

LIBERTY ALL STAR EQUITY FUND
Form N-CSR
February 28, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act File No.: 811-04809

Liberty All-Star Equity Fund

(exact name of registrant as specified in charter)

1290 Broadway, Suite 1100, Denver, Colorado 80203

(Address of principal executive offices) (Zip code)

Erin D. Nelson

ALPS Fund Services, Inc.

1290 Broadway, Suite 1100

Denver, Colorado 80203

(Name and address of agent for service)

Registrant's telephone number, including area code: 303-623-2577

Date of fiscal year end: December 31

Date of reporting period: January 1 - December 31, 2013

Item 1. Report of Shareholders.

LIBERTY ALL-STAR® EQUITY FUND

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PRESIDENT'S LETTER (UNAUDITED)

Fellow Shareholders:

February 2014

The U.S. equity market rewarded investors with exceptionally strong returns in 2013. The S&P 500® Index returned 32.39 percent – its highest since 1997 – as all 10 of the index's sectors finished the year in positive territory. The widely followed Dow Jones Industrial Average (DJIA) posted 51 record highs en route to a 29.65 percent return, while the technology-focused NASDAQ Composite Index delivered the highest return of all, 40.12 percent.

Stocks were strong throughout the year, with the first and fourth quarters producing the best gains for the S&P 500 – 10.61 percent and 10.51 percent, respectively. In between, the S&P 500 produced a second quarter gain of 2.91 percent and a third quarter advance of 5.24 percent. Indicative of the broad-based gains for U.S. stocks, growth style investing and value style investing produced very similar returns. For the year, the Russell 1000® Growth Index gained 33.48 percent, while the Russell 1000® Value Index returned 32.53 percent.

Stocks surged in 2013 as the economy continued to recover at a steady, albeit moderate pace; corporate earnings continued to grow; and, perhaps most importantly, the Federal Reserve kept short-term interest rates at record low levels while continuing to inject liquidity into the financial system through its \$85 billion-a-month bond buying program. Investor optimism could not be slowed by political gridlock in Washington, fears of a softer economy in China, and continuing fiscal and economic woes in the euro zone. A powerful theme running throughout the year was the industrial renaissance in the U.S., as auto, capital equipment and energy output gained strength. U.S. energy production stood out as a growth driver, as hydraulic fracturing methodologies unlocked previously inaccessible or economically impractical oil and gas deposits. While the old economy was strong, so was the new economy, as demonstrated by the market for initial public offerings (IPOs). According to The Wall Street Journal, 230 companies went public on domestic equity markets in 2013, a sharp increase over 144 in 2012.

For investors in Liberty All-Star® Equity Fund, it was a rewarding year. The Fund returned 33.80 percent with shares valued at net asset value (NAV) with dividends reinvested and 33.52 percent with shares valued at market price with dividends reinvested. (Fund returns are net of fees.) Both returns were not only ahead of the S&P 500 and DJIA, they were also higher than the 31.38 percent return of the Lipper Large-Cap Core Mutual Fund Average. The Fund performed consistently well throughout the year, generally tracking key indices but posting its best relative performance in the third quarter. The discount at which Fund shares traded relative to their underlying NAV narrowed moderately compared with 2012, ranging from a low of 9.1 percent to a high of 12.8 percent.

Looking longer term, the Fund's NAV and market price returns lagged the Lipper Large-Cap Core Mutual Fund Average for the trailing three-year period, but have outperformed the Lipper average over the past five years. The trailing five-year period is particularly relevant because 2013 marks five years since the steep equity sell-off of 2008 (when the S&P 500 declined 37.00 percent). In the shareholder letter for the Fund's 2008 annual report, we noted that even in the depths of recession and stock market retreat it is essential for investors to keep faith in the U.S. economy and our financial markets. Indeed, investors who were able to look beyond the immediate crisis were well-rewarded. By year-end 2009, the S&P 500 gained 67.80 percent off the March 9 low and, even accounting for the steep declines in January and February, the S&P 500 gained 26.46 percent for the full year in 2009. In retrospect, the financial system did not come apart, and U.S. banks are now the most highly capitalized in the world. With regard to the Fund itself, an overweight to financial stocks hurt in 2008, but, as the Fund's largest single sector allocation, financials made a solid contribution to return in 2013.

Fund distributions totaled \$0.35 per share in 2013. As shareholders may recall, the Fund's distribution policy has been in place since 1988 and is a major component

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PRESIDENT'S LETTER (UNAUDITED)

of the Fund's total return. These distributions add up to \$23.09 since 1987 (the Fund's first full calendar year of operations). We would emphasize that shareholders should include these distributions when determining the return on their investment in the Fund.

One of the key principles on which the Fund was founded is multi-management, or the practice of allocating the Fund's assets to carefully selected investment managers representing both value and growth styles of investing. Thus, we are once again offering insights into the managers' thinking through a roundtable discussion to which all five managers have contributed. In particular, we asked the managers to comment on why participation by individual investors in the equity market has declined in recent years. We believe you will find their responses to be of interest. As we have done in recent annual reports, we once again offer a brief summary of the Fund's attributes (on pages 4 and 5). I urge you to revisit these attributes, as they help to make the Fund a unique and attractive investment vehicle.

We are gratified that the Fund rewarded investors in 2013. Uniformly strong equity market returns set a high hurdle for an actively managed fund, like Liberty All-Star Equity® Fund, to outperform passive benchmarks. But, the Fund was able to do that and we believe the Fund is also well positioned for the future. While we are optimistic about the prospects for 2014 and beyond, no one knows what direction equity markets will take going forward. We can, and will, however, remain diligent and disciplined and put our experience and expertise to work in service to our shareholders.

Sincerely,

William R. Parmentier, Jr.

President and Chief Executive Officer

Liberty All-Star® Equity Fund

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PRESIDENT'S LETTER (UNAUDITED)

FUND STATISTICS AND SHORT-TERM PERFORMANCE

PERIODS ENDING DECEMBER 31, 2013

FUND STATISTICS:

Net Asset Value (NAV)	\$6.71
Market Price	\$5.97
Discount	11.0%

	Quarter	2013
Distributions*	\$0.10	\$0.35
Market Price Trading Range	\$5.33 to \$ 6.41	\$4.83 to \$6.41
Discount Range	9.9% to 12.7%	9.1% to 12.8%

PERFORMANCE:

Shares Valued at NAV with Dividends Reinvested	10.11%	33.80%
Shares Valued at Market Price with Dividends Reinvested	12.27%	33.52%
Dow Jones Industrial Average	10.22%	29.65%
NASDAQ Composite Index	11.10%	40.12%
Lipper Large-Cap Core Mutual Fund Average	9.93%	31.38%
S&P 500® Index	10.51%	32.39%

LONG-TERM PERFORMANCE SUMMARY AND DISTRIBUTIONS

PERIODS ENDING DECEMBER 31, 2013

ANNUALIZED RATES OF RETURN

3 YEARS 5 YEARS 10 YEARS 25 YEARS

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Distributions	\$1.01	\$1.63	\$5.82	\$22.45
Shares Valued at NAV with Dividends Reinvested	13.06%	17.92%	6.35%	9.99%
Shares Valued at Market Price with Dividends Reinvested	14.07%	19.53%	4.74%	10.06%
Dow Jones Industrial Average	15.71%	16.74%	7.44%	11.24%
Lipper Large-Cap Core Mutual Fund Average	14.78%	16.90%	6.98%	9.88%
NASDAQ Composite Index	17.74%	22.86%	8.63%	10.39%
S&P 500® Index	16.18%	17.94%	7.40%	10.26%

* All 2013 distributions consist of ordinary dividends and long-term capital gains. A breakdown of each 2013 distribution for federal income tax purposes can be found in the table on page 37.

Figures shown for the Fund and the Lipper Large-Cap Core Mutual Fund Average are total returns, which include dividends, after deducting Fund expenses. The Fund's performance is calculated assuming that a shareholder exercised all primary rights in the Fund's rights offerings. Figures shown for the unmanaged Dow Jones Industrial Average, NASDAQ Composite Index and the S&P 500® Index are total returns, including dividends. A description of the Lipper benchmark and the market indices can be found on page 37.

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Past performance cannot predict future results. Performance will fluctuate with market conditions. Current performance may be lower or higher than the performance data shown. Performance information does not reflect the deduction of taxes that shareholders would pay on Fund distributions or the sale of Fund shares. An investment in the Fund involves risk, including loss of principal.

Closed-end funds raise money in an initial public offering and shares are listed and traded on an exchange. Open-end mutual funds continuously issue and redeem shares at net asset value. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the Fund's shares is determined by a number of factors, several of which are beyond the control of the Fund. Therefore, the Fund cannot predict whether its shares will trade at, below or above net asset value.

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UNIQUE FUND ATTRIBUTES (UNAUDITED)

Unique Attributes of Liberty All-Star® Equity Fund

Several attributes help to make the Fund a core equity holding for investors seeking diversification, income and the potential for long-term appreciation.

Multi-management for Individual Investors

Liberty All-Star® Equity Fund is multi-managed, an investment discipline that is followed by large institutional investors to diversify their portfolios. In 1986, Liberty All-Star® Equity Fund became the first closed-end fund to bring multi-management to individual investors.

Real-time Trading and Liquidity

The Fund has a fixed number of shares that trade on the New York Stock Exchange and other exchanges. Share pricing is continuous not just end-of-day, as it is with open-end mutual funds. In addition, Fund shares offer immediate liquidity and there are no annual sales fees.

UNIQUE FUND ATTRIBUTES (UNAUDITED)

Access to Institutional Managers

The Fund's investment managers invest primarily for pension funds, endowments, foundations and other institutions. Because institutional managers are closely monitored by their clients, they tend to be more disciplined and consistent in their investment process.

Monitoring and Rebalancing

ALPS Advisors continuously monitors these investment managers to ensure that they are performing as expected and adhering to their style and strategy, and will replace managers when warranted. Periodic rebalancing maintains the Fund's structural integrity and is a well-recognized investment discipline.

Alignment and Objectivity

Alignment with shareholders' best interests and objective decision-making help to ensure that the Fund is managed openly and equitably. In addition, the Fund is governed by a Board of Trustees that is elected by and responsible to shareholders.

Distribution Policy

Since 1988, the Fund has followed a policy of paying annual distributions on its shares at a rate that approximates historical equity market returns. The current annual distribution rate is 6 percent of the Fund's net asset value (paid quarterly at 1.5 percent per quarter), providing a systematic mechanism for distributing funds to shareholders.

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INVESTMENT MANAGERS/PORTFOLIO CHARACTERISTICS (UNAUDITED)

THE FUND'S ASSETS ARE APPROXIMATELY EQUALLY DISTRIBUTED AMONG THREE VALUE MANAGERS AND TWO GROWTH MANAGERS:

MANAGERS' DIFFERING INVESTMENT STRATEGIES ARE REFLECTED IN PORTFOLIO CHARACTERISTICS

The portfolio characteristics table below is a regular feature of the Fund's shareholder reports. It serves as a useful tool for understanding the value of a multi-managed portfolio. The characteristics are different for each of the Fund's five investment managers. These differences are a reflection of the fact that each pursues a different investment style. The shaded column highlights the characteristics of the Fund as a whole, while the final column shows portfolio characteristics for the S&P 500® Index.

PORTFOLIO CHARACTERISTICS**AS OF DECEMBER 31, 2013**

	Schneider	Pzena	Matrix	Cornerstone	TCW	Total Fund	S&P 500® Index
Number of Holdings	38	40	35	47	33	164*	500
Percent of Holdings in Top 10	53%	38%	37%	37%	44%	18%	18%
Weighted Average Market Capitalization (billions)	\$42	\$76	\$100	\$68	\$68	\$71	\$118
Average Five-Year Earnings Per Share Growth	1%	9%	12%	19%	19%	12%	13%
Dividend Yield	1.1%	1.8%	2.1%	0.9%	0.7%	1.3%	2.0%
Price/Earnings Ratio**	17x	14x	16x	15x	31x	19x	19x
Price/Book Value Ratio	0.8x	2.6x	2.7x	5.9x	9.6x	4.4x	4.5x

* Certain holdings are held by more than one manager.

** Excludes negative earnings.

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INVESTMENT GROWTH (UNAUDITED)

GROWTH OF A HYPOTHETICAL \$10,000 INVESTMENT

The graph below illustrates the growth of a hypothetical \$10,000 investment assuming the purchase of shares of beneficial interest at the closing market price (NYSE: USA) of \$6.00 on December 31, 1987, and tracking its progress through December 31, 2013. For certain information, it also assumes that a shareholder exercised all primary rights in the Fund's rights offerings (see below). This graph covers the period since the Fund commenced its 10 percent distribution policy in 1988. Effective with the 2009 second quarter distribution, the annual distribution rate was changed from 10 percent to 6 percent.

The growth of the investment assuming all distributions were received in cash and not reinvested back into the Fund. The value of the investment under this scenario grew to \$49,550 (including the December 31, 2013 value of the original investment of \$9,950 plus distributions during the period of \$38,483 and tax credits on retained capital gains of \$1,117).

The additional value realized through reinvestment of all distributions and tax credits. The value of the investment under this scenario grew to \$136,435.

The additional value realized through full participation in all the rights offerings under the terms of each offering. The value of the investment under this scenario grew to \$193,299 excluding the cost to fully participate in all the rights offerings under the terms of each offering which was \$49,966.

Past performance cannot predict future results. Performance will fluctuate with changes in market conditions. Current performance may be lower or higher than the performance data shown. Performance information does not reflect the deduction of taxes that shareholders would pay on Fund distributions or the sale of Fund shares. An investment in the Fund involves risk, including loss of principal.

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TABLE OF DISTRIBUTIONS AND RIGHTS OFFERINGS (UNAUDITED)

YEAR	PER SHARE DISTRIBUTIONS	MONTH COMPLETED	RIGHTS OFFERINGS SHARES NEEDED TO PURCHASE ONE ADDITIONAL SHARE	SUBSCRIPTION PRICE	TAX CREDITS*
1988	\$0.64				
1989	0.95				
1990	0.90				
1991	1.02				
1992	1.07	April	10	\$10.05	
1993	1.07	October	15	10.41	\$0.18
1994	1.00	September	15	9.14	
1995	1.04				
1996	1.18				0.13
1997	1.33				0.36
1998	1.40	April	20	12.83	
1999	1.39				
2000	1.42				
2001	1.20				
2002	0.88	May	10	8.99	
2003	0.78				
2004	0.89	July	10**	8.34	
2005	0.87				
2006	0.88				
2007	0.90	December	10	6.51	
2008	0.65				
2009***	0.31				
2010	0.31				
2011	0.34				
2012	0.32				
2013	0.35				
Total	\$23.09				

* The Fund's net investment income and net realized capital gains exceeded the amount to be distributed under the Fund's distribution policy. In each case, the Fund elected to pay taxes on the undistributed income and passed through a proportionate tax credit to shareholders.

** The number of shares offered was increased by an additional 25% to cover a portion of the over-subscription requests.

*** Effective with the second quarter distribution, the annual distribution rate was changed from 10 percent to 6 percent.

DISTRIBUTION POLICY

Liberty All-Star® Equity Fund's current policy is to pay distributions on its shares totaling approximately 6 percent of its net asset value per year, payable in four quarterly installments of 1.5 percent of the Fund's net asset value at the close of the New York Stock Exchange on the Friday prior to each quarterly declaration date. The fixed distributions are not related to the amount of the Fund's net investment income or net realized capital gains or losses and may be taxed as ordinary income up to the amount of the Fund's current and accumulated earnings and profits. **If, for any calendar year, the total distributions made under the distribution policy exceed the Fund's net investment income and net realized capital gains, the excess will generally be treated as a non-taxable return of capital, reducing the shareholder's adjusted basis in his or her shares.** If the Fund's net investment income and net realized capital gains for any year exceed the amount distributed under the distribution

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policy, the Fund may, in its discretion, retain and not distribute net realized capital gains and pay income tax thereon to the extent of such excess. The Fund retained such excess gains in 1993, 1996 and 1997.

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Investment Manager Roundtable

Timely insights for individual investors: Why the Fund's investment managers remained focused on their disciplines in a strong market like 2013 (despite lingering worries about a reversal). And how investors many of whom have missed the multi-year stock market rally should be thinking about participation in the stock market.

Liberty All-Star® Equity Fund's five investment managers represent long experience, deep knowledge, a proven track record and, given that they represent both growth and value styles of investing, a broad point of view on the stock market and equity investing generally. Thus, once again, we are grateful to be able to call upon this resource to provide Fund shareholders with commentary and insight. The Fund's Investment Advisor, ALPS Advisors, serves as moderator of the roundtable. Participating investment management firms, the portfolio manager for each, and their respective styles and strategies are:

CORNERSTONE CAPITAL MANAGEMENT LLC

Portfolio Manager/Thomas G. Kamp, CFA

President and Chief Investment Officer

Investment Style/Growth Cornerstone evaluates stocks that its research identifies as offering underappreciated opportunities for growth as defined by one or more of their metrics. Stock selection is further based on the fundamentals of revenue, earnings, cash flow, and management depth and credibility.

MATRIX ASSET ADVISORS, INC.

