BEAR STEARNS COMPANIES INC
Form 424B5
February 03, 2003

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

$10,000,000
The Bear Stearns Companies Inc.

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

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

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

- The Notes will mature on February 5, 2008. We will not make any payments on the Notes prior to maturity.

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

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

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

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

- The Notes have been approved for listing (subject to official notice of issuance) on the American Stock Exchange under the trading symbol "BYF.A."

INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS. THERE MAY NOT BE A SECONDARY MARKET IN THE NOTES, AND IF THERE WERE TO BE A SECONDARY MARKET, IT MAY NOT BE LIQUID. SEE "RISK FACTORS" BEGINNING ON PAGE PS-8 OF THIS PRICING SUPPLEMENT.

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

	Per Note	Total
Initial public offering price	100%	$ 10,000,000
Agent's discount	2.5%	$ 250,000

Proceeds, before expenses, to us	97.5%	$ 9,750,000

We expect that the Notes will be ready for delivery in book-entry form only through the book-entry facilities of The Depository Trust Company in New York, New York, on or about February 5, 2003 against payment in immediately available funds. The distribution of the Notes will conform to the requirements set forth in Rule 2720 of the NASD Conduct Rules.

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

Bear, Stearns & Co. Inc.

January 30, 2003

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

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

Bear Stearns, the agents, and the holders and beneficial owners of the Notes (and their respective employees, representatives or other agents) are authorized to use and disclose at any time to any and all persons information relating to the tax aspects (including the structure as it relates to tax aspects) of the Notes described in this pricing supplement and all materials of any kind provided to them related to such tax aspects (and structure), including tax opinions or other tax analyses, without limitations of any kind on such use or disclosure, other than restrictions under applicable United States federal and state securities laws.

CERTAIN DEFINITIONS

Unless otherwise stated in this pricing supplement:

- the "Company," "we," "us" and "our" refer to The Bear Stearns Companies Inc. and its subsidiaries;
- "AMEX" refers to the American Stock Exchange;
- "basket" refers to the Sector ETFs;

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

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

"BSB" refers to Bear Stearns Bank plc;

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

"BSIL" refers to Bear, Stearns International Limited;

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

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

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

"NYSE" refers to the New York Stock Exchange;

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

"SEC" refers to the Securities and Exchange Commission;

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

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

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

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

SUMMARY INFORMATION QUESTIONS AND ANSWERS

What are the Notes?

The Notes are our senior debt securities, and are not secured by collateral. The Notes will rank equally with all our other unsecured and unsubordinated debt. The Notes will mature on February 5, 2008, and do not provide for earlier maturity.

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

What Does "Principal Protected" Mean?

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

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

Will I Receive Interest on the Notes?

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

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

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

The variable return amount is calculated as follows:

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

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

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

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

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

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

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

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

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

For purposes of this formula:

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

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

an "observation date" will occur semi-annually, commencing with the first observation date on July 30, 2003 and on the 30th of each January and July thereafter until the last observation date, which will be January 30, 2008, subject to the following business day convention;

for the first observation date, the "initial value" will equal the closing value of each of the Sector ETFs on January 30, 2003;

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

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

For more specific information about the variable return amount and for illustrative examples, see "Description of the Notes" in this pricing supplement. If any of the Sector ETFs are de-listed from the

AMEX or cease to be issued by iShares Trust® prior to removal from the basket, and the calculation agent determines to substitute a corresponding Dow Jones US Sector Index or other successor or substitute sector index for the discontinued Sector ETF, such corresponding, successor or substitute sector index will be substituted for the discontinued Sector ETF for purposes of the definitions set forth above.

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

The basket will be comprised of Sector ETFs whose values are based upon ten U.S. sector equity market indices compiled by Dow Jones. The indices track the following sectors: Basic Materials, Consumer Cyclical, Consumer Non-Cyclical, Energy, Financial, Healthcare, Industrial, Technology, Telecommunications and Utilities. The number of companies currently represented by the ten U.S. sectors is approximately 1,595. Currently 98.57% of the members of the S&P 500 Index are represented in these ten U.S. sector equity market indices, and included in the Sector ETFs that comprise the basket. The Sector ETFs are quoted on the AMEX.

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

What Changes will Occur in the Basket?

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

How has the Basket of Sector ETFs Performed Historically?

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

Will the Notes be Listed on a Securities Exchange?

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

What is the Role of Our Subsidiary, Bear Stearns?

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

Bear Stearns also will be our calculation agent for purposes of calculating the variable return amount. Under certain circumstances, these duties could result in a conflict of interest between Bear Stearns' status as our subsidiary, and its responsibilities as calculation agent. See "Risk Factors The Calculation Agent is One of Our Affiliates, Which Could Result in a Conflict of Interest" in this pricing supplement.

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

We are a holding company that, through our subsidiaries, principally Bear Stearns, BSSC, BSIL and BSB, is a leading investment banking, securities and derivatives trading, clearance and brokerage firm serving corporations, governments, institutional and individual investors worldwide. For more information about us, please refer to the section entitled "The Bear Stearns Companies Inc." in the accompanying prospectus. You should also read the other documents we have filed with the SEC, which you can find by referring to the section entitled "Where You Can Find More Information" in the accompanying prospectus.

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

Because the Notes are contingent payment debt instruments for federal income tax purposes, a U.S. holder of a Note will be required to include original issue discount ("OID") in gross income over the term of the Note prior to receiving payment on the Note at maturity. The amount of OID includible in each year is based on our "comparable yield." In addition, we have computed a "projected payment amount" that produces the comparable yield. The comparable yield and the projected payment amount are neither predictions nor guarantees of the actual yield on the Notes or the actual payment at maturity. If the amount we actually pay at maturity is, in fact, less than the projected payment amount, then a U.S. holder would have recognized taxable income in periods prior to maturity that exceeds the U.S. holder's economic income from holding the Note during such periods (with an offsetting ordinary loss). If a U.S. holder disposes of the Note prior to maturity, the U.S. holder will be required to treat any gain recognized upon the disposition of the Note as ordinary income (rather than capital gain). See "Certain U.S. Federal Income Tax Considerations" in this pricing supplement and "Certain United States Federal Income Tax Considerations" in the prospectus supplement.

Does ERISA Impose any Limitations on Purchases of the Notes?

An employee benefit plan subject to the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or a plan that is subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), including individual retirement accounts, individual retirement annuities or Keogh plans, or any entity the assets of which are deemed to be "plan assets" under ERISA regulations, will be permitted to purchase, hold and dispose of the Notes only on the condition that such plan or entity makes the deemed representation that its purchase, holding and disposition of the Notes will not constitute a prohibited transaction under ERISA or Section 4975 of the Code for which an exemption is not available. Government plans subject to any substantially similar law will also be subject to this condition.

Are There any Risks Associated with my Investment?

Yes, the Notes are subject to a number of risks. See "Risk Factors" in this pricing supplement and "Risk Factors" in the accompanying prospectus supplement.

