BEAR STEARNS COMPANIES INC
Form 424B5
January 03, 2003

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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, 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 the offer or sale is not permitted.

Subject to completion, dated January 3, 2003

PRICING SUPPLEMENT
(To Prospectus Dated January 25, 2002 and
Prospectus Supplement Dated January 25, 2002)

$[ ]

The Bear Stearns Companies Inc.

Principal Protected *Sector Selector* Notes Due 2008
Linked to a Basket of U.S. Sector Exchange Traded Funds

- The Notes are unsecured debt obligations of The Bear Stearns Companies Inc.

- The Notes are linked to the performance of a basket of ten specified U.S. sector exchange traded funds, which we refer to collectively as the basket. The sector exchange traded funds are issued by iShares Trust®, a registered investment company and are traded on the American Stock Exchange.

- The Notes will mature on January [ ], 2008. We will not make any payments on the Notes prior to maturity.

- The Notes are 100% principal protected if held to maturity. At maturity, you will receive the principal amount of the Notes, plus you may receive a variable return amount. The variable return amount may be zero, but it will not be less than zero.

- The variable return amount you may receive at maturity will be based on the performance of the basket, using a semi-annual performance selection mechanism over the five-year term of the Notes. Individual sector exchange traded funds will be removed from the basket once their performance has been used on an observation date.

- The variable return amount you may receive at maturity may be limited by the participation rate. We currently estimate that the participation rate will range from 90% to 100%.

- The Notes will be issued in minimum denominations of $1,000.

- The Notes will be issued in book-entry form only.

- We have applied to list the Notes (subject to official notice of issuance) on the American Stock Exchange under the trading symbol "BYF."

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. SEE "RISK FACTORS" BEGINNING ON PAGE PS-7 OF THIS PRICING SUPPLEMENT.

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

	Per Note	Total
Initial public offering price	100%	$ [ ]
Underwriting discount	[ ]%	$ [ ]
Proceeds, before expenses, to us	[ ]%	$ [ ]

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 [ ], 2003 against payment in immediately available funds. The distribution of the Notes will conform to the requirements set forth in Rule 2720 of the NASD Conduct Rules.

After this offering is complete, the agent may use this pricing supplement, the accompanying prospectus supplement and prospectus in connection with market-making transactions at negotiated prices related to the prevailing market prices at the time of sale. The agent may act as principal or agent in these transactions.

Bear, Stearns & Co. Inc.

January [ ], 2003

"Dow Jones" and "Dow Jones US Basic Materials Sector Index^{SM}", "Dow Jones US Consumer Cyclical Sector Index^{SM}", "Dow Jones US Consumer Non-Cyclical Sector Index^{SM}", "Dow Jones US Energy Sector Index^{SM}", "Dow Jones US Financial Sector Index^{SM}", "Dow Jones US Healthcare Sector Index^{SM}", "Dow Jones US Industrial Sector Index^{SM}", "Dow Jones US Technology Sector Index^{SM}", "Dow Jones US Telecommunications Sector Index^{SM}" and "Dow Jones US Utilities Sector Index^{SM}" are service marks of Dow Jones and have been licensed for use for certain purposes by The Bear Stearns Companies Inc. The Bear Stearns Companies Inc.'s Principal Protected *Sector Selector* Notes are linked to a basket of US Sector Exchange Traded Funds which are based on the Dow Jones US Basic Materials Sector Index^{SM}, Dow Jones US Consumer Cyclical Sector Index^{SM}, Dow Jones US Consumer Non-Cyclical Sector Index^{SM}, Dow Jones US Energy Sector Index^{SM}, Dow Jones US Financial Sector Index^{SM}, Dow Jones US Healthcare Sector Index^{SM}, Dow Jones US Industrial Sector Index^{SM}, Dow Jones US Technology Sector Index^{SM}, Dow Jones US Telecommunications Sector Index^{SM} and Dow Jones US Utilities Sector Index^{SM}, are not sponsored, endorsed, sold or promoted by Dow Jones, and Dow Jones makes no representation regarding the advisability of investing in such products.

"iShares Trust®" and "iShares Dow Jones U.S. Basic Materials Sector Index Fund®", "iShares Dow Jones U.S. Consumer Cyclical Sector Index Fund®", "iShares Dow Jones U.S. Consumer Non-Cyclical Sector Index Fund®", "iShares Dow Jones U.S. Energy Sector Index Fund®", "iShares Dow Jones U.S. Financial Sector Index Fund®", "iShares Dow Jones U.S. Healthcare Sector Index Fund®", "iShares Dow Jones U.S. Industrial Sector Index Fund®", "iShares Dow Jones U.S. Technology Sector Index Fund®", "iShares Dow Jones U.S. Telecommunications Sector Index Fund®" and "iShares Dow Jones U.S. Utilities Sector Index Fund®" are trademarks of Barclays Global Investors, N.A. and have been licensed for use by The Bear Stearns Companies Inc. The Notes are not sponsored, endorsed, sold or promoted by Barclays Global Investors, N.A. and Barclays Global Investors, N.A. does not make any representations regarding the advisability of investing in the Notes.

