

SLM CORP
Form 424B5
January 28, 2003

PROSPECTUS SUPPLEMENT
(To Prospectus dated January 23, 2003)

\$2,000,000,000

EdNotesSM

With Maturities of 9 Months or More from the Date of Issue

This prospectus supplement contains terms that apply to our EdNotes that we may offer to sell from time to time. The final terms of each issuance of our EdNotes will be set prior to the time of sale and described in a pricing supplement. You should read this prospectus supplement, the attached prospectus and the applicable pricing supplement carefully before you invest.

We may sell notes to the agents as principal for resale at variable or fixed offering prices or through the agents as agent, using their reasonable best efforts on our behalf. If we sell all of the notes offered under this prospectus supplement, we expect to receive aggregate proceeds of between \$1,996,000,000 and \$1,940,000,000, after paying the agents' discounts and commissions of between \$4,000,000 and \$60,000,000. The agents' discounts and commissions may exceed these amounts with respect to sales of notes with stated maturities in excess of 30 years. Under some circumstances, we may also sell notes directly on our own behalf without the assistance of agents.

We do not plan to list the notes on any securities exchange unless we specify otherwise in the pricing supplement for your notes.

EdNotes is a service mark of Sallie Mae, Inc., a subsidiary of SLM Corporation.

Investing in our EdNotes involves certain risks, including those described in the Risk Factors section beginning on page S-5.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these notes or passed on the adequacy or accuracy of this prospectus supplement, the attached prospectus or any pricing supplement. Any representation to the contrary is a criminal offense.

Obligations of SLM Corporation and any subsidiary of SLM Corporation are not guaranteed by the full faith and credit of the United States of America. Neither SLM Corporation nor any subsidiary of SLM Corporation (other than Student Loan Marketing Association) is a government-sponsored enterprise or an instrumentality of the United States of America.

ABN AMRO Financial Services, Inc.

Banc of America Securities LLC
Edward D. Jones & Co., L.P.
Merrill Lynch & Co.
Morgan Stanley
Prudential Securities Incorporated

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Salomon Smith Barney

UBS PaineWebber Inc.

Wachovia Securities

Prospectus Supplement dated January 23, 2003

TABLE OF CONTENTS

Prospectus Supplement

About This Prospectus Supplement	
S-1	
Summary	
S-2	
Risk Factors	
S-5	
SLM Corporation	
S-6	
Use of Proceeds	
S-7	
Description of EdNotes	
S-7	
Registration and Settlement	
S-19	
U.S. Federal Tax Consequences to U.S. Holders	
S-23	
Supplemental Plan of Distribution	
S-29	
Legal Opinions	
S-31	
Annex A: Election of Repayment Survivor's Option	
A-1	

Prospectus

About this Prospectus	
1	
Where You Can Find More Information	
1	
Forward-Looking Statements	
3	
SLM Corporation	
4	
Use of Proceeds	
4	
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends	
4	
Securities We May Offer	
4	
Additional Information	
5	
Description of Debt Securities	
5	
Description of Capital Stock	
15	
Description of Warrants	
16	
Plan of Distribution	
18	
Legal Matters	
19	
Independent Public Accountants	

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is a prospectus supplement and supplements a prospectus which is part of a registration statement that we have filed with the Securities and Exchange Commission. This prospectus supplement provides you with a general description of the notes we may offer in connection with our EdNotes program. We may from time to time sell our EdNotes in various offerings up to a total dollar amount of \$2,000,000,000. While we have various other medium term notes and other indebtedness outstanding, references in this prospectus supplement to notes are to our EdNotes only.

The specific terms and conditions of a particular issuance of notes being offered to you will be contained in a pricing supplement. A copy of that pricing supplement will be provided to you along with a copy of this prospectus supplement and the attached prospectus. That pricing supplement also may add to, update or change information in this prospectus supplement and the attached prospectus. If there is any inconsistency between the information in the pricing supplement, this prospectus supplement and the attached prospectus, you should rely on the information in the pricing supplement. You should read this prospectus supplement, the attached prospectus and the pricing supplement together with the additional information that is incorporated by reference in this prospectus supplement and the attached prospectus. That additional information is described under the heading **Where You Can Find More Information** beginning on page 1 of the attached prospectus.

You should rely only on the information provided in this prospectus supplement, the attached prospectus and the pricing supplement, including the information incorporated by reference in this prospectus supplement and the attached prospectus. Neither we, nor any of the agents, have authorized anyone to provide you with different information. We are not offering our EdNotes in any state where the offer is not permitted. You should not assume that the information in this prospectus supplement, the attached prospectus or any pricing supplement is accurate at any date other than the date indicated on the cover page of those documents.

Unless otherwise indicated or unless the context requires otherwise, references in this prospectus supplement to we , us , our , or similar references mean SLM Corporation.

SUMMARY

This section summarizes the legal and financial terms of our EdNotes that are described in more detail in Description of EdNotes beginning on page S-7. Final terms of any particular issuance of notes will be determined at the time of sale and will be contained in the pricing supplement relating to those notes. That pricing supplement may vary from and supersede the terms contained in this summary. In addition, you should read the more detailed information appearing elsewhere in this prospectus supplement and the attached prospectus.

Issuer	SLM Corporation.
Purchasing Agent	ABN AMRO Financial Services, Inc.
Agents	ABN AMRO Financial Services, Inc., Banc of America Securities LLC, Edward D. Jones & Co., L.P., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, Prudential Securities Incorporated, Salomon Smith Barney Inc., UBS PaineWebber Inc. and Wachovia Securities, Inc.
Title of Notes	Medium Term Notes, Series B, also known as EdNotes SM .
Amount	We may issue up to \$2,000,000,000 of our EdNotes in connection with this prospectus supplement. There are no limitations on our ability to issue additional indebtedness in the form of EdNotes or otherwise.
Denominations	The notes will be issued and sold in denominations of \$1,000 and multiples of \$1,000 (unless otherwise stated in the pricing supplement for your notes).
Status	The notes will be our direct unsecured unsubordinated obligations and will rank equally in right of payment with our other unsecured unsubordinated indebtedness.
Maturities	Each note will mature nine months or more from its date of original issuance, as specified in the applicable pricing supplement.
Interest	Each note will bear interest from its date of original issuance at a fixed rate per year (which will be zero in the case of a zero-coupon note), floating rate per year or as otherwise stated in the applicable pricing supplement.

S-2

We will pay interest on each note, other than on a zero-coupon note, either monthly, quarterly, semiannually or annually on each interest payment date and on the maturity date, and if applicable, on a redemption date or a repayment date occurring in connection with an exercise of the survivor's option.

Principal

The principal amount of each note will be payable on its maturity date at the corporate trust office of the paying agent or at any other place we may designate.

Redemption

Unless otherwise stated in the applicable pricing supplement, the notes will not be redeemable at our option prior to the maturity date. If notes are redeemed prior to maturity, both interest and principal will be paid on the date of redemption. The notes will be unsecured and not subject to any sinking fund.