RISK FACTORS

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

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

You may not Earn a Return on Your Investment

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

You will not Receive any Periodic Payments of Interest

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

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

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

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

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

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

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

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

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

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

Tax Consequences

For U.S. federal income tax purposes, the Notes will be classified as contingent payment debt instruments. As a result, you will be required to include original issue discount in income during your ownership of the Notes although you will receive no cash payments during the term of the Notes. Additionally, you will generally be required to treat gain, if any, recognized on a sale, upon maturity, or other disposition of the Notes as ordinary income (rather than capital gain). See "Certain U.S. Federal Income Tax Considerations" beginning on page PS-36 of this pricing supplement.

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

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

The Price, if any, at Which You will be Able to Sell Your Notes Prior to Maturity will Depend on a Number of Factors, and may be Substantially Less Than You had Originally Invested

We believe that the value of your Notes will be affected by the supply of and demand for the Notes, the value of the Sector ETFs on each observation date, and a number of other factors. Some of these factors are interrelated in complex ways; as a result, the effect of any one factor may be offset or magnified by the effect of another factor. The price, if any, at which you will be able to sell your Notes prior to maturity may be substantially less than the amount you originally invested if, at such time, the values of the Sector ETFs are less than, equal to or not sufficiently above the values of the Sector ETFs when you purchased the Notes. The following paragraphs describe what we expect to be the impact on the market value of the Notes with a change in a specific factor, assuming all other conditions remain constant.

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

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

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

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

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

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

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

There may not be a Liquid Secondary Market for the Notes

Although the Notes have been approved for listing (subject to official notice of issuance) on the AMEX, there may not be a secondary market in the Notes and, if there were to be a secondary market, it may not be liquid. Accordingly, the liquidity of the Notes may be limited and, under certain circumstances, nonexistent. However, Bear Stearns intends under ordinary market conditions to indicate prices in the Notes on request, although there can be no assurance at what price such a bid would be made. The price given, if any, will be affected by many factors including, but not limited to: the

remaining term of the Notes, the general level of interest rates, the current value of the Sector ETFs and the cost to us of unwinding any related hedging activity or any funding arrangement.

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

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

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

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

We are not Affiliated with Dow Jones or Barclays

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

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

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

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

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

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

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

State Law may Limit Interest Paid

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

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

The Calculation Agent is One of Our Affiliates, Which Could Result in a Conflict of Interest

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

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

The Payments You Receive on the Notes may be Delayed or Reduced upon the Occurrence of a Market Disruption Event, or an Event of Default

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

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

You should decide to purchase the Notes only after carefully considering the suitability of the Notes in light of your particular financial circumstances. You should also carefully consider the tax consequences of investing in the Notes. See "Certain U.S. Federal Income Tax Considerations" below.

DESCRIPTION OF THE NOTES

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

General

The Notes are part of a single series of debt securities under the Indenture described in the accompanying prospectus supplement and prospectus designated as Medium-Term Notes, Series B. The principal amount of the Notes will be $10,000,000. The Notes will mature on February 5, 2008, and will be our general unsecured obligations. The Notes will be issued only in fully registered form, and in minimum denominations of $1,000. Initially, the Notes will be issued in the form of one or more global securities registered in the name of DTC or its nominee, as described in the accompanying prospectus supplement and prospectus. The Notes will not be subject to redemption prior to maturity.

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

Interest

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

Payment at Maturity

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

The variable return amount is calculated as follows:

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

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

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

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

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

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

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

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

For purposes of this formula:

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

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

an "observation date" will occur semi-annually, commencing with the first observation date on July 30, 2003 and on the 30th of each January and July thereafter until the last observation date, which will be January 30, 2008, subject to the following business day convention;

for the first observation date, the "initial value" will equal the closing value of each of the Sector ETFs on January 30, 2003;

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

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

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

Illustrative Examples

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

Assumptions:

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

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

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

All amounts rounded upward to the nearest one-hundredth.

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

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

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

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

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

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

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

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

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

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

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

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

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

Sector Index	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10
Technology	40.42									
Healthcare	18.36	51.67								
Financial	23.47	47.09	58.00							

Sector Index	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10
Consumer Non-Cyclical	16.66	34.45	53.05	64.90						
Industrial	16.43	32.30	47.43	58.94	85.04					
Energy	12.66	25.49	38.50	56.47	75.34	87.31				
Consumer Cyclical	13.76	18.22	34.82	33.24	53.37	77.50	125.55			
Telecommunications	9.64	36.00	34.47	31.93	44.27	80.41	101.94	168.56		
Basic Materials	14.75	15.26	20.53	26.84	44.75	38.57	44.12	24.40	51.26	
Utilities	10.30	24.01	22.14	21.86	22.63	48.74	52.12	61.27	50.03	34.30
Performance Rates	40.42	51.67	58.00	64.90	85.04	87.31	125.55	168.56	51.26	34.30

Total sum of the selected performance rates of the sector indices = 767.02
Average of performance rates = 767.02 / 10 = 76.70% after five years
Payment at maturity = ($1,000 + $1,000 × 0.767) = $1,767.00
CAGR = 12.06%

S&P 500 Index total return performance over same period 251.12%
CAGR based on S&P 500 Index performance = 28.56%

Sector Selector -- Return Examples December 1992 to December 1997 -- Change vs. Initial Level
(returns in percent %)

Sector Index	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10
Telecommunications	15.53									
Technology	14.34	23.03								
Basic Materials	2.92	10.01	11.10							
Industrial	5.38	13.79	6.89	9.75						
Financial	7.19	5.78	3.99	-1.77	21.28					
Healthcare	-12.84	-7.30	-13.16	-0.02	18.34	51.64				
Consumer Non-Cyclical	-11.11	-5.76	-12.17	-1.43	14.99	32.52	50.86			
Energy	14.14	9.46	7.84	7.03	20.58	34.31	48.24	67.47		
Consumer Cyclical	2.61	13.10	2.02	0.16	13.94	18.41	35.03	33.46	53.62	

Sector Index	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10
Utilities	9.44	5.78	-15.14	-12.96	-3.99	7.95	6.31	6.08	6.74	29.47
Performance Rates	15.53	23.03	11.10	9.75	21.28	51.64	50.86	67.47	53.62	29.47

Total sum of the selected performance rates of the sector indices = 333.74
Average of performance rates = 333.74 / 10 = 33.37% after five years
Payment at maturity = ($1,000 + $1,000 × 0.3337) = $1,333.70
CAGR = 5.93%

S&P 500 Index total return performance over same period 151.62%
CAGR based on S&P 500 Index performance = 20.27%

The following two illustrative examples demonstrate the hypothetical payment at maturity of a Note if each of the Sector ETFs had remained in the basket for the full term of the Note without giving effect to the sector selection mechanism. Accordingly, instead of being removed from the basket following use on a particular observation date, the highest performing Sector ETF on each observation date would remain available to be used in calculating the performance rate on the valuation date. As shown below in the first example, even though the highest performing Sector ETFs remained available for use on all observation dates, the sector selector mechanism resulted in a higher average performance rate. In the second example, continued use of the Technology and Financial Sector ETFs (instead of their removal from the basket after use) would have yielded a higher average performance rate after five years than the rate that would have resulted from use of the sector selector mechanism.

