

DISCLOSURE STATEMENT AND PROGRAM DESCRIPTION OF THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM 2006 ENROLLMENT PERIOD

This Disclosure Statement provides important information concerning certain material risks associated with the purchase of prepaid college tuition contracts. Contract Purchasers are strongly urged and expected to read this disclosure statement in its entirety before purchasing a prepaid college tuition contract.

The obligations of PACT are limited obligations payable only from proceeds received from PACT Contract sales and earnings from investment performance. Neither the PACT Contract Purchaser nor Designated Beneficiary has any recourse against the Treasurer, the Board, the PACT Program, any other state or federal government agency, or the State of Alabama in connection with any obligations arising out of the PACT Contracts. The obligations of the PACT Contract are not backed by the full faith and credit of the State of Alabama.

This disclosure statement and program description (the "Disclosure Statement") of the Alabama Prepaid Affordable College Tuition Program ("PACT") is provided in connection with the offering for purchase of Prepaid College Tuition Contracts ("PACT Contracts").

Those persons who are not considering the purchase of a PACT Contract during the 2006 Enrollment Period may gain an understanding of the Tuition Program by reading this Disclosure Statement. However, persons desiring to purchase a PACT Contract in a subsequent year should be aware that the terms and features of the Tuition Program and the PACT Contract in any subsequent year may differ, even materially, from the terms and features described in this Disclosure Statement. Information in this Disclosure Statement is believed to be accurate as of its date and is subject to change without notice. For PACT Contracts purchased after 2004, each Disclosure Statement supersedes and replaces any earlier dated Statement. Contract Purchasers also should be aware and consider that no representations or assurances are made by this Disclosure Statement or otherwise, that PACT Contracts will be offered in any subsequent year.

PACT PROGRAM INTRODUCTION

Pursuant to the Code of Alabama, Section 16-33C-1 through 16-33C-13, the Alabama Legislature created the PACT Program and Trust Fund by enactment of the Wallace-Folsom Prepaid College Tuition Trust Fund Act on May 17, 1989, and has subsequently amended it (the "Act"). Under the Act, PACT is an agency and instrumentality of the State of Alabama. The purpose of PACT is to allow natural persons who are at least 19 years of age and citizens or residents of the United States and certain organizations to prepay a specific number of undergraduate semester hours of tuition and qualified fees of a Designated Beneficiary at an eligible educational institution through the purchase of PACT Contracts.

The Treasurer and the Board

Kay Ivey, State Treasurer is Chairperson of the PACT Board. Under the Act, the ten-member Board oversees the administration of the Program and its members act as the trustees of the PACT Trust Fund. The Board has delegated day-to-day administration of the Program to the Treasurer.

The PACT Trust Fund

The PACT Trust Fund holds the assets of the Program. The assets are derived from PACT Contract payments made by purchasers, and earnings thereon, if any. The purpose of the PACT Trust Fund is to pay future PACT Contract benefits and administrative expenses. For investment purposes, assets in the Trust Fund are commingled and are not segregated by individual PACT Contract.

The PACT Administrative Fund

The PACT Administrative Fund holds administrative fees paid by Contract Purchasers. The purpose of the Administrative Fund is to pay outstanding operating expenses of administering PACT. Gross earnings on PACT Trust Fund principal may be directly used to supplement balances in the PACT Administrative Fund, as the board deems necessary.

Purchasing a PACT Contract

Applications for the purchase of a PACT Contract on behalf of a Designated Beneficiary are available at the State Treasurer's office located at the State Capitol, 600 Dexter Avenue, Suite S100, Montgomery, Alabama 36104 or online at <http://www.treasury.alabama.gov>. To purchase a PACT Contract, a Contract Purchaser must file an Application with the State Treasurer, who is authorized to enter into PACT Contracts with Contract Purchasers on behalf of the Board. By completing and signing an application, the Contract Purchaser acknowledges that he/she has received and read this Disclosure Statement and agrees to be bound by this Disclosure Statement and the Program Rules.

