INTUITIVE SURGICAL INC
Form S-4
March 28, 2003

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As filed with the Securities and Exchange Commission on March 28, 2003

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Intuitive Surgical, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**3842**	**77-0416458**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

950 Kifer Road
Sunnyvale, California 94086
(408) 523-2100

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Lonnie M. Smith
President and Chief Executive Officer
Intuitive Surgical, Inc.
950 Kifer Road
Sunnyvale, California 94086
(408) 523-2100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Alan C. Mendelson, Esq.	**Robert W. Duggan**	**David E. Lafitte, Esq.**
Latham & Watkins LLP	**Chairman of the Board and**	**Stradling Yocca Carlson & Rauth, P.C.**
135 Commonwealth Drive	**Chief Executive Officer**	**302 Olive Street**
Menlo Park, California 94025	**Computer Motion, Inc.**	**Santa Barbara, California 93101**
(650) 328-4600	**130-B Cremona Drive**	**(805) 564-0065**
	Goleta, California 93117	
	(805) 968-9600	

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effectiveness of this registration statement and the satisfaction or waiver of all other conditions under the merger agreement described herein.

If the securities being registered on this form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _____

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, par value $0.001 per share(3)	20,438,802	$5.28	$107,916,875	$8,731

(1) This registration statement covers the estimated maximum number of shares of Intuitive Surgical common stock to be issued in connection with the merger described in this registration statement, calculated as (a) the quotient obtained by dividing (i) the aggregate number of shares of Intuitive Surgical common stock outstanding on a fully diluted basis as of March 21, 2003 by (ii) sixty-eight percent (68%) less (b) the aggregate number of shares of Intuitive Surgical common stock outstanding on a fully diluted basis as of March 21, 2003.

(2) Estimated solely for purposes of calculating the registration fee pursuant to Rules 457(f) and 457(c) under the Securities Act of 1933, based on $5.28, the average of the high and low prices of Intuitive Surgical common stock as reported on the Nasdaq National Market on March 21, 2003.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this joint proxy statement/ prospectus is not complete and may be changed. Intuitive Surgical may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This joint proxy statement/ prospectus is not an offer to sell these securities nor the solicitation of an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated March 28, 2003

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Intuitive Surgical, Inc. and Computer Motion, Inc. have agreed to a combination of the two companies under the terms of a merger agreement. We are proposing the merger because we believe it will benefit the stockholders of both companies by combining the strengths of the companies in operative surgical robotics, telesurgery and operating room integration to better serve hospitals, doctors and patients.

Upon completion of the merger, Computer Motion stockholders will be entitled to receive a fraction of a share of Intuitive Surgical common stock for each share of Computer Motion common stock owned as of the effective time of the merger. The fraction of a share of Intuitive Surgical common stock to be issued with respect to each share of Computer Motion common stock will be determined by a formula described in the merger agreement and this joint proxy statement/ prospectus. Based on the capitalization of Intuitive Surgical and Computer Motion and the market price of Computer Motion common stock as of the date of this joint proxy statement/ prospectus and assuming that the merger is completed on June 20, 2003, we estimate that the exchange ratio will be approximately 0.52. The exchange ratio will be adjusted proportionately in the event that the proposed reverse split of Intuitive Surgical s common stock is approved by Intuitive Surgical s stockholders and implemented by Intuitive Surgical s board of directors. After , 2003, stockholders may visit Intuitive Surgical s website, *www.intuitivesurgical.com*, or Computer Motion s website, *www.computermotion.com*, for announcements regarding the exchange ratio. Stockholders of Intuitive Surgical will continue to own their existing shares.

Based on the estimated exchange ratio of approximately 0.52, we estimate that, on a pre-reverse split basis, Intuitive Surgical will issue approximately 14.7 million shares of Intuitive Surgical common stock in the merger and reserve an additional approximately 5.7 million shares of Intuitive Surgical common stock for future issuance in connection with Intuitive Surgical s assumption of Computer Motion s outstanding options and warrants (including out-of-the-money options and warrants).

Intuitive Surgical common stock is traded on the Nasdaq National Market under the trading symbol ISRG. On March 27, 2003, Intuitive Surgical common stock closed at $5.78 per share as reported on the Nasdaq National Market.

The merger cannot be completed unless Intuitive Surgical stockholders approve the issuance of shares of Intuitive Surgical common stock pursuant to the merger agreement and Computer Motion stockholders approve and adopt the merger agreement. The obligations of Intuitive Surgical and Computer Motion to complete the merger are also subject to the satisfaction or waiver of several conditions. More information about Intuitive Surgical, Computer Motion and the merger, as well as additional business to be conducted at the Intuitive Surgical stockholder meeting, is contained in this joint proxy statement/ prospectus. **We encourage you to read this joint proxy statement/ prospectus, including the section entitled Risk Factors beginning on page 19, before voting.**

The board of directors of Intuitive Surgical has approved the merger agreement and the issuance of shares of Intuitive Surgical common stock pursuant to the merger agreement. The board of directors of Computer Motion has approved the merger agreement. Intuitive Surgical s board of directors unanimously recommends that Intuitive Surgical stockholders vote **FOR** the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement. Computer Motion s board of directors unanimously recommends that Computer Motion stockholders vote **FOR** the proposal to approve and adopt the merger agreement.

Intuitive Surgical and Computer Motion have each scheduled a stockholder meeting in connection with the respective votes required. Your vote is very important. Whether or not you plan to attend your respective company s stockholder meeting, please take the time to vote by marking your votes on the enclosed proxy card, signing and dating the proxy card, and returning it to your respective company in the enclosed envelope.

Sincerely,

LONNIE M. SMITH
President and Chief Executive Officer
Intuitive Surgical, Inc.

Sincerely,

ROBERT W. DUGGAN
Chairman of the Board and
Chief Executive Officer

Computer Motion, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this joint proxy statement/ prospectus or determined if this joint proxy statement/ prospectus is truthful or complete. Any representation to the contrary is a criminal offense. This joint proxy statement/ prospectus is dated , 2003, and is first being mailed to Intuitive Surgical and Computer Motion stockholders on or about , 2003.

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INTUITIVE SURGICAL, INC.

950 Kifer Road
Sunnyvale, California 94086

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON , 2003

To the Stockholders of Intuitive Surgical, Inc.:

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of Intuitive Surgical, Inc. will be held at the Summerfield Suites by Wyndham, 900 Hamlin Court, Sunnyvale, California 94086 on at a.m., local time, for the following purposes:

1. to approve the issuance of shares of Intuitive Surgical common stock, par value $0.001 per share, pursuant to the Agreement and Plan of Merger, dated as of March 7, 2003, by and among Intuitive Surgical, Intuitive Merger Corporation, which is a wholly owned subsidiary of Intuitive Surgical, and Computer Motion, Inc.;

2. to approve an amendment to Intuitive Surgical s Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split of Intuitive Surgical s common stock;

3. to elect three Class III members of the board of directors of Intuitive Surgical to serve until the annual meeting of stockholders of Intuitive Surgical to be held in 2006 and until their successors are elected and qualified;

4. to approve an amendment to Intuitive Surgical s 2000 Non-Employee Directors Stock Option Plan to increase the annual stock option grant for non-employee directors from 5,000 to 10,000 shares, to provide for an additional annual grant of options to purchase 5,000 shares to committee chairs and to amend the automatic share increase provision, subject to adjustment in the event that the proposed reverse stock split is approved by Intuitive Surgical s stockholders and implemented by Intuitive Surgical s board of directors;

5. to ratify the selection of Ernst & Young LLP as the independent auditors of Intuitive Surgical for the current fiscal year ending December 31, 2003; and

6. to transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

Please refer to the attached joint proxy statement/prospectus, which forms a part of this Notice and is incorporated herein by reference, for further information with respect to the business to be transacted at the annual meeting.

Stockholders of record at the close of business on , which we refer to as the record date, are entitled to notice of, and to vote at, the annual meeting or any adjournment or postponement of the annual meeting. Directors and executive officers of Intuitive Surgical owning Intuitive Surgical common stock representing approximately 7% of the Intuitive Surgical common stock outstanding as of the record date have agreed to vote their shares in favor of the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement.

The board of directors of Intuitive Surgical unanimously recommends that you vote **FOR** the proposal to approve the issuance of Intuitive Surgical common stock pursuant to the merger agreement, **FOR** the proposal to approve the amendment to Intuitive Surgical s Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split of Intuitive Surgical s common stock, **FOR** the nominees to the board of directors listed in this joint proxy statement/prospectus, **FOR** the proposal to approve the amendment to Intuitive Surgical s 2000 Non-Employee Directors Stock Option Plan and **FOR** the proposal to ratify Ernst & Young LLP as the independent auditors of Intuitive Surgical for the current fiscal year ending December 31, 2003.

The presence, in person or by proxy, of shares of Intuitive Surgical common stock representing a majority of shares of Intuitive Surgical common stock issued and outstanding on the record date will be required to establish a quorum at the annual meeting. Approval of the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement requires the affirmative vote of a majority of the total votes cast at the annual meeting by holders of Intuitive Surgical s common stock outstanding as of the record date. Approval of the proposal to amend Intuitive Surgical s Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split requires the affirmative vote of a majority of the shares of Intuitive Surgical common stock outstanding as of the record date. The candidates for director receiving the highest

number of votes, up to the number of directors to be elected, will be elected to Intuitive Surgical s board of directors. Approval of the proposal to amend Intuitive Surgical s 2000 Non-Employee Directors Stock Option Plan and the proposal to ratify Ernst & Young LLP as the independent auditors of Intuitive Surgical for the current fiscal year ending December 31, 2003 requires the affirmative vote of a majority of the shares of Intuitive Surgical common stock represented and entitled to vote at the annual meeting.

Your vote is important. Please sign, date and return the enclosed proxy card as soon as possible to make sure that your shares are represented at the annual meeting. To do so, you may complete and return the enclosed proxy card. If you are a stockholder of record of Intuitive Surgical common stock, you also may cast your vote in person at the annual meeting. If your shares are held in an account at a brokerage firm or bank, you should instruct it on how to vote your shares.

By Order of the Board of Directors,

LONNIE M. SMITH
President and Chief Executive Officer

, 2003

Please note that attendance at the annual meeting will be limited to stockholders as of the record date, or their authorized representatives, and guests of Intuitive Surgical.

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COMPUTER MOTION, INC.

