

BEAR STEARNS COMPANIES INC

Form 424B5

August 28, 2006

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	Maximum Aggregate Offering Price	Amount of Registration Fee⁽¹⁾
Medium-Term Notes, Series B	\$3,000,000	\$321

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended. The filing fee of \$321 is being paid in connection with the registration of these Medium-Term Notes, Series B.

The Bear Stearns Companies Inc.

\$3,000,000 Reverse Convertible Notes

20.0% per annum Coupon, Due November 28, 2006

Linked to the common stock of United States Steel Corporation

Terms used herein are defined in the prospectus supplement. The Notes offered will have the terms described in the prospectus supplement and the prospectus, as supplemented or modified by this pricing supplement. **THE NOTES DO NOT GUARANTEE ANY RETURN OF PRINCIPAL AT MATURITY.**

Reference Asset:	The common stock of United States Steel Corporation, par value \$1.00 per share, traded on the New York Stock Exchange under the symbol "X".
Principal amount:	\$3,000,000
Pricing Date:	August 23, 2006
Original Issue Date:	August 28, 2006
Calculation Date:	November 23, 2006
Maturity Date:	November 28, 2006
Coupon rate:	20.00% per annum, payable as a single payment of 5.00% of principal amount at maturity.
Interest Payment Date:	The Maturity Date.
Initial Level:	\$59.81, the Closing Price of the Reference Asset on the Pricing Date.
Final Level:	The Closing Price of the Reference Asset on the Calculation Date.
Contingent Protection Percentage:	80.00% of the Initial Level.
Contingent Protection Level:	\$47.85, equal to the product of the Contingent Protection Percentage and the Initial Level.
Payment at maturity:	We will pay you 100% of the principal amount of your Notes, in cash, at maturity if <u>either</u> of the following is true: (i) the Trading Level of the Reference Asset never equals or falls below the Contingent Protection Level at any time from the Pricing Date up to and including the Calculation Date; or (ii) the Final Level of the Reference Asset is equal to or greater than the Initial Level of the Reference Asset. However, if <u>both</u> of the following are true, the amount of principal you receive at maturity will be reduced by the percentage decrease in the Reference Asset: (i) the Trading Level of the Reference Asset ever equals or falls below the Contingent Protection Level at any time from the Pricing Date up to and including the Calculation Date; <u>and</u> (ii) the Final Level of the Reference Asset is less than the Initial Level of the Reference Asset. In that event, we, at our option, will either: (i) physically deliver to you an amount of the Reference Asset equal to the Exchange Ratio plus the Fractional Share Cash Amount (which means that you will receive shares with a market value that is less than the full principal amount of your Notes); or (ii) pay you a cash amount equal to the principal amount you invested reduced by the percentage decrease in the Reference Asset. It is our intent to physically deliver the Reference Asset when applicable, but we reserve the right to settle the Note in cash.
Exchange Ratio:	16; i.e., \$1,000 divided by the Initial Level (rounded down to the nearest whole number, with fractional shares to be paid in cash).
Fractional Share Cash Amount:	An amount in cash per Note equal to the Final Level multiplied by the difference between (x) \$1,000 divided by the Initial Level (rounded to the nearest three decimal places), and (y) the Exchange Ratio.
CUSIP:	073902KU1
Listing:	The Notes will not be listed on any U.S. securities exchange or quotation system.

INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS. YOU SHOULD REFER TO "RISK FACTORS" BEGINNING ON PAGE PS-4 BELOW.

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.

	<u>Per Note</u>	<u>Total</u>
Initial public offering price	100.00% ⁽¹⁾	\$ 3,000,000
Agent's discount	1.205% ⁽²⁾	\$ 36,137.50
Proceeds, before expenses, to us	98.795%	\$ 2,963,862.50

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 \$450,000 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 the Original Issue Date, 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.

(1) Investors who purchase an aggregate principal amount of at least \$1,000,000 of Notes will be entitled to purchase such Notes for 99.50% of the principal amount.

(2) Bear, Stearns & Co. Inc. may re-allow a discount up to 1.25% to other agents, but the aggregate amount of such reallowances for this offering will not exceed 1.205% of the public offering price.

Bear, Stearns & Co. Inc.

August 23, 2006

Where You Can Find More Information

We have filed a registration statement (including a prospectus, as supplemented by a prospectus supplement) with the SEC, for the offering to which this pricing supplement relates. Before you invest, you should read the prospectus and prospectus supplement and any other documents relating to this offering that we have filed with the SEC for more complete information about us and this offering. You should carefully consider, among other things, the matters set forth in "Risk Factors" in the pricing supplement, as the Notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisers before you invest in the Notes. You may get these documents without cost by visiting EDGAR on the SEC web site at www.sec.gov. Alternatively, the Agent will arrange to send you the prospectus and the prospectus supplement if you so request by calling toll-free 866-803-9204.

You may access these documents on the SEC web site at www.sec.gov as follows:

Prospectus Supplement, dated August 16, 2006, and Prospectus, dated August 16, 2006:
<http://www.sec.gov/Archives/edgar/data/777001/000104746906011011/a2172742z424b5.htm>

RETURN ON THE NOTES

The Notes are not principal protected and you may lose some or all of your principal.

Payment at Maturity

We will pay you 100% of the principal amount of your Notes, in cash, at maturity if either of the following is true: (i) the Trading Level of the Reference Asset never equals or falls below the Contingent Protection Level at any time from the Pricing Date up to and including the Calculation Date; or (ii) the Final Level of the Reference Asset is equal to or greater than the Initial Level of the Reference Asset.

However, if both of the following are true, the amount of principal you receive at maturity will be reduced by the percentage decrease in the Reference Asset: (i) the Trading Level of the Reference Asset ever equals or falls below the Contingent Protection Level at any time from the Pricing Date up to and including the Calculation Date; and (ii) the Final Level of the Reference Asset is less than the Initial Level of the Reference Asset.

In that event, we, at our option, will either: (i) physically deliver to you an amount of the Reference Asset equal to the Exchange Ratio plus the Fractional Share Cash Amount (which means that you will receive shares with a market value that is less than the full principal amount of your Notes); or (ii) pay you a cash amount equal to the principal amount you invested reduced by the percentage decrease in the Reference Asset. It is our intent to physically deliver the Reference Asset when applicable, but we reserve the right to settle the Note in cash.

We will (i) provide written notice to the Trustee and to the Depositary, on or prior to the Business Day immediately prior to the Maturity Date of the amount of cash or number of shares of the Reference Asset, as applicable, to be delivered, and (ii) deliver such cash or shares of the Reference Asset (and cash in respect of coupon and any fractional shares of the Reference Asset), if applicable, to the Trustee for delivery to you. The Calculation Agent shall determine the Exchange Ratio.