Survivor's Option

Specific notes may contain a provision giving a representative of the beneficial owner of the notes the right to require repayment of those notes prior to maturity, if requested, following the death of the beneficial owner of the notes. This right is not available unless it is specified in the pricing supplement for your notes. The right to exercise the survivor's option is subject to limits set by us on (1) the maximum dollar amount of aggregate exercises by all holders of notes in any calendar year and (2) the maximum dollar amount of an individual exercise by a holder in any calendar year, and may not be exercised until at least 12 months after the date we issued the applicable notes. Additional details relating to this right are described in the section entitled "Repayment upon Death - Survivor's Option" beginning on page S-16.

Sales and Clearance

We will sell notes in the United States only. Notes will be issued in book-entry form only and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form.

Trustee and Paying Agent

The trustee and paying agent for the EdNotes is Deutsche Bank Trust Company Americas, under an indenture, dated as of October 1, 2000, as supplemented by an indenture supplement, dated as of January 16, 2003. You may contact the trustee and paying agent at Deutsche Bank Trust Company Americas, Shareholder Relations, telephone number 1-800-735-7777.

Selling Group

The agents, including the purchasing agent, have entered into a selling agent agreement with us dated as of January 23, 2003. Dealers who are members of the selling group have executed a master selected dealer agreement with the purchasing agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and applicable laws and regulations. You may contact the purchasing agent in care of LaSalle Broker Dealer Services Division, 327 Plaza Real, Suite 225, Boca Raton, Florida 33432-3961 for a list of selling group members.

The agents and dealers comprising the selling group are broker-dealers and securities firms.

S-4

RISK FACTORS

Your investment in the notes involves risk. In consultation with your financial and legal advisers, you should carefully consider the following risks and the other information included or incorporated by reference in the applicable pricing supplement, this prospectus supplement and the attached prospectus, including the information under Forward-Looking Statements on page 3 of the attached prospectus, before deciding that an investment in the notes is suitable for you. You should not purchase the notes unless you understand and can bear the investment risks of the notes.

There May Not Be Any Trading Market For The Notes

Upon issuance, the notes will not have an established trading market. We cannot assure you that a trading market for the notes will ever develop or, if one develops, that it will be maintained. In addition to our creditworthiness, many factors affect the trading market for the notes and their trading value. These factors include:

the method of calculating the principal and interest in respect of the notes,

the time remaining to the maturity of the notes,

the total outstanding amount of any particular issuance of notes or of our notes in total,

any redemption features of the notes, and

the level, direction and volatility of interest rates for securities like our notes and in general.

You should also be aware that there may be a limited number of buyers if you decide to sell the notes. This may affect the price you receive for the notes or your ability to sell the notes at all.

If The Notes Are Redeemable, We May Redeem Them When Prevailing Interest Rates Are Relatively Low

If the pricing supplement for your notes provides that the notes are redeemable at our option, we may choose to redeem the notes on or after the date indicated in the pricing supplement. If that pricing supplement provides that the notes are subject to mandatory redemption or are otherwise redeemable at the option of the holder, we also may be required to redeem the notes upon the occurrence of certain events or at a certain date. In the event that prevailing interest rates are relatively low when we choose or are required to redeem the notes, you may not be able to reinvest the redemption proceeds in a comparable security with a yield as high as that on the notes being redeemed. Our ability to redeem the notes before the maturity date may affect the market value of the notes at any time when potential purchasers believe we are likely to redeem notes.

We Can Limit The Amount Of The Survivor's Option

We will have a discretionary right to limit the aggregate principal amount of notes that we may be required to repay in any calendar year upon all exercises of survivor's options to an amount equal to the greater of (i) \$1,000,000 and (ii) 1% of the outstanding aggregate

principal amount of all notes having the survivor's option right outstanding as of December 31 of the most recently completed calendar year. We also will have the discretionary right to limit to \$200,000 the aggregate principal amount of notes that we may be required to repay upon all exercises of survivor's options in any calendar year with respect to any individual deceased beneficial owner of a note. Accordingly, in any single calendar year, the authorized representative of the estate of a deceased beneficial owner may not be able to exercise the survivor's option either at all or for the full desired amount.

Our Credit Ratings May Not Reflect All Risks Of An Investment In Our EdNotes

The credit ratings of our senior unsubordinated indebtedness, which includes our notes, may not reflect the potential impact of all risks related to any trading market for the notes or their trading value. In addition, changes or anticipated changes in our credit ratings generally will affect any trading market for the notes or their trading value.

If The Notes You Purchase Are Floating Rate Notes, You May Receive A Lesser Amount Of Interest In The Future

Because the interest rate on floating rate notes will be indexed to an external interest rate or index that may vary from time to time, there will be significant risks not associated with a conventional fixed rate debt security. These risks include fluctuation of the applicable interest rate and the possibility that, in the future, you will receive a lesser amount of interest. We have no control over a number of matters that may affect interest rates, including economic, financial and political events that are important in determining the existence, magnitude and longevity of these risks and their results. In recent years, interest rates have been volatile, and volatility may be expected in the future. However, past experience is not necessarily indicative of what may occur in the future.

If The Floating Rate Notes You Purchase Are Subject To A Maximum Interest Rate, Your Return Will Be Limited

If the applicable pricing supplement specifies that your floating rate notes are subject to a maximum interest rate, the rate of interest that will accrue on the floating rate notes during any interest reset period will never exceed the specified maximum interest rate. Conversely, although the applicable rate of interest will always be greater than zero for floating rate notes, unless a minimum interest rate is specified in the applicable pricing supplement, we cannot assure you that the interest rate you receive in the future will not decrease.

SLM CORPORATION

SLM Corporation and its subsidiaries are the nation's leading private source of funding, servicing and support for higher education loans for students and their parents. We presently conduct a majority of our business through two wholly owned entities, the Student Loan Marketing Association, a government-sponsored enterprise chartered by an act of Congress, and Sallie Mae Servicing L.P., a Delaware limited partnership. The Student Loan Marketing As-

sociation must be liquidated by September 30, 2008, except under very limited circumstances.

We derive most of our income from interest earnings or spread income from our portfolio of student loans. As we have grown our business, fee income from loan and guarantee servicing and other operations such as debt collections has become an increasingly important source of earnings.

We changed our name from USA Education, Inc. to SLM Corporation, effective May 17, 2002.

Our principal executive offices are located at 11600 Sallie Mae Drive, Reston, VA 20193, and our telephone number is (703) 810-3000.

USE OF PROCEEDS

We intend to use the net proceeds from the sales of our EdNotes to provide additional funds for our operations and for other general corporate purposes. We will receive the net proceeds only from sales of the notes made in connection with their original issuance. We do not expect to receive any proceeds from resales of the notes by any of the agents.

DESCRIPTION OF EDNOTES

We have summarized various terms that apply generally to our debt securities in the accompanying prospectus under the caption "Description of Debt Securities". The following description supplements that description.

This section summarizes the material terms that will apply to each EdNote. Each particular note will have financial and other terms specific to it. We will describe the specific terms of each note in a pricing supplement. Those terms may vary from the terms described here. In the event of differences between the terms and conditions in this prospectus supplement and the related prospectus and the applicable pricing supplement, the applicable pricing supplement will govern. Capitalized terms not defined below have the meanings given to them in the attached prospectus and in the indenture relating to the notes.