130-B Cremona Drive
Goleta, California 93117

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON , 2003

To the Stockholders of Computer Motion, Inc.:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of Computer Motion, Inc. will be held at its corporate headquarters, 130-B Cremona Drive, Goleta, California 93117 on at a.m., local time, for the following purposes:

1. to approve and adopt the Agreement and Plan of Merger, dated as of March 7, 2003, by and among Intuitive Surgical, Inc., Intuitive Merger Corporation, which is a wholly owned subsidiary of Intuitive Surgical, and Computer Motion; and

2. to transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Please refer to the attached joint proxy statement/prospectus, which forms a part of this Notice and is incorporated herein by reference, or further information with respect to the business to be transacted at the special meeting.

Stockholders of record at the close of business on , which we refer to as the record date, are entitled to notice of, and to vote at, the special meeting or any adjournment or postponement of the special meeting. Directors and executive officers of Computer Motion owning Computer Motion common and preferred stock representing approximately 14% of the voting power of the Computer Motion common and preferred stock outstanding as of the record date have agreed to vote their shares in favor of the proposal to approve and adopt the merger agreement.

The board of directors of Computer Motion recommends that you vote **FOR** the proposal to approve and adopt the merger agreement.

The presence, in person or by proxy, of a majority of the votes of outstanding shares of Computer Motion common stock and preferred stock entitled to vote will be required to establish a quorum at the Computer Motion special meeting. The affirmative vote of the holders of a majority of the votes of the outstanding shares of Computer Motion common stock and preferred stock, voting together as a single class, is required to approve and adopt the merger agreement.

Your vote is important. Please sign, date and return the enclosed proxy card as soon as possible to make sure that your shares are represented at the special meeting. To do so, you may complete and return the enclosed proxy card. If you are a stockholder of record of Computer Motion common or preferred stock, you also may cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct it on how to vote your shares. If you do not vote or do not instruct your broker or bank how to vote, it will have the same effect as voting against the proposal to approve and adopt the merger agreement.

Please do not send any certificates representing your Computer Motion common stock at this time.

By Order of the Board of Directors,

LARRY REDFERN
Secretary

, 2003

Please note that attendance at the special meeting will be limited to stockholders as of the record date, or their authorized representatives, and guests of Computer Motion.

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ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about Intuitive Surgical and Computer Motion from other documents that are not included in or delivered with this joint proxy statement/prospectus. For a listing of the documents incorporated by reference into this joint proxy statement/prospectus, please see the section entitled Where You Can Find More Information.

Intuitive Surgical will provide you with copies of the information relating to Intuitive Surgical, without charge, upon written or oral request to:

Intuitive Surgical, Inc.

950 Kifer Road
Sunnyvale, California 94086
(408) 523-2100
Attention: Investor Relations

In addition, you may obtain copies of the information relating to Intuitive Surgical, without charge, by sending an e-mail to ir@intusurg.com. Furthermore, you may obtain copies of this information by making a request through the Intuitive Surgical investor relations web site, *www.intuitivesurgical.com*.

Computer Motion will provide you with copies of the information relating to Computer Motion, without charge, upon written or oral request to:

Computer Motion, Inc.

130-B Cremona Drive
Goleta, California 93117
(805) 968-9600
Attention: Investor Relations

In addition, you may obtain copies of the information relating to Computer Motion, without charge, by sending an e-mail to ir@computermotion.com. Furthermore, you may obtain copies of this information by making a request through the Computer Motion investor relations web site, *www.computermotion.com*.

In order for you to receive timely delivery of the documents in advance of the Intuitive Surgical and Computer Motion stockholder meetings, Intuitive Surgical or Computer Motion should receive your request no later than , 2003.

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QUESTIONS AND ANSWERS

Q: Why am I receiving this joint proxy statement/prospectus?

A: Intuitive Surgical and Computer Motion have agreed to combine pursuant to the terms of a merger agreement that is described in this joint proxy statement/prospectus. A copy of the merger agreement is attached to this joint proxy statement/prospectus as Annex A. In order to complete the merger, Intuitive Surgical stockholders must vote to approve the issuance of shares of Intuitive Surgical common stock pursuant to the merger agreement and Computer Motion stockholders must vote to approve and adopt the merger agreement.

Intuitive Surgical and Computer Motion will hold separate meetings of their respective stockholders to obtain these approvals. In addition to the proposal to issue shares of Intuitive common stock pursuant to the merger agreement, Intuitive Surgical stockholders will also be asked

to approve an amendment to Intuitive Surgical s Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split;

to elect three Class III members of Intuitive Surgical s board of directors;

to approve an amendment to Intuitive Surgical s 2000 Non-Employee Directors Stock Plan to increase the annual stock option grant for non-employee directors, to provide for an additional annual grant of options to committee chairs and to amend the automatic share increase provision; and

to ratify the selection of Ernst & Young LLP as Intuitive Surgical s independent auditors for the current fiscal year ending December 31, 2003.

This joint proxy statement/prospectus contains important information about the merger, the additional proposals to be considered by the stockholders of Intuitive Surgical and the stockholder meetings of Intuitive Surgical and Computer Motion, and you should read it carefully. The enclosed voting materials allow you to vote your shares without attending your stockholder meeting.

Your vote is important. We encourage you to vote as soon as possible.

Q: Why are Intuitive Surgical and Computer Motion proposing the merger?

A: We believe that the merger will provide substantial strategic and financial benefits to the stockholders of both companies. We believe that the combination will create a stronger and more competitive company that will be able to better serve the surgical community. We are proposing the merger because we believe it will benefit the stockholders of both companies by combining the strengths of the companies in operative surgical robotics, telesurgery and operating room integration to better serve hospitals, doctors and patients. The merger will also result in the dismissal of the pending patent litigations between Intuitive Surgical and Computer Motion. To review the reasons for the merger in greater detail, please see The Merger Reasons For the Merger Intuitive Surgical and The Merger Reasons For the Merger Computer Motion.

Q: What will happen in the merger?

A: The businesses of Intuitive Surgical and Computer Motion will be combined in a stock-for-stock transaction. At the closing, a newly formed, wholly owned subsidiary of Intuitive Surgical will merge with Computer Motion, with Computer Motion surviving the merger as a wholly owned subsidiary of Intuitive Surgical. In exchange for their shares of Computer Motion stock, the former stockholders of Computer Motion will receive shares of Intuitive Surgical common stock.

Q: What will I receive for my Computer Motion shares in the merger?

A: Upon completion of the merger, Computer Motion stockholders will be entitled to receive a fraction of a share of Intuitive Surgical common stock for each share of Computer Motion common stock owned as of the effective time of the merger. The fraction of a share of Intuitive Surgical common stock to be issued with respect to each share of Computer Motion common stock will be determined by a formula described in the merger agreement

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and this joint proxy statement/prospectus. Based on the capitalization of Intuitive Surgical and Computer Motion and the market price of Computer Motion common stock as of the date of this joint proxy statement/prospectus and assuming that the merger is completed on June 20, 2003, we estimate that the exchange ratio will be approximately 0.52. The exchange ratio will be adjusted proportionately in the event that the proposed reverse split of Intuitive Surgical s common stock is approved by Intuitive Surgical s stockholders and implemented by Intuitive Surgical s board of directors.

The final exchange ratio will be calculated based on the total number of fully diluted shares outstanding for Intuitive Surgical and Computer Motion (including out-of-the-money options and warrants for both companies) immediately prior to the effective time of the merger. The number of Computer Motion s fully diluted shares will vary based on the number of shares of Computer Motion common stock into which Computer Motion s Series D convertible preferred stock will be convertible and the number of shares of Computer Motion common stock which may be issued to pay accrued dividends on the Series D convertible preferred stock upon conversion. All shares of Computer Motion Series D convertible preferred stock will convert into shares of Computer Motion common stock immediately prior to the effective time of the merger. Under the terms of the Series D convertible preferred stock, in the event that the average of the closing bid prices of Computer Motion s common stock for the 20 consecutive trading days ending 15 days prior to the Computer Motion special meeting is below $1.86 per share, the conversion ratio for Computer Motion s Series D convertible preferred stock could increase. As a result, the exchange ratio in the merger may decrease and, therefore, Computer Motion common stockholders would receive a lesser number of Intuitive Surgical shares, and Computer Motion preferred stockholders would receive a greater number of Intuitive Surgical shares, in the merger. After , 2003, stockholders may visit Intuitive Surgical s website, *www.intuitivesurgical.com,* or Computer Motion s website, *www.computermotion.com,* for announcements regarding the exchange ratio. Computer Motion stockholders will receive cash in lieu of any fractional share of Intuitive Surgical common stock. Please see The Merger Agreement The Merger Consideration and Conversion of Securities.

Based on the estimated exchange ratio of approximately 0.52, we estimate that, on a pre-reverse split basis, Intuitive Surgical will issue approximately 14.7 million shares of Intuitive Surgical common stock in the merger and reserve approximately 5.7 million shares of Intuitive Surgical common stock for future issuance in connection with Intuitive Surgical s assumption of Computer Motion s outstanding options and warrants (including out-of-the-money options and warrants).

Q: What will happen to the pending litigations between Intuitive Surgical and Computer Motion?

A: In connection with the proposed merger, Intuitive Surgical and Computer Motion have obtained an immediate stay through August 31, 2003 of all proceedings in the pending litigation proceedings between the companies. As part of the stays, the courts have ceased all further activity in the cases during the period of stays and will not issue any opinions or orders on issues already submitted for decision. The stays may be terminated before, or extended beyond, August 31, 2003 under specified circumstances. In the event the merger is completed, Intuitive Surgical and Computer Motion will request dismissal with prejudice of the pending litigations.

Q: Why is Intuitive Surgical proposing to amend its Amended and Restated Certificate of Incorporation?

A: The board of directors of Intuitive Surgical believes that it is in the best interests of Intuitive Surgical to effect a 1-for-2 reverse split of Intuitive Surgical s common stock. The reverse stock split is intended to increase the marketability and liquidity of Intuitive Surgical s common stock. The Amended and Restated Certificate of Incorporation of Intuitive Surgical is being amended to effect the reverse stock split.

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Q: Who has been nominated for election to the board of directors of Intuitive Surgical?

A: The board of directors of Intuitive Surgical has nominated James A. Lawrence, Lonnie M. Smith and Richard J. Kramer, each of whom is a current director of Intuitive Surgical, for election to the board of directors. In addition, upon completion of the merger, the size of Intuitive Surgical s board of directors will be increased to nine and Robert W. Duggan, Computer Motion s Chairman and Chief Executive Officer, and Eric H. Halvorson, a member of Computer Motion s board of directors, will be appointed to Intuitive Surgical s board of directors.

Q: Why is Intuitive Surgical proposing to amend its 2000 Non-Employee Directors Stock Option Plan?