Portfolio Manager/David A. Katz, CFA

President and Chief Executive Officer

Investment Style/Value Matrix follows an opportunistic value-oriented investment philosophy. Matrix believes that value can be found in all sectors of the economy, and thus looks for investment opportunities beyond traditional value industries.

PZENA INVESTMENT MANAGEMENT, LLC

Portfolio Manager/Antonio DeSpirito, III

Managing Principal and Portfolio Manager

Investment Style/Value Pzena uses fundamental research and a disciplined process to identify good companies with a sustainable business advantage that the firm believes are undervalued on the basis of current price to an estimated normal level of earnings.

SCHNEIDER CAPITAL MANAGEMENT CORPORATION

Portfolio Manager/Arnold C. Schneider, III, CFA

President and Chief Investment Officer

Investment Style/Value The firm practices a disciplined, fundamental approach to add value over time. Research

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focuses on uncovering new ideas and owning undervalued stocks before they experience a rebound in earnings and come to the attention of other investors.

TCW INVESTMENT MANAGEMENT COMPANY

Portfolio Manager/Craig C. Blum, CFA

Managing Director

Investment Style/Growth TCW invests in companies that have superior sales growth, leading and/or rising market shares, and high and/or rising profit margins. TCW's concentrated growth equity strategy seeks companies with distinct advantages in their business model.

The year 2013 was, by just about any measure, a very good one for equity investors ... leading many prognosticators to forecast a pullback as the year progressed. Liberty All-Star® Equity Fund investment managers, however, are more driven by bottom-up company fundamentals than top-down market conditions. When and to what extent does overall market valuation enter your decision-making? Or do you judge valuation solely on a stock-by-stock basis ... and what is your approach to valuing a security both at purchase and sale? Let's start with the growth style managers and hear first from Tom Kamp.

...we evaluate the merits of individual stocks from three perspectives: One, relative to historical valuation ranges; two, relative to growth rates; and, three, relative to other opportunities.

Kamp (Cornerstone Growth): At Cornerstone Capital Management, we evaluate the merits of individual stocks from three perspectives: One, relative to historical valuation ranges; two, relative to growth rates; and, three, relative to other opportunities.

Tom Kamp (Cornerstone Growth)

Those other opportunities certainly include other stocks within a given sector, but they also include other opportunities within the broader equity market. Despite being equity-only investors, we are effectively rendering a judgment on the bond market as well. All of this valuation discussion must be placed within the context of the macroeconomic environment we find ourselves in. Where are interest rates now and where are they likely to head? Where are we in the economic cycle, both domestically and globally? What effects will government policy and regulatory changes have on individual industries? What about commodities? Our views on these macroeconomic variables form the framework from which we evaluate and ultimately choose one stock versus another.

We use the same valuation framework at both purchase and sale. Cornerstone will trim or completely sell a given stock under the following conditions:

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MANAGER ROUNDTABLE (UNAUDITED)

Valuation is reached when a price target is reached, its perception gap closes and the margin of safety is reduced. Consequently, risk has increased and the position will generally be trimmed or completely sold.

Fundamentals deteriorate our perception gap is proved wrong or management is no longer credible.

Opportunity in a more attractive stock.

Blum (TCW Growth): We are stock pickers and judge valuation on a stock-by-stock basis. After our initial screen, we do thorough fundamental analysis on any potential new position. This includes talking to suppliers, conducting competitor analysis, sizing the end market and determining what makes the company special. We look three to five years out and look for a disconnect between the stock's current price and our valuation. We sell a security when the valuation reflects our most optimistic outlook in order to take advantage of a superior opportunity. Of course, we can get negatively surprised and when this happens we place a stock on our review list and ask two questions: One, is the business model impaired? And, two, is the revenue opportunity impaired? If the answer to either is yes, we sell the position.

That said, we do consider the economic cycle when constructing our portfolio. We like to say that we run a balanced portfolio: Approximately two-thirds of the portfolio is in offensive growth stocks and one-third of the portfolio is in defensive growth stocks. The former are very disruptive companies with above-market volatility (betas) and may be more cyclical. Defensive growth stocks are less sensitive to GDP and are uncorrelated to the economic cycle. Besides a laser-like focus on only owning quality businesses with sustainable competitive advantages, this portfolio construction process is another way we mitigate risk in the portfolio.

Let's get the value perspective. David Katz, what is your view?

Katz (Matrix Value): Our primary orientation is a bottom-up process focusing on individual companies. Both at purchase and at sale, that focus is largely driven by the assessment of a company's intrinsic value relative to its current stock price. As prospective buyers, we want the current stock price to be at a significant discount to its intrinsic value; as sellers, we would like to be selling at the company's intrinsic value. Our intrinsic value measures are based on absolute and relative valuation models that assess earnings, dividends, return on equity, and price-to-book value and price-to-sales ratios.

While we use a bottom-up investment approach, we have found that when the market sells at extremely undervalued levels it pays to take more concentrated positions in companies, industries and sectors. Spring

2009 was such a period, for instance. Conversely, when the market approaches the higher end of its valuation range, it is prudent to increase portfolio diversification among industries and sectors.

We are currently comfortable with the market's overall valuation, but believe that individual companies are not selling at the extremes seen four years ago. As such, our newer buys have been more diversifying and have given us added exposure to some under-represented sectors in the portfolio. We think this should lower portfolio volatility in the event of a pull-back.

DeSpirito (Pzena Value): We adhere to a strict bottom-up investment process that compares a company's current stock price to its long-term earnings power in making investment decisions. We construct a concentrated portfolio, generally consisting of between 30 and 40 holdings, by ranking our investment universe of the 500 largest U.S.-listed stocks from cheapest to most expensive based on this metric, and focusing our research on the least expensive 100 names to select our new investments. Opportunities are evaluated on the strength of their business franchises and the issues they need to overcome to restore profitability, with an emphasis on downside protection should our thesis not play out as planned. We sell a holding once its stock price in relation to our estimate of long-term earnings power reaches the mid-point of the investment universe.

...we are finding significant valuation discounts in a number of economically-sensitive areas, such as financials, mature technology companies and integrated energy.

That said, the market's overall valuation and the spread between the overall market and the cheapest stocks will have a bearing on the magnitude of potential upside we

Tony DeSpirito (Pzena Value)

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might expect from our investments. Based on our models at the end of 2013, we would characterize the equity markets in the U.S. as being about fairly valued, with an expected return of approximately 8 percent, which is close to long-term averages, and attractive compared to fixed income alternatives. But within the broad market, there are significant valuation differences. Investors are paying premiums for dividend-paying stocks, treating them like bond substitutes, as well as for companies with stable earnings profiles, such as consumer staples. On the other hand, we are finding significant valuation discounts in a number of economically-sensitive areas, such as financials, mature technology companies and integrated energy. These sectors constitute the portfolio's largest exposures, resulting in a portfolio valuation that continues to be attractive compared to our 18-year history.

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MANAGER ROUNDTABLE (UNAUDITED)

Schneider (Schneider Capital Management Value): Overall market valuation is not a factor in our decision-making process. Our focus is strictly on companies that, based on our fundamental research, are temporarily trading at a substantial discount to their underlying value relative to their future earnings potential. At purchase, we establish a projected price for each security, which is a function of our forecasted earnings per share as well as the projected price/earnings multiple. We also employ a proprietary ranking system that identifies which securities can add the most value to the portfolio relative to their risk weights, and we generally employ a three- to five-year investment horizon. We constantly monitor our companies for changes, both positive and negative. As a stock appreciates toward our target price, we begin to sell and redirect the proceeds to investments with greater upside potential. In the event that our research indicates that our investment thesis is no longer valid, we will sell the security.

Thank you very much. Individual investors have not shown much of an inclination to invest in stocks. A national poll conducted last April by a respected survey research firm found that only 52 percent of people said they owned shares directly or indirectly (through a mutual fund) compared with 62 percent in April 2000. Why do you believe individuals are investing at a relatively low rate? How should individual investors be thinking about participation in the stock market? Let's hear from the value managers, starting with Arnie Schneider.

Schneider (Schneider Capital Management Value): Investors still seem to be psychologically recovering from their equity losses in 2008 and have been keeping their fixed income investments and the related gains since then. Over time, equities have typically outperformed bonds, particularly when starting with low real fixed income yields like we have today. Investors can benefit by focusing on

long-term investing, not short-term trading. Also, it is important to recognize that while equities may have greater short-term volatility, they have offered superior risk-adjusted returns over time, thereby helping investors improve the probability that they will meet their investment goals.

... it is important to recognize that while equities may have greater short-term volatility, they offer superior risk-adjusted returns over time.

Arnie Schneider (Schneider Capital Management Value)

Katz (Matrix Value): We think the current disinclination toward stocks is based on recent investment experiences: poor stock market returns from 2000 to 2011, two brutal bear markets (2000 to 2002 and 2008 into the

early spring of 2009), and a feeling that the U.S. economy has lost its way. Further, many have felt that the market is stacked against the little guy and they have no confidence in their own navigational skills.

History has taught us that the market has been an enormous source of wealth creation for investors. Further, prolonged periods of sub-par returns like the last decade have generally been followed by very favorable gains.

...the market has been an enormous source of wealth creation... prolonged periods of sub-par returns like the last decade have generally been followed by very favorable gains.

As such, we would advise individual investors to allocate and maintain (through rebalancing) a diversified portfolio of assets (stocks and bonds) tailored to meet their needs for growth, income and risk tolerance.

David Katz (Matrix Value)

DeSpirito (Pzena Value): Individual investors are prone to disaster myopia. When a recent and significant negative event occurs, there is a natural human tendency to overstate the possible recurrence of that negative event until an adequate amount of time has passed to dull the memory. Two events in the last decade—the bursting of the Internet bubble and the financial crisis of 2008—still weigh heavily on investors' minds, possibly contributing to the low rate of equity ownership. Our best suggestion about participation in the stock market is to always have a long-term perspective, and, as the old chestnut goes, be fearful when others are greedy and greedy when others are fearful. Sticking to an investment discipline based on valuation and long-term upside potential helps overcome the emotion that may otherwise inhibit an individual's

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ability to participate in the stock market's most attractive opportunities.

Sound thinking from experienced managers. Growth managers, let's have your perspective, please.

Blum (TCW Growth): Fear and greed drive markets and due to the pain of 2008 many investors are still squarely in the fear camp. Individual investors need to remember that volatility, although not easy to stomach, often provides long-term opportunities. The stock market has advanced for five

consecutive years and many individual investors feel like they have missed their chance. Consistent stock market participation is critical, yet it is clear that the

Individual investors need to remember that volatility, although not easy to stomach, often provides long-term opportunities.

Craig Blum (TCW Growth)

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MANAGER ROUNDTABLE (UNAUDITED)

average individual investor may have been his/her own worst enemy. The evidence: 20-year annualized returns for the average investor (+2.3 percent) have not only failed to keep up with the S&P 500 Index (+8.2 percent) and bonds (+6.3 percent), they have failed to keep up with inflation (+2.5 percent).¹

Kamp (Cornerstone Growth): We have a generation of people that has been burned by the market downturns of 2000 to 2002 and 2008 into early 2009. Many of these people have liquidated what stocks they owned to pay down credit card and home equity debt. In addition, there are many young adults who witnessed the anxiety of their parents during these downturns and, as a result, have become very risk averse. Consequently, many of these people are sitting on cash balances in their checking accounts rather than participating in the volatility of the equity market. The fact that they will certainly lose purchasing power over time carries little influence versus the pain they would feel if a stock holding went down.

Again, insightful thinking. Thank you. In the context of your previous comments, what is a long-standing holding in the portion of the Liberty All-Star® Equity Fund that you manage that serves as a good example of your style and strategy? And, second, what is a recent addition to your portfolio that also serves as a good example of your style and strategy? Tom Kamp, share insights into two of your holdings, please.

Kamp (Cornerstone Growth): One of our long-standing holdings that is a good example of our style and strategy is Google. This is a large-cap company that leads a very large industry, online search, that is disrupting a broader industry, advertising, growing its sales and earnings at a high-teens rate. We have actively traded around a core position in the stock since the company went public in 2004 and added value through that active trading.

In June 2013, we initiated a new position in United Rentals, Inc., the largest equipment rental company serving the construction industry. We initiated the position after the stock weakened on concerns of slowing order momentum. We believed that those concerns were misplaced since the company is consolidating a highly fragmented market and is leveraged to the non-residential construction market, which we believe is beginning to benefit from a cyclical rebound here in the U.S. As those concerns faded, the stock has rallied 40 percent from our entry point in June.

Craig Blum, what about TCW's growth holdings?

Blum (TCW Growth): We believe strong long-term performance may be achieved by participating in the growth and success of extraordinary businesses purchased at attractive valuations. We start by looking for companies competing in large and growing end markets, with defensible business models and wide moats (defensible positions). Often, these companies have either a product or cost advantage in an industry going through structural change. The company's current market share may be low but its rate of share capture is quite high. Amazon, first purchased over a decade ago, is an example of a company with immense scale and a clear cost advantage. More recently, we purchased athenahealth, a cloud-based healthcare IT provider. The company's business model is scalable, its platform is disruptive to the competition and it is rapidly gaining market share.

Value managers, what examples from your portfolios would you cite? David Katz, please start.

Katz (Matrix Value): A long-term holding that exemplifies our investment approach is Zimmer, a company with a leading market share in orthopedic implants. Prior to our purchase in June 2009, Zimmer's sales were down on slower procedure growth, flat pricing and market share losses. Our research indicated that the share losses were transitory, reflecting a shift to a new product cycle, and that many procedures were being deferred by patients due to the recession. At a bargain price of 11.5 times earnings, we bought a superior business with a very strong balance sheet. Subsequently, the business and stock price have had a very healthy recovery.

In mid-2013, we purchased DuPont, a company undergoing a transformation from a cyclical chemical company to a higher growth sciences company focusing on agriculture, nutrition, industrial bioscience and advanced materials. After divesting its performance coating business, DuPont acquired Danisco, a company specializing in food ingredients, enzymes and biomaterials. Today, the company has stated goals of 12 percent revenue growth, 7 percent earnings growth and continued dividend increases. We were able to buy this quality and improving franchise at a below-market multiple of 13.2 times earnings.

¹ Twenty-year annualized returns ending December 31, 2012. Sources: Individual investor return, Dalbar, a leading provider of data for the investment industry; equity return, S&P 500 Index; bond return, Barclays Aggregate Bond Index; inflation, Consumer Price Index.

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MANAGER ROUNDTABLE (UNAUDITED)

Arnie Schneider and Tony DeSpirito, wrap it up for us, please.

Schneider (Schneider Capital Management Value): Weatherford International is a quintessential deep value name it has a bloated balance sheet, was outspending cash flows, and had operational execution and tax accounting issues. Margins are still depressed but are beginning to improve, and management is in the process of selling non-core businesses and is now focused on profitability as opposed to acquisitive growth. The industry backdrop is very favorable given high oil prices, improved U.S. gas prices and expectations for 5 percent year-over-year growth in upstream capital expenditures.

A more recent addition to the portfolio is Lennar, a homebuilder with a strong balance sheet and a large land portfolio that we purchased near the bottom of the market cycle. We believe the company is well positioned to gain market share from smaller private builders. In addition, we remain optimistic on the depressed single-family housing market in general and our investment in Lennar in particular.

DeSpirito (Pzena Value): Hewlett-Packard is a longstanding holding where investor fear over the impact of cloud computing, new technologies (e.g., tablets) and turnover in its CEO ranks has made it one of the cheapest companies in our investment universe. What emerges from our analysis, however, is that markets have overreacted. We believe HP has a solid, intact franchise serving business enterprises across a wide range of technology products and services, with a well-capitalized balanced sheet, high free cash flow and significant upside, even using conservative assumptions. TRW, a leading global auto parts manufacturer, is a recent addition to the portfolio. Cyclical weakness in the company's European operations has given us the opportunity to buy a world-class business at an attractive valuation.

Many thanks to all for sharing excellent insights into your investment philosophy and for thoughts that may be useful to individual investors. We look forward to next year.

LIBERTY ALL-STAR® EQUITY FUND

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TOP 20 HOLDINGS AND ECONOMIC SECTORS (UNAUDITED)*December 31, 2013*

TOP 20 HOLDINGS*	PERCENT OF NET ASSETS
Google, Inc., Class A	2.21%
JPMorgan Chase & Co.	2.11
Schlumberger Ltd.	1.95
Salesforce.com, Inc.	1.88
Amazon.com, Inc.	1.75
Citigroup, Inc.	1.62
Hewlett-Packard Co.	1.57
Bank of America Corp.	1.56
Morgan Stanley	1.46
QUALCOMM, Inc.	1.45
MetLife, Inc.	1.44
SunTrust Banks, Inc.	1.43
Visa, Inc., Class A	1.39
American International Group, Inc.	1.25
Starbucks Corp.	1.23
Chesapeake Energy Corp.	1.15
Devon Energy Corp.	1.14
Precision Castparts Corp.	1.12
Microsoft Corp.	1.10
State Street Corp.	1.06
	29.87%
ECONOMIC SECTORS*	PERCENT OF NET ASSETS
Financials	26.75%
Information Technology	17.49
Consumer Discretionary	15.71
Energy	13.82
Health Care	9.94
Industrials	6.50
Consumer Staples	4.59

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Materials	2.21
Utilities	0.48
Other Net Assets	2.51
	100.00%

* Because the Fund is actively managed, there can be no guarantee that the Fund will continue to hold securities of the indicated issuers and sectors in the future.