Interest

The interest rate for the Notes is designated on the cover of this pricing supplement. The interest paid will include interest accrued from the Original Issue Date to, but excluding, the relevant Interest Payment Date or Maturity Date. Interest will be paid to the person in whose name the Note is registered at the close of business on the Record Date before each Interest Payment Date. However, interest payable on the Maturity Date will be payable to the person to whom principal is payable. If the Interest Payment Date is also a day on which principal is due, the interest payable will include interest accrued to, but excluding, the stated Maturity Date.

RISK FACTORS

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.

The following highlights some, but not all, of the risk considerations relevant to investing in the Notes. **The following must be read in conjunction with the sections "Risk Factors" and "Risk Factors Additional Risks Relating to Notes with an Equity Security or Equity Index as the Reference Asset," beginning on pages S-7 and S-14, respectively, in the Prospectus Supplement.**

Suitability of Note for Investment A person should reach a decision to invest in the Notes after carefully considering, with his or her advisers, the suitability of the Notes in light of his or her investment objectives and the information set out in the Pricing Supplement. Neither the Issuer nor any dealer participating in the offering makes any recommendation as to the suitability of the Notes for investment.

Not Principal Protected The Notes are not principal protected. If both of the following are true, the amount of principal you receive at maturity will be reduced by the percentage decrease in the Reference Asset: (i) the Trading Level of the Reference Asset ever equals or falls below the Contingent Protection Level at any time from the Pricing Date to and including the Calculation Date; and (ii) the Final Level of the Reference Asset is less than the Initial Level of the Reference Asset. In that event, we, at our option, will either: (i) physically deliver to you an amount of the Reference Asset equal to the Exchange Ratio plus the Fractional Share Cash Amount (which means that you will receive shares with a market value that is less than the full principal amount of your Notes); or (ii) pay you a cash amount equal to the principal amount you invested reduced by the percentage decrease in the Reference Asset.

Return Limited to Coupon Your return is limited to the principal amount you invested plus the coupon payments. You will not participate in any appreciation in the value of the Reference Asset.

No Secondary Market Because the Notes will not be listed on any securities exchange, a secondary trading market is not expected to develop, and, if such a market were to develop, it may not be liquid. Bear, Stearns & Co. Inc. intends under ordinary market conditions to indicate prices for the Notes on request. However, there can be no guarantee that bids for outstanding Notes will be made in the future; nor can the prices of those bids be predicted.

No Interest, Dividend or Other Payments You will not receive any interest or dividend payments or other distributions on the stock comprising the Reference Asset; nor will such payments be included in the calculation of the Cash Settlement Value you will receive at maturity.

Taxes We intend to treat each Note as a put option written by you in respect of the Reference Asset and a deposit with us of cash in an amount equal to the principal amount of the Note to secure your potential obligation under the put option. Pursuant to the terms of the Notes, you agree to treat the Notes in accordance with this characterization for all U.S. federal income tax purposes. However, because there are no regulations, published rulings or judicial decisions addressing the characterization for U.S. federal income tax purposes of securities with terms that are substantially the same as those of the Notes, other characterizations and treatments are possible. See "Certain U.S. Federal Income Tax Considerations" below.

The Notes may be Affected by Certain Corporate Events and you will have Limited Antidilution Protection. Following certain corporate events relating to the underlying Reference Asset (where the underlying company is not the surviving entity), you will receive at maturity, cash or a number of shares of the common stock of a successor corporation to the underlying company, based on the Closing Price of such successor's common stock. The Calculation Agent for the Notes will adjust the amount payable at maturity by adjusting the Initial Level of the Reference Asset, Contingent Protection Percentage, Contingent Protection Level and Exchange Ratio for certain events affecting the Reference Asset, such as stock splits and stock dividends and certain other corporate events involving an underlying company. However, the Calculation Agent is not required to make an adjustment for every corporate event that can affect the Reference Asset. If an event occurs that is perceived by the market to dilute the Reference Asset but that does not require the Calculation Agent to adjust the amount of the Reference Asset payable at maturity, the market value of the Notes and the amount payable at maturity may be materially and adversely affected.

ILLUSTRATIVE EXAMPLES

The following are illustrative examples demonstrating the hypothetical amount payable at maturity based on the assumptions outlined below. These examples do not purport to be representative of every possible scenario concerning increases or decreases in the Reference Asset or of the movements that are likely to occur with respect to the relevant Reference Asset. You should not construe these examples or the data included in tables as an indication of the expected performance of the Notes. Some amounts are rounded and actual returns may be different.

Assumptions:

Investor purchases \$1,000 principal amount of Notes on the Pricing Date at the initial offering price of 100% and holds the Notes to maturity. No Market Disruption Events or Events of Default occur during the term of the Notes.

Initial Level: \$60.27

Contingent Protection Percentage: 80%

Contingent Protection Level: \$48.22 ($\$60.27 \times 80\%$)

Exchange Ratio: 16 ($\$1,000/\60.27)

Coupon: 20.00% per annum, payable as a single coupon payment of 5.00% of principal amount at maturity.

The reinvestment rate on any interest payments made during the term of the Notes is assumed to be 0%. The 3-month total return on a direct investment in the Reference Asset is calculated below prior to the deduction of any brokerage fees or charges. Both a positive reinvestment rate, or if any brokerage fees or charges were incurred, would increase the total return on the Notes relative to the total return of the Reference Asset.

Maturity: 3 months

Dividend and dividend yield on the Reference Asset: \$.60 and 1.00% per annum or \$0.15 and 0.25% for the three month period.

Example 1 On the Calculation Date, the Final Level of \$66.30 is greater than the Initial Level, resulting in a payment at maturity of \$1,000, regardless of whether the Contingent Protection Price was ever reached or breached, plus one single coupon payment of \$50.00, for payments totaling \$1,050.00. If you had invested directly in the Reference Asset for the same three-month period, you would have received total cash payments of \$1,100.05 (number of shares of the Reference Asset multiplied by the Final Level), assuming liquidation of shares at the Final Level. You would have earned a 5.00% return with an investment in the Notes and a 10.02% return with a direct investment in the Reference Asset.

Example 2 On the Calculation Date, the Final Level of \$54.24 is below the Initial Level, but the Trading Level never equaled or fell below the Contingent Protection Price. As discussed in example 1 above, an investor would receive total payments of \$1,050.00, earning a 5.00% return over the term of the Notes. A direct investment in the Reference Asset during that same three-month time period would have generated a return of \$899.95 (number of shares of the Reference Asset multiplied by the Final Level), assuming liquidation of shares at the Final Level. You would have earned a 5.00% return with an investment in the Notes and incurred a loss of 9.99% with a direct investment in the Reference Asset.