A: Intuitive Surgical is proposing to amend its 2000 Non-Employee Directors Stock Option Plan to increase the annual stock option grant for non-employee directors from 5,000 to 10,000 shares, to provide for an additional annual grant of options to purchase 5,000 shares to committee chairs and to amend the automatic share increase provision. These share amounts will be reduced proportionately in the event that the proposed reverse split of Intuitive Surgical s common stock is approved by Intuitive Surgical s stockholders and implemented by Intuitive Surgical s board of directors.

Q: Where and when are the stockholder meetings?

A: The Intuitive Surgical annual meeting will take place at the Summerfield Suites by Wyndham, 900 Hamlin Court, Sunnyvale, California 94086, on , 2003, at a.m., local time.

The Computer Motion special meeting will take place at corporate headquarters, 130-B Cremona Drive, Goleta, California, 93117 on , 2003 at a.m., local time.

Q: What vote of Intuitive Surgical stockholders is required to approve the proposals?

A: Approval of the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement requires the affirmative vote of a majority of the total votes cast at the annual meeting by holders of Intuitive Surgical s common stock outstanding as of the record date. Directors and executive officers of Intuitive Surgical owning Intuitive Surgical common stock representing approximately 7% of the shares of Intuitive Surgical common stock outstanding as of the record date have agreed to vote their shares in favor of the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement.

Approval of the proposal to amend Intuitive Surgical s Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split requires the affirmative vote of a majority of the shares of Intuitive Surgical common stock outstanding as of the record date. The candidates for director receiving the highest number of votes, up to the number of directors to be elected, will be elected to Intuitive Surgical s board of directors. Approval of the proposal to amend Intuitive Surgical s 2000 Non-Employee Directors Stock Option Plan to increase the annual stock option grant for non-employee directors, to provide for an additional annual grant of options to committee chairs and to amend the automatic share increase provision and the proposal to ratify Ernst & Young LLP as the independent auditors of Intuitive Surgical for the current fiscal year ending December 31, 2003 requires the affirmative vote of a majority of the shares of Intuitive Surgical common stock represented and entitled to vote at the annual meeting.

Q: What vote of Computer Motion stockholders is required to approve and adopt the merger agreement?

A: The affirmative vote of the holders of a majority of the votes of outstanding shares of Computer Motion common stock and preferred stock, voting together as a single class, is required to approve and adopt the merger agreement. Each Computer Motion stockholder is entitled to one vote for each share of common stock held by such stockholder and 1,000 votes for each share of Series D convertible preferred stock held by such stockholder. Directors and executive officers of Computer Motion owning Computer Motion common

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and preferred stock representing approximately 14% of the voting power of the Computer Motion common and preferred stock outstanding as of the record date have agreed to vote their shares in favor of the approval and adoption of the merger agreement.

Q: How does my company s board of directors recommend that I vote?

A: Intuitive Surgical s board of directors unanimously recommends that Intuitive Surgical stockholders vote **FOR** the proposal to issue shares of Intuitive Surgical common stock pursuant to the merger agreement, **FOR** the proposal to approve the amendment to Intuitive Surgical s Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split of Intuitive Surgical s common stock, **FOR** the nominees to the board of directors listed in this joint proxy statement/prospectus, **FOR** the proposal to approve the amendment to the 2000 Non-Employee Directors Stock Option Plan to increase the annual stock option grant for non-employee directors, to provide for an additional annual grant of options to committee chairs and to amend the automatic share increase provision and **FOR** the proposal to ratify Ernst & Young LLP as the independent auditors of Intuitive Surgical for the current fiscal year ending December 31, 2003. For a more complete description of the recommendation of Intuitive Surgical s board of directors regarding the issuance of Intuitive Surgical common stock pursuant to the merger agreement, please see The Merger Reasons For the Merger Intuitive Surgical.

Computer Motion s board of directors unanimously recommends that Computer Motion stockholders vote **FOR** the proposal to approve and adopt the merger agreement. For a more complete description of the recommendation of Computer Motion s board of directors, please see The Merger Reasons For the Merger Computer Motion.

Q: What do I do now?

A: Carefully read and consider the information contained in this joint proxy statement/prospectus, including its appendices. There are several ways your shares can be represented at your stockholder meeting. You can attend your stockholder meeting in person or you can indicate on the enclosed proxy card how you want to vote and return it in the accompanying pre-addressed postage paid envelope. If you sign and send in your proxy but do not indicate how you want to vote, your proxy will be counted as a vote in favor of the proposals.

Q: How do I cast my vote?

A: If you are a holder of record, you may vote in person at your stockholder meeting or by submitting a proxy for your stockholder meeting. You can submit your proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed postage paid envelope.

Q: If my broker holds my shares in street name, will my broker vote my shares?

A: If you hold your shares in a stock brokerage account or if an" SIZE="2">Syndicate covering transactions involve purchases of the Bonds in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of the Bonds made for the purpose of preventing or retarding a decline in the market price of the Bonds while the offering is in progress.

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The underwriters may also impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Barclays Capital Inc. and Credit Suisse First Boston LLC, in covering syndicate short positions or making stabilizing purchases, repurchases any of the Bonds originally sold by that syndicate member.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the Bonds. They may also cause the price of the Bonds to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our total offering expenses, not including the underwriting discount, will be approximately $300,000.

Certain of the underwriters will make the Bonds available for distribution on the internet through a proprietary web site and/or a third-party system operated by MarketAxess Corporation, an internet-based communications technology provider. MarketAxess Corporation is providing the system as a conduit for communications between these underwriters and their respective customers and is not a party to any transactions. MarketAxess Corporation, a registered broker-dealer, will receive compensation from these underwriters based on transactions they conduct through the system. These underwriters will make the Bonds available to their respective customers through the internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters.

The underwriters have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters may, from time to time, engage in transactions with and perform services for us or our affiliates in the ordinary course of their business.

We have agreed to indemnify each of the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of those liabilities.

LEGAL MATTERS

Certain legal matters in connection with the offering of the Bonds will be passed upon for us by Andrew P. Haller, General Counsel for the Company, and Stoel Rives LLP and for the underwriters by Milbank, Tweed, Hadley & McCloy LLP, which also performs certain legal services for our parent company and its affiliates (including us) from time to time in connection with other matters. Milbank, Tweed, Hadley & McCloy LLP will rely upon the opinions of Mr. Haller and Stoel Rives LLP with respect to certain matters of state law.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements incorporated in this prospectus supplement by reference to the Company s Annual Report on Form 10-K for the year ended March 31, 2005 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given upon the authority of said firm as experts in auditing and accounting.

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PROSPECTUS

$1,850,000,000

PacifiCorp

First Mortgage Bonds

Unsecured Debt Securities

No Par Serial Preferred Stock

PacifiCorp, an Oregon corporation (the Company), may from time to time offer

First Mortgage Bonds (Additional Bonds),

unsecured debt securities, including subordinated debt securities (Unsecured Debt Securities), and

shares of its No Par Serial Preferred Stock (Additional Preferred Stock),

all at prices and on terms to be determined at the time of sale. Additional Bonds, Unsecured Debt Securities and Additional Preferred Stock (collectively, the Securities) may be issued in one or more issuances or series and the aggregate initial offering price thereof will not exceed $1,850,000,000.

The Company will provide specific terms of the Securities, including, as applicable, the amount offered, offering prices, interest rates, dividend rates, maturities and redemption or repurchase provisions, in supplements to this prospectus. The supplements may also add, update or change information contained in this prospectus. You should read this prospectus and any supplements carefully before you invest.

The Securities may be sold directly by the Company, through agents designated from time to time or through underwriters or dealers. The supplements to this prospectus will describe the terms of any particular plan of distribution, including any underwriting arrangements. The Plan of Distribution section on page 22 of this prospectus also provides more information on this topic.

The Company s principal executive offices are located at 825 NE Multnomah, Portland, Oregon 97232 and its telephone number is (503) 813-5000.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of Securities unless accompanied by a prospectus supplement relating to the Securities offered.

The date of this prospectus is December 21, 1999.

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THE COMPANY

General

The Company is an electricity company in the United States and Australia. In the United States, the Company conducts its retail electric utility business as Pacific Power and Utah Power, and engages in power production and sales on a wholesale basis under the name PacifiCorp. PacifiCorp Group Holdings Company (Holdings), a wholly owned subsidiary, holds the stock of subsidiaries conducting businesses not regulated as domestic electric utilities. Holdings indirectly owns 100% of Powercor Australia Limited the largest of the five electric distribution companies in Victoria, Australia.

The Company s strategic business plan is to focus on its electricity businesses in the western United States and Australia. As part of its strategic business plan, the Company is selling its other domestic and international businesses, and is terminating all of its business development activities outside of the United States and Australia. Holdings continues to liquidate portions of the loan, leasing, real estate and affordable housing investment portfolio of PacifiCorp Financial Services, Inc. (PFS). PFS presently expects to retain only its tax-advantaged investments in leveraged lease assets and limit its pursuit of tax-advantaged investment opportunities.

For additional information concerning the Company s business and affairs, including its capital requirements and external financing plans, pending legal and regulatory proceedings, including the status of industry restructuring in the Company s service areas and its effect on the Company, and descriptions of certain laws and regulations to which it is subject, prospective purchasers should refer to the documents incorporated by reference that are listed under the caption Where You Can Find More Information.

Proposed Merger with ScottishPower

On December 6, 1998, the Company signed an agreement and plan of merger with Scottish Power plc (ScottishPower). ScottishPower subsequently announced its intention to establish a new holding company for the ScottishPower group pursuant to a court-approved reorganization in the United Kingdom. Accordingly, on February 23, 1999, the parties executed an amended and restated merger agreement under which the Company will become an indirect, wholly owned subsidiary of the new holding company, which has been renamed Scottish Power plc (New ScottishPower), and ScottishPower will become a sister company to the Company. The combined company will have seven million customers and 23,500 employees worldwide and will be headquartered in Glasgow, Scotland. The Company will continue to operate under its current name, and its headquarters will remain in Portland, Oregon.

In the merger, each share of the Company s common stock will be converted into the right to receive 0.58 New ScottishPower American Depositary Shares (each New ScottishPower American Depositary Share represents four ordinary shares), which will be listed on the New York Stock Exchange, or, upon the proper election of the holders of the Company s common stock, 2.32 ordinary shares of New ScottishPower, which will be listed on the London Stock Exchange.

The proposed merger was approved by the shareholders of both companies in June 1999. In addition, the proposed merger has received clearance from the U.S. Federal Energy Regulatory Commission, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and from United Kingdom and Australian regulatory authorities. The California Public Utilities Commission approved the merger application in June 1999. Formal regulatory hearings were completed in all other states that have jurisdiction over the Company by the end of August. In

October 1999, the companies received approval for the merger from the Oregon Public Utility Commission and the Washington Utilities and Transportation Commission, and in November 1999, the Idaho Public Utilities Commission and the Public Service Commission of Wyoming approved the merger. Both companies have an application

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pending for approval with the Utah Public Service Commission. Staff members in these states recommended approval of the merger, subject to certain conditions. All Federal approvals, including, without limitation, approvals from the Federal Communications Commission and the Nuclear Regulatory Commission, have been obtained.