PACT Contract Types

The three PACT Contracts available for the PACT Program are the (i) Four Year University, (ii) Two Year Community College and (iii) Two Plus Two. Each type has risk factors that are included herein. Contract Purchasers are also strongly advised to thoroughly read the Program Rules

PACT Contract Payments and Distributions

PACT Contract payments can be made by check, automatic deduction from a checking or savings account, or payroll deduction (where available). Distributions for the payment of PACT Contract benefits will only be made to an eligible educational institution after receipt of an acceptable invoice.

PACT Accounts

A PACT account is established for each PACT Contract and Designated Beneficiary. Once an account is paid in full and the projected enrollment year of the original Designated Beneficiary has been reached, benefits are made available. Each account is established with a specific number of semester hours of tuition and Qualified Fee payments. The Designated Beneficiary has ten years from the Projected Enrollment Year to use PACT Contract benefits.

DEFINITIONS

Board means the ten-member Board of Trustees of the PACT Program.

Cancellation means discontinuation of the Contract Purchaser's participation in the PACT Program and the Designated Beneficiary's right to receive PACT Contract Benefits.

Code means the Internal Revenue Code of 1986, interpreted in accordance with the regulations promulgated thereunder, as amended from time to time.

Contract Purchaser means any adult person, corporation, trust, charitable organization or other entity eligible to purchase a PACT Contract, and who is obligated to make PACT Contract payments in accordance with the PACT Contract. The Contract Purchaser (and not the Designated Beneficiary or any person or entity that makes a payment) retains ownership of the PACT Contract.

Designated Beneficiary means the individual named in the PACT Contract to receive the PACT Contract benefits.

Eligible Educational Institutions generally includes accredited, post-secondary educational institutions offering credit toward a bachelor's degree, an associate's degree, a graduate level or professional degree, or another recognized postsecondary credential, and certain proprietary institutions and post-secondary vocational institutions as set forth in Section 529 of the Code. These institutions must be eligible to participate in certain federal student financial aid programs.

Immediate Family Member means any of the following relations of the Designated Beneficiary as defined under the Code:

A son or daughter, or descendant of either;

A stepson or stepdaughter

A brother, sister, stepbrother, or stepsister

The father or mother, or an ancestor of either

A stepfather or stepmother

A son or daughter of a brother or sister

A brother or sister of the father or mother

A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law or sister-in-law

The spouse of the Designated Beneficiary or the spouse of any of the foregoing individuals; or

A first cousin.

PACT Contract consists of the following documents: the Application signed by the Contract Purchaser, the Participation and Payment Schedule, the Disclosure Statement and the Program Rules.

Participation and Payment Schedule means the document defining the Projected Enrollment Year and frequency, duration, amount and due date of PACT Contract payments based on information provided by the Contract Purchaser in the Application.

Program Rules means the rules promulgated by the Board to implement the PACT Program that may be amended from time to time as determined by the Board. .

Projected College Entrance Date means the academic school year following the qualified Designated Beneficiary's projected high school graduation as specified on the Participation and Payment Schedule and is the earliest date for the utilization of PACT Contract benefits.

Qualified Fees means those fees approved by the Board which are required as a condition of enrollment for all students attending the Postsecondary Institution in which the Designated Beneficiary is enrolled.

Qualified Tuition Program means a higher education savings program or prepaid tuition program that qualifies for treatment under Section 529 of the Code.

RISK FACTORS AND OTHER CONSIDERATIONS

Certain risk factors relating to participating in PACT are described below.

No Guarantee; Not Insured. Participating in the PACT Program entails risk of return. The Trust Fund and investments under PACT are not bank deposits, and are not debt obligations of, or insured or guaranteed by the FDIC, the State, the Board, the Treasurer, the PACT Program, or any other state or federal governmental agency. None of these entities or persons has any legal or moral obligation to ensure the ultimate payout with the respect to the purchase of a PACT Contract.

Cancellation or Termination: If a PACT Contract is cancelled or expires, the Contract Purchaser may request and, subject to the ability of the Trust Fund to pay a refund, receive a refund equal to the Redemption Value of the PACT Contract. The Board, in its discretion, may pay any refund in installments rather than in a lump sum in which case the total refund amount would not be immediately available to the Contract Purchaser.

