

BEAR STEARNS COMPANIES INC

Form 424B5

January 30, 2007

This preliminary pricing supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. We may not sell these securities until we deliver a final pricing supplement. 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.

Filed pursuant to Rule 424(b)(5)

Registration No. 333-136666

Subject to Completion, dated January 30, 2007

PRICING SUPPLEMENT

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

The Bear Stearns Companies Inc.

§[I] Medium-Term Notes, Accelerated Market Participation Securities Linked to the Performance of the U.S. Adagio Strategy Index Due February [I], 2010

- The Notes are Accelerated Market Participation Securities linked to the performance of the U.S. Adagio Strategy Index (the "Index"). ***The Notes are not principal protected.*** When we refer to Notes in this pricing supplement, we mean Notes with a principal amount of \$1,000.
- The Index replicates a strategy based on the relative weighting of the three U.S. asset classes (equities, real estate and investment-grade debt securities) that are represented by the S&P 500® Index, the iShares® Dow Jones U.S. Real Estate Index Fund and the iShares® Lehman Aggregate Bond Fund (collectively, the "Components").
- Each Component in the Index is re-weighted on a monthly basis. The percentage weightings of the Real Estate Component and the Equity Component in a given month are determined by a formula which utilizes the monthly returns of the Real Estate Component and the Equity Component for each of the trailing 12 months subject to a minimum weighting of 0% and a maximum weighting of 50% each. The Bond Component is the residual Component. Its weighting is the percentage, if any, required to make the sum of all Components equal 100%.
- On the Maturity Date you will receive the Cash Settlement Value, an amount in cash that depends upon the relation of the Final Index Level to the Initial Index Level.
- The Notes are not principal protected. ***Therefore investors may receive less, and possibly significantly less, than the principal you invested.***
- If the Final Index Level is greater than or equal to the Initial Index Level, then, on the Maturity Date, the Cash Settlement Value will be equal to (in cash), per Note:
- ***If the Final Index Level is less than the Initial Index Level, you will receive less at maturity, and possibly significantly less, than the principal you invested.*** In this case, the Cash Settlement Value will be equal to (in cash), per Note:

The CUSIP number for the Notes is 073928T60

INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS. THERE MAY NOT BE AN ACTIVE SECONDARY MARKET IN THE NOTES, AND IF THERE WERE TO BE AN ACTIVE SECONDARY MARKET, IT MAY NOT BE LIQUID. YOU SHOULD REFER TO "RISK FACTORS" BEGINNING ON PAGE PS-12.

The U.S. Adagio Index is the exclusive property of Bear Stearns International Limited, one of our affiliates, which has contracted with Standard & Poor's, a division of the McGraw-Hill Companies ("S&P", or the "Strategy Sponsor"), to maintain and calculate the Index. The Equity Component is a service mark or trademark of S&P and, if required, has been licensed for use by The Bear Stearns Companies Inc. S&P shall have no liability for any errors or omissions in calculating the Index or the Equity Component. The Notes are not sponsored, endorsed, sold or promoted by S&P; and S&P makes no representations regarding the advisability of investing in the Notes.

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 ¹	100.00% ²	[\$]
Agent's discount	[1]%	[\$]
Proceeds, before expenses, to us	[1]%	[\$]

¹ Investors who purchase an aggregate amount of at least \$1,000,000 of Notes will be entitled to purchase such Notes for 99.00% of the principal amount.

² Any additional reissuances will be offered at a price to be determined at the time of pricing of each offering of Notes, which price will be a function of the prevailing market conditions and level of the Index at the time of the relevant sale.

We may grant Bear, Stearns & Co. Inc. a 30-day option from the date of this pricing supplement to purchase from us up to an additional [\$] at the public offering price 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 February [1], 2007, against payment in immediately available funds. The distribution of the Notes will conform to the requirements set forth in Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc.

Bear, Stearns & Co. Inc.

February [1], 2007

SUMMARY

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

The Bear Stearns Companies Inc. Medium-Term Notes, Series B, Accelerated Participation Market Securities Linked to the Performance of the U.S. Adagio Strategy Index, due February [1], 2010 (the “Notes”), are Notes whose return is tied or “linked” to the performance of the U.S. Adagio Strategy Index. The Notes are not principal protected, **therefore investors may receive less, and possibly significantly less, than the principal you invested.** When we refer to Note or Notes in this pricing supplement, we mean \$1,000 principal amount of Notes. The Index replicates a strategy that selects dynamically from three U.S. asset classes (equities, real estate and investment-grade debt securities) according to the previous 12 monthly returns of the S&P 500[®] Index, the iShares[®] Dow Jones U.S. Real Estate Index Fund and the iShares[®] Lehman Aggregate Bond Fund.

