BEAR STEARNS COMPANIES INC
Form 424B5
January 11, 2006

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This preliminary pricing supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This preliminary pricing supplement and the accompanying prospectus supplement and prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where such an offer or sale would not be permitted.

Subject to Completion, dated January 11, 2006

PRICING SUPPLEMENT
(To Prospectus Dated February 2, 2005 and
Prospectus Supplement Dated February 2, 2005)

The Bear Stearns Companies Inc.

$[ ] Principal Protected Notes Linked to a Basket of Commodities, Potential [2.50 3.50]% Semi-Annual Coupon, which is [5.00 7.00]% Annualized Coupon, Due July [ ], 2011

The Notes are fully principal protected if held to maturity and are linked to the potential increase in the value of an equally weighted basket comprised of the following five commodities (each, a "Component" and together the "Basket"):

Crude Oil
Natural Gas
Aluminum
Copper
Gold

Each component in the Basket is weighted at 20%. When we refer to Notes in this pricing supplement, we mean Notes with a principal amount of $1,000.

If, on any Semi-Annual Interest Observation Date, the Basket Level is greater than the Initial Basket Level, we will pay you [2.50 3.50]%, which is [5.00 7.00]% annualized interest, for each $1,000 principal amount of Notes with respect to the immediately preceding six-month period.

However, if, on any Semi-Annual Interest Observation Date, the Basket Level is less than or equal to the Initial Basket Level, we will not pay any interest for the immediately preceding six-month period.

Upon maturity of the Notes, you will receive the Cash Settlement Value, a cash amount that is based upon the Basket Performance.

If, at maturity, the value of the Basket has increased or has not changed, the Cash Settlement Value will equal the principal amount of the Notes, plus 100% of the percentage gain on the value of the Basket.

If, at maturity, the value of the Basket has declined, the Cash Settlement Value will be $1,000. Because the Notes are principal protected if held to maturity, in no event will the Cash Settlement Value be less than $1,000.

The CUSIP number for the Notes is 073928N41.

INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS. 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-13.

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	[ ]%	$[ ]
Agent's discount	[ ]%	$[ ]
Proceeds, before expenses, to us	[ ]%	$[ ]

We may grant the agents a 30-day option from the date of the final pricing supplement, to purchase from us up to an additional $[ ] of Notes at the public offering price, less the agent's discount, to cover any over-allotments.

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 [ ], 2006, 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 [ ], 2006

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 potential increase in the value of the Basket. 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 the principal 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, Principal Protected Notes linked to a Basket of Commodities, Potential [2.50 3.50]%, which is [5.00 7.00]% annualized Coupon, Due July [ ], 2011 (the "Notes") are Notes the return of which is tied or "linked" to the potential increase in the value of the Basket. When we refer to Notes in this pricing supplement, we mean Notes with a principal amount of $1,000. If, on any Semi-Annual Interest Observation Date, the Basket Level is greater than the Initial Basket Level, we will pay you [2.50 3.50]%, which is [5.00 7.00]% annualized interest, for each $1,000 principal amount of Notes with respect to the immediately preceding six-month period. However, if, on any Semi-Annual Interest Observation Date, the Basket Level is less than or equal to the Initial Basket Level, we will not pay any interest for the immediately preceding six-month period.

The Notes are principal protected only if held to maturity. Upon maturity of the Notes, you will receive the Cash Settlement Value, a cash amount that is based upon the Basket Performance. The value of the Basket is based upon the equally weighted performance of the five Components, which are Crude Oil, Natural Gas, Aluminum, Copper and Gold. Each Component in the Basket is fixed at 20% and will not change during the term of the Notes. The Basket Performance represents the weighted average of the percentage change of each Component, which may be positive or negative.

If, at maturity, the value of the Basket has increased, the Cash Settlement Value will equal the principal amount of the Notes, plus 100% of the percentage gain on the value of the Basket, if any. If, at maturity, the value of the Basket has declined or has not changed, the Cash Settlement Value will be $1,000. Because the Notes are principal protected if held to maturity, in no event will the Cash Settlement Value be less than $1,000.

Selected Investment Considerations

Potential increase, if any, in the value of the Basket The Notes may be an attractive investment for investors who have a bullish view of the commodities underlying the Basket. If held to maturity, the Notes allow you to participate in the potential increase in the value of the Basket.

Principal protection If, at maturity, the value of the Basket has declined, the Cash Settlement Value will be $1,000. Because the Notes are principal protected if held to maturity, you will receive a Cash Settlement Value of at least $1,000 per Note.

Potential current income If, on any Semi-Annual Interest Observation Date, the Basket Level is greater than the Initial Basket Level, we will pay you [2.50 3.50]%, which is [5.00 7.00]% annualized interest, for each $1,000 principal amount of Notes with respect to the immediately preceding six-month period. However, if, on any Semi-Annual Interest Observation Date, the

Basket Level is less than or equal to the Initial Basket Level, we will not pay any interest for the immediately preceding six-month period. The yield on the Notes may consequently 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.

Diversification The Basket is comprised of five equally weighted commodities Crude Oil, Natural Gas, Aluminum, Copper and Gold. Therefore, the Notes may allow you to diversify an existing portfolio or investment.

Low minimum investment The minimum purchase is $1,000, with increments of $1,000 thereafter.

Selected Risk Considerations

Possible loss of value in the secondary market Your principal investment in the Notes is protected only if you hold your Notes to maturity. If you sell your Notes prior to the Maturity Date, you may receive less, and possibly significantly less, than the amount you originally invested.

You may not receive any interest payments During the term of the Notes, if, on any Semi-Annual Interest Observation Date, the Basket Level is less than or equal to the Initial Basket Level, we will not pay any interest for the immediately preceding six-month period.

The Notes will not be listed on any securities exchange. You should be aware that we cannot ensure that a secondary market in the Notes will develop; and, if such a market were to develop, it may not be liquid. Our subsidiary, Bear, Stearns & Co. Inc. ("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 in the future; nor can we predict the price at which any such bids will be made. In any event, any such market-making activities will cease as of the close of business on the Maturity Date.

Taxes For U.S. federal income tax purposes, we intent to treat the Notes as contingent payment debt instruments. As a result, you will be required to include original issue discount ("OID") in income during your ownership of the Notes even though you will receive no cash payments with respect to the Notes until maturity. Additionally, you will generally be required to recognize ordinary income on the gain, if any, realized on a sale, upon maturity, or other disposition of the Notes. You should review the discussion under the section entitled "Certain U.S. Federal Income Tax Considerations" in this pricing supplement.

KEY TERMS

Issuer:	The Bear Stearns Companies Inc.
Face Amount:	Each Note will be issued in minimum denominations of $1,000 and in $1,000 increments in excess thereafter; provided, however, that the minimum purchase for any purchaser domiciled in a Member State of the European Union shall be $100,000. When we refer to Notes in this pricing supplement, we mean Notes with a principal amount of $1,000.
Interest Amount:	If, on any Semi-Annual Interest Observation Date, the Basket Level is greater than the Initial Basket Level, we will pay you [2.50 - 3.50]%, which is [5.00 - 7.00]% annualized interest, for each $1,000 principal amount of Notes with respect to the immediately preceding six-month period. However, if, on any Semi-Annual Interest Observation Date, the Basket Level is less than or equal to the Initial Basket Level, we will not pay any interest for the immediately preceding six-month period.
Semi-Annual Interest Observation Date:	The [ ] day of January and July of each year until maturity, commencing on July [ ], 2006. The final Semi-Annual Interest Observation Date is July [ ], 2011.
Interest Payment Date:	The [ ] day of January and July of each year until maturity, commencing on July [ ], 2006.
Basket:	Comprised of five commodities: Crude Oil, Natural Gas, Aluminum, Copper and Gold (each, a "Component"). The weighting of each Component is fixed at 20% and will not change during the term of the Notes.
Component Price:	For Crude Oil (West Texas Light Sweet Crude Oil), the settlement price per barrel of light sweet crude oil of the first nearby futures contract to expire on or following the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, on the New York Mercantile Exchange or its successor (the "NYMEX"), as made public by the NYMEX and displayed on Reuters page "SETT" Bloomberg ticker symbol CL1 <Comdty>; For Natural Gas, the settlement price per one million British thermal units ("MMBtu") of natural gas of the first Henry Hub Natural Gas futures contract to expire on or following the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable on the NYMEX, as made public by the NYMEX and displayed on Reuters page "SETNGS" Bloomberg ticker symbol NG1 <Comdty>; For Aluminum, the official price per metric ton of aluminum on the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, as determined by the London Metal Exchange or its successor ("LME") at the second ring of the first session of trading on the LME and displayed on Reuters page "MTLE" Bloomberg ticker symbol LOAHDY <Comdty>;

For Copper, the official price per metric ton of copper on the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, as determined by the LME at the second ring of the first session of trading on the LME and displayed on Reuters page "MTLE" Bloomberg ticker symbol LOCADY <Comdty>;

For Gold, the PM fixing price per troy ounce of gold, expressed in U.S. dollars, on the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, as determined by the London Gold Bullion Market or its successor (the "LBMA") and displayed on Reuters page "GOFO" Bloomberg ticker symbol GOLDLNPM <Comdty>.

Basket Performance: The Basket Performance is determined as follows:

$$100\% \times \frac{\textbf{Basket Level on Calculation Date} \quad \textbf{Initial Basket Level}}{\textbf{Initial Basket Level}}$$

Cash Settlement Value: At maturity, we will pay you the Cash Settlement Value, an amount in cash per Note that is based upon the Basket Performance. If, at maturity, the value of the Basket has increased when the Basket Performance is computed, the Cash Settlement Value will equal the principal amount of the Notes, plus 100% of the percentage gain on the value of the Basket, if any. If, at maturity, the value of the Basket has declined when the Basket Performance is computed, the Cash Settlement Value will be $1,000. Because the Notes are principal protected if held to maturity, in no event will the Cash Settlement Value be less than $1,000.

Initial Basket Level: 100

Basket Level: 100 × the sum of [Weight of each Component x Commodity Level]

Commodity Level:

$$\frac{\textbf{Individual Component Level}}{\textbf{Initial Individual Component Level}}$$

Individual Component Level: The Component Price of the applicable Component on each Business Day.

Initial Individual Component Level: The Component Price of the applicable Component on January [ ], 2006, the date the Notes were priced for initial sale to the public.

