trusts will consist primarily of (i) ordinary interest income on the Eligible Assets and (ii) short-term capital gains in respect of the put premiums payable under the Put Agreement, as discussed below under "-Taxation in Respect of the Put Agreement". The items of deduction during this period will consist primarily of the auction fees and other payments to service providers of the Trusts. Nonliquidating distributions of cash by the relevant Trust will not be taxable to

the holders of CPS Securities except to the extent that the cash received exceeds the holder's adjusted tax basis in its CPS Securities (as defined below under "-Sale or Other Disposition of CPS Securities").

After exercise of the Put Option, it is expected that income of the Trusts will consist of income in respect of the FSA Preferred Stock. See the discussion below under "—Taxation in Respect of FSA Preferred Stock" for a description of the tax treatment of income on the FSA Preferred Stock.

*Sale or Other Disposition of CPS Securities.* Upon the sale, exchange or other disposition of CPS Securities (including a liquidating distribution of cash by the relevant Trust), a holder of CPS Securities will generally recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and its adjusted tax basis. A holder's adjusted tax basis in its CPS Securities (the "adjusted tax basis") will generally equal the amount the holder paid for the CPS Securities upon acquisition, (i) increased by any amount of income recognized by the holder as described in this section (including the amount of any put premium recognized as income) and (ii) decreased by any loss of the Trust allocated to such holder and any amount of cash distributed to it by the Trust.

*Taxation in Respect of the Put Agreement.* If the Put Option is not exercised during a distribution period, special tax counsel believes that at the end of such distribution period, the related put premium received from FSA under the Put Agreement should be recognized by a holder as an item of short-term capital gain. Holders of CPS Securities agree to take this position for all tax purposes and should consult with their tax advisers regarding the consequences to them of possible alternate characterizations of the put premium by the IRS.

If the Put Option is exercised in a distribution period, the amount of the put premium for such period should reduce the Trust's basis in FSA Preferred Stock received. The Trust's receipt of FSA Preferred Stock in exchange for the portion of the proceeds attributable to principal received upon maturity of its Eligible Assets, net of fees and expenses, will constitute a purchase of the FSA Preferred Stock by such Trust.

*Taxation in Respect of FSA Preferred Stock.* Distributions paid on the FSA Preferred Stock will constitute dividends for United States federal income tax purposes, to the extent paid out of current or accumulated earnings and profits of FSA as determined for United States federal income tax purposes. Any holder of CPS Securities (or of FSA Preferred Stock, if such stock is distributed to the holders in liquidation of a Trust) that is a corporation otherwise eligible for the 70% dividends-received deduction under Section 243 of the Code will be entitled to such deduction with respect to distributions on the FSA Preferred Stock that are treated as dividends for United States federal income tax purposes, to the extent it meets the holding period and other requirements for the dividends-received deduction.

Upon a redemption of FSA Preferred Stock, a holder will recognize gain or loss based upon the difference between its *pro rata* portion of the redemption proceeds received by the Trust (or, if such FSA Preferred Stock is held directly, the redemption proceeds received by such holder) and the Trust's basis in the redeemed FSA Preferred Stock allocable to such holder (or, if such FSA Preferred Stock is held directly, such holder's basis in the redeemed FSA Preferred Stock).

If FSA Preferred Stock is distributed in liquidation of a Trust, a holder of CPS Securities generally will not recognize gain or loss upon receipt of the FSA Preferred Stock, will have a basis in such FSA Preferred Stock equal to its adjusted tax basis in the CPS Securities exchanged therefor and will have a holding period that includes the Trust's holding period in such FSA Preferred Stock.