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

Sector Index	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10
Technology	28.83	*69.90*	*112.22*	*211.60*	*236.66*	*96.36*	*61.24*	*40.49*	*-4.58*	*-14.05*
Telecommunications	11.93	48.86	*72.85*	*73.79*	*45.56*	*2.42*	*-1.79*	*-12.06*	*-43.56*	*-43.99*
Consumer Cyclical	27.07	34.17	50.12	*62.22*	*42.82*	*31.76*	*43.93*	*32.00*	*18.68*	*-0.52*
Industrial	9.04	9.56	25.15	37.32	*30.56*	*23.03*	*15.45*	*9.23*	*-7.84*	*-19.89*
Healthcare	22.87	37.71	36.48	30.81	64.23	*78.72*	*51.20*	*54.20*	*25.79*	*20.51*
Energy	0.89	-7.30	10.36	9.41	21.98	35.93	*26.95*	*17.89*	*15.49*	*-0.26*
Financial	11.92	5.41	16.04	4.89	2.90	30.33	27.50	*19.57*	*15.39*	*2.39*
Consumer Non-Cyclical	9.40	15.14	11.98	14.50	-3.97	0.89	-3.36	2.01	*5.95*	*-4.43*
Basic Materials	4.00	-10.22	9.16	11.84	-19.92	-7.68	-6.51	-8.44	-2.46	*-18.15*
Utilities	2.27	8.42	0.86	-9.71	-0.09	35.91	20.06	-2.89	-10.39	-26.81
Performance Rates	28.83	48.86	50.12	37.32	64.23	35.93	27.50	2.01	-2.46	-26.81

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

*Performance rates which would be omitted from the calculation if the sector selector mechanism were used are shown in this example in italics.

Not using the sector selection mechanism:

Total sum of the selected performance rates of the sector indices = -105.21
Average of performance rates = -105.21 / 10 = -10.52% after five years
Payment at maturity = ($1,000 + $1,000 × -0.1052) = $1,000 (Since the variable return amount is less than zero, only the principal amount of Notes will be paid)
CAGR = -2.20%

Using the sector selection mechanism:

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

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

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

Sector Index	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10
Technology	40.42	*42.48*	*60.70*	*93.53*	*128.85*	*137.15*	*205.51*	*302.91*	*403.27*	*638.95*
Healthcare	18.36	51.67	*62.13*	*77.03*	*123.03*	*139.23*	*193.93*	*229.44*	*226.50*	*212.94*
Financial	23.47	47.09	58.00	*92.28*	*131.72*	*181.21*	*214.73*	*196.43*	*226.30*	*194.95*
Consumer Non-Cyclical	16.66	34.45	53.05	64.90	*98.16*	*114.32*	*134.48*	*146.76*	*140.00*	*145.40*
Industrial	16.43	32.30	47.43	58.94	85.04	*89.86*	*107.02*	*108.01*	*137.60*	*160.71*
Energy	12.66	25.49	38.50	56.47	75.34	87.31	*88.97*	*73.63*	*106.71*	*104.93*
Consumer Cyclical	13.76	18.22	34.82	33.24	53.37	77.50	125.55	*138.15*	*166.46*	*187.95*
Telecommunications	9.64	36.00	34.47	31.93	44.27	80.41	101.94	168.56	*211.84*	*213.54*
Basic Materials	14.75	15.26	20.53	26.84	44.75	38.57	44.12	24.40	51.26	*54.99*
Utilities	10.30	24.01	22.14	21.86	22.63	48.74	52.12	61.27	50.03	34.30
Performance Rates	40.42	51.67	58.00	64.90	85.04	87.31	125.55	168.56	51.26	34.30

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

*Performance rates which would be omitted from the calculation if the sector selector mechanism were used are shown in this example in italics.

Not using the sector selection mechanism:

Total sum of the selected performance rates of the sector indices = 1,948.66
Average of performance rates = 1,948.66 / 100 = 194.87% after five years
Payment at maturity = ($1,000 + $1,000 × 1.9487) = $2,948.70
CAGR = 24.14%

Using the sector selection mechanism:

Total sum of the selected performance rates of the sector indices = 767.02
Average of performance rates = 767.02 / 10 = 76.70% after five years
Payment at maturity = ($1,000 + $1,000 × 0.7670) = $1,767.00
CAGR = 12.06%

S&P 500 Index total return performance over same period 251.12%
CAGR based on S&P 500 Index performance = 28.56%

Discontinuance of the Sector ETFs

If any of the Sector ETFs is de-listed from the AMEX or ceases to be issued by iShares Trust® prior to removal from the basket, the calculation agent will, in its sole discretion, substitute a corresponding Dow Jones US Sector Index compiled by Dow Jones for the discontinued Sector ETF. If the corresponding Dow Jones US Sector Index ceases to be compiled by Dow Jones and Dow Jones or another entity compiles a successor or substitute sector index that the calculation agent determines, in its sole discretion, to be comparable to the discontinued Dow Jones US Sector Index, then the calculation agent will substitute the successor or substitute sector index as calculated by Dow Jones or such other entity for the discontinued Dow Jones US Sector Index. Upon any selection by the calculation agent of a corresponding, successor or substitute sector index, the calculation agent will cause notice to be furnished to us and the Trustee, who will provide notice of the selection of the corresponding, successor or substitute sector index to the registered holders of the Notes.

If the calculation agent determines that any successor or substitute sector index is discontinued and there is no successor or substitute sector index, or that the level of any successor or substitute sector index is not available on the observation date because of a market disruption event or for any other reason, the calculation agent will determine the variable return amount on the valuation date by a computation methodology that the calculation agent determines will as closely as reasonably possible replicate the Sector ETFs.

If the calculation agent determines that any successor or substitute sector index, the stocks comprising any successor or substitute sector index or the method of calculating any successor or substitute sector index is changed at any time in any respect, including any addition, deletion or substitution and any reweighting or rebalancing of the index stocks and whether the change is made by the index sponsor under its existing policies or following a modification of those policies, is due to the publication of a successor index, is due to events affecting one or more of the index stocks or their issuers or is due to any other reason, then the calculation agent will be permitted (but not required) to make such adjustments in the applicable index or the method of its calculation as it believes are appropriate to ensure that the performance rates used to determine the variable return amount payable on the stated maturity date are equitable.

If corresponding, successor or substitute sector indices are selected or the calculation agent calculates a value as a substitute for the Sectors ETFs as described above, the corresponding, successor or substitute sector indices or value will be substituted for the Sector ETFs for all purposes, including for purposes of determining whether a business day or market disruption event occurs. Notwithstanding these alternative arrangements, discontinuance of any of the Sector ETFs may adversely affect the value of the Notes.

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.