Lack of Secondary Market: No known market exists for resale of PACT Contracts.

No Assurance of Admission to Eligible Educational Institutions: Participation in the PACT Program does not constitute a promise, commitment, or guarantee that a Designated Beneficiary: (a) will be accepted as a student by any Eligible Educational Institution; (b) if accepted, will be permitted to continue as a student; (c) will be treated as a state resident for tuition and Qualified Fees purposes, including Alabama resident status; (d) will graduate from any Eligible Educational Institution; or (e) will achieve any particular treatment under applicable state or federal financial aid programs. If the Designated Beneficiary is not admitted to an Eligible Educational Institution, for any reason, or fails to register for less than the maximum number of academic credit hours for which PACT Contract benefits are payable, for any reason, the Designated Beneficiary likely will realize less than all of the PACT Contract benefits for which he or she otherwise may have been eligible. Also, if a Designated Beneficiary matriculates at an Alabama in-state institution and does not satisfy the institution's residency requirements, the Designated Beneficiary will be solely responsible for any amounts owed to the institution beyond the payment of in-state tuition and Qualified Fees prescribed in the PACT Contract.

Use of Benefits at Eligible Educational Institutions: If PACT Contract benefits are used at private or out-of-state institutions, payment may not cover the cost of tuition and Qualified Fees and the Designated Beneficiary will be solely responsible for any amounts owed to the institution beyond the payment prescribed in the PACT Contract. If a Two-Year Community College PACT Contract is used at a four-year university, payment may not cover the cost of tuition and Qualified Fees and the Designated Beneficiary will be solely responsible for any amounts owed to the institution beyond the payment prescribed in the PACT Contract.

PACT Contract Termination: For a Four-Year University PACT Contract or a Two Plus Two PACT Contract, the PACT Contract terminates when all of the tuition hours are utilized, or when the Designated Beneficiary receives a Baccalaureate degree, whichever comes first. If the Designated Beneficiary receives a degree and the payment of benefits does not exceed the PACT Contract purchase amount, the Contract Purchaser may not realize the full benefit of the prescribed PACT Contract and no refund is available. All PACT Contracts terminate ten years from the original Designated Beneficiary's Projected Enrollment Year.

Substitution of Designated Beneficiary: The Code allows beneficiary substitution to certain members of the immediate family. Substitution of a Designated Beneficiary will not result in any refund. Substitution of a Designated Beneficiary with a Projected College Entrance Date that is earlier than the date of the Designated Beneficiary shall require the payment of additional amounts based on actuarial calculations.

No Entitlement to Investment Returns: Contract Purchasers nor Beneficiaries are entitled to receive investment returns from the Trust Fund as a result of favorable Trust Fund investment performance in excess of current obligations and actuarially determined future obligations. Any such favorable investment performance, if achieved by the Trust Fund, will enhance the likelihood that PACT's Contract obligations will be performed, but will not result in other direct or indirect benefit to Contract Purchasers or Beneficiaries. Alabama law provides that all money held by the Trust Fund in excess of the current operational expenses of the program and the current amount of

PACT's projected future liabilities must be retained in the Trust Fund for application against any future actuarial losses.

Inherent Uncertainty of Actuarial Projections: The Board has engaged the assistance of actuarial experts to project the ability of the Trust Fund to meet PACT's obligations and to assist the Board in establishing the pricing for new PACT Contracts each year. In this regard, various actuarial assumptions are employed to evaluate the assets and liabilities of the Trust Fund. In many cases, the actuarial analysis is highly sensitive to changes in one or more of these assumptions. The Board, in consultation with its actuarial experts, has developed the current assumptions, monitors such assumptions as new historical data becomes available, reviews such assumptions annually and revises as deemed necessary. Because actuarial determinations necessarily involve predictions regarding future events, no assurance can be given that such assumptions will prove to be accurate or that PACT will be able to satisfy its future obligations. Annually, the actuarial expert prepares a report detailing all assumptions. This report may be viewed on the Treasurer's website www.treasury.alabama.gov.