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LIBERTY ALL-STAR® EQUITY FUND

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MAJOR STOCK CHANGES IN THE QUARTER (UNAUDITED)

December 31, 2013

The following are the major (\$4 million or more) stock changes both purchases and sales that were made in the Fund's portfolio during the fourth quarter of 2013.

SECURITY NAME	PURCHASES (SALES)	SHARES HELD AS OF 12/31/13
PURCHASES		
Fastenal Co.	98,023	228,105
General Motors Co.	149,225	149,225
Intel Corp.	187,575	187,575
Micron Technology, Inc.	221,283	221,283
News Corp., Class A	270,425	270,425
Rackspace Hosting, Inc.	146,281	193,318
Weatherford International Ltd.	267,408	671,793
Whole Foods Market, Inc.	71,456	71,456
SALES		
Emerson Electric Co.	(107,500)	0
Google, Inc., Class A	(6,906)	23,177
QUALCOMM, Inc.	(172,653)	229,700

LIBERTY ALL-STAR® EQUITY FUND

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SCHEDULE OF INVESTMENTS

as of December 31, 2013

COMMON STOCKS (97.19%)	SHARES	MARKET VALUE
u CONSUMER DISCRETIONARY (15.71%)		
Auto Components (1.55%)		
Delphi Automotive PLC	57,625	\$ 3,464,991
Johnson Controls, Inc.	142,734	7,322,254
Magna International, Inc.	34,967	2,869,392
TRW Automotive Holdings Corp. ^(a)	61,625	4,584,284
		18,240,921
Automobiles (0.52%)		
General Motors Co. ^(a)	149,225	6,098,826
Hotels, Restaurants & Leisure (3.31%)		
Carnival Corp.	196,885	7,908,871
Marriott International, Inc., Class A	205,681	10,152,414
McDonald's Corp.	61,000	5,918,830
Orient-Express Hotels Ltd., Class A ^(a)	32,173	486,134
Starbucks Corp.	184,349	14,451,118
		38,917,367
Household Durables (2.31%)		
Lennar Corp., Class A	195,375	7,729,035
PulteGroup, Inc.	288,911	5,885,117
Taylor Morrison Home Corp., Class A ^(a)	51,559	1,157,500
Toll Brothers, Inc. ^(a)	336,901	12,465,337
		27,236,989
Internet & Catalog Retail (2.53%)		
Amazon.com, Inc. ^(a)	51,717	20,624,222
priceline.com, Inc. ^(a)	6,975	8,107,740
Shutterfly, Inc. ^(a)	19,627	999,603
		29,731,565
Media (2.18%)		
Comcast Corp., Class A	118,081	6,136,079
News Corp., Class A ^(a)	270,425	4,873,059
News Corp., Class B ^(a)	112,445	2,004,894
Omnicom Group, Inc.	102,100	7,593,177
The Walt Disney Co.	66,897	5,110,931
		25,718,140
Specialty Retail (2.20%)		
Dick's Sporting Goods, Inc.	40,843	2,372,978
The Home Depot, Inc.	98,133	8,080,271
Staples, Inc.	376,075	5,975,832
Tiffany & Co.	72,515	6,727,942
The TJX Cos., Inc.	42,277	2,694,313
		25,851,336
Textiles, Apparel & Luxury Goods (1.11%)		

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NIKE, Inc., Class B	44,625	3,509,310
PVH Corp.	37,222	5,062,936
Ralph Lauren Corp.	25,726	4,542,440
		13,114,686

See Notes to Schedule of Investments and Financial Statements.

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LIBERTY ALL-STAR® EQUITY FUND

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SCHEDULE OF INVESTMENTS

as of December 31, 2013

COMMON STOCKS (continued)	SHARES		MARKET VALUE
u CONSUMER STAPLES (4.59%)			
Beverages (1.13%)			
The Coca-Cola Company	80,000	\$	3,304,800
Diageo PLC ^(b)	47,028		6,227,448
PepsiCo, Inc.	45,000		3,732,300
			13,264,548
Food & Staples Retailing (1.26%)			
Costco Wholesale Corp.	43,900		5,224,539
CVS Caremark Corp.	76,500		5,475,105
Whole Foods Market, Inc.	71,456		4,132,300
			14,831,944
Food Products (1.16%)			
Archer-Daniels-Midland Co.	133,000		5,772,200
Kellogg Co.	47,000		2,870,290
Mead Johnson Nutrition Co.	59,850		5,013,036
			13,655,526
Household Products (0.62%)			
The Procter & Gamble Co.	89,000		7,245,490
Tobacco (0.42%)			
Philip Morris International, Inc.	57,315		4,993,856
u ENERGY (13.82%)			
Energy Equipment & Services (4.51%)			
Baker Hughes, Inc.	139,950		7,733,637
Dril-Quip, Inc. ^(a)	34,145		3,753,560
National-Oilwell Varco, Inc.	41,400		3,292,542
Oceaneering International, Inc.	62,900		4,961,552
Schlumberger Ltd.	254,687		22,949,845
Weatherford International Ltd. ^(a)	671,793		10,406,074
			53,097,210
Oil, Gas & Consumable Fuels (9.31%)			
Anadarko Petroleum Corp.	33,804		2,681,333
Arch Coal, Inc.	1,975,666		8,791,714
BP PLC ^(b)	223,450		10,861,915
Chesapeake Energy Corp.	499,011		13,543,159
Chevron Corp.	52,900		6,607,739
Cobalt International Energy, Inc. ^(a)	195,390		3,214,165
ConocoPhillips	92,600		6,542,190
CONSOL Energy, Inc.	118,126		4,493,513
Devon Energy Corp.	216,361		13,386,255
Exxon Mobil Corp.	44,775		4,531,230
Occidental Petroleum Corp.	85,000		8,083,500
Peabody Energy Corp.	572,486		11,180,652
Royal Dutch Shell PLC ^(b)	150,767		10,745,164
WPX Energy, Inc. ^(a)	244,000		4,972,720

If the applicable pricing supplement permits, you may cause us to repay your notes on particular dates. Unless otherwise specified in the applicable pricing supplement, we may be required to repay your notes in whole or in part in increments of \$1,000, provided that any remaining principal amount of the note is at least \$25,000. The repayment price will be equal to 100% of the principal amount to be repaid, plus accrued interest to the repayment date.

Unless otherwise specified in the applicable pricing supplement, for any note to be repaid in whole or in part at your option, you must deliver to the Trustee not less than 30 nor more than 60 days before the optional repayment date (or any shorter period as described under "Extension of Maturity Date"):

the note to be repaid with the form entitled "Option to Elect Repayment" set forth on the reverse of such note duly completed; or

a telegram, telex, facsimile transmission or a letter from a member of a national securities exchange or the NASD or a commercial bank or a trust company in the US setting forth:

your name,

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the principal amount of the note,

the certificate number of the note or a description of the note's tenor or terms,

the principal amount of the note to be repaid,

a statement that you are exercising your option to elect repayment, and

a guarantee that the note to be repaid, along with the form entitled "Option to Elect Repayment" duly completed, will be received

by the Trustee no later than 5 Business Days after the date of the telegram, telex, facsimile transmission or letter.

The Trustee must receive the note and duly completed form entitled "Option to Elect Repayment" by the fifth Business Day after the date of such telegram, telex, facsimile transmission or letter. The exercise of the repayment option will be irrevocable, except as set forth under "Extension of Maturity Date."

If your note is represented by a global security, the depositary's nominee will be the holder and, as a result, will be the only entity that can exercise a right to repayment. To ensure that the depositary's nominee will timely exercise a right to repayment with respect to your interest in a global security, you must instruct the broker, or other direct or indirect participant through which you hold such interest, to notify the depositary of your desire to exercise a right to repayment. To ascertain the time by which instructions must be given for timely notice to be delivered to the depositary, you should consult the broker or other direct or indirect participant through which you hold your interest in a note.

The applicable pricing supplement may provide that the maturity of a floating rate note will be automatically extended for a specified period, unless you elect during a designated period to terminate the automatic extension of the maturity by following the procedures described in the applicable pricing supplement and in the floating rate note.

At any time, we may buy the notes at any price in the open market or otherwise. Any notes we purchase may be held or resold or, at our discretion, may be surrendered to the Trustee for cancellation.

Book-Entry Notes Registration, Transfer and Payments

Book-entry notes may be issued in whole or in part in the form of one or more fully registered global securities deposited with, or on behalf of, the depositary and registered in the name of its nominee. Except as described below, a global security may not be transferred except as a whole by the depositary to its nominee or by its nominee to the depositary or another nominee of the depositary or by the depositary or its nominee to the depositary's successor or the successor's nominee.

The depositary has provided us the following information: The depositary is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. The depositary holds securities that have been deposited by its participating organizations, which are called "participants." The depositary also facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through computerized records for participants' accounts. This eliminates the need to exchange certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. The depositary is owned by a number of its participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. The depositary's book-entry system also is used by other organizations such as securities brokers and dealers, banks, and trust companies that work through a participant. Persons who are not participants may beneficially own securities held by the

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depositary only through participants. The rules applicable to the depositary and its participants are on file with the SEC.

Upon our issuance of any notes that will be represented by a global security, the depositary will immediately credit on its book-entry system the respective amounts of the notes represented by the global security to participants' accounts. The accounts to be credited will be designated by our agents, or by us if we directly offer and sell the notes. Ownership of beneficial interests in a global security will be limited to participants or persons that hold interests through the participants. Beneficial ownership interests in a global security will be shown on, and transfers of those interests will be made only through, records maintained by the depositary's participants or persons holding interests through participants. Please note, the laws of some states require that certain purchasers of securities take physical delivery of these

securities in definitive form. These limits and laws may impair the ability to transfer beneficial interest in a global security.

Unless the global security is exchanged in whole or in part for a certificated note, the global security cannot be transferred. However, the depositary, its nominees and their successors may transfer a global security as a whole to one another. This means we will not issue certificates to you. Until certificated notes are issued, the depositary, not you, will be considered the holder of notes represented by a global security under the indenture. We have described below the only circumstances where notes represented by a global security will be exchangeable for certificated notes.

We will make payments of principal and interest on the notes to the depositary or its nominee. We and the Trustee will treat the nominee as the owner of the global securities for all purposes. Neither we nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of your beneficial ownership interests in a global security or for maintaining, supervising or reviewing the records relating to you as the owner of a beneficial interest in such global securities. We expect that the depositary will credit immediately the respective accounts of the participants upon receipt of any payment of principal or interest on a global security. We expect that participants' payments to owners of the beneficial interests in a global security will be governed by standing customer instructions and customary practices, and will be the participants' responsibility.

The depositary's nominee is the only person that can exercise a right to repayment of a global security. If you own a beneficial interest in a global security and want to exercise a right to repayment, then you must instruct your participant (for example, your broker) to notify the nominee of your desire to exercise such right. Different participants have different procedures for accepting instructions from their customers (for example, cut-off times for notice), and accordingly, you should consult your participant to inform yourself about their particular procedures.

Unless otherwise specified in the applicable pricing supplement, notes will be issued initially as book-entry notes. Generally, we will issue book-entry notes only in the form of global securities. Notes represented by a global security may be exchanged for certificated notes with the same terms in authorized denominations if:

the depositary notifies us that it is unwilling or unable to continue as a depositary and a successor depositary is not appointed by us within 90 days; or

we determine not to have any notes of a series represented by a global security.

In these circumstances, you will be entitled to physical delivery of notes in definitive form in an amount equal to your beneficial ownership interest and registered in your name. Notes issued in definitive form will be issued in denominations of \$25,000 and integral multiples of \$1,000 in excess thereof, except as otherwise specified in the applicable pricing supplement, and will be issued in registered form only, without coupons. Additional information about the depositary's procedures for global notes is contained in the accompanying prospectus under "Description of Debt Securities Global Securities."

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CERTAIN US FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain US federal income tax consequences of the purchase, beneficial ownership and disposition of notes. Except as provided below under "Federal Income Tax Consequences to Non-US Holders," this summary deals only with a beneficial owner of a note that is:

an individual who is a citizen or resident of the United States for US federal income tax purposes;

a corporation (or other entity that is treated as a corporation for US federal tax purposes) that is created or organized in or under the laws of the United States or

any State thereof (including the District of Columbia);

an estate whose income is subject to US 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 "US Holder").

If a partnership (or other entity that is treated as a partnership for US federal tax purposes) is a beneficial owner of notes, 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 notes that is a partnership, and partners in such a partnership, should consult their tax advisors about the US federal income tax consequences of holding and disposing of the notes.

An individual may, subject to certain exceptions, be deemed to be a resident of the United States for US federal income tax purposes 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 discussion 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 US Holders that purchase notes at initial issuance and beneficially own such notes as capital assets and not as part of a "straddle," "hedge," "synthetic security" 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, traders in securities electing mark to market treatment, investors whose functional currency is not the US dollar, persons subject to the alternative minimum tax, and former citizens or residents of the United States), and this summary does not discuss the tax consequences under the laws of any foreign, state or local taxing jurisdictions. Accordingly, prospective investors are urged to consult their tax advisors with respect to the federal, state and local tax consequences of investing in the notes, as well as any consequences arising under the laws of any other taxing jurisdiction to which they may be subject.

The applicable pricing supplement may contain a further discussion of the special US federal income tax consequences applicable to certain notes, including notes that may be convertible into or exercisable or exchangeable for our common or preferred stock or depositary shares or for securities, or cash representing the value of securities, of an entity unaffiliated with us, a basket of securities, or

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an index or indices of these securities, notes that are "contingent payment debt instruments" (as described below), notes that are renewable or extendible, currency or other indexed notes, and amortizing notes.

Payments of Interest

Except as described below, interest on a note will be taxable to a US Holder as ordinary interest income at the time it accrues or is received in accordance with the US Holder's normal method of accounting for tax purposes. Special rules governing the treatment of notes issued at an original issue discount are described under "Original Issue Discount," below.

Original Issue Discount

The following is a summary of the principal US federal income tax consequences of the ownership of notes having original issue discount ("OID") and a term of more than one year. The US federal income tax treatment of the notes with a term of one year or less is summarized below under "Short-Term Notes."

A note will have OID for US federal income tax purposes if its "issue price" is less than its "stated redemption price at maturity" by more than a *de minimis* amount, as discussed below.

The issue price of a note generally is the first price at which a substantial amount of the "issue" of the notes is sold to the public for money (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers), excluding pre-issuance accrued discount (as discussed below under "Pre-Issuance Accrued Interest").

The stated redemption price at maturity of a note generally is the total amount of all payments provided by the note other than "qualified stated interest" payments.

Qualified stated interest generally is stated interest that is "unconditionally payable" in cash or property (other than debt instruments of the issuer) at least annually either at a single fixed rate, or a "qualifying variable rate" (as described below). Qualified stated interest is taxable to a US Holder when accrued or received in accordance with the US Holder's normal method of tax accounting.

Interest is considered unconditionally payable only if reasonable legal remedies exist to compel timely payment or the note otherwise provides terms and conditions that make the likelihood of late payment (other than a late payment within a reasonable grace period) or non-payment a remote contingency. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between stated interest payments. Thus, if the interval between payments varies during the term of the instrument, the value of the fixed rate on which payment is based generally must be adjusted to reflect a compounding assumption consistent with the length of the interval preceding the payment.

Notes having "*de minimis* OID" generally will be treated as not having OID unless a US Holder elects to treat all interest on the note as OID. See "Election to Treat All Interest as Original Issue Discount (Constant Yield

Method Election)." A note will be considered to have *de minimis* OID if the difference between its stated redemption price at maturity and its issue price is less than the product of $\frac{1}{4}$ of 1 percent of the stated redemption price at maturity and the number of complete years from the issue date to maturity (or the weighted average maturity in the case of a note that provides for payment of an amount other than qualified stated interest before maturity).

US Holders of notes having OID will be required to include OID in gross income for US federal income tax purposes as it accrues (regardless of the US Holder's method of accounting), which may be in advance of receipt of the cash attributable to such income. OID accrues under the constant yield method, based on a compounded yield to maturity, as described below. Accordingly, US Holders of

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notes having OID will generally be required to include in income increasingly greater amounts of OID in successive accrual periods.

The annual amount of OID includible in income by the initial US Holder of a note having OID will equal the sum of the "daily portions" of the OID with respect to the note for each day on which the US Holder held the note during the taxable year. Generally, the daily portions of OID are determined by allocating to each day in an "accrual period" the ratable portion of OID allocable to the accrual period. The term accrual period means an interval of time with respect to which the accrual of OID is measured, and which may vary in length over the term of the note provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on either the first or last day of an accrual period.

The amount of OID allocable to an accrual period will be the excess of:

the product of the "adjusted issue price" of the note at the commencement of the accrual period and its "yield to maturity" over

the amount of any qualified stated interest payments

allocable to the accrual period.

