



Municipal Securities Group

*Supplemental Request for Underwriter Statement of Qualifications
Golden State Tobacco Securitization Corporation
Tobacco Settlement Bond Program*



State of California

Due: November 3, 2006



UBS Investment Bank is a business group of UBS AG.
UBS Securities LLC is a subsidiary of UBS AG.

November 3, 2006

Ms. Katie Carroll
Director, Public Finance Division
State Treasurer's Office
915 Capitol Mall, Room 235
Sacramento, CA 95814

Dear Ms. Carroll:

On behalf of UBS, I am pleased to submit this Supplemental Statement of Qualifications to provide senior managing underwriter services for the Golden State Tobacco Securitization Corporation's Tobacco Settlement Bond Program. As you and your staff review this submission, I hope you will come to share our view that UBS is uniquely qualified to serve as a lead manager for this program. Of particular note:

- ✓ UBS is the "Number Two" ranked underwriter of negotiated senior managed tobacco securitizations since November 2001 when ranked by the number of transactions, having senior managed 22 tobacco securitizations series nationwide during this time period (Source: SDC). We are fully confident that our ongoing structuring, trading and pricing activities, combined with our capital and distribution arms, afford us excellent capabilities to price a \$4.6 billion securitization for the State of California.
- ✓ UBS is a leading market maker for tobacco bonds in California and nationally, having traded over \$3.8 billion since 2005 (including \$3.1 billion of the Golden State Tobacco Securitization Corporation's Bonds). Our continuous presence in the tobacco bond marketplace affords us excellent insight into the pricing of these securities and the needs and perspectives of investors in these securities, both large and small.
- ✓ UBS has consistently demonstrated an ability to push the rating agencies' envelopes in tobacco securitization transactions. As we describe herein, Moody's Investors Service's stress tests currently would reduce the State's maximum net proceeds from a transaction by nearly \$25 million. We have a successful track record in negotiating with agencies to achieve more favorable treatment for our clients, and are prepared to employ similar strategies to help California to achieve its objectives. For example, we persuaded Moody's to accept more flexible structural features for Rhode Island, which increased proceeds by 7%; Moody's adopted our approach for subsequent tobacco securitizations.

We hope to have the opportunity to present our ideas and qualifications in person. In the interim, please contact me if we can provide clarification or further discussion on any of the matters presented herein.

Thank you for considering UBS.

Faithfully,



Anthony H. Fisher
Managing Director
(503) 226-1864



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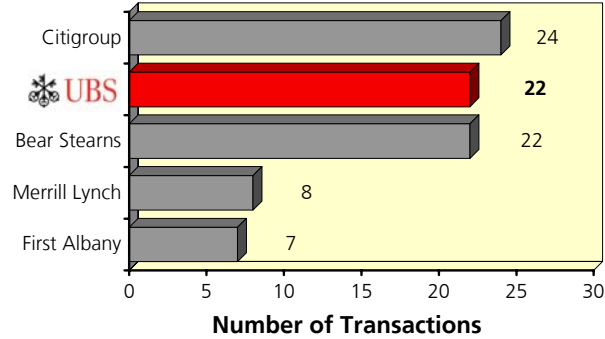


1. Firm's Tobacco Securitization Bond Experience

UBS' EXPERIENCE

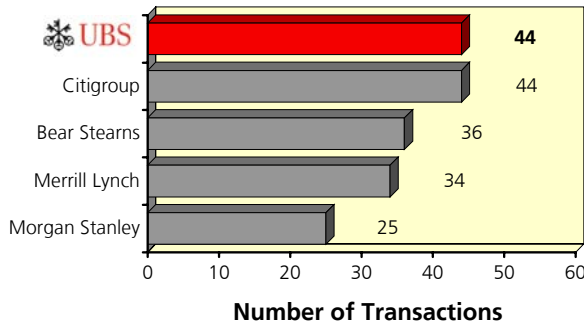
UBS is a national leader in Tobacco Settlement Revenue ("TSR") securitization transactions, as demonstrated by the number of series that we have brought to market over the last five years. As illustrated in the chart to the right, UBS is the "Number Two" ranked underwriter of TSR-secured bonds over the last five years, having senior managed 22 securitizations series with a total par amount of \$1.6 billion. UBS has been involved either as a senior manager, co-senior manager, or co-manager in 44 securitizations totaling more than \$25 billion in par over the last five years. As illustrated by the chart to the lower left, UBS is the "Number One" ranked firm in terms of participation as a manager. Our firm has worked with a wide array of TSR recipients since the inception of the tobacco bond securitization market. In total, we have worked with 36 unique TSR recipients, making UBS the "Number Two" ranked senior manager in terms of unique TSR-backed bond issuers (as illustrated by the chart to the lower right). A detailed list of our tobacco transaction involvement, including the Issuer's principal representative, can be found in Appendix A.

Senior Managed TSR Securitizations 11/3/2001 to Present



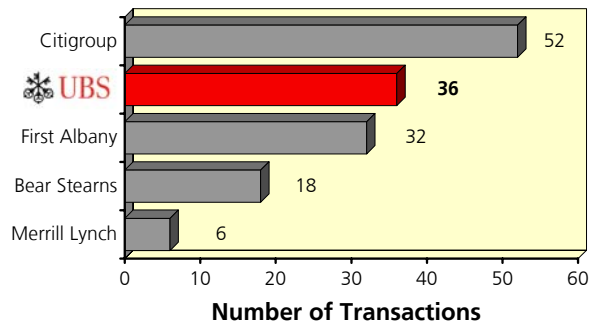
Note: Full Credit to Senior Manager. Negotiated financings only. Source: Securities Data Company. As of 11/3/2006.

Senior & Co-Managed TSR Securitizations 11/3/2001 to Present



Note: Full Credit to Each Manager. Negotiated financings only. Source: Securities Data Company. As of 11/3/2006.

Senior Managed TSR Securitizations by Number of TSR Recipients



Note: Full Credit to Senior Manager. Negotiated financings only. Source: Securities Data Company. As of 11/3/2006.

UBS' EXPERTISE

As a market leader in the field of tobacco securitization, UBS has consistently been a catalyst for changes in the tobacco sector and has leveraged that position to deliver better net proceeds performance than our competitors. Tobacco securitizations structured by UBS have been among the most leveraged transactions in the sector. This is mostly attributable to our strategic focus on rating agency stress criteria, that we began in 2002.

For example, in mid-2002, the UBS tobacco securitization team challenged the restrictive criteria of the three rating agencies at a time when the rest of the industry, in large measure, was passively accepting stress criteria and structuring securitizations to meet the lowest common denominator. UBS analyzed, re-engineered, and fundamentally changed the underpinning criteria for mainstream ratings when it first dropped Moody's in conjunction with Kern County's (California) transaction. After Moody's agreed to fine-tune its stress test for the Kern County transaction, UBS presented similar reasoning related to the State of Rhode Island TSR securitization. As a result, Moody's decided to permanently ease its stress tests. UBS' innovative approach to the ratings aspect of tobacco securitization allowed issuers net proceed increases by more than 7% over the results from the prevailing three-rating strategy.