Both companies expect that all regulatory approvals will be obtained before the end of the year.

The outstanding shares of the Company s three classes of preferred stock will not be converted in the merger and will continue to have the same rights and preferences they had before the merger. However, the merger agreement requires the Company to redeem the $1.16, $1.18 and $1.28 series of its preferred stock before the merger. The Company s outstanding debt securities, including its first mortgage bonds and subordinated debt securities, will continue to be outstanding after the merger.

For additional information concerning the Company s proposed merger with ScottishPower, prospective purchasers should refer to the documents incorporated by reference that are listed under the caption Where You Can Find More Information.

CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES

The ratios of earnings to fixed charges of the Company for the years ended December 31, 1994 through 1998 and for the nine months ended September 30, 1999, calculated as required by the Commission, are 2.9x, 2.7x, 2.5x, 1.7x, 1.6x and 2.7x, respectively. For the purpose of computing such ratios, earnings represents the aggregate of

(i) income from continuing operations,

(ii) taxes based on income from continuing operations,

(iii) minority interest in the income of majority-owned subsidiaries that have fixed charges,

(iv) fixed charges, and

(v) undistributed losses (income) of less than 50% owned affiliates without loan guarantees.

Fixed charges represents consolidated interest charges, an estimated amount representing the interest factor in rents and preferred stock dividend requirements of majority-owned subsidiaries, and excludes discontinued operations.

CONSOLIDATED RATIOS OF EARNINGS TO COMBINED FIXED

CHARGES AND PREFERRED STOCK DIVIDENDS

The ratios of earnings to combined fixed charges and preferred stock dividends of the Company for the years ended December 31, 1994 through 1998 and for the nine months ended September 30, 1999, calculated as required by the Commission, are 2.4x, 2.3x, 2.3x, 1.6x, 1.5x and 2.5x, respectively. For the purpose of computing such ratios, earnings represents the aggregate of:

(i) income from continuing operations,

(ii) taxes based on income from continuing operations,

(iii) minority interest in the income of majority-owned subsidiaries that have fixed charges,

(iv) fixed charges, and

(v) undistributed losses (income) of less than 50% owned affiliates without loan guarantees.

Fixed charges represents consolidated interest charges, an estimated amount representing the interest factor in rents and preferred stock dividend requirements of majority-owned subsidiaries, and excludes discontinued operations. Preferred stock dividends represents preferred dividend

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requirements multiplied by the ratio which pre-tax income from continuing operations bears to income from continuing operations.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a registration statement filed with the SEC. The registration statement contains additional information and exhibits not included in this prospectus and refers to documents that are filed as exhibits to other SEC filings. The Company also files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy the registration statement and any document that the Company files at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can call the SEC s toll-free telephone number at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains a web site at *www.sec.gov* that contains reports, proxy and information statements and other information regarding companies (such as the Company) that file documents with the SEC electronically. The documents can be found by searching the EDGAR Archives at the SEC s web site. The Company s SEC filings, and other information on the Company, may also be obtained on the Internet at its web site at *www.pacificorp.com* although information contained on the Company s web site does not constitute part of this prospectus.

The SEC allows the Company to incorporate by reference the information that it files with the SEC, which means that the Company can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus and should be read with the same care. Later information that the Company files with the SEC will automatically update and supersede information in this prospectus or an earlier filed document. The Company has filed with the SEC and incorporates by reference the documents below:

(i) The Company s Annual Report on Form 10-K for the year ended December 31, 1998, as amended by the Company s Form 10-K/A dated April 30, 1999 and the Company s Form 10-K/A dated June 29, 1999;

(ii) The Company s Quarterly Reports on Form 10-Q for the quarters ended March 31, 1999, June 30, 1999 and September 30, 1999;

(iii) The Company s Current Reports on Form 8-K dated December 7, 1998 (including Form 8-K/A Amendment No. 1), February 16, 1999 and May 9, 1999; and

(iv) The Company s definitive Proxy Statement/Prospectus dated May 6, 1999, which is part of the Registration Statement on Form F-4 filed on May 6, 1999 by Scottish Power plc and New Scottish Power plc, Registration No. 333-77877.

You may request a free copy of any of these filings by writing or telephoning the Company at the following address or telephone number:

PacifiCorp

825 NE Multnomah

Portland, Oregon 97232

Attention: Investor Relations

Telephone Number: (503) 813-5000

You should rely only on the information contained in, or incorporated by reference in, this prospectus and the prospectus supplement. The Company has not, and any underwriters, agents or dealers have not, authorized anyone else to provide you with different information. The Company is not, and any underwriters, agents or dealers are not, making an offer of these Securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus and the prospectus supplement is accurate as of any date other than the date on the front of the prospectus supplement or that the information incorporated by reference in this prospectus is accurate as of any date other than the date on the front of those documents.

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USE OF PROCEEDS

Unless otherwise indicated in a prospectus supplement, the net proceeds to be received by the Company from the issuance and sale of the Securities will initially become part of the general funds of the Company and will be used to repay all or a portion of the Company s short-term borrowings outstanding at the time of issuance of the Securities or may be applied to utility asset purchases, new construction or other corporate purposes, including the refunding of long-term debt.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of three classes of preferred stock (Preferred Stock): 126,533 shares of 5% Preferred Stock of the stated value of $100 per share (5% Preferred Stock), 3,500,000 shares of Serial Preferred Stock of the stated value of $100 per share (Serial Preferred Stock) and 16,000,000 shares of No Par Serial Preferred Stock (No Par Serial Preferred Stock); and 750,000,000 shares of Common Stock (Common Stock).

Following is a brief summary of the relative rights and preferences of the various classes of the Company s capital stock, which does not purport to be complete. For a complete description of the relative rights and preferences of the various classes of the Company s capital stock, reference is made to Article III of the Company s Third Restated Articles of Incorporation (the Articles), a copy of which is an exhibit to the registration statement.

General

The Company s Articles provide that Serial Preferred Stock and No Par Serial Preferred Stock each may be issued in one or more series and that all such series of each such class, respectively, shall constitute one and the same class of stock, shall be of equal rank and shall be identical in all respects except as to the designation thereof and except that each series may vary, as fixed and determined by the Company s Board of Directors at the time of its creation and expressed in a resolution, as to:

- the dividend rate or rates, which may be subject to adjustment,
- the date or dates from which dividends shall be cumulative,
- the dividend payment dates,
- the amount to be paid upon redemption, if redeemable, or in the event of voluntary liquidation, dissolution or winding up of the Company,
- the rights of conversion, if any, into shares of Common Stock and the terms and conditions of any such conversion,

provisions, if any, for the redemption or purchase of shares, which may be at the option of the Company or upon the happening of a specified event or events, including the times, prices or rates, which may be subject to adjustment, and

with respect to the No Par Serial Preferred Stock, voting rights.

The specific terms of the series of Additional Preferred Stock to which this prospectus relates, including the dividend rate (or, if the rate is not fixed, the method of determining the dividend rate) and restrictions, the liquidation preference per share, the voting rights for shares of such series, redemption or conversion provisions, if any, and other specific terms of such series, will be set forth in a prospectus supplement.

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Dividends

Each class of Preferred Stock is entitled, pari passu with each other class and in preference to the Common Stock, to accumulate dividends at the rate or rates, which may be subject to adjustment, determined in accordance with the Articles at the time of creation of each series. Subject to the prior rights of each class of Preferred Stock (and to the rights of any other classes of preferred stock hereafter authorized), the Common Stock alone is entitled to all dividends other than those payable in respect of each class of Preferred Stock.

For certain restrictions on the payment of dividends, reference is made to the notes to the audited consolidated financial statements included in the Company s Annual Report on Form 10-K incorporated by reference herein and to Description of Additional Bonds Dividend Restrictions herein.

Liquidation Rights

Upon involuntary liquidation of the Company, each class of Preferred Stock is entitled, pari passu with each other class and in preference to the Common Stock, to the stated value thereof or, in the case of the No Par Serial Preferred Stock, the amount fixed as the consideration therefor in the resolution creating the series of No Par Serial Preferred Stock, in each case plus accrued dividends to the date of distribution.

Upon voluntary liquidation of the Company, each outstanding series of No Par Serial Preferred Stock (other than the $7.70 Series and the $7.48 Series, which are entitled to $100 per share) and Serial Preferred Stock (other than the 7.00%, 6.00%, 5.00% and 5.40% Series, which are entitled to $100 per share) is entitled to an amount equal to the then current redemption price for such series and the 5% Preferred Stock is entitled to $110 per share, in each case plus accrued dividends to the date of distribution, pari passu with each other class and in preference to the Common Stock.

Subject to the rights of each class of Preferred Stock (and to the rights of any other class of preferred stock hereafter authorized), the Common Stock alone is entitled to all amounts available for distribution upon liquidation of the Company other than those to be paid on each class of Preferred Stock.

Voting Rights

The holders of the 5% Preferred Stock, Serial Preferred Stock and Common Stock are entitled to one vote for each share held on matters presented to shareholders generally. The holders of the No Par Serial Preferred Stock are entitled to such voting rights as are set forth in the Articles upon creation of each series. Certain series of No Par Serial Preferred Stock may not be entitled to vote on matters presented to shareholders generally, including the election of directors. During any periods when dividends on any class of Preferred Stock are in default in an amount equal to four full quarterly payments or more per share, the holders of all classes of Preferred Stock, voting as one class separately from the holders of the Common Stock, have the right to elect a majority of the full Board of Directors. No Preferred Stock dividends are in arrears at the date of this prospectus.

Holders of the outstanding shares of any class of Preferred Stock are entitled to vote as a class on certain matters, such as changes in the aggregate number of authorized shares of the class and certain changes in the designations, preferences, limitations or relative rights of the class. The vote of holders of at least two-thirds of each class of Preferred Stock is required prior to creating any new stock ranking prior thereto or altering its express terms to its prejudice. The vote of holders of a majority of all classes of Preferred Stock, voting as one class separately from the holders of the Common Stock, is required prior to merger or consolidation and prior to making certain unsecured borrowings and certain issuances of Preferred Stock.

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None of the Company s outstanding shares of capital stock has cumulative voting rights, which means that the holders of more than 50% of all outstanding shares entitled to vote for the election of directors can elect 100% of the directors if they choose to do so, and, in such event, the holders of the remaining less than 50% of the shares will not be able to elect any person or persons to the Board of Directors.