Market Disruption Events

If there is a market disruption event on any observation date, the observation date will be the first succeeding business day on which there is no market disruption event, unless there is a market disruption event on each of the five business days following the original date that, but for the market disruption event, would have been the observation date. In that case, the fifth business day will be deemed to be the observation date, notwithstanding the market disruption event and the calculation agent will determine the performance rate for each of the Sector ETFs as of the valuation time on that fifth business day in accordance with the formula for and method of calculating the performance rate of the Sector ETFs in effect prior to the market disruption event using the performance rate of each Sector ETF (or, if trading in such Sector ETFs has been materially suspended or materially limited, the

calculation agent's good faith estimate of the performance rate that would have prevailed but for such suspension or limitation) as of the valuation time on that fifth business day.

A market disruption event means, as determined by the calculation agent in its sole discretion, the occurrence or existence of any of the following events with respect to one or more of the Sector ETFs, the corresponding Dow Jones US Sector Indices or any successor or substitute indices, or the stocks that comprise 20% or more of the Sector ETFs, the corresponding Dow Jones US Sector Indices or any successor or substitute indices, collectively referred to in this section as the "affected securities":

a suspension, absence or material limitation of trading in the affected securities on their respective primary markets, in each case for more than two hours of trading or during the one-half hour before the close of trading in that market, as determined by the calculation agent in its sole discretion, or

a breakdown or failure in the price and trade reporting systems of the respective primary markets on which the affected securities are traded, as a result of which the reported trading prices for the affected securities, during the last one-half hour before the close of trading in that market, are materially inaccurate; or

a suspension, absence or material limitation of trading in option or futures contracts relating to the affected securities, if available, in the respective primary markets for those contracts, in each case for more than two hours of trading or during the one-half hour before the close of trading in that market, as determined by the calculation agent in its sole discretion, or

if the affected securities or option or futures contracts relating to the affected securities, if available, do not trade on what were the respective primary markets for those affected securities or contracts, as determined by the calculation agent in its sole discretion.

The following events will not be market disruption events with respect to affected securities:

a limitation on the hours or numbers of days of trading, but only if the limitation results from a previously announced change in the regular business hours of the relevant market, and

a decision to permanently discontinue trading in the option or futures contracts relating to the affected securities.

Any limitations on trading during significant market fluctuations under NYSE Rule 80A, or any applicable rule or regulation enacted or promulgated by the NYSE or any other self regulatory organization or the SEC of similar scope as determined by the calculation agent, will constitute a suspension or material limitation of trading in the affected securities in that primary market.

For this purpose, an "absence of trading" in the primary markets of the affected securities, or on which option or futures contracts relating to any of the affected securities, are traded will not include any time when such primary markets are closed for trading under ordinary circumstances. In contrast, a suspension or limitation of trading in the affected securities or in option or futures contracts relating to the affected securities, if available, in the primary markets for those affected securities or those contracts, by reason of:

a price change exceeding limits set by such markets, or

an imbalance of orders relating to the affected securities or those contracts, or a disparity in bid and ask quotes relating to the affected securities or those contracts,

will constitute a suspension or material limitation of trading in the affected securities or those contracts in that primary market.

Under certain circumstances, the duties of Bear Stearns as the calculation agent in determining the existence of market disruption events could conflict with the interests of Bear Stearns as our affiliate.

The terrorist attacks in New York, New York and Washington, D.C. on September 11, 2001 caused all of the principal U.S. exchanges and trading systems including, among others, the NYSE, the Nasdaq

National Market and the AMEX, to suspend trading after the attacks. Trading on the Chicago Mercantile Exchange resumed on September 12, 2001. Trading of equity securities on the NYSE, the Nasdaq National Market and the AMEX resumed on September 17, 2001. Trading of debt securities on the NYSE resumed on September 18, 2001 and on the AMEX on October 1, 2001. If any suspension of trading caused by similar events occurs during the term of the Notes, that event could constitute a market disruption event. The existence or non-existence of such circumstances, however, is not necessarily indicative of the likelihood of those circumstances arising or not arising in the future.

Redemption; Defeasance

The Notes are not subject to redemption before maturity, and are not subject to the defeasance provisions described in "Description of Debt Securities Defeasance" in the accompanying prospectus.

Events of Default and Acceleration

If an Event of Default (as defined in the accompanying prospectus) with respect to the Notes has occurred and is continuing, then the amount payable to you, as a beneficial owner of a Note, upon any acceleration permitted by the Notes will be equal to:

the principal amount, plus

a variable return amount calculated as though the date of early repayment was the stated maturity date of the Notes and the date three business days prior to that date was the valuation date,

in each case as adjusted to account fully for any losses, expenses and costs to the Company as discussed below.

See "Description of Debt Securities Events of Default" and " Concerning the Trustee" in the accompanying prospectus.

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

Same-Day Settlement and Payment

Settlement for the Notes will be made by Bear Stearns in immediately available funds. All payments of principal and any variable return amount will be made by us in immediately available funds, so long as the Notes are maintained in book-entry form.

Calculation Agent

The calculation agent for the Notes will be Bear Stearns. All determinations made by the calculation agent will be at the sole discretion of the calculation agent and will, in the absence of manifest error, be conclusive for all purposes and binding on you and the Company. Because the calculation agent is an affiliate of the Company, potential conflicts of interest may exist between you

and the calculation agent, including with respect to certain determinations and judgments that the calculation agent must make in determining amounts due to you. Bear Stearns is obligated to carry out its duties and functions as calculation agent in good faith and using its reasonable judgment.

DESCRIPTION OF THE SECTOR ETFS

iShares Trust® is the issuer of the Sector ETFs that comprise the basket, as described below, and is a registered investment company. iShares Trust® consists of over 50 separate investment portfolios called "Funds." Each of the Funds, including the Sector ETFs, seek investment results that correspond generally to the price and yield performance, before fees and expenses, of a particular equity market index compiled by an index provider. Barclays Global Fund Advisors is the advisor to each Fund. The shares of iShares Trust® Funds, called "iShares®", are listed and traded on national securities exchanges. Each Fund has its own CUSIP number and exchange trading symbol.

The basket is comprised of the ten Sector ETFs listed below, whose values are based upon ten U.S. sector equity market indices compiled by Dow Jones. Each of the Sector ETFs is quoted on the AMEX.

Sector	Sector ETF Name	Sector ETF AMEX Symbol	Weight of members in the S&P 500 Index
Basic Materials	iShares Dow Jones U.S. Basic Materials Sector Index Fund®	IYM	2.59%
Consumer Cyclical	iShares Dow Jones U.S. Consumer Cyclical Sector Index Fund®	IYC	13.22%
Consumer Non-Cyclical	iShares Dow Jones U.S. Consumer Non-Cyclical Sector Index Fund®	IYK	9.70%
Energy	iShares Dow Jones U.S. Energy Sector Index Fund®	IYE	5.63%
Financial	iShares Dow Jones U.S. Financial Sector Index Fund®	IYF	20.38%
Healthcare	iShares Dow Jones U.S. Healthcare Sector Index Fund®	IYH	14.67%
Industrial	iShares Dow Jones U.S. Industrial Sector Index Fund®	IYJ	11.24%
Technology	iShares Dow Jones U.S. Technology Sector Index Fund®	IYW	14.45%
Telecommunications	iShares Dow Jones U.S. Telecommunications Sector Index Fund®	IYZ	3.95%
Utilities	iShares Dow Jones U.S. Utilities Sector Index Fund®	IDU	2.74%
Source: Bloomberg L.P.			Total = 98.57%

The following information regarding each of the Sector ETFs comprising the basket is derived from reports filed by iShares Trust® with the SEC. We do not make any representation or warranty as to the accuracy or completeness of reports filed by iShares Trust® with the SEC, information published by it on their website or in any other format, information about them obtained from any other source or the information provided below.