In 2005, UBS sold three separate issues benefiting Merced and Sonoma Counties, which were the first stand-alone issues for California counties in almost three years. Because of different population dynamics (Merced County is growing fast whereas Sonoma County is losing population share), UBS engineered a custom rating approach for each County. Sonoma County sold with just a S&P rating and Merced County sold with Moody's and Fitch ratings. Prior to the Merced County transaction, Moody's had been excluded from all tobacco transactions since the 2005 Virginia TSR Securitization. Though others viewed Moody's as obsolete, UBS brought them back to the sector and worked with them to modernize their criteria. **As a result, each County was able to realize over 30% more in net proceeds because of rating agency optimization strategies.**

In 2006, Fitch announced that issuers could choose either the old or new stress methodology to structure 'BB'-rated Capital Appreciation Bonds ("CABs"). Fitch's intent was that the new methodology provide some benefit to the issuer by giving credit to TSRs beyond the 40-year window (2046 at the time) in the case of 'BB'-rated CABs. UBS analyzed this new stress methodology and found that it offered no benefit to the municipal issuer at all. In fact, it would have resulted in significantly lower proceeds. **UBS shared its findings with Fitch within 24 hours of their press release. Fitch confirmed our analysis and worked with our tobacco securitization bankers to devise a new stress test methodology.** The UBS tobacco team's analysis transformed the new criteria from a 1% net loss into a 7% net gain proposition.

UBS' status as an innovator is not limited to ratings. As highlighted by the following table, UBS has set several milestones in the tobacco sector.

UBS' Notable Tobacco Firsts
✓ 1st Pioneered Selective Rating Agency Strategy to Create Most Efficient, Leveraged California County Issues (Refundings for Sonoma County and Merced County)
✓ 1st Re-Introduction of Moody's ratings to the sector in 2005
✓ 1st Use of "Soft" Sinking Fund Payments for extra Leverage (Rockland County, NY)
✓ 1st Engaged for a tobacco securitization refunding (State of South Carolina)
✓ 1st Pooled TSR-backed deal (New York Counties Tobacco Trust I)
✓ 1st Reduction in size of required operating expense budget (Stanislaus County, 75% lower)
✓ 1st Significant unsold balances underwritten in sector (State of Rhode Island, Kern County)
✓ 1st Subsumption of TSRs into another revenue based credit (University of Hawaii)
✓ 1st In fastest execution, appointment to closing in less than six weeks (State of Rhode Island)

2. Secondary Market Activity in Tobacco Securitization Bonds

UBS' SECONDARY MARKET SUPPORT FOR TOBACCO SECURITIZATION BONDS

One of the most significant ways UBS demonstrates its leadership position in the tobacco sector is through our strong support for tobacco bonds in the secondary market, **particularly the Golden State Tobacco Securitization Corporation's bonds.**

An active secondary market is necessary to maintain the liquidity of municipal bond investments. Investors will view a bond issue more favorably if they have confidence that a particular type of bond can be bought and sold easily later at a fair price in the secondary market. This is of particular importance for tobacco sector bonds since fewer firms have the specialized trading and research professionals necessary to participate in the secondary market.

As a leading underwriter of TSR-backed bonds nationally, UBS has been an active participant in the secondary market for tobacco-backed bonds since the credit's inception in 1999. **In total since 1999, UBS has been involved in 21,501 secondary market trades of tobacco-secured bonds for a total par volume of over \$6.685 billion.** Outlined in the following tables, please find UBS' secondary market activity for tobacco bonds since 2005.



UBS' Total Tobacco Secondary Trading Activity (since 1/1/2005)

Activity Type	Buys	Buy Volume	Sells	Sell Volume	Total Trades	Total Volume
Retail	2,076	\$ 117,790,000	1,850	\$ 152,850,000	3,926	\$ 270,640,000
Institutional	338	1,591,285,000	324	1,452,225,000	662	3,043,510,000
Street	330	203,755,000	888	340,660,000	1,218	544,415,000
Total	2,744	\$ 1,912,830,000	3,062	\$ 1,945,735,000	5,806	\$ 3,858,565,000

Total trades of the Corporation's bonds, amount to 4,804 tenders worth \$3.820 billion, and account for more than 57% of volume and 22% of UBS' secondary market tobacco-secured bond trades since 1999. Since 2005 alone, UBS has participated in \$3.196 billion worth of trades involving the Corporation's bonds. More details on secondary market activity since 2005, specific to the Corporation, can be found in the following table.

UBS' GSTSC Secondary Trading Activity (since 1/1/2005)

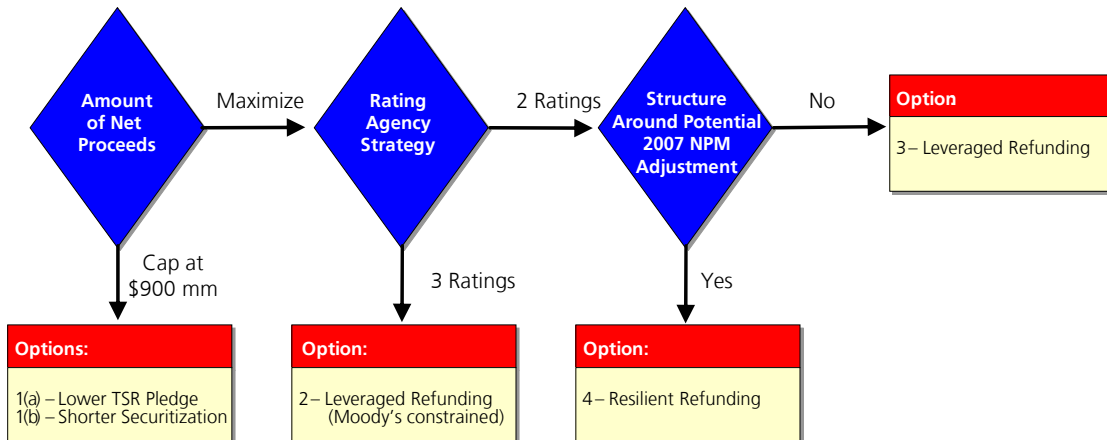
Activity Type	Buys	Buy Volume	Sells	Sell Volume	Total Trades	Total Volume
Retail	384	\$ 26,490,000	504	\$ 64,230,000	888	\$ 90,720,000
Institutional	183	1,416,215,000	187	1,316,685,000	370	2,732,900,000
Street	146	151,560,000	220	221,265,000	366	372,825,000
Total	713	\$ 1,594,265,000	911	\$ 1,602,180,000	1,624	\$ 3,196,445,000

3. Structuring Recommendations

We have constrained our analyses to investment grade unenhanced tobacco bonds, in recognition of statutory constraints on the use of State enhancement, and the highly uncertain nature of the market for non-investment grade CABs⁽¹⁾. We also anticipate that the State would strongly prefer to avoid securities with the materially higher probability of default associated with a non-investment grade rating.

There are certain strategic decisions facing the State, which are illustrated graphically below:

1. Will the State only seek \$900 million of net proceeds, or will it choose to obtain the greatest possible amount of net proceeds from the restructuring (defined herein as a "Leveraged" refunding which uses investment grade CABs)?
2. As a policy matter, is it willing to consider only using two of three rating agencies, to produce materially incremental net proceeds?
3. Would the State prefer to structure the transaction to minimize the likelihood of a potential debt service reserve fund draw due to a plausible 2007 NPM Adjustment (defined herein as a "Resilient" refunding which uses convertible CABs)?



(1) For example, the Northern Tobacco Securitization Corporation (Alaska) recently eliminated non-investment grade CABs during pricing after originally including them in the POS proposed structure.

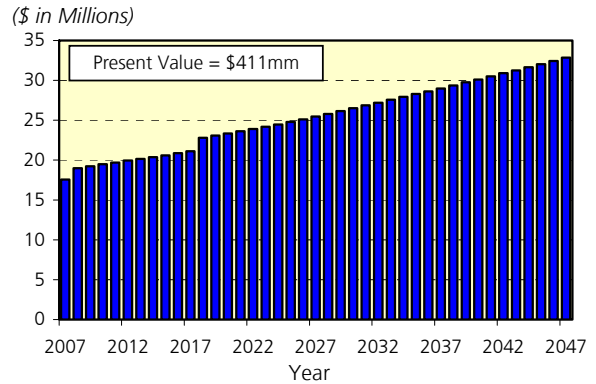


OPTIONS IF THE FINANCING IS DESIGNED TO PRODUCE \$900 MILLION OF NET PROCEEDS

In view of the highly favorable interest rate environment, and the strong expected appetite for GSTSC refunding bonds, the State can structure the refunding to:

1. Lower the TSR pledge from **56.57%** to an estimated **52.37%** by keeping a rated, long final maturity (we have assumed 40 years), thus freeing up TSR revenues to flow once again to the General Fund, commencing in April 2007 (see figure at right). The TSR pledge could be reduced further to 50.75% if subordinate CABs are utilized.
2. Confine the financing to the most economically efficient components by eliminating subordinate-lien CABs and shortening the rated final maturity of the financing.