None of the Company s outstanding shares of capital stock has any preemptive rights.

Voting on Certain Transactions

Under the Articles, certain business transactions with a Related Person (as defined below), including a merger, consolidation or plan of exchange of the Company or its subsidiaries, or certain recapitalizations, or the sale or exchange of a substantial part of the assets of the Company or its subsidiaries, or any issuance of voting securities of the Company, will require in addition to existing voting requirements, approval by at least 80% of the outstanding Voting Stock (for purposes of this provision, Voting Stock is defined as all of the outstanding shares of capital stock of the Company entitled to vote generally in the election of directors, considered as one class). A Related Person includes any shareholder that is, directly or indirectly, the beneficial owner of 20% or more of the Voting Stock. The 80% voting requirement will not apply in the following instances:

The Related Person has no direct or indirect interest in the proposed transaction except as a shareholder;

The shareholders, other than the Related Person, will receive consideration for their Voting Stock having a fair market value per share at least equal to, or in the opinion of a majority of the Continuing Directors (as defined in the Articles) at least equivalent to, the highest per-share price paid by the Related Person for any Voting Stock acquired by it;

At least two-thirds of the Continuing Directors expressly approved in advance the acquisition of the Voting Stock that caused such Related Person to become a Related Person; or

The transaction is approved by at least two-thirds of the Continuing Directors.

This provision of the Articles may be amended or replaced only upon the approval of the holders of at least 80% of the Voting Stock.

Classification of Board; Removal

The Board of Directors of the Company is divided into three classes, designated Class I, Class II, and Class III, each class as nearly equal in number as possible. The directors in each class serve staggered three-year terms such that one-third (or as close thereto as possible) of the Board of Directors is elected each year. A vote of at least 80% of the votes entitled to be cast at an election of directors is required to remove a director without cause, and at least two-thirds of the votes entitled to be cast at an election of directors are required to remove a director for cause. Any amendment or revision of this provision requires the approval of at least 80% of the votes entitled to be cast at an election of directors.

DESCRIPTION OF ADDITIONAL BONDS

General

Additional Bonds may be issued from time to time under the Company s Mortgage and Deed of Trust, dated as of January 9, 1989, as amended and supplemented (the Mortgage), with The Chase Manhattan Bank (formerly known as Chemical Bank), as successor trustee (the Mortgage Trustee). The following summary is subject to the provisions of and is qualified by reference to the Mortgage, a copy of which is an exhibit to the Registration Statement. Whenever particular provisions or defined

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terms in the Mortgage are referred to herein, such provisions or defined terms are incorporated by reference herein. Section and Article references used herein are references to provisions of the Mortgage unless otherwise noted.

The Mortgage provides that in the event of the merger or consolidation of another electric utility company with or into the Company or the conveyance or transfer to the Company by another such company of all or substantially all of such company s property that is of the same character as Property Additions under the Mortgage, an existing mortgage constituting a first lien on operating properties of such other company may be designated by the Company as a Class A Mortgage. (Section 11.06) Bonds thereafter issued pursuant to such additional mortgage would be Class A Bonds and could provide the basis for the issuance of Bonds under the Mortgage.

The Company expects to issue Additional Bonds in the form of fully registered bonds and, except as may be set forth in any prospectus supplement relating to such Additional Bonds, in denominations of $1,000 and any multiple thereof. They may be transferred without charge, other than for applicable taxes or other governmental charges, at the offices of the Mortgage Trustee, New York, New York. Any Additional Bonds issued will be equally and ratably secured with all other bonds issued under the Mortgage. See Book-Entry Issuance.

Maturity and Interest Payments

Reference is made to the prospectus supplement relating to any Additional Bonds for the date or dates on which such Bonds will mature; the rate or rates per annum at which such Bonds will bear interest; and the times at which such interest will be payable. These terms and conditions, as well as the terms and conditions relating to redemption and purchase referred to under Redemption or Purchase of Additional Bonds below, will be as established in or pursuant to resolutions of the Board of Directors of the Company at the time of issuance of the Additional Bonds.

Redemption or Purchase of Additional Bonds

The Additional Bonds may be redeemable, in whole or in part, on not less than 30 days notice either at the option of the Company or as required by the Mortgage or may be subject to repurchase at the option of the holder.

Reference is made to the prospectus supplement relating to any Additional Bonds for the redemption or repurchase terms and other specific terms of such Bonds.

If, at the time notice of redemption is given, the redemption moneys are not held by the Mortgage Trustee, the redemption may be made subject to their receipt on or before the date fixed for redemption and such notice shall be of no effect unless such moneys are so received.

While the Mortgage, as described below, contains provisions for the maintenance of the Mortgaged and Pledged Property, the Mortgage does not permit redemption of Bonds pursuant to these provisions. There is no sinking or analogous fund in the Mortgage.

Cash deposited under any provisions of the Mortgage may be applied (with certain exceptions) to the redemption or repurchase of Bonds of any series. (Articles XII and XIII)

Security and Priority

The Bonds issued under the Mortgage will be secured by a first mortgage lien on certain utility property owned from time to time by the Company and/or Class A Bonds held by the Mortgage Trustee. The Lien of the Mortgage is subject to Excepted Encumbrances, including tax and construction liens, purchase money liens and certain other exceptions.

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There are excepted from the Lien of the Mortgage all cash and securities (except those specifically deposited); equipment, materials or supplies held for sale or other disposition; any fuel and similar consumable materials and supplies; automobiles, other vehicles, aircraft and vessels; timber, minerals, mineral rights and royalties; receivables, contracts, leases and operating agreements; electric energy, gas, water, steam, ice and other products for sale, distribution or other use; natural gas wells; gas transportation lines or other property used in the sale of natural gas to customers or to a natural gas distribution or pipeline company, up to the point of connection with any distribution system; the Company s interest in the Wyodak Facility; and all properties that have been released from the discharged Mortgages and Deeds of Trust, as supplemented, of Pacific Power & Light Company and Utah Power & Light Company and that PacifiCorp, a Maine corporation, or Utah Power & Light Company, a Utah corporation, contracted to dispose of, but title to which had not passed at the date of the Mortgage. The Company has reserved the right, without any consent or other action by holders of Bonds of the Eighth Series or any subsequently created series of Bonds (including the Additional Bonds), to amend the Mortgage in order to except from the Lien of the Mortgage allowances allocated to steam-electric generating plants owned by the Company, or in which the Company has interests, pursuant to Title IV of the Clean Air Act Amendments of 1990, as now in effect or as hereafter supplemented or amended.

The Mortgage contains provisions subjecting after-acquired property to the Lien thereof. These provisions may be limited, at the option of the Company, in the case of consolidation or merger (whether or not the Company is the surviving corporation), conveyance or transfer of all or substantially all of the utility property of another electric utility company to the Company or sale of substantially all of the Company s assets. In addition, after-acquired property may be subject to a Class A Mortgage, purchase money mortgages and other liens or defects in title. (Section 18.03)

The Mortgage provides that the Mortgage Trustee shall have a lien upon the mortgaged property, prior to the holders of Bonds, for the payment of its reasonable compensation and expenses and for indemnity against certain liabilities. (Section 19.09)

Issuance of Additional Bonds

The maximum principal amount of Bonds which may be issued under the Mortgage is not limited. Bonds of any series may be issued from time to time on the basis of:

(1) 70% of qualified Property Additions after adjustments to offset retirements;

(2) Class A Bonds (which need not bear interest) delivered to the Mortgage Trustee;

(3) retirement of Bonds or certain prior lien bonds; and/or

(4) deposits of cash.

With certain exceptions in the case of clause (2) and (3) above, the issuance of Bonds is subject to Adjusted Net Earnings of the Company for 12 consecutive months out of the preceding 15 months, before income taxes, being at least twice the Annual Interest Requirements on all Bonds at the time outstanding, including the issue of Additional Bonds, all outstanding Class A Bonds held other than by the Mortgage Trustee or by the Company, and all other indebtedness secured by a lien prior to the Lien of the Mortgage. In general, interest on variable interest bonds, if any, is calculated using the rate then in effect. (Articles IV through VII)

Property Additions generally include electric, gas, steam and/or hot water utility property but not fuel, securities, automobiles, other vehicles or aircraft, or property used principally for the production or gathering of natural gas. (Section 1.04)

The issuance of Bonds on the basis of Property Additions subject to prior liens is restricted. Bonds may, however, be issued against the deposit of Class A Bonds. (Sections 1.04 to 1.07 and 4.01 to 7.01)

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Release and Substitution of Property

Property subject to the Lien of the Mortgage may be released upon the basis of:

(1) the release of such property from the Lien of a Class A Mortgage;

(2) the deposit of cash or, to a limited extent, purchase money mortgages;

(3) Property Additions, after making adjustments for certain prior lien bonds outstanding against Property Additions; and/or

(4) waiver of the right to issue Bonds.

Cash may be withdrawn upon the bases stated in (1), (3) and (4) above. Property that does not constitute Funded Property may be released without funding other property. Similar provisions are in effect as to cash proceeds of such property. The Mortgage contains special provisions with respect to certain prior lien bonds deposited and disposition of moneys received on deposited prior lien bonds. (Sections 1.05, 7.02, 7.03, 9.05, 10.01 to 10.04 and 13.03 to 13.09)

Certain Covenants

The Mortgage contains a number of covenants by the Company for the benefit of bondholders, including provisions requiring the Company to maintain the Mortgaged and Pledged Property as an operating system or systems capable of engaging in all or any of the generating, transmission, distribution or other utility businesses described in the Mortgage. (Article IX; Section 9.06)

Dividend Restrictions

The Mortgage provides that the Company may not declare or pay dividends (other than dividends payable solely in shares of Common Stock) on any shares of Common Stock if, after giving effect to such declaration or payment, the Company would not be able to pay its debts as they become due in the usual course of business. (Section 9.07) Reference is made to the notes to the audited consolidated financial statements included in the Company s Annual Report on Form 10-K incorporated by reference herein for information relating to other restrictions.

Foreign Currency Denominated Bonds

The Mortgage authorizes the issuance of Bonds denominated in foreign currencies, *provided* that the Company deposits with the Mortgage Trustee a currency exchange agreement with an entity having, at the time of such deposit, a financial rating at least as high as that of the

Company that, in the opinion of an independent expert, gives the Company at least as much protection against currency exchange fluctuation as is usually obtained by similarly situated borrowers. The Company believes that such a currency exchange agreement will provide effective protection against currency exchange fluctuations. However, if the other party to the exchange agreement defaults and the foreign currency is valued higher at the date of maturity than at the date of issuance of the relevant Bonds, holders of such Bonds would have a claim on the assets of the Company which is greater than that to which holders of dollar-denominated Bonds issued at the same time would be entitled.