On the Maturity Date you will receive the Cash Settlement Value, an amount in cash that depends upon the relation of the Final Index Level to the Initial Index Level. If the Final Index Level is greater than or equal to the Initial Index Level, then, on the Maturity Date, we will pay you the principal amount of the Notes, plus \$1,000 multiplied by [150.00]% of the percentage increase in the Index Level. If the Final Index Level is less than the Initial Index Level, you will receive less, and possibly significantly less, at maturity, than the principal you invested. In this case, we will pay you, per Note, \$1,000 multiplied by the quotient of the Final Index Level divided by the Initial Index Level.

Selected Investment Considerations

- Growth potential—The Notes offer the possibility to participate in the potential appreciation in the Index. The return, if any, on the Notes is based upon the extent to which the Final Index Level is greater than the Initial Index Level.
- Potential leverage in the increase, if any, in the Index Level—The Notes may be an attractive investment for investors who have a bullish view of the Index in the medium term. If held to maturity, the Notes allow you to participate in [150.00]% of the potential increase in the Index Level.
 - Diversification—The Index is dynamically weighted and comprised of the following three components: (1) the S&P 500[®] Index; (2) the iShares[®] Dow Jones U.S. Real Estate Index Fund; and (3) the iShares[®] Lehman Aggregate Bond Fund, each as further described herein. Therefore, the Notes may allow you to diversify an existing portfolio or investment.
- No coupon—The Notes do not pay a coupon.
- Minimum investment—The minimum purchase is \$1,000, with increments of \$1,000 thereafter.

Selected Risk Considerations

·Possible loss of principal—The Notes are not principal protected, therefore investors may receive less, and possibly significantly less, than the principal you invested.. If the Final Index Level is less than the Initial Index Level, the Cash Settlement Value you will receive at maturity will be less than the initial offering price in proportion to the percentage decline in the Index Level. In that case, you will receive less, and possibly significantly less, than the initial offering price of \$1,000.

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- The level of the Index cannot be predicted—We and our affiliates developed the Index. Neither the Notes nor the Index have a trading history. The future performance of the Index is impossible to predict and, therefore, no future performance of the Notes or the Index may be inferred from any of the historical simulations or any other information set forth herein. Because it is impossible to predict the Index, it is possible that the Index Level will decline and you will lose all or part of your initial investment.
- Not exchange-listed—The Notes will not be listed on any securities exchange, and we do not expect a trading market to develop, which may affect the price that you receive for your Notes upon any sale prior to maturity.
- Liquidity—If a trading market were to develop in the Notes, it may not be liquid. Our subsidiary, Bear, Stearns & Co. Inc. 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 and we cannot predict the price at which any such bids will be made.
- Possible loss of value in the secondary market—If you sell your Notes prior to maturity, you may receive less than the amount you originally invested.
- No interest or other payments and no current income—During the term of the Notes, you will not receive any interest or other periodic distributions and such payments will not be included in the calculation of the Cash Settlement Value you will receive at maturity. The yield on the Notes therefore may be less than the overall return you would earn if you purchased a conventional debt security at the same time and with the same maturity.
- Taxes—The U.S. federal income tax consequences of an investment in the Notes are uncertain. We intend to treat the Notes for federal income tax purposes as pre-paid cash-settled forward contracts linked to the value of the Index and, where required, to file information returns with the Internal Revenue Service in accordance with such treatment. Assuming the Notes are treated as pre-paid cash-settled forward contracts, you should be required to recognize capital gain or loss to the extent that the cash you receive on the Maturity Date or upon a sale or exchange of the Notes prior to the Maturity Date differs from your tax basis on the Notes (which will generally be the amount you paid for the Notes). However, other treatments are possible. Prospective investors are urged to consult their tax advisors regarding the U.S. federal income tax consequences of an investment in the Notes.