TSRs Released to the State



Favorable interest rates and shorter lives make these options “resilient” against a plausible 2007 NPM adjustment despite using only CIBs⁽²⁾. These alternatives are detailed in the table below.

Market Rates as of 10/30/2006	Scenario 1(a) Reduced TSRs to 52.37%	Scenario 1(b) Shortened Securitization
Final Rated Maturity	6/01/2047	6/01/2040
Final Expected Maturity	6/01/2031	6/01/2028
Arbitrage Yield	4.985%	4.925%
Escrow Yield	4.957%	4.920%
Survives Reduced '07 MSA receipt?	YES	YES
CIBs Par	\$4,162,700,000	\$4,180,490,000
Convertible CAB Maturity Amount	N/A	N/A
'BBB' CAB Par	N/A	N/A
'BBB-' CAB Par	N/A	N/A
Total Initial Par	\$4,162,700,000	\$4,180,490,000
Premium/(OID)	(\$91,922,054)	(\$89,338,354)
Escrow Cost	\$3,126,694,987	\$3,132,051,339
DSRF*	\$251,258,700	\$266,140,300
Issuance Costs	\$41,627,000	\$41,804,900
Net Proceeds	\$900,438,197	\$900,396,045

* Includes the transfer of \$249,240,938 from the Series 2003A DSRF to the refunding.

OPTIONS IF THE STATE SEEKS TO MAXIMIZE NET PROCEEDS

If the State seeks to maximize net proceeds, it would then have to determine its ratings strategy, as discussed below:

Maximum Leverage Case (two ratings): The maximum amount of net proceeds can be achieved by a structure that is rated by S&P ('BBB') and Fitch ('BBB') for CIBs, and Fitch alone on CABs. Moody's stress tests permit less leverage of the TSR stream. Our analyses show that the State can achieve more net proceeds so long as the market penalty for not having a Moody's rating is less than six basis points. In reality, we anticipate that the threat of not using Moody's on a transaction of this size and importance could provide the necessary leverage to enable Moody's analysts to get in-line with their competitors, so that the State would be able to use Moody's with little to no reduction in net proceeds.

(2) That is, a NPM withholding would not trigger a debt service reserve fund draw.



UBS has been a pioneer in the field of selective ratings strategies. In 2002, UBS was the first firm to explore and implement the concept of “shopping” ratings and optimizing the net proceeds results among the three rating agencies, a practice now used consistently among the few firms versed in MSA securitizations. We continue to believe this strategy has value – any interest rate penalty imposed by the market due to the absence of one of the three ratings can be more than offset by the net proceeds benefit of not having to pass the most onerous rating agency stress tests. This approach is not meant to be insensitive to the State’s relationships with the rating agencies; the rating agencies are each accustomed to this practice in the Structured Finance sector.

Our basic structure incorporates a marketable amount of CABs, all of which are subject to early “turbo” redemptions dependent on the performance of the TSRs. This optimized structure provides maximum performance within the rating agency stress tests, with approximately \$4.5 billion of CIBs being rated ‘BBB’ by both Standard & Poor’s and Fitch, \$37.1 million (present value) of subordinate CABs rated ‘BBB’ by Fitch and \$95.3 million (present value) of subordinate (third lien) CABs rated ‘BBB-’ by Fitch. **As shown in the table below, the Leveraged Case generates approximately \$1.336 billion in net proceeds.** While a more “aggressive” assessment of the market appetite for subordinated tobacco CABs yields an improved projected estimate of net proceeds, UBS is confident that the present market demand for CABs is attainable and consistent with recent market experience and events.

Reduced Leverage Case (three ratings): Conversely, the State could issue senior-lien bonds with all three ratings. Doing so would require limiting the structure to the “lowest common denominator,” which currently is the Moody’s ‘Baa3’ rating. As compared to a two-ratings strategy, constraining senior-lien bonds to the Moody’s stress criteria results in a \$85.4 million reduction of senior-lien CIB par. However, this does not translate into an \$85.4 million loss of net proceeds. This is because passing the Moody’s stress tests requires issuing less CIBs, leaving greater unencumbered revenues and allowing us to increase the par amount of subordinate Fitch ‘BBB’ CABs (Moody’s does not rate subordinate CABs). Thus, we are able to replace the lost CIB par amount with a higher Fitch ‘BBB’ CAB par amount, albeit at a higher cost of funds. This “transfer” of par from CIBs to CABs means that this scenario would make debt service payments in 2007 even in the event of a NPM adjustment.

As the summary table below indicates, a securitization featuring CIBs rated by all three rating agencies would result in \$24 million fewer proceeds despite the dynamic “transfer” described above.

Market Rates as of 10/30/2006	Scenario 2 Leveraged Refunding (3 Rating Strategy)	Scenario 3(a) Leveraged Refunding (2 Rating Strategy)
Final Rated Maturity	6/01/2047	6/01/2047
Final Expected Maturity	6/01/2032	6/01/2032
Arbitrage Yield	5.093%	5.062%
Escrow Yield	4.957%	4.957%
Survives Reduced '07 MSA receipt?	YES	YES
CIBs Par	\$4,412,420,000	\$4,497,845,000
Convertible CAB Maturity Amount	N/A	N/A
‘BBB’ CAB Par (Maturity Amt)	\$88,483,401 (\$925,365,000)	\$37,106,775 (\$388,065,000)
‘BBB-’ CAB Par (Maturity Amt)	\$97,561,319 (\$1,103,510,000)	\$95,296,697 (\$1,077,895,000)
Total Initial Par	\$4,598,464,720	\$4,630,248,472
Premium/(OID)	(\$97,368,067)	(\$99,306,393)
Escrow Cost	\$3,126,694,987	\$3,126,694,987
DSRF*	\$266,501,400	\$271,408,156
Issuance Costs	\$45,984,648	\$46,302,484
Net Proceeds	\$1,311,156,556	\$1,335,777,390

* Includes the transfer of \$249,240,938 from the Series 2003A DSRF to the refunding.

Again, if handled appropriately, it is our hope that discussions with Moody’s could cause them to relax their stress tests, as was the case for the Rhode Island transaction, so that use of Moody’s will have little or no negative impact upon the State’s net proceeds from the transaction.



OPTIONS TO LIMIT IMPACT OF NPM ADJUSTMENT⁽³⁾

Two observations must be made of the significant 2006 MSA payments (approximately \$800 million of the \$6.5 billion due) withheld or diverted to Disputed Accounts.

1) *The NPM Adjustment is a continuing issue.* There is no reason to expect resolution in time for the April 2007 payment, or even perhaps for the 2008 payment and beyond:

- Imminent Resolution Unlikely - at this time, not even 20 of over 50 MSA jurisdictions have determined the venue in which they will adjudicate the question of whether the subject jurisdiction "diligently enforced" the MSA against all cigarette companies (so far, the venue of choice has almost universally been binding arbitration, not State Court). This is the final prong of the test that would actually trigger notable adjustments to the payments made from the Participating Manufacturers ("PMs"). Once the venue is decided the process itself is likely to be somewhat lengthy, even if completed through binding arbitration.
- Four-year "look-back" - the NPM adjustment is triggered not by current manufacturer market shares but by those up to four years ago. Thus, despite the recently improved market share for large tobacco companies, the NPM adjustment should be legitimately contested until at least 2008. For 2007, the PMs will be contesting primarily the 2004 industry conditions, when the NPMs still had real gains in market share. Even in 2008, in which the PMs may contest the 2005 industry conditions, there may still be real market share-based arguments. We would expect that by 2009, when PMs would be contesting 2006 industry conditions, there will be less cause to secure an adjustment since the current market conditions show that the NPM market share has significantly receded.