Initial Individual Component Levels

Crude Oil: the Initial Individual Component Level is [ ];
Gold: the Initial Individual Component Level is [ ];
Natural Gas: the Initial Individual Component Level is [ ];
Aluminum: the Initial Individual Component Level is [ ];
Copper: the Initial Individual Component Level is [ ].

Maturity Date: July [ ], 2011.

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

Calculation Agent:	Bear, Stearns & Co. Inc. All determinations made by the Calculation Agent will be at the sole discretion of the Calculation Agent and will be conclusive for all purposes and binding on us and the beneficial owners of the Notes, absent manifest error.
Relevant Exchange:	With respect to West Texas Light Sweet Crude Oil and Natural Gas, the NYMEX; with respect to Aluminum and Copper, the LME; and with respect to Gold, the LBMA.
Business Day:	Will be a day, as determined by the Calculation Agent in its sole discretion, 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. In any case where any date specified herein for any payment under the Notes or other action required to be taken in connection therewith shall not be a Business Day, then such payment date will be, or such other required action will be taken on, the immediately succeeding Business Day (except as otherwise described herein).

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 Union 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 Components underlying the Basket. The Notes will not bear interest, and no other payments will be made prior to maturity. See the section "Risk Factors."

The Notes will be unsecured and will rank equally with all of our unsecured and unsubordinated debt. Because we are a holding company, the Notes will be effectively subordinated to the claims of creditors of our subsidiaries. At August 31, 2005:

- we had outstanding (on an unconsolidated basis) approximately $51.1 billion of debt and other obligations, including approximately $46.8 billion of unsecured senior debt and senior obligations and $4.2 billion of unsecured inter-company debt; and

- our subsidiaries had outstanding (after elimination of inter-company items) approximately $228.4 billion of senior debt and other senior obligations (including $65.6 billion related to securities sold under repurchase agreements, $75.5 billion related to payables to customers, $32.6 billion related to financial instruments sold, but not yet purchased, and $54.7 billion of other liabilities, including $25.7 billion of debt).

The Notes will mature on July [ ], 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. The Notes are principal protected only if held to maturity. However, the Notes differ from traditional debt securities in that the Notes may potentially pay a coupon of [2.50 - 3.50]%, which is [5.00 - 7.00]% annualized, with respect to individual six-month periods. Specifically, if, on any Semi-Annual Interest Observation Date, the Basket Level is greater than the Initial Basket Level, we will pay you [2.50 - 3.50]%, which is [5.00 - 7.00]% annualized interest, for each $1,000 principal amount of Notes with respect to the immediately preceding six-month period. If, on any Semi-Annual Interest Observation Date, the Basket Level is less than or equal to the Initial Basket Level, we will not pay any interest for the immediately preceding six-month period. In addition, as discussed below, the Notes are linked to the value of the Basket.

What will I receive at Maturity of the Notes?

We have designed the Notes for investors who want to protect their investment by receiving at least 100% of the principal amount of their Notes at maturity, while also having an opportunity to earn a coupon and participate in the value of the Basket. Upon maturity of the Notes, you will receive the Cash Settlement Value, a cash amount that is based upon the Basket Performance.

If, at maturity, the value of the Basket has increased, the Cash Settlement Value will equal the principal amount of the Notes, plus 100% of the percentage gain on the value of the Basket, if any. If, at maturity, the value of the Basket has declined, the Cash Settlement Value will be $1,000. Because the Notes are principal protected if held to maturity, in no event will the Cash Settlement Value be less than $1,000.

The "Semi-Annual Interest Observation Date" will be the [ ] day of January and July of each year until maturity, commencing on July [ ], 2006. The final Semi-Annual Interest Observation Date is July [ ], 2011.

The "Interest Payment Date" will be the [ ] day of January and July of each year until maturity, commencing on July [ ], 2006.

The "Basket" is comprised of five commodities: Crude Oil, Natural Gas, Aluminum, Copper and Gold (each, a "Component"). The weighting of each Component is fixed at 20% and will not change during the term of the Notes.

The "Component Price" for Crude Oil (West Texas Light Sweet Crude Oil) is the settlement price per barrel of light sweet crude oil of the first nearby futures contract to expire on or following the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, on the New York Mercantile Exchange or its successor (the "NYMEX"), as made public by the NYMEX and displayed on Reuters page "SETT" Bloomberg ticker symbol CL1 <Comdty>; for Natural Gas, the "Component Price" is the settlement price per one million British thermal units ("MMBtu") of natural gas of the first Henry Hub Natural Gas futures contract to expire on or following the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable on the NYMEX, as made public by the NYMEX and displayed on Reuters page "SETNGS" Bloomberg ticker symbol NG1 <Comdty>; for Aluminum, the "Component Price" is the official price per metric ton of aluminum on the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, as determined by the London Metal Exchange or its successor ("LME") at the second ring of the first session of trading on the LME and displayed on Reuters page "MTLE" Bloomberg ticker symbol LOAHDY <Comdty>; for Copper, the "Component Price" is the official price per metric ton of copper on the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, as determined by the LME at the second ring of the first session of trading on the LME and displayed on Reuters page "MTLE" Bloomberg ticker symbol LOCADY <Comdty>; for Gold, the "Component Price" is the PM fixing price per troy ounce of gold, expressed in U.S. dollars, on the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, as determined by the London Gold Bullion Market or its successor (the "LBMA") and displayed on Reuters page "GOFO" Bloomberg ticker symbol GOLDLNPM <Comdty>.

The "Basket Performance" is determined as follows:

$$100\% \times \frac{\text{Basket Level on Calculation Date} \quad \text{Initial Basket Level}}{\text{Initial Basket Level}}$$

The "Cash Settlement Value" is an amount in cash per Note, payable at maturity, that is based upon the Basket Performance. If, at maturity, the value of the Basket has increased when the Basket Performance is computed, the Cash Settlement Value will equal the principal amount of the Notes, plus 100% of the percentage gain on the value of the Basket, if any. If, at maturity, the value of the Basket has declined when the Basket Performance is computed, the Cash Settlement Value will be $1,000. Because the Notes are principal protected if held to maturity, in no event will the Cash Settlement Value be less than $1,000.

The "Initial Basket Level" equals 100.

The "Basket Level" equals 100 × the sum of [Weight of each Component × Commodity Level] .

The "Commodity Level" equals:

$$\frac{\text{Individual Component Level}}{\text{Initial Individual Component Level}}$$

The "Individual Component Level" is the Component Price of the applicable Component on each Business Day.

The "Initial Individual Component Level" equals the Component Price of the applicable Components as of January [ ], 2006, the date the Notes were priced for initial sale to the public. For Crude Oil: the Initial Individual Component Level is [ ]; for Natural Gas: the Initial Individual Component Level is [ ]; for Aluminum: the Initial Individual Component Level is [ ]; for Copper: the Initial Individual Component Level is [ ]; for Gold: the Initial Individual Component Level is [ ].

The "Maturity Date of the Notes" is July [ ], 2011.

The "Relevant Exchange" is the NYMEX with respect to West Texas Light Sweet Crude Oil and Natural Gas; the LME with respect to Aluminum and Copper; and LBMA with respect to Gold.

A "Business Day" will be a day, as determined by the Calculation Agent in its sole discretion, 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. In any case where any date specified herein for any payment under the Notes or other action required to be taken in connection therewith shall not be a Business Day, then such payment date will be, or such other required action will be taken on, the immediately succeeding Business Day (except as otherwise described herein).

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

Will I receive interest on the Notes?

Possibly. If, on any Semi-Annual Interest Observation Date, the Basket Level is greater than the Initial Basket Level, we will pay you [2.50 - 3.50]%, which is [5.00 - 7.00]% annualized interest, for each $1,000 principal amount of Notes with respect to the immediately preceding six-month period. However, if, on any Semi-Annual Interest Observation Date, the Basket Level is less than or equal to the Initial Basket Level, we will not pay any interest for the immediately preceding six-month period.

Will there be additional offerings of the Notes?

Under certain limited circumstances, and at our sole discretion, we may offer further issuances of the Notes. These further issuances, if any, will be consolidated to form a single series with the Notes and will have the same CUSIP number and will trade interchangeably with the Notes immediately upon settlement. Any additional issuance will increase the aggregate principal amount of the outstanding Notes of this series to include the aggregate principal amount of any Notes bearing the same CUSIP number that are issued pursuant to (i) any 30-day option we grant to Bear, Stearns & Co. Inc., and (ii) any future issuances of Notes bearing the same CUSIP number. The price of any additional offerings will be determined at the time of pricing of each offering, which will be a function of the prevailing market conditions and level of the Components underlying the Basket at the time of the relevant sale.

We will treat any additional offerings of Notes as part of the same issue as the Notes for US federal income tax purposes. Accordingly, for purposes of the Treasury regulations governing original issue discount on debt instruments, we will treat any additional offerings of Notes as having the same issue date, the same issue price and, with respect to Holders, the same adjusted issue price as the

Notes. Consequently, the "issue price" of any additional offering of Notes for U.S. federal income tax purposes will be the first price at which a substantial amount of the Notes were sold to the public (excluding sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). If we offer further issuances of the Notes, we will disclose the treatment of any relevant accrued interest.

What does "principal protected" mean?

"Principal protected" means that your principal investment in the Notes will not be at risk as a result of a decrease in the value of the Basket, provided the Notes are held to maturity. At maturity, if the value of the Basket has declined, the Cash Settlement Value will be $1,000. You may receive less than the principal amount of the Notes if you sell your Notes prior to maturity.

What is the Basket?

The Basket is comprised of five commodities: Crude Oil, Natural Gas, Aluminum, Copper and Gold (each, a "Component"). The weighting of each Component is fixed at 20% and will not change during the term of the Notes. For more specific information about the Basket, please see the section "Description of the Basket."

How has the Basket performed historically?

We have provided a graph showing the performance of the Components during the period from [   ] through [   ]. You can find these tables in the section "Description of the Basket Historical Data on the Components" in this pricing supplement. We have provided this historical information to help you evaluate the behavior of the Components underlying the Basket in various economic environments; however, please note that past performance is not indicative of how the Components underlying the Basket will perform in the future. You should refer to the section "Risk Factors The historical performance of the Components underlying the Basket is not an indication of the future performance of the Components underlying the Basket."

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 secondary 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 in the future; nor can we predict the price at which any such bids will be made. In any event, any market-making transactions in the Notes will cease 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 once they are begun.