Example 3 During the term of the Note, the Trading Level at one point falls below the Contingent Protection Level, and on the Calculation Date, the Final Level of \$39.18 is below the Initial Level. At our election, an investor would receive a number of shares equal to the Exchange Ratio, plus the Fractional Share Cash Amount plus one single coupon payment of \$50.00, which is 16 shares (worth \$39.18 each) plus \$23.19 (the Fractional Share Cash Amount) plus \$50.00 (one single coupon payment of \$50.00). The cash equivalent equals \$700.07. If you had invested directly in the Reference Asset for the same three-month period, you would have received total cash payments of \$650.07 (number of

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shares of the Reference Asset multiplied by the Final Level), assuming liquidation of shares at the Final Level. An investment in the Notes would have resulted in a loss of 24.99%, while a direct investment in the Reference Asset would have resulted in a loss of 34.98%.

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Table of Hypothetical Cash Settlement Values

Assumes the Trading Level *Never* Equals or Falls Below the Contingent Protection Price On or Before the Calculation Date.

Initial Level	Hypothetical Final Level	Investment in the Notes			Direct Investment in the Reference Asset	
		Cash Settlement Value	Total Coupon Payments (in % Terms)	3-Month Total Return	Percentage Change in Value of Reference Asset	3-Month Total Return
60.27	96.06	\$ 1,000.00	5.00%	5.00%	59.39%	59.64%
60.27	80.05	\$ 1,000.00	5.00%	5.00%	32.83%	33.08%
60.27	69.61	\$ 1,000.00	5.00%	5.00%	15.50%	15.75%
60.27	63.28	\$ 1,000.00	5.00%	5.00%	5.00%	5.25%
60.27	60.27	\$ 1,000.00	5.00%	5.00%	0.00%	0.25%
60.27	57.26	\$ 1,000.00	5.00%	5.00%	(5.00%)	(4.75%)
60.27	51.53	\$ 1,000.00	5.00%	5.00%	(14.50%)	(14.25%)

Table of Hypothetical Cash Settlement Values

Assumes the Trading Level *Does* Equal or Fall Below the Contingent Protection Price On or Before the Calculation Date.

Initial Level	Hypothetical Final Level	Investment in the Notes			Direct Investment in the Reference Asset	
		Cash Settlement Value	Total Coupon Payments (in % Terms)	3-Month Total Return	Percentage Change in Value of Reference Asset	3-Month Total Return
60.27	120.08	\$ 1,000.00	5.00%	5.00%	99.24%	99.49%
60.27	96.06	\$ 1,000.00	5.00%	5.00%	59.39%	59.64%
60.27	80.05	\$ 1,000.00	5.00%	5.00%	32.83%	33.08%
60.27	69.61	\$ 1,000.00	5.00%	5.00%	15.50%	15.75%
60.27	63.28	\$ 1,000.00	5.00%	5.00%	5.00%	5.25%
60.27	60.27	\$ 1,000.00	5.00%	5.00%	0.00%	0.25%
60.27	57.26	\$ 950.06	5.00%	5.00%	(5.00%)	(4.75%)
60.27	51.53	\$ 854.99	5.00%	5.00%	(14.50%)	(14.25%)
60.27	43.80	\$ 726.75	5.00%	(22.33%)	(27.33%)	(27.08%)
60.27	32.85	\$ 545.06	5.00%	(40.49%)	(45.49%)	(45.24%)
60.27	21.35	\$ 354.29	5.00%	(59.57%)	(64.57%)	(64.32%)
60.27	12.81	\$ 212.57	5.00%	(73.74%)	(78.74%)	(78.49%)
60.27	6.41	\$ 106.29	5.00%	(84.37%)	(89.37%)	(89.12%)
60.27	1.60	\$ 26.57	5.00%	(92.34%)	(97.34%)	(97.09%)
60.27	0.02	\$ 0.27	5.00%	(94.97%)	(99.97%)	(99.72%)

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REFERENCE ASSET

Additional Information Regarding the Reference Asset

We urge you to read the section "Sponsors or Issuers and Reference Asset" on page S-25 in the Prospectus Supplement. Companies with securities registered under the Exchange Act are required to file periodically certain financial and other information specified by the SEC. Information provided to or filed with the SEC electronically can be accessed through a website maintained by the SEC. The address of the SEC's website is <http://www.sec.gov>. Information provided to or filed with the SEC pursuant to the Exchange Act by a company issuing a Reference Asset can be located by reference to the SEC file number provided below.

The summary information below regarding the company issuing the stock comprising the Reference Asset comes from the issuer's SEC filings and has not been independently verified by us. We do not make any representations as to the accuracy or completeness of such information or of any filings made by the issuer of the Reference Asset with the SEC. **Investors are urged to refer to the SEC filings made by the issuer and to other publicly available information (such as the issuer's annual report) to obtain an understanding of the issuer's business and financial prospects. The summary information contained below is not designed to be, and should not be interpreted as, an effort to present information regarding the financial prospects of the issuer or any trends, events or other factors that may have a positive or negative influence on those prospects or as an endorsement of the issuer.**

United States Steel Corporation ("U.S. Steel")

U.S. Steel's common stock, par value \$1.00 per share, trades on the New York Stock Exchange under the symbol "X". U. S. Steel is an integrated steel producer with major production operations in the United States and Central Europe. An integrated producer uses iron ore and coke as primary raw materials for steel production. U. S. Steel has domestic annual raw steel production capability of 19.4 million net tons (tons) and Central European annual raw steel production capability of 7.4 million tons. U. S. Steel is also engaged in several other business activities, most of which are related to steel manufacturing. These include the production of iron ore pellets from taconite (rock containing iron) in the United States and the production of coke in both the United States and Central Europe; transportation services (railroad and barge operations); and real estate operations. **U.S. Steel's SEC file number is 001-16811.**

Historical Performance of the Reference Asset

The following table sets forth on a per share basis the high and low trading level during the applicable quarters, as well as end-of-quarter closing prices, for the Reference Asset during the periods indicated below. We obtained the information in the table below from Bloomberg Financial Markets, without independent verification.