### **Unrelated Business Taxable Income**

Although charities and certain other tax-exempt organizations are generally exempt from United States federal income taxation, such entities are taxed on unrelated business taxable income ("UBTI"). UBTI is generally the excess of income from any unrelated trade or business regularly conducted by such a tax-exempt entity over the deductions attributable to such trade or business. The income with respect to CPS Securities will generally not constitute UBTI. Notwithstanding the preceding sentence, a tax-exempt organization may be subject to tax on UBTI with respect to income from CPS Securities to the extent the CPS Securities constitute debt-financed property (as defined in the Code) of that organization. Tax-exempt organizations are urged to consult their own tax advisers before investing in CPS Securities with regard to their particular tax status.

## **Administrative Matters**

*Tax Consequences of a Trust's Possible Termination under the Partnership Rules.* Under Section 708 of the Code, a partnership will be deemed to terminate for United States federal income tax purposes if 50% or more of the capital and profits interests in such partnership are sold or exchanged within a 12-month period. If such termination occurred, a partnership would be considered to transfer its assets and liabilities to a new partnership in exchange for interests in the new partnership and to make a liquidating distribution of such interests to its partners. Notwithstanding these provisions, there would generally be no adverse tax consequences to the holders of CPS Securities on a deemed termination under Section 708 of the Code.

*Information Reporting with Respect to CPS Securities.* Holders of CPS Securities will receive an IRS Schedule K-1 with respect to each taxable year of the Trust, as soon as practicable after the end of such year but in no event later than 90 days after the end of such year, setting forth such holder's distributive share of the Trust's items of income, gain, deduction, loss and credit for such year. Copies of such Schedule K-1 will be provided to the IRS. In addition, persons holding CPS Securities as a nominee for another person may be required to report certain information to the Trust with respect to the beneficial owner of such CPS Securities.

## **PLAN OF DISTRIBUTION**

Each Trust intends to offer CPS Securities through Lehman Brothers Inc. and UBS Securities LLC, as Initial Purchasers. Subject to the terms and conditions contained in the purchase agreement between the Trusts, FSA and the Initial Purchasers, each Trust has agreed to sell to the Initial Purchasers and the Initial Purchasers have agreed to purchase from each such Trust all of the CPS Securities of each Trust.

The Initial Purchasers have agreed to purchase all of the CPS Securities being sold pursuant to the purchase agreement if any of the CPS Securities are purchased. Each Initial Purchaser has advised each Trust that it proposes initially to offer the CPS Securities at the price listed on the cover page of this offering memorandum.

Under the terms of the purchase agreement, each Trust and FSA have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. securities laws, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities. Each of FSA and the Trusts is entering into the purchase agreement solely for the purpose of making certain representations, warranties, covenants and agreements and providing to and receiving from the Initial Purchasers certain indemnities against liabilities each may have under the U.S. securities laws.

The Initial Purchasers are offering the CPS Securities, subject to prior sale, when, as and if issued to and accepted by it, subject to approval of legal matters by its counsel, including the validity of the CPS Securities, and other conditions contained in the purchase agreement, such as the receipt by the Initial Purchasers of officers' certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

## **Fees and Expenses**

FSA will pay Lehman Brothers Inc. and UBS Securities LLC fees for structuring this transaction and placement of CPS Securities.

## **CPS Securities Are Not Being Registered**

The Initial Purchasers propose to offer the CPS Securities for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation D. Each Initial Purchaser will not offer or sell the CPS Securities except to persons it reasonably believes are eligible purchasers.

Each purchaser of the CPS Securities will be deemed to have made acknowledgments, representations and agreements as described under "Description of CPS Securities—Purchaser's Letter and Transfer Restrictions" and

will be required to complete and deliver to an Initial Purchaser the purchaser's letter attached hereto as Exhibit A in which such purchaser represents, among other things, that it is an eligible purchaser.