Who will act as Calculation Agent?

Bear Stearns 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 our affiliate which could result in a conflict of interest."

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 linked to the increase, if any, in the value of the Basket, they may be appropriate for investors with specific investment horizons who seek to participate in the potential increase in the value of the Basket. In particular, the Notes may be an attractive investment for investors who:

- want exposure to the potential increases in the five Components underlying the Basket;
- believe that the Basket Performance will increase over the term of the Notes;
- do not want to place their principal at risk and are willing to hold the Notes until maturity; and
- are willing to potentially forgo interest payments or any other payments in return for full principal protection if held to maturity.

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

- you seek guaranteed current income or dividend payments from your investment;
- you seek an investment with an active secondary market;
- you are unable or unwilling to hold the Notes until maturity; or
- you do not have a bullish view of the values of the five Components underlying the Basket over the term of the Notes.

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

Because we intend to treat the Notes are contingent payment debt instruments for federal income tax purposes, a U.S. Holder of a Note will be required to include OID in gross income over the term of the Note even though no cash payments may be made with respect to the Notes until maturity. The amount of OID includible in each year is based on the "comparable yield." In addition, we have computed a "projected payment schedule" that produces the comparable yield. The comparable yield and the projected payment schedule are neither predictions nor guarantees of the actual yield on the Notes or the actual payment at maturity. If the amount of any interest payments made prior to maturity or the amount we actually pay at maturity is, in fact, less than the amount reflected on the projected payment schedule, then a U.S. Holder would have recognized taxable income in periods prior to maturity that exceeds the U.S. Holder's economic income from holding the Note during such periods (with an offsetting ordinary loss). If a U.S. Holder disposes of the Note prior to maturity, the U.S. Holder will be required to treat any gain recognized upon the disposition of the Note as ordinary income (rather than capital gain). You should review the discussion under the section entitled "Certain U.S. Federal Income Tax Considerations" in this pricing supplement.

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") or a plan that is subject to Section 4975 of the Internal Revenue Code, including individual retirement accounts, individual retirement annuities or Keogh plans, or any entity the assets of which are deemed to be "plan assets" under ERISA regulations, will be permitted to purchase, hold and dispose of the Notes only on the condition that such plan or entity makes the deemed representation that its purchase, holding and disposition of the Notes will not constitute a prohibited transaction under ERISA or Section 4975 of the Internal Revenue Code for which an exemption is not available. Government plans subject to any substantially similar law will also be subject to this condition.

Are there any risks associated with my investment?

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

RISK FACTORS

Your investment in the Notes involves a degree of risk similar to investing in a call option on the Basket (right to purchase the Basket at a specified price in the future). The Notes are principal protected if held to maturity. You will be subject to significant risks not associated with conventional fixed-rate or floating-rate debt securities. 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 Basket Performance will decline, and the possibility that you will receive a lower amount of principal if the Notes are sold prior to maturity. We have no control over a number of matters, including economic, financial, regulatory, geographical, judicial and political events, that are important in determining the existence, magnitude, and longevity of these risks and their impact on the value of, or the payment made on, the Notes.

At maturity, the Notes may not pay more than the principal amount.

The Cash Settlement Value will be greater than your initial principal investment only if the value of the Basket has increased over the term of the Notes.

The Notes are principal protected only if held until maturity.

The Cash Settlement Value will equal at least the principal amount of your Notes only if you hold your Notes to maturity. If you sell your Notes in the secondary market prior to maturity, you will not be entitled to principal protection and you may receive less, and possibly significantly less, than the initial public offering price of $1,000 per Note. You therefore should be able and willing to hold your Notes until maturity.

Interest payments, if any, are unpredictable.

If, on any Semi-Annual Interest Observation Date, the Basket Level is greater than or equal to the Initial Basket Level, we will pay you [2.50 - 3.50]%, which is [5.00 - 7.00]% annualized interest, for each $1,000 principal amount of Notes with respect to the immediately preceding six-month period. However, if, on any Semi-Annual Interest Observation Date, the Basket Level is less than the Initial Basket Level, we will not pay any interest for the immediately preceding six-month period. As such, it is impossible to predict whether or not you will receive any interest; and the fact that interest may be due and payable with respect to a particular Semi-Annual Interest Observation Date does not mean that it will be due and payable with respect to any other Semi-Annual Interest Observation Date. Consequently, the overall return you earn on your Notes may be less than you would have earned by investing in a non-indexed debt security of comparable maturity that bears interest on a non-contingent basis at a prevailing market rate.

Owning the Notes is not the same as having rights in exchange-traded futures contracts on the Components.

You will not have rights that holders of exchange-traded futures on the Components may have. Even if the Basket Level increases above the Initial Basket Level during the term of the Notes, the market value of the Notes may not increase by the same amount. It is also possible for the Basket Level to increase while the market value of the Notes declines.

The formula for determining the Cash Settlement Value does not take into account changes in the levels of the Components underlying the Basket prior to the Calculation Date.

Changes in the levels of the Components underlying the Basket during the term of the Notes before the date on which the Cash Settlement Value is calculated will not be reflected in the calculation of the Cash Settlement Value. The Calculation Agent will calculate the Cash Settlement Value based upon the Basket Performance. If, at maturity, the value of the Basket has increased, the Cash Settlement Value will equal the principal amount of the Notes, plus 100% of the percentage gain on the value of the Basket, if any. If, at maturity, the value of the Basket has declined, the Cash Settlement Value will be $1,000. As a result, you may receive only your principal amount at maturity even if the value of the Basket has increased at certain times during the term of the Note before falling on the Calculation Date.

You must rely on your own evaluation of the merits of an investment linked to the Basket Performance.

In the ordinary course of our business, we may from time to time express views on expected movements in certain of the Components. These views may vary over differing time horizons and are subject to change without notice. Moreover, other professionals who deal in the commodity markets may at any time have views that differ significantly from ours. In connection with your purchase of the Notes, you should investigate the commodity markets and the Components underlying the Basket and not rely on our views with respect to future movements in these markets. You should make such investigation as you deem appropriate as to the merits of an investment linked to the Basket Performance.

Certain Components may trade around-the-clock; however, if a secondary market develops, the Notes may trade only during regular trading hours in the United States.

The market for certain Components is a global, around-the-clock market. Therefore, the hours of trading for the Notes may not conform to the hours during which the Components are traded. To the extent that U.S. markets are closed while other markets remain open, significant price and rate movements may take place in the Component markets that will not be reflected immediately in the price of the Notes.

Tax consequences.

For U.S. federal income tax purposes, the Notes will be classified as contingent payment debt instruments. As a result, U.S. Holders will be required to include OID in income during their ownership of the Notes even though no cash payments may be made with respect to the Notes until maturity. The amount of OID includible in each year is based on the "comparable yield." In addition, we have computed a "projected payment schedule" that produces the comparable yield. The comparable yield and the projected payment schedule are neither predictions nor guarantees of the actual yield on the Notes or the actual payment at maturity. If the amount of any interest payments made prior to maturity or the amount we actually pay at maturity is, in fact, less than the amount reflected on the projected payment schedule, then a U.S. Holder would have recognized taxable income in periods prior to maturity that exceeds the U.S. Holder's economic income from holding the Note during such periods (with an offsetting ordinary loss). Additionally, U.S. Holders will generally be required to recognize ordinary income on the gain, if any, realized on a sale, upon maturity, or other disposition of the Notes. You should review the discussion under the section entitled "Certain U.S. Federal Income Tax Considerations" in this pricing supplement.

The historical pro forma Basket Performance is not an indication of future performance.

The historical pro forma Basket Performance, which is included in this pricing supplement, should not be taken as an indication of future performance. It is impossible to predict whether the Basket Performance will fall or rise. The Basket Performance will be influenced by the complex and interrelated economic, financial, regulatory, geographical, judicial, political and other factors that can affect the capital markets generally and commodity trading markets in particular, and by various circumstances that can affect the value of a particular Component.

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 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 Basket Performance, changes in 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, Basket Performance has declined or has not sufficiently increased. 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.

Value of the Basket. We expect that the trading value of the Notes will depend substantially on the amount, if any, by which the Basket Level at any given time is greater than the Initial Basket Level. If you decide to sell your Notes when the Basket Level is greater than the Initial Basket Level, you may nonetheless receive substantially less than the amount that would be payable at maturity based on that Basket Level because of expectations that the Basket Level will continue to fluctuate until the Cash Settlement Value is determined.

Forward Markets for Commodities. Instruments relating to future commodity prices have significant risk to forward commodity prices prior to maturity. The forward prices of commodities can be significantly volatile and unpredictable. Price changes for commodities in the near term may or may not be reflected in the forward or expected future prices for those commodities.

Volatility of the Basket. Volatility is the term used to describe the size and frequency of market fluctuations. Generally, if the volatility of the Basket Level decreases, the trading value of the Notes will decrease; and, if the volatility of the Basket Level increases, the trading value of the Notes will increase. The effect of the volatility of the Basket Level on the trading value of the Notes may not necessarily decrease over time during the term of the Notes.

Correlation Among the prices of the Components underlying the Basket. Correlation is the extent to which the values of the Components underlying the Basket increase or decrease to the same degree at the same time. To the extent that correlation among the Components underlying the Basket changes, the volatility of the Components underlying the Basket may change and the value of the Notes may be adversely affected.

Interest rates. We expect that the trading value of the Notes will be affected by changes in interest rates. In general, if interest rates increase, the value of outstanding debt securities tends to decrease; conversely, if interest rates decrease, the value of outstanding debt securities tends to increase.

Our credit ratings, financial condition and results of operations. Actual or anticipated changes in our current credit ratings (A1 by Moody's Investor Service, Inc. and A by Standard & Poor's Rating Services), as well as our financial condition or results of operations may significantly affect the trading value of the Notes. However, because the return on the Notes is dependent upon factors in addition to our ability to pay our obligations under the Notes, such as the Basket Performance, an improvement in our credit ratings, financial condition or results of operations is not expected to have a positive effect on the trading value of the Notes.

Time remaining to maturity. A "time premium" results from expectations concerning the value of the Individual Component Level during the period prior to the maturity of the Notes. As the time remaining to the maturity of the Notes decreases, this time premium will likely decrease, potentially adversely affecting the trading value of the Notes.