CERTAIN DEFINITIONS

Unless otherwise stated in this pricing supplement:

the "Company," "we," "us" and "our" refer to The Bear Stearns Companies Inc. and its subsidiaries;

"AMEX" refers to the American Stock Exchange;

"basket" refers to the Sector ETFs;

"Bear Stearns" refers to Bear, Stearns & Co. Inc.;

"Barclays" refers to Barclays Global Investors, N.A.;

"BSB" refers to Bear Stearns Bank plc;

"BSSC" refers to Bear, Stearns Securities Corp.;

"BSIL" refers to Bear, Stearns International Limited;

"CAGR" refers to the compounded annual growth rate of the Notes if held to maturity;

"Dow Jones" refers to Dow Jones & Company, Inc.;

"iShares Trust®" refers to the registered investment company that issued the Sector ETFs;

"NYSE" refers to the New York Stock Exchange;

"S&P 500 Index" refers to Standard & Poor's 500 Index;

"SEC" refers to the Securities and Exchange Commission;

"Sector ETFs" refers to the ten U.S. sector exchange traded funds issued by iShares Trust®, as described under "Description of the Sector ETFs" in this pricing supplement; and

"US dollars," "dollars," "US $" and "$" refer to the lawful currency of the United States of America.

Other capitalized terms that are used but not defined in this pricing supplement shall have the meanings given to them in the prospectus.

Bear Stearns, BSB, BSSC and BSIL are subsidiaries of The Bear Stearns Companies Inc.

SUMMARY INFORMATION QUESTIONS AND ANSWERS

What are the Notes?

The Notes are our senior debt securities, and are not secured by collateral. The Notes will rank equally with all our other unsecured and unsubordinated debt. The Notes will mature on January [   ], 2008, and do not provide for earlier maturity.

You may only transfer the Notes in denominations of $1,000. You will not have the right to receive physical certificates evidencing your ownership of the Notes, except under limited circumstances. Instead, we will issue the Notes in the form of a global certificate, which will be held by The Depository Trust Company ("DTC") or its nominee. Direct and indirect participants in DTC will record beneficial ownership of the Notes by individual investors. See "Description of Notes Book-Entry Notes Registration, Transfer and Payments" in the accompanying prospectus supplement.

What Does "Principal Protected" Mean?

"Principal Protected" means that your principal investment in the Notes will not be at risk due to a decline in the value of the basket if the Notes are held to maturity. You may receive less than the principal amount of the Notes if you sell the Notes prior to maturity.

Since repayment of the Notes is our direct obligation, actual or anticipated changes in our current credit ratings (A2 by Moody's Investor Service, Inc. and A by Standard & Poor's Rating Services), may affect the value of the Notes prior to maturity. Certain events, such as an Event of Default (as defined in the accompanying prospectus) with respect to the Notes may cause you to receive less than the principal amount of the Notes at maturity. See "Description of the Notes Events of Default and Acceleration" in this pricing supplement. A rating is not a recommendation to purchase, hold or sell securities, since a rating does not address market price or suitability for a particular investor. A rating of debt securities addresses the likelihood of the payment of principal and interest, if any is due, on the securities in accordance with their terms. We cannot assure you that these ratings will not be changed or withdrawn by the rating agencies.

Will I Receive Interest on the Notes?

We will not make any periodic payments of interest on the Notes, or any other payments on the Notes, until maturity. At maturity, in addition to your initial principal amount, you may receive a variable return amount that is based on the performance of the Sector ETFs that comprise the basket during the five-year term of the Notes.

What will I Receive at the Stated Maturity Date of the Notes?

At maturity, you will receive the principal amount of the Notes, plus you may receive a variable return amount that will be linked to the performance of the Sector ETFs that comprise the basket during the five-year term of the Notes. The Sector ETFs are ten exchange traded funds whose values are based upon ten U.S. sector equity market indices compiled by Dow Jones. The variable return amount is designed to reflect the selection of the best performing sector remaining in the basket every six months during the five-year term of the Notes.

The variable return amount is calculated as follows:

On each observation date, the performance rate for each Sector ETF remaining in the basket will be calculated (as described below).

The individual Sector ETF in the basket which has the most positive or least negative percentage change since the issue date of the Notes will be selected and used to establish the performance rate for that observation date. Once the performance of an individual Sector ETF has been used on an

observation date, such Sector ETF will then be removed from the basket and will not be utilized in the calculation of performance rates for any subsequent observation date.

On the valuation date, which will normally be the third business day prior to the stated maturity date, the variable return amount will equal the average of the ten Sector ETF performance rates selected during the five-year term of the Notes, as adjusted by the participation rate. The variable return amount will then be multiplied by the principal amount of your Note to determine the amount you will receive on the stated maturity date.

The average performance will be calculated on the valuation date by adding the ten selected performance rates, dividing the sum by the number of Sector ETFs that comprised the basket (ten) and multiplying the resulting number by the participation rate. We currently estimate that the participation rate will range from 90% to 100%.