Quarter Ending	Quarterly High	Quarterly Low	Quarterly Close
March 30, 2004	39.36	30.74	36.54
June 30, 2004	39.19	24.72	34.49
September 30, 2004	39.32	32.36	37.00
December 31, 2004	53.22	31.59	50.46
March 31, 2005	63.01	44.50	50.14
June 30, 2005	51.45	33.66	33.98
September 30, 2005	45.53	33.70	41.96
December 31, 2005	51.29	33.28	47.75
March 31, 2006	64.16	47.73	60.39
June 30, 2006	77.40	56.00	60.93
July 1, 2006 to August 18, 2006	70.47	55.97	60.27

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

This summary supplements the section entitled "Certain U.S. Federal Income Tax Considerations" in the prospectus supplement and supersedes it to the extent inconsistent therewith, but is subject to the limitations and qualifications set forth therein. In the opinion of Cadwalader, Wickersham & Taft LLP, special U.S. tax counsel to us, the following discussion, when read together with the section entitled, "Certain U.S. Federal Income Tax Considerations" in the prospectus supplement, summarizes certain of the material U.S. federal income tax consequences of the purchase, beneficial ownership, and disposition of each of the Notes.

There are no statutory provisions, regulations, published rulings or judicial decisions addressing the characterization for U.S. federal income tax purposes of securities with terms that are substantially the same as those of the Notes. Under one approach, each Note should be treated for U.S. federal income tax purposes as a put option written by you (the "Put Option") that permits us to (1) sell the Reference Asset to you on the maturity date for an amount equal to the Deposit (as defined below), or (2) "cash settle" the Put Option (i.e., require you to pay us on the Maturity Date the difference between the Deposit and the value of the Reference Asset at such time), and a deposit with us of cash in an amount equal to the Principal Amount you invested (the "Deposit") to secure your potential obligation under the Put Option. See "Certain U.S. Federal Income Tax Considerations" in the prospectus supplement. We intend to treat the Notes consistent with this approach and pursuant to the terms of the Notes, you agree to treat the Notes under this approach for all U.S. federal income tax purposes. Assuming the issue price of the Note is par, the description below of the Reference Asset includes a chart that indicates the portion of each interest payment that represents the yield on the Deposit and the Put Premium. You may contact Bill Bamber at (212) 272-6635 for the issue price of the Notes.

We also intend to treat the Deposits as "short-term obligations" for U.S. federal income tax purposes. See "Certain U.S. Federal Income Tax Considerations Tax Treatment of the Deposit on Notes with a Term of One Year or Less" in the prospectus supplement for certain U.S. federal income tax considerations applicable to short-term obligations. Accrual method and other U.S. Holders that are required to report original issue discount (or acquisition discount) on short-term obligations, and cash method U.S. Holders that elect to include original issue discount (or acquisition discount) on the Notes in income, should treat the portion of the interest payments in respect of the Deposit as non-taxable payments of accrued original issue discount (or acquisition discount) to the extent of the accrual, then as a return of principal that will reduce the U.S. Holder's basis in its Note (but not below zero), and thereafter as gain.

Because there are no statutory provisions, regulations, published rulings or judicial decisions addressing the characterization for U.S. federal income tax purposes of securities with terms that are substantially the same as those of the Notes, other characterizations and treatments are possible and the timing and character of income in respect of the Notes might differ from the treatment described above.

Reference Asset	Term to Maturity	Coupon Rate, per Annum	Yield on the Deposit, per Annum	Put Premium, per Annum
United States Steel Corporation	3-months	20.00% per annum	5.48%	14.52%

CERTAIN ERISA CONSIDERATIONS

Investors subject to Section 406 of the Employee Retirement Income Security Act of 1974, as amended, Section 4975 of the Internal Revenue Code of 1986, as amended or to any federal, state or local law materially similar to the foregoing provisions should carefully consider, among other things, the matters set forth in "ERISA Considerations" in the Prospectus.

The Bear Stearns Companies Inc.
Prospectus Supplement Reverse Convertible All Asset Classes
Medium-Term Notes, Series B

We may offer from time to time Notes that may pay a rate of interest during the term of the Notes and at maturity will pay an amount in U.S. dollars or, in the case of Notes relating to equity securities, entail physical delivery of shares of stock of an issuer not affiliated with us or payment of an amount in U.S. dollars. The specific terms of any such Notes that we offer will be included in the applicable pricing supplement. Set forth under "Definitions" are definitions of the material terms used in this prospectus supplement and in the applicable pricing supplement. If the terms described in the applicable pricing supplement are inconsistent with those described herein or in the accompanying prospectus, the terms described in the applicable pricing supplement will supersede. The Notes will have the following general terms:

No Principal Protection

As described herein, the amount of the principal payment at maturity will depend on two variables: (i) the Trading Level of the Reference Asset during the term of the Notes; and (ii) the relationship between the Final Level of the Reference Asset and the Initial Level of the Reference Asset.

The principal amount of your investment is not protected and you may receive less, and possibly significantly less, than the amount you invested.

Interest Rate and Interest Payments

The Notes may have a fixed or floating interest rate or may pay no interest, in each case as specified in the applicable pricing supplement. Any interest on the Notes will be paid on the dates set forth in the applicable pricing supplement.

Ranking

The Notes will be our unsecured senior debt and will rank equally with all of our other unsecured and unsubordinated debt.

Reference Asset

The principal, interest or any other amounts payable on the Notes may be based on price movements in or other events relating to one or more securities, futures contracts, commodities, foreign currencies, interest rates, indices or baskets comprised of any of those instruments or measures, or other measures or instruments, including the occurrence or nonoccurrence of any event or circumstance.

Maturity

The applicable pricing supplement will specify the Maturity Date.

Denominations

The Notes will be issued in minimum denominations of \$1,000 (or the specified currency equivalent), increased in multiples of \$1,000 (or the specified currency equivalent); provided, however, that the minimum purchase for any purchaser domiciled in a Member State of the European Economic Area shall be \$100,000.

Initial Public Offering Price

Other than as set forth in the applicable Pricing Supplement, the initial public offering price of the Notes will be 100% of the principal amount of the Notes, except that the investors who purchase an aggregate principal amount of at least \$1,000,000 of any particular Note offering may do so at a 1.00% discount. Such investor would be entitled to purchase each Note of that particular offering for 99.00% of the principal amount.

Principal Payment at Maturity

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We will pay you 100% of the principal amount of your Notes, in cash, at maturity if either of the following is true: (i) the Trading Level of the Reference Asset never equals or falls below the Contingent Protection Level on any day from the Pricing Date up to and including the Calculation Date; or (ii) the Final Level of the Reference Asset is equal to or greater than the Initial Level of the Reference Asset.

However, if both of the following are true, the amount of principal you receive at maturity will be reduced by the percentage decrease in the Reference Asset: (i) the Trading Level of the Reference Asset ever equals or falls below the Contingent Protection Level on any day from the Pricing Date up to and including the Calculation Date; and (ii) the Final Level of the Reference Asset is less than the Initial Level of the Reference Asset. In that event, the manner in which the Notes will be settled on the Maturity Date will depend on whether the Reference Asset is an equity security.