The Mortgage Trustee

The Chase Manhattan Bank acts as lender under loan agreements with the Company and affiliates of the Company, and serves as trustee under indentures and other agreements involving the Company and its affiliates.

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Modification

The rights of bondholders may be modified with the consent of holders of 60% of the Bonds, or, if less than all series of Bonds are adversely affected, the consent of the holders of 60% of the series of Bonds adversely affected. In general, no modification of the terms of payment of principal, premium, if any, or interest and no modification affecting the Lien or reducing the percentage required for modification is effective against any bondholder without the consent of such holder. (Article XXI)

Unless there is a Default under the Mortgage, the Mortgage Trustee generally is required to vote Class A Bonds held by it with respect to any amendment of the applicable Class A Mortgage proportionately with the vote of the holders of all Class A Bonds then actually voting. (Section 11.03)

Defaults and Notice Thereof

Defaults are defined in the Mortgage as:

(1) default in payment of principal;

(2) default for 60 days in payment of interest or an installment of any fund required to be applied to the purchase or redemption of any Bonds;

(3) default in payment of principal or interest with respect to certain prior lien bonds;

(4) certain events in bankruptcy, insolvency or reorganization;

(5) default in other covenants for 90 days after notice; or

(6) the existence of any default under a Class A Mortgage which permits the declaration of the principal of all of the bonds secured by such Class A Mortgage and the interest accrued thereupon due and payable. (Section 15.01)

An effective default under any Class A Mortgage or under the Mortgage will result in an effective default under all such mortgages. The Mortgage Trustee may withhold notice of default (except in payment of principal, interest or funds for retirement of Bonds) if it determines that it is not detrimental to the interests of the bondholders. (Section 15.02)

The Mortgage Trustee or the holders of 25% of the Bonds may declare the principal and interest due and payable on Default, but a majority may annul such declaration if such Default has been cured. (Section 15.03) No holder of Bonds may enforce the Lien of the Mortgage without giving the Mortgage Trustee written notice of a Default and unless the holders of 25% of the Bonds have requested the Mortgage Trustee to act and offered it reasonable opportunity to act and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred thereby and the Mortgage Trustee shall have failed to act. (Section 15.16) The holders of a majority of the Bonds may direct the time, method and place of conducting any proceedings for any remedy available to the Mortgage Trustee or exercising any trust or power conferred on the Mortgage Trustee. (Section 15.07) The Mortgage Trustee is not required to risk its funds or incur personal liability if there is reasonable ground for believing that repayment is not reasonably assured. (Section 19.08)

Defeasance

Under the terms of the Mortgage, the Company will be discharged from any and all obligations under the Mortgage in respect of the Bonds of any series if the Company deposits with the Mortgage Trustee, in trust, moneys or Government Obligations, in an amount sufficient to pay all the principal of, premium (if any) and interest on, the Bonds of such series or portions thereof, on the redemption date or maturity date thereof, as the case may be. The Mortgage Trustee need not accept such deposit unless it is accompanied by an Opinion of Counsel to the effect that (a) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or, since the date of the

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Mortgage, there has been a change in applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the holders of such Bonds or the right of payment of interest thereon (as the case may be) will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, and/or ensuing discharge and will be subject to federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit, and/or discharge had not occurred. (Section 20.02)

Upon such deposit, the obligation of the Company to pay the principal of (and premium, if any) and interest on such Bonds shall cease, terminate and be completely discharged.

In the event of any such defeasance and discharge of Bonds of such series, holders of Bonds of such series would be able to look only to such trust fund for payment of principal of (and premium, if any) and interest, if any, on the Bonds of such series. (Section 20.02)

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DESCRIPTION OF UNSECURED DEBT SECURITIES

General

The Unsecured Debt Securities may be issued from time to time in one or more series under an indenture or indentures (each, an Indenture), between the Company and the trustees named below, or other bank or trust company to be named as trustee (each, an Indenture Trustee). The Unsecured Debt Securities will be unsecured obligations of the Company. If so provided in the prospectus Supplement, the Unsecured Debt Securities will be subordinated obligations of the Company (Subordinated Debt Securities). Except as may otherwise be described in the prospectus supplement, Subordinated Debt Securities will be issued under the Indenture, dated as of May 1, 1995, as supplemented (the Subordinated Indenture), between the Company and The Bank of New York, as Trustee. Except as may otherwise be described in the prospectus supplement, Unsecured Debt Securities other than Subordinated Debt Securities will be issued under an Indenture, dated as of September 1, 1996 (the Unsecured Indenture), between the Company and The Chase Manhattan Bank, as Trustee. Except as otherwise specified herein, the term Indenture includes the Subordinated Indenture and the Unsecured Indenture.

The following summary is subject to the provisions of and is qualified by reference to the Indenture, which is filed as an exhibit to or incorporated by reference in the registration statement. Whenever particular provisions or defined terms in the Indenture are referred to herein, such provisions or defined terms are incorporated by reference herein. Section and Article references used herein are references to provisions of the Indenture unless otherwise noted.

The Indenture provides that Unsecured Debt Securities may be issued from time to time in one or more series pursuant to an indenture supplemental to the Indenture or a resolution of the Company s Board of Directors. (Section 2.01) The Indenture does not limit the aggregate principal amount of Unsecured Debt Securities which may be issued thereunder. The Company s Articles limit the amount of unsecured debt that the Company may issue to the equivalent of 30% of the total of all secured indebtedness and total equity. On June 17, 1999, a majority of the holders of the three classes of PacifiCorp preferred stock, voting together as a single class, consented to an increase of $5 billion in the amount of unsecured indebtedness permitted under the Company s Articles. At September 30, 1999, approximately $1.2 billion of unsecured debt was outstanding and approximately $5.9 billion of additional unsecured debt could have been issued under this provision and consent. The Indenture does not contain any provisions that would limit the ability of the Company to incur indebtedness or that would afford holders of Unsecured Debt Securities protection in the event of a highly leveraged or similar transaction involving the Company or in the event of a change of control.

Reference is made to the prospectus supplement which will accompany this prospectus for the following terms of the series of Unsecured Debt Securities being offered thereby:

- the specific title of such Unsecured Debt Securities;
- any limit on the aggregate principal amount of such Unsecured Debt Securities;
- the date or dates on which the principal of such Unsecured Debt Securities is payable;
- the rate or rates at which such Unsecured Debt Securities will bear interest or the manner of calculation of such rate or rates;

the date or dates from which such interest shall accrue, the interest payment dates on which such interest will be payable or the manner of determination of such interest payment dates and the record dates for the determination of holders to whom interest is payable on any such interest payment dates;

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the period or periods within which, the price or prices at which and the terms and conditions upon which such Unsecured Debt Securities may be redeemed, in whole or in part, at the option of the Company;

the obligation, if any, of the Company to redeem or purchase such Unsecured Debt Securities pursuant to any sinking fund or analogous provisions or at the option of the holder thereof and the period or periods, the price or prices at which and the terms and conditions upon which such Unsecured Debt Securities shall be redeemed or purchased, in whole or part, pursuant to such obligation;

the form of such Unsecured Debt Securities;

if other than denominations of $1,000 (except with respect to Subordinated Debt Securities issued pursuant to the Subordinated Indenture, in which case other than denominations of $25) or, in either case, any integral multiple thereof, the denominations in which such Unsecured Debt Securities shall be issuable; and

any and all other terms with respect to such series. (Section 2.01)

For Subordinated Debt Securities issued pursuant to the Subordinated Indenture, the applicable prospectus supplement will also describe (a) the right, if any, to extend the interest payment periods and the duration of such extension and (b) the subordination terms of the Subordinated Debt Securities to the extent such subordination terms vary from those described under Subordination below.

Subordination

The Subordinated Indenture provides that Subordinated Debt Securities are subordinate and junior in right of payment to the prior payment in full of all Senior Indebtedness (as defined below) of the Company as provided in the Subordinated Indenture. No payment of principal of (including redemption and sinking fund payments), or premium, if any, or interest on, the Subordinated Debt Securities may be made if any Senior Indebtedness is not paid when due, any applicable grace period with respect to such default has ended and such default has not been cured or waived, or if the maturity of any Senior Indebtedness has been accelerated because of a default. Upon payment by the Company or any distribution of assets of the Company to creditors upon any dissolution, winding-up, liquidation or reorganization, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all amounts due or to become due on all Senior Indebtedness must be paid in full before the holders of the Subordinated Debt Securities are entitled to receive or retain any payment. The rights of the holders of the Subordinated Debt Securities will be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions applicable to Senior Indebtedness until all amounts owing on the Subordinated Debt Securities (including the Subordinated Debt Securities to be offered hereby) are paid in full. (Sections 14.01 to 14.04 of the Subordinated Indenture)

The term Senior Indebtedness shall mean the principal of and premium, if any, and interest on and any other payment due pursuant to any of the following, whether outstanding at the date of execution of the Subordinated Indenture or thereafter incurred, created or assumed:

(1) all indebtedness of the Company evidenced by notes (including indebtedness owed to banks), debentures, bonds or other securities sold by the Company for money;

(2) all indebtedness of others of the kinds described in the preceding clause (1) assumed by or guaranteed in any manner by the Company or in effect guaranteed by the Company through an agreement to purchase, contingent or otherwise; and

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(3) all renewals, extensions or refundings of indebtedness of the kinds described in either of the preceding clauses (1) and (2);

unless, in the case of any particular indebtedness, renewal, extension or refunding, the instrument creating or evidencing the same or the assumption or guarantee of the same expressly provides that such indebtedness, renewal, extension or refunding is not superior in right of payment to or is *pari passu* with the Subordinated Debt Securities. Such Senior Indebtedness shall continue to be Senior Indebtedness and entitled to the benefits of the subordination provisions contained in the Subordinated Indenture irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness. (Section 1.01 of the Subordinated Indenture)

The Subordinated Indenture does not limit the aggregate amount of Senior Indebtedness which may be issued. As of September 30, 1999, Senior Indebtedness of the Company aggregated approximately $3.4 billion. As of September 30, 1999, subordinated indebtedness of the Company aggregated approximately $539 million.

As the Subordinated Debt Securities will be issued by the Company, the Subordinated Debt Securities effectively will be subordinate to all obligations of the Company s subsidiaries, and the rights of the Company s creditors, including holders of Bonds issued under the Mortgage, Subordinated Debt Securities and any other Unsecured Debt Securities issued by the Company, to participate in the assets of such subsidiaries upon liquidation or reorganization will be junior to the rights of the holders of all preferred stock, indebtedness and other liabilities of such subsidiaries, which may include trade payables, obligations to banks under credit facilities, guarantees, pledges, support arrangements, bonds, capital leases, notes and other obligations.