The adjusted issue price of a note at the beginning of the first accrual period is its issue price and, on any day thereafter, it is the sum of the issue price and the amount of OID previously includible in the gross income of the US Holder (without regard to any "acquisition premium" as described below), reduced by the amount of any payment other than a payment of qualified stated interest previously made on the note. If an interval between payments of qualified stated interest contains more than one accrual period, the amount of qualified stated interest that is payable at the end of the interval (including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval) is allocated on a *pro-rata* basis to each accrual period in the interval, and the adjusted issue price at the beginning of each accrual period in the interval is increased by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but is not payable until the end of the interval. The yield to maturity of a note is the yield to maturity computed on the basis of compounding at the end of each accrual period properly adjusted for the length of the particular accrual period. If all accrual periods are of equal length except for a shorter initial and/or final accrual period(s), the amount of OID allocable to the initial period may be computed using any reasonable method; however, the OID allocable to the final accrual period will always be the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period.

Pre-Issuance Accrued Interest

If (i) a portion of the initial purchase price of a note is attributable to pre-issuance accrued interest, (ii) the first stated interest payment on the note is to be made within one year of the note's issue date, and (iii) the payment will equal or exceed the amount of pre-issuance accrued interest, then the US Holder may compute the issue price of the note by subtracting the amount of the pre-issuance accrued interest. In that event, a portion of the first stated interest payment will be treated as a return of the excluded pre-issuance accrued interest and not as an amount payable on the note.

Alternative Payment Schedules

If a note (i) provides for an alternative payment schedule or schedules applicable upon the occurrence of a contingency or contingencies relating to payments of interest or of principal (other than a "remote" or "incidental" contingency), (ii) the timing and amount of the payments that comprise each payment schedule are known as of the issue date and (iii) one of such schedules is significantly more likely than not to occur, then the yield and maturity of the note are generally determined by assuming that the payments will be made according to that payment schedule. If there is no single payment

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schedule that is significantly more likely than not to occur (other than because of a mandatory sinking fund), the note may be subject to the rules described below under "Contingent Payment Debt Instruments" and in the applicable pricing supplement.

If a note provides for alternative payment schedules, the determination of whether the note provides for qualified stated interest is made by analyzing each alternative payment schedule as if each schedule were the note's sole payment schedule. The note will provide for qualified stated interest to the extent of the lowest fixed rate at which qualified stated interest would be payable under any of the alternative payment schedules.

Call and Put Options

For purposes of calculating the yield and maturity of a note subject to a call option held by us, in general, the option is presumed exercised if the yield on the note would be less than it would be if the option were not exercised, and a put option held by a US Holder is presumed exercised if the yield on the note would be more, than it would be if the option were not exercised. The effect of this rule generally may accelerate or defer the inclusion of OID in the income of a US Holder whose note is subject to a put option or a call option, as compared to a note that does not have such an option. If any option that is presumed to be exercised is not in fact exercised, the note is treated as reissued solely for purposes of the OID rules on the date of presumed exercise for an amount equal to its adjusted issue price on that date. The deemed reissuance will have the effect of redetermining the note's yield and maturity for OID purposes and any related

subsequent accruals of OID.

Variable Rate Debt Instruments

A note that qualifies as a "variable rate debt instrument" will be subject to the rules described below and will not be treated as a "contingent payment debt instrument" described in the following section. A note will be treated as a variable rate debt instrument if:

the issue price of the note does not exceed the total amount of noncontingent principal payments by more than the product of such principal payments and the lesser of (i) 15 percent or (ii) the product of 1.5 percent and the number of complete years in the debt instrument's term (or its weighted average maturity in the case of an installment obligation), and

the note does not provide for any stated interest other than stated interest paid or compounded at least annually at a qualifying variable rate which is (i) one or more "qualified floating rates," (ii) a single fixed rate and one or more qualified floating rates, (iii) a "single objective rate," or (iv) a single fixed rate and a single objective rate that is a "qualified inverse floating rate."

For purposes of determining if a note is a variable rate debt instrument, a qualified floating rate is a variable rate whose variations can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the debt instrument is denominated and is set at a "current rate." A qualified floating rate (or objective rate, as described below) must be set at a current value of that rate. A current value is the value of the variable rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that day.

A multiple of a qualified floating rate is generally not a qualified floating rate, unless it

is either:

a product of a qualified rate times a fixed multiple greater than 0.65 but not more than 1.35, or

a multiple greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate.

Certain combinations of rates are treated as a single qualified floating rate, including (i) interest stated at a fixed rate for an initial period of one year or less followed by a qualified floating rate if the value

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of the floating rate at the issue date is intended to approximate the fixed rate, and (ii) two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the note. A combination of these rates is generally treated as a single qualified floating rate if the values of all rates on the issue date are within 0.25 percentage points of each other. A variable rate that is subject to an interest rate cap, floor, governor or similar restriction on rate adjustment is treated as a qualified floating rate only if the restriction is fixed throughout the term of the note, or is not reasonably expected as of the issue date to cause the yield on the note to differ significantly from its expected yield absent the restriction.

An objective rate is defined as a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on objective financial or economic information (other than a rate based on information that is within our control (or the control of a party that is related to us) or that is unique to our circumstances (or those of a related party)). The Internal Revenue Service ("IRS") may designate other variable rates that will be treated as objective rates. However, a variable rate is not an objective rate if it is reasonably expected that the average value of the rate during the first half of the note's term will differ significantly from the average value of such rate during the final half of its term. A combination of a fixed rate of stated interest for an initial period of one year or less followed by

an objective rate is treated as a single objective rate if the value of the objective rate at the issue date is intended to approximate the fixed rate; such a combination of rates is generally treated as a single objective rate if the objective rate on the issue date does not differ from the fixed rate by more than 0.25 percentage points. An objective rate is a qualified inverse floating rate if it is equal to a fixed rate reduced by a qualified floating rate, the variations in which can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate (disregarding permissible rate caps, floors, governors and similar restrictions as those discussed above).

If a note is a variable rate debt instrument, special rules apply to determine the amount of qualified stated interest and the amount and accrual of any OID. If the note bears interest that is unconditionally payable at least annually at a single qualified floating rate or objective rate, all stated interest is treated as qualified stated interest. The accrual of any OID is determined by assuming the note bears interest at a fixed interest rate equal to the issue date value of the qualified floating rate or qualified inverse floating rate or, in the case of any other objective rate, a fixed internal rate that is equal to the reasonably expected yield for the note. The qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period.

If the note bears interest at a qualifying variable rate other than a single qualified floating rate or objective rate, the amount and accrual of OID generally are determined by (i) determining a fixed rate substitute for each variable rate as described in the preceding paragraph, (ii) determining the amount of qualified stated interest and OID by assuming the note bears interest at such substitute fixed rates and (iii) making appropriate adjustments to the qualified stated interest and OID so determined for actual interest rates under the note. However, if such qualifying variable rate includes a fixed rate, the note is treated for purposes of applying clause (i) of the preceding sentence as if it provided for an assumed qualified floating rate (or qualified inverse floating rate if the actual variable rate is such) that would cause the note to have approximately the same fair market value, and the rate is used in lieu of the fixed rate.

Notes bearing interest at a variable rate and having a term in excess of one year that do not bear interest at a qualifying variable rate or

that have contingent principal payments or an issue price that exceeds the noncontingent principal payments by more than the allowable amount are treated as "contingent payment debt instruments," as described below.

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Contingent Payment Debt Instruments

Notes that provide for one or more contingent payments but that do not qualify as variable rate debt instruments may be treated as contingent payment debt instruments ("CPDIs"). If a CPDI is issued for cash or publicly traded property, OID is determined and accrued under the "noncontingent bond method."

Under the noncontingent bond method, US Holders of the notes will accrue OID over the term of the note based on the note's "comparable yield." In general the comparable yield of a CPDI is equal to the yield at which the issuer would issue a fixed rate debt instrument with terms and conditions similar to those of the CPDI, including level of subordination, term, timing of payments, and general market conditions. However, if a fixed rate debt instrument with similar terms and conditions is not available, but a similar fixed rate debt instrument of an issuer is traded at a price that reflects a spread above a benchmark rate, the comparable yield is the sum of the benchmark rate on the issue date and the spread.

In addition to the determination of a comparable yield, the noncontingent bond method requires determination of a schedule of the projected amount of each payment (whether or not contingent) to be made under the CPDI. The projected payment schedule is determined in such a way that the sum of the discounted present value of the projected amounts of all payments, determined using a discount rate equal to the comparable yield, equals the issue price and reasonably reflects the relative expected values of the payments. The projected payment schedule is then determined as of the issue date and remains fixed throughout the term of the CPDI.

The projected payment schedule is used to determine the US Holder's interest accruals and adjustments, unless the US Holder determines that our projected payment schedule is unreasonable, in which case the US Holder

must disclose its own projected payment schedule in connection with its federal income tax return and the reason(s) why it is not using our projected payment schedule.

The projected payment schedule includes all noncontingent payments as well as a projected amount for each contingent payment. Appropriate adjustments are made to account for any difference between the projected amount of a contingent payment and the actual amount of the payment. The projected amounts are, in effect, treated as fixed, and interest accrual is required based on these projected amounts whether or not the amount of any payment is fixed or determinable in the taxable year. Thus, the noncontingent bond method may result in recognition of income prior to the receipt of cash.

A US Holder's basis in a CPDI is increased by the projected contingent payments accrued by the holder under the projected payment schedule (as determined without regard to adjustments made to reflect differences between actual and projected payments) and reduced by the amount of any non-contingent payments and the projected amount of any contingent payments previously made. Gain on the sale, exchange, or retirement of a CPDI generally would be treated as ordinary income. Losses, on the other hand, would be treated as ordinary only to the extent of the holder's prior net interest inclusions (reduced by the total net negative adjustments previously allowed to the holder as an ordinary loss) and capital to the extent in excess thereof.

The pricing supplement applicable to any note that is treated as a CPDI will describe the material US federal income tax consequences of the ownership of the note. Prospective investors should consult their own tax advisors with respect to the application of the CPDI provisions to notes.

Short-Term Notes

A note that has a maturity of one year or less from the date of its issuance is a "short-term note." In general, an individual or other cash method US Holder of a short-term note is not required to accrue OID for US federal income tax purposes unless the US Holder elects to do so. This election

applies to all short-term notes acquired by the US Holder during the first taxable year for which the election is made, and all subsequent taxable years of the US Holder, unless the IRS consents to a revocation. US Holders that report income for US federal income tax purposes on the accrual method and certain other holders, including banks, common trust funds, holders who hold the short-term notes as part of certain identified hedging transactions, regulated investment companies, certain pass-through entities and dealers in securities, are required to include OID on such short-term notes on a straight-line basis, unless an irrevocable election with respect to any short-term note is made to accrue the OID under the constant yield method based on daily compounding. In the case of a US Holder that is not required and does not elect to include OID in income currently, any gain realized on the sale, exchange or retirement of a short-term note is treated as ordinary income to the extent of the OID which had accrued on a straight-line basis (or, if elected, under the constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, non-electing US Holders that are not subject to the current inclusion requirement described in this paragraph will be required to defer deductions for any interest paid on indebtedness incurred or continued to purchase or carry such short-term notes in an amount not exceeding the deferred interest income, until the deferred interest income is realized.

For purposes of determining the amount of OID subject to these rules, all interest payments on a short-term note, including stated interest, are included in the short-term note's stated redemption price at maturity.

Market Discount and Premium

If a US Holder purchases a note, other than a short-term note, for an amount that is less than its stated redemption price at maturity or, in the case of a note having OID, less than its revised issue price (which is the sum of the issue price of the note and the aggregate amount of the OID previously includible in the gross income of any holder (without regard to any acquisition premium)), the amount of the difference generally will be treated as market discount for US federal income tax purposes. (It is possible that a US Holder may purchase a note at original issuance for an amount that is different than its issue price.) The amount of any market discount generally will be treated as *de minimis* and disregarded if it is less than the product of 0.25 percent of the stated redemption price at maturity of the note and the number of

complete years to maturity (or weighted average maturity in the case of notes paying any amount other than qualified stated interest prior to maturity).

Under the market discount rules, a US Holder is required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a note as ordinary income to the extent of any accrued market discount which has not previously been included in income. If the note is disposed of in a nontaxable transaction (other than certain specified nonrecognition transactions), accrued market discount will be includible as ordinary income to the US Holder as if the US Holder had sold the note at its then fair market value. In addition, the US Holder may be required to defer, until the maturity of the note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the note.

Market discount accrues ratably during the period from the date of acquisition to the maturity of a note, unless the US Holder elects to accrue it under the constant yield method. A US Holder of a note may elect to include market discount in income currently as it accrues (either ratably or under the constant yield method), in which case the rule described above regarding deferral of interest deductions will not apply. The election to include market discount currently applies to all market discount obligations acquired during or after the first taxable year to which the election applies, and may not be revoked without the consent of the IRS. If an election is made to include market discount in income currently, the basis of the note in the hands of the US Holder will be increased by the market discount thereon as it is included in income.

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A US Holder that purchases a note having OID for an amount exceeding its "adjusted issue price" (which is described above under " Original Issue Discount") and less than or equal to the sum of all remaining amounts payable on the note other than payments of qualified stated interest will be treated as having purchased the note with acquisition premium. The amount of OID that the US Holder must include in gross income with respect to such note will be reduced in the proportion that the excess bears to the OID remaining to be accrued from the date of the

note's acquisition through the stated maturity date. Rather than apply the above fraction, a US Holder that, as discussed below, elects to treat all interest as OID would treat the purchase at an acquisition premium as a purchase at an original issuance and calculate OID accruals on a constant yield to maturity.

A US Holder that acquires a note for an amount that is greater than the sum of all remaining amounts payable on the note other than payments of qualified stated interest will be treated as having purchased the note at a bond premium, and will not be required to include any OID in income. A US Holder generally may elect to amortize bond premium. The election to amortize bond premium must be made with a timely-filed federal income tax return for the first taxable year to which the US Holder wishes the election to apply.

If bond premium is amortized, the amount of interest that must be included in the US Holder's income for each period ending on an interest payment date or on stated maturity, as the case may be, will be reduced by the portion of bond premium allocable to such period based on the note's yield to maturity (or, in certain circumstances, based on an earlier call date) determined by using the US Holder's basis of the note, compounding at the close of each accrual period. If the bond premium allocable to an accrual period is in excess of qualified stated interest allocable to that period, the excess may be deducted to the extent of prior income inclusions and is then carried to the next accrual period and offsets qualified stated interest in such period. There are also special rules for determining bond premium on variable rate debt instruments and on debt instruments with alternative payment schedules that are not treated as CPDIs. If an election to amortize bond premium is not made, a US Holder must include the full amount of each interest payment in income in accordance with its regular method of accounting and will receive a tax benefit from the premium only in computing its gain or loss upon the sale or other disposition or payment of the principal amount of the note.

An election to amortize bond premium will apply to amortizable bond premium on all notes and other bonds, the interest on which is includible in the US Holder's gross income, held at the beginning of the US Holder's first taxable year to which the election applies or thereafter acquired, and may be revoked only with the consent of the IRS. The election to treat all interest as OID is treated as an election to amortize bond premium. Special rules may

apply if a note is subject to a call option prior to maturity at a price in excess of its stated redemption price at maturity.

Election to Treat All Interest as Original Issue Discount (Constant Yield Method Election)

A US Holder of a note may elect to include in income all interest and discount (including *de minimis* OID and *de minimis* market discount), as adjusted by any premium with respect to the note, as OID on a constant yield method, which is described above under "Original Issue Discount." The election is made for the taxable year in which the US Holder acquired the note, and it may not be revoked without the consent of the IRS. If the election is made with respect to a note having market discount, the US Holder will be deemed to have elected currently to include market discount on a constant yield basis with respect to all debt instruments having market discount acquired during the year of election or thereafter. If the election is made with respect to a note having amortizable bond premium, the US Holder will be deemed to have made an election to amortize premium generally with respect to all debt instruments having amortizable bond premium held by the US Holder during the year of election or thereafter.

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Foreign Currency Notes

The following discussion applies to foreign currency notes that are not denominated in or indexed to a currency that is considered "hyperinflationary," that are not CPDIs and that are not "dual currency notes." Special US tax considerations applicable to obligations that are denominated in or indexed to a hyperinflationary currency, are CPDIs or are dual currency notes that will be discussed in the applicable pricing supplement.

In general, a US Holder that uses the cash method of accounting and holds a foreign currency note will be required to include in income the US dollar value of the amount of interest income received, whether or not the payment is received in US dollars or converted into US dollars. The US dollar value of the amount of interest received is the amount of foreign currency interest paid, translated into US dollars at the spot rate on the date of receipt. The US Holder will not have exchange gain or

loss on the interest payment itself, but may have exchange gain or loss when it disposes of any foreign currency received.