2) *Investors are sensitive to a sizeable NPM Adjustment.* Rating agency stress criteria have not been built or changed to contemplate a NPM adjustment, but investors will be concerned.

- Because the NPM adjustment outcome is unclear, the rating agencies attempt to normalize comparisons across the entire sector for now, rather than making qualitative State by State distinctions. However, Fitch may introduce rating distinctions in late 2006. Still, the prospect of adjusted payments could impact the actual average lives for the bonds due to slower turbo redemptions than what was published with the primary offerings. Investors are keenly interested in the implications for the bonds' average lives under a NPM Adjustment. Most of the more sophisticated tobacco investors ask for scenarios to be run with an assumed NPM Adjustment to compare the resulting average lives. As a result, structural features that increase the resilience of the bonds' expected average lives and minimize the potential of tapping the debt service reserve fund ("DSRF") in a reasonable NPM Adjustment scenario will help improve marketing appeal.
- UBS' estimation of the magnitude of the potential 2007 NPM Adjustment – As a worst case scenario, we assumed that the 2007 NPM Adjustment would entail withheld and/or disputed amounts totaling approximately \$1.6 billion. This figure is significantly larger than the 2006 NPM adjustment (i.e. approximately \$800 million) because it assumes that Philip Morris not only disputes or withholds based on 2004 industry conditions, but also elects to capture the amounts they could have disputed for 2003 industry conditions (company officials have publicly suggested this approach).

Leveraged Case (two ratings): In current market conditions UBS has determined that, given a mid-January 2007 delivery date, a refunding of the Series 2003A bonds would be resilient against the worst case 2007 NPM adjustment. Thus, the Corporation could issue bonds under the two ratings strategy seeking only to maximize net proceeds without being concerned about "resilience" against a NPM adjustment.

However, if market conditions worsened by approximately 25 bps (not a significant move by tobacco sector standards) a highly leveraged all-CIBs structure may require the use of the DSRF to pay 2007 debt service. In an "up 25 bp" environment, the State would have to decide between maximizing net proceeds and structuring around a potential 2007 NPM adjustment. The following two sections summarize the "Leveraged" structure and an alternative "Resilient" structure in an "up 25 bp" market condition scenario.

Leveraged Case (two ratings – current market plus 25 basis points): If market conditions worsen by 25 basis points, the Leveraged Case would result in the issuance of approximately \$4.3 billion of 'BBB'-rated

(3) We use the phrase "NPM Adjustment" somewhat generically herein to include further Participating Manufacturer ("PMs") withholdings or disputed payments made in interpretation, still unresolved, of the MSA's protections regarding industry market share. A NPM Adjustment (and permanent reductions in MSA payments) has not formally been triggered until the MSA diligent enforcement is fully adjudicated.



CIBs, \$48.6 million (present value) of subordinate CABs rated 'BBB' by Fitch and \$90.8 million (present value) of subordinate (third lien) CABs rated 'BBB-' by Fitch. This results in net proceeds of \$1.223 billion (lower by \$113 million).

More importantly, the Leveraged Case does not consider the potential decrease in TSRs as a result of a 2007 NPM Adjustment. In the event of an adjustment, this structure would draw on the DSRF in a "plus 25 bps" environment. In effect, this becomes an investor relations issue, which is of particular importance given the structure and significant size of the proposed issuance and relatively limited universe of substantial tobacco bond purchasers. One potential means of addressing the concern is through the performance of sensitivity analysis to assess the impact of a range of possible 2007 NPM Adjustment outcomes on returns of turbo CIBs.

Resilient Case (two ratings – current market plus 25 basis points): With the goal of achieving maximum market acceptance with limited impact on net proceeds, UBS undertook extensive analytical research to arrive at the optimal combination of CIBs and CABs structured against TSRs impacted by a projected 2007 NPM Adjustment. The optimum solution for a "Resilient" structure shows that the bonds can sustain a projected 2007 NPM Adjustment without a significant reduction in net proceeds. We believe that the added resilience and increased transparency centered on this "hot topic" will make the Corporation's bonds more appealing to investors. Under this structure, approximately \$224 million of Convertible CABs are issued to complement approximately \$4.1 billion in CIBs rated 'BBB' by S&P and Fitch, approximately \$50.5 million (present value) subordinate CABs rated 'BBB' by Fitch, and approximately \$91.6 million (present value) subordinate (third lien) CABs rated 'BBB-' by Fitch. The structure produces net proceeds of approximately \$1.219 billion or only \$4.2 million less than the Leveraged Case. The Convertible CABs rated 'BBB' by both S&P and Fitch will convert to CIBs on 12/01/07 with an initial interest payment on 6/1/2008 providing a bridge to an increase in overall cash flow during the 2008-2017 window of Strategic Contribution Payments.

Market Rates as of 10/30/2006	Scenario 3(b) Leveraged Refunding (+25 basis points)	Scenario 4 Resilient Refunding (+25 basis points)
Final Rated Maturity	6/01/2047	6/01/2047
Final Expected Maturity	6/01/2032	6/01/2032
Arbitrage Yield	5.322%	5.328%
Escrow Yield	5.207%	5.207%
Survives Reduced '07 MSA receipt?	NO	YES
CIBs Par	\$4,335,220,000	\$4,110,990,000
Convertible CAB Maturity Amount	N/A	\$224,185,000
'BBB' CAB Par (Maturity Amt)	\$48,579,342 (\$560,380,000)	\$50,450,546 (\$581,965,000)
'BBB-' CAB Par (Maturity Amt)	\$90,837,713 (\$1,133,205,000)	\$91,580,796 (\$1,142,475,000)
Total Initial Par	\$4,474,637,055	\$4,477,206,342
Premium/(OID)	(\$93,624,550)	(\$100,365,969)
Escrow Cost	\$3,091,283,690	\$3,091,283,690
DSRF*	\$271,406,016	\$271,406,016
Issuance Costs	\$44,746,370	\$44,772,064
Net Proceeds	\$1,222,817,367	\$1,218,619,541
Comments:	Reasonable (marketable) amount of CABs for incremental net proceeds.	<i>Both</i> Convertible CABs to survive lower MSA payments, and leverage CABs to add net proceeds.

* Includes the transfer of \$249,240,938 from the Series 2003A DSRF to the refunding.

