

BEAR STEARNS COMPANIES INC
 Form 424B8
 January 30, 2007

Title of Each Class of Securities Offered	Maximum Aggregate Offering Price	Amount of Registration Fee⁽¹⁾
Medium-Term Notes, Series B	\$1,036,000	\$110.86

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended. The filing fee of \$110.86 is being paid in connection with the registration of these Medium-Term Notes, Series B.

Filed pursuant to Rule 424(b)(8)

Registration No. 333-136666

PRICING SUPPLEMENT

(To Prospectus dated August 16, 2006 and
 Prospectus Supplement dated August 16, 2006)

The Bear Stearns Companies Inc.

Medium-Term Notes, Linked to the Performance of the S&P MidCap 400[®] Index

Due January 30, 2011

The Notes are linked to the performance of the S&P MidCap 400[®] Index (the "Index"). When we refer to Notes in this pricing supplement, we mean Notes with a principal amount of \$1,000. On the Maturity Date, you will receive the Cash Settlement Value, an amount in cash that depends upon the relation of the Final Index Level to the Initial Index Level.

The Cash Settlement Value will be calculated as follows:

(i) If, at maturity, the Index Return is greater than zero, then, on the Maturity Date, you will receive an amount per Note equal to 100% of the original principal amount of the Note plus the product of: (i) the original principal amount multiplied by (ii) the Index Return multiplied by (iii) the Upside Participation Rate.

(ii) If, at maturity, the Index Return is between zero and -15%, inclusive, then, on the Maturity Date, you will receive 100% of the original principal amount of the Note.

(iii) If, at maturity, the Index Return is less than -15%, then, on the Maturity Date, you will receive an amount equal to the original principal amount minus 1% of the original principal amount for each percentage point that the Index Return is less than -15%. For example, if the Index Return is -40%, you will suffer a 25% loss and, therefore, receive 75% of the original principal amount.

The Index Return is the amount expressed as a percentage, resulting from the quotient of: (i) the Final Index Level minus the Initial Index Level divided by (ii) the Initial Index Level.

The Upside Participation Rate equals 104.50%.

We will not pay interest during the term of the Notes.

The CUSIP number for the Notes is 073928T86.

The Notes will not be listed on any securities exchange.

INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS, INCLUDING THE RISK THAT YOU MAY LOSE UP TO 85% OF YOUR INVESTMENT. THERE MAY NOT BE A SECONDARY MARKET IN THE NOTES, AND IF THERE WERE TO BE A SECONDARY MARKET, IT MAY NOT BE LIQUID. YOU SHOULD

REFER TO “RISK FACTORS” BEGINNING ON PAGE PS-9.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Notes or determined that this pricing supplement, or the accompanying prospectus supplement and prospectus, is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	Total
Initial public offering price	100.00%	\$1,036,000
Agent’s commission	0.00%	\$0
Proceeds, before expenses, to us	100.00%	\$1,036,000

We expect that the Notes will be ready for delivery in book-entry form only through the book-entry facilities of The Depository Trust Company in New York, New York, on or about January 30, 2007, against payment in immediately available funds. The distribution of the Notes will conform to the requirements set forth in Rule 2720 of the National Association of Securities Dealers, Inc. Conduct Rules.

Bear, Stearns & Co. Inc.
January 30, 2007

SUMMARY

This summary highlights selected information from the accompanying prospectus and prospectus supplement and this pricing supplement to help you understand the Notes linked to the Index. You should carefully read this entire pricing supplement and the accompanying prospectus supplement and prospectus to fully understand the terms of the Notes, as well as certain tax and other considerations that are important to you in making a decision about whether to invest in the Notes. You should carefully review the section “Risk Factors” in this pricing supplement and “Risk Factors” in the accompanying prospectus supplement which highlight a number of significant risks, to determine whether an investment in the Notes is appropriate for you. All of the information set forth below is qualified in its entirety by the more detailed explanation set forth elsewhere in this pricing supplement and the accompanying prospectus supplement and prospectus. If information in this pricing supplement is inconsistent with the prospectus or prospectus supplement, this pricing supplement will supersede those documents. In this pricing supplement, the terms “Company,” “we,” “us” and “our” refer only to The Bear Stearns Companies Inc. excluding its consolidated subsidiaries.