Suspension or disruptions of market trading in the commodity and related futures markets may adversely affect the value of your Notes. The commodity markets are subject to temporary distortions or other disruptions due to various factors, including a possible lack of liquidity in the markets, the participation of speculators and potential government regulation and intervention. *Suspension or disruptions of market trading in the commodity and related futures markets may adversely affect the value of your Notes.*

Events involving the Components. General economic, political, legal and other political conditions affecting the Components, and real or anticipated changes in those conditions or results, may affect the trading value of the Notes.

Size and liquidity of the secondary market. The Notes will not be listed on any securities exchange; and there may not be a secondary market in the Notes, which may affect the price that you receive for your Notes upon any sale prior to maturity. If a secondary market does develop, there can be no assurance that there will be liquidity in the secondary market. If the secondary market for the Notes is limited, there may be a limited number of buyers for your Notes if you do not wish to hold your investment until maturity. This may affect the price you receive upon any sale of the Notes 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 in the future; nor can we predict the price at which any such bids will be made.

We want you to understand that the effect of one of the factors specified above, such as an increase in interest rates, may offset some or all of any change in the value of the Notes attributable to another factor, such as an increase in the Components underlying the Basket.

Commodity price movements are unpredictable; and historical prices of the Components should not be taken as an indication of the future prices of the Components during the term of the Notes.

Commodity prices are volatile and unpredictable and are influenced by complex and interrelated political, economic, financial and other factors that can affect the markets in which the relevant commodities are traded. As a result, it is impossible to predict whether the prices of the Components underlying the Basket will rise or fall during the term of the Notes.

The Basket is not a recognized market index and may not accurately reflect global commodities market performance.

The Basket is not a recognized market index. The Basket was created solely for purposes of the offering of the Notes and will be calculated solely during the term of the Notes. The level of the Basket and, therefore, the Basket Performance will not be published during the term of the Notes. The Basket does not reflect the performance of all major commodities markets and may not reflect actual global commodities market performance. Rather, the Basket reflects the price movements in five specific commodities: Crude Oil, Natural Gas, Aluminum, Copper and Gold.

Risks associated with the Components underlying the Basket may adversely affect the market price of the Notes.

Because the Notes are linked to changes in the values of five different physical commodities, the Basket will be less diversified than funds or investment portfolios investing in a broader range of commodities or securities and, therefore, could experience greater volatility. An investment in the Notes may carry risks similar to a concentrated securities investment in a limited number of industries or sectors.

Suspensions or disruptions of market trading in the commodity markets and related futures may adversely affect the Cash Settlement Value at maturity and/or the market value of the Notes.

The commodity markets are subject to temporary distortions or other disruptions due to various factors, including a lack of liquidity in the markets, the participation of speculators and potential government regulation and intervention. In addition, U.S. futures exchanges and some foreign exchanges have regulations that limit the amount of fluctuation in futures contract prices that may occur during a single business day. These limits are generally referred to as "daily price fluctuation limits" and the maximum or minimum price of a contract on any given day as a result of these limits is referred to as a "limit price." Once the limit price has been reached in a particular contract, no trades may be made at a different price. Limit prices may have the effect of precluding trading in a particular contract or forcing the liquidation of contracts at disadvantageous times or prices. These circumstances could adversely affect the value of certain of the Components underlying the Basket and, therefore, the Cash Settlement Value at maturity and/or the market value of the Notes.

The Components may not move in tandem; and gains in one Component may be offset by declines in another Component.

Price movements in the five Components underlying the Basket may not move in tandem with each other. At a time when the price of one or more of the Components increases, the price of one or more of the other Components may decline. Therefore, in calculating the Basket Performance, increases in the value of one or more of the Components may be moderated, or wholly offset, by lesser increases or declines in the value of one or more of the other Components.

There are specific risks associated with the Components underlying the Basket.

Crude Oil. Oil prices are highly volatile and are affected by numerous factors in addition to economic activity. These include political events, weather, labor activity, and, especially, direct government intervention such as embargos, and supply disruptions in major producing or consuming regions such as the Middle East, the United States and Asia. Such events tend to affect oil prices worldwide, regardless of the location of the event. The outcome of meetings of the Organization of Petroleum Exporting Countries ("OPEC") can particularly affect world oil supply and oil prices. Oil prices could also be affected by any decision by OPEC to quote oil prices in a currency other than U.S. dollars (such as Euros), which could decrease liquidity in the applicable futures contract, and thereby affect the value of such futures contract. Market expectations about these events and speculative activity also cause prices to fluctuate. Due to the recent rapid appreciation in energy prices, there is a possibility that a negative correction will occur and decrease oil prices, thereby adversely affecting the Basket Performance.

Furthermore, a significant proportion of world oil production capacity is controlled by a small number of countries, and producers in those countries have in the past implemented curtailments of output and trade. Such efforts at supply curtailment (or the cessation thereof) could affect the value of the applicable futures contract. Oil's major end-use as a refined product is as a transport fuel, industrial fuel and in-home heating fuel. Potential for substitution exists in most areas, although considerations, including relative cost, often limit substitution levels. However, the development of a substitute product or transport fuel could adversely affect the value of the applicable futures contract.

In the event of sudden disruptions in the supplies of oil, such as those caused by war, accidents, weather or acts of terrorism, prices of oil futures contracts and, consequently, the Basket Performance, could become extremely volatile and unpredictable. Also, sudden and dramatic declines in futures contract prices may occur, for example, upon a cessation of hostilities that may exist in countries producing oil, the discovery of significant additional sources or reserves of oil, the introduction of new or previously withheld supplies into the market or the introduction of substitute products or commodities. Any such declines could have a significant adverse effect on the Basket Performance and on the value of the Notes. In addition, the price of oil has on occasion been subject to very rapid and significant short-term changes due to speculative activities which, if such activities result in a price decrease, may cause the value of the Notes to decrease. Such volatility could lead some investors in oil futures contracts to withdraw from the applicable futures markets, which could adversely affect the liquidity of such markets and could adversely affect the Basket Performance and, correspondingly, the value of the Notes.

Natural Gas. The price of natural gas is primarily influenced by the global supply of, and demand for, natural gas, both in the short term and the long term. The demand for natural gas has traditionally been cyclical, with the highest demand generally occurring during the months of winter and the lowest demand generally occurring during the warmest months of the summer. In addition to this cyclical demand, there are two major drivers that influence the demand for natural gas and, therefore, its price: fuel switching and the U.S. and Russian economy. Fuel switching occurs when the price of natural gas rises and thereby causes consumers to switch to an alternate fuel source. Similarly, the U.S. economy and, in particular, whether it is experiencing an expansion or recession, has an impact on the short term demand for natural gas, especially in the industrial sector. While these factors can significantly affect the demand for natural gas, there are many other factors from the industrial, commercial and residential sectors that affect the demand for natural gas and, therefore, its price.

The world's supply of natural gas is concentrated in the U.S. and Russia. In general, the supply of natural gas is based on competitive market forces: inadequate supply at any one time leads to price increases, which signal to production companies the need to increase the supply of natural gas to the market. Supplying natural gas in order to meet this demand, however, is dependent on a number of factors. These factors may be broken down into two segments. First, factors that affect the short-term supply: obtaining permits, well development, weather and delivery disruptions (e.g., hurricanes, labor strikes and wars). Second, other more general barriers to the increase in the supply of natural gas: access to land, the expansion of pipelines and the financial environment. These factors, which are not exhaustive, are interrelated and can have complex and unpredictable effects on the supply for, and the price of, natural gas.

Copper. The price of copper is primarily affected by the global demand for, and supply of, copper. Demand for copper is significantly influenced by the level of global industrial economic activity. Industrial sectors which are particularly important include the electrical and construction sectors. In recent years demand has been supported by strong consumption from newly industrializing countries, which continue to be in a copper-intensive period of economic growth as they develop their infrastructure. An additional, but highly volatile, component of demand is adjustments to inventory in response to changes in economic activity and/or pricing levels.

Apart from the United States, Canada and Australia, the majority of copper concentrate supply (the raw material) comes from countries that have experienced political instability and upheaval, and, as a result, copper supply has been affected by strikes, financial problems and political unrest in recent years.

Aluminum. Market prices for aluminum are highly volatile and are affected by numerous factors, with the two principal factors being the level of economic activity in the main consuming markets and the rate of supply of new metal from producers. Other factors influencing market prices for aluminum include disruptions in aluminum output, producer cut-backs and speculative activity.

Production of aluminum is a three-stage process beginning with the mining of bauxite. Bauxite is refined to produce alumina, which is then smelted to produce aluminum. The mining of bauxite occurs mainly in the tropics, with the major producing regions being the Caribbean, South America, Africa, Southeast Asia and Australia. Fluctuation in the supplies of bauxite or social or political disruptions in the major producing regions could affect the Basket Performance. The production of aluminum from alumina is a power-intensive process and a continuous supply of electrical power is essential. A significant proportion of aluminum production capacity is located close to resources of hydroelectric power. Other economical energy sources for producing aluminum include low-grade coal and waste gases from oil production. However, disruptions in the supply of energy to aluminum producers or an increase in the cost thereof could affect the Basket Performance. Furthermore, a significant proportion of western world aluminum production capacity is controlled by a small number of companies, and such producers have in the past implemented temporary curtailments of output. Such efforts at supply curtailment (or the cessation thereof) could affect the Basket Performance. Aluminum's major end-uses include applications in the transportation, construction, packaging and electrical industries. Potential for substitution exists in all areas, although considerations including relative weight and cost often limit substitution levels. However, the development of a substitute product could adversely affect the Basket Performance.

In the event of sudden disruptions in the supplies of aluminum, such as those caused by war, accidents, weather or acts of terrorism, aluminum prices and, consequently, the Basket Performance, could become extremely volatile and unpredictable. Also, sudden and dramatic declines in aluminum prices as may occur, for example, upon cessation of hostilities that may exist in countries producing aluminum or upon the discovery of significant additional sources or reserves of the raw materials necessary to produce aluminum (e.g., bauxite or electricity), the introduction of new or previously withheld supplies into the market (e.g., aluminum from the former Soviet Union in the early 1990s) or the introduction of substitute products or commodities. Any such declines could have a significant adverse effect on the Basket Performance and on the value of the Notes. In addition, the price of aluminum has on occasion been subject to very rapid and significant short-term changes due to speculative activities which, if such activities result in a price decrease, may cause the value of the Notes to decrease.