If the variable return amount for the five-year term of the Notes is less than or equal to zero, the variable return amount will be zero. If the variable return amount is zero, we will pay you only the principal amount of your Notes. The variable return amount will not be less than zero.

The performance rate for each of the Sector ETFs remaining in the basket on each observation date will be calculated as follows:

$$\frac{\text{(reference value - initial value)}}{\text{initial value}}$$

The individual Sector ETF in the basket which has the most positive or least negative percentage change since the issue date will be selected and used to set the performance rate for that observation date.

For purposes of this formula:

- the "reference value" will equal the closing value of each of the Sector ETFs that comprise the basket on each observation date or, if that day is not a business day, on the next business day;
- the "closing value" will be the closing price of each of the Sector ETFs on the AMEX on such observation date;

an "observation date" will occur semi-annually, commencing with the first observation date on July [ ], 2003 and on the [ ] of each January and July thereafter until the last observation date, which will be January [ ], 2008, subject to the following business day convention;

for the first observation date, the "initial value" will equal the closing value of each of the Sector ETFs on July [ ], 2003;

the "valuation time" will be the close of trading on the AMEX; and

"business day" will be a day, as determined by the calculation agent, on which the NYSE, the AMEX, the Nasdaq National Market, the Chicago Mercantile Exchange and the Chicago Board Options Exchange are open for trading (or would have been open for trading, but for the occurrence of a market disruption event) and the Sector ETFs' values are calculated and published. The calculation agent may, in its sole discretion, add to or delete from the definition of "business day" any major U.S. exchange or market that commences or ceases to serve as a primary exchange or market upon which a Sector ETF underlying the basket trades, or as an exchange upon which a futures contract, an option contract, or an option on a futures contract relating to the Sector ETFs trades. 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.

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For more specific information about the variable return amount and for illustrative examples, see "Description of the Notes" in this pricing supplement. If any of the Sector ETFs are de-listed from the AMEX or cease to be issued by iShares Trust® prior to removal from the basket, and the calculation agent determines to substitute a corresponding Dow Jones US Sector Index or other successor or substitute sector index for the discontinued Sector ETF, such corresponding, successor or substitute sector index will be substituted for the discontinued Sector ETF for purposes of the definitions set forth above.

What is the Basket of Sector ETFs and What does it Measure?

The basket will be comprised of Sector ETFs whose values are based upon ten U.S. sector equity market indices compiled by Dow Jones. The indices track the following sectors: Basic Materials, Consumer Cyclical, Consumer Non-Cyclical, Energy, Financial, Healthcare, Industrial, Technology, Telecommunications and Utilities. The number of companies currently represented by the ten U.S. sectors is approximately 1,560. Currently 98.67% of the members of the S&P 500 Index are represented in these ten U.S. sector equity market indices, and included in the Sector ETFs that comprise the basket. The Sector ETFs are quoted on the AMEX.

For more specific information about the Sector ETFs that comprise the basket, see "Description of the Sector ETFs" in this pricing supplement.

What Changes will Occur in the Basket?

Over the course of the five-year term of the Notes, on each observation date, an individual Sector ETF which has the most positive or least negative percentage change will be selected and used to establish the performance rate for such observation date. Once the performance of an individual Sector ETF has been used on an observation date, such Sector ETF will be removed from the basket and will not be utilized in the calculation of performance rates for any subsequent observation date. See "Description of the Notes" in this pricing supplement.

How has the Basket of Sector ETFs Performed Historically?

We have provided tables showing the closing values of each of the Sector ETFs on the last business day of each quarter from June 30, 2000 to December 31, 2002. You can find these tables in "Description of the Sector ETFs Historical Data on the Sector ETFs" in this pricing supplement. We have provided this historical information to help you evaluate the behavior of the Sector ETFs in various economic environments; however, past performance is not necessarily indicative of how the Sector ETFs will perform in the future. See "Risk Factors The Historical Performance of the Sector ETFs is Not an Indication of the Future Performance of the Sector ETFs" in this pricing supplement.

Will the Notes be Listed on a Securities Exchange?

We have applied to list the Notes (subject to official notice of issuance) on the AMEX. You should be aware that any listing of the Notes on the AMEX will not necessarily ensure that a liquid trading market will be available for the Notes and may be discontinued. See "Risk Factors There May Not Be a Liquid Secondary Market for the Notes" in this pricing supplement.

What is the Role of Our Subsidiary, Bear Stearns?

Our subsidiary, Bear Stearns, will be our agent for the offering and sale of the Notes. After the initial offering, Bear Stearns intends 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 continue them once they are begun.

Bear Stearns also will be our calculation agent for purposes of calculating the variable return amount. 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. See "Risk Factors The Calculation Agent is One of Our Affiliates, Which Could Result in a Conflict of Interest" in this pricing supplement.

Can You Tell Me More About The Bear Stearns Companies Inc.?