If the Reference Asset is an equity security, we, at our option, will either: (i) physically deliver to you an amount of the Reference Asset equal to the Exchange Ratio plus the Fractional Share Cash Amount (which means that you will receive shares with a market value that is less than the full principal amount of your Notes); or (ii) pay you a cash amount equal to the principal amount you invested reduced by the percentage decrease in the Reference Asset.

If the Reference Asset is not an equity security, we will pay you an amount in cash equal to the principal amount you invested reduced by the percentage decrease in the Reference Asset.

INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE S-7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The Agents may solicit offers to purchase the Notes as our agent. We may sell Notes to the Agent as principal at prices to be agreed upon at the time of sale. The Agents may resell any Notes they purchase as principal at prevailing market prices, or at other prices, as the Agents determine. The Agents may use this prospectus supplement and the accompanying prospectus in connection with offers and sales of the securities in market-making transactions.

Bear, Stearns & Co. Inc.
August 16, 2006

Offers and sales of the Notes are subject to restrictions in certain jurisdictions. The distribution of this prospectus supplement and the accompanying 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 prospectus supplement and accompanying prospectus or any Notes must inform themselves about and observe any applicable restrictions on the distribution of this prospectus supplement and the accompanying prospectus and the offer and sale of the Notes.

SUMMARY

The following summary describes the Notes in general terms only. You should read the summary together with the more detailed information contained in this prospectus supplement, in the accompanying prospectus and in the applicable pricing supplement. We also may prepare free writing prospectuses that describe particular issuances of Notes. Any free writing prospectus also should be read in connection with this prospectus supplement and the accompanying prospectus. For purposes of this prospectus supplement, any references to an applicable pricing supplement also may refer to a free writing prospectus, unless the context otherwise requires.

Are the Notes principal protected?

The Notes are not principal protected and you may lose some or all of your principal. The amount of the principal payment at maturity will depend on two variables: (i) the Trading Level of the Reference Asset during the term of the Notes; and (ii) the relationship between the Final Level of the Reference Asset and the Initial Level of the Reference Asset.

You will receive 100% of the principal amount of your Notes, in cash, at maturity if *either* of the following is true: (i) the Trading Level of the Reference Asset never equals or falls below the Contingent Protection Level on any day from the Pricing Date up to and including the Calculation Date; or (ii) the Final Level of the Reference Asset is equal to or greater than the Initial Level of the Reference Asset.

However, the Notes will not be principal protected if *both* of the following are true: (i) the Trading Level of the Reference Asset ever equals or falls below the Contingent Protection Level on any day from the Pricing Date up to and including the Calculation Date, *and* (ii) the Final Level of the Reference Asset is less than the Initial Level of the Reference Asset. If both of those conditions are true, the principal amount of your investment will not be protected and you will receive less, and possibly significantly less, than the amount you invested.

What payments will be received at maturity?

We will pay you 100% of the principal amount of your Notes, in cash, at maturity if *either* of the following is true: (i) the Trading Level of the Reference Asset never equals or falls below the Contingent Protection Level on any day from the Pricing Date up to and including the Calculation Date; or (ii) the Final Level of the Reference Asset is equal to or greater than the Initial Level of the Reference Asset.

However, if *both* of the following are true, the amount of principal you receive at maturity will be reduced by the percentage decrease in the Reference Asset: (i) the Trading Level of the Reference Asset ever equals or falls below the Contingent Protection Level on any day from the Pricing Date up to and including the Calculation Date; and (ii) the Final Level of the Reference Asset is less than the Initial Level of the Reference Asset. In that event, the manner in which the Notes will be settled on the Maturity Date will depend on whether the Reference Asset is an equity security.

If the Reference Asset is an equity security, we, at our option, will either: (i) physically deliver to you an amount of the Reference Asset equal to the Exchange Ratio plus the Fractional Share

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Cash Amount (which means that you will receive shares with a market value that is less than the full principal amount of your Notes); or (ii) pay you a cash amount equal to the principal amount you invested reduced by the percentage decrease in the Reference Asset.

If the Reference Asset is not an equity security, we will pay you an amount in cash equal to the principal amount you invested reduced by the percentage decrease in the Reference Asset.

We will (i) provide written notice to the Trustee and to the Depository, on or prior to the Business Day immediately prior to the Maturity Date of the amount of cash or number of shares of the Reference Asset (and cash in respect of coupon and cash in respect of any fractional shares of the Reference Asset), as applicable, to be delivered, and (ii) deliver such cash or shares of the Reference Asset (and cash in respect of coupon and cash in respect of any fractional shares of the Reference Asset), if applicable, to the Trustee for delivery to you. The Calculation Agent shall determine the Exchange Ratio.

What is the coupon rate and will interest payment be received during the term of the Notes?

The interest rate, if any, on the Notes will be either fixed or floating, as designated by the applicable pricing supplement. No interest may be payable with respect to certain Notes.

The interest paid, if any, will include interest accrued from the Original Issue Date to, but excluding, the relevant Interest Payment Date or Maturity Date. Interest will be paid to the person in whose name the Note is registered at the close of business on the Record Date before each Interest Payment Date. However, interest payable on the Maturity Date will be payable to the person to whom principal is payable. If the Interest Payment Date is also a day on which principal is due, the interest payable will include interest accrued to, but excluding, the stated Maturity Date.

Will the Notes be affected by various corporate events?

Yes. Following certain corporate events relating to the underlying Reference Asset, if that Reference Asset is one or more equity securities, such as a stock-for-stock merger where the underlying company is not the surviving entity, you will receive at maturity, cash or a number of shares of the common stock of a successor corporation to the underlying company, based on the Closing Price of such successor's common stock. The occurrence of such corporate events and the consequent adjustments may materially and adversely affect the value of the Notes. We describe the specific corporate events that can lead to these adjustments in the section "Antidilution Adjustments for Equity Securities." You should read this section to understand these and other adjustments that may be made to the Notes.

ILLUSTRATIVE EXAMPLES

Reference Asset Is an Equity Security

The following are illustrative examples demonstrating the hypothetical amount payable at maturity based on the assumptions outlined below. These examples do not purport to be representative of every possible scenario concerning increases or decreases in the Reference Asset or of the movements that are likely to occur with respect to the relevant Reference Asset. You should not construe these examples as an indication of the expected performance of the Notes. Some amounts are rounded and actual returns may be different.

Assumptions:

Investor purchases \$1,000 principal amount of Notes on the Pricing Date at the initial offering price of \$1,000 and holds the Notes to maturity. No Market Disruption Events or Events of Default occur during the term of the Notes.

Reference Asset: common stock, par value \$0.01 per share, of a company traded on the NYSE.