Certain Covenants of the Company

If, with respect to Subordinated Debt Securities issued pursuant to the Subordinated Indenture, there shall have occurred any event that would, with the giving of notice or the passage of time, or both, constitute an Event of Default under the Indenture, as described under Events of Default below, or the Company exercises its option to extend the interest payment period described in clause (a) in the last sentence under General above, the Company will not, until all defaulted interest on the Subordinated Debt Securities and all interest accrued on the Subordinated Debt Securities during any such extended interest payment period and all principal and premium, if any, then due and payable on the Subordinated Debt Securities shall have been paid in full,

(i) declare, set aside or pay any dividend or distribution on any capital stock of the Company, including the Common Stock, except for dividends or distributions in shares of its capital stock or in rights to acquire shares of its capital stock, or

(ii) repurchase, redeem or otherwise acquire, or make any sinking fund payment for the purchase or redemption of, any shares of its capital stock (except by conversion into or exchange for shares of its capital stock and except for a redemption, purchase or other acquisition of shares of its capital stock made for the purpose of an employee incentive plan or benefit plan of the Company or any of its subsidiaries and except for mandatory redemption or sinking fund payments with respect to any series of Preferred Stock that are subject to mandatory redemption or sinking fund requirements, *provided* that the aggregate stated value of all such series of Preferred Stock outstanding at the time of any such payment does not exceed five percent of the aggregate of (a) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the Company and then outstanding and (b) the capital and surplus of the Company to be stated on the books of account of the Company after giving effect to such payment); *provided, however*, that any moneys deposited in any sinking fund and not in violation of this provision may thereafter be applied to the

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purchase or redemption of such Preferred Stock in accordance with the terms of such sinking fund without regard to the restrictions contained in this provision. (Section 4.06 of the Subordinated Indenture) As of September 30, 1999, the aggregate stated value of such series of Preferred Stock outstanding was approximately $175 million, which represented approximately three percent of the aggregate of clauses (a) and (b) above at such date.

Form, Exchange, Registration and Transfer

Each series of Unsecured Debt Securities will be issued in registered form and, unless otherwise specified in the applicable prospectus supplement, will be represented by one or more global certificates. If not represented by one or more global certificates, Unsecured Debt Securities may be presented for registration of transfer (with the form of transfer endorsed thereon duly executed) or exchange, at the office of the Registrar or at the office of any transfer agent designated by the Company for such purpose with respect to any series of Unsecured Debt Securities and referred to in an applicable prospectus supplement, without service charge and upon payment of any taxes and other governmental charges as described in the Indenture. Such transfer or exchange will be effected upon the registrar or such transfer agent, as the case may be, being satisfied with the documents of title and identity of the person making the request. (Section 2.05) If a prospectus supplement refers to any transfer agent (in addition to the registrar) initially designated by the Company with respect to any series of Unsecured Debt Securities, the Company may at any time rescind the designation of any such transfer agent or approve a change in the location through which any such transfer agent acts, except that the Company will be required to maintain a transfer agent in each place of payment for such series. (Section 4.02) The Company may at any time designate additional transfer agents with respect to any series of Unsecured Debt Securities. The Unsecured Debt Securities may be transferred or exchanged without service charge, other than any tax or governmental charge imposed in connection therewith. (Section 2.05)

In the event of any redemption in part, the Company shall not be required to (i) issue, register the transfer of or exchange any Unsecured Debt Security during a period beginning at the opening of business 15 days before any selection for redemption of Unsecured Debt Securities of like tenor and of the series of which such Unsecured Debt Security is a part, and ending at the close of business on the earliest date in which the relevant notice of redemption is deemed to have been given to all holders of Unsecured Debt Securities of like tenor and of such series to be redeemed and (ii) register the transfer of or exchange any Unsecured Debt Securities so selected for redemption, in whole or in part, except the unredeemed portion of any Unsecured Debt Security being redeemed in part. (Section 2.05)

Payment and Paying Agents

Unless otherwise indicated in the prospectus supplement or the Unsecured Debt Securities are represented by one or more global certificates (see Book-Entry Issuance), payment of principal of and premium (if any) on any Unsecured Debt Security will be made only against surrender to the Paying Agent of such Unsecured Debt Security. Unless otherwise indicated in the prospectus supplement or unless the Unsecured Debt Securities are represented by one or more global certificates, principal of and any premium and interest, if any, on Unsecured Debt Securities will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that at the option of the Company payments on the Unsecured Debt Securities may be made

by checks mailed by the Indenture Trustee to the holders entitled thereto at their registered addresses as specified in the Register for such Unsecured Debt Securities or

to a holder of $1,000,000 or more in aggregate principal amount of such Unsecured Debt Securities who has delivered a written request to the Indenture Trustee at least 14 days prior to

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the relevant payment date electing to have payments made by wire transfer to a designated account in the United States, by wire transfer of immediately available funds to such designated account; *provided* that, in either case, the payment of principal with respect to any Unsecured Debt Security will be made only upon surrender of such Unsecured Debt Security to the Indenture Trustee. Unless otherwise indicated in the prospectus supplement, payment of interest on an Unsecured Debt Security on any Interest Payment Date will be made to the person in whose name such Unsecured Debt Security (or Predecessor Security) is registered at the close of business on the Regular Record Date for such interest payment. (Sections 2.03 and 4.03)

The Company will act as Paying Agent with respect to the Unsecured Debt Securities. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts, except that the Company will be required to maintain a Paying Agent in each Place of Payment for each series of the respective Unsecured Debt Securities. (Sections 4.02 and 4.03)

All moneys paid by the Company to a Paying Agent for the payment of the principal of or premium, if any, or interest on any Unsecured Debt Security of any series that remain unclaimed at the end of two years after such principal, premium, if any, or interest shall have become due and payable will be repaid to the Company and the holder of such Unsecured Debt Security will thereafter look only to the Company for payment thereof. (Section 11.06)

Agreed Tax Treatment

The Subordinated Indenture provides that each holder of a Subordinated Debt Security, each person that acquires a beneficial ownership interest in a Subordinated Debt Security and the Company agree that for United States federal, state and local tax purposes it is intended that such Subordinated Debt Security constitutes indebtedness. (Section 13.12 of the Subordinated Indenture)

Modification of the Indenture

The Indenture contains provisions permitting the Company and the Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the Unsecured Debt Securities of each series which are affected by the modification, to modify the Indenture or any supplemental indenture affecting that series or the rights of the holders of that series of Unsecured Debt Securities; *provided* that no such modification may, without the consent of the holder of each outstanding Unsecured Debt Security affected thereby,

extend the fixed maturity of any Unsecured Debt Securities of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof,

reduce the percentage of Unsecured Debt Securities, the holders of which are required to consent to any such supplemental indenture or, in the case of the Unsecured Indenture,

reduce the percentage of Unsecured Debt Securities, the holders of which are required to waive any default and its consequences or modify any provision of the Indenture relating to the percentage of Unsecured Debt Securities (except to increase such percentage) required to rescind and annul any declaration of principal due and payable upon an Event of Default. (Section 9.02)

In addition, the Company and the Indenture Trustee may execute, without the consent of any holder of Unsecured Debt Securities (including the Unsecured Debt Securities being offered hereby), any supplemental indenture for certain other usual purposes, including the creation of any new series of Unsecured Debt Securities. (Sections 2.01, 9.01 and 10.01)

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Events of Default

The Indenture provides that any one or more of the following described events, which has occurred and is continuing, constitutes an Event of Default with respect to each series of Unsecured Debt Securities:

- default for 30 days (except with respect to Subordinated Debt Securities issued under the Subordinated Indenture, in which case default for 10 days) in payment of interest;
- default in payment of principal or premium, if any;
- default in other covenants (other than those specifically relating to one or more other series) for 90 days after notice; or
- certain events in bankruptcy, insolvency or reorganization. (Section 6.01)

The holders of a majority in aggregate outstanding principal amount of any series of the Unsecured Debt Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee for that series. (Section 6.06) The applicable Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of any particular series of the Unsecured Debt Securities may declare the principal due and payable immediately upon an Event of Default with respect to such series, but the holders of a majority in aggregate outstanding principal amount of such series may annul such declaration and waive such Event of Default if it has been cured and a sum sufficient to pay all matured installments of interest and principal and any premium has been deposited with such Indenture Trustee. (Sections 6.01 and 6.06)

The holders of a majority in aggregate outstanding principal amount of all series of the Unsecured Debt Securities issued under the Indenture and affected thereby may, on behalf of the holders of all the Unsecured Debt Securities of such series, waive any past default, except a default in the payment of principal, premium, if any, or interest. (Section 6.06) The Company is required to file annually with the applicable Indenture Trustee a certificate as to whether or not the Company is in compliance with all the conditions and covenants under the Indenture. (Section 5.03(d))

Consolidation, Merger and Sale

The Indenture does not contain any covenant which restricts the Company s ability to merge or consolidate with or into any other corporation, sell or convey all or substantially all of its assets to any person, firm or corporation or otherwise engage in restructuring transactions. (Section 10.01)

Defeasance and Discharge

Under the terms of the Indenture, the Company will be discharged from any and all obligations under the Indenture in respect of the Unsecured Debt Securities of any series (except in each case for certain obligations to register the transfer or exchange of Unsecured Debt Securities, replace stolen, lost or mutilated Unsecured Debt Securities, maintain paying agencies and hold moneys for payment in trust) if the Company deposits with the Indenture Trustee, in trust, moneys or Government Obligations, in an amount sufficient to pay all the principal of, and interest on, the Unsecured Debt Securities of such series on the dates such payments are due in accordance with the terms of such Unsecured Debt Securities and, if, among other things, such Unsecured Debt Securities are not due and payable, or are not to be called for redemption, within one year, the Company delivers to the Indenture Trustee an Opinion of Counsel to the effect that the holders of Unsecured Debt Securities of such series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and discharge and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and discharge had not occurred.

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In addition to discharging certain obligations under the Indenture as stated above, if

(1) the Company delivers to the Indenture Trustee an Opinion of Counsel (in lieu of the Opinion of Counsel referred to above) to the effect that (a) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or, since the date of the Indenture, there has been a change in applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the holders of Unsecured Debt Securities of such series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit, defeasance and discharge had not occurred, and (b) such deposit shall not result in the Company, the Indenture Trustee or the trust resulting from the defeasance being deemed an investment company under the Investment Company Act of 1940, as amended, and

(2) in the case of the Unsecured Indenture, no event or condition shall exist that would prevent the Company from making payments of the principal of (and premium, if any) or interest on the Unsecured Debt Securities on the date of such deposit or at any time during the period ending on the ninety-first day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period),

then, in such event, the Company will be deemed to have paid and discharged the entire indebtedness on the Unsecured Debt Securities of such series.