Investment Risks: As of December 30, 2005, assets in the Trust Fund are invested in various asset classes as follows:

Asset Class	Allocation	Target
Large Cap Domestic Equity	41.4%	46%
Small Cap Domestic Equity	8.9%	9%
International Equity	21.6%	15%
Domestic Fixed Income	27.3%	30%
Cash & Equivalents	.8%	0%

Certain risks are associated with each investment class. The Board may change the amount of dollars allocated to a specific asset class, or add, eliminate or change the classes. To view the Investment Policy, visit the website www.treasury.alabama.gov and click on College Savings Programs.

Limited Use of Qualified Distributions. Payment is made directly to the Eligible Education Institution upon receipt of an acceptable invoice from the institution for tuition and Qualified Fees. No other qualified distributions are allowed.

Status of Federal and State Laws and Regulations Governing PACT: The Act, the Rules, state and federal law, and regulations governing the operation of PACT may change in the future. In addition, Alabama law and federal law relating to the funding of higher education expenses and tax matters are also subject to change. No assurance can be given that such changes in law will not adversely affect the value of participation in PACT. No one, including the State, the Board, or the Treasurer is required to continue the operation of PACT.

Lack of Certainty/Adverse Tax Consequences: The 2001 Tax Act made substantial changes to the federal tax treatment of Qualified Tuition Programs by permitting qualified distributions to be federally tax free. According to the sunset provision, some of the changes, including federal tax-free treatment of withdrawals for qualified higher education expenses, are scheduled to expire on December 31, 2010, unless extended by Congress. Additionally, the U.S. Congress could enact legislation that adversely affects the federal tax consequences associated with participation in PACT. The Board intends to modify PACT, as necessary, to enable PACT to meet the requirement of Section 529 of the Code. No assurance can be given that any such changes will not have a

retroactive effect. You should consult a qualified tax advisor about Alabama and Federal tax issues in relation to PACT.

Financial Aid/Student Loans: The receipt of PACT Contract benefits by a Designated Beneficiary may affect a Designated Beneficiary’s qualification for or receipt of financial aid. The receipt of PACT Contract benefits should not impact the Designated Beneficiary’s qualification for or receipt of merit-based financial aid. There can be no assurance, however, that the PACT Contract benefits will not be considered either explicitly or implicitly in determining whether a Designated Beneficiary is entitled to or will receive a merit-based scholarship.

Furthermore, the receipt of or potential for receipt of PACT Contract benefits may affect the ability of a Designated Beneficiary to receive private or student loans. Such receipts or potential for receipts may be considered financial resources which preclude the Designated Beneficiary from receiving private or student loans, especially if the loans are in any way need-based. Such considerations may also preclude the Designated Beneficiary from receiving more favorable interest rates or repayment options.

Other Investment Alternatives: The Board and the Treasurer make no representations regarding the appropriateness of PACT as an investment alternative. A number of other Qualified Tuition Programs, including the Alabama Higher Education 529 Fund, and other education savings and investment programs, including Coverdell Education Savings Accounts, are currently available to prospective Contract Purchasers. These programs may offer benefits, including investment options and investment control that are not available under PACT. Accordingly, prospective Contract Purchasers should consider these other investment alternatives before purchasing PACT.

Other Considerations: An investment in PACT may not be the appropriate investment program for all investors. You should evaluate PACT in the context of your overall financial situation, investment goals, time horizon, higher education goals, other resources and needs (such as liquidity), and other investments. You may want to discuss these issues with a financial and tax advisor.