Initial Level: \$27.18

Contingent Protection Percentage: 80%

Contingent Protection Level: \$21.74 ($\$27.18 \times 80\%$)

Exchange Ratio: 36 ($\$1,000/\27.18)

Coupon: 9.00% per annum, paid semiannually (\$45 per semiannual period) in arrears

The reinvestment rate on any interest payments made during the term of the Notes is assumed to be 0%. The 1-year total return on a direct investment in the Reference Asset is calculated below prior to the deduction of any brokerage fees or charges. Both a positive reinvestment rate, or if any brokerage fees or charges were incurred, would increase the total return on the Notes relative to the total return of the Reference Asset.

Maturity: 1 year

Dividend and dividend yield on the Reference Asset: \$0 and 0% per annum

Example 1 On the Calculation Date, the Final Level of \$29.90 is greater than the Initial Level, resulting in a payment at maturity of \$1,000, regardless of whether the Contingent Protection Level was ever reached or breached, plus two interest payments of \$45.00 each, for payments totaling \$1,090.00. If you had invested directly in the Reference Asset for the same one-year period, you would have received total cash payments of \$1,100.27 (number of shares of the Reference Asset multiplied by the Final Level, plus the dividend payments), assuming liquidation of shares at the Final Level. You would have earned a 9.00% return with an investment in the Notes and a 10.03% return with a direct investment in the Reference Asset.

Example 2 On the Calculation Date, the Final Level of \$24.46 is below the Initial Level, but the Trading Level never equaled or fell below the Contingent Protection Level. As discussed in example 1 above, an investor would receive total payments of \$1,090.00, earning a 9.00% return over the term of the Notes. A direct investment in the Reference Asset for that same one-year time period would have generated a return of \$900.12 (number of shares of the Reference Asset multiplied by the Final Level, plus the dividend payments), assuming liquidation of shares at the Final Level. You would have earned a 9.00% return with an investment in the Notes and incurred a loss of 9.99% with a direct investment in the Reference Asset.

Example 3 On the Calculation Date, the Final Level of \$17.67 is below the Initial Level and also is below the Contingent Protection Level. At our election, an investor would receive a number of shares equal to the Exchange Ratio, plus the Fractional Share Cash Amount, plus the two interest payments of \$45.00, which is 36 shares (worth \$17.67 each) plus \$13.99 (the Fractional Share Cash Amount) plus \$90.00 (two interest payments of \$45.00 each). The cash equivalent equals \$740.11. If you had invested directly in the Reference Asset for the same one-year period, you would have received total cash payments of \$650.31 (number of shares of the Reference Asset multiplied by the Final Level, plus the dividend payments), assuming liquidation of shares at the Final Level. An investment in the Notes would have resulted in a loss of 25.99%, while a direct investment in the Reference Asset would have resulted in a loss of 34.97%.

Reference Asset Is Not an Equity Security

The following are illustrative examples demonstrating the hypothetical amount payable at maturity based on the assumptions outlined below. Some amounts are rounded and actual returns may be different.

Assumptions:

Investor purchases \$1,000 principal amount of Notes on the Pricing Date at the initial offering price of \$1,000 and holds the Notes to maturity. No Market Disruption Events or Events of Default occur during the term of the Notes.

Reference Asset: U.S. equity index, such as the Dow Jones Industrial AverageSM

Initial Level: 10,237.18

Contingent Protection Percentage: 80%

Contingent Protection Level: 8,189.74 (10,237.18 × 80%)

Coupon: 9.00% per annum, paid semiannually (\$45 per semiannual period) in arrears

Maturity: 1 year

Because the Reference Asset is an equity index (and not an equity security), regardless of the performance of the Reference Asset, any payment on the Maturity Date will be in cash.

The reinvestment rate on any interest payments made during the term of the Notes is assumed to be 0%. The 1-year total return on a direct investment in the Reference Asset is calculated below prior to the deduction of any brokerage fees or charges. Both a positive reinvestment rate, or if any brokerage fees or charges were incurred, would increase the total return on the Notes relative to the total return of the Reference Asset.

Dividend and dividend yield on the Reference Asset: \$0.00 and 0.00% per annum

Example 1 On the Calculation Date, the Final Level of 11,260.90 is greater than the Initial Level, resulting in a payment at maturity of \$1,000, regardless of whether the Contingent Protection Level was ever reached or breached. You also would have received two interest payments of \$45.00, for payments totaling \$1,090.00. With a direct investment in an instrument indexed on a one-for-one basis to the Reference Asset during that same one-year time period, you would have received total cash payments over the term of the Notes of \$1,100.00 (the sum of the principal amount, plus the product of the principal amount and the percentage increase in the Reference Asset) upon liquidation of such instrument at the Final Level. You would have earned a return of 9.00% with an investment in the Notes and a return of 10.00% with a direct

investment in the Reference Asset.

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Example 2 On the Calculation Date, the Final Level of 9,213.46 is below the Initial Level, but the Trading Level never equaled or fell below the Contingent Protection Level. As discussed in example 1 above, an investor would receive total payments of \$1,090.00, earning a 9.00% return over the term of the Notes. With a direct investment in an instrument indexed on a one-for-one basis to the Reference Asset during that same one-year time period, you would have received total cash payments of \$900.00 (the sum of the principal amount, plus or minus the product of the principal amount and the percentage decrease in the Reference Asset) upon liquidation of such instrument at the Final Level. You would have earned a return of 9.00% with an investment in the Notes and incurred a loss of 10.00% with a direct investment in the Reference Asset.

Example 3 On the Calculation Date, the Final Level of 6,654.17 is below the Initial Level and is also below the Contingent Protection Level. As discussed in example 1 above, an investor would receive total payments of \$1,090, earning 9.00% over the term of the Notes. With a direct investment in an instrument indexed on a one-for-one basis to the Reference Asset during that same one-year time period, you would have received total cash payments of \$650.00 (the sum of the principal amount plus or minus the product of the principal amount and the percentage decrease in the Reference Asset) upon liquidation of such instrument at the Final Level. You would have earned a return of 9.00% with an investment in the Notes and incurred a loss of 35.00% with a direct investment in the Reference Asset.

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RISK FACTORS

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 advisors, of the suitability of the Notes in light of their particular financial circumstances, the following risk factors and the other information included or incorporated by reference in the applicable pricing supplement, this prospectus supplement and the accompanying prospectus. **Please note that this Risk Factors section has various subcomponents addressing certain additional risk factors relating to specific categories of Reference Assets. For example, certain additional risk factors relating to Reference Assets comprised of one or more equity securities can be found in the section " Additional risks relating to Notes with an equity security or equity index as the Reference Asset."** We have no control over a number of matters, including economic, financial, regulatory, geographic, judicial and political events, that are important in determining the existence, magnitude, and longevity of these risks and their influence on the value of, or the payments made on, the Notes. You should not purchase the Notes unless you understand and can bear these investment risks.