KEY TERMS

- Issuer:** The Bear Stearns Companies Inc.
- Index:** The U.S. Adagio Strategy Index (the “Index”) is published by the Strategy Sponsor or its designee and displayed on Bloomberg Financial Service (under the symbol ADAGUS <Index>).
- The Index replicates a strategy based on the relative weightings of the three U.S. asset classes (equities, real estate and government bonds) that are represented by the Components. Each Component in the Index is re-weighted on a monthly basis. The percentage weightings of the Real Estate Component and the Equity Component in a given month are determined by a formula which utilizes the monthly returns of the Real Estate Component and the Equity Component for each of the trailing 12 months. The percentage weightings of the Real Estate Component and the Equity Component are each subject to a minimum weighting of 0% and a maximum weighting of 50% each. The Bond Component is the residual Component. Its weighting is the percentage, if any, required to make the sum of all Component weightings equal 100%.
- Face amount:** The Notes will be denominated in U.S. dollars. Each Note will be issued in minimum denominations of \$1,000 with amounts in excess thereof in integral multiples of \$1,000; provided, however, that the minimum purchase for any purchaser domiciled in a Member state of the European Economic Area shall be \$100,000. The aggregate principal amount of the Notes being offered is \$[1]. When we refer to Note or Notes in this pricing supplement, we mean Notes with a principal amount of \$1,000.
- Further 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.
- Strategy Sponsor:** Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”)
- Cash Settlement Value:** If the Final Index Level is greater than or equal to the Initial Index Level, then, on the Maturity Date, you will receive, an amount per Note in cash equal to:
- If the Final Index Level is less than the Initial Index Level, you will receive less at maturity, and possibly significantly less,

than the principal you invested. In this case, we will pay you,
per Note:

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- Index Level:** As of any date of determination, the closing level of the Index for such date as determined by the Strategy Sponsor or its designee and displayed on Bloomberg Financial Service (under the symbol ADAGUS <Index>).
- The Index Level will be calculated on each day the Closing Level of the Equity Component is published by its Component Sponsor and the Closing Level of each of the Real Estate Component and the Bond Component is available on its respective primary exchanges. The Index Level will equal the sum of (a) the Index Level last published and (b) the product of (x) the Index Level last published multiplied by (y) the sum of the product for each Component of (i) the daily percentage change in the Closing Level of each Component multiplied by (ii) its respective Component weighting in the Index as of such date. In addition, the Index Level will be adjusted downwards by a monthly amount equal to 0.225% applied pro rata on a daily basis, as described in “Description of the Notes—Index Level.”
- Closing Level:** With respect to the Equity Component, as of any date of determination, the official closing level as published by its Component Sponsor; with respect to the Real Estate Component, as of any date of determination, the official closing price on its primary exchange as reported in the official price determination mechanism for such primary exchange; and with respect to the Bond Component, as of any date of determination, the sum of (i) the official closing price on its primary exchange as reported in the official price determination mechanism for such primary exchange and (ii) the reinvestment of any distributions or dividends received in respect of such investment. With respect to any other security on any date, Closing Level means the last reported sales price regular way on such date or, if no such reported sale takes place on such date, the average of the reported closing bid and asked price regular way on such date, in either case on the primary organized exchange or trading system on which such security is then listed or admitted to trading.
- Pricing Date:** February [1], 2007
- Initial Index Level:** [1], representing the Index Level, as determined by the Strategy Sponsor on the Pricing Date.
- Final Index Level:** Will be determined by the Calculation Agent and will equal the Closing Level of the Index, as determined by the Strategy Sponsor, on the Calculation Date.

Calculation Date: February [1], 2010. The Calculation Date is subject to adjustment as described under “Description of the Notes - Market Disruption Events”.

Upside Participation Rate: [150.00]%

Maturity Date: The Notes are expected to mature on February [1], 2010; provided that, if the Calculation Date is adjusted due to the occurrence of a Market Disruption Event, the Maturity Date will be three Trading Days following the adjusted Calculation Date.

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

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Components:

- The S&P 500[®] Index (the “Equity Component”) (Bloomberg Ticker: SPX <Index>):

- Standard and Poor’s 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure the performance of the broad domestic U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries.

- The iShares[®] Dow Jones U.S. Real Estate Index Fund (the “Real Estate Component”) (Bloomberg Ticker: IYR <Index>):

- iShares[®] Dow Jones U.S. Real Estate Index Fund is an exchange-traded fund of the iShares Trust, a Delaware statutory trust. The fund’s objective is to achieve investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones U.S. Real Estate Index. The fund is traded on the New York Stock Exchange.

- The iShare[®] Lehman Aggregate Bond Fund (the “Bond Component”) (Bloomberg Ticker: AGG US <Equity>):

- iShares[®] Lehman Aggregate Bond Fund is an exchange-traded fund of the iShares Trust, a Delaware statutory trust. The fund’s objective is to achieve investment results that correspond generally to the price and yield performance, before fees and expenses, of the total United States investment grade bond market as defined by the Lehman Brothers U.S. Aggregate Index. The fund is traded on the American Stock Exchange.