The basket is comprised of the following Sector ETFs:

The *iShares Dow Jones U.S. Basic Materials Sector Index Fund®* (AMEX symbol: IYM) seeks investment returns that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones US Basic Materials Sector Index, which measures the performance of the basic materials economic sector of the U.S. equity market. The fund uses a representative

sampling strategy to try to track the Dow Jones US Basic Materials Sector Index. Component companies are involved in the production of aluminum, chemicals, commodities, chemicals specialty products, forest products, non-ferrous mining products, paper products, precious metals and steel.

The top ten component companies whose performance is included in the *iShares Dow Jones U.S. Basic Materials Sector Index Fund®* are set forth in the table below:

Component Companies	**Ticker Symbol**
Du Pont (EI) de Nemours and Co.	DD
Dow Chemical Co.	DOW
Alcoa Inc.	AA
International Paper Co.	IP
Weyerhaeuser Co.	WY
Newmont Mining Corp.	NEM
Air Products & Chemicals Inc.	APD
Praxair Inc.	PX
PPG Industries Inc.	PPG
Avery Dennison Corp.	AVY

The *iShares Dow Jones U.S. Consumer Cyclical Sector Index Fund®* (AMEX symbol: IYC) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones US Consumer Cyclical Sector Index, which measures the performance of the consumer cyclical economic sector of the U.S. equity market. The fund uses a representative sampling strategy to try to track the Dow Jones US Consumer Cyclical Sector Index. Component companies include airlines, auto manufacturers, tire and rubber manufacturers, auto parts suppliers, casinos, toy manufacturers, restaurant chains, home construction companies, lodging chains, broadline retailers, specialty retailers, footwear and clothing/fabric manufacturers, and media companies, such as advertising companies, entertainment and leisure companies, consumer electronics companies, broadcasters and publishers.

The top ten component companies whose performance is included in the *iShares Dow Jones U.S. Consumer Cyclical Sector Index Fund®* are set forth in the table below:

Component Companies	**Ticker Symbol**
Wal-Mart Stores Inc.	WMT
AOL Time Warner Inc.	AOL
Viacom Inc.	VIA/B
Home Depot Inc.	HD
Comcast Corp. Class A	CMCSA
Walt Disney Co.	DIS
Walgreen Co.	WAG
Cardinal Health Inc.	CAH
Comcast Corp. Special Class A	CMCSK
Lowe's Co. Inc.	LOW

The *iShares Dow Jones U.S. Consumer Non-Cyclical Sector Index Fund®* (AMEX symbol: IYK) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones US Non-Cyclical Sector Index, which measures the performance of the consumer non-cyclical economic sector of the U.S. equity market. The fund uses a representative sampling strategy to try to track the Dow Jones US Non-Cyclical Sector Index. Component companies include distillers and brewers, producers of soft drinks, consumer

service companies, durable and non-durable household product manufacturers, cosmetics companies, food retailers, other food companies, tobacco and agricultural companies.

The top ten component companies whose performance is included in the *iShares Dow Jones U.S. Consumer Non-Cyclical Sector Index Fund®* are set forth in the table below:

Component Companies	Ticker Symbol
Procter & Gamble Co.	PG
Coca-Cola Co.	KO
Altria Group Inc.	MO
PepsiCo Inc.	PEP
Anheuser-Busch Cos. Inc.	BUD
Gillette Co.	G
Colgate-Palmolive Co.	CL
Kimberly-Clark Corp.	KMB
Sysco Corp.	SYY
General Mills Inc.	GIS

The *iShares Dow Jones U.S. Energy Sector Index Fund®* (AMEX symbol: IYE) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones US Energy Sector Index, which measures the performance of the energy sector of the U.S. equity market. The fund uses a representative sampling strategy to try to track the Dow Jones US Energy Sector Index. Component companies include oil equipment and services, oil-major, oil-secondary and pipelines.

The top ten component companies whose performance is included in the *iShares Dow Jones U.S. Energy Sector Index Fund®* are set forth in the table below:

Component Companies	Ticker Symbol
Exxon Mobil Corp.	XOM
ChevronTexaco Corp.	CVX
Schlumberger Ltd.	SLB
ConocoPhillips	COP
Occidental Petroleum Co.	OXY
Baker Hughes Inc.	BHI
Anadarko Petroleum Corp.	APC
Burlington Resources Inc.	BR
Unocal Corp.	UCL
Apache Corp.	APA

The *iShares Dow Jones U.S. Financial Sector Index Fund®* (AMEX symbol: IYF) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones US Financial Sector Index, which measures the performance of the financial economic sector of the U.S. equity market. The fund uses a representative sampling strategy to try to track the Dow Jones US Financial Sector Index. Component companies include major banks, regional banks, diversified financial companies, insurance companies, real estate companies, savings and loan associations, and securities brokers.

The top ten component companies whose performance is included in the *iShares Dow Jones U.S. Financial Sector Index Fund®* are set forth in the table below:

Component Companies	**Ticker Symbol**
Citigroup Inc.	C
American International Group Inc.	AIG
Bank of America Corp.	BAC
Wells Fargo & Co.	WFC
Fannie Mae	FNM
Wachovia Corp.	WB
JPMorgan Chase & Co.	JPM
Bank One Corp.	ONE
American Express Corp.	AXP
US Bancorp	USB

The *iShares Dow Jones U.S. Healthcare Sector Index Fund®* (AMEX symbol: IYH) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones US Healthcare Sector Index, which measures the performance of the healthcare sector of the U.S. equity market. The fund uses a representative sampling strategy to try to track the Dow Jones US Healthcare Sector Index. Component companies include health care providers, biotechnology companies and manufacturers of medical supplies, advanced medical devices and pharmaceuticals.

The top ten component companies whose performance is included in the *iShares Dow Jones U.S. Healthcare Sector Index Fund®* are set forth in the table below:

Component Companies	**Ticker Symbol**
Pfizer Inc.	PFE
Johnson & Johnson	JNJ
Merck & Co. Inc.	MRK
Eli Lilly & Co.	LLY
Abbott Laboratories	ABT
Amgen Inc.	AMGN
Medtronic Inc.	MDT
Pharmacia Corp.	PHA
Wyeth	WYE
Bristol-Myers Squibb Co.	BMY

The *iShares Dow Jones U.S. Industrial Sector Index Fund®* (AMEX symbol: IYJ) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones US Industrial Sector Index, which measures the performance of the industrial sector of the U.S. equity market. The fund uses a representative sampling strategy to try to track the Dow Jones US Industrial Sector Index. Component companies include aerospace and defense companies, advanced industrial companies, equipment manufacturers, air freight companies, building materials manufacturers, packaging companies, manufacturers of electrical components and equipment, heavy construction companies, manufacturers of heavy machinery, industrial services companies, industrial companies, marine transportation companies, railroads, shipbuilders, and trucking companies.