The Bear Stearns Companies Inc. Medium-Term Notes, Series B due January 30, 2011 (the “Notes”), are Notes whose return is tied or “linked” to the performance of the S&P MidCap 400 Index. When we refer to Note or Notes in this pricing supplement, we mean \$1,000 principal amount of Notes. The Notes are principal protected for the first 15% decline in the Index Level only if held to maturity. On the Maturity Date, you will receive the Cash Settlement Value, an amount in cash that depends upon the Index Return. The Index Return is the amount expressed as a percentage, resulting from the quotient of: (i) the Final Index Level minus the Initial Index Level divided by (ii) the Initial Index Level. If, at maturity, the Index Return is greater than zero, then, on the Maturity Date, you will receive an amount per Note equal to 100% of the original principal amount of the Note plus the product of: (i) the original principal amount multiplied by (ii) the Index Return multiplied by (iii) the Upside Participation Rate. If, at maturity, the Index Return is between zero and -15%, inclusive, then, on the Maturity Date, you will receive 100% of the original principal amount of the Note. If, at maturity, the Index Return is less than -15%, then, on the Maturity Date, you will receive an amount equal to the original principal amount minus 1% of the original principal amount for each percentage point that the Index Return is less than -15%. For example, if the Index Return is -40%, you will suffer a 25% loss and, therefore, receive 75% of the original principal amount. We will not pay interest during the term of the Notes.

Selected Investment Considerations

- Partial principal protection—The Notes are principal protected for the first 15% of decline in the Index Level, if held to maturity.
- No current income—We will not pay interest during the term of the Notes.
- Growth potential—The Notes offer the possibility to participate in the potential appreciation in the Index. The Cash Settlement Value is based upon whether the Final Index Level is greater than the Initial Index Level. In addition, because of the Upside Participation Rate, investors will receive a 1.045% return for every 1.0% increase in the Final Index Level over the Initial Index Level.
- Medium-term investment—The Notes may be an attractive investment for investors who have a bullish view of the Index during the term of the Notes.
- Diversification—Because the Index is currently based on the equity prices of 2,000 companies, the Notes may allow you to diversify an existing portfolio.

· Low minimum investment—Notes can be purchased in increments of \$1,000.

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Selected Risk Considerations

- Possible loss of principal—Your investment in the Notes is not fully principal protected and you may lose up to 85% of your initial investment. If you sell your Notes prior to maturity or the Index declines by more than 15% during the term of the Notes, you may receive less than the amount you originally invested.
- No interest, dividend or other payments—You will not receive any interest, dividend payments or other distributions on the stocks underlying the Index, nor will such payments be included in the calculation of the Cash Settlement Value you will receive at maturity.
- Not exchange-listed—The Notes will not be listed on any securities exchange, and we do not expect a trading market to develop, which may affect the price that you receive for your Notes upon any sale prior to maturity.
- Liquidity—If a trading market were to develop in the Notes, it may not be liquid. Our subsidiary, Bear Stearns has advised us that they intend under ordinary market conditions to indicate prices for the Notes on request. However, we cannot guarantee that bids for outstanding Notes will be made; nor can we predict the price at which any such bids will be made. In any event, Notes will cease trading as of the close of business on the Maturity Date.
- Yield—The yield on the Notes may be less than the overall return you would earn if you purchased a conventional debt security at the same time and with the same maturity.
- Return related to price movement—If the Final Index Level is less than the Initial Index Level, your return will be limited to the principal amount of your Notes. In addition, investors will lose 1% of their original principal amount for every percentage point that the Index Return is less than -15%.