We are a holding company that, through our subsidiaries, principally Bear Stearns, BSSC, BSIL and BSB, 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 entitled "The Bear Stearns Companies Inc." in the accompanying prospectus. You should also read the other documents we have filed with the SEC, which you can find by referring to the section entitled "Where You Can Find More Information" in the accompanying prospectus.

What are the U.S. Federal Income Tax Consequences of Investing in the Notes?

Because the Notes are contingent payment debt instruments for federal income tax purposes, a U.S. holder of a Note will be required to include original issue discount ("OID") in gross income over the term of the Note prior to receiving payment on the Note at maturity. The amount of OID includible in each year is based on our "comparable yield." In addition, we have computed a "projected payment amount" that produces the comparable yield. The comparable yield and the projected payment amount are neither predictions nor guarantees of the actual yield on the Notes or the actual payment at maturity. If the amount we actually pay at maturity is, in fact, less than the projected payment amount, 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). See "Certain U.S. Federal Income Tax Considerations" in this pricing supplement and "Certain United States Federal Income Tax Considerations" in the prospectus 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, as amended ("ERISA") or a plan that is subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), including individual retirement accounts, individual retirement annuities or Keogh plans, 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 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. See "Risk Factors" in this pricing supplement and "Risk Factors" in the accompanying prospectus supplement.

RISK FACTORS

You should carefully consider the risk factors set forth below as well as the other information contained in this pricing supplement, the accompanying prospectus supplement and prospectus before deciding whether an investment in the Notes is suitable for you in light of your particular investment objectives and financial circumstances. As described in more detail below, the trading price of the Notes may vary considerably prior to the stated maturity date due, among other things, to fluctuations in the price of the Sector ETFs that then comprise the basket on each observation date and other events that are difficult to predict and beyond our control.

You should reach an investment decision only after you have carefully considered with your advisors the suitability of an investment in the Notes in light of your particular circumstances.

You may not Earn a Return on Your Investment

You should be aware that if the variable return amount on the valuation date of the Notes is less than or equal to zero, then the variable return amount will be zero. If the variable return amount is zero, we will pay you only the principal amount of your Notes on the stated maturity date. The variable return amount will not be less than zero.

You will not Receive any Periodic Payments of Interest

You will not receive any periodic payments of interest or any other periodic payments on the Notes until maturity. At maturity, in addition to your initial principal amount, you may receive a variable return amount that is based on the performance of the Sector ETFs on each observation date during the five-year term of the Notes, as adjusted by the participation rate. The variable return amount may be zero. For more specific information about the variable return amount and for illustrative examples, see "Description of the Notes" below.

Your Yield may be Below Market Interest Rates on the Pricing Date

The variable return amount that you receive, if any, may be below what we would pay as interest as of the pricing date if we had issued non-callable senior debt securities with a similar maturity to that of the Notes. The return of principal at maturity and any payment of the variable return amount may not reflect the full opportunity costs implied by inflation or other factors relating to the time value of money.

These Notes are Different from Our Conventional Debt Securities in Several Ways

Sector selector mechanism. There is no guarantee that the sector selector mechanism utilized on each observation date will yield a variable return amount that will match or outperform a benchmark equity index such as the S&P 500 Index. There is no assurance that any of the Sector ETFs (or any corresponding, successor or substitute index substituted for any discontinued Sector ETF) will yield positive performance rates over the five-year term of the Notes.

Averaging feature. Because the variable return amount paid at maturity will equal the average of ten Sector ETF performance rates selected over the five-year term of the Notes, as adjusted by the participation rate, significant (or several significant) negative performance rates would offset gains made in other positive performance rates and could cause the Notes to underperform a benchmark equity index such as the S&P 500 Index or cause the variable return amount to be zero.

Participation rate. The participation rate may limit the variable return amount that you may receive at maturity only to a percentage of any actual increase in the average of ten Sector ETF performance rates. The variable return amount you may receive at maturity will be limited to a

specified percentage, which we currently estimate to range from 90% to 100%, of any increase in the average of ten Sector ETF performance rates.

Limited sector returns. Once the performance of an individual Sector ETF has been used on an observation date, such Sector ETF will then be removed from the basket and you will not benefit from future positive returns generated by such removed

Sector ETF.

Correlation of performance. Performance among the Sector ETFs may become highly correlated over time, thereby minimizing the beneficial timing or hedging effect derived from inversely related investments. High correlation during periods of negative returns among Sector ETFs could reduce the performance of the Notes.

Adjustments to the Sector ETFs and the Dow Jones US Sector Indices Could Adversely Affect the Value of the Notes

iShares Trust® is responsible for maintaining the Sector ETFs. Dow Jones is responsible for compiling and maintaining the Dow Jones US Sector Indices. Dow Jones can add, delete or substitute the stocks underlying the Dow Jones US Sector Indices or make other methodological changes that could change the value of the Dow Jones US Sector Indices and affect the value of the Sector ETFs. Dow Jones may discontinue or suspend compilation or dissemination of the Dow Jones US Sector Indices. If events such as these occur, or if the index levels are not available because of a market disruption event or for any other reason, the calculation agent, which initially will be Bear Stearns, our affiliate, may determine the index levels on the observation dates and, ultimately, the variable return amount payable on the stated maturity date, in a manner it considers appropriate, in its sole discretion. See "Description of the Notes-Discontinuance of the Sector ETFs."