The top ten component companies whose performance is included in the *iShares Dow Jones U.S. Industrial Sector Index Fund®* are set forth in the table below:

Component Companies

	Ticker Symbol
General Electric Co.	GE
3M Co.	MMM
Tyco International Ltd.	TYC
United Technologies Co.	UTX
First Data Corp.	FDC
Automatic Data Processing	ADP
United Parcel Service Inc.	UPS
Boeing Co.	BA
Emerson Electric Co.	EMR
Illinois Tool Works Inc.	ITW

The *iShares Dow Jones U.S. Technology Sector Index Fund®* (AMEX symbol: IYW) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, the Dow Jones US Technology Sector Index, which measures the performance of the technology sector of the U.S. equity market. The fund uses a representative sampling strategy to try to track the Dow Jones US Technology Sector Index. Component companies include those involved in the development and production of technology products, including computer hardware and software, telecommunications equipment, microcomputer components, integrated computer circuits and office equipment utilizing technology.

The top ten component companies whose performance is included in the *iShares Dow Jones U.S. Technology Sector Index Fund®* are set forth in the table below:

Component Companies	Ticker Symbol
Microsoft Corp.	MSFT
International Business Machines Corp.	IBM
Intel Corp.	INTC
Cisco Systems Inc.	CSCO
Dell Computer Corp.	DELL
Hewlett-Packard Co.	HPQ
Oracle Corp.	ORCL
Qualcomm Inc.	QCOM
Texas Instruments Inc.	TXN
Applied Materials Inc.	AMAT

The *iShares Dow Jones U.S. Telecommunications Sector Index Fund®* (AMEX symbol: IYZ) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones US Telecommunications Sector Index, which measures the performance of the telecommunications sector of the U.S. equity market. The fund uses a representative sampling strategy to try to track the Dow Jones US Telecommunications Sector Index. Component companies include fixed line communications and wireless communications companies.

The top ten component companies whose performance is included in the *iShares Dow Jones U.S. Telecommunications Sector Index Fund®* are set forth in the table below:

Component Companies	Ticker Symbol
Verizon Communications	VZ
SBC Communications Inc.	SBC
BellSouth Corp.	BLS
Citizens Communications Co.	CZN

Component Companies	Ticker Symbol
AT&T Wireless Services	AWE
CenturyTel Inc.	CTL
Alltel Corp.	AT
Sprint Corp. FON Group	FON
Nextel Communications	NXTL
Telephone & Data Systems Inc.	TDS

The *iShares Dow Jones U.S. Utilities Sector Index Fund®* (AMEX symbol: IDU) seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the Dow Jones US Utilities Sector Index, which measures the performance of the utilities sector of the U.S. equity market. The fund uses a representative sampling strategy to try to track the Dow Jones US Utilities Sector Index. Component companies include electric utilities, gas utilities and water utilities.

The top ten component companies whose performance is included in the *iShares Dow Jones U.S. Utilities Sector Index Fund®* are set forth in the table below:

Component Companies	Ticker Symbol
The Southern Co.	SO
Dominion Resources Inc.	D
Exelon Corp.	EXC
Duke Energy Corp.	DUK
FPL Group Inc.	FPL
Entergy Corp.	ETR
FirstEnergy Corp.	FE
Consolidated Edison Inc.	ED
Progress Energy Inc.	PGN
American Electric Power Co. Inc.	AEP

For additional information regarding iShares Trust®, the Funds issue thereunder and the risk factors attributable to the iShares Funds® which comprise the Sector ETFs, please see the Prospectus, dated December 1, 2002, which is part of Post-Effective Amendment No. 17 to the Registration Statement filed with the SEC on Form N-1A, on November 27, 2002, under the Securities Act of 1933, as amended, and under the Investment Company Act of 1940, as amended, (File Nos. 333-92935 and 811-09729). Information provided to or filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC or through the SEC's website at www.sec.gov. In addition, information regarding each of the Sector ETFs comprising the basket may be obtained from other sources including, but not limited to, press releases, newspaper articles, other publicly disseminated documents and at iShares® website www.iShares.com.

Historical Data on the Sector ETFs

The following tables present the volume of shares traded and high/low closing prices for the Sector ETFs included in the basket, as reported on the AMEX during each quarter from June 30, 2000 and through December 31, 2002 and the closing price at the end of each quarter from June 30, 2000 through December 31, 2002.

We cannot guarantee that the prices of these Sector ETFs will increase enough so that the variable return amount of the Notes will be greater than $1,000 per $1,000 Note. All information in these tables was obtained from Dow Jones and Company Incorporated.

iShares Dow Jones U.S. Basic Materials Sector Index Fund® (IYM)

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
December 31, 2002	2,299,800	36.50	28.90	34.43

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
September 30, 2002	9,180,000	37.22	31.34	31.35
June 28, 2002	1,510,000	42.68	39.19	41.03
March 29, 2002	1,170,000	42.69	35.50	42.43
December 31, 2001	685,600	40.33	33.48	38.47
September 28, 2001	373,300	39.93	30.80	34.45
June 29, 2001	346,600	43.22	34.77	39.45
March 30, 2001	279,300	40.65	34.77	36.00
December 29, 2000	268,300	39.63	29.56	39.22
September 29, 2000	13,500	35.76	29.56	31.19
June 30, 2000	50,800	35.00	34.25	34.81

iShares Dow Jones U.S. Consumer Cyclical Sector Index Fund® (IYC)

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
December 31, 2002	6,927,100	47.28	37.30	41.88
September 30, 2002	9,100,000	49.55	39.55	41.04
June 28, 2002	5,905,700	57.40	47.95	49.75
March 29, 2002	1,898,000	58.90	52.80	57.05
December 31, 2001	1,005,900	56.34	46.03	55.62
September 28, 2001	457,000	61.13	41.40	47.10
June 29, 2001	454,400	64.50	52.02	61.05
March 30, 2001	564,900	62.80	50.96	55.15
December 29, 2000	224,700	59.06	51.34	55.69
September 29, 2000	15,300	63.72	57.98	58.19
June 30, 2000	200	59.44	59.44	59.44

iShares Dow Jones U.S. Consumer Non-Cyclical Sector Index Fund® (IYK)

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
December 31, 2002	2,338,900	43.58	39.85	40.65
September 30, 2002	2,090,000	45.51	38.35	40.57
June 28, 2002	3,692,600	49.23	44.34	45.50
March 29, 2002	830,500	47.48	42.54	47.40
December 31, 2001	994,900	44.30	41.08	43.60
September 28, 2001	496,500	44.00	39.27	41.90
June 29, 2001	203,700	42.53	38.85	41.26
March 30, 2001	587,200	44.51	38.32	40.75
December 29, 2000	279,100	43.47	39.03	43.44
September 29, 2000	15,900	42.59	39.90	40.88
June 30, 2000	N/A	N/A	N/A	N/A

iShares Dow Jones U.S. Energy Sector Index Fund® (IYE)