Component Sponsor:

The Component Sponsor for each Component is as indicated below:

With respect to the S&P 500[®] Index, Standard & Poor’s, a division of The McGraw-Hill Companies, Inc.

With respect to the iShares[®] Dow Jones U.S. Real Estate Index Fund, Barclays Global Fund Advisors.

With respect to iShares[®] Lehman Aggregate Bond Fund, Barclays Global Fund Advisors.

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.

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

QUESTIONS AND ANSWERS

What are the Notes?

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

The Notes will mature on the Maturity Date. 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 the Notes.”

Are the Notes equity or debt securities?

The Notes are our unsecured debt securities. However, the Notes differ from traditional debt securities in that the Notes are not principal protected and offer the opportunity to participate in [150.00]% of the positive performance of the Index Level, if any. If, at maturity, the Final Index Level is less than the Initial Index Level, you will receive less, and possibly significantly less, than the initial offering price per Note.

Are the Notes principal protected?

The Notes are not principal protected, therefore you may lose up to 100% of the principal amount of their Notes. If, at maturity, the Final Index Level is less than the Initial Index Level, you will receive less, and possibly significantly less, than the initial offering price of \$1,000 per each \$1,000 principal amount of Notes. You should understand that the future performance of the Index is impossible to predict and therefore no future performance of the Notes and the Index may be inferred from the past historical performance of the Index.

What will I receive at maturity on the Notes?

Your investment may result in a loss because the Notes are not principal protected. On the Maturity Date you will receive the Cash Settlement Value, an amount in cash that depends upon the relation of the Final Index Level to the Initial Index Level. The Notes are not principal protected. *Therefore investors may receive less, and possibly significantly less, than the principal you invested..*

If the Final Index Level is greater than or equal to the Initial Index Level, then, on the Maturity Date, the Cash Settlement Value will be equal to (in cash), per Note:

If the Final Index Level is less than the Initial Index Level, the Cash Settlement Value will be equal to (in cash), per Note:

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The “Index Level” equals the Closing Level of the Index, as determined by the Strategy Sponsor, on each day of determination.

The “Initial Index Level” equals [I], representing the Index Level, as determined by the Strategy Sponsor on the Pricing Date.

The “Final Index Level” will be determined by the Calculation Agent and will equal the Closing Level of the Index, as determined by the Strategy Sponsor, on the “Calculation Date”, subject to adjustment as described in “Description of the Notes—Market Disruption Events.”

The “Upside Participation Rate” will be [150.00]%.

The “Maturity Date” of the Notes is expected to be February [I], 2010; *provided that*, if the Calculation Date is adjusted due to the occurrence of a Market Disruption Event, the Maturity Date will be three Index Business Days following the adjusted Calculation Date.

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

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, 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 price will be a function of the prevailing market conditions and Index Level at the time of the relevant sale.

Will I receive interest on the Notes?

You will not receive any interest payments on the Notes.

What is the Index and who publishes it?

The Strategy Sponsor, S&P, computes and publishes the Index. The Index is the exclusive property of Bear Stearns International Limited, one of our affiliates, which has contracted with the Strategy Sponsor to maintain and calculate the Index. The Strategy Sponsor shall have no liability for any errors or omissions in calculating the Index. The Notes, which are linked to the performance of the Index, are not sponsored, endorsed, sold or promoted by the Strategy Sponsor; and the Strategy Sponsor makes no representations regarding the advisability of investing in the Notes.

The Index replicates a strategy based on the relative weighting of the three U.S. asset classes (equities, real estate and investment-grade debt securities) that are represented by the Components. Each Component in the Index is re-weighted on a monthly basis. The percentage weightings of the Real Estate Component and the Equity Component in a given month are determined by a formula which utilizes the monthly returns of the Real Estate Component and the Equity Component for each of the trailing 12 months. The percentage weightings of the Real Estate Component and the Equity Component are each subject to a minimum weighting of 0% and a maximum weighting of 50% each. The Bond Component is the residual Component. Its weighting is the percentage, if any, required to make the sum of

all Component weightings equal 100%.

The Index Level will be adjusted downwards by a monthly amount equal to 0.225% applied pro rata on a daily basis.

For more specific information about the Index, please see the sections “Description of the Notes” and “Hypothetical Historical Performance Data.”

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Who publishes information regarding the Components and where can I obtain further information?

Unless otherwise stated, all information regarding the Components that is provided in this pricing supplement is derived from the Component Sponsors or other publicly available sources.