In the event of any such defeasance and discharge of Unsecured Debt Securities of such series, holders of Unsecured Debt Securities of such series would be able to look only to such trust fund for payment of principal of (and premium, if any) and interest, if any, on the Unsecured Debt Securities of such series. (Sections 11.01, 11.02 and 11.03 of the Indenture)

Governing Law

The Indenture and the Unsecured Debt Securities will be governed by, and construed in accordance with, the laws of the State of New York. (Section 13.04)

Information Concerning the Indenture Trustee

The Indenture Trustee, prior to default, undertakes to perform only such duties as are specifically set forth in the Indenture and, after default, shall exercise the same degree of care as a prudent person would exercise in the conduct of his or her own affairs. (Section 7.01) Subject to such provision, the Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Indenture at the request of any holder of Unsecured Debt Securities, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. (Section 7.02) The Indenture Trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties if the Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it. (Section 7.01)

The Bank of New York and The Chase Manhattan Bank serve as trustees and agents under agreements involving the Company and its affiliates.

Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Indenture to a direct or indirect wholly-owned subsidiary of the Company; *provided* that, in the event of any such assignment, the Company will remain liable for all such obligations. Subject to the foregoing, the Indenture will be binding upon and inure to the benefit of the parties thereto and their respective

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successors and assigns. The Indenture provides that it may not otherwise be assigned by the parties thereto. (Section 13.11 of the Subordinated Indenture and Section 13.10 of the Unsecured Indenture)

BOOK-ENTRY ISSUANCE

Unless otherwise specified in the applicable prospectus supplement, The Depository Trust Company (DTC) will act as securities depositary for each series of the Additional Bonds and the Unsecured Debt Securities. The Additional Bonds and the Unsecured Debt Securities will be issued only as fully-registered securities registered in the name of Cede & Co. (DTC s nominee). One or more fully-registered global certificates will be issued for the Additional Bonds and the Unsecured Debt Securities, representing the aggregate principal amount of each series of Additional Bonds or the aggregate principal amount of each series of Unsecured Debt Securities, respectively, and will be deposited with DTC or its custodian.

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

Purchases of Additional Bonds or Unsecured Debt Securities within the DTC system must be made by or through Direct Participants, which will receive a credit for the Additional Bonds or Unsecured Debt Securities on DTC s records. The ownership interest of each actual purchaser of each Additional Bond and each Unsecured Debt Security (Beneficial Owner) is in turn to be recorded on the Direct and Indirect Participants records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners purchased Additional Bonds or Unsecured Debt Securities. Transfers of ownership interests in the Additional Bonds or Unsecured Debt Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Additional Bonds or Unsecured Debt Securities, except in the event that use of the book-entry system for the Additional Bonds or Unsecured Debt Securities is discontinued.

DTC has no knowledge of the actual Beneficial Owners of the Additional Bonds or Unsecured Debt Securities; DTC s records reflect only the identity of the Direct Participants to whose accounts such Additional Bonds or Unsecured Debt Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Redemption notices shall be sent to Cede & Co. as the registered holder of the Additional Bonds or Unsecured Debt Securities. If less than all of the Additional Bonds or Unsecured Debt Securities are being redeemed, DTC will determine the amount of the interest of each Direct Participant to be

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redeemed in accordance with its procedures, which, for the Additional Bonds and Unsecured Debt Securities that are not Subordinated Debt Securities, will be by lot.

Although voting with respect to the Additional Bonds or Unsecured Debt Securities is limited to the holders of record of the Additional Bonds or Unsecured Debt Securities, in those instances in which a vote is required, neither DTC nor Cede & Co. will itself consent or vote with respect to Additional Bonds or Unsecured Debt Securities. Under its usual procedures, DTC would mail an omnibus proxy (the Omnibus Proxy) to the Mortgage Trustee or the Indenture Trustee, as applicable, as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co. s consenting or voting rights to those Direct Participants to whose accounts such Additional Bonds or Unsecured Debt Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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 and the voting rights of Direct Participants, Indirect Participants and 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.

Payments on the Additional Bonds or Unsecured Debt Securities will be made by the Mortgage Trustee and the Indenture Trustee, respectively, to DTC on behalf of the Company in immediately available funds. DTC s practice is to credit Direct Participants accounts on the relevant payment date in accordance with their respective holdings shown on DTC s records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices and will be the responsibility of such Participant and not of DTC, the Mortgage Trustee, the Indenture Trustee, or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments on the Additional Bonds or Unsecured Debt Securities are the responsibility of the Mortgage Trustee or the Indenture Trustee, respectively, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Definitive certificates for the Additional Bonds or the Unsecured Debt Securities will be printed and delivered only if:

- DTC (or any successor depositary) notifies the Company that it is unwilling or unable to continue as a depositary for the Additional Bonds or the Unsecured Debt Securities and the Company shall not have appointed a successor
- the Company, in its sole discretion, determines to discontinue use of the book-entry system through DTC or any successor depositary or
- an event of default occurs and is continuing with respect to the Additional Bonds under the Mortgage or with respect to the Unsecured Debt Securities under the Indenture and, in either case, holders of a majority in aggregate principal amount of Additional Bonds or Unsecured Debt Securities, as the case may be, determine to discontinue use of DTC s book-entry system.

DTC management is aware that some computer applications, systems and the like for processing data that are dependent upon calendar dates, including dates before, on and after January 1, 2000, may encounter Year 2000 problems. DTC has informed its participants and other members of the financial community that it has developed and is implementing a program so that its data processing computer applications and systems relating to the timely payment of distributions (including principal and income payments) to securityholders, book-entry deliveries, and settlement of trades within DTC, continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. In addition, DTC s plan includes a testing phase, which is expected to be completed within

appropriate time frames.

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However, DTC s ability to perform its services properly is also dependent upon other parties, including issuers and their agents, as well as third-party vendors from whom DTC licenses software and hardware, and third-party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the financial community that it is contacting (and will continue to contact) third-party vendors from whom DTC acquires services to: (i) impress upon them the importance of those services being Year 2000 compliant; and (ii) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing contingency plans as it deems appropriate.

DTC has established a Year 2000 Project Office and will provide information concerning DTC s Year 2000 compliance to persons requesting that information. The address is as follows: The Depository Trust Company, Year 2000 Project Office, 55 Water Street, New York, New York 10041. Telephone numbers for the DTC Year 2000 Project Office are (212) 855-8068 and (212) 855-8881. In addition, information concerning DTC s Year 2000 compliance can be obtained from its web site at the following address: www.dtc.org.

According to DTC, the foregoing information with respect to Year 2000 has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

The information in this section concerning DTC and DTC s book-entry system has been obtained from sources that the Company believes to be accurate, but the Company assumes no responsibility for the accuracy thereof. The Company has no responsibility for the performance by DTC or its Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

PLAN OF DISTRIBUTION

The Company may sell the Securities through underwriters, dealers or agents, or directly to one or more purchasers. The prospectus supplement with respect to the Securities offered thereby will set forth the terms of the offering of such Securities, including the name or names of any underwriters, dealers or agents, the purchase price of such Securities and the proceeds to the Company from such sale, any underwriting discounts and other items constituting underwriters or agents compensation, any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers.

If underwriters are involved in the sale of any Securities, such Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The underwriter or underwriters with respect to a particular underwritten offering of Securities will be named in the prospectus supplement relating to such offering and, if an underwriting syndicate is used, the managing underwriter or underwriters will be set forth on the cover page of such prospectus supplement. Unless otherwise set forth in such prospectus supplement, the obligations of the underwriters to purchase the Securities will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all such Securities if any are purchased.

If a dealer is used in the sale of any Securities, the Company will sell such Securities to the dealer, as principal. The dealer may then resell such Securities to the public at varying prices to be determined by such dealer at the time of resale. The name of any dealer involved in a particular offering of Securities and any discounts or concessions allowed or reallowed or paid to the dealer will be set forth in the prospectus supplement relating to such offering.

The Securities may be sold directly by the Company or through agents designated by the Company from time to time. Any such agent, who may be deemed to be an underwriter as that term is defined in

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the Securities Act, involved in the offer or sale of any of the Securities will be named, and any commissions payable by the Company to such agent will be set forth, in the prospectus supplement relating to such offer or sale. Unless otherwise indicated in such prospectus supplement, any such agent will be acting on a reasonable best efforts basis for the period of its appointment.

If so indicated in an applicable prospectus supplement, the Company will authorize dealers acting as the Company s agents to solicit offers by certain institutions to purchase Securities from the Company at the public offering price set forth in such prospectus supplement pursuant to delayed delivery contracts (Contracts) providing for payment and delivery on the date or dates stated in such prospectus supplement. Each Contract will be for an amount not less than, and the aggregate principal amount of Securities sold pursuant to Contracts shall be not less nor more than, the respective amounts stated in such prospectus supplement. Institutions with whom Contracts, when authorized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and other institutions, but will in all cases be subject to the approval of the Company. Contracts will not be subject to any conditions except (i) the purchase by an institution of the Securities covered by its Contracts shall not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which such institution is subject, and (ii) if the Securities are being sold to underwriters, the Company shall have sold to such underwriters the total principal amount of the Securities less the principal amount thereof covered by Contracts. Agents and underwriters will have no responsibility in respect of the delivery or performance of Contracts.

In connection with a particular underwritten offering of Securities, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the prices of the classes or series of Securities offered, including stabilizing transactions and syndicate covering transactions. A description of these activities, if any, will be set forth in the prospectus supplement relating to such offering.

Certain of the underwriters, dealers or agents and their associates may be customers of, engage in the transactions with or perform services for the Company and its affiliates in the ordinary course of business.

The Company will indicate in a prospectus supplement the extent to which it anticipates that a secondary market for the Securities will be available.

Underwriters, dealers and agents participating in the distribution of the Securities may be deemed to be underwriters within the meaning of, and any discounts and commissions received by them and any profit realized by them on resale of such Securities may be deemed to be underwriting discounts and commissions under, the Securities Act. Subject to certain conditions, the Company may agree to indemnify the several underwriters, dealers or agents and their controlling persons against certain civil liabilities, including certain liabilities under the Securities Act, or to contribute to payments any such person may be required to make in respect thereof.

LEGAL OPINIONS

The validity of the Securities will be passed upon for the Company by Stoel Rives LLP, counsel to the Company, 900 SW Fifth Avenue, Suite 2600, Portland, Oregon 97204.

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