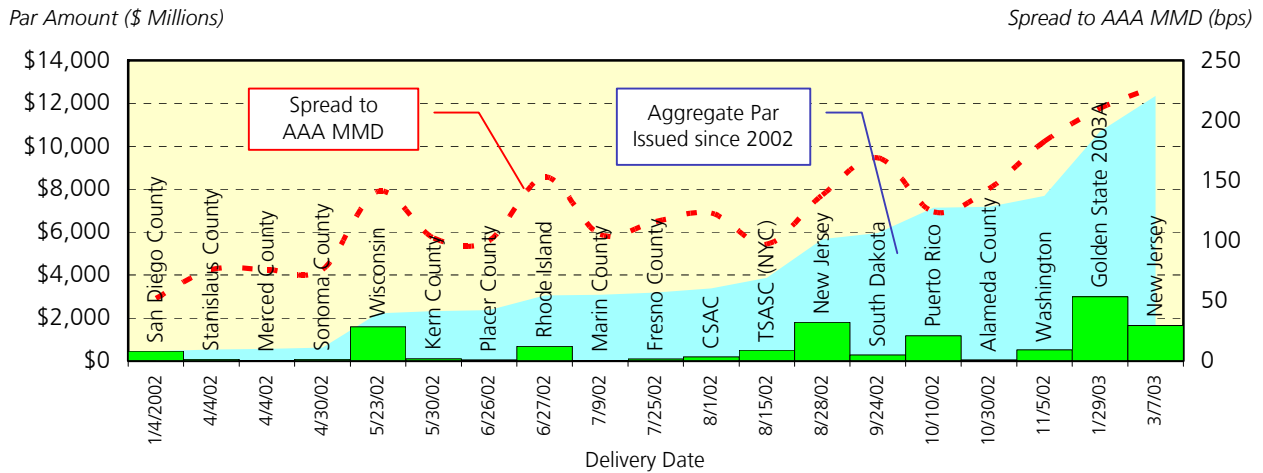
OTHER STRUCTURING CONSIDERATIONS

Timing: We believe the market can readily absorb the State's proposed GSTSC refunding. However, the State of New Jersey is contemplating a \$4.5 billion tobacco sale, and Louisiana is also considering a large sale.⁽⁴⁾ If New Jersey or Louisiana issue tobacco bonds prior to California (we currently do not expect this to



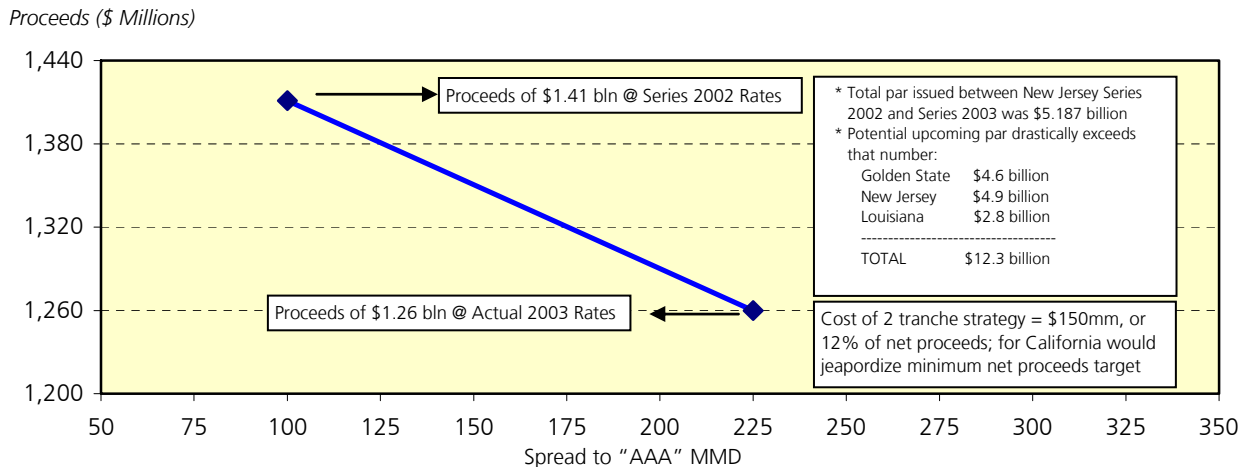
occur), we believe it could impact the State's interest costs. As the figure below demonstrates, there is a direct correlation between the volume of tobacco issuance and the cost of capital.

Relationship between Tobacco Bond Volume and Spreads (a 15-month window)



We also have considered the benefits, if any, of splitting the State's financing into two sales; the first to refinance the 2003A bonds and the second to produce incremental net proceeds. The Corporation would have to execute a full refunding of the outstanding Series 2003A bonds of at least \$3.3 billion followed by a "new money" transaction of at least \$930 million in order to realize the targeted net proceeds. We see limited or no pricing benefit from a split issuance as the State would incur higher transaction costs and additional exposure to interest rate and TSR market risk. As the figure below demonstrates, this risk can have a significant impact on proceeds.

New Jersey's Experience: Series 2003 Tobacco Securitization (a six-month window)



2047 Final Maturity -- Capturing the Maximum Amount of TSR Revenues: A 2007 calendar year issuance likely means that the Corporation will count 2047, not 2046, as its 40th year of securitized revenues. This characterization will result in an additional \$32 million in net proceeds, as compared to a structure that securitizes receipts through 2046. If the Corporation's goal is to capture only \$900 million of net proceeds, this longer maturity would not be needed. However, if the Corporation's goal is to maximize net proceeds, we would recommend that the final maturity be June 1, 2047.

(4) Competing TSR-secured issues for the States of New Jersey and Louisiana have been initiated, but may not ultimately be positioned to issue in 2006 or even early 2007: Though it accepted written RFP responses on October 13th, New Jersey has already experienced a delay in assembling its team and may need to pursue and attain clarifying legislation to address the content of the Lance II decision before issuance. Louisiana both has Constitutional and legal issues with regard to uses of tobacco securitization net proceeds, has not started the process of assembling a team, and deferred consideration of tobacco securitization at its October 18th State Bond Commission public meeting - a required step. For these reasons, UBS recommends that California take advantage of this marketing window by preparing for issuance by mid January, immediately after the legislation takes effect.



Negative Arbitrage Offset Strategy: Currently, we estimate that the Corporation would experience approximately 10 basis points of negative arbitrage in the defeasance escrow (assuming an arbitrage yield of 5.06% vs. an escrow yield of 4.96%). The present value of this negative arbitrage is approximately \$15.2 million. However, since the net proceeds will be expended across three fiscal years, the State can retain any investment earnings on the unexpended proceeds in excess of the arbitrage yield to "offset" the negative arbitrage produced by the defeasance escrow. It may wish to consider a structured investment to recover negative carry.

ALTERNATE TOBACCO SECURITIZATION PRODUCTS CONSIDERED

Below are two additional structures that were considered in our analysis but were not included in our primary recommendations. We provide our assessment of these product alternatives below.

Fixed Amortization Serial Bonds: In some larger transactions in 2002 and 2003, Serial Bonds with fixed (non-callable, no turbo feature) maturities improved the net proceeds result marginally by tapping the shorter end of the yield curve. We tested the Golden State resecuritization structure in the current market and determined that including shorter serial bonds enhances net proceeds by less than 0.5%. Serial bonds would provide little benefit in the current market due to:

- The flat yield curve: unlike the Corporation’s 2003A bond issuance, in which the yield spread amongst the serial bonds was 250 basis points, current estimates of the yield spread is only 40 basis points.
- Rating agency stress test limitations: the principal of these maturities represent hard requirements during the early part of the structure, which is when it is at its most vulnerable, and rating agencies tests impose significant losses of revenues.
- Short serial bonds magnify the adverse impacts of a potential NPM Adjustment: the State can monitor actual market demand and performance against stress criteria and NPM adjustment sensitivities to determine if serial bonds should be offered.

Floating Rate Notes: The following table describes the three instances in which variable rate securities have been issued within tobacco securitizations. While these securities pass the rating agency stress test criteria, they are not necessarily relevant or favorable for California’s offering.

Issue	Features of Variable Rate Component	Outcome/Applicability
Golden State (California), 2003A	Unenhanced ARCs	State had to fix out bonds at rates between 7.80% and 7.90% to avert failed Auctions. Not recommended.
New York, 2003	Insured ARCs, due to State Enhancement – Appropriation back-up (Double-Barrel)	Bonds have traded very favorably to the rest of the cash market based on triple ‘A’ insurance; Not recommended as the State would need to enhance the MSA backed security (not allowable per SB 1141).
Michigan, 2006	Taxable, unenhanced Floating Rate Notes (“FRNs”)	Limited investor capacity. Tax-Exempt market narrower. Marginal likely impact on net proceeds

Though we believe the Corporation should not assume a material change in net proceeds results from a variable rate component, a reasonably sized Floating Rate Note tranche may produce marginal improvement while not introducing the specifics of a “failed auction”, since investors accept a fixed spread to the BMA index. Though not necessarily a driving force in the core structure, it would be worth investigating actual market demand for such a product and testing it against the rating agency stress test criteria to assess the potential benefit of FRNs.