ADMINISTRATIVE FEES

Application Fee	\$100
Account Maintenance Fee	\$3/monthly account; \$100/ lump sum accounts
Cancellation Fee	\$75
Beneficiary Substitution Fee	\$55
Change of Contract Purchaser Fee	\$20
Enrollment in a Private/Out-of-State Institution Fee	\$25
Late Payment Fee	\$15
Returned Item Fee	\$15
Document Replacement Fee	\$7 per document
Change in Payment Schedule Fee	\$20

MANAGEMENT OF THE TRUST FUND

Under the Act, the Trust Fund is to be administered by a ten-member Board. The ten members of the Board are to consist of the following persons: (1) the Lieutenant Governor (an ex officio member) or his/her designee; (2) the Executive Director of the Alabama Commission on Higher Education (an ex officio member) or his/her designee; (3) a representative from the Council of

College and University Presidents; (4) the State Treasurer (an ex officio member); (5) the Chancellor of the Alabama Department of Postsecondary Education (an ex officio member) or his/her designee; (6) a person appointed by the Speaker of the State House of Representatives; (7) a person appointed by the Lieutenant Governor; (8) a person appointed by the State Treasurer; (9) two persons appointed by the Governor.

No person holding a full-time office or position of employment with the State, any county or municipality in the State, any educational institution, or any instrumentality, agency, or subdivision of the foregoing, is eligible for appointment to the Board. The members of the Board serve without compensation, but are entitled to reimbursement for each day's official duties of the Board at the same per diem and travel rate as is paid to State of Alabama employees. Appointed members serve four-year terms of office and are eligible for reappointment.

The current members of the Board are listed in the table below.

NAME	EXPIRATION OF TERM
Kay Ivey, Chairman Treasurer of the State of Alabama State Capitol S-106 Montgomery, Alabama 36130	Ex Officio
Ricky Jones, Vice Chairman Vice President, Andalusia Distributing Company, Inc. P.O. Box 51 Andalusia, Alabama 36420	July 19, 2007
Lucy Baxley Lieutenant Governor of the State of Alabama 11 South Union Street, Suite 725 Montgomery, Alabama 36104	Ex Officio
Russell Buffkin Attorney P.O. Box 2767 Mobile, Alabama 36652	July 19, 2006
Willie Huff Chairman, ABI Capital Management 111 19 th Street North, Suite 200 Birmingham, Alabama 35203	July 19, 2008
Dr. Roy Johnson Chancellor of the Alabama Department of Postsecondary Education 410 Adams Avenue, Suite 290 Montgomery, Alabama 36130	Ex Officio
Ed Lewis President, E.L. Lewis & Company, Inc. 750 Wrights Mill Road Auburn, Alabama 36830	July 19, 2009

Dr. Michael E. Malone

Director of the Alabama Commission
On Higher Education
100 North Union Street, Suite 724
Montgomery, Alabama 36104

Ex Officio

Dr. Harold McGee

Former President, Jacksonville State University
P.O. Box 897
Jacksonville, Alabama 36265

July 19, 2009

Ed Sherling

President, Ed Sherling Ford
P.O. Box 986
Enterprise, Alabama 36331

July 19, 2007

The Board is authorized to employ private sector firms to provide investment management, accounting, recordkeeping services, actuarial services, and to provide other services relating to PACT.

The payments received from Contract Purchasers are deposited in the Trust Fund, and the Board as authorized in the Act invests the Trust Fund's assets. The amounts received may be invested only in instruments, obligations, securities and properties that are deemed appropriate by the Board and that constitute legal investments for the investment of public funds in the State of Alabama, including legal investments for the State Treasurer, and the Alabama Trust Fund. The Trust Fund's assets are subject to market factors and fluctuations affecting their value.

The Board is authorized to PACT Contract for the lump sum or installment prepayment of tuition costs for the benefit of a Designated Beneficiary. The price to be paid by a Contract Purchaser under a PACT Contract is determined annually by the Board based on actuarial calculations, which employ various assumptions.

FINANCIAL AUDIT

The Trust Fund's fiscal year begins on October 1 of each year and ends on September 30 of the following year. The Board has engaged the accounting firm of Jackson, Thornton & Co., P.C. to audit its balance sheet as of September 30, 2005, and the related statements of revenues, expenses, and changes in retained earnings and statement of cash flows for the year ended September 30, 2005. Jackson, Thornton & Co., P.C. has issued its independent auditor's report to the Board. A copy of such report, along with the financial statements and accompanying footnotes of the Trust Fund, are available at the treasurer's website at www.treasury.alabama.gov or by contacting the Treasurer's Office.