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KEY TERMS

Issuer: The Bear Stearns Companies Inc.

Index: The Standard & Poor's MidCap 400® Index (Bloomberg ticker "MID"), as published by S&P (the "Sponsor").

Face Amount: Each Note will be issued in minimum denominations of \$1,000 and \$1,000 multiples thereafter; provided, however, that the minimum purchase for any purchaser domiciled in a Member State of the European Economic Area shall be \$100,000. The aggregate principal amount of the Notes being offered is \$1,036,000. When we refer to Note or Notes in this pricing supplement, we mean Notes with a principal amount of \$1,000.

Cash Settlement Value: If, at maturity, the Index Return is greater than zero, then, on the Maturity Date, you will receive an amount per Note equal to 100% of the original principal amount of the Note plus the product of: (i) the original principal amount multiplied by (ii) the Index Return multiplied by (iii) the Upside Participation Rate.

If, at maturity, the Index Return is between zero and -15%, inclusive, then, on the Maturity Date, you will receive 100% of the original principal amount of the Note.

If, at maturity, the Index Return is less than -15%, then, on the Maturity Date, you will receive an amount equal to the original principal amount minus 1% of the original principal amount for each percentage point that the Index Return is less than -15%. For example, if the Index Return is -40%, you will suffer a 25% loss and, therefore, receive 75% of the original principal amount.

The Upside Participation Rate equals 104.50%.

Index Return: The amount expressed as a percentage, resulting from the quotient of: (i) the Final Index Level minus the Initial Index Level divided by (ii) the Initial Index Level.

Interest: The Notes will not bear interest.

Index Level: The closing value of the Index, as determined by the Sponsor, on each Index Business Day.

Initial Index Level: Equals 817.23.

Final Index Level: Will be determined by the Calculation Agent and will equal the closing value of the Index, as determined by the Sponsor, on January 25, 2011, the "Calculation Date." The Calculation Date is subject to adjustment as described under "Description of the Notes - Market Disruption Events."

Maturity Date: The Notes are expected to mature on January 30, 2011; however, upon the occurrence of a Market Disruption Event, the Maturity Date will be three Index Business Days following the adjusted Calculation Date.

Exchange listing: The Notes will not be listed on any securities exchange.

Index Business Day: Means any day on which each Primary Exchange and each Related Exchange are scheduled to be open for trading.

Business Day: Any day other than a Saturday or Sunday, on which banking institutions in the cities of New York, New York and London, England are not authorized or obligated by law or executive order to be closed.

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Offers and sales of the Notes are subject to restrictions in certain jurisdictions. The distribution of this pricing supplement and the accompanying prospectus supplement and prospectus and the offer or sale of the Notes in certain other jurisdictions may be restricted by law. Persons who come into possession of this pricing supplement, and the accompanying prospectus supplement and prospectus or any Notes must inform themselves about and observe any applicable restrictions on the distribution of this pricing supplement, the accompanying prospectus supplement and prospectus and the offer and sale of the Notes. Notwithstanding the minimum denomination of \$1,000, the minimum purchase for any purchaser domiciled in a Member State of the European Economic Area shall be \$100,000.

QUESTIONS AND ANSWERS

What are the Notes?

The Notes are a series of our senior debt securities, the value of which is linked to the performance of the Index. The Notes will not bear interest and no other payments will be made prior to maturity. See the section “Risk Factors.”

The Notes are expected to mature on January 30, 2011. The Notes do not provide for earlier redemption. When we refer to Notes in this pricing supplement, we mean Notes with a principal amount of \$1,000. You should refer to the section “Description of Notes.”

Are the Notes equity or debt securities?