Tax Consequences

For U.S. federal income tax purposes, the Notes will be classified as contingent payment debt instruments. As a result, you will be required to include original issue discount in income during your ownership of the Notes although you will receive no cash payments during the term of the Notes. Additionally, you will generally be required to treat gain, if any, recognized on a sale, upon maturity, or other disposition of the Notes as ordinary income (rather than capital gain). See "Certain U.S. Federal Income Tax Considerations" beginning on page PS-35 of this pricing supplement.

The Historical Performance of the Sector ETFs is not an Indication of the Future Performance of the Sector ETFs

The historical performance of the Sector ETFs, which is included in this pricing supplement, should not be taken as an indication of the future performance of the Sector ETFs. It is impossible to predict whether the value of the Sector ETFs will increase or decrease. Trading prices of the Sector ETFs will be influenced by the complex and interrelated political, economic, financial and other factors that can affect the capital markets generally and the equity trading markets on which the Sector ETFs are traded, and by various circumstances that can influence the values of the Sector ETFs in a specific market segment.

The Price, if any, 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

We believe that the value of your Notes will be affected by the supply of and demand for the Notes, the value of the Sector ETFs on each observation date, and a number of other factors. Some of these factors are interrelated in complex ways; as a result, the effect of any one factor may be offset or magnified by the effect of another factor. The price, if any, at which you will be able to sell your Notes prior to maturity may be substantially less than the amount you originally invested if, at such time, the

values of the Sector ETFs are less than, equal to or not sufficiently above the values of the Sector ETFs when you purchased the Notes. The following paragraphs describe what we expect to be the impact on the market value of the Notes with a change in a specific factor, assuming all other conditions remain constant.

Value of the Sector ETFs. We expect that the market value of the Notes will likely depend substantially on the relationship between the initial value of the Sector ETFs and the value of the Sector ETFs in the basket on each of the observation dates. If you choose to sell your Notes when the values of the Sector ETFs in the basket exceed their initial values, you may still receive substantially less than the amount that would have been payable at maturity based on those values, because of the expectation that the Sector ETFs in the basket will continue to fluctuate between such time, and the time when their reference values are determined. If you choose to sell your Notes when the values of the Sector ETFs in the basket are below their initial values, you may receive less than your initial principal investment. The effect of the market values of the Sector ETFs in the basket on each observation date on the market value of the Notes will likely decrease over time during the five-year term of the Notes, because a portion of the variable return amount will be determined on each of the ten observation dates during such period.

Volatility of the Sector ETFs. Volatility is the term used to describe the size and frequency of market fluctuations. If the volatility of the Sector ETFs increases or decreases, the trading value of the Notes may be adversely affected. The effect of the volatility of the Sector ETFs on the market value of the Notes will likely decrease over time during the term of the Notes, because the performance rates (and thus a portion of the variable return amount) will be determined on each observation date.

Interest rates. We expect that the market value of the Notes will be affected by changes in U.S. interest rates. In general, if U.S. interest rates increase, the value of the Notes may decrease, and if U.S. interest rates decrease, the value of the Notes may increase. Interest rates may also affect the economy and, in turn, the value of the Sector ETFs, which (for the reasons discussed above) would affect the value of the Notes. Rising interest rates may lower the value of the Sector ETFs and, thus, the value of the Notes.

The Company's credit ratings, financial condition and results. Actual or anticipated changes in our credit ratings, financial condition or results may significantly affect the value of the Notes.

Time remaining to maturity. As the time remaining to maturity of the Notes decreases, the "time premium" associated with the Notes will decrease. The "time premium" results from expectations concerning the value of the Sector ETFs during the period prior to the maturity of the Notes. However, as the time remaining to the maturity of the Notes decreases, this time premium may decrease, decreasing the market value of the Notes.

Events involving the companies comprising the Sector ETFs. General economic conditions and earnings results of the companies whose common stocks comprise the Sector ETFs, and real or anticipated changes in those conditions or results, may affect the market value of the Notes.

We want you to understand that the impact 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 value of the Sector ETFs.

There may not be a Liquid Secondary Market for the Notes

Although we expect the Notes to be listed on the AMEX, there may not be a secondary market in the Notes and, if there were to be a secondary market, it may not be liquid. Accordingly, the liquidity of the Notes may be limited and, under certain circumstances, nonexistent. However, Bear Stearns

intends under ordinary market conditions to indicate prices in the Notes on request, although there can be no assurance at what price such a bid would be made. The price given, if any, will be affected by many factors including, but not limited to: the remaining term of the Notes, the general level of interest rates, the current value of the Sector ETFs and the cost to us of unwinding any related hedging activity or any funding arrangement.