### **No Sale of Similar Securities**

Each Trust and FSA have agreed not to sell or transfer any CPS Securities or substantially similar securities for 180 days after the date of this offering memorandum without first obtaining the written consent of the Initial Purchasers. Specifically, they have agreed not to, directly or indirectly,

- offer, pledge, sell, or contract to sell any CPS Securities or substantially similar securities,
- sell any option or contract to purchase any CPS Securities or substantially similar securities,
- purchase any option or contract to sell any CPS Securities or substantially similar securities,
- grant any option, right or warrant for any CPS Securities or substantially similar securities,
- file a registration statement for any CPS Securities or substantially similar securities, or
- lend or otherwise dispose of or transfer any CPS Securities or substantially similar securities.

This lockup provision applies to any CPS Securities or substantially similar securities or any securities convertible into or exercisable or exchangeable for such securities. FSA has also agreed to the foregoing restrictions with respect to the FSA Preferred Stock.

### **New Issue of CPS Securities**

The CPS Securities are a new issue of securities with no established trading market. The CPS Securities will not be listed on any national securities exchange or quoted on any electronic quotation system. Following completion of the offering, CPS Securities may be purchased and sold only as described in "Description of CPS Securities—Auction Procedures" and "Description of CPS Securities—Purchaser's Letter and Transfer Restrictions" in this offering memorandum.

### **Other Relationships**

The Initial Purchasers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with each of the Trusts, FSA and FSA Holdings

The Initial Purchasers or their respective affiliates will act as the initial broker-dealers in auctions as set forth under "Description of CPS Securities – Auction Procedures," and will be entitled to fees for services as the initial broker-dealers as set forth under "Description of CPS Securities – Broker-Dealers." Also, UBS Securities LLC is the sponsor of Trusts I and III and Lehman Brothers Inc. is the sponsor of Trusts II and IV.

## **LEGAL MATTERS**

Certain legal matters will be passed upon for the Trusts and for The Bank of New York (Delaware) by Richards, Layton & Finger, P.A., for FSA by Bruce E. Stern, General Counsel of FSA, and for the Initial Purchasers by Cravath, Swaine & Moore LLP. Certain tax matters will be passed upon for the Trusts and for the Initial Purchasers by Cravath, Swaine & Moore LLP.

TO BE SUBMITTED TO THE ISSUER AND A BROKER-DEALER

PURCHASER'S LETTER

Relating to Money Market Committed Preferred Trust Securities ("CPS Securities")

(\$100,000 Face Amount per CPS Security)

Issuer  
A Broker-Dealer  
An Agent Member  
Other Persons

Dear Sirs:

We may from time to time offer to purchase, purchase, offer to sell and/or sell the CPS Securities issued by one or more of Sutton Capital Trust I, Sutton Capital Trust II, Sutton Capital Trust III and Sutton Capital Trust IV (each an "Issuer") as described in an offering memorandum relating to the CPS Securities. We agree that this letter shall apply to such purchases, sales and offers and to CPS Securities owned by us. We understand that the distribution rate for CPS Securities will generally be based on the results of auctions as set forth in the offering memorandum. We acknowledge that we have received, and have read and understood, the statement entitled "Risk Factors – Liquidity of the CPS Securities" set forth in the offering memorandum. Terms used but not defined herein shall have the meanings assigned to such terms in the offering memorandum. We represent and agree as follows:

1. We agree that any bid or sell order placed by us shall constitute an irrevocable offer by us to purchase or sell the CPS Securities subject to such bid or sell order, or such lesser number of CPS Securities as we shall be required to sell or purchase as a result of such auction, as set forth in the offering memorandum, and that if we fail to place a bid or sell order with respect to CPS Securities owned by us with a broker-dealer on any auction date for such shares, or a broker-dealer to which we communicate a bid or sell order fails to submit such bid or sell order to the Auction Agent, we shall be deemed to have placed a hold order with respect to such CPS Securities as described in the offering memorandum. We authorize any broker-dealer that submits a bid or sell order as our agent in auctions to execute contracts for the sale of CPS Securities covered by such bid or sell order. We recognize that the payment by such broker-dealer for CPS Securities purchased on our behalf shall not relieve us of any liability to such broker-dealer for payment for such CPS Securities.