Our EdNotes being offered by this prospectus supplement and the attached prospectus and any pricing supplement will be issued under an indenture, dated as of October 1, 2000, as supplemented by an indenture supplement, dated as of January 16, 2003, between us and Deutsche Bank Trust Company Americas, as trustee for our EdNotes, which indenture is more fully described in the accompanying prospectus. Throughout this prospectus supplement and any pricing supplement applicable to our EdNotes, we will refer to Deutsche Bank Trust Company Americas as the EdNotes trustee. The notes constitute a single series of debt securities for purposes of the indenture and are limited to an aggregate principal amount of up to \$2,000,000,000. We may increase the foregoing limit, however, by appropriate corporate action if in the future we wish to sell additional EdNotes. The indenture does not limit the aggregate amount of debt securi-

ties that may be issued under it and provides that debt securities may be issued under it from time to time in one or more series.

The following statements are summaries of the material provisions of the indenture and the notes. These summaries are not complete and are qualified in their entirety by reference to the indenture, as supplemented or amended from time to time, including for the definitions of certain terms.

Notes issued in accordance with this prospectus supplement, the attached prospectus and an applicable pricing supplement will have the following general characteristics:

the notes will be our direct unsecured unsubordinated obligations and will rank equally with all of our other unsecured unsubordinated indebtedness;

each note will mature on a day that is at least nine months or more from its date of original issuance;

the notes will not be subject to any sinking fund; and

the minimum denomination of the notes will be \$1,000 and multiples of \$1,000 (unless otherwise stated in the pricing supplement).

In addition, the pricing supplement relating to each offering of notes will describe specific terms of the notes, including:

the price, which may be expressed as a percentage of the aggregate principal amount of the notes, at which the note will be issued to the public;

the date on which the notes will be issued to the public;

the maturity date of the notes;

if your note is a fixed rate note, the annual percentage rate at which your note will bear interest, if any;

if your note is a floating rate note, the applicable interest rate index and such other terms as are applicable to your floating rate note, as described in *Floating Rate Notes* *General Information* beginning on page S-10;

if your note is an original issue discount note, the yield to maturity;

the accrual basis for calculating interest;

the interest payment frequency and the interest payment dates;

the purchase price, the agents' discounts and commissions, if any, and the net proceeds to us;

whether the authorized representative of a beneficial owner of a note will have the right to request that the holder seek repayment upon the death of the beneficial owner as described under *Repayment upon Death* *Survivor's Option* beginning on page S-16;

if the notes may be redeemed at our option prior to their maturity date, and the provisions relating to any such redemption;

any special United States Federal income tax consequences of the purchase, ownership and disposition of the notes;

the depository for your note, if other than The Depository Trust Company (DTC), and any circumstances under which you may request notes in non-

S-8

global form, if we choose not to issue your note only in book-entry form; and

any other significant terms of the notes that are not inconsistent with the provisions of the indenture.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the EdNotes trustee for cancellation.

Payment of Principal and Interest

Payments of principal and interest, if any, with respect to global notes will be paid in immediately available funds to DTC or its nominee. Principal and interest on the notes will be paid to beneficial owners of notes in accordance with the arrangements then in place between the EdNotes trustee acting as the paying agent and DTC and its participants as described under *Registration and Settlement* on page S-19. Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date (other than with respect to zero-coupon notes) and at maturity or on the date of redemption or repayment if a note is redeemed or repaid on exercise of a survivor's option prior to maturity. Interest is payable to the person in whose name a note is registered at the close of business on the regular record date before each interest payment date. Interest payable at maturity or on a date of redemption or repayment on exercise of a survivor's option is payable to the person to whom principal is payable.

We will pay any administrative costs imposed by banks in connection with making payments in immediately available funds, but any tax, assessment or governmental charge imposed upon payments, including, without limitation, any withholding tax, is the responsibility of the holders of a beneficial interest in the notes in respect of which such payments are made.

Payment of Interest

Interest on the notes will be paid as follows:

<i>Interest Payment Frequency</i>	<i>Interest Payment Date</i>
Monthly	
	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	
	Fifteenth day of every March, June, September and December, beginning in March, June, September or December immediately following the date the note was issued.
Semi-annually	
	Fifteenth day of every June and December, beginning in June or December immediately following the date the note was issued.
Annually	
	Fifteenth day of every December, beginning in December following the date the note was issued.

The regular record date for any interest payment date will be the first day of the calendar month in which the interest payment date occurs, except that the regular record date for the final interest payment date will be the final interest payment date. Interest on a note will be payable beginning on the first interest

payment date after its issue date to holders of record on the corresponding regular record date.

The term *business day*, as used in the following descriptions of fixed and floating rate notes, means any day that is not a Saturday, Sunday, holiday or other day on which banking institutions in the designated city are authorized or ordered to close by law or executive order. Where no city is designated, the designated city is New York City. Where the names of two or more cities precede the term *business day* and are joined by the conjunction *and* (such as *New York City and London business days*), such term will refer only to days that are business days in both (or all) of such cities. Where the names of two or more cities precede the term *business day* and are joined by the conjunction *or* (such as *New York City or London business days*), such term will refer to every day that is a business day in either (or any) of such cities.

Fixed Rate Notes

Fixed rate notes (other than zero-coupon notes) will bear interest at the fixed interest rate specified in the pricing supplement for those notes. Fixed rate notes that are zero-coupon notes will not bear interest. If an interest payment date (or maturity, redemption or repayment date on exercise of survivor's option) for any fixed rate note falls on a day that is not a business day, we will pay the interest, if any, together with principal and premium, if any, on the next business day. No interest will accrue on the payment for the period from and after the original scheduled interest payment date (or date of maturity, redemption or repayment on exercise of the survivor's option) to when we make the payment. Unless the pricing supplement for your fixed rate note states otherwise, we will calculate the interest based on a 360-day year consisting of twelve 30-day months.

Floating Rate Notes

General Information. Each floating rate note will bear interest based on the interest rate basis or index specified in the applicable pricing supplement.

Each floating rate note will have some or all of the following terms, which will be set forth in the applicable pricing supplement for that note:

the interest rate index to be used to determine the note's interest rate;

the *index maturity*, which is the period to maturity of the instrument or obligation on which the interest rate formula is based (for example, if the applicable pricing supplement for a note specifies LIBOR (as defined below) as the interest rate index and three months as the *index maturity*, we would pay interest on the note based on LIBOR for three-month U.S. dollar deposits);

the frequency of changes of the interest rate on the note (i.e., daily, weekly, monthly, quarterly, semi-annually or annually);

the *interest determination dates*, which are the dates as of which the calculation agent will determine the new interest rate. For each note for which an interest determination date is set forth, the relevant interest rate or other factor will be determined by the calculation agent as of that date and will take effect

on the corresponding reset date or another date as indicated in the related pricing supplement. If no interest determination date is specified, the interest determination date will be as follows:

for commercial paper, the business day before each reset date;

for LIBOR, the second London and New York City business day before each reset date;

for the 91-day Treasury bill rate, the day on which Treasury bills would normally be auctioned during the week in which the reset date falls. Treasury bills are usually sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is usually held on the following Tuesday, unless the auction is held on the preceding Friday. If the auction is held on the preceding Friday, that Friday will be the interest determination date pertaining to the reset date occurring in the next week; and

for the prime rate, the same day as the reset date;

the reset dates , which are the dates on which the interest rate will change; and

the accrual method for interest on the note.