ANNUAL INVESTMENT RATES OF RETURN

Following are the annual rates of return for total Trust Fund investments for the fiscal years ended on September 30 of each year indicated. The annual rates of return indicated hereafter were computed by taking into account current income, realized and unrealized gains and losses, and investment fees and expenses for the Trust Fund's aggregate investment portfolio during each year.

12 Months ended September 30	Investment Return Per Cent
1991	13.8
1992	15.6
1993	14.8
1994	0.4
1995	17.4
1996	15.0
1997	26.6
1998	2.7
1999	17.9
2000	14.9
2001	-13.50
2002	-10.12
2003	17.25
2004	9.92
2005	10.64

SUMMARY OF VALUATION ACTUARIAL ASSUMPTIONS

Funding of the Tuition Program is derived entirely from PACT Contract payments and the investment income earned by the Trust Fund. Annually, the Board reviews the actuarial soundness of the Trust Fund. The projected amount of PACT's future PACT Contract obligations is determined by calculating expected future Alabama tuition and fee costs based upon current costs and certain assumptions regarding future periods. Similarly, the Trust Fund's projected assets are determined by calculating expected future assets based upon the actual current value of the Trust Fund's assets and various assumptions regarding future events, such as future rates of return. The projected obligations are then compared with the projected asset values to determine if an actuarial deficit is anticipated.

The projections and valuations are based on various actuarial assumptions. Because the actuarial valuation process relies on such assumptions, actual results may differ, even materially, from the projected results based on those actuarial assumptions. No representation is made or assurance given that future investment results of the Trust Fund will be sufficient for PACT to satisfy its current or future obligations. If a funding shortfall occurs for any reason, the State of Alabama, the Treasurer nor the Board is obligated to restore, or otherwise remedy, any such funding shortfall of the Trust Fund.

The Board engaged the firm of Actuarial Resources Corporation to render certain actuarial services. In its report to the Board dated January 16, 2006, for the year ended September 30, 2005 (the "2005 Actuarial Report"), the Board's actuarial consultant reviewed and recommended the assumptions underlying the analysis contained in the 2005 Actuarial Report for the purpose of projecting the expected financial results of the Trust Fund.

The key assumptions underlying the actuarial analysis of the Trust Fund are reevaluated by the Board annually, in consultation with its actuarial consultants. As part of this process, the Board gathers and reviews historical data concerning these assumptions. This process has tended to confirm the reasonableness of the material assumptions. Although the Board, in consultation with its actuarial consultants, monitors and revises the actuarial assumptions, there can be no assurance that such assumptions will continue to compare favorably to actual experience. The actuarial report may be viewed in its entirety on the Treasurer's website www.treasury.alabama.gov, or you may call the Treasurer's Office to receive a copy.

PURCHASING A PACT CONTRACT, PACT CONTRACT PAYMENTS, ACCOUNTS AND DISTRIBUTIONS –

These topics are covered in detail in the Program Rules attached to this Disclosure Statement.

SECURITIES CONSIDERATIONS

The Board has not heretofore requested a "no action" letter from the United States Securities and Exchange Commission, nor has it sought any type of ruling or advisory opinion from the Alabama Securities Commission as to whether the PACT Contracts constitute securities. PACT Contracts have not been registered under the Securities Act of 1933 in reliance on an exemption from registration available for obligations issued by a public instrumentality of a state.

TAX CONSIDERATIONS

The following discussion summarizes certain aspects of the federal income, gift, and estate taxes and Alabama income tax consequences relating to PACT. This discussion does not provide individualized financial or tax advice; does not address state income taxes that may be imposed by any state other than Alabama or other state; and does not address local taxes that may be imposed by Alabama or any other state or locality.

Caveats with Respect to Tax Discussion: This summary is not exhaustive, and is not intended as tax advice. In addition, no assurance can be given that the IRS will accept the conclusions in this Disclosure Statement, or, if challenged by the IRS, that these conclusions would be sustained in court. You should consult a qualified tax advisor regarding the application of the relevant tax law to your particular financial situation.