2. We hereby confirm that any purchase of CPS Securities made by us pursuant to this letter will be for our own account, or for the account of no more than one person for whom we are acting as trustee or agent with complete investment discretion and with authority to bind such party, and not with a view to any public resale or distribution thereof. We will inform you prior to any purchase and prior to each auction which of such accounts we are acting for and in what amounts for each such account.

3. We are, and each other party for whom we are acting which will acquire CPS Securities is, (a) a "qualified institutional buyer", as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act") and are also a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended and related rules (the "1940 Act"), (b) for United States federal income tax purposes, (i) a "domestic corporation" within the meaning of Section 7701(a)(30)(C) of the Internal Revenue Code of 1986, as amended (the "Code") (other than an "S Corporation" as defined in Section 1361 of the Code) or (ii) a U.S. person that is generally exempt from income tax under Section 501 of the Code and (c) not a pension or a welfare plan (as defined in Section 3 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (collectively, an "eligible purchaser").

4. We agree that we will not transfer any CPS Securities in an auction to any person if, in the reasonable judgment of the Issuer or one of the broker-dealers, the transferee beneficial owner of such CPS Securities is not an eligible purchaser.

5. We understand that, subject to certain exceptions, to be a qualified purchaser, entities must have \$25 million in "investments" as defined in Rule 2(a)(51)-(1) of the 1940 Act.

6. We understand that each Trust is intended to meet the requirements of Treasury Regulation § 1.7704-1(h), which excludes from the definition of publicly traded partnership any partnership that does not have more than 100 partners. In order to meet the requirements for this exception, CPS Securities may not be transferred except in a transaction that will not cause the relevant Trust to be deemed a publicly traded partnership, and no purported transfer of CPS Securities, whether pursuant to an auction or otherwise, will be effective if, after giving effect to such transfer, the Trusts will have more than 100 partners. In addition, the maximum number of beneficial holders for each Trust shall be 25.

7. We have completed and submitted a separate purchaser's letter for ourselves and for each person on whose behalf we are purchasing CPS Securities and will complete and submit a separate purchaser's letter for each person on whose behalf we purchase CPS Securities at any time in the future.

8. We understand and expressly acknowledge that the CPS Securities have not been, and will not be, registered under the Securities Act or any state securities laws and, accordingly, may not be reoffered, resold or otherwise pledged, hypothecated or transferred unless so registered or an applicable exemption from the registration requirements of the Securities Act and any state securities laws is available. Additionally, we agree that we will transfer CPS Securities only pursuant to a bid or sell order placed in an auction to or through one of the broker-dealers to an eligible purchaser.

9. We understand and expressly acknowledge that the FSA Preferred Stock (if and when issued) will not be registered under the Securities Act or any state securities laws and, accordingly, that the FSA Preferred Stock may not be reoffered, resold or otherwise pledged, hypothecated or transferred unless so registered or an applicable exemption from the registration requirements of the Securities Act or any state securities laws is available and only pursuant to the procedures set forth in this letter.

10. We understand that the Issuer is not registered as an investment company under the 1940 Act, and that the Issuer is exempt from registration as such by virtue of Section 3(c)(7) of the 1940 Act, which excludes from the definition of investment company any issuer whose outstanding securities (other than short-term paper) are beneficially owned exclusively by persons that are qualified purchasers and which has not made and does not propose to make a public offering of its securities.

11. We agree that, if we are a registered investment company, we will not acquire CPS Securities, whether pursuant to bids in an auction or otherwise, if, after giving effect to any such acquisition, we would beneficially own or have investment and voting discretion over more than 3% of the then outstanding voting securities of the Issuer.