A US Holder that uses the accrual method of accounting is generally required to include in income the dollar value of interest accrued during the accrual period. Accrual basis US Holders may determine the amount of income recognized with respect to such interest in accordance with either of two methods. Under the first method, the dollar value of accrued interest is translated at the average rate for the interest accrual period (or, with respect to an accrual period that spans two taxable years, the partial period within the taxable year). For this purpose, the average rate is the simple average of spot rates of exchange for each business day of such period or other average exchange rate for the period reasonably derived and consistently applied by the US Holder. Under the second method, a US Holder can elect to accrue interest at the spot rate on the last day of the interest accrual period (in the case of a partial accrual period, the last day of the taxable year) or, if the last day of an interest accrual period is within five business days of the receipt, the spot rate on the date of receipt. Any such election will apply to all debt instruments held by the US Holder and will be irrevocable without the consent of the IRS. An accrual basis US Holder will recognize exchange gain or loss, as the case may be, on the receipt of a foreign currency interest payment if the exchange rate on the date payment is received differs from the rate applicable to the previous accrual of that interest income. The foreign currency gain or loss will generally be treated as US source ordinary income or loss.

OID on a foreign currency note is determined in the foreign currency and is translated into US dollars in the same manner that an accrual basis US Holder accrues stated interest. Exchange gain or loss is determined when OID is considered paid to the extent the exchange rate on the date of payment differs from the exchange rate at which the OID was accrued.

The amount of market discount on a foreign currency note includible in income will generally be determined by computing the market discount in the foreign currency and translating that amount into dollars at the spot rate on the date the foreign currency note is retired or otherwise disposed of. If the US Holder accrues market discount currently, the amount of market discount which accrues during any accrual period is determined in the foreign currency and translated into US dollars

on the basis of the average exchange rate in effect during the accrual period. Exchange gain or loss may be recognized to the extent that the rate of exchange on the date of the retirement or disposition of the note differs from the exchange rate at which the market discount was accrued.

Amortizable bond premium on a foreign currency note is computed in units of foreign currency and, if the US Holder elects, will reduce interest income in units of foreign currency. At the time amortized bond premium offsets interest income (i.e., the last day of the tax year in which the election is made and the last day of each subsequent tax year), exchange gain or loss with respect to amortized bond premium is recognized and is measured by the difference between exchange rates at that time and at the time of the acquisition of the note.

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With respect to the sale, exchange, retirement or other disposition of a note denominated in a foreign currency, the foreign currency amount realized will be considered to be first, the payment of accrued but unpaid interest (on which exchange gain or loss is recognized as described above); second, accrued but unpaid OID (on which exchange gain or loss is recognized as described above); and, finally, as receipt of principal. With respect to principal, exchange gain or loss is equal to the difference between (i) the foreign currency principal amount translated on the date the payment is received or the date of disposition, and (ii) the foreign currency principal amount translated on the date the note was acquired, or deemed acquired. Exchange gain or loss computed on accrued interest, OID, market discount and principal is realized, however, only to the extent of total gain or loss on the transaction. The conversion of US dollars into a foreign currency and the immediate use of that currency to purchase a foreign currency note generally will not result in a taxable gain or loss for a US Holder.

Sale, Exchange, Redemption or Repayment of the Notes

Upon the disposition of a note by sale, exchange, redemption, or repayment of principal at maturity, a US Holder will generally recognize taxable gain or loss equal to the difference between (i) the amount realized on the disposition (other than amounts

attributable to accrued interest) and (ii) the US Holder's adjusted tax basis in the note. A US Holder's adjusted tax basis in a note generally will equal the cost of the note (net of accrued interest) to the US Holder, increased by amounts includible in income as OID or market discount (if the holder elects to include market discount in income on a current basis) and reduced by any amortized bond premium and any payments (other than payments of qualified stated interest) made on such note.

Because the note is held as a capital asset, such gain or loss (except to the extent that the market discount rules or the rules relating to short-term notes otherwise provide) will generally constitute capital gain or loss. Capital gains of individual taxpayers from the sale, exchange, or other disposition of a note held for more than one year may be eligible for reduced rates of taxation. The deductibility of a capital loss realized on the sale, exchange, or other disposition of a note is subject to limitations.

**Disclosure Requirements for US Holders
Recognizing Significant Losses or
Experiencing Significant Book-Tax
Differences**

A US Holder that claims significant losses in respect of a note (generally (i) \$10 million or more in a taxable year or \$20 million or more in any combination of taxable years for corporations or partnerships all of whose partners are corporations, (ii) \$2 million or more in a taxable year or \$4 million or more in any combination of taxable years for all other taxpayers, or (iii) \$50,000 or more in a taxable year for individuals or trusts with respect to a foreign currency transaction) or reports any item or items of income, gain, expense, or loss in respect of a note for tax purposes in an amount that differs from the amount reported for book purposes by more than \$10 million on a gross basis in any taxable year may be subject to certain disclosure requirements for "reportable transactions." Prospective investors should consult their tax advisors concerning any possible disclosure obligation with respect to the notes.

Tax Treatment of Non-US Holders

As used in this discussion, the term "Non-US Holder" means a beneficial owner of a note that is, for US federal income tax purposes:

a nonresident alien
individual,

a foreign corporation,

a foreign partnership,

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an estate whose income is not subject to US federal income tax on a net income basis, or

a trust if no court within the United States is able to exercise primary jurisdiction over its administration or if no United States persons have the authority to control all of its substantial decisions.

Payments on the notes to Non-US Holders will not be subject to US federal income or withholding tax if the following conditions are satisfied:

the Non-US Holder does not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote,

the Non-US Holder is not a controlled foreign corporation for US federal income tax purposes that is related to us through actual or constructive ownership,

the Non-US Holder is not a bank receiving interest on a loan made in the ordinary course of its trade or business,

interest payable on the notes is not determined by reference to any receipts, sales or other cash flow, income or profits, change in the value of any property

of, or any dividend or similar payment made by us or a person related to us, within the meaning of Code section 871(h)(4)(A), and

the payments are not effectively connected with a trade or business conducted by the Non-US Holder in the United States and either (a) the Non-US Holder provides a correct, complete and executed IRS Form W-8BEN or Form W-8IMY (or successor form) with all of the attachments required by the IRS, or (b) the Non-US Holder holds its note through a qualified intermediary (generally a foreign financial institution or clearing organization or a non-US branch or office of a US financial institution or clearing organization that is a party to a withholding agreement with the IRS) which has provided to us an IRS Form W-8IMY stating that it is a qualified intermediary and has received documentation upon which it can rely to treat the payment as made to a foreign person.

If any of these exceptions apply, interest (including OID) on the notes will be subject to a 30% withholding tax when paid, unless an income tax treaty reduces or eliminates the tax or the interest is effectively connected with the conduct of a US trade or business and the Non-US Holder provides a correct, complete and executed IRS Form W-8 ECI.

In general, gain realized on the sale, exchange or retirement of the notes by a Non-US Holder will not be subject to US federal income tax, unless:

the gain with respect to the notes is effectively connected with a trade or business conducted by the Non-US Holder in the United States, or

the Non-US Holder is a nonresident alien individual who holds the notes as a capital asset and is present in the United States for more than 182 days in the taxable year of the sale and certain other conditions are satisfied.

A note held by an individual who at death is a Non-US Holder will not be includible in the Non-US Holder's gross estate for US federal estate tax purposes if payments on the notes to the Non-US Holder would not have been subject to US federal income or withholding tax at the time of death under the tests described above.

Information Reporting and Backup Withholding

Information reporting will apply to certain payments on a note (including interest and OID) and proceeds of the sale of a note held by a US Holder that is not an exempt recipient (such as a corporation). Backup withholding may apply to payments made to a US Holder if (a) the US Holder has failed to provide its correct taxpayer identification number on IRS Form W-9, or (b) we have been notified by the IRS of an underreporting by the US Holder (underreporting generally refers to a determination by the IRS that a payee has failed to include in income on its tax return any reportable dividend and interest payments required to be shown on a tax return for a taxable year).

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Backup withholding will not be required with respect to Non-US Holders, so long as we have received from the Non-US Holder a correct and complete IRS Form W-8BEN or Form W-8IMY with all of the attachments required by the IRS, signed under penalty of perjury, identifying the Non-US Holder and stating that the Non-US Holder is not a United States person. In addition, IRS Form W-8BEN will be required from the beneficial owners of interests in a Non-US Holder that is treated as a partnership for US federal income tax purposes. Interest paid to a Non-US Holder will be reported on IRS Form 1042-S which is filed with the IRS and sent to Non-US Holders.

Information reporting and backup withholding may apply to the proceeds of a sale of a note by a Non-US Holder made within the United States or conducted through certain US related financial intermediaries, unless the payor receives the statement described above.

Backup withholding is not an additional tax and may be refunded (or credited against your US federal income tax liability, if any), provided, that certain required information is furnished. The information reporting requirements may apply regardless of whether withholding is required. For Non-US Holders, copies of the information returns reporting such interest and withholding also may be made available to the tax authorities in the country in which a Non-US Holder is a resident under the provisions of an applicable income tax treaty or agreement.

The preceding discussion is only a summary of certain of the tax implications of an investment in notes. Prospective investors are urged to consult with their own tax advisors prior to investing to determine the tax implications of such investment in light of each such investor's particular circumstances.

SUPPLEMENTAL PLAN OF DISTRIBUTION

We are offering the notes on a continuing basis through agents, each of which has agreed to use its reasonable best efforts to solicit purchases of the notes. We also may sell the notes:

- (a) directly to purchasers on our own behalf; or
- (b) through the agents as principal, either at a discount from their principal amount to be agreed on at the time of sale or at 100% of their principal amount, for resale to one or more investors and other purchasers at different prices to be determined by the agent at the time of resale, which may be greater or lesser than the purchase price for those notes paid by the agent.

We will have the sole right to accept offers to purchase notes and may reject any proposed purchase of the notes in whole or part. Each agent will have the right, in its reasonably exercised discretion, to reject any offer to purchase the notes it receives in whole or in part. We will pay each agent a commission, in the form of a discount, ranging from .125% to .750% of the price offered to the public of the notes, depending on maturity, sold through that agent. Any agent may agree with us to accept a commission other than one based on maturity, in which case the commission will be set forth in the applicable pricing supplement; provided, however, that the commission shall range from .025% to .750%. We also may pay fees and other amounts to an agent or an affiliate of an agent in connection with certain transactions that we enter into in connection with certain issuances of the notes, which might exceed the agent's discount.

Unless the applicable pricing supplement indicates otherwise, payment of the purchase price shall be made in funds that are immediately available in New York City.

The agents may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended. We have agreed to indemnify the agents against or to make contributions relating to certain civil liabilities, including liabilities under the Securities Act. We have agreed to reimburse the agents for certain expenses.

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Any agents offering notes will not confirm sales to any accounts over which they exercise discretionary authority without the prior approval of the customer.

Because Bear, Stearns & Co. Inc. is our wholly-owned subsidiary, each distribution of the notes will conform to the requirements set forth in Rule 2720 of the NASD Conduct Rules.

VALIDITY OF THE NOTES

The validity of the notes will be passed on for us by Cadwalader, Wickersham & Taft LLP, New York, New York.

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GLOSSARY

Set forth below are definitions of some of the terms used in this prospectus supplement.

"Business Day" means any day that (a) is not a Saturday or Sunday, (b) in New York, New York, is not a day on which banking institutions generally are authorized or required by law or executive order to close, and (c) if the interest rate formula basis is LIBOR, is also a London Banking Day.

"Calculation Agent" means the person chosen by us to perform the duties related to interest rate calculations and resets for the floating rate notes.

"Calculation Date" means, with regard to an Interest Determination Date, the earlier of (i) the 10th calendar day after the Interest Determination Date or if that day is not a Business Day, the next Business Day or (ii) the Business Day before the applicable interest payment date, maturity date, redemption date or repayment date.

"Exchange Rate Agent" means JPMorgan Chase Bank (formerly, The Chase Manhattan Bank), unless otherwise specified in the applicable pricing supplement.

"H.15(519)" means the weekly statistical release entitled "Statistical Release H.15(519), Selected Interest Rates," or any successor publication, published by the Board of Governors of the Federal Reserve System.

"Index Maturity" means the period to maturity of the instrument or obligation on which the interest rate formula is based, as specified in the applicable pricing supplement.

"London Banking Day" means any day on which dealings or deposits in US dollars are transacted in the London interbank market.

"Money Market Yield" means the yield, expressed as a percentage, calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{\text{D} \times \frac{\times}{100}}{360 - (\text{D} \times \text{M})}$$

where "D" refers to the per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal; and "M" refers to the actual number of days in the interest period for which interest is being calculated.

"Paying Agent" means JPMorgan Chase Bank (formerly, The Chase Manhattan Bank), unless otherwise specified in the applicable pricing supplement.

"Reuters Screen LIBO Page" means the display designated as page "LIBO" on the Reuters Monitor Money Rates Service (or such other page as may replace the LIBO page on that service for the purpose of displaying London interbank offered rates of major banks).

"Reuters Screen NYMF Page" means the display designated as page "NYMF" on the Reuters Monitor Money Rates Service (or such other page as may replace the NYMF page on that service for the purpose of displaying prime rates or base lending rates of major US banks).

"Telerate Page 3750" means the display designated as page "3750" on the Telerate Service (or such other page as may replace the 3750 page on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for US dollar deposits).

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PROSPECTUS

**The Bear Stearns
Companies Inc.**

**Debt Securities
Warrants
Preferred Stock
Depository Shares**

By this prospectus, we intend to offer at one or more times
Debt Securities
Warrants to Purchase Debt Securities
Preferred Stock

Depository Shares

in one or more series with an aggregate initial public offering price of up to \$10,227,293,162 (as described in the applicable prospectus supplement).

We will provide the specific terms of these securities in supplements to this prospectus. You should read this prospectus and any supplements carefully before you invest in the securities.

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

Bear, Stearns & Co. Inc.

The date of this prospectus is April 24, 2003.

The information contained in this prospectus is not complete and may be changed. You should only rely on the information incorporated by reference or provided in this prospectus or any supplement to this prospectus. We have not authorized anyone else to provide you with different information. These securities are not being offered in any state where the offer is not permitted. You should not assume that the information in this prospectus or any supplement to this prospectus is accurate as of any date other than the date on the front of those documents.

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WHERE YOU CAN FIND MORE INFORMATION

We file current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the Securities and Exchange Commission (the "SEC"). You may read and copy any of these filed documents at the SEC's public reference rooms located at 450 Fifth Street, N.W., Washington, D.C. 20549 and at Northwest Atrium Center, 5000 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC's web site at <http://www.sec.gov>. Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

Our website is <http://www.bearstearns.com>. We make available free of charge on our website our annual reports on Form 10-K; quarterly reports on Form 10-Q and any amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

We have filed with the SEC a registration statement on Form S-3 (the "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the securities. This prospectus, which constitutes a part of that Registration Statement,

does not include all the information contained in that Registration Statement and its exhibits. For further information with respect to the securities, you should consult the Registration Statement and its exhibits.

Statements contained in this prospectus concerning the provisions of any documents are necessarily summaries of those documents, and each statement is qualified in its entirety by reference to the copy of the document filed with the SEC. The Registration Statement and any of its amendments, including exhibits filed as a part of the Registration Statement or an amendment to the Registration Statement, are available for inspection and copying through the entities listed above.

The SEC allows us to "incorporate by reference" the information that we file with them, which means that we can disclose important information to you by referring you to the other information we have filed with the SEC. The information that we incorporate by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information.

The following documents filed by us with the SEC pursuant to Section 13 of the Exchange Act (File No. 1-8989) and any future filings under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act made before the termination of the offering are incorporated by reference:

(1) the Annual Report on Form 10-K (including the portions of the Company's Annual Report to Stockholders and Proxy Statement incorporated by reference therein) for the fiscal year ended November 30, 2002;

(2) the Quarterly Report on Form 10-Q for the quarter ended February 28, 2003; and

(3) the Current Reports on Form 8-K dated December 18, 2002, December 18, 2002, December 20, 2002, January 8, 2003, January 14, 2003, January 30, 2003, February 11, 2003, February 11, 2003, February 24, 2003, March 19, 2003, March 19, 2003, March 26, 2003 and April 7, 2003.

We will provide to you without charge, a copy of any or all documents incorporated by reference into this prospectus except the

exhibits to those documents (unless they are specifically incorporated by reference in those documents). You may request copies by writing or telephoning us at our Investor Relations Department, The Bear Stearns Companies Inc., 383 Madison Avenue, New York, New York 10179; telephone number (212) 272-2000.

CERTAIN DEFINITIONS

Unless otherwise stated in this prospectus:

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

"AMEX" refers to the American Stock Exchange LLC;

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

"BSB" refers to Bear Stearns Bank plc;

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

"BSIL" refers to Bear, Stearns International Limited;

"DAiSSSM" refers to Dutch Auction *i*nternet Syndication SystemSM;

"ISE" refers to the International Securities Exchange;

"NASD" refers to the National Association of Securities Dealers, Inc.;

"NYSE" refers to the New York Stock Exchange, Inc.; and

"securities" refers to the notes, warrants, preferred stock and depositary shares described in this prospectus.