State of Alabama Taxes: With respect to Alabama residents, PACT Contract payments are not deductible for Alabama income tax purposes. Earnings on the investment of PACT Contract payments are not subject to Alabama income taxes and will not be included in the Alabama taxable income of the Designated Beneficiary or Contract Purchaser. Qualified withdrawals from PACT are exempt from taxation by the State of Alabama. You should consult a qualified tax advisor about this and other tax consequences, including estate and any local taxes that may apply.

Other State and Local Tax Consequences: Contract Purchasers and Designated Beneficiaries who are subject to taxation by jurisdictions other than Alabama should consult a qualified tax advisor to determine the state and local income, gift, estate, and other tax consequences of participation in PACT. The tax consequences of participation vary from state to state. Other Qualified Tuition Programs and education savings and investment programs may offer state tax benefits, including deductions or exclusions from income, that are not available under PACT. Depending upon the applicable state laws, favorable state tax treatment for investing in a Qualified Tuition Program may be limited to investments made in a Qualified Tuition Program offered by the Contract Purchaser's or Designated Beneficiary's home state.

Taxable Distributions: The earnings portion of any PACT Contract Cancellation Refund is includible in computing the Contract Purchaser's taxable income.

Tax Penalties on PACT Contract Cancellation Refunds: The receipt of a refund by the Contract Purchaser will, except as provided below, also be subject to additional tax penalties in the form of an additional federal income tax of 10% on the earnings portion of the refund that is included in taxable income. The additional 10% federal income tax will not apply, however, if the refund is:

- made after the death of the Designated Beneficiary to the extent permitted by rules and regulations of the IRS,
- attributable to the Designated Beneficiary being disabled (within the meaning of Section 72(m)(7) of the Code),
- made on account of a scholarship to the extent the amount of the refund does not exceed the amount of the scholarship,
- an amount includible in income solely because of the reduction in the amount of qualified higher education expenses attributable to the amount of such expenses taken into account in determining the allowed amount of Hope Scholarship and Lifetime Learning Credits.

Change in Designated Beneficiary, Rollovers between Accounts, and Transfer or Rollovers Between Qualified Tuition Programs: A Contract Purchaser may change the Designated Beneficiary or rollover a refund to another Designated Beneficiary. The earnings portion of the refund will not be subject to federal income tax, if:

- the new Designated Beneficiary is an Immediate Family Member of the prior Designated Beneficiary, and
- in the case of a rollover, such rollover was made within 60 days of the refund.

A Contract Purchaser may rollover or transfer a refund to another Qualified Tuition Program for a different or the same Designated Beneficiary. The earnings portion of the refund which is rolled over will not be subject to federal income tax if:

- the new Designated Beneficiary is an Immediate Family Member of the prior Designated Beneficiary,
- in the case of a rollover, such rollover was made within 60 days of the refund.
- in the case of a transfer or rollover to an account of the same Designated Beneficiary, the transfer or rollover does not occur within 12 months of a previous transfer or rollover to a Qualified Tuition Program for the benefit of the same Designated Beneficiary.

The Contract Purchaser is responsible for determining whether the earnings portion of a transfer or rollover to PACT or to another Qualified Tuition Program meets the above rules for exclusion from income for tax purposes, for substantiating the facts relating to the transfer or rollover to the IRS to the extent required by the IRS, and for reporting for federal income tax purposes any amount of earnings that is attributable to the transfer or rollover that must be included in income. As of the date of this Disclosure Statement, the IRS has not issued guidance with respect to the manner in which the Contract Purchaser shall account for transfers or rollovers to other Qualified Tuition Programs, and to the coordination of such transfers and rollovers with other transfers and rollovers for the same Designated Beneficiary. In addition, a transfer or rollover from an account in another Qualified Tuition Program may have adverse tax consequences to you, including the recapture of previously allowed state income tax deductions and the loss of other state tax benefits. You should consult with a qualified tax advisor regarding the application of the relevant tax law to your particular circumstances.