4. Key Personnel

As shown by the following diagram, our core bankers to the STO will work jointly with our tobacco securitization specialists, quantitative specialists, account bankers, credit advisory group and marketing groups to provide the highest level of execution for the State. **Each member of this team will be available to commit up to 100% of their time when required to complete the financing.** Concise resumes for each of the mentioned professionals are provided in **Appendix B**.



Underwriting, Marketing & Sales	Firmwide Resource Commitment	Quantitative Analysis
<p>William Schlichting <i>Managing Director</i> New York</p> <p>John Feery <i>Managing Director</i> New York</p> <p>Gerry McNamara <i>Managing Director and Mgr.,</i> Secondary Trading New York</p> <p>John Owens <i>Managing Director and Mgr.,</i> CA Retail Marketing Los Angeles</p>	<p style="text-align: center;">Terry L. Atkinson <i>Managing Director and Mgr.</i> <i>Municipal Securities Group</i> New York</p>	<p>Spencer Coker <i>Executive Director</i> New York</p> <p>David Taylor <i>Executive Director</i> Los Angeles</p> <p>Rob Pattison <i>Associate Director</i> New York</p> <p>Guillermo Coronado <i>Analyst</i> New York</p>
	Core STO Banking Team	Credit Advisory
	<p style="text-align: center;">Anthony Fisher <i>Managing Director</i> Lead Banker Portland</p> <p>Mark Adler <i>Managing Director</i> Co-Lead Banker – Tobacco Securitization Group Los Angeles</p> <p>Chris Melvin <i>Managing Director</i> Co-Lead Banker New York</p> <p>Jeff Hyman <i>Managing Director</i> Lead - Tobacco Securitization Group New York</p> <p>Frank Lauterbur <i>Managing Director</i> Senior Banker Los Angeles</p>	<p style="text-align: center;">Brad Gewehr <i>Managing Director</i> Director – Municipal Credit Advisory Group New York</p>
Financial Products	Day-to-Day Account Support	Reinvestment Services
<p>Rhahime Bell <i>Managing Director</i> Los Angeles</p> <p>Anand Kesavan <i>Associate</i> Los Angeles</p>	<p>Bernard Mikell <i>Director</i> Sacramento</p> <p>Russ Reyes <i>Director</i> Los Angeles</p> <p>Bruce Huang <i>Associate Director</i> Los Angeles</p> <p>Ken Gillespie <i>Associate Director</i> Los Angeles</p> <p>Jenny Poree <i>Associate</i> San Francisco</p> <p>Craig Dussinger <i>Analyst</i> Los Angeles</p>	<p>Jason Michaels <i>Director</i> New York</p> <p>James Engel <i>Associate Director</i> New York</p>

5. Proposed Compensation

Assuming the Corporation opts to maximize proceeds, we would propose the following compensation for a \$4.63 billion issuance:

Gross Spread Component	Total \$	\$/Bond
Management Fee	\$0.00	\$0.000
Expenses (detailed below)	816,976.31	0.176
Average Takedown	22,126,083.72	4.779
Gross Spread	\$22,943,060.03	\$4.955

UBS' proposed average takedown represents takedowns of \$4.75/\$1,000 for CIBs and \$5.75/\$1,000 for CABs and Convertible CABs. A detailed breakdown of our expenses is detailed below, including \$200,000 for underwriters' counsel and \$25,000 for travel and related expenses:

Expense Component	Total \$	\$ / Bond
Underwriters' Counsel	\$200,000.00	\$0.043
T&E/ Misc.	25,000.00	0.005
CUSIP	237.00	0.000
BMA Special Assessment	138,907.45	0.030
BMA GASB Fee	23,151.24	0.005
CA PSA	46,302.42	0.010
CDIAC	3,000.00	0.001
Municipal Syndicate Services	347,938.64	0.075
Interest on Day Loan	32,154.50	0.007
DTC Charges	285.00	0.000
Total	\$816,976.31	\$0.176

6. Firm Disclosure

We have included our disclosure information as **Appendix C**.



**Appendix A:
UBS' Tobacco Securitization Experience**



Appendix A: UBS' Tobacco Securitization Financing Experience Since 11/3/2001

Dated Date	Issuer Name	Par (\$ in Mills)	UBS' Role	Contact
10/25/06	University of Hawaii	\$133.810	Sole	Russell Miyake - (808) 956-7161
08/24/06	Northern Tobacco Sec Corp (Alaska)	411.988	Co-Mgr	Steve Tarola - (907) 563-3989
04/12/06	California CTSA (Fresno)	39.015	Sole	Bart Kohn - (559) 448-1710
02/08/06	California CTSA (Los Angeles)	319.827	Co-Senior	Glenn Byers - (310) 974-7175
02/08/06	TSASC, Inc. (NYC)	1,353.510	Co-Mgr	Alan Anders - (212) 788-5872
12/06/05	TSA of Northern CA (Sacramento)	255.486	Co-Mgr	Geoff Davey - (916) 874-5803
11/30/05	Iowa Tobacco Settlement Authority	222.910	Co-Mgr	Mike Fitzgerald - (515) 281-5368
11/30/05	Iowa Tobacco Settlement Authority	609.052	Co-Mgr	Mike Fitzgerald - (515) 281-5368
10/27/05	California CTSA (Merced)	37.490	Sole	Jim Brown - (209) 385-7637
10/27/05	California CTSA (Merced) Taxable	2.200	Sole	Jim Brown - (209) 385-7637
10/27/05	California CTSA (Sonoma)	83.060	Sole	Tom Ford - (707) 527-3233
08/04/05	Golden State Tobacco Sec Corp	3,140.563	Co-Mgr	State Treasurer's Office
05/16/05	Virginia Tobacco Settlement Fin Corp	448.260	Co-Senior	Jody Wagner - (804) 786-1148
12/02/03	NY Tobacco Settlement Fin Corp	70.000	Sole	Steve Hunt - (212) 688-4000
12/02/03	NY Tobacco Settlement Fin Corp	2,015.415	Co-Senior	Steve Hunt - (212) 688-4000
09/30/03	Golden State Tobacco Sec Corp	2,572.285	Co-Senior	State Treasurer's Office
06/19/03	NY Tobacco Settlement Fin Corp	55.000	Sole	Steve Hunt - (212) 688-4000
06/19/03	NY Tobacco Settlement Fin Corp	296.265	Co-Mgr	Steve Hunt - (212) 688-4000
06/19/03	NY Tobacco Settlement Fin Corp	1,796.940	Co-Mgr	Steve Hunt - (212) 688-4000
04/16/03	Oregon Dept of Admin Services	431.560	Co-Mgr	Larry Goth - (503) 378-4930
03/07/03	NJ Tobacco Settlement Fin Corp	1,659.170	Co-Senior	Ann G. Flynn - (609) 984-8229
01/29/03	Golden State Tobacco Sec Corp	375.000	Co-Senior	State Treasurer's Office
01/29/03	Golden State Tobacco Sec Corp	2,625.000	Co-Senior	State Treasurer's Office
11/05/02	Washington Tobacco Settlemnt Auth.	517.905	Co-Mgr	Kim Herman - (206) 464-7139
10/10/02	Puerto Rico Children's Trust Fund	1,171.200	Co-Senior	Gabriel Rivera - (787) 722-4170
08/28/02	NJ Tobacco Settlement Fin Corp	1,801.455	Co-Mgr	Ann G. Flynn - (609) 984-8229
08/15/02	TSASC, Inc. (NYC)	500.000	Co-Mgr	Alan Anders - (212) 788-5872
07/25/02	California CTSA (Fresno)	92.955	Lead	Bart Kohn - (559) 448-1710
06/27/02	RI Tobacco Settlement Fin Corp	35.660	Lead	Rosemary Booth Gallogly-(401)222-6300
06/27/02	RI Tobacco Settlement Fin Corp	649.730	Lead	Rosemary Booth Gallogly-(401)222-6300
06/27/02	University of Hawaii	150.000	Lead	Russell Miyake - (808) 956-7161
05/30/02	California CTSA (Kern) Taxable	7.400	Sole	Jeff Frapwell - (661) 868-3180
05/30/02	California CTSA (Kern)	40.960	Sole	Jeff Frapwell - (661) 868-3180
05/30/02	California CTSA (Kern)	56.885	Sole	Jeff Frapwell - (661) 868-3180
05/23/02	Badger Tobacco Asset Sec Corp (Wisconsin)	1,591.095	Co-Mgr	Frank Hoadley - (608) 266-2305
04/30/02	California CTSA (Sonoma)	37.405	Sole	Tom Ford - (707) 527-3233
04/30/02	California CTSA (Sonoma)	30.005	Sole	Tom Ford - (707) 527-3233
04/04/02	California CTSA (Merced) Taxable	3.740	Sole	Jim Brown - (209) 385-7637
04/04/02	California CTSA (Merced)	26.775	Sole	Jim Brown - (209) 385-7637
04/04/02	California CTSA (Stanislaus) Taxable	8.090	Lead	Dean Wright - (209) 525-6376
04/04/02	California CTSA (Stanislaus)	59.215	Lead	Dean Wright - (209) 525-6376
12/20/01	Rockland Tobacco Asset Sec Corp	47.750	Lead	Ken Zebrowski - (845) 634-6226
12/20/01	Rensselaer Tobacco Asset Sec Corp	17.277	Lead	Henry Zwack - (518) 270-2900
12/20/01	Rensselaer Tobacco Asset Sec Corp	17.278	Co-Mgr	Henry Zwack - (518) 270-2900