12. We understand and acknowledge that if we are not an eligible purchaser at the time we acquire the CPS Securities or an interest therein, we shall, upon demand of the Issuer and in any event within ten business days after receiving such demand, sell all of our CPS Securities or interest therein to a transferee whom we and the Issuer reasonably believe is an eligible purchaser. We also understand and acknowledge that until further notice from the Issuer, prior to the transfer of any CPS Securities, each such transferee will be required to deliver to the Issuer and one of the broker-dealers a letter in a form similar to this letter. Any purported purchase or transfer of the CPS Securities in violation of such measures will be null and void. We also understand and acknowledge that the Issuer may require the sale of CPS Securities held by holders who fail to provide certifications or otherwise comply with the foregoing.

13. We agree to comply with any other transfer restrictions or other related procedures as described in the offering memorandum.

14. We agree that our ownership of CPS Securities shall be represented by a global certificate registered in the name of the applicable securities depositary or its nominee, that we will not be entitled to receive any certificate representing the CPS Securities and that our ownership of CPS Securities will be maintained in book-entry form by the securities depositary for the account of our agent member, which in turn will maintain records of our beneficial ownership. **We authorize and instruct our agent member to**

**disclose to the Auction Agent such information concerning our beneficial ownership of CPS Securities as the Auction Agent shall request.**

15. We acknowledge that each of the broker-dealers participating in an auction may purchase CPS Securities and submit orders in auctions for its own account and that because all orders must be submitted through one of the broker-dealers, such broker-dealers may have knowledge of orders placed through it in any such auction.

16. We understand and agree that in making decisions as to whether to purchase or sell CPS Securities or, if issued, the FSA Preferred Stock, in auctions or otherwise, we must rely on our own examination of the Issuer and FSA and the terms of the CPS Securities and the FSA Preferred Stock, and that neither the Auction Agent nor any broker-dealer, by participating in auctions, shall be deemed to make any recommendation regarding the merits of any investment in the CPS Securities or the FSA Preferred Stock, or the suitability of an investment in the CPS Securities or the FSA Preferred Stock and that neither the Auction Agent nor any broker-dealer has any obligation to supply to us any information concerning the Issuer, FSA, the CPS Securities or the FSA Preferred Stock.

17. We acknowledge that partial deliveries of CPS Securities purchased in auctions may be made to us and such deliveries shall constitute good delivery as set forth in the offering memorandum.

18. If and only if we are purchasing CPS Securities in connection with their initial offering, we acknowledge that prior to purchasing any CPS Securities we shall have received an offering memorandum and acknowledge that we will have had access to such financial and other information, and have been afforded the opportunity to ask such questions of representatives of the Issuer and received answers thereto, as we deem necessary in connection with our decision to purchase CPS Securities. Except as explicitly permitted by this purchaser's letter, we will not reproduce or distribute the offering memorandum, in whole or in part, or disclose its contents to any other person. If we do not execute and deliver a purchaser's letter to one of the broker-dealers in order to become eligible to purchase CPS Securities in their initial offering, we will return the offering memorandum to the Issuer or one of the broker-dealers as soon as practicable, as required by our acceptance of delivery of the offering memorandum. Notwithstanding anything to the contrary contained in this offering memorandum, you may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated by this offering memorandum, and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure, except that tax treatment and tax structure shall not include the identity of any of the parties referenced herein.

In addition, by accepting the offering memorandum and executing this purchaser's letter in connection with our purchase of CPS Securities other than in connection with their initial offering, we represent and agree that:

- the offering memorandum has been sent to us solely for informational purposes with respect to the auction procedures relating to the auctions;
- we will purchase the CPS Securities to which this purchaser's letter relates in one or more auctions or other secondary market transactions, if permitted, as set forth in this purchaser's letter, and that no securities are offered by the Issuer or by any broker-dealer by or through the offering memorandum;
- we will not rely on any information contained in the offering memorandum other than the description of the auction procedures, because such information may no longer be correct;
- the offering memorandum speaks only as of its date;
- we have conducted our own investigation into the CPS Securities, the Issuer of the CPS Securities, the Preferred Stock and FSA and any related persons or matters that may be relevant to our investment decision; and

- except as explicitly permitted by this purchaser's letter, we will not reproduce or distribute the offering memorandum, in whole or in part, or disclose its contents to any other person.