Each floating rate note may also have the following terms, which will be set forth in the pricing supplement for that note, if applicable:

the spread , which is the number of basis points that the calculation agent will add to or subtract from the interest rate determined for a particular interest determination date (for example, if a note bears interest at the 91-day Treasury bill rate plus .01%, and the calculation agent determines that the 91-day Treasury bill rate is 3.00% per year, the note will bear interest at 3.01% per annum until the next reset date); and

any maximum interest rate or minimum interest rate.

Calculation of Interest. The calculation agent will round all percentages resulting from any interest rate calculations to the nearest one hundred-thousandth of a percentage point, if necessary, with five millionths of a percentage point rounded upward (for example, the calculation agent will round 3.123445% to 3.12345%). The calculation agent will also round all U.S. dollar amounts used in or resulting from such calculations to the nearest cent (with one-half cent being rounded upward).

We may reset the interest rate on your floating rate notes on a daily, weekly, monthly, quarterly, semi-annual, annual or on some other basis specified in the applicable pricing supplement. If you own a floating rate note, you may ask the EdNotes trustee to provide you with the current interest rate at any time. You may also ask the EdNotes trustee to provide you with the interest rate that will apply as of the next reset date. The EdNotes trustee will provide you with that interest rate if the calculation agent has determined the rate and has notified the EdNotes trustee of that calculation. Initially, the company will act as the calculation agent on behalf of the EdNotes trustee. The determination of any interest rate will be final and binding unless it is clearly wrong.

Payments on Floating Rate Notes. If any maturity date, redemption date or repayment date falls on a day that is not a business day, we will make the required payment of principal, premium, if any, or interest on the next business day as if made on the date the payment was due. No interest will accrue on that payment for the period from and after the maturity date, redemption date or repayment date to the date of payment.

If an interest payment date for any floating rate note (but not the maturity date, redemption date or repayment date on exercise of a survivor's option) falls on a day that is not a business day, the interest period end date will be adjusted and we will make the required payment of interest on the next business day. Interest will accrue on that payment for the period from the scheduled interest payment date to the date of payment except where the interest rate on your notes is based upon the 91-day Treasury bill rate. Unless the pricing supplement for your notes indicates otherwise, if the interest rate on your notes is based upon the 91-day Treasury bill rate, there will be no adjustment to the interest payment dates and interest will be paid on the next business day as if made on the date the payment was due. In all cases, an interest payment date that falls on a maturity date will not be changed.

Lock-in Periods. Any floating rate note may have a lock-in period. Lock-in period means the period from and including the day specified as the first day of that lock-in period to but excluding the next interest payment date (or, for the final interest period, the maturity date or date set for redemption or repayment on exercise of a survivor's option). The interest rate or other calculation in effect on that lock-in period start date will be the rate or other such calculation in effect for the remainder of such interest period.

Indices. The following describes the most common interest rate indices that we may use and the procedures to determine interest rates for the notes based on each index.

Commercial Paper Rate. Unless otherwise specified in the pricing supplement for your notes, the commercial paper rate for any relevant interest determination date will be the bond equivalent yield of the rate for commercial paper having the index maturity specified in the pricing supplement, as published in H.15(519) prior to 3:00 p.m., New York City time, on the calculation date pertaining to that interest determination date under the heading Commercial Paper Financial . H.15(519) is the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the United States Federal Reserve System.

The calculation agent will observe the following procedures if the commercial paper rate cannot be determined as described above:

If the rate described above is not published in H.15(519) prior to 3:00 p.m., New York City time, on that calculation date, unless the calculation is made earlier and the rate was available from that source at that time, then the commercial paper rate will be the bond equivalent yield of the rate on the relevant interest determination date, for commercial paper having the index maturity specified in the pricing supplement.

S-12

ing supplement, as published in H.15 Daily Update or any other recognized electronic source used for displaying that rate under the heading Commercial Paper Financial . H.15 Daily Update is the daily update for H.15(519), available through the world wide web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/h15/update>, or any successor site or publications. Unless the pricing supplement for your notes specifies otherwise, the bond equivalent yield will be calculated as follows:

$$\text{Bond Equivalent Yield} = \frac{N \times D}{360 - (D \times 90)} \times 100$$

where D refers to the per annum rate determined as set forth above, quoted on a bank discount basis and expressed as a decimal and N refers to 365 or 366, as the case may be.

If the rate described in the prior paragraph cannot be determined, the commercial paper rate will remain the commercial paper rate then in effect on that interest determination date.

Except where stated otherwise in the pricing supplement for your note, the commercial paper rate will be subject to a lock-in period of six New York business days.

Unless the pricing supplement for your commercial paper rate based notes states otherwise, interest on that type of note will be calculated using an Actual/Actual (payment basis) accrual method which means that interest shall be calculated on the basis of the actual number of days elapsed in an interest period divided by a year of 365 days, or 366 days if the applicable interest period ends in a leap year.

LIBOR. Unless otherwise specified in the pricing supplement for your notes, LIBOR , which is the London interbank offered rate for U.S. Dollar deposits, for any interest determination date, will be the rate for U.S. Dollar deposits having the index maturity specified in your pricing supplement, as that rate appears on Moneyline Telerate page 3750 of the Moneyline Telerate Service, or any successor display page or service, as of 11:00 a.m., London time, on the relevant interest determination date.

If Moneyline Telerate page 3750 by its terms provides only for a single rate, that single rate will be used. If the pricing supplement for your notes does not specify the related interest determination date, the determination date for your notes will be the day that is two London and New York City business days before the relevant date.

On any interest determination date, if no rate appears on Moneyline Telerate page 3750, then the calculation agent will determine LIBOR as follows:

LIBOR will be determined on the basis of the offered rates at which

U.S. dollar deposits having the relevant index maturity, beginning on the relevant reset date in that market at that time are offered by four major banks in the London interbank market at approximately 11:00 a.m., London time, on that interest determination date to leading banks in the London interbank market. The calculation agent will select the four banks and request the principal London office of each of those banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for that determination date will be the average of those quotations.

If fewer than two quotations are provided as described above, LIBOR will be the average of the rates quoted by three major banks at approximately 11:00 a.m., in New York City, on that interest determination date for loans to leading European banks in the LIBOR currency in the relevant index maturity, beginning on the relevant reset date. The calculation agent will select the three banks referred to above.

If fewer than three banks selected by the calculation agent are quoting as mentioned above, LIBOR will remain LIBOR then in effect on that interest determination date.

Unless the pricing supplement for your LIBOR based floating rate notes states otherwise, interest on that type of note will be calculated using an Actual/360 accrual method, which means that interest will be calculated on the actual number of days elapsed in an interest period and an assumed year of 360 days.

Prime Rate. Unless otherwise specified in the pricing supplement for your notes, the prime rate for any relevant interest determination date is the prime rate or base lending rate on that date, as published in the Money Rates Table in the Credit Markets Section of The Wall Street Journal, on the calculation date pertaining to that interest determination date under the heading Prime Loan.