RISKS RELATING TO ALL NOTE ISSUANCES.

The Notes are not principal protected and you may lose some or all of your principal.

The principal amount of your investment is not protected and you may receive less, and possibly significantly less, than the amount you invested. The Notes will not be principal protected if both of the following are true: (i) the Trading Level of the Reference Asset ever equals or falls below the Contingent Protection Level on any day from the Pricing Date up to and including the Calculation Date; and (ii) the Final Level of the Reference Asset is less than the Initial Level of the Reference Asset. You will receive 100% of your principal at maturity if, and only if, either of the following is true: (i) the Trading Level of the Reference Asset never equals or falls below the Contingent Protection Level on any day from the Pricing Date up to and including the Calculation Date; or (ii) the Final Level of the Reference Asset is equal to or greater than the Initial Level of the Reference Asset.

You will not participate in any appreciation in the value of the Reference Asset.

You will not participate in any appreciation in the value of the Reference Asset. If the Final Level of the Reference Asset is greater than the Initial Level of the Reference Asset, the sum of any interest payments you receive during the term of the Notes and the principal payment you receive at maturity will not reflect the performance of the Reference Asset. For example, if the Reference Asset has appreciated by 50% on the Calculation Date, you will receive only your principal amount plus any interest payments made during the term of the Notes. In this case, you may earn significantly less by investing in the Notes than you would have earned by investing directly in the Reference Asset.

Your return cannot exceed any coupon payments received over the term of the Notes, regardless of the appreciation in value of the Reference Asset.

If the Final Level of the Reference Asset is equal to or exceeds the Initial Level of the Reference Asset, the amounts you will receive during the term of the Notes and at maturity will equal the sum of the principal amount of the Notes, plus any interest payments made during the term of the Notes. Under no circumstances, regardless of the extent to which the value of the Reference Asset appreciates, will your return exceed the applicable coupon rate, if any.

There may not be any secondary market for your Notes.

Upon issuance, the Notes will not have an established trading market. We cannot assure you that a trading market for the Notes will develop or, if one develops, that it will be maintained. Although we may apply to list certain issuances of Notes on a national securities exchange or the Nasdaq Stock Market, we may not meet the requirements for listing and do not expect to announce, prior to the

pricing of the Notes, whether we will meet such requirements. Even if there is a secondary market, it may not provide significant liquidity. While we anticipate that the Agent will act as a market maker for the Notes, the Agent is not required to do so. If the Notes are not listed on any securities exchange and the Agent were to cease acting as a market maker, it is likely that there would be no secondary market for the Notes. You therefore must be willing and able to hold the Notes until maturity.

Price or other movements in the instrument or instruments comprising the Reference Asset are unpredictable.

Price or other movements in the instrument or instruments comprising the Referenced Asset are unpredictable and volatile, and are influenced by complex and interrelated political, economic, financial, regulatory, geographic, judicial and other factors that can affect the markets in which the relevant instrument or instruments are traded and/or the particular instrument or instruments. As a result, it is impossible to predict whether the prices or levels of the instrument or instruments comprising the Reference Asset will rise or fall during the term of the Notes. The price of the instrument or instruments comprising the Reference Asset may decrease to or below the Contingent Protection Level and remain below the Initial Level to maturity so that you will receive at maturity a cash payment (or, in the case of equity securities, shares) worth less than the principal amount of your investment. We cannot guarantee that the price of the instrument or instruments comprising the Reference Asset will stay above the Contingent Protection Level over the life of the Notes or that, if the price of the instrument or instruments comprising the Reference Asset has decreased to or below the Contingent Protection Level, the price of the instrument or instruments comprising the Reference Asset will recover and be at or above the Initial Level on the Calculation Date so that you will receive at maturity an amount at least equal to the principal amount of the Notes.

The historical or pro forma performance of the Reference Asset is not an indication of future performance.

The historical or pro forma performance of the Reference Asset, which may be included in the applicable pricing supplement, should not be taken as an indication of the future performance of the Reference Asset. It is impossible to predict whether the level of the Reference Asset will fall or rise. The Trading Level of the Reference Asset will be influenced by the complex and interrelated economic, financial, regulatory, geographic, judicial, political and other factors that can affect the trading markets on which the instruments or instruments comprising the Reference Asset are traded and/or the level of the Reference Asset itself.

You must rely on your own evaluation of the merits of an investment in the Notes.

In connection with your purchase of the Notes, we urge you to consult your own financial, tax and legal advisors as to the risks entailed by an investment in Notes and to investigate the Reference Asset and not rely on our views in any respect. You should make such investigation as you deem appropriate as to the merits of an investment in the Notes.

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

If you wish to liquidate your investment in the Notes prior to maturity, your only alternative would be to sell them. At that time, there may be an illiquid market for Notes or no market at all. Even if you were able to sell your Notes, there are many factors outside of our control that may affect their trading value. We believe that the value of your Notes will be affected by the value and volatility of the instrument or instruments comprising the Reference Asset, whether or not the Trading Level of the Reference Asset is greater than or equal to the Initial Level of the Reference Asset, 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, the Trading Level of the Reference Asset is less than, equal to or not sufficiently above the Initial Level of the Reference Asset. 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.

Reference Asset performance. We expect that the value of the Notes prior to maturity will depend substantially on the relationship between the Trading Level of the Reference Asset and the Initial Level of the Reference Asset. If you decide to sell your Notes when the Trading Level exceeds the Initial Level, you may nonetheless receive substantially less than the amount that would be payable at maturity based on that Trading Level because of expectations that the Trading Level will continue to fluctuate until the Final Level is determined. If the Trading Level is near or below the Contingent Protection Level, we expect the market value of the Notes to decline to reflect the possibility that we will be able to deliver a Reference Asset that has depreciated in value (or pay you the equivalent reduced amount in cash), rather than pay the full principal amount of the Notes.

Volatility of the Reference Asset. Volatility is the term used to describe the size and frequency of market fluctuations. If the volatility of the Reference Asset increases or decreases, the trading 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 the Notes may decrease, and if interest rates decrease, the value of the Notes may increase. Interest rates also may affect the economy and, in turn, the value of the Reference Asset, which would affect the value of the Notes.

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 Trading Level of the Reference Asset, 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 Reference Asset 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. As the time remaining to maturity decreases, the trading value of the Notes may be less sensitive to the price volatility of the instrument or instruments comprising the Reference Asset.