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

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. BSSC, a subsidiary of Bear Stearns, provides professional and correspondent clearing services, in addition to clearing and settling customer transactions and certain of our proprietary transactions. Our business includes:

market-making and trading in US government, government agency, corporate debt and equity, mortgage-related, asset-backed, municipal securities and high yield products;

trading in options, futures, foreign currencies, interest rate swaps and other derivative products;

securities, options and futures brokerage;

providing securities clearance services;

managing equity and fixed income assets for institutional and individual clients;

financing customer
activities;

securities lending;

securities and futures
arbitrage;

involvement in specialist
activities on both the
NYSE, AMEX and ISE;

underwriting and
distributing securities;

arranging for the private
placement of securities;

assisting in mergers,
acquisitions, restructurings
and leveraged transactions;

making principal
investments in leveraged
acquisitions;

engaging in commercial
real estate activities;

investment management
and advisory services; and

fiduciary, custody, agency
and securities research
services.

Our business is conducted:

from our principal offices
in New York City;

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from domestic regional
offices in Atlanta, Boston,
Chicago, Dallas, Denver,
Los Angeles, San Francisco

and San Juan;

from representative offices in Beijing, Herzliya, Hong Kong, Sao Paulo and Shanghai;

through international offices in Dublin, Hong Kong, London, Lugano, Milan, Singapore and Tokyo; and

through joint ventures with other firms in Belgium, Greece, Spain and Sweden.

Our international offices provide services and engage in investment activities involving foreign clients and international transactions. Additionally, certain of these foreign offices provide services to US clients. We provide trust company and clearance services through our subsidiary, Custodial Trust Company, which is located in Princeton, New Jersey.

Bear Stearns and BSSC are broker-dealers registered with the SEC. Additionally, Bear Stearns is registered as an investment advisor with the SEC. Bear Stearns and/or BSSC are also members of the NYSE, all other principal US securities and futures exchanges, the NASD, the Commodity Futures Trading Commission, the National Futures Association and the ISE. Bear Stearns is a "primary dealer" in US government securities as designated by the Federal Reserve Bank of New York.

BSIL is a full service broker-dealer based in London and among other European exchanges, is a member of Eurex Deutschland, the International Petroleum Exchange, Euronext Liffe, Euronext Paris and NASDAQ Europe. BSIL is supervised by and is regulated in accordance with the rules of the Financial Services Authority.

BSB is an Ireland-based bank, which was registered in 1996 and subsequently granted a banking license under the Irish Central Bank Act, 1971. BSB allows our existing and prospective clients the opportunity of dealing with a banking counterparty.

We are incorporated in the State of Delaware. Our principal executive office is located at 383 Madison Avenue, New York, New York 10179 and our telephone number is

(212) 272-2000. Our internet address is <http://www.bearstearns.com>.

USE OF PROCEEDS

Unless otherwise specified in the applicable prospectus supplement, we intend to use the net proceeds from the sale of the securities for general corporate purposes, which may include additions to working capital, the repayment of short-term and long-term debt and investments in, or extensions of credit to, subsidiaries.

RATIO INFORMATION

The ratio of earnings to fixed charges was calculated by dividing the sum of the fixed charges into the sum of the earnings before taxes and fixed charges. The ratio of earnings to combined fixed charges and preferred dividends was calculated by dividing the sum of fixed charges and preferred dividends into the sum of earnings before taxes and fixed charges. Fixed charges for purposes of the ratios consist of interest expense and certain other expenses. Preferred dividends represent the pre-tax earnings necessary to cover the dividends on our preferred stock, assuming such earnings are taxed at our consolidated effective tax rate.

The table below presents the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred dividends for the three months ended February 28, 2003 and 2002, the fiscal years ended November 30, 2002, 2001 and 2000, the five months ended November 26, 1999 and the fiscal years ended June 30, 1999 and 1998.

	Fiscal Year					Five Months Ended November 26, 1999	Fiscal Year Ended June 30,	
	Three Months Ended February 28,		Ended November 30,				1999	1998
	2003	2002	2002	2001	2000			
Ratio of earnings to fixed charges	2.3	1.6	1.7	1.2	1.2	1.3	1.3	1.3
Ratio of earnings to combined fixed charges and preferred dividends	2.2	1.5	1.7	1.2	1.2	1.3	1.3	1.3

DESCRIPTION OF DEBT SECURITIES

This section describes certain general terms and provisions of the debt securities to which any prospectus supplement may relate. The particular terms of any debt securities offered by a prospectus supplement and the extent to which these general terms and provisions will not apply to the particular series of debt securities being offered, will be described in the prospectus supplement relating to that particular series of debt securities.

We will issue the debt securities under 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").

The terms of the debt securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended. We have filed a copy of the Indenture as an exhibit to the Registration Statement of which this prospectus forms a part. A copy of the Indenture is available as set forth under the section entitled "Where You Can Find More Information."

This section, along with the description in the applicable prospectus supplement, is a summary of the material provisions of the Indenture and is not complete. It does not restate the Indenture in its entirety. We urge you to read the Indenture because it, and not these descriptions, defines your rights as a holder of debt securities.

General

We may offer debt securities for an aggregate principal amount of up to \$10,227,293,162 under this prospectus. As of the date of this prospectus, we have issued approximately \$79,146,315,588 aggregate principal amount of debt securities under the Indenture, of which \$20,739,437,000 is outstanding. The Indenture permits us to:

issue debt securities at various times in one or more series;

issue an unlimited principal amount of debt securities;

provide for the issuance of other debt securities under the Indenture other than those authorized on the date of this prospectus at various times and without your consent; and

"reopen" a previous issue of a series of debt securities and issue additional debt securities of the series.

Unless we provide otherwise in an applicable prospectus supplement, we will issue debt securities only in registered form without coupons in denominations of \$1,000 and integral multiples of \$1,000, and in bearer form with or without coupons in the denomination of \$5,000. If we issue bearer debt securities of a series, we will describe the federal income tax consequences and other special considerations applicable to those bearer debt securities in the prospectus supplement relating to that series.

Unless we provide otherwise in the applicable prospectus supplement and subject to any limitations in the Indenture, you may transfer or exchange your registered securities at the corporate trust office or agency of the Trustee in the City and State of New York without paying a service charge, other than applicable tax or governmental charges. Bearer debt securities will be transferable by delivery. We will describe the provisions relating to the exchange of bearer debt securities of any series in the prospectus supplement relating to that series.

If the principal, any premium or interest on the debt securities of any series is payable in a foreign or composite currency, the applicable prospectus supplement will describe any restrictions, elections, federal income tax consequences, specific terms and other information that apply to those debt securities and the currency.

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We may sell one or more series of debt securities at a substantial discount below the stated principal amount, bearing either no

interest or interest at a rate that at the time of issuance is below market rate. One or more series of debt securities may be variable rate debt securities that may be exchanged for fixed rate debt securities. We will describe the federal income tax consequences and other special considerations applicable to a series in the prospectus supplement relating to that series.

Ranking

The debt securities will be unsecured and will rank equally with all of our other unsecured and unsubordinated indebtedness. We extend credit to our subsidiaries at various times. Any credit we may extend to our subsidiaries may be subordinated to the claims of unaffiliated creditors of those subsidiaries.

We are a holding company and depend on the earnings and cash flow of our subsidiaries to meet our obligations under the debt securities. Because the creditors of our subsidiaries generally would have a right to receive payment superior to our right to receive payment from the assets of our subsidiaries, the holders of our debt securities will effectively be subordinated to the creditors of our subsidiaries. If we were to liquidate or reorganize, your right to participate in any distribution of our subsidiaries' assets is necessarily subject to the senior claims of the subsidiaries' creditors. Furthermore, the Exchange Act and the rules of certain exchanges and other regulatory bodies, as well as covenants governing certain indebtedness of our subsidiaries, impose net capital requirements on some of our subsidiaries that limit their ability to pay dividends or make loans and advances to us.

Methods of Receiving Payment on the Debt Securities

Registered Debt Securities. Unless we otherwise provide in the applicable prospectus supplement, if the debt securities are in registered form, then the principal, any premium and interest will be payable at the corporate trust office or agency of the Trustee in the City and State of New York.

Interest payments made before maturity or redemption on registered debt securities may be made:

at our option, by check
mailed to the address of the
person entitled to payment;
or

at your option, if you hold at least \$10 million in principal amount (or such other principal amount specified in the applicable prospectus supplement) of registered debt securities, by wire transfer to an account you have designated in writing at least 16 days before the date on which the payment is due.

Bearer Debt Securities. Unless we provide otherwise in the applicable prospectus supplement, if the debt securities are in bearer form, then the principal, any premium and interest will be payable at the Trustee's office located outside the United States that is maintained for this purpose. No payment on a bearer debt security will be made by mail to a US address or by wire transfer to an account maintained in the United States, or will otherwise be made inside the United States, unless otherwise provided in the applicable prospectus supplement.

Notices

Registered Debt Securities. Unless otherwise provided in the applicable prospectus supplement, any notice given to a holder of a registered debt security will be mailed to the last address of such holder set forth in the applicable security register.

Bearer Debt Securities. Any notice given to a holder of a bearer debt security will be published in a daily newspaper of general circulation in the city or cities specified in the prospectus supplement relating to such bearer debt security.

Global Securities

The debt securities may be issued in whole or in part in the form of one or more global securities that will be deposited with, or on behalf of, a depository identified in the prospectus supplement relating to such series. Global securities may be issued in either registered or bearer form and in either temporary or definitive form.

Unless and until a global security is exchanged in whole or in part for the applicable definitive debt securities, a global security may only be transferred as a whole by:

the depositary for the global security to a nominee of the depositary;

a nominee of the depositary to the depositary or another nominee of the depositary;
or

the depositary or any nominee of the depositary to a successor of the depositary or a nominee of the successor.

Each prospectus supplement relating to a series will describe the specific terms of the depositary arrangement with respect to the applicable debt securities of that series. We anticipate that the following provisions will apply to all depositary arrangements.

Once a global security is issued, the depositary will credit on its book-entry system the respective principal amounts of the individual debt securities represented by that global security to the accounts of institutions that have accounts with the depositary. These institutions are known as participants. The underwriters for the debt securities will designate the accounts to be credited. However, if we have offered or sold the debt securities either directly or through agents, we or the agents will designate the appropriate accounts to be credited.

Ownership of beneficial interest in a global security will be limited to participants or persons that may hold beneficial interests through participants. Ownership of beneficial interest in a global security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the depositary's participants or persons that hold through participants. The laws of some states require that certain purchasers of securities take physical delivery of securities. Such limits and such laws may limit the market for beneficial interests in a global security.

So long as the depositary for a global security, or its nominee, is the registered owner of a global security, the depositary or nominee,

as the case may be, will be considered the sole owner or holder of the debt securities represented by the global security for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a global security:

will not be entitled to have debt securities represented by global securities registered in their names;

will not receive or be entitled to receive physical delivery of debt securities in definitive form; and

will not be considered the owners or holders of these securities under the Indenture.

Subject to the restrictions referred to under the section entitled "Limitations on Issuance of Bearer Debt Securities and Bearer Warrants," payments of principal, any premium and interest on the individual debt securities registered in the name of the depository or its nominee will be made to the depository or its nominee, as the case may be, as the holder of such global security. Neither we nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a global security, or for maintaining, supervising or reviewing any records relating to beneficial ownership interests and each of us and the Trustee may act or refrain from acting without liability on any information provided by the depository.

We expect that the depository, after receiving any payment of principal, any premium or interest in respect of a global security, will immediately credit the accounts of the participants with payment in

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amounts proportionate to their respective holdings in principal amount of beneficial interest in a global security as shown on the records of the depository. We also expect that payments by participants to owners of beneficial interests in a global security will be

governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participants.

Receipt by owners of beneficial interests in a temporary global security of payments of principal, any premium or interest relating to their interests will be subject to the restrictions discussed under the section entitled "Limitations on Issuance of Bearer Debt Securities and Bearer Warrants."

If interest is paid on a bearer global security, or if no interest has been paid but the bearer global security remains outstanding beyond a reasonable period of time after the restricted period (as defined in applicable US Treasury regulations) has ended, the depository must provide us with a certificate to the effect that the owners of the beneficial interests in the bearer global security are non-US persons or US persons that are permitted to hold bearer debt securities under applicable US Treasury regulations.

In general, US persons that are permitted to hold bearer debt securities are US persons who acquire the securities through the foreign branch of certain US financial institutions and certain US financial institutions that hold the bearer debt securities for resale to non-US persons or who hold the bearer debt securities on their own account through a foreign branch. The certificate must be provided within a reasonable period of time after the end of the restricted period, but in no event later than the date when interest is paid. The certificate must be based on statements provided to the depository by the owners of the beneficial interests.

If the depository is at any time unwilling or unable or ineligible to continue as depository and we have not appointed a successor depository within 90 calendar days, we will issue debt securities in certificated form in exchange for all outstanding global securities.

In addition, we may at any time determine not to have debt securities represented by a global security. In that event, we will issue debt securities in definitive form in exchange for all global securities. An owner of a beneficial interest in the global securities to be exchanged will be entitled to delivery in definitive form of debt securities equal in principal amount to such beneficial interest and to have such debt securities registered in its name. Individual debt securities of the series so issued will be issued

as:

- (1) registered debt securities in denominations, unless we specify otherwise, of \$1,000 and integral multiples of \$1,000 if the debt securities of that series are issuable as registered debt securities;
- (2) bearer debt securities in the denomination or denominations we have specified if the debt securities of that series are issuable as bearer debt securities; or
- (3) either registered or bearer debt securities, if the debt securities of that series are issuable in either form.

You should read the section entitled "Limitations on Issuance of Bearer Debt Securities and Bearer Warrants" for a description of certain restrictions on the issuance of individual bearer debt securities in exchange for beneficial interests in a global security.

Limitation on Liens

We may not, and may not permit any of our Restricted Subsidiaries to, issue, incur, assume, guarantee or suffer to exist any indebtedness for borrowed money secured by a pledge of, lien on or security interest in any shares of voting stock of any Restricted Subsidiary without effectively providing that the securities issued under the Indenture, including the debt securities, will be secured equally and ratably with such secured indebtedness.

The term "Restricted Subsidiary" as defined in the Indenture means Bear Stearns, Custodial Trust Company, BSSC and any of our other subsidiaries owning, directly or indirectly, any of the common stock of, or succeeding to a significant portion of the business, property or assets of, a Restricted

Subsidiary, or with which a Restricted
Subsidiary is merged or consolidated.

Merger and Consolidation

We may consolidate or merge with or into any other corporation, and may sell, lease or convey all or substantially all of our assets to any corporation, organized and existing under the laws of the United States or any US state, if:

- (1) we or any other successor corporation shall not immediately after the merger or consolidation be in default under the Indenture; and
- (2) the continuing corporation (if other than us), or the resulting entity that receives substantially all of our assets, shall expressly assume:
 - (a) payment of the principal of, and premium, if any, and interest on, (and any additional amounts payable in respect of) the debt securities and
 - (b) performance and observance of all of the covenants and conditions of the Indenture to be performed or observed by us.

Unless otherwise provided in the applicable prospectus supplement, the Indenture permits:

a consolidation, merger, sale of assets or other similar transaction that may adversely affect our creditworthiness or that of a successor or combined entity;

a change in control; or

a highly leveraged transaction involving us, whether or not involving a change in control;

and the Indenture, therefore, will not protect holders of the debt securities from the substantial impact that any of the transactions described above may have on the value of the debt securities.

Modification and Waiver

With the consent of the holders of 66²/₃% in principal amount of the outstanding debt securities of each series affected, we and the Trustee may modify or amend the Indenture, without the consent of each holder of the outstanding debt security affected, unless the modification or amendment:

changes the stated maturity or the date of any installment of principal of, or interest on, any debt security or changes its redemption price or optional redemption price;

reduces the principal amount of, or the rate of interest on, or the amount of any additional amount payable on, any debt security, or reduces the amount of principal that could be declared due and payable before the stated maturity of that debt security, or changes our obligation to pay any additional amounts (except as permitted under the Indenture), or reduces the amount of principal of a discount security that would be due and payable if accelerated under the Indenture;

changes the place or currency of any payment of principal, premium, if any, or interest on any debt

security;

impairs the right to institute suit for the enforcement of any payment on or with respect to any debt security;

reduces the percentage in principal amount of the outstanding debt securities of any series, the consent of whose holders is required to modify or amend the Indenture; or

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modifies the foregoing requirements or reduces the percentage of outstanding debt securities necessary to waive any past default to less than a majority.

We may make any of these amendments or modifications, however, with the consent of the holder of each outstanding debt security affected.

Except with respect to certain fundamental provisions of which a default would require the consent of the holders of each outstanding security of a series affected to waive, the holders of at least a majority in principal amount of outstanding debt securities of any series may, with respect to that series, waive past defaults under the Indenture and waive compliance with certain provisions of the Indenture, either in a specific instance or generally.