The calculation agent will observe the following procedures if the prime rate cannot be determined as described above:

If the rate described above is not published in The Wall Street Journal on the relevant calculation date, then the prime rate will be the rate for that interest determination date, as published in H.15(519) on that calculation date under the heading Bank Prime Loan.

If the rate described above is not published in H.15(519) on the relevant calculation date, unless the calculation was made earlier and the rate was available from that source at that time, then the prime rate will be the rate for that interest determination date, as published in H.15 Daily Update or another recognized electronic source for displaying such rate opposite the caption Bank Prime Loan.

If the above rate is not published in either H.15(519), H.15 Daily Update or another recognized electronic source for displaying such rate by 3:00 p.m., New York City time, on the calculation date, then the calculation agent will determine the prime rate to be the average of the rates of interest publicly announced by each bank that appears on the Reuters Money Market Rates Service Reuters Screen designated as USPRIME1 as that bank's prime rate or base lending rate as in effect on that interest determination date.

If no rates appear on the Reuters Screen USPRIME1 page on the relevant interest determination date, then the prime rate will be the average of the prime rates or base lending rates quoted, on the basis of the actual number of days elapsed in an interest period divided by a 360-day year, as of the close of business on that interest determination date by three major banks in New York City selected by the calculation agent.

If the banks selected by the calculation agent are not quoting as mentioned above, the prime rate will remain the prime rate then in effect on that interest determination date.

Unless the pricing supplement for your prime rate based floating rate notes states otherwise, interest on that type of note will be calculated using an Actual/Actual (payment basis) accrual method.

91-Day Treasury Bill Rate. Unless otherwise specified in the pricing supplement for your notes, 91-day Treasury bill rate for any relevant interest determination date will be the rate equal to the weighted average per annum discount rate (expressed as a bond equivalent yield and applied on a daily basis) for direct obligations of the United States with a maturity of thirteen weeks, i.e. 91-day Treasury bills, sold at the applicable 91-day Treasury bill auction, as published in H.15(519) or otherwise or as reported by the U.S. Department of the Treasury.

In the event that the results of auctions of 91-day Treasury bills cease to be published or reported as provided above, or that no 91-day Treasury bill auction is held in a particular week, then the 91-day Treasury bill rate in effect as a result of the last such publication or report will remain in effect until such time, if any, as the results of auctions of 91-day Treasury bills will again be so published or reported or such auction is held, as the case may be.

Except where stated otherwise in the pricing supplement for your note, the 91-day Treasury bill rate will be subject to a lock-in period of six business days.

Unless the pricing supplement for your 91-Day Treasury bill rate based floating rate notes states otherwise, interest on that type of note will be calculated using an Actual/Actual (payment basis) accrual method.

Discount Notes

We may from time to time offer notes that have an issue price, as specified in the applicable pricing supplement, which is less than 100% of the principal amount of the note payable at maturity, and that are designated as discount notes. Discount notes may bear interest at a rate that is below market rates at the time of issuance. The difference between the issue price of a discount note and its principal amount at maturity is referred to as the discount. In the event of redemption or repayment of a discount note, the amount payable to the holder of a discount note will be equal to the sum of the issue price, increased by any accruals of discount, and any unpaid interest accrued on the discount notes to the date of the redemption or repayment, as the case may be. The pricing supplement for your notes will describe the calculation method for any accruals of discount.

Redemption

Unless we otherwise provide in the applicable pricing supplement, the notes will not be redeemable prior to the maturity date.

If the pricing supplement states that the notes will be redeemable at our option prior to their maturity date, then on or after such date or dates specified in the pricing supplement, we may redeem any of those notes either in whole or from time to time in part, upon not less than five nor more than 60 days notice to the holder of the notes. Exercise of the redemption option by the holder of a note is irrevocable.

Since the notes will be represented by a global note, DTC or its nominee will be treated as the holder of the notes, therefore, DTC or its nominee will be the only entity that receives notices of redemption of notes from us.

The actual redemption can occur on any date following delivery of a valid notice. Unless otherwise specified in the pricing supplement, the redemption price will equal 100% of the principal amount of the note plus accrued interest to the date or dates of redemption.

We may at any time purchase notes at any price or prices in the open market or otherwise. We may also purchase notes otherwise tendered for repayment by a beneficial owner's duly authorized representative pursuant to the survivor's option described in the next paragraph, at the price set forth in the second succeeding paragraph. If we purchase the notes in this manner, we have the discretion to either hold, resell or surrender the notes to the EdNotes trustee for cancellation.

Repayment upon Death Survivor's Option

If the pricing supplement relating to a note so states, a representative of the deceased beneficial owner of the note will have the right to request repayment of the note prior to its maturity date upon the death of the beneficial owner, provided that this right may not be exercised until at least 12 months following the date of the original issuance of the applicable note, as described below. We call this right the survivor's option.

Upon exercise of the survivor's option, we will, at our option, either repay or purchase any note properly delivered for repayment by or on behalf of the person that has authority to act on behalf of the deceased beneficial owner of the note at a price equal to the sum of:

100% of the principal amount of such note, and

S-16

accrued and unpaid interest, if any, to the date of such repayment, subject to the following limitations.

In addition, we may limit the aggregate principal amount of notes as to which the survivor's option may be exercised as follows:

In any calendar year, we may limit the aggregate principal amount to the greater of (i) 1% of the outstanding aggregate principal amount of EdNotes having the survivor's option right as of December 31 of the most recently completed calendar year or (ii) \$1,000,000. We call this limitation the annual put limitation.

For any individual deceased beneficial owner of notes, we may limit the aggregate principal amount to \$200,000 for any calendar year. We call this limitation the individual put limitation.

We will not make principal repayments pursuant to the exercise of the survivor's option in amounts that are less than \$1,000 or in amounts other than multiples of \$1,000. If the limitations described above would result in the partial repayment of any note, the principal amount of the note remaining outstanding after repayment must be at least \$1,000.

Each note delivered pursuant to a valid exercise of the survivor's option will be accepted promptly in the order all such notes are delivered, unless the acceptance of that note or a portion of the note would contravene the annual put limitation or the individual put limitation. If, as of the end of any calendar year, the aggregate principal amount of notes that have been accepted pursuant to exercise of the survivor's option during that year has not exceeded the annual put limitation for that year, any notes, or portions of notes, not accepted during that calendar year because of the individual put limitation may be accepted in the order all such notes, or portions of notes, were delivered, to the extent that any such acceptance would not trigger the annual put limitation for such calendar year.

Any note or portion of a note accepted for repayment pursuant to an exercise of the survivor's option will be repaid on the earliest of each June 15 and December 15 of the year in which the exercise is accepted as long as that date is at least 20 calendar days after the date of acceptance. If that date is not a business day, payment will be made on the next succeeding business day. Each note or portion of a note delivered for repayment that is not accepted in any calendar year due to the application of the annual put limitation or the individual put limitation will be deemed to be delivered in the following calendar year in the order in which all such notes were originally delivered, unless any such note or portion of a note is withdrawn by the representative for the deceased beneficial owner.