The Notes are our unsecured debt securities. However, the Notes differ from traditional debt securities in that the Notes are not fully principal protected and offer the opportunity to positively participate in the appreciation, if any, of the Index. If, at maturity, the Index Return is less than -15%, you will receive less, and possibly up to 85% less, than the original public offering price of \$1,000 per Note. In that case, we will pay you an amount equal to the original principal amount of your Notes, minus 1% of the original principal amount for each percentage point that the Index Return is below -15%. In no event will we pay you less than 15% of the original principal amount of your Notes.

What will I receive at maturity of the Notes?

If, at maturity, the Index Return is greater than zero, then, on the Maturity Date, you will receive an amount per Note equal to 100% of the original principal amount of the Note plus the product of: (i) the original principal amount multiplied by (ii) the Index Return multiplied by (iii) the Upside Participation Rate.

If, at maturity, the Index Return is between zero and -15%, inclusive, then, on the Maturity Date, you will receive 100% of the original principal amount of the Note.

If, at maturity, the Index Return is less than -15%, then, on the Maturity Date, you will receive an amount equal to the original principal amount minus 1% of the original principal amount for each percentage point that the Index Return is less than -15%. For example, if the Index Return is -40%, you will suffer a 25% loss and, therefore, receive 75% of the original principal amount.

The Index Return is the amount expressed as a percentage, resulting from the quotient of: (i) the Final Index Level minus the Initial Index Level divided by (ii) the Initial Index Level.

The Upside Participation Rate equals 104.50%.

The “Index Level” equals the closing value of the Index, as determined by the Sponsor, on each Index Business Day.

The “Initial Index Level” equals 817.23.

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The “Final Index Level” will be determined by the Calculation Agent and will equal the closing value of the Index, as determined by the Sponsor, on January 25, 2011, the “Calculation Date.” The Calculation Date is subject to adjustment as described under “Description of the Notes - Market Disruption Events.”

The “Maturity Date” is expected to be January 30, 2011; however, upon the occurrence of a Market Disruption Event, the Maturity Date will be three Index Business Days following the adjusted Calculation Date.

“Related Exchange” means each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or options contracts relating to the Index.

“Primary Exchange” means the primary exchange or market of trading of any security then included in the Index.

An “Index Business Day” means any day on which each Primary Exchange and each Related Exchange are scheduled to be open for trading.

For more specific information about the Cash Settlement Value and for illustrative examples, you should refer to “Description of the Notes.”

Are the Notes principal protected?

No. The Notes are not fully principal protected and 85% of your principal investment in the Notes is at risk of loss. The Notes are linked to the performance of the Index and will result in a loss if the Index Return is less than -15%. In this case, the Cash Settlement Value you will receive will equal the original principal amount of your Notes, minus 1% of the original principal amount for each percentage point that the Index Return is below -15%. In no event will we pay you less than 15% of the original principal amount of your Notes.

Will I receive interest on the Notes?

We will not make any periodic payments of interest or any other periodic payments during the term of the Notes.

What is the Index?

Unless otherwise stated, all information on the Index that is provided in this pricing supplement is derived from the Sponsor or other publicly available sources. The Index is published by the Sponsor and is intended to track the price movements of the stocks comprising the Index.

The Index is published by the Sponsor and is meant to provide a performance benchmark for the medium capitalization segment of the U.S. equity markets. The Index tracks the stock price movement of 400 companies with mid-sized market capitalizations, primarily ranging from \$1 billion to \$4 billion. The market capitalization requirements are reviewed periodically to ensure consistency with market standards. The Index is maintained with similar methodologies and rules as the S&P 500[®] Index, with variations only to account for differences in capitalization requirements.

The Sponsor chooses stocks for inclusion in the Index with the aim of offering investors access to the mid-cap segment of the U.S. equity markets. For more information, see the section “Description of the Index.”

How has the Index performed historically?

We have provided a table showing the month-end Index Levels from January 2001 through December 2006. You can find these tables in the section “Description of the Index - Historical Data on the Index”. We have provided this historical information to help you evaluate the behavior of the Index in various economic environments; however, past performance is not indicative of how the Index will perform in the future. You should refer to the section “Risk Factors - The historical performance of the Index is not an indication of the future performance of the Index.”