Gold. Gold prices are subject to volatile price movements over short periods of time and are affected by numerous factors. These include economic factors, including, among other things the structure of and confidence in the global monetary system, expectations as to the future rate of inflation, the relative strength of, and confidence in, the U.S. dollar (the currency in which the price of gold is generally quoted), interest rates and gold borrowing and lending rates, and global or regional economic, financial, political, regulatory, judicial or other events. Gold prices may also be affected by industry factors such as industrial and jewelry demand, lending, sales and purchases of gold by the official sector, including central banks and other governmental agencies and multilateral institutions which hold gold, levels of gold production and production costs, and short-term changes in supply and demand because of trading activities in the gold market. It is not possible to predict the aggregate effect of all or any combination of these factors.

Risks relating to trading of Components on the LME.

The closing prices of copper and aluminum will be determined by reference to the U.S. dollar settlement prices of contracts traded on the LME. The LME is a principals' market which operates in a manner more closely analogous to the over-the-counter physical commodity markets than to the regulated futures markets, and certain features of U.S. futures markets are not present in the context of LME trading. For example, there are no daily price limits on the LME, which would otherwise restrict the extent of daily fluctuations in the prices of LME contracts. In a declining market, therefore, it is possible that prices would continue to decline without limitation within a trading day or over a period of trading days. In addition, depending on the underlying commodity, a contract may be entered into on the LME calling for daily delivery from one day to three months following the date of such contract and for monthly delivery from the seventh month following the date of such contract up to 63 months following the date of such contract, in contrast to trading on futures exchanges, which call for delivery in stated delivery months. As a result, there may be a greater risk of a concentration of positions in LME contracts on particular delivery dates, which in turn could cause temporary aberrations in the prices of LME contracts for certain delivery dates. If such aberrations occur on the Calculation Date or on a Semi-Annual Interest Observation Date, the U.S. dollar settlement prices used to determine the closing price of copper and aluminum, and consequently the Cash Settlement Value or whether interest is paid for the immediately preceding six-month period, could be adversely affected.

You have no recourse to the NYMEX, LME or LBMA.

You will have no rights against the NYMEX, LME or LBMA, which respectively determine or publish the values of the Components underlying the Basket. The Notes are not sponsored, endorsed, sold or promoted by NYMEX, LME or LBMA. NYMEX, LME and LBMA make no representation or warranty, express or implied to you or any member of the public regarding the advisability of investing in securities generally or in the Notes particularly.

Changes in methodology of the NYMEX, LME or LBMA, or changes in laws or regulations may affect the value of the Notes prior to maturity and the Cash Settlement Value.

The value of the Components underlying the Basket will be determined by reference to the market price of each Component, as determined by the NYMEX, LME or LBMA, as applicable. The NYMEX, LME or LBMA, may from time to time change any rule or bylaw or take emergency action under its rules, any of which could affect the market prices of the Components underlying the Basket. Any such change which causes a decrease in such market prices could adversely affect the level the Basket and the value of the Notes.

In addition, prices of the Components underlying the Basket could be adversely affected by the promulgation of new laws or regulations or by the reinterpretation of existing laws or regulations (including, without limitation, those relating to taxes and duties on any Components underlying the Basket) by one or more governments, governmental agencies or instrumentalities, courts or other official bodies. Any such event could adversely affect the level of the Basket and, correspondingly, could adversely affect the value of the Notes.

Lack of Regulation.

The Notes are debt securities that are our direct obligations. The net proceeds to be received by us from the sale of the Notes will not be used to purchase or sell crude oil, natural gas, copper, aluminum or gold futures contracts or options on futures contracts for your benefit. An investment in the Notes thus does not constitute either an investment in futures contracts, options on futures contracts or in a collective investment vehicle that trades in these futures contracts (i.e., the Notes do not constitute a direct or indirect investment by you in the futures contracts underlying the Basket), and you will not benefit from the regulatory protections of the Commodity Futures Trading Commission (the "CFTC"). We are not registered with the CFTC as a "futures commission merchant" ("FCM") and you will not benefit from the CFTC's or any other non-United States regulatory authority's regulatory protections afforded to persons who trade in futures contracts on a regulated futures exchange through a registered FCM. Unlike an investment in the Notes, an investment in a collective investment vehicle that invests in futures contracts on behalf of its participants may be subject to regulation as a commodity pool and its operator may be required to be registered with and regulated by the CFTC as a "commodity pool operator" ("CPO"), or qualify for an exemption from the registration requirement. Because the Notes are not interests in a commodity pool, the Notes will not be regulated by the CFTC as a commodity pool, we will not be registered with the CFTC as a CPO, and you will not benefit from the CFTC's or any non-U.S. regulatory authority's regulatory protections afforded to persons who invest in regulated commodity pools.

Neither we, nor our affiliates, have any affiliation with the NYMEX, the LME or the LBMA, and we are not responsible for their public disclosure of information.

Neither we, nor our affiliates, are affiliated with the NYMEX, the LME or the LBMA in any way; and we have no ability to control or predict any of their actions, including any errors in or discontinuation of disclosure regarding any of their methods or policies relating to the determination of the settlement prices of the Components. The NYMEX, the LME and the LBMA are not under any obligation to continue to determine the settlement prices for the Components. If the NYMEX, the LME or the LBMA discontinues, or materially changes the method of determining the settlement prices for the Components, it may become difficult to determine the market value of the Notes or the Cash Settlement Value at maturity. Under these circumstances, the Calculation Agent in its sole discretion may designate a successor provider of settlement prices. If the Calculation Agent determines in its sole discretion that no comparable provider of settlement prices exists, the Cash Settlement Value payable at maturity will be determined by the Calculation Agent in its sole discretion. See "Description of the Notes Market Disruption Event."

We have derived the information about the Components and the NYMEX, the LME and the LBMA in this pricing supplement from publicly available information, without independent verification. Neither we nor any of our affiliates assumes any responsibility for the adequacy or accuracy of the information about the Components or the NYMEX, the LME or the LBMA contained in this pricing supplement. You, as an investor in the Notes, should make your own investigation into the Components, the NYMEX, the LME and the LBMA. In addition, each prospective investor should consult its legal advisors in determining the appropriate treatment of the Notes under any applicable capital or similar rules, and under applicable tax and accounting requirements. Furthermore, prospective investors whose investment activities are subject to investment laws and regulations or to review by certain authorities may be subject to restrictions on investment in certain types of securities, which may include the Notes. Prospective investors should review and consider such restrictions prior to investing in the Notes.

The Calculation Agent may postpone the determination of the Cash Settlement Value or Interest Amount if a Market Disruption Event occurs on the Calculation Date or on any Semi-Annual Interest Observation Date.

The Calculation Date and, therefore, the determination of the Cash Settlement Value or Interest Amount may be postponed if the Calculation Agent determines that a Market Disruption Event has occurred or is continuing on the Calculation Date or on any Semi-Annual Interest Observation Date with respect to one or more of the Components. If a postponement occurs, the Calculation Agent will use the settlement price of the Component on the next succeeding Business Day on which no Market Disruption Event occurs or is continuing for calculation of the Cash Settlement Value or Interest Amount. As a result, the Calculation Date or any Semi-Annual Interest Observation Date for the Notes would be postponed. You will not be entitled to compensation from us or the Calculation Agent for any loss suffered as a result of the occurrence of a Market Disruption Event, any resulting delay in payment or any change in the level of the Basket after the Calculation Date or after any Semi-Annual Interest Observation Date. See "Description of the Notes Market Disruption Event."

You have no rights to receive the Components.

Investing in the Notes will not make you a holder of any Component. The Notes will be paid in U.S. dollars, and you will have no right to receive delivery of any Component underlying the Basket.

State law may limit interest paid.

New York State law governs the Indenture under which the Notes will be issued. New York has certain usury laws that limit the amount of interest that can be charged and paid on loans, including debt securities such as the Notes. Under present New York law, the maximum rate of interest is 25% per annum, on a simple interest basis. This limit may not apply to debt securities in which $2,500,000 or more has been invested.

While we believe that New York law would be given effect by a state or federal court sitting outside of New York, many other states also have laws that regulate the amount of interest that may be charged to and paid by a borrower. We will promise, for your benefit as a holder of the Notes, to the extent permitted by law, not to voluntarily claim the benefits of any laws concerning usurious rates of interest.

The Calculation Agent is our affiliate which could result in a conflict of interest.

Bear Stearns will act as the Calculation Agent. The Calculation Agent will make certain determinations and judgments in connection with calculating the Interest Amounts and Cash Settlement Value and in deciding whether a Market Disruption Event has occurred. You should refer to "Description of the Notes Discontinuance of a Component" and " Market Disruption Events." Because Bear Stearns is our affiliate, conflicts of interest may arise in connection with our affiliate performing its role as Calculation Agent.

Bear Stearns and its affiliates may, at various times, engage in transactions involving the commodities to which the Components underlying the Basket relates for their proprietary accounts, and for other accounts under their management. These transactions, if effected in substantial size, may influence the value of such commodities, and therefore the value of the Components underlying the Basket. BSIL, an affiliate of Bear Stearns, will also be the counterparty to the hedge of our obligations under the Notes. You should refer to "Use of Proceeds and Hedging." Accordingly, under certain circumstances, conflicts of interest may arise between Bear Stearns' responsibilities as Calculation Agent with respect to the Notes and BSIL's obligations under our hedge.

Trading and other transactions by us or our affiliates could affect the prices of the Components underlying the Basket, the Basket Performance, the trading value of the Notes or the amount you may receive at maturity.

We and our affiliates may from time to time buy or sell the Components to which the Basket relates or derivative instruments related to those Components for our own accounts in connection with our normal business practices or in connection with hedging our obligations under the Notes. These trading activities may present a conflict of interest between your interest in the Notes and the interests we and our affiliates may have in our proprietary accounts, in facilitating transactions, for our other customers and in accounts under our management. The transactions, if effected in substantial size, could affect the prices of those Components or the Basket Performance in a manner that would be adverse to your investment in the Notes. See the section "Use of Proceeds and Hedging."

Hedging activities we or our affiliates may engage in may affect the Basket Performance and, accordingly, increase or decrease the trading value of the Notes prior to maturity and the Cash Settlement Value you would receive at maturity. To the extent that we or any of our affiliates has a hedge position in any of the Components to which the Basket relates, or derivative or synthetic instruments related to those Components or the Basket, we or any of our affiliates may liquidate a portion of such holdings at or about the time of the maturity of the Notes. Depending on, among other things, future market conditions, the aggregate amount and the composition of such hedge positions are likely to vary over time. Profits or losses from any of those positions cannot be ascertained until the position is closed out and any offsetting position or positions are taken into account. Although we have no reason to believe that any of those activities will have a material effect on the Basket Performance, we cannot assure you that these activities will not affect such level and the trading value of the Notes prior to maturity or the Cash Settlement Value payable at maturity.