We are not Affiliated with the Companies Whose Securities are Included in the Sector ETFs that Comprise the Basket and have not Investigated Them

We are not affiliated with any of the issuers of the stocks underlying the Sector ETFs and have not performed any due diligence investigation or review of any of them. You should undertake an independent investigation of the issuers of the component stocks and of the Sector ETFs themselves to the extent required in your judgment to allow you to make an informed decision with respect to an investment in the Notes.

We or our subsidiaries may from time to time engage in business with one or more of the issuers of the stocks underlying the Sector ETFs, including extending loans to, or making equity investments in, one or more of the issuers of the component stocks or their affiliates or subsidiaries or providing advisory services to one or more of the issuers of the component stocks, including merger and acquisition advisory services. In the course of our business, we or our affiliates may acquire non-public information about one or more of these issuers. We have no ability to control or predict the actions of the issuers of the component stocks, including any corporate actions of the type that would require iShares Trust® to adjust the Sector ETFs. We or our affiliates from time to time have published and in the future may publish research reports with respect to the component stocks. These research reports may or may not recommend that investors buy or hold any of the component stocks. The Sector ETFs were compiled independently of any of our research recommendations and may not be consistent with any such recommendations.

Actions by any issuer of the component stocks underlying the Sector ETFs that comprise the basket may have an adverse effect on the price of the Sector ETFs and the Notes. In addition, these companies are not involved in the offering of Notes and have no obligations with respect to the Notes, including any obligation to take our or your interests into consideration for any reason.

We are not Affiliated with Dow Jones or Barclays

We are not affiliated with Dow Jones or Barclays and have not performed any due diligence investigation or review of them. The Notes are not sponsored, endorsed, sold or promoted by Dow Jones or Barclays, and neither Dow Jones nor Barclays make any representations regarding the advisability of investing in the Notes.

iShares Trust®, the Issuer of the Sector ETFs Comprising the Basket, has No Obligations with Respect to the Notes.

iShares Trust®, the issuer of the Sector ETFs comprising the basket, will not receive any of the proceeds of the offering of the Notes made hereby and is not responsible for, and has not participated in, the determination of the timing of, prices for, or quantities of, the Notes to be issued. iShares Trust® is not involved with the administration, marketing or trading of the Notes and has no obligations with respect to the amount to be paid to you on the stated maturity date. We are solely responsible for the amount to be paid to you on the stated maturity date.

You will not have any Rights in the Sector ETFs that Comprise the Basket

Although the variable return amount, if any, is based upon the performance of the Sector ETFs that comprise the basket, you will have no rights in these securities, either before or at the stated maturity of the Notes.

Inclusion of any Individual Sector ETF in the Basket is not an Investment Recommendation for Such Sector ETF

You should not conclude that the inclusion of any individual Sector ETF in the basket is any form of investment recommendation for such Sector ETF as a stand-alone investment.

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, which includes debt securities like the Notes. Under current 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 One of Our Affiliates, 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 Sector ETF values, or deciding whether a market disruption event has occurred. See "Description of the Notes Discontinuance of the Sector ETFs" and " Market Disruption Events" below. Because Bear Stearns is our affiliate, conflicts of interest may arise in connection with Bear Stearns performing its role as calculation agent. Rules and regulations regarding broker-dealers (such as Bear Stearns) require Bear Stearns to maintain policies and procedures regarding the handling and use of confidential proprietary information, and such policies and procedures will be in effect throughout the term of the Notes to restrict the use of information relating to the calculation of the Sector ETF values that the calculation agent may be required to make prior to the dissemination of such Sector ETF values. Bear Stearns is obligated to carry out its duties and functions as calculation agent in good faith, and using its reasonable judgment.

Bear Stearns and its affiliates may, at various times, engage in transactions involving the stocks underlying the Sector ETFs and in the Sector ETFs underlying the basket for their proprietary accounts, as well as for other accounts under their management. These transactions may influence the value of such securities, and therefore the value of the basket. Bear Stearns and its affiliates will also be the counterparties to the hedge of our obligations under the Notes. See "Use of Proceeds and Hedging" below. Accordingly, under certain circumstances, conflicts of interest may arise between Bear Stearns' responsibilities as calculation agent with respect to the Notes and its obligations under our hedge.

The Payments You Receive on the Notes 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 the last observation date, a market disruption event has occurred or is continuing, the determination of the value of the Sector ETFs by the calculation agent may be deferred. As a result, the valuation date and maturity date for your Note may also be delayed for up to five consecutive business days. If this occurs, you may not receive the cash payment that we are obligated to deliver on the maturity date of the Notes until several days after the originally scheduled due date. See "Description of the Notes Market Disruption Events" below.