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
December 31, 2002	2,734,100	41.13	36.39	39.41
September 30, 2002	1,950,000	45.55	35.02	37.80
June 28, 2002	925,600	51.59	44.40	46.09
March 29, 2002	1,200,000	51.17	43.20	50.81
December 31, 2001	1,098,500	48.75	42.26	47.70
September 28, 2001	2,064,100	51.29	40.41	43.92
June 29, 2001	2,985,100	59.10	48.75	50.74

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
March 30, 2001	1,656,200	57.59	49.13	51.75
December 29, 2000	1,910,000	56.63	46.00	54.98
September 29, 2000	2,024,900	56.19	45.39	53.61
June 30, 2000	1,400	49.56	48.89	48.88

iShares Dow Jones U.S. Financial Sector Index Fund® (IYF)

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
December 31, 2002	3,443,100	73.49	57.95	68.21
September 30, 2002	1,490,000	76.25	61.20	64.55
June 28, 2002	787,600	84.26	74.08	77.25
March 29, 2002	818,300	84.35	73.77	82.80
December 31, 2001	1,001,700	80.58	72.05	80.49
September 28, 2001	1,020,500	85.99	65.00	74.35
June 29, 2001	732,800	86.89	74.60	85.04
March 30, 2001	1,826,000	90.00	70.60	79.00
December 29, 2000	2,744,600	88.56	74.19	87.00
September 29, 2000	502,400	87.19	70.66	86.44
June 30, 2000	200	71.63	71.56	71.63

iShares Dow Jones U.S. Healthcare Sector Index Fund® (IYH)

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
December 31, 2002	6,798,600	51.58	45.97	48.53
September 30, 2002	6,780,000	52.37	40.84	46.59
June 28, 2002	2,524,900	60.95	48.65	51.00
March 29, 2002	2,307,900	62.69	58.31	60.85
December 31, 2001	2,428,100	64.69	60.10	62.10
September 28, 2001	1,632,500	63.90	55.10	60.53
June 29, 2001	1,913,700	65.40	56.35	60.90
March 30, 2001	1,752,700	72.00	52.00	59.40
December 29, 2000	1,831,800	73.00	64.31	71.91
September 29, 2000	1,035,900	68.69	60.69	66.72
June 30, 2000	88,200	65.13	64.63	64.75

iShares Dow Jones U.S. Industrial Sector Index Fund® (IYJ)

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
December 31, 2002	1,809,300	40.26	31.74	37.43
September 30, 2002	820,400	42.65	34.86	34.86
June 28, 2002	886,600	50.15	41.00	43.05
March 29, 2002	1,326,600	52.19	45.04	49.74
December 31, 2001	429,700	50.88	41.79	50.51
September 28, 2001	235,800	53.34	37.40	42.68
June 29, 2001	182,800	58.45	45.25	53.20
March 30, 2001	187,600	58.00	44.89	47.58
December 29, 2000	160,200	61.00	53.78	56.50
September 29, 2000	43,300	64.72	56.81	60.58
June 30, 2000	N/A	N/A	N/A	N/A

iShares Dow Jones U.S. Technology Sector Index Fund® (IYW)

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
December 31, 2002	8,820,100	39.69	24.75	32.53
September 30, 2002	4,110,000	36.50	26.60	26.60
June 28, 2002	3,053,500	50.35	33.55	36.05
March 29, 2002	2,308,900	59.40	45.15	49.55
December 31, 2001	3,450,600	58.65	37.75	53.20
September 28, 2001	1,996,800	62.55	36.45	38.65
June 29, 2001	2,013,600	69.90	46.20	61.50
March 30, 2001	3,041,300	91.06	52.10	53.30
December 29, 2000	2,584,100	117.11	68.69	74.56
September 29, 2000	415,900	139.00	112.94	116.06
June 30, 2000	177,600	127.56	126.50	127.56

iShares Dow Jones U.S. Telecommunications Sector Index Fund® (IYZ)

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
December 31, 2002	7,200,500	21.36	14.03	19.06
September 30, 2002	4,110,000	18.89	14.04	14.04
June 28, 2002	2,811,900	26.28	17.20	18.70
March 29, 2002	1,572,300	32.72	25.01	26.20
December 31, 2001	1,557,700	34.46	29.63	31.53
September 28, 2001	1,211,400	38.35	31.50	33.72
June 29, 2001	651,600	39.58	34.30	36.73
March 30, 2001	1,093,100	47.84	33.62	36.82
December 29, 2000	1,317,800	52.34	35.94	38.81
September 29, 2000	32,9700	63.63	47.50	51.19
June 30, 2000	9,200	60.38	60.00	60.28

iShares Dow Jones U.S. Utilities Sector Index Fund® (IDU)

Quarter Ending	Quarterly Volume	Quarterly High	Quarterly Low	Quarterly Close
December 31, 2002	11,503,300	48.51	38.57	47.88
September 30, 2002	6,840,000	57.70	42.27	46.17
June 28, 2002	3,637,300	67.84	56.70	58.93
March 29, 2002	4,904,400	66.75	58.60	66.25
December 31, 2001	2,103,500	70.47	58.75	63.97
September 28, 2001	349,900	81.55	63.15	66.40
June 29, 2001	697,700	86.83	75.75	78.21
March 30, 2001	1,586,700	88.35	72.28	81.58
December 29, 2000	1,014,300	89.75	78.22	88.78
September 29, 2000	517,100	87.64	67.19	86.97
June 30, 2000	1,300	66.91	65.78	65.78

The historical performance of the Sector ETFs should not be taken as an indication of future performance, and no assurance can be given that the value of the Sector ETFs will not decline (or increase insufficiently) and thereby reduce or eliminate the variable return amount.

License Agreements

Dow Jones and the Company have entered into a non-exclusive license agreement providing for the license to the Company, in exchange for a fee, of the right to use indices owned and published by Dow Jones in connection with the Notes.

The license agreement between Dow Jones and the Company provides that the following language must be stated in this pricing supplement.

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain of the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes. This summary deals only with an owner of a Note that is:

- a citizen or resident of the United States or any State thereof,
- a corporation (or other entity that is treated as a corporation for U.S. federal tax purposes) created or organized in or under the laws of the United States or any State thereof (including the District of Columbia),
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or
- a trust, if a court within the United States is able to exercise primary supervision over its administration, and one or more United States persons have the authority to control all of its substantial decisions (each, a "U.S. holder").

As used in this summary, a "non-U.S. holder" is a beneficial owner of a Note that is not a U.S. holder.

If a partnership (including any entity that is treated as a partnership for U.S. federal tax purposes) is a beneficial owner of a Note, the treatment of a partner in the partnership will generally depend upon the status of the partner and upon the activities of the partnership. A beneficial owner of a Note that is a partnership, and partners in such a partnership, should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of a Note.

An individual may, subject to certain exceptions, be deemed to be a resident of the United States by reason of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year (counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year).