Events of Default

Under the Indenture, an "Event of Default" with respect to any series of debt securities means:

- (1) a failure to pay any interest, or any additional amounts payable, on any debt securities of that series for 30 days after payment is due;
- (2)

a failure to pay the principal of, and premium, if any, on any debt security of that series when due;

- (3) a failure to deposit any sinking fund payment when due relating to that series;
- (4) a failure to perform any other covenant contained in the Indenture or relating to that series that has continued for 60 days after written notice was provided;
- (5) a failure lasting 10 days after notice relating to any of our other indebtedness for borrowed money or indebtedness of any Restricted Subsidiary in excess of \$10 million, that results in such indebtedness becoming due and payable before maturity;
- (6) certain events of bankruptcy, insolvency or reorganization; and
- (7) any other Event of Default with respect to debt securities of that series.

Concerning the Trustee

Within 90 days after any default, the Trustee will notify you of the default, unless the default is cured or waived.

The Trustee may withhold notice of a default (except a default relating to the payment of principal, premium or interest, or any additional amounts related to any debt security or the payment of any sinking fund installment), if the Trustee in good faith determines that withholding notice is in your interests.

If a default in the performance or breach of any covenant in the Indenture or relating to that series occurs and continues for 60 days after written notice has been given to us or the Trustee by the holders of at least 25% in

principal amount of the outstanding debt securities of a series, the Trustee will not give notice to the holders for at least an additional 30 days after such default.

If an event of default for any series of debt securities occurs and continues, the Trustee or the holders of 25% of the aggregate principal amount (or any lesser amount that the series may provide) of the outstanding debt securities affected by the default may require us to immediately repay the entire principal amount (or any lesser amount that the series may provide) of the outstanding debt securities of such series.

So long as the Trustee has not yet obtained a judgment or decree for payment of money due, and we have paid all amounts due (other than those due solely as a result of acceleration) and have remedied all Events of Default, the holders of a majority in principal amount of the outstanding debt securities of the affected series may rescind any acceleration or may waive any past default. However,

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the holders of a majority in principal amount of all outstanding debt securities of the affected series may not waive any Event of Default with respect to any series of debt securities in the following two circumstances:

a failure to pay the principal of, and premium, if any, or interest on, or any additional amounts payable in respect of, any debt security of that series for which payment had not been subsequently made; or

a covenant or provision that cannot be modified or amended without the consent of each holder of outstanding debt security of that series.

The holders of a majority in principal amount of the outstanding debt securities of a series may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect

to debt securities of that series, provided that this direction is not in conflict with any rule of law or the Indenture. Before proceeding to exercise any right or power under the Indenture at the direction of those holders, the Trustee will be entitled to receive from those holders reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in complying with any such direction.

We are required to deliver to the Trustee an annual statement as to our fulfillment of all of our obligations under the Indenture.

Defeasance

If provided for under the Indenture with respect to debt securities of any series that are registered debt securities denominated and payable only in US dollars (except as otherwise provided under the Indenture), we will:

be discharged from any and all obligations in respect of the debt securities of that series under the Indenture (except for certain obligations to register the transfer or exchange of debt securities of that series, replace stolen, lost or mutilated debt securities of that series, maintain paying agents and hold moneys for payment in trust) on the 91st day after the applicable conditions described in this paragraph have been satisfied; or

not be subject to provisions of the Indenture described above under the subsections entitled " Limitation on Liens" and " Merger and Consolidation" with respect to the debt securities of that series;

in each case if we deposit with the Trustee, in trust, money or US government obligations that, through the payment of interest and principal in accordance with their terms, will provide money in an amount sufficient to pay all the principal (including any mandatory sinking fund payments) of, and premium, if any, and any interest on, the debt securities of that series on the dates such payments are due

in accordance with the terms of those debt securities.

To exercise either option, we are required to deliver to the Trustee an opinion of counsel to the effect that:

- (1) the deposit and related defeasance would not cause the holders of the debt securities of the series being defeased to recognize income, gain or loss for US federal income tax purposes; and
- (2) if the debt securities of that series are then listed on the NYSE, the exercise of the option would not result in delisting.

We may specify defeasance provisions with respect to any series of debt securities.

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DESCRIPTION OF WARRANTS

This section sets forth certain general terms and provisions of the warrants to which any prospectus supplement may relate. The particular terms of the warrants offered by any prospectus supplement and the extent to which such general terms and provisions will not apply to the warrants so offered will be described in the prospectus supplement relating to those warrants.

We may issue warrants for the purchase of debt securities, warrants to buy or sell debt securities of or guaranteed by the United States or other sovereign states ("Government debt securities"), warrants to buy or sell currencies, currency units or units of a currency index or currency basket, warrants to buy or sell units of a stock index or stock basket and warrants to buy and sell a commodity or units of a commodity index or basket. Warrants may be offered independently of or together with any series of debt securities and may be attached to or separate from those debt securities. The warrants will be settled either through physical

delivery or through payment of a cash settlement value as set forth in this prospectus and in any applicable prospectus supplement.

Each series of warrants will be issued under a separate warrant agreement to be entered into between us and a bank or a trust company, as warrant agent, all as described in the prospectus supplement relating to that series of warrants. The warrant agent will act solely as our agent under the applicable warrant agreement and in connection with the certificates for any warrants of that series, and will not assume any obligation or relationship of agency or trust for or with any holders of those warrant certificates or beneficial owners of those warrants.

This section, along with the description in the applicable prospectus supplement, is a summary of certain provisions of the forms of warrant agreements and warrant certificates and is not complete. We urge you to read the warrant agreements and the warrant certificates, because those documents, and not these descriptions, define your rights as a holder of warrants. We have filed copies of the forms of the warrant agreements and warrant certificates as exhibits to the Registration Statement of which this prospectus is a part. Copies of the forms of warrant agreements and warrant certificates are available as set forth under the section entitled "Where You Can Find More Information."

General

The terms of any particular series of warrants will be described in the prospectus supplement relating to that particular series of warrants, including, where applicable:

- (1) whether the warrant is for debt securities, Government debt securities, currencies, currency units, currency indices or currency baskets, stock indices, stock baskets, commodities, commodity indices or any other index or reference as described in the warrant;
- (2) the offering price;
- (3) the currency, currency unit, currency index or currency basket based on or relating

to currencies for which those warrants may be purchased;

(4) the date on which the right to exercise those warrants will commence and the date on which that right will expire;

(5) whether those warrants are to be issuable in registered or bearer form;

(6) whether those warrants are extendible and the period or periods of such extendibility;

(7) the terms upon which bearer warrants of any series may be exchanged for registered warrants of that series;

(8) whether those warrants will be issued in book-entry form, as a global warrant certificate, or in certificated form;

(9) US federal income tax consequences applicable to those warrants; and

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(10) any other terms of those warrants not inconsistent with the applicable warrant agreement.

If the offered warrants are to purchase debt securities, the prospectus supplement will also describe:

(1) the designation, aggregate principal amount, currency, currency unit or currency basket and other terms of the debt securities purchasable upon exercise

of those warrants;

- (2) the designation and terms of the debt securities with which those warrants are issued and the number of those warrants issued with each such debt security;
- (3) the date or dates on and after which those warrants and the related debt securities will be separately transferable; and
- (4) the principal amount of debt securities purchasable upon exercise of one offered warrant and the price at which and currency, currency unit or currency basket in which such principal amount of debt securities may be purchased upon such exercise.

Before you exercise your warrants, you will not have any of the rights of holders of the debt securities of the series purchasable upon such exercise, including the right to receive payments of principal, any premium or interest on those debt securities, or to enforce any of the covenants in the Indenture.

If the offered warrants are to buy or sell Government debt securities or a currency, currency unit, currency index or currency basket, the prospectus supplement will describe:

the amount and designation of the Government debt securities or currency, currency unit, currency index or currency basket, as the case may be, subject to each warrant; and

whether those warrants provide for cash settlement or delivery of the Government debt securities or currency, currency unit, currency index or currency basket upon exercise.

If the offered warrants are warrants on a stock index or a stock basket, they will provide for payment of an amount in cash that will be determined by reference to increases or decreases in such stock index or stock basket. The prospectus supplement will describe:

the terms of those warrants;

the stock index or stock basket covered by those warrants; and

the market to which the stock index or stock basket relates.

If the offered warrants are warrants on a commodity or commodity index, those warrants will provide for cash settlement or delivery of the particular commodity or commodity index. The prospectus supplement will describe:

the terms of those warrants;

the commodity or commodity index covered by those warrants; and

any market to which the commodity or commodity index relates.

You may exchange registered warrants of any series for registered warrants of the same series representing in total the number of warrants that you have surrendered for exchange. To the extent permitted, you may exchange warrant certificates and transfer registered warrants at the corporate trust office of the warrant agent for that series of warrants (or any other office indicated in the prospectus supplement relating to that series of warrants).

As the applicable prospectus supplement permits, a single global warrant certificate, registered in the name of the nominee of the depository of the warrants, or definitive certificates that may be

exchanged on a fixed date, or on a date or dates selected by us, for interests in a global warrant certificate may be issued for:

warrants to buy or sell Government debt securities or a currency, currency unit, currency index or currency basket; and

warrants on stock indices or stock baskets or on commodities or commodity indices.

Bearer warrants will be transferable by delivery. The applicable prospectus supplement will describe the terms of exchange applicable to any bearer warrants.

Exercise of Warrants

As set forth in, or calculable from, the prospectus supplement relating to each series of warrants, each warrant you purchase will entitle you to:

buy the equivalent amount of the debt securities;

buy or sell the equivalent amount of Government debt securities;

buy or sell the equivalent amount of a currency, currency unit, currency index or currency basket, commodity or commodities at the exercise price;

receive a settlement value for the equivalent amount of Government debt securities; or

receive a settlement value for the equivalent amount of a currency, currency unit, currency index or currency basket, stock index or stock basket, commodity or commodity index.

You may exercise your warrants at the corporate trust office of the warrant agent (or any other office indicated in the prospectus supplement relating to those warrants) up to 5:00 p.m., New York time, on the date stated in the prospectus supplement relating to those warrants or as may be otherwise stated in the prospectus supplement. If you do not exercise your warrants before the time on that date (or such later date that we may set), your unexercised warrants will become void.

Subject to any restrictions and additional requirements that may be set forth in the prospectus supplement, you may exercise your warrants by:

delivery to the warrant agent of the warrant certificate evidencing such warrants properly completed and duly executed; and

payment as provided in the applicable prospectus supplement of the amount required to purchase the debt securities, or (except in the case of warrants providing for cash settlement) payment for or delivery of the Government debt securities or currency, currency unit, currency basket, stock index, stock basket, commodity or commodity index, as the case may be, purchased or sold upon such exercise.

Only registered debt securities will be issued and delivered upon exercise of registered warrants. Warrants will be deemed to have been exercised upon receipt of such warrant certificate and any payment, if applicable, at the corporate trust office of the warrant agent or any other office indicated in the applicable prospectus supplement and we will, as soon as practicable after such receipt and payment, issue and deliver the debt securities purchasable upon such exercise, or buy or sell such Government debt securities or currency, currency unit, currency basket, commodity or commodities or pay the settlement value in respect of the warrants.

If fewer than all of the warrants represented by such warrant certificate are exercised, a new warrant certificate will be issued for the remaining amount of the warrants. Special provisions relating to the exercise of any bearer warrants or automatic exercise of warrants will be described in the applicable prospectus supplement.

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**LIMITATIONS ON ISSUANCE OF
BEARER DEBT SECURITIES AND
BEARER WARRANTS**

In compliance with U.S. federal income tax laws and regulations, bearer debt securities, including bearer debt securities in global form, will not be offered, sold, resold or delivered, directly or indirectly, in the United States or its possessions or to "United States Persons," as defined below, except as otherwise permitted by certain U.S. Treasury regulations. Any underwriters, dealers or agents participating in the offerings of bearer debt securities, directly or indirectly, must agree that they will not, in connection with the original issuance of any bearer debt securities or during the "restricted period" (as defined in the Treasury regulations) offer, sell, resell or deliver, directly or indirectly, any bearer debt securities in the United States or to United States Persons, other than as permitted by the Treasury regulations. In addition, any underwriters, dealers or agents must have procedures reasonably designed to ensure that their employees or agents who are directly engaged in selling bearer debt securities are aware of the restrictions on the offering, sale, resale or delivery of bearer debt securities.

We will not deliver a bearer debt security (other than a temporary global bearer debt security) in connection with its original issuance or pay interest on any bearer debt security until we have received the written certification provided for in the indenture. Each bearer debt security, other than a temporary global bearer debt security, will bear the following legend on the face of the security and on any interest coupons that may be detachable:

"Any United States person who holds this obligation will be subject to limitations under the U.S. income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The legend also will be evidenced on any book-entry system maintained with respect to the bearer debt securities.

The sections referred to in the legend provide, in general, that a U.S. taxpayer who holds a bearer security or coupon may not deduct any loss realized on the sale, exchange or redemption of the bearer security and any gain which otherwise would be treated as capital gain will be treated as ordinary income, unless the taxpayer is, or holds the bearer security or coupon through, a "financial institution" (as defined in the relevant Treasury regulations) and certain other conditions are satisfied.

For these purposes, "United States" means the United States of America (including the District of Columbia), and its possessions. "United States Person" generally means:

a citizen or resident of the United States;

a corporation, partnership, or other business entity created or organized in or under the laws of the United States or any State or political subdivision thereof (including the District of Columbia);

an estate whose income 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.

The prospectus supplement relating to bearer warrants will describe any limitations on the offer, sale, delivery and exercise of bearer warrants (including a requirement that a certificate of non-U.S. beneficial ownership be delivered once a bearer warrant is exercised).

DESCRIPTION OF PREFERRED STOCK

This section sets forth certain general terms and provisions of the preferred stock to which any prospectus supplement may relate. The particular terms of the preferred stock offered by any prospectus supplement and the extent, if any, to which such general terms will not apply to the preferred stock so offered will be described in the prospectus supplement relating to such preferred stock.

This section, along with the description in the applicable prospectus supplement, is a summary of certain provisions of our restated certificate of incorporation, as amended, including the applicable certificate of designations, and is not complete.

We urge you to read the restated certificate of incorporation, as amended, and the certificate of designations for the relevant series of preferred stock in which you are intending to invest, because those documents, and not these descriptions, define your rights as a holder of preferred stock. We have filed a copy of the restated certificate of incorporation, as amended, and the certificates of designations for our currently outstanding shares of preferred stock as exhibits to the Registration Statement of which this prospectus is a part. Copies of the restated certificate of incorporation, as amended, are available as set forth under the section entitled "Where You Can Find More Information."

General

Our restated certificate of incorporation, as amended, authorizes the issuance of 10,000,000 shares of preferred stock, \$1.00 par value. We may issue preferred stock from time to time in one or more series. The exact terms of each series will be established by our board of directors or a duly authorized committee of the board.

The terms of any particular series of preferred stock will be described in the prospectus supplement relating to that particular series of preferred stock, including, where applicable:

- (1) the designation, stated value and liquidation preference of such preferred

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- stock and the number of shares offered;
- (2) the offering price;
- (3) the dividend rate or rates (or method of calculation), the date or dates from which dividends shall accrue, and whether such dividends shall be cumulative or noncumulative and, if cumulative, the dates from which dividends shall commence to cumulate;
- (4) any redemption or sinking fund provisions;
- (5) the amount that shares of such series shall be entitled to receive in the event of our liquidation, dissolution or winding up;
- (6) the terms and conditions, if any, on which shares of such series shall be exchangeable for shares of our stock of any other class or classes, or other series of the same class;
- (7) the voting rights, if any, of shares of such series in addition to those set forth in "Voting Rights" below;
- (8) the status as to reissuance or sale of shares of such series redeemed, purchased or otherwise reacquired, or surrendered to us on conversion or exchange;
- (9) the conditions and restrictions, if any, on the payment of dividends or on the making of other distributions on, or the purchase, redemption or other acquisition by us or any subsidiary, of the

common stock or of any other class of our stock ranking junior to the shares of such series as to dividends or upon liquidation;

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(10) the conditions and restrictions, if any, on the creation of indebtedness of us or of any subsidiary, or on the issue of any additional stock ranking on a parity with or prior to the shares of such series as to dividends or upon liquidation; and

(11) any additional dividend, liquidation, redemption, sinking or retirement fund and other rights, preferences, privileges, limitations and restrictions of such preferred stock.

The preferred stock will, when issued, be fully paid and nonassessable. Unless otherwise specified in the applicable prospectus supplement, the shares of each series of preferred stock will upon issuance rank senior to the common stock and on a parity in all respects with each other outstanding series of preferred stock. As of November 30, 2002, there were outstanding:

479,250 shares of
Adjustable Rate
Cumulative Preferred
Stock, Series A;

3,817,850 depositary
shares, each representing a
one-fourth interest in a
share of 6.15% Cumulative
Preferred Stock, Series E;

3,293,800 depositary
shares, each representing a
one-fourth interest in a
share of 5.72% Cumulative
Preferred Stock, Series F;
and

3,745,000 depositary shares, each representing a one-fourth interest in a share of 5.49% Cumulative Preferred Stock, Series G.

The preferred stock will have no preemptive rights to subscribe for any additional securities that may be issued by us.