In addition, we or any of our affiliates may purchase or otherwise acquire a long or short position in the Notes. We or any of our affiliates may hold or resell the Notes. We or any of our affiliates may also take positions in other types of appropriate financial instruments that may become available in the future.

We or any of our affiliates may also issue, underwrite or assist unaffiliated entities in the issuance or underwriting of other securities or financial instruments with returns indexed to the Basket Performance. By introducing competing products into the marketplace in this manner, we or our affiliates could adversely affect the value of the Notes.

One or more of our affiliates may have published, and may in the future publish, research reports regarding the Components to which the Basket relates. Any such research may be modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing, holding or selling the Notes. Any of these activities may affect the trading value of the Notes.

The Interest Amount, if any, may be delayed or the Cash Settlement Value may be delayed or reduced upon the occurrence of a Market Disruption Event, or an Event of Default.

If the Calculation Agent determines that, on any Semi-Annual Interest Observation Date or on the Calculation Date, a Market Disruption Event has occurred or is continuing, the determination of the Interest Amount or Basket Performance by the Calculation Agent may be deferred. You should refer to the section "Description of the Notes Market Disruption Events."

If the Calculation Agent determines that an Event of Default (as defined below) has occurred, a holder of the Notes will only receive an amount equal to the trading value of the Notes on the date of such Event of Default, adjusted by an amount equal to any losses, expenses and costs to us of unwinding any underlying hedging or funding arrangements, all as determined by the Calculation Agent in its sole and absolute discretion. You should refer to the section "Description of the Notes Event of Default and Acceleration."

You should decide to purchase the Notes only after carefully considering the suitability of the Notes in light of your particular financial circumstances. You should also carefully consider the tax consequences of investing in the Notes. You should refer to the section "Certain U.S. Federal Income Tax Considerations" and discuss the tax implications with your own tax advisor.

DESCRIPTION OF THE NOTES

The following description of the Notes (referred to in the accompanying prospectus supplement as "Other Indexed Notes") supplements the description of the Notes in the accompanying prospectus supplement and prospectus. This is a summary and is not complete. You should read the indenture, dated as of May 31, 1991, as amended (the "Indenture"), between us and JPMorgan Chase Bank, N.A. (formerly, The Chase Manhattan Bank), as trustee (the "Trustee"). A copy of the Indenture is available as set forth under the section of the prospectus entitled "Where You Can Find More Information."

General

The Notes are part of a single series of debt securities under the Indenture described in the accompanying prospectus supplement and prospectus designated as Medium-Term Notes, Series B. The Notes are unsecured and will rank equally with all of our unsecured and unsubordinated debt, including the other debt securities issued under the Indenture. Because we are a holding company, the Notes will be effectively subordinated to the claims of creditors of our subsidiaries. At August 31, 2005:

- we had outstanding (on an unconsolidated basis) approximately $51.1 billion of debt and other obligations, including approximately $46.8 billion of unsecured senior debt and senior obligations and $4.2 billion of unsecured inter-company debt; and

- our subsidiaries had outstanding (after elimination of inter-company items) approximately $228.4 billion of senior debt and other senior obligations (including $65.6 billion related to securities sold under repurchase agreements, $75.5 billion related to payables to customers, $32.6 billion related to financial instruments sold, but not yet purchased, and $54.7 billion of other liabilities, including $25.7 billion of debt).

The aggregate principal amount of the Notes will be $[ ]. The Notes will mature on July [ ], 2011. The Notes will be issued only in fully registered form, and in minimum denominations of $1,000; provided, however, that the minimum purchase for any purchaser domiciled in a Member State of the European Union shall be $100,000. Initially, the Notes will be issued in the form of one or more global securities registered in the name of DTC or its nominee, as described in the accompanying prospectus supplement and prospectus. When we refer to Notes in this pricing supplement, we mean Notes with a principal amount of $1,000. The Notes will not be listed on any securities exchange.

You should refer to the section "Certain U.S. Federal Income Tax Considerations," for a discussion of certain federal income tax considerations to you as a holder of the Notes.

Future Issuances

Under certain limited circumstances, and at our sole discretion, we may offer further issuances of the Notes. These further issuances, if any, will be consolidated to form a single series with the Notes and will have the same CUSIP number and will trade interchangeably with the Notes immediately upon settlement. Any additional issuance will increases the aggregate principal amount of the outstanding Notes of this series, plus the aggregate principal amount of any Notes bearing the same CUSIP number that are issued pursuant to (i) any 30-day option we grant to Bear, Stearns & Co. Inc., and (ii) any future issuances of Notes bearing the same CUSIP number. The price of any additional offerings will be determined at the time of pricing of each offering, which will be a function of the prevailing market conditions and level of the Components underlying the Basket at the time of the relevant sale.

We will treat any additional offerings of Notes as part of the same issue as the Notes for US federal income tax purposes. Accordingly, for purposes of the Treasury regulations governing original issue discount on debt instruments, we will treat any additional offerings of Notes as having the same issue date, the same issue price and, with respect to Holders, the same adjusted issue price as the

Notes. Consequently, the "issue price" of any additional offering of Notes for U.S. federal income tax purposes will be the first price at which a substantial amount of the Notes were sold to the public (excluding sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). If we offer further issuances of the Notes, we will disclose the treatment of any relevant accrued interest.

Interest

Entitlement to interest will be determined with respect to individual successive six-month time increments. Specifically, if, on any Semi-Annual Interest Observation Date, the Basket Level is greater than the Initial Basket Level, we will pay you [2.50 - 3.50]%, which is [5.00 - 7.00]% annualized interest, for each $1,000 principal amount of Notes with respect to the immediately preceding six-month period. However, if, on any Semi-Annual Interest Observation Date, the Basket Level is less than or equal to the Initial Basket Level, we will not pay any interest for the immediately preceding six-month period.

Subject to the foregoing contingency, the Notes will bear interest from January [ ], 2006, the original issuance date of the Notes, to the Calculation Date, at an annual interest rate of [2.50 - 3.50]%, which is [5.00 - 7.00]% annualized, paid semi-annually in arrears. Interest, if any, will be paid semi-annually on the [ ] day of January and July until maturity, each of which we will refer to as an "Interest Payment Date," to the person in whose name such Note was registered at the close of business on the fifteenth calendar day, whether or not a Business Day, prior to the applicable Interest Payment Date. Any interest payment will include interest accrued from, and including, the issue date or preceding Interest Payment Date, as the case may be, to, but excluding, that Interest Payment Date. The first Interest Payment Date will be July [ ], 2006.

In the event that an Interest Payment Date is not a Business Day, we will pay interest on the next day that is a Business Day, with the same force and effect as if made on the Interest Payment Date, and without any additional interest or other payment with respect to the delay.

Payment at Maturity

We have designed the Notes for investors who want to protect their investment by receiving at least 100% of the principal amount of their Notes at maturity, while also having an opportunity to earn a coupon and participate in the potential increase in the value of the Basket. Upon maturity of the Notes, you will receive the Cash Settlement Value, a cash amount that is based upon the Basket Performance.

If, at maturity, the value of the Basket has increased, the Cash Settlement Value will equal the principal amount of the Notes, plus 100% of the percentage gain on the value of the Basket, if any. If, at maturity, the value of the Basket has declined, the Cash Settlement Value will be $1,000. Because the Notes are principal protected if held to maturity, in no event will the Cash Settlement Value be less than $1,000.

The "Semi-Annual Interest Observation Date" will be the [ ] day of January and July of each year until maturity, commencing on July [ ], 2006. The final Semi-Annual Interest Observation Date is July [ ], 2011.

The "Interest Payment Date" will be the [ ] day of January and July of each year until maturity, commencing on July [ ], 2006.

The "Basket" is comprised of five commodities: Crude Oil, Natural Gas, Aluminum, Copper and Gold (each, a "Component"). The weighting of each Component is fixed at 20% and will not change during the term of the Notes.

The "Component Price" for Crude Oil (West Texas Light Sweet Crude Oil) is the settlement price per barrel of light sweet crude oil of the first nearby futures contract to expire on or following the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, on the New York Mercantile Exchange or its successor (the "NYMEX"), as made public by the NYMEX and displayed on Reuters page "SETT" Bloomberg ticker symbol CL1 <Comdty>; for Natural Gas, the "Component Price" is the settlement price per one million British thermal units ("MMBtu") of natural gas of the first Henry Hub Natural Gas futures contract to expire on or following the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable on the NYMEX, as made public by the NYMEX and displayed on Reuters page "SETNGS" Bloomberg ticker symbol NG1 <Comdty>; for Aluminum, the "Component Price" is the official price per metric ton of aluminum on the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, as determined by the London Metal Exchange or its successor ("LME") at the second ring of the first session of trading on the LME and displayed on Reuters page "MTLE" Bloomberg ticker symbol LOAHDY <Comdty>; for Copper, the "Component Price" is the official price per metric ton of copper on the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, as determined by the LME at the second ring of the first session of trading on the LME and displayed on Reuters page "MTLE" Bloomberg ticker symbol LOCADY <Comdty>; for Gold, the "Component Price" is the PM fixing price per troy ounce of gold, expressed in U.S. dollars, on the Calculation Date or relevant Semi-Annual Interest Observation Date, as applicable, as determined by the London Gold Bullion Market or its successor (the "LBMA") and displayed on Reuters page "GOFO" Bloomberg ticker symbol GOLDLNPM <Comdty>.

The "Basket Performance" is determined as follows:

100% × Basket Level on Calculation Date Initial Basket Level

Initial Basket Level

The "Cash Settlement Value" is an amount in cash per Note, payable at maturity, that is based upon the Basket Performance. If, at maturity, the value of the Basket has increased when the Basket Performance is computed, the Cash Settlement Value will equal the principal amount of the Notes, plus 100% of the percentage gain on the value of the Basket, if any. If, at maturity, the value of the Basket has declined when the Basket Performance is computed, the Cash Settlement Value will be $1,000. Because the Notes are principal protected if held to maturity, in no event will the Cash Settlement Value be less than $1,000.

