

the fees and charges under the Contracts currently being paid by contractowners to be greater after the Substitution than before the Substitution. Applicants also represent that each of the Substitutions will not have a tax impact on contractowners.

Applicants' Legal Analysis

1. Applicants request an order pursuant to section 26(c) of the Act approving each of the Substitutions. Section 26(c) of the Act makes it unlawful for any depositor or trustee of a registered unit investment trust holding the security of a single issuer to substitute another security for such security unless the Commission approves the substitution. The Commission will approve such a substitution if the evidence establishes that it is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

2. Applicants assert that the purposes, terms and conditions of each of the Substitutions are consistent with the principles and purposes of section 26(c) and do not entail any of the abuses that section 26(c) is designed to prevent. Substitution is an appropriate solution to the lack of contractowner interest in and higher relative expense of the Replaced Funds. Applicants represent that they do not expect that any Substitution will have a significant impact on the expense ratio of the Substituted Fund and believe that because of lower expense ratios each Substituted Fund will serve contractowner interests better than the current fund Applicants seek to replace. Moreover, Principal Life has reserved the right to effect substitutions in the Contracts and disclosed this reserved right in the prospectuses for the Contracts.

3. Applicants represent that each of the Substitutions will not result in the type of costly forced redemption that section 26(c) was intended to guard against and, for the following reasons, is consistent with the protection of investors and the purposes fairly intended by the Act:

(a) Each of the proposed Substitutions permits contractowners continuity of investment objectives and expectations.

(1) Both LCGE and LargeCap Growth seek long term growth of capital primarily by investing in common stocks of companies with large market capitalizations. LCGE, with its emphasis on investing in companies with large market capitalizations, will afford shareholders of LargeCap Growth an opportunity for continued investment exposure to companies with market

capitalizations within an equivalent large market capitalization range.

(2) BC Account seeks long-term growth of capital and growth of income primarily by investing in common stocks of well established large capitalization companies (similar to companies in the S&P 500 Index), and LCSi seeks long-term growth of capital by investing primarily in common stocks of companies that compose the S&P 500 Index. LCSi, with its emphasis of investing in companies that are components of the S&P 500 Index, will afford shareholders of BC Account an opportunity for continued investment exposure to the kinds of companies in which BC Account may invest.

(3) Both MidCap Growth and MCGE seek long-term growth of capital primarily by investing in common stocks of companies with medium market capitalizations. MidCap Growth, with its emphasis on investing in companies with medium market capitalizations, will afford shareholders of MCGE an opportunity for continued investment exposure to companies within the same medium market capitalization range.

(4) Both AAA and Putnam GAAF seek a high long-term return consistent with preservation of capital. AAA, with its emphasis on investing in equity and fixed-income securities of domestic and foreign issuers, will afford shareholders of Putnam GAAF an opportunity for continued investment exposure to equity and fixed-income securities of domestic and foreign issuers.

(5) Both Equity Growth and Vista seek capital appreciation by investing primarily in growth stocks of U.S. companies. Equity Growth, with its emphasis on investing in growth-oriented equity securities of U.S. companies, will afford shareholders of Vista an opportunity for continued investment exposure to growth stocks of domestic corporations.

(b) The contractowners will have ample opportunity to consider their investment options because they will be given notice prior to the Substitutions and will have an opportunity to reallocate accumulation value among other available Divisions without the imposition of any transfer charge or limitation as a result of the Free Transfer Right.

(c) The costs of each of the Substitutions, including legal, accounting, brokerage commissions and other fees and expenses, will be borne by Principal Life and will not be borne by the Funds or the contractowners directly or indirectly.

(d) Each Substitution will be at net asset values of the respective shares,

without the imposition of any transfer or similar charge and with no change in the amount of any contractowner's accumulation value under the Contracts.

(e) The Substitutions will not cause the fees and charges under the Contracts currently being paid by contractowners to be greater after the Substitutions than before the Substitutions.

(f) Within five days after a Substitution, Principal Life will send to contractowners written confirmation that the Substitution has occurred.

(g) The Substitutions will have no impact on the insurance benefits that Principal Life is obligated to provide under the Contracts or on the other rights of contractowners and other obligations of Principal Life under the Contracts.

(h) The Substitutions will in no way alter the tax benefits to contractowners.

(j) For each fiscal period (not to exceed a fiscal quarter) during the 24 months following the date of Substitution into LCSi, AAA and Equity Growth, Principal Life will adjust the Contract values invested in the Substituted Fund as a result of the Substitution, to the extent necessary to effectively reimburse the affected owners for their proportionate share of any amount by which the annual rate of the Substituted Fund's total operating expenses (after any expense waivers or reimbursements) for that fiscal period, as a percentage of the Fund's average daily net assets, plus the annual rate of any asset-based charges (excluding any such charges that are for premium taxes) deducted under the terms of the owner's Contract for that fiscal period, exceed the sum of: The annualized rate of the corresponding Replaced Fund's total operating expenses, as a percentage of such Replaced Fund's average daily net assets, for the twelve months ended December 31, 2002; plus the annual rate of any asset-based charges (excluding any such charges that are for premium taxes) deducted under that Contract for such twelve months; and

(k) For each fiscal period (not to exceed a fiscal quarter) during the 24 months following the date of Substitution into LCGE and MidCap Growth, Principal Life will, with respect to all Contracts outstanding on the date of the Substitution, adjust the Contract values invested in the Substituted Fund, to the extent necessary to effectively reimburse the owners of those Contracts for their proportionate share of any amount by which the annual rate of the Substituted Fund's total operating expenses (after any expense waivers or reimbursements) for that fiscal period, as a percentage of the Fund's average daily net assets, plus the annual rate of