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Will the Notes be listed on a securities exchange?

The Notes will not be listed on any securities exchange, and we do not expect a trading market to develop, which may affect the price that you receive for your Notes upon any sale prior to maturity. Bear Stearns has advised us that they intend under ordinary market conditions to indicate prices for the Notes on request. However, we cannot guarantee that bids for outstanding Notes will be made; nor can we predict the price at which any such bids will be made. In any event, the Notes will cease trading as of the close of business on the Maturity Date. You should refer to the section “Risk Factors.”

What is the role of Bear Stearns?

Bear Stearns will be our agent for the offering and sale of the Notes. After the initial offering, Bear Stearns intends, under ordinary market conditions, to buy and sell the Notes to create a secondary market for holders of the Notes, and may stabilize or maintain the market price of the Notes during the initial distribution of the Notes. However, Bear Stearns will not be obligated to engage in any of these market activities or to continue them if they are begun.

Bear Stearns also will be our Calculation Agent for purposes of calculating the Cash Settlement Value. Under certain circumstances, these duties could result in a conflict of interest between Bear Stearns’ status as our subsidiary and its responsibilities as Calculation Agent. You should refer to “Risk Factors—The Calculation Agent is one of our affiliates, which could result in a conflict of interest” and “Description of the Notes—Calculation Agent.”

Can you tell me more about The Bear Stearns Companies Inc.?

We are a holding company that, through our broker-dealer and international bank subsidiaries, principally Bear Stearns, Bear, Stearns Securities Corp., Bear, Stearns International Limited (“BSIL”) and Bear Stearns Bank plc, is a leading investment banking, securities and derivatives trading, clearance and brokerage firm serving corporations, governments, institutional and individual investors worldwide. For more information about us, please refer to the section “The Bear Stearns Companies Inc.” in the accompanying prospectus. You should also read the other documents we have filed with the Securities and Exchange Commission, which you can find by referring to the section “Where You Can Find More Information” in the accompanying prospectus.

Who should consider purchasing the Notes?

Because the Notes are tied to the price performance of an underlying equity index, they may be appropriate for investors with specific investment horizons who seek to participate in the potential price appreciation of the underlying stocks comprising the Index. In particular, the Notes may be an attractive investment for investors who:

- believe that the Index Level will increase over the term of the Notes;
- want potential upside exposure to stocks underlying the Index;
- are willing to risk the possible loss of up to 85.00% of their investment in exchange for the opportunity to positively participate in the increase, if any, in the Index;
 - are willing to forgo interest payments or dividend payments on the stocks underlying the Index; and
 - wish to gain leveraged exposure to the appreciation, if any, of the Index.

The Notes may not be a suitable investment for you if you:

- seek full principal protection under all market conditions;
- seek current income or dividend payments from your investment;
- seek an investment with an active secondary market;
- are unable or unwilling to hold the Notes until maturity; or
- do not have a bullish view of the Index over the term of the Notes.

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What are the U.S. federal income tax consequences of investing in the Notes?

The U.S. federal income tax consequences of an investment in the Notes are complex and uncertain. We intend to treat the Notes for all tax purposes as pre-paid cash-settled forward or other executory contracts linked to the value of the Index and, where required, to file information returns with the Internal Revenue Service (the “IRS”) in accordance with such treatment. Prospective investors are urged to consult their tax advisors regarding the U.S. federal income tax consequences of an investment in the Notes. Assuming the Notes are treated as pre-paid cash-settled forward or other executory contracts, you should be required to recognize capital gain or loss to the extent that the cash you receive on the Maturity Date or upon a sale or exchange of the Notes prior to the Maturity Date differs from your tax basis on the Notes (which will generally be the amount you paid for the Notes). You should review the discussion under the section “Certain U.S. Federal Income Tax Considerations.”