19. We shall not sell or otherwise transfer CPS Securities to, and each purchaser represents and covenants that it is not acquiring such CPS Securities for or on behalf of, and will not transfer such CPS Securities to, any pension or welfare plan (as defined in Section 3 of ERISA).

20. We recognize that the Issuer and the broker-dealers will rely upon the truth and accuracy of the investment representations and agreements set forth in this letter, and we agree that each of our purchases of CPS Securities now or in the future, and our receipt of FSA Preferred Stock following a Fixed Rate Distribution Event (as described in the offering memorandum), shall be deemed to constitute our concurrence in all of the foregoing which shall be binding on us and each party for which we are acting as set forth in paragraph 2 above. We agree (a) to inform you promptly of any change in the information and representations and warranties specified in this letter relating to us or to any party for which we are acting and (b) to deliver to the Issuer or one of the broker-dealers such other representations and covenants as to such matters as the Issuer or a broker-dealer may, in the future, request in order to comply with applicable law and the availability of any exemption therefrom (including, if deemed necessary by the Issuer or a broker dealer a reaffirmation of the status of ourselves and each such other party as an eligible purchaser that satisfies the requirements of representation 3).

21. We understand that the Issuer will withhold payments from, and may require the sale of the CPS Securities held by, any holder of the CPS Securities that fails to comply with the requirements set forth in this letter.

22. We agree to treat for all tax purposes (1) each Trust as owning the Eligible Assets and having written a put option to FSA and (2) the put premiums received by the Trust from FSA as items of short-term capital gain at the end of each distribution period.

23. Our fiscal year ends on [enter date].

24. We understand that a restrictive legend in the form disclosed in the offering memorandum will be placed on certificates for the CPS Securities and other evidences of interests therein reflecting the restrictions in this letter, that such restrictive legend may be modified from time to time and that stop-transfer instructions will be issued to the transfer agent for the CPS Securities, all as set forth in the offering memorandum.

25. This letter is not a commitment by us to purchase any CPS Securities.

26. The description of auction procedures set forth in the offering memorandum are incorporated by reference herein and, in case of any conflict between this letter and such description, such description shall control.

27. We agree that effective upon a Fixed Rate Distribution Event by FSA, we will have made the representations set forth on Attachment A hereto. In addition, we understand and acknowledge that until further notice from FSA, prior to the transfer of any FSA Preferred Stock, each transferee will be required to deliver to FSA and the broker-dealer a letter in the form of Attachment A hereto.



28. With respect to CPS Securities, this letter supersedes any version of this letter delivered by us and dated earlier than the date hereof and this letter may be revoked only by a signed writing delivered to the recipients hereof.

Dated:

(Name of Purchaser)

By: \_\_\_\_\_

Printed Name:

Title:

Mailing Address of Purchaser:

Tax ID Number of Purchaser:

**TO BE SUBMITTED TO FINANCIAL SECURITY ASSURANCE INC. AND A BROKER-DEALER**

**PREFERRED STOCK PURCHASER'S LETTER**

**Relating to Non-cumulative Redeemable Perpetual Preferred Stock ("FSA Preferred Stock")**

Financial Security Assurance Inc.  
A Broker-Dealer  
An Agent Member  
Other Persons

Dear Sirs:

We agree that this letter shall apply to distributions of FSA Preferred Stock from one or more of Sutton Capital Trust I, Sutton Capital Trust II, Sutton Capital Trust III and Sutton Capital Trust IV (each a "Trust") to us for our own account, or for the account of persons for whom we are acting as trustee or agent with complete investment discretion and with the authority to bind such parties.

Terms used but not defined herein shall have the meanings assigned to such terms in the offering memorandum.