Source: Securities Data Company. As of 11/3/2006.



**Appendix B:
Assigned Personnel (Attachment A)**



Firm: UBS Securities LLC

STATE OF CALIFORNIA

OFFICE OF THE STATE TREASURER
Assigned Personnel

Banking Personnel Experience

Name	Title	Office Location	Role	How Long In Current Position?	How Long Employed at Current Firm?	How Long in Municipal Finance Practice?	Relevant Experience	Availability
Terry L. Atkinson	Managing Director	New York	Resource Commitment	18 years	19 years	31 years	Oversee firm's efforts in all areas of public finance.	When needed
Anthony H. Fisher	Managing Director	Portland	Primary Contact/ Lead Banker	15 years	9 years	24 years	Lead banker for GSTSC bonds for UBS.	Full time
Mark Adler	Managing Director	Los Angeles	Co-Lead Banker, Tobacco Specialist	10 years	16 years	24 years	Lead banker for California counties securitizations	When needed
Chris Melvin	Managing Director	New York	Co-Lead Banker	17 years	5 years	27 years	Co-lead banker on many sales for STO.	Full time
Jeff Hyman	Managing Director	New York	Lead - Tobacco Group	2 years	9 years	12 years	Primary structuring, execution banker on all of UBS' tobacco transactions.	Full time
Frank X. Lauterbur	Managing Director	Los Angeles	Senior Banker	5 years	10 years	20 years	Lead banker for Hawaii enhanced tobacco transaction.	Full time
Bernard Mikell	Director	Sacramento	Senior State Advisor	4 years	4 years	29 years	29 years of experience in California public finance.	When needed
Russell Reyes	Director	Los Angeles	Lead Execution Banker	2 years	9 years	12 years	11 years in California public finance.	Full time
Bruce Huang	Associate Director	Los Angeles	Primary Support	2 years	6 years	6 years	6 years in California public finance.	Full time
Ken Gillespie	Associate Director	Los Angeles	Primary Support	1 year	3 year	5 years	5 years in California public finance.	Full time
Jenny Porée	Associate	San Francisco	Primary Support	2 years	2 years	4 years	4 years in California public finance.	Full time
Craig Dussinger	Analyst	Los Angeles	Primary Support	2 years	2 years	2 years	2 years in California public finance.	Full time
Spencer Coker	Executive Director	New York	Quantitative Analysis	4 years	2 years	11 years	Oversee quantitative efforts on all tobacco securitizations.	When needed



Name	Title	Office Location	Role	How Long In Current Position?	How Long Employed at Current Firm?	How Long in Municipal Finance Practice?	Relevant Experience	Availability
David Taylor	Executive Director	Los Angeles	Quantitative Analysis	3 years	10 years	22 years	22 years in quantitative analytics.	Full time
Rob Pattison	Associate Director	New York	Quantitative Analysis	1 year	4 years	4 years	Significant experience structuring & executing tobacco securitizations.	Full time
Guillermo Coronado	Analyst	New York	Quantitative Analysis	2 years	2 years	2 years	2 years of quantitative tobacco securitization experience.	Full Time
Rhahime Bell	Managing Director	Los Angeles	Financial Products	5 years	6 years	14 years	14 years in municipal derivatives.	When needed
Anand Kesavan	Associate	Los Angeles	Financial Products	2 year	5 years	5 years	1 year in municipal derivatives.	When needed
Jason Michaels	Director	New York	Reinvestment	2 years	2 years	9 years	9 years in municipal reinvestments.	When needed
James Engel	Associate Director	New York	Reinvestment	2 years	2 years	9 years	7 years in municipal reinvestments.	When needed
Brad Gewehr	Managing Director	New York	Credit Advisory	7 years	8 years	24 years	Former head of West Coast ratings for Moody's; led credit advisory services on all UBS tobacco securitizations; published extensive ongoing research on the sector.	Full time



Firm: UBS Securities LLC

STATE OF CALIFORNIA

OFFICE OF THE STATE TREASURER
Assigned Personnel

Underwriting/Trading Marketing/Research/ Derivatives Personnel Experience

Name	Title	Office Location	Role	How Long In Current Position?	How Long Employed at Current Firm?	How Long in Municipal Finance Practice?	Relevant Experience	Availability
William Schlichting	Managing Director	New York	Fixed Rate Underwriter	18 years	18 years	30 years	Oversees pricing of all tobacco bonds.	Full time
John Feery	Managing Director	New York	Variable Rate Underwriter	13 years	22 years	23 years	Priced numerous fixed-rate tobacco bonds.	Full time
Gerry McNamara	Managing Director	New York	Institutional Trading	5 years	8 years	21 years	Oversees all trading of tobacco securitizations.	Full time
John Owens	Managing Director	Los Angeles	California Retail Marketing	6 years	12 years	18 years	Oversees retail trading and placement of all tobacco bonds within the Western States.	Full time



**Appendix C:
Firm Disclosure**



A. Updated information detailing any new issues regarding licensing, registration, disciplinary action, and litigation matters since your firm's last quarterly update to the State for pool membership.