Does ERISA impose any limitations on purchases of the Notes?

An employee benefit plan subject to the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974 (“ERISA”), a plan that is subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”), including individual retirement accounts, individual retirement annuities or Keogh plans, a governmental or other plan subject to any materially similar law or any entity the assets of which are deemed to be “plan assets” under ERISA, Section 4975 of the Code and any applicable regulations, will be permitted to purchase, hold and dispose of the Notes, subject to certain conditions. Such investors should carefully review the discussion under “Certain ERISA Considerations” herein.

Are there any risks associated with my investment?

Yes. The Notes are subject to a number of risks. You should refer to “Risk Factors” in this pricing supplement and “Risk Factors” in the accompanying prospectus supplement.

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RISK FACTORS

Your investment in the Notes will be subject to risks not associated with conventional fixed-rate or floating-rate debt securities. Prospective purchasers should recognize the possibility of a loss with respect to their investment in the Notes. Prospective purchasers of the Notes should understand the risks of investing in the Notes and should reach an investment decision only after careful consideration, with their advisers, of the suitability of the Notes in light of their particular financial circumstances, the following risk factors and the other information set forth in this pricing supplement and the accompanying prospectus supplement and prospectus. These risks include the possibility that the Index will fluctuate. We have no control over a number of matters, including economic, financial, regulatory, geographic, judicial and political events, that are important in determining the existence, magnitude, and longevity of these risks and their influence on the value of, or the payment made on, the Notes.

The Notes are not fully principal protected. At maturity, the Notes may pay less than the principal amount.

The Notes are not fully principal protected and 85% of your principal investment in the Notes is at risk of loss. If the Index Return is less than -15%, you will receive less, and possibly up to 85% less, than the original public offering price of \$1,000 per Note. In this case, you will lose 1% of the original principal amount for each percentage point that the Index Return is below -15%. In no event will we pay you less than 15% of the original principal amount of your Notes. Accordingly, you may lose up to 85% of your initial investment in the Notes. If you sell your Notes prior to maturity, you may receive less than the amount you originally invested.

The formula for determining the Cash Settlement Value does not take into account changes in the Index Level prior to the Calculation Date.

Changes in the Index Level during the term of the Notes before the Calculation Date will not be reflected in the calculation of the Cash Settlement Value. The Calculation Agent will calculate the Cash Settlement Value based upon the Index Level as of the Calculation Date. As a result, you may receive the amount of your investment in the Notes, or lose up to 85% of your investment in the Notes, even if the Index Level has increased at certain times during the term of the Note before decreasing on the Calculation Date.

You will not receive any interest payments on the Notes. Your yield may be lower than the yield on a conventional debt security of comparable maturity.

You will not receive any periodic payments of interest or any other periodic payments on the Notes. On the Maturity Date, you will receive a payment per Note equal to the Cash Settlement Value. Thus, the overall return you earn on your Notes may be less than that you would have earned by investing in a non-indexed debt security of comparable maturity that bears interest at a prevailing market rate and is fully principal protected. For more specific information about the Cash Settlement Value and for illustrative examples, you should refer to the section "Description of the Notes."

Your yield will not reflect dividends on the underlying stocks that comprise the Index.

The Index does not reflect the payment of dividends on the stocks underlying it. You should refer to the section "Description of the Notes."

You must rely on your own evaluation of the merits of an investment linked to an increase, if any, in the Index.

In the ordinary course of our business, we may from time to time express views on expected movements in the Index and in the stocks underlying the Index. These views may vary over differing time horizons and are subject to change without notice. Moreover, other professionals who deal in the equity markets may at any time have views that differ

significantly from ours. In connection with your purchase of the Notes, you should investigate the Index and the stocks that underlie the Index and not rely on our views with respect to future movements in the Index and underlying stocks. You should make such investigation as you deem appropriate as to the merits of an investment linked to an increase, if any, in the Index.