We represent and agree as follows:

1. We hereby confirm that receipt of FSA Preferred Stock by us will be for our own account, or for the account of persons for whom we are acting as trustee or agent with complete investment discretion and with authority to bind such parties, and not with a view to any public resale or distribution thereof. We are and each other party for whom we are acting which will acquire FSA Preferred Stock is a "qualified institutional buyer", as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act").
2. We understand and expressly acknowledge that the FSA Preferred Stock has not been, and will not be, registered under the Securities Act and, accordingly, that the FSA Preferred Stock may not be reoffered, resold or otherwise pledged, hypothecated or transferred unless so registered or an applicable exemption from the registration requirements of the Securities Act is available and only pursuant to the procedures set forth in this letter.
3. We agree that dispositions of FSA Preferred Stock can be made only in the denominations set forth in the offering memorandum. We agree to comply with any other transfer restrictions or other related procedures as described in the offering memorandum.
4. We agree that our ownership of FSA Preferred Stock shall be represented by a global certificate registered in the name of the applicable securities depository or its nominee, that we will not be entitled to receive any certificate representing the FSA Preferred Stock and that our ownership of FSA Preferred Stock will be maintained in book-entry form by the securities depository for the account of our agent member, which in turn will maintain records of our beneficial ownership. We authorize and instruct our agent member to disclose to the Auction Agent such information concerning our beneficial ownership of FSA Preferred Stock as the Auction Agent shall request.
5. We understand and agree that in connection with the receipt of the FSA Preferred Stock, we must rely on our own examination of Financial Security Assurance Inc. ("FSA") and the terms of the FSA Preferred Stock and that neither the Auction Agent nor any broker-dealer, by participating in auctions for the CPS Securities, shall be deemed to make any recommendation regarding the merits of any investment in the FSA Preferred Stock or the suitability of an investment in the FSA Preferred Stock by us, and that neither the Auction Agent nor any broker-dealer has any obligation to supply to us any information concerning FSA or the FSA Preferred Stock.

6. We recognize that FSA will rely upon the truth and accuracy of the foregoing investment representations and agreements, and we agree that our receipt of FSA Preferred Stock now or in the future shall be deemed to constitute our concurrence in all of the foregoing which shall be binding on us and each party for which we are acting as set forth in paragraph 1 above. We agree (a) to inform you promptly of any change in the information and representations and warranties specified in this letter relating to us or to any party for whom we are acting and (b) to deliver to FSA such other representations and covenants as to such matters as FSA may, in the future, request in order to comply with applicable law and the availability of any exemption therefrom.

7. We understand that a restrictive legend similar to the form disclosed in the offering memorandum will be placed on certificates for the FSA Preferred Stock and other evidences of interests therein reflecting the restrictions in this letter, that such restrictive legend may be modified from time to time and that stop-transfer instructions will be issued to the transfer agent for the FSA Preferred Stock, all as set forth in the offering memorandum.

8. We agree that we will provide notice of the transfer restrictions applicable to the FSA Preferred Stock to any subsequent person to whom we transfer the FSA Preferred Stock.

9. With respect to FSA Preferred Stock, this letter supersedes any version of this letter delivered by us and dated earlier than the date hereof and this letter may be revoked only by a signed writing delivered to the recipients hereof.

Dated:

(Name of Purchaser)

By: \_\_\_\_\_

Printed Name:

Title:

Mailing Address of Purchaser:

Tax ID Number of Purchaser:

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**\$200,000,000**

**Money Market Committed  
Preferred Trust Securities (“CPS  
Securities”) (\$100,000 Face  
Amount per Security)**

**Sutton Capital Trust I**

**Sutton Capital Trust II**

**Sutton Capital Trust III**

**Sutton Capital Trust IV**

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## OFFERING MEMORANDUM

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**Lehman Brothers      UBS Investment Bank**

**June 19, 2003**

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