This summary is based on interpretations of the Internal Revenue Code of 1986, as amended (the "Code"), regulations issued thereunder, and rulings and decisions currently in effect (or in some cases proposed), all of which are subject to change. Any such change may be applied retroactively and may adversely affect the federal income tax consequences described herein. This summary addresses only U.S. holders that purchase Notes at initial issuance and own Notes as capital assets and not as part of a "straddle" or a "conversion transaction" for federal income tax purposes or as part of some other integrated investment. This summary does not discuss all of the tax consequences that may be relevant to particular investors or to investors subject to special treatment under the federal income tax laws (such as S corporations, banks, thrifts, other financial institutions, insurance companies, mutual funds, small business investment companies, tax-exempt organizations, retirement plans, real estate investment trusts, regulated investment companies, securities dealers or brokers, expatriates, former citizens of the

United States, or investors whose functional currency is not the U.S. dollar). Persons considering the purchase of Notes should consult their own tax advisors concerning the application of U.S. federal income tax laws to their particular situations as well as any consequences of the purchase, beneficial ownership and disposition of Notes arising under the laws of any other taxing jurisdiction.

Federal Income Tax Treatment of U.S. Holders.

Accruals of Original Issue Discount on the Notes

For U.S. federal income tax purposes, the Notes will be treated as "contingent payment debt instruments" ("CPDIs") subject to taxation under the "noncontingent bond method." Under the noncontingent bond method, U.S. holders of the Notes will accrue original issue discount ("OID") over the term of the Notes based on the Notes' "comparable yield." As a result, U.S. holders that employ the cash method of tax accounting will be required to include OID with respect to their Notes in gross income each year, even though no cash payments will be made with respect to the Notes until maturity.

In general, the comparable yield of a CPDI is equal to the yield at which its issuer would issue a fixed-rate debt instrument with terms and conditions similar to those of the CPDI, including the level of subordination, term, timing of payments, and general market conditions. If a hedge of the CPDI is available that, if integrated with the CPDI, would produce a synthetic debt instrument with a determinable yield to maturity, the comparable yield is equal to the yield on the synthetic debt instrument. Alternatively, if such a hedge is not available, but fixed-rate debt instruments of the issuer trade at a price that reflects a spread above a benchmark rate, the comparable yield is the sum of the value of the benchmark rate on the issue date and the spread. Under the noncontingent bond method, the issuer's reasonable determination of a comparable yield is respected and binding on holders of the CPDI.

Based on these factors, we believe that the comparable yield of the Notes is equal to 3.95%, compounded annually. Accordingly, U.S. holders will accrue OID in respect of the Notes at a rate equal to the comparable yield. The amount of OID allocable to each annual accrual period will be the product of the "adjusted issue price" of the Notes at the beginning of each such annual accrual period and the comparable yield. The "adjusted issue price" of the Notes at the beginning of an accrual period will equal the issue price of the Notes plus the amount of OID previously includible in the gross income of the U.S. holder. The amount of OID includible in income of each U.S. holder for each taxable year will equal the sum of the "daily portions" of the total OID on the Notes allocable to each day during the taxable year in which a U.S. holder held the Notes, regardless of the U.S. holder's method of accounting. The daily portion of the OID is determined by allocating to each day in any accrual period a ratable portion of the OID allocable to such accrual period.

Under the noncontingent bond method, the comparable yield of a CPDI is used to construct a projected payment schedule that produces the comparable yield. Under this method, we believe that the projected payment schedule for the Notes consists of a projected payment amount on the maturity date equal to $213.73 in respect of each Note. Based upon the comparable yield and the projected payment amount for the Notes, a U.S. holder that pays taxes on a calendar year basis and buys a Note for $1,000 and holds it to maturity will be required to pay taxes on the following amounts of ordinary income from the Note each year: $35.48 in 2003, $40.90 in 2004, $42.52 in 2005, $44.20 in 2006, $45.94 in 2007, and $4.69 in 2008. However, for 2008, the amount of ordinary income that a U.S. holder will be required to pay taxes on from owning a Note may be greater or less than $213.73, depending upon the payment at maturity. In addition, if the payment at maturity is less than $1,213.73, a U.S. holder may have a loss for 2008.

Under the noncontingent bond method, the projected payment schedule is not revised to account for changes in circumstances that occur while the Notes are outstanding.

The comparable yield and the projected payment amount for the Notes are used to determine accruals of OID for tax purposes only, and are not assurances by us with respect to the actual yield or payments on the Notes and do not represent our expectations regarding a Note's yield or the variable return amount.

A U.S. holder will generally be bound by our determination of the comparable yield and projected payment schedule for the Notes, unless the U.S. holder determines its own projected payment schedule and comparable yield, explicitly discloses such schedule to the Internal Revenue Service (the "IRS"), and explains to the IRS the reason for preparing its own schedule. We believe that the projected payment schedule and comparable yield for the Notes as set forth above are reasonable and will therefore be respected by the IRS. Our determination, however, is not binding on the IRS, and it is possible that the IRS could conclude that some other projected payment schedule or comparable yield should be used for the Notes.

Sale, Exchange, Retirement, or Other Disposition of the Notes

Upon the maturity of a Note, if the payment at maturity exceeds the projected payment amount of $1,213.73, a U.S. holder will be required to include such excess in income as ordinary OID income on the maturity date. Alternatively, if the payment at maturity is less than the projected payment amount, the shortfall will be treated as an offset to any OID otherwise includible in income by the U.S. holder with respect to the Note for the taxable year in which the maturity date occurs, and any remaining portion of such shortfall may be recognized and deducted by the U.S.

holder as an ordinary loss.

When a U.S. holder sells, exchanges or otherwise disposes of a Note, the U.S. holder's gain (or loss) on the disposition will equal the difference between the amount received by the U.S. holder for the Note and the U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note will be equal to the U.S. holder's original purchase price for the Note, plus any OID accrued by the U.S. holder. Any gain realized by a U.S. holder on a disposition will be treated as ordinary interest income. Any loss realized by a U.S. holder on a disposition will first offset any OID inclusions for the year of the sale and thereafter will be treated as ordinary loss to the extent of the U.S. holder's prior OID inclusions with respect to the Note. Any additional loss generally will be treated as a capital loss. Any capital loss recognized by a U.S. holder will be a long-term capital loss if such U.S. holder has held such Note for more than one year, and a short-term capital loss in other cases. The deductibility of capital losses by a U.S. holder is subject to limitations.

U.S. Federal Tax Treatment of Non-U.S. Holders.

Under present United States federal income tax law, and subject to the discussion below concerning backup withholding, any gain realized on sale, exchange, or retirement of a Note, or the payment by us, or any paying agent, of principal or interest, including OID, on a Note owned by a non-U.S. holder will not be subject to United States federal income or withholding tax provided that:

1. such non-U.S. holder does not actually or constructively own 10% or more of the total combined voting power of all classes of our stock that are entitled to vote;

2. such non-U.S. holder is not a controlled foreign corporation that is related to us through stock ownership;

3. such non-U.S. holder is not a bank receiving i