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Equity market risks may affect the trading value of the Notes and the amount you will receive at maturity.

We expect that the Index Level will fluctuate in accordance with changes in the financial condition of the companies issuing the stocks comprising the Index, the value of the underlying stocks comprising the Index generally and other factors. The financial condition of the companies issuing the stocks comprising the Index may weaken or the general condition of the equity market may decline, either of which may cause a decrease in the Index Level and thus a decrease in the value of the Notes. Stocks are susceptible to general equity market fluctuations and to volatile increases and decreases in value, as market confidence in and perceptions regarding the underlying stocks comprising the Index change. Investor perceptions regarding the companies issuing the stocks comprising the Index are based on various and unpredictable factors, including expectations regarding government, economic, monetary and fiscal policies, inflation and interest rates, economic expansion or contraction, and global or regional political, economic, and banking crises. The Index Level may be expected to fluctuate until the Calculation Date.

The historical performance of the Index is not an indication of the future performance of the Index.

The historical performance of the Index, which is included in this pricing supplement, should not be taken as an indication of the future performance of the Index. While the trading prices of the underlying stocks comprising the Index will determine the Index Level, it is impossible to predict whether the Index Level will fall or rise. Trading prices of the underlying stocks comprising the Index will be influenced by the complex and interrelated economic, financial, regulatory, geographic, judicial, political and other factors that can affect the capital markets generally and the equity trading markets on which the underlying stocks are traded, and by various circumstances that can influence the values of the underlying stocks in a specific market segment or the value of a particular underlying stock.

Because the treatment of the Notes is uncertain, the material U.S. federal income tax consequences of an investment in the Notes are uncertain.

Although we intend to treat the Notes for all tax purposes as pre-paid cash-settled forward or other executory contracts linked to the Index, there is no direct legal authority as to the proper tax treatment of the Notes, and therefore significant aspects of the tax treatment of the Notes are uncertain. In particular, it is possible that you will be required to recognize income for U.S. federal tax purposes with respect to the Notes prior to the sale, exchange or maturity of the Notes, and it is possible that any gain or income recognized with respect to the Notes will be treated as ordinary income rather than capital gain. Prospective investors are urged to consult their tax advisors regarding the U.S. federal income tax consequences of an investment in the Notes. Please read carefully the section "Certain U.S. Federal Income Tax Considerations."

The price at which you will be able to sell your Notes prior to maturity will depend on a number of factors, and may be substantially less than the amount you had originally invested.

If you wish to liquidate your investment in the Notes prior to maturity, your only alternative would be to sell them. At that time, there may be an illiquid market for Notes or no market at all. Even if you were able to sell your Notes, there are many factors outside of our control that may affect their trading value. We believe that the value of your Notes will be affected by the level and volatility of the Index, whether the Final Index Level is greater than or equal to the Initial Index Level, changes in U.S. interest rates, the supply of and demand for the Notes and a number of other factors. Some of these factors are interrelated in complex ways; as a result, the effect of any one factor may be offset or magnified by the effect of another factor. The price, if any, at which you will be able to sell your Notes prior to maturity may be substantially less than the amount you originally invested if, at such time, the Index Level is less than, equal to or not sufficiently above the Initial Index Level. The following paragraphs describe the manner in which we expect the trading value of the Notes will be affected in the event of a change in a specific factor, assuming all other conditions remain constant.

·*Index performance.* We expect that the value of the Notes prior to maturity will depend substantially on whether the Index Level is greater than the Initial Index Level. If you decide to sell your Notes when the Index Level exceeds the Initial Index Level, you may nonetheless receive substantially less than the amount that would be payable at maturity based on that Index Level because of expectations that the Index Level will continue to fluctuate until the Final Index Level is determined. Economic, financial, regulatory, geographic, judicial, political and other developments that affect the stocks underlying the Index may also affect the Index Level and, thus, the value of the Notes.

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