In the event that a note or portion of a note delivered for repayment pursuant to valid exercise of the survivor's option is not accepted because of the application of the annual put limitation or the individual put limitation, the EdNotes trustee will deliver a notice by first-class mail to the representative of the deceased beneficial owner that states the reason that the note or portion of a note has not been accepted for repayment. Following receipt of such notice from the EdNotes trustee, the representative for the deceased beneficial owner may withdraw its exercise for the survivor's option by notice in writing to the EdNotes trustee, but only with

respect to the portion of such note that was not paid because of the application of the annual put limitation or the individual put limitation, as long as such withdrawal is received by the EdNotes trustee on the earlier of (i) 90 days from the date of receipt by the representative for the deceased beneficial owner of notice from the EdNotes trustee that the note or a portion of the note will not be accepted for repayment or (ii) the regular record date for the next scheduled interest payment date, if any, on the notes. Other than as described in the immediately preceding sentence, notes delivered upon exercise of the survivor's option may not be withdrawn.

All questions as to the eligibility or validity of any exercise of the survivor's option will be determined by us in our sole discretion. Our determination will be final and binding on all parties. The survivor's option may only be exercised by the representative of a deceased beneficial owner. After the transfer of the beneficial interest under the laws of descent and distribution, the survivor's option no longer may be exercised by such representative.

The death of a person owning a note in joint tenancy or tenancy by the entirety will be deemed the death of the beneficial owner of the note, and the entire principal amount of the note so held will be subject to the survivor's option. The death of a person owning a note by tenancy in common will be deemed the death of the beneficial owner of a note only with respect to the deceased holder's interest in the note so held by tenancy in common. However, if a note is held by husband and wife as tenants in common, the death of either will be deemed the death of the beneficial owner of the note, and the entire principal amount of the note so held will be subject to the survivor's option. The death of person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note will be deemed the death of the beneficial owner for purposes of the survivor's option, regardless of the registered holder, if such beneficial interest can be established to the satisfaction of the EdNotes trustee and us. Such beneficial interest will be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife and trust arrangements where one person has substantially all of the beneficial ownership interest in the note during his or her lifetime.

In the case of repayment pursuant to the exercise of the survivor's option for notes represented by a global security, DTC or its nominee will be the holder of such note. Therefore, DTC or its nominee will be the only entity that can exercise the survivor's option for such note, and the broker or other entity through which a beneficial interest in a note is held must give instructions to DTC and the EdNotes trustee.

In such event, the representative must provide the following information to the broker or other entity through which the beneficial interest in the global security is held by the deceased owner, with a copy to us and to the EdNotes trustee:

appropriate evidence satisfactory to us and the EdNotes trustee that (i) the representative of the deceased beneficial owner has authority to act on behalf of the deceased beneficial owner, (ii) the death of the beneficial owner has occurred, and (iii) the deceased was the

owner of a beneficial interest in the global security at the time of death;

the deceased's social security number or other taxpayer identification number;

a written request for repayment signed by the representative of the deceased beneficial owner, with such information as the broker or other entity requests, and with the signature guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. otherwise known as the NASD, or a commercial bank or trust company having an office or correspondent in the United States;

instructions to the broker or other entity to notify DTC of its desire to obtain repayment pursuant to exercise of the survivor's option; and

a detailed description of the note, including the CUSIP number and the date the note was issued.

The broker or other entity will provide to the EdNotes trustee:

a written request for repayment signed by that broker or other entity in substantially the form attached as Annex A of this prospectus supplement, a copy of which may be obtained from the EdNotes trustee at its corporate trust office located at 280 Park Avenue, New York, NY 10017, attention: Corporate Trust and Agency Services; and

a certificate or letter satisfactory to us and to the EdNotes trustee from the broker or other entity stating that it represents the deceased beneficial owner, and describing the deceased's beneficial owner's interest in the global security.

The broker or other entity will be responsible for disbursing any payments it receives pursuant to exercise of the survivor's option to the appropriate representative of the deceased beneficial owner. See Registration and Settlement beginning on page S-19.

In order to validly exercise a survivor's option for a certificated note (other than a global note) the representative of the deceased beneficial owner must deliver to the EdNotes trustee the same information, described above, to be delivered upon exercise of a survivor's option for a beneficial interest in a global security, to the broker or other entity for exercise of such right for a global note (other than instructions to notify DTC), plus the note, a properly executed assignment of the note, and evidence of beneficial ownership of any note held in nominee name.

REGISTRATION AND SETTLEMENT

The Depository Trust Company

Our EdNotes will be issued in book-entry form only. This means that we will not issue certificates to evidence the notes. Instead, we will issue global notes in registered form and each such note is referred to as a global note. Each global note will be deposited with, or on behalf of, DTC and will be registered in the name of Cede & Co., as nominee of DTC. Accordingly, Cede & Co. will be the holder of

record of the notes. Each note represents a beneficial interest in that global note.

Beneficial interests in a global note will be shown on, and transfers are effected through, records maintained by DTC or its participants. In order to own a beneficial interest in a note, you must be an institution that has an account with DTC or have a direct or indirect account with such an institution. Transfers of ownership interests in the notes will be accomplished by making entries in DTC participants' books acting on behalf of beneficial owners.

So long as DTC or its nominee is the registered owner of a global note, DTC or its nominee, as the case may be, will be the sole holder of the notes represented thereby for all purposes, including payment of principal and interest, under the indenture. Except as otherwise provided below, you will not be entitled to receive physical delivery of certificated notes and will not be considered the holders for any purpose under the indenture. Accordingly, you must rely on the procedures of DTC and the procedures of the DTC participant through which you own your note in order to exercise any rights of a holder of a note under the indenture. The laws of some jurisdictions require that certain purchasers of notes take physical delivery of notes in certificated form. Those limits and laws may impair the ability to transfer beneficial interests in the notes.

DTC will act as securities depository for our EdNotes. The notes will be issued as fully-registered notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Generally, one fully registered global note will be issued for all of the principal amount of the notes. If, however, the aggregate principal amount of the notes exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such note.

Each global note representing EdNotes will be exchangeable for certificated notes of like tenor and terms and of differing authorized denominations in a like aggregate principal amount, only if (1) DTC notifies us that it is unwilling or unable to continue as depository for the global notes or we become aware that DTC has ceased to be a clearing agency in good standing or registered under the Securities Exchange Act of 1934 or other applicable statute or regulation and, in any such case we fail to appoint a successor to DTC within 90 calendar days after we become aware of such condition or (2) we, in our sole discretion, determine that the global notes shall be exchangeable for certificated notes. Upon any such exchange, the certificated notes shall be registered in the names of the beneficial owners of the global note representing our EdNotes.

The following is based on information furnished by DTC:

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants deposit with DTC.

DTC also facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in direct participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its direct and indirect participants are on file with the SEC.

Purchases of the notes under the DTC system must be made by or through direct participants, which will receive a credit for the notes on DTC's records. The beneficial interest of each actual purchaser of each note will in turn be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of beneficial interests in the notes will be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their beneficial interests in notes, except in the event that use of the book-entry system for the notes is discontinued.