The "Initial Basket Level" equals 100.

The "Basket Level" equals 100 × the sum of [Weight of each Component × Commodity Level].

The "Commodity Level" equals:

Individual Component Level

Initial Individual Component Level

The "Individual Component Level" is the Component Price of the applicable Component on each Business Day.

The "Initial Individual Component Level" equals the Component Price of the applicable Components as of January [ ], 2006, the date the Notes were priced for initial sale to the public. For Crude Oil: the Initial Individual Component Level is [ ]; for Natural Gas: the Initial Individual Component Level is [ ]; for Aluminum: the Initial Individual Component Level is [ ]; for Copper: the Initial Individual Component Level is [ ]; for Gold: the Initial Individual Component Level is [ ].

The "Maturity Date of the Notes" is July [ ], 2011.

The "Relevant Exchange" is the NYMEX with respect to West Texas Light Sweet Crude Oil and Natural Gas; the LME with respect to Aluminum and Copper; and LBMA with respect to Gold.

A "Business Day" will be a day, as determined by the Calculation Agent in its sole discretion, 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. In any case where any date specified herein for any payment under the Notes or other action required to be taken in connection therewith shall not be a Business Day, then such payment date will be, or such other required action will be taken on, the immediately succeeding Business Day (except as otherwise described herein).

Commodities Market Performance Historically Has a Low Correlation to the Debt or Equity Markets

An investment in the Notes may diversify a portfolio of traditional asset classes and investments (such as stocks and bonds). A diverse portfolio consisting of assets that perform in an unrelated manner, or low correlated assets, may increase overall return and reduce the volatility or price fluctuation of a portfolio. For example, the trading value of the Notes may increase while general stock indices fall. Generally, a portfolio of traditional asset classes and investments (such as stocks and bonds) which have positive returns and low correlation with each other can improve the risk/reward characteristics of the combined holdings. Historically, the Components underlying the Basket have exhibited low correlation to traditional investments, and thus, the Notes can improve a portfolio's return-to-risk profile. We anticipate that over time the performance of the Notes will not be similar to the performance of the general financial markets for equity and debt, and will move up and down independently. However, low correlation assets will not provide any diversification advantages unless the low correlated assets are outperforming other portfolio assets; and there is no guarantee that the Notes or the commodities markets in general will outperform traditional asset classes or other sectors of an investor's portfolio.

Historical Data on the Basket Performance

Using the historical settlement prices of the Components underlying the Basket on a monthly basis, the table and graph below illustrate the hypothetical Cash Settlement Value for each 5.5-year period beginning with the first 5.5-year period, January 1995 through July 2000. The following table and graph calculates the Basket Performance and hypothetical Cash Settlement Value as though the Basket had been in existence since January 1995. We obtained the data in the table and graph below from publicly available sources, without independent verification and believe such information to be accurate.

Past movements of Components underlying the Basket are not indicative of future price levels. The Components underlying the Basket have experienced significant price fluctuations. Any historical upward or downward trend during any period shown in the following table or graph is not an indication that the Components underlying the Basket are more or less likely to increase or decrease in value at any time during the term of the Notes or as to the potential value of the Notes. The actual performance of the Components underlying the Index over the life of the Notes may bear little or no relation to the historical movements depicted below.

Hypothetical Cash Settlement Value Plus Interest Payments Using Historical Data of the Components Underlying the Basket Assuming a 5.5-Year Holding Period

5.5-Year Period Ending Date	Basket Performance	Total Coupons During 5.5-Year Period	Hypothetical Cash Settlement Value Per Note Plus Interest Payments, if any	5.5-Year Period Ending Date	Basket Performance	Total Coupons During 5.5-Year Period	Hypothetical Cash Settlement Value Per Note Plus Interest Payments, if any
July-2000	27.28%	$ 21.00	$ 1,482.80	April-2003	9.40%	$ 15.00	$ 1,244.00
August-2000	45.96%	$ 24.00	$ 1,699.60	May-2003	39.81%	$ 21.00	$ 1,608.10
September-2000	37.81%	$ 18.00	$ 1,558.10	June-2003	43.04%	$ 24.00	$ 1,670.40
October-2000	28.50%	$ 18.00	$ 1,465.00	July-2003	40.31%	$ 24.00	$ 1,643.10
November-2000	55.82%	$ 18.00	$ 1,738.20	August-2003	47.57%	$ 27.00	$ 1,745.70
December-2000	101.77%	$ 21.00	$ 2,227.70	September-2003	41.84%	$ 27.00	$ 1,688.40
January-2001	47.74%	$ 21.00	$ 1,687.40	October-2003	50.27%	$ 30.00	$ 1,802.70
February-2001	33.61%	$ 18.00	$ 1,516.10	November-2003	60.00%	$ 30.00	$ 1,900.00
March-2001	28.87%	$ 21.00	$ 1,498.70	December-2003	77.56%	$ 30.00	$ 2,075.60
April-2001	26.78%	$ 24.00	$ 1,507.80	January-2004	86.51%	$ 30.00	$ 2,165.10
May-2001	13.40%	$ 18.00	$ 1,314.00	February-2004	106.53%	$ 30.00	$ 2,365.30
June-2001	0.00%	$ 9.00	$ 1,090.00	March-2004	85.12%	$ 30.00	$ 2,151.20
July-2001	0.00%	$ 12.00	$ 1,120.00	April-2004	90.70%	$ 33.00	$ 2,237.00
August-2001	0.00%	$ 12.00	$ 1,120.00	May-2004	124.90%	$ 33.00	$ 2,579.00
September-2001	0.00%	$ 12.00	$ 1,120.00	June-2004	116.33%	$ 33.00	$ 2,493.30
October-2001	0.00%	$ 15.00	$ 1,150.00	July-2004	134.64%	$ 33.00	$ 2,676.40
November-2001	0.00%	$ 12.00	$ 1,120.00	August-2004	129.28%	$ 33.00	$ 2,622.80
December-2001	0.00%	$ 9.00	$ 1,090.00	September-2004	132.40%	$ 33.00	$ 2,654.00
January-2002	0.00%	$ 18.00	$ 1,180.00	October-2004	127.55%	$ 33.00	$ 2,605.50
February-2002	0.00%	$ 18.00	$ 1,180.00	November-2004	134.74%	$ 33.00	$ 2,677.40
March-2002	4.35%	$ 18.00	$ 1,223.50	December-2004	101.22%	$ 33.00	$ 2,342.20
April-2002	2.79%	$ 15.00	$ 1,177.90	January-2005	97.66%	$ 30.00	$ 2,276.60
May-2002	0.00%	$ 6.00	$ 1,060.00	February-2005	96.50%	$ 27.00	$ 2,235.00
June-2002	0.00%	$ 9.00	$ 1,090.00	March-2005	95.01%	$ 30.00	$ 2,250.10
July-2002	0.00%	$ 15.00	$ 1,150.00	April-2005	82.06%	$ 30.00	$ 2,120.60
August-2002	10.50%	$ 21.00	$ 1,315.00	May-2005	85.59%	$ 30.00	$ 2,155.90
September-2002	19.24%	$ 21.00	$ 1,402.40	June-2005	94.23%	$ 30.00	$ 2,242.30
October-2002	12.96%	$ 24.00	$ 1,369.60	July-2005	96.50%	$ 27.00	$ 2,235.00
November-2002	11.41%	$ 15.00	$ 1,264.10	August-2005	126.57%	$ 27.00	$ 2,535.70
December-2002	26.16%	$ 18.00	$ 1,441.60	September-2005	148.07%	$ 30.00	$ 2,780.70
January-2003	38.98%	$ 18.00	$ 1,569.80	October-2005	133.47%	$ 30.00	$ 2,634.70
February-2003	52.48%	$ 15.00	$ 1,674.80	November-2005	114.47%	$ 21.00	$ 2,354.70
March-2003	13.63%	$ 15.00	$ 1,286.30	December-2005	104.25%	$ 21.00	$ 2,252.50

The following graph sets forth the information provided in the table above and represents the ending date for the preceding 5.5-year period.

Summary of Year-End Performance of Traditional Asset Classes and Investments Versus the Notes

The table below provides a comparative example of how various asset classes and investments have performed from January 1, 2000 through December 31, 2005. Industry recognized indices are used to represent particular asset classes. Past performance is not indicative of future results. Moreover, results during prior periods may have been significantly different.

Year Ending	**Basket Performance**	**S&P 500 Index**[1]	**S&P Europe 350 Index**[2]	**Nikkei 225 Index**[3]	**Gold Bullion**[4]	**Lehman US Bond Index**[5]
2000	103.85%	(9.10%)	-0.84%	(27.19%)	(5.47%)	11.15%
2001	(55.04%)	(11.89%)	(15.20%)	(23.52%)	2.46%	8.60%
2002	51.19%	(22.10%)	(30.22%)	(18.63%)	24.77%	10.14%
2003	22.84%	28.68%	15.48%	24.45%	19.37%	4.55%
2004	12.39%	10.88%	11.89%	7.61%	5.54%	4.52%
2005	54.51%	3.00%	22.82%	40.23%	78.55%	2.32%
5-year CAGR[6]	7.72%	(1.12%)	(3.35%)	3.17%	13.69%	5.99%

1 The S&P 500 Index represents the large-capitalization segment of the U.S. equity markets. The calculation of the value of the S&P 500 Index is based on the relative value of the aggregate market value of the common stocks of 500 companies as of a particular time. Dividend income is added to price appreciation to arrive at total return. You can obtain additional information at *http://www.standardandpoors.com*.

2

The S&P Europe 350 Index measures the performance of 350 equities in 17 Pan-European markets, covering approximately 70% of the total market capitalization. It offers a balance between broad market representation and liquidity. Dividend income is added to price appreciation to arrive at total return. You can obtain additional information at *http://www.standardandpoors.com*.

3

The Nikkei 225 Index is a stock index that measures the composite price performance of 225 Japanese stocks that trade on the Tokyo Stock Exchange. The Nikkei 225 Index is a modified, price-weighted index, meaning that a stock's weight in the index is based on its price per share rather than the total market capitalization. You can obtain additional information at *http://www.nni.nikkei.co.jp*.

4

This is the gold spot price quoted in U.S. dollars per troy ounce using the 5:00 p.m. New York time value. You can obtain additional information on your Bloomberg Professional® terminal by typing "GOLDS" (as the ticker symbol) and the " comdty " button.