Notes may be subject to redemption prior to their maturity date upon the occurrence of an Event of Default. See "Description of Debt Securities Events of Default" in the accompanying prospectus. If a voluntary case under the United States Bankruptcy Code is commenced, or a case is involuntarily commenced against us, your claim may be limited to the principal amount of your Notes, and may not include any claim for any variable return amount. The amount of any recovery you may receive for any such claim will depend upon, among other things, the availability of a sufficient amount of assets to satisfy the claims of the class of creditors in which the Notes are classified. The Notes are not secured by collateral and will rank equally with all our other unsecured and unsubordinated debt. Because we are a holding company, the Notes will be effectively subordinated to the claims of creditors of our subsidiaries with respect to their assets. If we were to liquidate or reorganize, your right to participate in any distribution of our subsidiaries' assets will be subject to the senior claims of the subsidiaries' creditors. See "Description of Debt Securities Ranking" in the accompanying prospectus. The amount of principal of the Notes, together with any variable return amount, payable prior to the maturity date will be adjusted to account fully for any losses, expenses and costs to the Company of unwinding any underlying or related hedging and funding arrangements, all as determined by the calculation agent in its sole and absolute discretion.

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. See "Certain U.S. Federal Income Tax Considerations" below.

DESCRIPTION OF THE NOTES

The following description of the Notes (referred to in the accompanying prospectus supplement as the "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 (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 principal amount of the Notes will be $[ ]. The Notes will mature on January [ ], 2008, and will be our general unsecured obligations. The Notes will be issued only in fully registered form, and in minimum denominations of $1,000. 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. The Notes will not be subject to redemption prior to maturity.

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

Interest

We will not make any periodic payments of interest on the Notes or any other payments on the Notes, until maturity. At maturity, in addition to your initial principal, you may receive a variable return amount as described below.

Payment at Maturity

At maturity, you will receive the principal amount of the Notes, plus you may receive a variable return amount that will be linked to the performance of the Sector ETFs that comprise the basket during the five-year term of the Notes. The Sector ETFs are ten exchange traded funds whose values are based upon ten U.S. sector equity market indices compiled by Dow Jones. The variable return amount is designed to reflect the selection of the best performing sector remaining in the basket every six months during the five-year term of the Notes.

The variable return amount is calculated as follows:

On each observation date, the performance rate for each Sector ETF remaining in the basket will be calculated (as described below).

The individual Sector ETF in the basket which has the most positive or least negative percentage change since the issue date of the Notes will be selected and used to establish the performance rate for that observation date. Once the performance of an individual Sector ETF has been used on an observation date, such Sector ETF will then be removed from the basket and will not be utilized in the calculation of performance rates for any subsequent observation date.

On the valuation date, which will normally be the third business day prior to the stated maturity date, the variable return amount will equal the average of the ten Sector ETF performance rates selected during the five-year term of the Notes, as adjusted by the participation rate. The variable return amount will then be multiplied by the principal amount of your Note to determine the amount you will receive on the stated maturity date.

The average performance will be calculated on the valuation date by adding the ten selected performance rates, dividing the sum by the number of Sector ETFs that comprised the basket (ten) and

multiplying the resulting number by the participation rate. We currently estimate that the participation rate will range from 90% to 100%.

If the variable return amount for the five-year term of the Notes is less than or equal to zero, the variable return amount will be zero. If the variable return amount is zero, we will pay you only the principal amount of your Notes. The variable return amount will not be less than zero.

The performance rate for each of the Sector ETFs remaining in the basket on each observation date will be calculated as follows:

$$\frac{\text{(reference value - initial value)}}{\text{initial value}}$$

The individual Sector ETF in the basket which has the most positive or least negative percentage change since the issue date will be selected and used to set the performance rate for that observation date.

For purposes of this formula:

the "reference value" will equal the closing value of each of the Sector ETFs that comprise the basket on each observation date or, if that day is not a business day, on the next business day;

the "closing value" will be the closing price of each of the Sector ETFs on the AMEX on such observation date;

an "observation date" will occur semi-annually, commencing with the first observation date on July [ ], 2003 and on the [ ] of each January and July thereafter until the last observation date, which will be January [ ], 2008, subject to the following business day convention;

for the first observation date, the "initial value" will equal the closing value of each of the Sector ETFs on January [ ], 2003;

the "valuation time" will be the close of trading on the AMEX; and

"business day" will be a day, as determined by the calculation agent, on which the NYSE, the AMEX, the Nasdaq National Market, the Chicago Mercantile Exchange and the Chicago Board Options Exchange are open for trading (or would have been open for trading, but for the occurrence of a market disruption event) and the Sector ETFs' values are calculated and published. The calculation agent may, in its sole discretion, add to or delete from the definition of "business day" any major U.S. exchange or market that commences or ceases to serve as a primary exchange or market upon which a Sector ETF underlying the basket trades, or as an exchange upon which a futures contract, an option contract, or an option on a futures contract relating to the Sector ETFs trades. 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.

If any of the Sector ETFs are de-listed from the AMEX or cease to be issued by iShares Trust® prior to removal from the basket, and the calculation agent determines to substitute a corresponding Dow Jones US Sector Index or other successor or substitute sector index for the discontinued Sector ETF, such corresponding, successor or substitute sector index will be substituted for the discontinued Sector ETF for purposes of the definitions set forth above. See "Description of the Notes Discontinuance of the Sector ETFs" below.

Illustrative Examples

The following are illustrative examples demonstrating the hypothetical payment at maturity of a Note based on the assumptions outlined below and the calculation of the selected performance rates of the Sector ETFs over the specified time periods set forth in the tables below.