To facilitate subsequent transfers, all notes deposited by direct participants with DTC will be registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the direct participants to whose accounts such notes will be credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of the notes may wish to take certain steps to augment transmission to them of notices of significant events with respect to the notes, such as redemption, tenders, defaults, and proposed amendments to the security documents. Beneficial owners of the notes may wish to ascertain that the nominee holding the notes for their benefit has agreed to obtain and transmit notices to beneficial owners, or in the alternative, beneficial owners may wish to provide their names and addresses to the

registrar and request that copies of the notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any such other DTC nominee) will consent or vote with respect to the notes. Under its usual procedures, DTC mails an omnibus proxy to us as soon as possible after the regular record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the notes are credited on the regular record date (identified in a listing attached to the omnibus proxy).

We will pay principal and any premium or interest payments on the notes in immediately available funds directly to DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such date. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name. These payments will be the responsibility of these participants and not of DTC or any other party, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of principal and any premium or interest to DTC is our responsibility, disbursement of such payments to direct participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of the direct or indirect participant.

We will send any redemption notices to Cede & Co. If less than all of the notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in such issue to be redeemed. DTC may discontinue providing its services as securities depository for the notes at any time by giving us reasonable notice. Under such circumstances, if a successor securities depository is not obtained, we will print and deliver certificated notes.

The information in this section concerning DTC and DTC's system has been obtained from sources that we believe to be reliable, but we take no responsibility for its accuracy.

Registration, Transfer and Payment of Certificated Notes

If we ever issue any of our EdNotes in certificated form, those notes may be presented for registration, transfer and payment at the office of the registrar or at the office of any transfer agent designated and maintained by us. We have originally designated Deutsche Bank Trust Company Americas to act in those capacities for the notes. The registrar or transfer agent will make the transfer or registration only if it is satisfied with the documents of title and identity of the person making the request. There will not be a service charge for any exchange or registration of transfer of the notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange. At any time we may change transfer agents or approve a change in the location through which any transfer agent acts. We also may designate additional transfer agents for any notes at any time.

We will not be required to (1) issue, exchange or register the transfer of any note to be redeemed for a period of 15 days after the

selection of the notes to be redeemed or (2) exchange or register the transfer of any note that was selected, called or is being called for redemption, except the unredeemed portion of any note being redeemed in part.

We will pay principal and any premium and interest on any certificated notes at the offices of the paying agents we may designate from time to time. Generally, we will pay interest on a note on any interest payment date to the person in whose name the note is registered at the close of business on the regular record date for that payment.

U.S. FEDERAL TAX CONSEQUENCES TO U.S. HOLDERS

The following general summary describes the principal United States Federal income and estate tax consequences of the ownership and disposition of the notes. This summary provides general information only and, except where otherwise noted, is directed solely to original holders who are U.S. Holders that hold the notes as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, referred to as the Code .

The following summary does not purport to discuss the United States Federal income tax consequences that may apply to particular investors subject to special rules, such as partnerships or other entities treated as partnerships for United States Federal income tax purposes, financial institutions, insurance companies, tax-exempt entities, persons liable for alternative minimum tax, regulated investment companies, dealers in securities or currencies, traders in securities that elect to use a mark to market method of accounting, persons holding notes as part of a hedging, integrated, conversion or constructive sale transaction, or as a position in a straddle for tax purposes, U.S. persons whose functional currency is not the United States dollar, persons who have ceased to be United States citizens or to be taxed as resident aliens or, except as indicated, persons that are not U.S. Holders. In addition, the tax consequences of holding a particular note will depend, in part, on the particular terms of that note.

Holders of notes are advised to consult their own tax advisors with regard to the application of the United States Federal income and estate tax laws to their particular situations as well as any tax consequences of the purchase, beneficial ownership and disposition of the notes arising under the laws of any state, local or foreign tax jurisdiction.

This summary is based on the Code, United States Treasury Regulations (including proposed and temporary regulations) promulgated under the Code, rulings, official pronouncements and judicial decisions as of the date of this prospectus supplement. The authorities on which this summary is based are subject to change or differing interpretations, which could apply retroactively, so as to result in tax consequences different from those discussed below.

For purposes of the following discussion, the term U.S. Holder means a beneficial owner of a note that is:

- (1) for United States Federal income tax purposes a citizen or resident of the United States;

S-23

(2) a corporation (or other entity properly classified as a corporation for United States Federal income tax purposes) created or organized in the United States or under the laws of the United States or any state (including the District of Columbia);

(3) an estate, the income of which is subject to United States Federal income taxation regardless of its source;

(4) a trust, if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (b) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person; or

(5) any other holder whose income with respect to a note is effectively connected with such holder's conduct of a United States trade or business.

If a partnership (including any entity that is treated as a partnership for U.S. Federal income tax purposes) is a beneficial owner of a note, the treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A beneficial owner of a note that is a partnership, and partners in such a partnership, should consult their tax advisors about the U.S. Federal income tax consequences of holding and disposing of the notes.

Payment of Interest

Stated interest on a note will generally be taxable to a U.S. Holder as ordinary interest income at the time it is accrued or received in accordance with the U.S. Holder's regular method of accounting for tax purposes.

Original Issue Discount

A note will be treated as issued with original issue discount if the excess of its stated redemption price at maturity over its issue price equals or exceeds a *de minimis* amount equal to 1/4 of 1 percent of its stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date. It is expected that some notes will be issued with original issue discount that meets this *de minimis* test. Generally, the issue price of a note should be the first price at which a substantial amount of notes included in the issue of which the note is a part is sold to other than bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The stated redemption price at maturity of a note is the total of all payments to be made under the note other than qualified stated interest (generally, stated interest that is unconditionally payable in cash or property, at least annually, at a single fixed rate or at certain floating rates that properly take into account the length of the interval between stated interest payments) and is expected to equal the principal amount of the related note. Any amount not treated as original issue discount because it is *de minimis* original issue discount must be included in income (generally as gain from the sale of that note) as principal payments are received on the related note in the proportion that each such payment bears to the original principal amount of the note.

If the notes were treated as issued with original issue discount in excess of the *de minimis* amount, a U.S. Holder would be

required to include original issue discount in income before the receipt of cash attributable to such income using the constant-yield method. The amount of original issue discount includible in income is the sum of the daily portions of original issue discount with respect to the related note for each day during the taxable year or portion of the taxable year in which the U.S. Holder holds such note. The amount of original issue discount includible in income by a U.S. Holder would be computed by allocating to each day during a taxable year a pro rata portion of the original issue discount that accrued during the relevant accrual period. Such original issue discount would generally equal the product of the yield to maturity of the related note (adjusted for the length of the related accrual period) and its adjusted issue price at the beginning of the accrual period, reduced by any payments of qualified stated interest. For these purposes, accrual periods with respect to a note may be any set of periods (which may be of varying lengths) as long as (1) no accrual period is longer than one year and (2) each scheduled payment of interest or principal on the note occurs on either the final or first day of an accrual period. The adjusted issue price of a note will be the sum of its issue price plus prior accruals of original issue discount, reduced by the total payments made with respect to such note in all prior periods, other than qualified stated interest payments.