5

The Dow Jones Lehman U.S. Bond Composite Index consists of an equal weighting of the Lehman U.S. Government Bond Index, the Lehman Investment Grade Corporate Bond Index and the Lehman Mortgage Backed Bond Index. You can obtain additional information on your Bloomberg Professional® terminal by typing "BNDUS" as the ticker symbol and the " Index " button.

6

The Compound Annual Growth Rate (CAGR) reflects a year-to-year growth rate of an investment over a multiple-year period. CAGR is a pro forma calculation that provides a "smoothed" annual yield.

Illustrative Examples:

The following are illustrative examples demonstrating the hypothetical Cash Settlement Value of a Note based on the assumptions outlined below. Actual returns may be different.

Assumptions:

Investor purchases $1,000 principal amount of Notes at the initial offering price of $1,000.

Investor does not sell the Notes and holds the Notes to maturity.

The Notes allow you to participate in the Basket Performance.

All returns are based on a 5.5-year term; pre-tax basis.

No Market Disruption Events or Events of Default occur during the term of the Notes.

Example 1: The five Components underlying the Basket each increase significantly during the term of the Notes.

Semi-Annual Interest Observation Date for	Basket Level at the end of each Period	Coupon, if any, Note per
July 2006	15%	$ 30
January 2007	17.5%	$ 30
June 2007	18.5%	$ 30
January 2008	24.7%	$ 30
July 2008	36.50%	$ 30
January 2009	47%	$ 30
July 2009	49%	$ 30
January 2010	55%	$ 30
July 2010	62%	$ 30
January 2011	67%	$ 30
July 2011	69%	$ 30
Basket Performance	69%	$ 330

For each of the eleven periods, the Basket Level was greater than or equal to Initial Basket Level. In this example, you would have received $330 in interest payments over the term of the Notes.

Additionally, because the Basket Performance is greater than or equal to zero, the Cash Settlement Value will equal:

= Principal Amount of Notes + (Principal Amount of Notes × Basket Performance)

= $1,000 + ($1,000 × 69%)

= $1,000 + $690

= $1,690

The total return on the Notes equals the Cash Settlement Value of $1,690 plus interest payments of $330 or $2,020.

Example 2: The five Components underlying the Basket each remain relatively the same during the term of the Notes.

Semi-Annual Interest Observation Date	Basket Level at the end of each Period	Coupon, if any, per Note
July 2006	.01%	$ 30
January 2007	.01%	$ 30
June 2007	.01%	$ 30
January 2008	.01%	$ 30
July 2008	.01%	$ 30
January 2009	.01%	$ 30
July 2009	.01%	$ 30
January 2010	.01%	$ 30
July 2010	.01%	$ 30
January 2011	.01%	$ 30
July 2011	.01%	$ 30
Basket Performance	.01%	$ 330

For each of the eleven periods, the Basket Level was greater than or equal to Initial Basket Level. In this example, you would have received $330 in interest payments over the term of the Notes. Additionally, because the Basket Performance is greater than or equal to zero, the Cash Settlement Value will equal:

= Principal Amount of Notes + (Principal Amount of Notes × Basket Performance)

= $1,000 + ($1,000 × .01%)

= $1,000 + $0.10

= $1,000.10

The total return on the Notes equals the Cash Settlement Value of $1,000.10 plus interest payments of $330 or $1,330.10.

Example 3: The five Components underlying the Basket each trade in a volatile and choppy manner and then decrease substantially during the last two years of the term of the Notes.

Semi-Annual Interest Observation Date for	Basket Level at the end of each Period	Coupon, if any, per Note
July 2006	36%	$ 30
January 2007	45%	$ 30
June 2007	16%	$ 30
January 2008	25%	$ 30
July 2008	5%	$ 30
January 2009	3%	$ 30
July 2009	(10%)	$ 0
January 2010	(12%)	$ 0
July 2010	(22%)	$ 0
January 2011	(40%)	$ 0
July 2011	(25%)	$ 0
Basket Performance	(25%)	$ 180

For the first six periods, the Basket Level was greater than or equal to Initial Basket Level. In this example, you would have received $180 in interest payments over the term of the Notes. However, because the Basket Performance is less than zero, the Cash Settlement Value will equal $1,000. The total return on the Notes equals the Cash Settlement Value of $1,000 plus interest payments of $180 or $1,180.

Example 4: The five Components underlying the Basket each decrease substantially during the term of the Notes.

Semi-Annual Interest Observation Date for	Basket Level at the end of each Period	Coupon, if any, per Note
July 2006	(19%)	$ 0
January 2007	(25%)	$ 0
June 2007	(32%)	$ 0
January 2008	(40%)	$ 0
July 2008	(44%)	$ 0
January 2009	(55%)	$ 0
July 2009	(73%)	$ 0
January 2010	(75%)	$ 0
July 2010	(83%)	$ 0
January 2011	(79%)	$ 0
July 2011	(69%)	$ 0
Basket Performance	(69%)	$ 0

For each period, the Basket Level was less than the Initial Basket Level. In this example, you would not have received any interest payments over the term of the Notes. Moreover, because the Basket Performance is less than zero, the Cash Settlement Value will equal $1,000.

Table of Hypothetical Cash Settlement Values

The following table reflects the hypothetical Basket Performance, hypothetical Cash Settlement Values, the amount of any interest payments and the total return on the Notes.

Initial Basket Level	Hypothetical Basket Level	Basket Performance	Cash Settlement Value Per Note	Total Return if Held to Maturity**
100.00	195.00	95.00%	$ 1,950.00	95.00%
100.00	192.50	92.50%	$ 1,925.00	92.50%
100.00	190.00	90.00%	$ 1,900.00	90.00%
100.00	187.50	87.50%	$ 1,875.00	87.50%
100.00	185.00	85.00%	$ 1,850.00	85.00%
100.00	182.50	82.50%	$ 1,825.00	82.50%
100.00	180.00	80.00%	$ 1,800.00	80.00%
100.00	177.50	77.50%	$ 1,775.00	77.50%
100.00	175.00	75.00%	$ 1,750.00	75.00%
100.00	172.50	72.50%	$ 1,725.00	72.50%
100.00	170.00	70.00%	$ 1,700.00	70.00%
100.00	167.50	67.50%	$ 1,675.00	67.50%
100.00	165.00	65.00%	$ 1,650.00	65.00%
100.00	162.50	62.50%	$ 1,625.00	62.50%
100.00	160.00	60.00%	$ 1,600.00	60.00%
100.00	157.50	57.50%	$ 1,575.00	57.50%
100.00	155.00	55.00%	$ 1,550.00	55.00%
100.00	152.50	52.50%	$ 1,525.00	52.50%
100.00	150.00	50.00%	$ 1,500.00	50.00%
100.00	147.50	47.50%	$ 1,475.00	47.50%
100.00	145.00	45.00%	$ 1,450.00	45.00%
100.00	142.50	42.50%	$ 1,425.00	42.50%
100.00	140.00	40.00%	$ 1,400.00	40.00%
100.00	137.50	37.50%	$ 1,375.00	37.50%
100.00	135.00	35.00%	$ 1,350.00	35.00%
100.00	132.50	32.50%	$ 1,325.00	32.50%
100.00	130.00	30.00%	$ 1,300.00	30.00%
100.00	127.50	27.50%	$ 1,275.00	27.50%
100.00	125.00	25.00%	$ 1,250.00	25.00%
100.00	122.50	22.50%	$ 1,225.00	22.50%
100.00	120.00	20.00%	$ 1,200.00	20.00%
100.00	117.50	17.50%	$ 1,175.00	17.50%
100.00	115.00	15.00%	$ 1,150.00	15.00%
100.00	112.50	12.50%	$ 1,125.00	12.50%
100.00	110.00	10.00%	$ 1,100.00	10.00%
100.00	107.50	7.50%	$ 1,075.00	7.50%
100.00	105.00	5.00%	$ 1,050.00	5.00%
100.00	102.50	2.50%	$ 1,025.00	2.50%
100.00	100.00	0.00%	$ 1,000.00	0.00%
100.00	97.50	(2.50%)	$ 1,000.00	0.00%
100.00	95.00	(5.00%)	$ 1,000.00	0.00%
100.00	92.50	(7.50%)	$ 1,000.00	0.00%
100.00	90.00	(10.00%)	$ 1,000.00	0.00%

100.00	87.50	(12.50%)	$	1,000.00	0.00%
100.00	85.00	(15.00%)	$	1,000.00	0.00%
100.00	82.50	(17.50%)	$	1,000.00	0.00%
100.00	80.00	(20.00%)	$	1,000.00	0.00%
100.00	77.50	(22.50%)	$	1,000.00	0.00%
100.00	75.00	(25.00%)	$	1,000.00	0.00%
100.00	72.50	(27.50%)	$	1,000.00	0.00%
100.00	70.00	(30.00%)	$	1,000.00	0.00%
100.00	67.50	(32.50%)	$	1,000.00	0.00%
100.00	65.00	(35.00%)	$	1,000.00	0.00%
100.00	62.50	(37.50%)	$	1,000.00	0.00%
100.00	60.00	(40.00%)	$	1,000.00	0.00%
100.00	57.50	(42.50%)	$	1,000.00	0.00%
100.00	55.00	(45.00%)	$	1,000.00	0.00%
100.00	52.50	(47.50%)	$	1,000.00	0.00%
100.00	50.00	(50.00%)	$	1,000.00	0.00%
100.00	47.50	(52.50%)	$	1,000.00	0.00%
100.00	45.00	(55.00%)	$	1,000.00	0.00%
100.00	42.50	(57.50%)	$	1,000.00	0.00%
100.00	40.00	(60.00%)	$	1,000.00	0.00%
100.00	37.50	(62.50%)	$	1,000.00	0.00%
100.00	35.00	(65.00%)	$	1,000.00	0.00%
100.00	32.50	(67.50%)	$	1,000.00	0.00%
100.00	30.00	(70.00%)	$	1,000.00	0.00%
100.00	27.50	(72.50%)	$	1,000.00	0.00%
100.00	25.00	(75.00%)	$	1,000.00	0.00%
100.00	22.50	(77.50%)	$	1,000.00	0.00%
100.00	20.00	(80.00%)	$	1,000.00	0.00%
100.00	17.50	(82.50%)	$	1,000.00	0.00%
100.00	15.00	(85.00%)	$	1,000.00	0.00