Assumptions:

The examples reflect data from the sector indices compiled by Dow Jones corresponding to the Sector ETFs. Historical value data relating to the Sector ETFs is only available from their inception dates, May 2000 and June 2000.

Actual data is based upon the value of the sector indices, without giving effect to any dividends or other distributions paid on the stock of component companies included in the sector indices.

CAGR = $(1\text{+ variable return amount})^{(1/\text{term of Note})}-1$

All amounts rounded upward to the nearest one-hundredth.

Investor pays the principal amount of $1,000 per Note and holds each Note to maturity.

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

There has been no change in or affecting the composition of the index stocks comprising the sector indices or the method by which Dow Jones compiled the sector indices and no market disruption events occurred during the five-year periods.

The following examples are for illustration purposes only. The historical performance of the corresponding sector indices should not be taken as an indication of the future performance of the Sector ETFs. The variable return amount received at maturity, if any, will be adjusted by the participation rate and will depend on the selected performance rates on each observation date as determined by the calculation agent. In particular, the performance rates of the Sector ETFs used to establish the variable return amount could be lower or higher than the levels reflected in the illustrative examples below. Moreover, the assumptions on which the illustrative examples are based may turn out to be inaccurate. Consequently, the variable return amount to be paid in respect of your Note on the stated maturity date may be very different from the information reflected in the illustrative examples below. Historical value data regarding the Sector ETFs is included in this pricing supplement under "Description of the Sector ETFs Historical Data on the Sector ETFs."

Sector Selector -- Return Examples December 1997 to December 2002 -- Changes vs. Initial Level
(returns in percent %)

Sector Index	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10
Technology	28.83									
Telecommunications	11.93	48.86								
Consumer Cyclical	27.07	34.17	50.12							
Industrial	9.04	9.56	25.15	37.32						
Healthcare	22.87	37.71	36.48	30.81	64.23					
Energy	0.89	-7.30	10.36	9.41	21.98	35.93				
Financial	11.92	5.41	16.04	4.89	2.90	30.33	27.50			
Consumer Non-Cyclical	9.40	15.14	11.98	14.50	-3.97	0.89	-3.36	2.01		
Basic Materials	4.00	-10.22	9.16	11.84	-19.92	-7.68	-6.51	-8.44	-2.46	
Utilities	2.27	8.42	0.86	-9.71	-0.09	35.91	20.06	-2.89	-10.39	-26.81
Performance Rates	28.83	48.86	50.12	37.32	64.23	35.93	27.50	2.01	-2.46	-26.81

Total sum of the selected performance rates of the sector indices = 265.53
Average of performance rates = 265.53 / 10 = 26.55% after five years
Payment at maturity = ($1,000 + $1,000 × 0.2655) = $1,265.50
CAGR = $(1+26.55\%)^{(1/5)}$ -1 = 4.82%

If a 90% participation rate were applied, the average of performance rates would be 265.53 / 10 = 26.55% * .90 = 23.90% after five years
Payment at maturity = ($1,000 + $1,000 × 0.2390) = $1,239.00
CAGR = $(1 + 23.90\%)^{(1/5)}$ -1 = 4.38%

S&P 500 Index total return performance over same period -2.90%
CAGR based on S&P 500 Index performance = -0.59%

Sector Selector -- Return Examples December 1996 to December 2001 -- Change vs. Initial Level (returns in percent %)

Sector Index	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10
Healthcare	25.98									
Financial	20.51	46.25								
Consumer Cyclical	15.11	33.22	69.28							
Technology	18.25	22.54	57.86	108.19						
Telecommunications	9.35	36.75	53.07	103.57	136.37					
Industrial	16.42	19.45	30.25	30.88	49.49	64.04				
Energy	12.06	19.71	20.77	10.97	32.11	30.97	46.02			
Utilities	0.63	22.06	24.83	32.34	23.11	10.21	21.94	65.89		
Consumer Non-Cyclical	20.17	29.97	42.19	49.64	45.54	48.82	24.81	31.13	25.61	
Basic Materials	14.12	9.25	13.63	-1.92	19.25	22.19	-12.51	0.86	2.13	0.03
Performance Rates	25.98	46.25	69.28	108.19	136.37	64.04	46.02	65.89	25.61	0.03

Total sum of the selected performance rates of the sector indices = 587.66
Average of performance rates = 587.66 / 10 = 58.77% after five years
Payment at maturity = ($1,000 + $1,000 × 0.5877) = $1,587.70
CAGR =9.69%

If a 90% participation rate were applied, the average of performance rates would be 587.66 / 10 = 58.77% * .90 = 52.89% after five years
Payment at maturity = ($1,000 + $1,000 × 0.5289) = $1,528.90
CAGR = 8.86%

S&P 500 Index total return performance over same period 66.24%
CAGR based on S&P 500 Index performance = 10.70%

Sector Selector -- Return Examples December 1994 to December 1999 -- Change vs. Initial Level (returns in percent %)

Sector Index	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10