Dividend yield, if any. The value of the Notes also may be affected by the dividend yields, if any, on the instrument or instruments comprising the Reference Asset. In general, because the payment at maturity does not incorporate the value of dividend payments, higher dividend yields likely will reduce the trading value of the Notes and, conversely, lower dividend yields likely will increase the trading value of the Notes.

Events affecting or involving the Reference Asset. Economic, financial, regulatory, geographic, judicial, political and other developments that affect the level of the Reference Asset, and real or anticipated changes in those factors, also may affect the trading value of the Notes. For example, earnings results of a Reference Asset that is or relates to one or more equity securities, and real or anticipated changes in those conditions or results, may affect the trading value of the Notes. Reference Assets relating to equity securities also may be affected by mergers and acquisitions, which can contribute to volatility of the Reference Asset. As a result of a merger or

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acquisition involving the Reference Asset, the Reference Asset may be replaced with a surviving or acquiring entity's securities. The surviving or acquiring entity's securities may not have the same characteristics as the company or companies previously comprising the Reference Asset.

Agent's commission and cost of hedging. The original issue price of the Notes includes the Agent's commission and the cost of hedging our obligations under the Notes. Such cost includes our affiliates' expected cost of providing such hedge and the profit our affiliate expects to realize in consideration for assuming the risks inherent in providing such hedge. As a result, assuming no change in market conditions or any other relevant factors, the price, if any, at which the Agent will be willing to purchase Notes from you in secondary market transactions will likely be lower than the original issue price. In addition, any such prices may differ from values determined by pricing models used by the Agent as a result of such compensation or other transaction costs.

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 value of the Reference Asset.

The Notes are not insured against loss by any third parties; you can depend only on our earnings and assets for payment of principal and interest, if any, on the Notes.

The Notes will be solely our obligations, and no other entity will have any obligation, contingent or otherwise, to make any payments in respect of the Notes. In addition, because we are a holding company whose primary assets consist of shares of stock or other equity interests in our subsidiaries, almost all of our income is derived from those subsidiaries. Our subsidiaries will have no obligation to pay any amount in respect of the Notes or to make any funds available for payment of the Notes. Accordingly, we will be dependent on dividends and other distributions or loans from our subsidiaries to generate the funds necessary to meet our obligations with respect to the Notes, including the payment of principal and any interest. The Notes also will be effectively subordinated to the claims of creditors of our subsidiaries with respect to their assets. If funds from dividends, other distributions or loans from our subsidiaries are not adequate, we may be unable to make payments of principal or interest in respect of the Notes and you could lose all or a part of your investment.

Reported Reference Asset levels may be based on non-current information.

If trading is interrupted in the instrument or instruments comprising the Reference Asset, publicly available information regarding the Reference Asset level may be based on the last reported prices or levels. As a result, publicly available information regarding reported Reference Asset prices or levels may at times be based on non-current information.

The instrument or instruments comprising the Reference Asset may trade around-the-clock; however, if a secondary market develops, the Notes may trade only during regular trading hours in the United States.

If the market for the instrument or instruments comprising the Reference Asset is a global, around-the-clock market, the hours of trading for the Notes may not conform to the hours during which the instrument or instruments comprising the Reference Asset are traded. To the extent that U.S. markets are closed while international markets remain open, significant movements may take place in the levels of the instrument or instruments comprising the Reference Asset that will not be reflected immediately in the price of the Notes. There may not be any systematic reporting of last-sale or similar information for the instrument or instruments comprising the Reference Asset. The absence of last-sale or similar information and the limited availability of quotations would make it difficult for many investors to obtain timely, accurate data about the state of the market for the Reference Asset.

The Calculation Agent may postpone the determination of the amount you receive during the term of the Notes or at maturity if a Market Disruption Event occurs on the Calculation Date or on any Interest Determination Date.

The Calculation Date or any Interest Determination Date 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 Interest Determination Date. If a postponement occurs, the Calculation Agent will use the Closing Price of the Reference Asset on the first succeeding Business Day on which no Market Disruption Event occurs or is continuing for the calculation of the applicable amount. 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 Reference Asset after the originally-scheduled Calculation Date or Interest Determination Date.

The amount you receive at maturity may be delayed or reduced upon the occurrence of an Event of Default.

If the Calculation Agent determines that an Event of Default 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.

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

There is no direct legal authority as to the proper tax treatment of the Notes, and therefore significant aspects of the tax treatment of the Notes are uncertain, as to both the timing and character of any inclusion in income in respect of your Note. Because of this uncertainty, we urge you to consult your tax advisor as to the tax consequences of your investment in a Note. For a more complete discussion of the U.S. federal income tax consequences of your investment in a Note, please see the discussion under "Certain U.S. Federal Income Tax Considerations."

The Calculation Agent could be one of our affiliates, which could result in a conflict of interest.

The Calculation Agent will make certain determinations and judgments in connection with calculating the Final Level, Exchange Ratio and Contingent Protection Level and determining whether a Market Disruption Event has occurred. You should refer to "Description of Notes." Because the Calculation Agent could be our affiliate, conflicts of interest may arise in connection with the Calculation Agent performing its role as Calculation Agent. Bear Stearns is obligated to carry out its duties and functions as Calculation Agent in good faith and using its reasonable judgment.

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

In connection with our normal business practices or in connection with hedging our obligations under the Notes, we and our affiliates may from time to time buy or sell the instrument or instruments comprising a Reference Asset, similar instruments, other securities of an issuer of an instrument comprising a Reference Asset or derivative instruments relating to such an instrument or instruments. 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, including block trades, for our other customers and in accounts under our management. These trading activities also could affect the price of an instrument comprising any Reference Asset in a manner that would decrease the trading value of the Notes prior to maturity or the amount you would receive at

maturity. To the extent that we or any of our affiliates have a hedge position in an instrument or instruments comprising the Reference Asset, or in a derivative or synthetic instrument related to such an instrument, we or any of our affiliates may liquidate a portion of such holdings at or about the time of the maturity of the Notes. This liquidation activity may affect the amount payable at maturity in a manner that would be adverse to your investment in 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.

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 any such position in the Notes.

Research reports and other transactions may create conflicts of interest between you and us.

We or one or more of our affiliates have published, and may in the future publish, research reports relating to the instrument or instruments comprising certain Reference Assets or to the issuers of certain such instruments. The views expressed in this research may be modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding the Notes. Any of these activities may affect the market price of an instrument comprising the Reference Asset and, therefore, the value of the Notes. Moreover, other professionals who deal in these markets may at any time have views that differ significantly from ours. In connection with your purchase of the Notes, you should investigate the Reference Asset and not rely on our views with respect to future movements in the Reference Asset.

We or any