Federal Gift and Estate Taxes: Contributions to PACT Contracts are considered completed gifts for federal estate and gift tax purposes. Generally, if the Contract Purchaser dies while there is monetary value of the PACT Contract, the value of the PACT Contract will not be included in the

Contract Purchaser's estate (except in the situation described below relating to the gift tax exclusion election for contributions exceeding the limits applicable for any one year). However, refunds received on account of the death of the Designated Beneficiary are, or may be, included in the gross estate of the Designated Beneficiary for federal estate tax purposes. The foregoing is not individualized tax advice and every Contract Purchaser is strongly advised to obtain qualified independent financial and/or tax advice.

PACT Contract payments made are potentially subject to federal gift tax payable by the Contract Purchaser. Generally, if a Contract Purchaser's payment for a Designated Beneficiary in a single year, together with all other gifts by the Contract Purchaser to the Designated Beneficiary in that year, are less than the gift tax annual exclusion amount the PACT Contract payments may not result in federal gift tax liability for the Contract Purchaser. The foregoing is not individualized financial or tax advice. Every Contract Purchaser is strongly advised to obtain qualified independent financial and/or tax advice.

If a PACT Contract is transferred to a Successor Account Owner, there could be federal gift or estate tax consequences. You should consult a qualified tax advisor regarding such transfer.

Hope Scholarship and Lifetime Learning Credits: You may be able to claim a Hope Scholarship credit or a Lifetime Learning Credit in the same year in which you receive PACT Contract Benefits for a Designated Beneficiary. You should consult a qualified tax advisor regarding the availability of these credits.

Federal Tax Law: Sunset Provisions: The changes set forth in the 2001 Tax Act are effective for taxable years beginning after December 31, 2001. However, the 2001 Tax Act provides that the changes contained therein will not apply for taxable years beginning after December 31, 2010. Therefore, unless Congress enacts additional legislation, the changes under the 2001 Tax Act will no longer apply for taxable years after December 31, 2010. As a result, the former law will again become the applicable law for taxable years beginning on or after December 31, 2010. Such a change in law could have adverse tax and other consequences to you. You should consider the adverse effect such a change in law would have on your investment in PACT before purchasing a PACT Contract.

MISCELLANEOUS

Reporting: PACT will provide an Annual Statement of your account. PACT is required by law to report to the IRS refunds and qualified distributions. The Contract Purchaser is required to provide information needed to comply with any legal reporting requirements. The Contract Purchaser/Designated Beneficiary is responsible for filing federal and state tax returns and any other reports required by law.

Special Petition: Any Contract Purchaser, corporation, or organization desiring to petition for relief from the Rules dictated herein may do so by filing a notarized written petition to the Board.

Amendment of the Rules: The Board may promulgate such Program Rules as are deemed necessary to implement the PACT Program and may amend such Rules. Annually, the Rules will be published as part of the Disclosure Statement and made available at the Treasurer's website. It is the responsibility of the Contract Purchaser to review the Rules from year to year for amendments or additions.

How to Contact PACT: PACT is located in the RSA Union Building, 100 North Union Street, Suite 660, Montgomery, Alabama 36130. Brochures and applications are available from www.treasury.alabama.gov and the Treasurer's office. If you have any questions about PACT, please call 800-252-7228 or 344-242-7514.

PACT PRIVACY NOTICE

PACT respects your right to privacy. We also know that you expect us to conduct your business in an accurate and efficient manner. To do so, we must collect and maintain certain nonpublic personal information about you. This is information we collect from you on your application(s) or other forms, and from the transactions you make with us or the PACT Records Administrator. We do not disclose any nonpublic personal information about you except as permitted by law. For instance, to effect transactions that you request or authorize, we may disclose information to companies that perform services on our behalf, such as printers and mailers that assist in the distribution of materials. These companies will use this information only for the services for which we hired them, and are not permitted to use or share this information for any other purpose. To protect your nonpublic personal information internally, we permit access to it only by authorized employees, and maintain physical, electronic and procedural safeguards to guard your information.