The following information was included in UBS' most recent quarterly update to the State:

1. Any investigation by the SEC, NASD, NYSE, California Department of Insurance or any other governmental or securities industry based regulatory agency,

UBS Securities LLC (formerly UBS Warburg LLC, hereafter "UBS") like most large, full service investment banks and broker-dealers, receives inquiries from the SEC, NYSE, and various other regulatory organizations and government agencies. Some of these inquiries call for information related to the firm's Municipal Securities Group and others concern the entire firm. Our firm cooperates with the authorities in all such requests. In some instances, UBS has reported to the National Association of Securities Dealers, Inc. (the "NASD") and the SEC investigations in which regulators have informed the firm in writing of their intention to recommend a regulatory proceeding. These reports are publicly available. To the best of our knowledge, there are not any matters pending that are likely to adversely affect UBS Securities LLC's ability to provide services to the State of California.

UBS Financial Services Inc., former home of the Municipal Securities Group, was one of a number of firms contacted by the SEC in May 2004 regarding its review of Auction Rate Securities practices and procedures. The firm conducted an internal review and reported its findings to the SEC. The matter has now been concluded with no action taken by the SEC with respect to UBS.

UBS announced on December 21, 2004 that it had received a "Wells Notice" from the staff of the United States Securities and Exchange Commission (SEC). The Wells Notice notifies UBS that the SEC staff is considering recommending that the SEC bring civil enforcement proceedings against UBS for possible violations of federal securities laws arising from work performed by UBS's Investment Bank for HealthSouth Corp., a US healthcare company. Under SEC procedures, the Wells Notice afforded UBS an opportunity to present its position to the SEC staff before the staff makes a formal recommendation regarding any action to be taken against the firm. UBS has been cooperating fully with all relevant authorities investigating the HealthSouth case, and will continue to offer the SEC its full cooperation.

As part of a review of bond transactions by eight firms including UBS Financial Services Inc., former home of the Municipal Securities Group, the NASD alleged that between August 2002 and June 2003, those firms purchased bonds based upon a price obtained from a broker's broker that the NASD determined was not fair and reasonable in violation of MSRB Rules G-30 and G-17. Without admitting or denying the allegations, on June 29, 2004, UBS Financial Services Inc. consented to a \$100,000 fine for the alleged violations, as well as making restitution in the amount of \$100,666 in connection with eleven transactions. Restitution has been paid to the affected clients.

UBS Securities LLC and UBS Financial Services Inc. were part of the ten firms participating in the global settlement approved by the US District Court (S.D.NY) on October 31, 2003, among the SEC, NYSE, NASD and the various states relating to the conflicts of interest between equity research and investment banking. Under the terms of the settlement, these two firms jointly paid a \$25 million penalty, \$25 million in disgorgement of commissions and fees, and an additional \$30 million for investor education and to purchase independent research going forward.

2. Any Litigation, arbitration, disciplinary or other official actions arising from the firm's underwriting, underwriting practices or management, or the purchase, sale or distribution of taxable or tax-exempt municipal securities or other governmental obligations (other than retail customer claims) of municipal securities by the firm or any of its principals,

Like most securities firms, UBS Securities LLC is and has been a defendant in numerous legal actions relating to its securities and commodities business that allege various violations of federal and state securities laws. UBS Securities LLC is a wholly owned subsidiary of UBS AG. UBS AG, a Swiss banking corporation, is publicly owned, and its shares are listed on the Zurich, New York and Tokyo stock exchanges. UBS AG files annual reports on Form 20-F with the SEC, and also files quarterly reports and certain other material information with the SEC under cover of Form 6-K. These reports are publicly available. These reports include material information about UBS Securities LLC matters, including information about any material litigation or administrative proceedings. To the best of our



knowledge, there are not any matters pending that are likely to adversely affect UBS Securities LLC's ability to provide the services that are contemplated by the Request for Proposal.

A *qui tam* claim against UBS Financial Services Inc. and others was filed under Illinois's Whistleblower statute in 1999 under seal. That action was unsealed by the court after the State declined to participate in the action. A complaint alleging that the firm engaged in yield-burning in a 1992 refunding transaction with Illinois was served on that firm in April 2002. In June 2002, a U.S. District Court (N.D. Ill.) issued an Order dismissing plaintiffs' claims. The case was refiled in November 2002 in the Cook County Circuit Court, bringing whistleblower claims and common law claims for fraud, breach of contract, and breach of fiduciary duty. All claims were dismissed against UBS in August 2003. A Notice of Appeal to the Illinois Supreme Court was filed in September 2003 and oral argument took place on November 16, 2004. In June 2005 a decision was issued affirming in part dismissal of plaintiff's common law claims and remanding in part plaintiff's *qui tam* actions back to the Cook County Circuit Court.

3. Any litigation, arbitration, disciplinary or other official actions arising from any other business of the firm by the firm or any of its principals, and

To the best of our knowledge, UBS Securities LLC is not in violation of any statutes or regulatory rules, including those of the Securities and Exchange Commission, Municipal Securities Rulemaking Board, or National Association of Securities Dealers to any material extent. However, our firm has thousands of employees and customers. The laws, rules, and regulations which govern our business are extremely complex and highly detailed, and minor inadvertent violations of them may occur without warning and despite a pro-active and professional compliance department. We do not believe any large securities firm could truthfully and unconditionally promise that there are NO violations of any of these hundreds of laws, rules, and regulations (and their various interpretations by regulators). To the best of our knowledge, there are not any matters pending that are likely to adversely affect UBS Securities LLC's ability to provide the services that are contemplated by the State of California.

4. Any criminal action under either federal or state law by the firm or any of its principals.

Within the past five years, UBS Securities LLC has not been found to have violated or settled a charge of having violated any criminal statute. To the best of our knowledge, within the past five years, no registered person currently employed by UBS has been found to have violated and/or settled a charge of having violated any federal or state criminal statute involving securities or fraud violations while that person was employed at UBS.

B. Information of any potential change in legal structure and/or ownership of the firm.

UBS Securities LLC is an indirect wholly owned subsidiary of UBS AG, a publicly traded company. UBS AG is incorporated and domiciled in Switzerland and operates under Swiss Company Law and Swiss Federal Banking Law as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors. UBS AG and its subsidiaries have over 69,000 employees in 395 offices. UBS Securities LLC is part of the business group (not a legal entity) UBS Investment Bank.

Because shares of UBS AG are traded publicly in the U.S., we do not comment on the possibility of structural changes that could be material to the price of UBS AG stock. Such announcements can only be made in a very broad and simultaneously available format. This answer should not be taken to mean that there are either are, or are not, any such changes impending.

However, please be assured that our firm has every intention of continuing our participation in the municipal finance market.

C. Completed Legal Disclosure Certification (Attachment B).

As requested, we have included in Appendix D a completed form of the Attachment B (Legal Disclosure Certification).



D. Any relationship with tobacco manufacturers that may be a conflict of interest in fact or appearance (Attachment C).

While UBS is an underwriter and advisor to tobacco manufacturers, we do not believe that these relationships create a conflict of interest in fact or appearance.



**Appendix D:
Legal Disclosure Certification (Attachment B)**



Legal Disclosure Certification

I, Anthony Fisher, Managing Director, certify as follows:

I am a Managing Director of UBS Securities LLC (the "firm") and am authorized to execute this Certification on its behalf.

The firm is interested in providing underwriting services to the State of California and has submitted a Supplementary Statement of Qualifications to the State Treasurer's Office for the Golden State Tobacco Securitization Program in order to be considered for appointment to provide such services.

In the Statement of Qualifications, the firm has responded to questions regarding legal proceedings against the firm, as specified, in connection with offerings of municipal securities in California transactions and nationwide.

The Request for Statement of Qualifications requires that the firm notify the State Treasurer's Office regarding changes to the legal information submitted with the Statement of Qualifications, as well as information about legal proceedings originating after submission of the Statement of Qualifications.

I certify that I have reviewed the requirements for updating the State Treasurer's Office regarding legal proceedings, and I agree, on behalf of the firm to fulfill the requirements outlined.

(Managing Director Name)

UBS Securities LLC

(Firm Name)

DATE: November 3, 2006