Acquisition and Bond Premium

A U.S. Holder who purchases a note issued at an original issue discount for an amount exceeding its adjusted issue price (as defined above) and less than or equal to the sum of all amounts payable on the note after the purchase date other than payments of qualified stated interest will be treated as having purchased the note with acquisition premium. The amount of original issue discount which such holder must include in gross income with respect to such note will be reduced in the proportion that the excess bears to the original issue discount remaining to be accrued as of the note's acquisition.

If a U.S. Holder purchases a note for an amount that is greater than the principal amount of the note, such holder will be considered to have purchased such note with amortizable bond premium equal in amount to such excess. A U.S. Holder may elect (in accordance with applicable Code provisions) to amortize such premium over the remaining term of the note (where such note is not redeemable prior to its maturity date), based on the U.S. Holder's yield to maturity with respect to the note.

A U.S. Holder generally may use the amortizable bond premium allocable to an accrual period to offset interest required to be included in the U.S. Holder's income with respect to the note in that accrual period. If the amortizable bond premium allocable to an accrual period exceeds the amount of interest allocable to the same accrual period, that excess would be allowed as a deduction for such accrual period, but only to the extent of the U.S. Holder's prior interest inclusions on the note that have not been offset previously by bond premium. Any excess is generally carried forward and allocable to the next accrual period.

If a note acquired with amortizable bond premium may be redeemed by us prior to maturity after the U.S. Holder has acquired it,

the amount of amortizable bond premium is determined with reference to either the amount payable on maturity or, if it results in a smaller premium attributable to the period through the earlier redemption date, with reference to the amount payable on the earlier redemption date. A U.S. Holder who elects to amortize bond premium must reduce his tax basis in the note as described under "Sale, Exchange or Redemption of the Notes" below.

An election to amortize bond premium applies to all taxable debt obligations held by the U.S. Holder at the beginning of the first taxable year to which the election applies and thereafter acquired by the U.S. Holder and may be revoked only with the consent of the Internal Revenue Service (the "IRS").

Market Discount

If a U.S. Holder purchases a note for an amount that is less than the note's issue price (increased by previously accrued original issue discount, if any), the amount of the difference will be treated as "market discount" for United States Federal income tax purposes, unless such difference is less than a specified *de minimis* amount. Under the market discount rules, a U.S. Holder will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a note as ordinary income to the extent of the market discount which has not previously been included in income. In addition, a U.S. Holder may be required to defer, until the maturity of the note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such note. Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the note, unless the U.S. Holder elects to accrue the discount on a constant-yield method. A U.S. Holder of a note may elect to include market discount in income currently as it accrues (on either a ratable or constant-yield method), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

Election to Treat All Interest as Original Issue Discount (Constant Yield Election)

A U.S. Holder of a note may elect to include in income all interest and discount, as adjusted by any premium with respect to such note based on a constant yield method, as described above. The election is made for the taxable year in which the U.S. Holder acquired the note, and may not be revoked without the consent of the IRS. If such election is made with respect to a note having amortizable bond premium, the holder will be deemed to have elected to amortize premium generally with respect to all debt instruments having amortizable bond premium held by the taxpayer during the year of election or thereafter. If the election is made with respect to a note having market discount, the holder will be deemed to have elected to currently include market discount on a constant yield basis with respect to all debt instruments having market discount acquired during the year of election or thereafter.

Short-Term Notes

Notes that have a fixed maturity of one year or less (Short-Term Notes) will be treated as having been issued with original issue discount. In general, an individual or other cash method U.S. Holder is not required to accrue such original issue discount unless the U.S. Holder elects to do so. If such an election is not made, any gain recognized by the U.S. Holder on the sale, exchange or redemption at maturity of the Short-Term Note will be ordinary income to the extent of the original issue discount accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of sale or maturity, and a portion of the deduction otherwise allowable to the U.S. Holder for interest on borrowings allocable to the Short-Term Note will be deferred until a corresponding amount of income is realized. U.S. Holders who report income for United States Federal income tax purposes under the accrual method, and certain other holders including banks and dealers in securities, are required to include original issue discount on a Short-Term Note in income currently on a straight-line basis unless an election is made to accrue the original issue discount under a constant yield method (based on daily compounding).

Sale, Exchange or Redemption of the Notes

Upon the sale, exchange or redemption of a note, a U.S. Holder will generally recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or redemption (other than amounts representing interest not previously included in income) and the U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note will generally be the U.S. dollar cost of the note to such U.S. Holder, increased by any original issue discount or market discount included in income and reduced by any principal payments received by the U.S. Holder and any amortizable bond premium used to offset interest.

In general, gain or loss realized on the sale, exchange or redemption of a note will be capital gain or loss, and will be long-term capital gain or loss if, at the time of the sale, exchange or redemption, the note has been held for more than one year. Prospective investors should consult their tax advisors regarding the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates) and losses (the deductibility of which is subject to limitation).

If a U.S. Holder disposes of only a portion of a note pursuant to a redemption or repayment (including the survivor's option, if applicable), such disposition will be treated as a pro rata prepayment in retirement of a portion of a debt instrument. Generally, the resulting gain or loss would be calculated by assuming that the original note being tendered consists of two instruments, one that is retired (or repaid), and one that remains outstanding. The adjusted issue price and the U.S. Holder's adjusted basis, determined immediately before the disposition, would be allocated between these two instruments based on the portion of the instrument that is treated as retired by the pro rata prepayment.

United States Federal Tax Consequences to Non-U.S. Holders

Under present United States Federal tax law, a holder that is not a U.S. Holder (a Non-U.S. Holder) will not be subject to United States Federal income or withholding tax on interest and principal payments on a note, including payments in respect of original issue discount, provided that (i) the holder does not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote in an election of directors, (ii) the holder is not a controlled foreign corporation for United States Federal income tax purposes that is related to us through actual or constructive stock ownership, (iii) the payment is not effectively connected to a U.S. trade or business of the holder, and (iv) certain certification requirements are met. In addition, a Non-U.S. Holder will not be subject to United States Federal income or withholding tax on any amount which constitutes capital gain upon the sale, exchange, or redemption of a note unless (i) the holder is an individual present in the United States for 183 days or more in the taxable year of the sale, exchange or redemption and certain other conditions are met, or (ii) the gain is effectively connected with the conduct of a U.S. trade or business. A Non-U.S. Holder whose income or gain with respect to a note is effectively connected with the conduct of a U.S. trade or business generally will be subject to United States Federal income tax with respect to the income or gain in the same manner as U.S. Holders, as described above. Additionally, such a Non-U.S. Holder that is a corporation could be subject to a branch profits tax on such income.

A note will not be subject to United States Federal estate tax, provided the Non-U.S. Holder does not at the time of death actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote in an election of directors, and payments of interest on the note would not have been considered U.S. trade or business income.

Backup Withholding and Information Reporting

Backup withholding and information reporting requirements may apply to certain payments of principal, premium and interest on a note, and to payments of proceeds of the sale or redemption of a note, to certain non-corporate U.S. Holders. We, our agent, a broker, the EdNotes trustee or any other paying agent, as the case may be, will be required to withhold tax at the applicable backup withholding rate (currently 30 percent and not to exceed 31 percent) from any payment if the U.S. Holder fails to furnish or certify the holder's correct taxpayer identification number (social security number or employer identification number