S&P 500® Index. The S&P 500® Index is a free-float weighted stock index published by Standard & Poor's and is intended to track the price movements of the common stocks comprising the S&P 500® Index. As of January 17, 2007, the common stocks of 423 companies, or 84.60% of the market capitalization of the S&P 500® Index as of such date, were traded on the New York Stock Exchange and the common stocks of 77 companies, or 15.40% of the market capitalization of the S&P 500® Index as of such date, were traded on The Nasdaq Stock Market. The S&P 500® Index is quoted in U.S. dollars. You can obtain the level of the S&P 500® Index from the Bloomberg Financial Service under the symbol SPX <Index> or from the S&P website at <http://www.spglobal.com>.

iShares® Dow Jones U.S. Real Estate Index Fund. The objective of the iShares® Dow Jones U.S. Real Estate Index Fund is to achieve investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones U.S. Real Estate Index.

The Dow Jones U.S. Real Estate Index measures the performance of the real estate sector of the U.S. equity market and includes companies in the following sub-sectors: real estate holding and development and real estate investment trusts. The iShares® Dow Jones U.S. Real Estate Index Fund uses a "Representative Sampling" strategy to try to track the Dow Jones U.S. Real Estate Index and, according to the Component Sponsor, will concentrate its investments in a particular industry or group of industries to approximately the same extent as the Dow Jones U.S. Real Estate Index is so concentrated. As of January 17, 2007, the iShares® Dow Jones U.S. Real Estate Index was concentrated in the real estate sector, which comprised 99.54% of the market capitalization of the iShares® Dow Jones U.S. Real Estate Index as of such date. You can obtain the Closing Level of the iShares® Dow Jones Real Estate Index Fund from the Bloomberg Financial Service under the symbol IYR <Index> or from the iShares® website at http://www.ishares.com/fund_info/detail.jhtml?symbol=IYR&qt=IYR.

iShares® Lehman Aggregate Bond Fund. The objective of the iShares® Lehman Aggregate Bond Fund is to achieve investment results that correspond generally to the price and yield performance, before fees and expenses, of the total United States investment grade bond market as defined by the Lehman Brothers U.S. Aggregate Index. The iShares® Lehman Aggregate Bond Fund uses a "Representative Sampling" strategy in seeking to track the Lehman Brothers U.S. Aggregate Index.

The Lehman Brothers U.S. Aggregate Index measures the performance of the U.S. investment grade bond market, which includes investment grade U.S. Treasury bonds, government-related bonds, investment grade corporate bonds, mortgage pass-through securities, commercial mortgage-backed securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the Lehman Brothers U.S. Aggregate Index must have \$250 million or more of outstanding face value and must have at least one year remaining to maturity. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. Certain types of securities, such as state and local government series bonds, structured notes with embedded swaps or other special features, private placements, floating rate securities and Eurobonds are excluded from the Lehman Brothers U.S. Aggregate Index. The Lehman Brothers U.S. Aggregate Index is market capitalization weighted and the securities in the Index are updated on the last calendar day of each month. You can obtain the Closing Level of the iShares® Lehman Aggregate Bond Fund from the Bloomberg Financial Service under the symbol AGG US <Equity> or from the iShares® website at http://www.ishares.com/fund_info/detail.jhtml?symbol=AGG&qt=AGG.

How have the Index and Components performed historically?

We have provided hypothetical historical performance data which represents the returns of hypothetical investments issued at set intervals in the past, the performance of which is linked to the Index (including the minimum and maximum weighting constraints with respect to the Components and the daily deduction of the Index Adjustment Factor). See generally, "Hypothetical Historical Performance Data". For comparison purposes, we have also provided the hypothetical performance of a static equally-weighted basket of the Components issued at the same set intervals.

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The hypothetical historical performance data should not be taken as an indication of either the future performance of the Index over the term of the Notes or the Cash Settlement Value payable at maturity. In addition, you should understand that this hypothetical historical performance data is based on hypothetical returns for periods of time which in some cases are different than the term of the Notes and, therefore, may not fully account for the longer-term market trends that are more likely to be captured in a note with this term.

You should note that although the hypothetical historical performance data set forth herein shows the hypothetical performance of a series of investments linked to the Index and compares that hypothetical performance to the actual performance of a static equally-weighted basket of the Components without the application of re-weighting. Due to the effects of re-weighting, the weighting of the Components in the examples differs from the weighting in the Index during the same period of time.

You should refer to the sections “Hypothetical Historical Performance Data” and “Risk Factors— The pro forma U.S. Adagio Strategy performance may not represent actual performance.”