Dividends

Unless otherwise specified in the applicable prospectus supplement, before any dividends may be declared or paid to the holders of shares of our common stock, par value \$1.00 per share, or of any other of our capital stock ranking junior to any series of the preferred stock as to the payment of dividends, the holders of the preferred stock of that series will be entitled to receive, when and as declared by the board of directors or a duly authorized committee of the board, out of our net profits or net assets legally available therefor, dividends payable quarterly on January 15, April 15, July 15 and October 15, in each year at such rates as will be specified in the applicable prospectus supplement. Such rates may be fixed or variable or both. If variable, the formula used for determining the dividend rate for each dividend period will be specified in the applicable prospectus supplement. Dividends will be payable to the holders of record as they appear on our stock transfer records on such dates (not less than 15 days nor more than 60 days prior to a dividend payment date) as will be fixed by the board of directors or a duly authorized committee thereof. Dividends will be paid in the form of cash.

Dividends on any series of preferred stock may be cumulative or noncumulative, as specified in the applicable prospectus supplement. If the board of directors fails to declare a dividend payable on a dividend payment date on any series of preferred stock for which dividends are noncumulative, then the holders of the preferred stock of that series will have no right to receive a dividend in respect of the dividend period relating to such dividend payment date, and we will have no obligation to pay the dividend accrued for such period, whether or not dividends on that series are declared or paid on any future dividend payment dates. If dividends on any series of preferred stock are not paid in full or declared in full and sums set apart for the payment thereof, then no dividends shall be declared and paid on that series unless declared and paid

ratably on all shares of every series of preferred stock then outstanding, including dividends accrued or in arrears, if any, in proportion to the respective amounts that would be payable per share if all such dividends were declared and paid in full.

The prospectus supplement relating to a series of preferred stock will specify the conditions and restrictions, if any, on the payment of dividends or on the making of other distributions on, or the purchase, redemption or other acquisition by us or any of our subsidiaries of, the common stock or of any other class of our stock ranking junior to the shares of that series as to dividends or upon

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liquidation and any other preferences, rights, restrictions and qualifications that are not inconsistent with the certification of incorporation.

Liquidation Rights

Unless otherwise specified in the prospectus supplement relating to a series of preferred stock, upon our liquidation, dissolution or winding up (whether voluntary or involuntary) the holders of preferred stock of that series will be entitled to receive out of our assets available for distribution to our stockholders, whether from capital, surplus or earnings, the amount specified in the applicable prospectus supplement for that series, together with all dividends accrued and unpaid, before any distribution of the assets will be made to the holders of common stock or any other class or series of shares ranking junior to that series of preferred stock upon liquidation, dissolution or winding up, and will be entitled to no other or further distribution. If, upon our liquidation, dissolution or winding up the assets distributable among the holders of a series of preferred stock shall be insufficient to permit the payment in full to the holders of that series of preferred stock of all amounts payable to those holders, then the entire amount of our assets thus distributable will be distributed ratably among the holders of that series of preferred stock in proportion to the respective amounts that would be payable per share if those assets were sufficient to permit payment in full.

Neither our consolidation, merger or other business combination with or into any other

individual, firm, corporation or other entity nor the sale, lease, exchange or conveyance of all or any part of our property, assets or business will be deemed to be a liquidation, dissolution or winding up.

Redemption

If so specified in the applicable prospectus supplement, any series of preferred stock may be redeemable, in whole or in part, at our option or pursuant to a retirement or sinking fund or otherwise, on terms and at the times and the redemption prices specified in that prospectus supplement. If less than all shares of the series at the time outstanding are to be redeemed, the shares to be redeemed will be selected pro rata or by lot, in such manner as may be prescribed by resolution of the board of directors.

Notice of any redemption of a series of preferred stock will be given by publication in a newspaper of general circulation in the Borough of Manhattan, the City of New York, not less than 30 nor more than 60 days prior to the redemption date. We will mail a similar notice, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of shares of that series at the addresses shown on our stock transfer records, but the mailing of such notice will not be a condition of such redemption. In order to facilitate the redemption of shares of preferred stock, the board of directors may fix a record date for the determination of the shares to be redeemed. Such record date will be not more than 60 days nor less than 30 days prior to the redemption date.

Prior to the redemption date, we will deposit money for the payment of the redemption price with a bank or trust company doing business in the Borough of Manhattan, the City of New York, and having a capital and surplus of at least \$10,000,000. Unless we fail to make such deposit, on the redemption date, all dividends on the series of preferred stock called for redemption will cease to accrue and all rights of the holders of shares of that series as our stockholders shall cease, except the right to receive the redemption price (but without interest). Unless otherwise specified in the applicable prospectus supplement, any monies so deposited which remain unclaimed by the holders of the shares of that series at the end of six years after the redemption date will become our property, and will be paid by the bank or trust company with which it has been so deposited to us.

Conversion Rights

No series of preferred stock will be convertible into common stock.

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Voting Rights

Unless otherwise determined by the board of directors and indicated in the applicable prospectus supplement, holders of the preferred stock of that series will not have any voting rights except as set forth below or as otherwise from time to time required by law. Whenever dividends on any series of preferred stock or any other class or series of stock ranking on a parity with that series with respect to the payment of dividends shall be in arrears for dividend periods, whether or not consecutive, containing in the aggregate a number of days equivalent to six calendar quarters, the holders of shares of that series (voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of two of the authorized number of our directors at the next annual meeting of stockholders and at each subsequent meeting until all dividends accumulated on that series have been fully paid or set apart for payment. The term of office of all directors elected by the holders of a series of preferred stock shall terminate immediately upon the termination of the right of the holders of that series to vote for directors. Whenever the shares of a series are or become entitled to vote, each holder of shares of that series will have one vote for each share held.

So long as shares of any series of preferred stock remain outstanding, we shall not, without the consent of the holders of at least two-thirds of the shares of that series outstanding at the time (voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable):

- (1) issue or increase the authorized amount of any class or series of stock ranking senior to the shares of that series as to dividends or upon liquidation; or

- (2)

amend, alter or repeal the provisions of our certificate of incorporation or of the resolutions contained in the certificate of designation, whether by merger, consolidation or otherwise, so as to materially and adversely affect any power, preference or special right of the outstanding shares of that series or the holders thereof. Any increase in the amount of the authorized common stock or authorized preferred stock or the creation and issuance of common stock or any other series of preferred stock ranking on a parity with or junior to a series of preferred stock as to dividends and upon liquidation shall not be deemed to materially and adversely affect the powers, preferences or special rights of the shares of that series.

Unless otherwise indicated in the applicable prospectus supplement, the transfer agent, dividend disbursing agent and registrar for each series of preferred stock will be Mellon Investor Services L.L.C.

DESCRIPTION OF DEPOSITARY SHARES

This section sets forth certain general terms and provisions of the depositary shares and depositary receipts which we may elect to issue.

This section, along with the description in the applicable prospectus supplement, is a summary of certain provisions of the deposit agreement relating to the applicable series of Preferred Stock and is not complete. Any such deposit agreement will be filed as an exhibit to or incorporated by reference in the Registration Statement of which this prospectus is a part.

General

We may, at our option, elect to offer fractional interests in shares of a series of preferred stock, rather than whole shares. If we exercise our option, we will provide for the issuance by a depositary of depositary receipts evidencing depositary shares, each of which

will represent a fractional interest (to be specified in the applicable prospectus supplement) in a share of a particular series of the Preferred Stock as more fully described below.

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If we offer fractional shares of any series of preferred stock, those shares will be deposited under a separate deposit agreement among us, a depository bank or trust company selected by us and having its principal office in the United States and having a combined capital and surplus of at least \$50,000,000 and the holders from time to time of the depository receipts issued thereunder by that depository. The applicable prospectus supplement will set forth the name and address of the depository. Subject to the terms of the deposit agreement, each owner of a depository share will be entitled, in proportion to the applicable fractional interest in a share of preferred stock underlying such depository share, to all the rights and preferences of the fractional share of preferred stock underlying such depository share (including dividend, voting, redemption and liquidation rights).

Until definitive engraved depository receipts are prepared, upon our written order, the depository may issue temporary depository receipts substantially identical to (and entitling the holders thereof to all the rights pertaining to) the definitive depository receipts but not in definitive form. Definitive depository receipts will be prepared thereafter without unreasonable delay. Temporary depository receipts will be exchangeable for definitive depository receipts at our expense.

Dividends and Other Distributions

The depository will distribute to the holders of depository receipts evidencing depository shares all cash dividends or other cash distributions received in respect of the underlying fractional shares of preferred stock in proportion to their respective holdings of the depository shares on the relevant record date. The depository will distribute only the amount that can be distributed without attributing to any holder of depository shares a fraction of one cent. Any balance not so distributed will be held by the depository (without liability for interest thereon) and will be added to and treated as part of the next sum received by the depository for distribution to holders of

depository receipts then outstanding.

If we distribute property other than cash in respect of shares of preferred stock deposited under a deposit agreement, the depository will distribute the property received by it to the record holders of depository receipts evidencing the depository shares relating to those shares of preferred stock, in proportion, as nearly as may be practicable, to their respective holdings of the depository shares on the relevant record dates. If the depository determines that it is not feasible to make such a distribution, the depository may, with our approval, adopt such method as it deems equitable and practicable to give effect to the distribution, including the sale of the property so received and distribution of the net proceeds from such sale to the holders of the depository receipts.

Each deposit agreement will also contain provisions relating to the manner in which any subscription or similar right offered by us to holders of the preferred stock deposited under such deposit agreement will be made available to holders of depository shares.

Redemption of Depository Shares

If the shares of preferred stock deposited under a deposit agreement are subject to redemption, in whole or in part, then, upon any such redemption, the depository shares relating to those deposited shares will be redeemed from the proceeds received by the depository as a result of the redemption. Whenever we redeem shares of preferred stock held by a depository, the depository will redeem as of the same redemption date the number of depository shares representing the shares of preferred stock so redeemed. The depository will mail the notice of redemption not less than 20 and not more than 50 days prior to the date fixed for redemption to the record holders of the depository shares to be so redeemed. The redemption price per depository share will be equal to the applicable fraction of the per share redemption price of the preferred stock underlying such depository share. If less than all the depository shares are to be redeemed, the depository shares to be redeemed will be selected by lot or pro rata as may be determined by the depository.

Once notice of redemption has been given, from and after the redemption date, the depository shares called for redemption will no longer be deemed to be outstanding, unless we fail to redeem the

shares of preferred stock so called for redemption. On the redemption date, all rights of the holders of depositary shares will cease, except for the right to receive the monies payable upon such redemption and any money or other property to which the holders of depositary shares were entitled upon such redemption, upon surrender to the depositary of the depositary receipts evidencing depositary shares.

Voting Rights

As soon as practicable after receipt of notice of any meeting at which the holders of shares of preferred stock deposited under a deposit agreement are entitled to vote, the depositary will mail the information contained in that notice of meeting (and any accompanying proxy materials) to the holders of the depositary shares relating to such preferred stock as of the record date for such meeting. Each such holder will be entitled, subject to any applicable restrictions, to instruct the depositary as to the exercise of the voting rights of the preferred stock represented by such holder's depositary shares. The depositary will attempt to vote the preferred stock represented by those depositary shares in accordance with the holder's instructions, and we will agree to take all action deemed necessary by the depositary to enable the depositary to do so. The depositary will abstain from voting shares of preferred stock deposited under a deposit agreement if it has not received specific instructions from the holders of the depositary shares representing those shares.

Withdrawal of Stock

Upon surrender of depositary receipts at the principal office of the depositary (unless the depositary shares evidenced by the depositary receipts have previously been called for redemption), and subject to the terms of the deposit agreement, the owner of the depositary shares shall be entitled to delivery of whole shares of preferred stock and all money and other property, if any, represented by those depositary shares. Fractional shares of preferred stock will not be delivered. If the depositary receipts surrendered by the holder evidence depositary shares in excess of those representing the number of whole shares of preferred stock to be withdrawn, the depositary will deliver to the holder at the same time a new depositary receipt evidencing the depositary

shares. Holders of shares of preferred stock which are withdrawn will not thereafter be entitled to deposit such shares under a deposit agreement or to receive depositary shares. We do not expect that there will be any public trading market for the preferred stock, except as represented by depositary shares.

Amendment and Termination of the Deposit Agreement

We may from time to time amend the form of depositary receipt evidencing any depositary shares and any provision of a deposit agreement by agreement between us and the depositary. However, any amendment that materially and adversely alters the rights of the existing holders of depositary shares will not be effective unless and until approved by the holders of at least a majority of the depositary shares then outstanding under that deposit agreement. Each deposit agreement will provide that each holder of depositary shares who continues to hold those depositary shares at the time an amendment becomes effective will be deemed to have consented to the amendment and will be bound by that amendment. Except as may be necessary to comply with any mandatory provisions of applicable law, no amendment may impair the right, subject to the terms of the deposit agreement, of any holder of any depositary shares to surrender the depositary receipt evidencing those depositary shares to the depositary together with instructions to deliver to the holder the whole shares of preferred stock represented by the surrendered depositary shares and all money and other property, if any, represented thereby. A deposit agreement may be terminated by us or the depositary only if:

- (1) all outstanding depositary shares issued under the deposit agreement have been redeemed; or
- (2) there has been a final distribution in respect of the preferred stock relating to those depositary shares in connection with any liquidation, dissolution or winding up of the Company and the amount received by the depositary as a result of that distribution has been distributed by the Depositary to the holders of those depositary shares.

Charges of Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay charges of any depositary in connection with the initial deposit of preferred stock and the initial issuance of the depositary shares and any redemption of such preferred stock. Holders of depositary shares will pay any other taxes and charges incurred for their accounts as are provided in the deposit agreement.

Miscellaneous

Each depositary will forward to the holders of depositary shares issued by that depositary all reports and communications from us that are delivered to the depositary and that we are required to furnish to the holders of the preferred stock held by the depositary. In addition, each depositary will make available for inspection by the holders of those depositary shares, at the principal office of such depositary and at such other places as it may from time to time deem advisable, all reports and communications received from us that are received by such depositary as the holder of preferred stock.

Neither we nor any depositary will assume any obligation or will be subject to any liability under a deposit agreement to holders of the depositary shares other than for its negligence or willful misconduct. Neither we nor any depositary will be liable if it is prevented or delayed by law or any circumstance beyond its control in performing its obligations under a deposit agreement. The obligations of us and any depositary under a deposit agreement will be limited to performance in good faith of their duties thereunder, and they will not be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or preferred stock unless satisfactory indemnity is furnished. We and any depositary may rely on written advice of counsel or accountants, on information provided by persons presenting preferred stock for deposit, holders of depositary shares or other persons believed in good faith to be competent to give such information and on documents believed to be genuine and to have been signed or presented by the proper party or parties.

Resignation and Removal of Depositary

A depositary may resign at any time by delivering to us notice of its election to resign, and we may remove any depositary at any time. Any such resignation or removal will take effect upon the appointment of a successor depositary and its acceptance of such appointment. Such successor depositary must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company having its principal office in the United States of America and having a combined capital and surplus of at least \$50,000,000.

BOOK-ENTRY PROCEDURES AND SETTLEMENT

Any series of preferred stock (and the depositary shares relating to such series) may be issued in certificated or book-entry form, as specified in the applicable prospectus supplement. Book-entry preferred stock or depositary shares will be issued in the form of a single global stock certificate or a single global depositary receipt (as the case may be) registered in the name of the nominee of The Depository Trust Company or any successor or alternate depositary we select.

The depositary has provided us the following information: The depositary is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. The depositary holds securities that have been deposited by its participating organizations, which are called "participants." The depositary also facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through computerized records for participants' accounts. This eliminates the need to exchange certificates. Participants include securities brokers and dealers, banks, trust companies,

clearing corporations, and certain other organizations. The depositary is owned by a number of its participants and by the NYSE, the AMEX and the NASD. The depositary's

book-entry system also is used by other organizations such as securities brokers and dealers, banks, and trust companies that work through a participant. Persons who are not participants may beneficially own securities held by the depositary only through participants. The rules applicable to the depositary and its participants are on file with the SEC.

Upon our issuance of any preferred stock or depositary shares that will be represented by a global security, the depositary will immediately credit on its book-entry system the respective amounts of preferred stock or depositary shares represented by the global security to participants' accounts. The accounts to be credited will be designated by our agents, or by us if we directly offer and sell the preferred stock or depositary shares. Ownership of beneficial interests in a global security will be limited to participants or persons that hold interests through the participants. Beneficial ownership interests in a global security will be shown on, and transfers of those interests will be made only through, records maintained by the depositary's participants or persons holding interests through participants. Please note, the laws of some states require that certain purchasers of securities take physical delivery of these securities in definitive form. These limits and laws may impair the ability to transfer beneficial interest in a global security.

Unless the global security is exchanged in whole or in part for the relevant definitive security representing preferred stock or depositary shares, the global security cannot be transferred. However, the depositary, its nominees and their successors may transfer a global security as a whole to one another. This means we will not issue certificates to you. Until the relevant definitive security representing preferred stock or depositary shares is issued, the depositary, not you, will be considered the holder of preferred stock or depositary shares represented by a global security. We have described below the only circumstances where preferred stock or depositary shares represented by a global security will be exchangeable for certificates representing preferred stock or depositary shares.

We will pay dividends and other distributions on the preferred stock or depositary shares to the depositary or its nominee. We and the depositary will treat the nominee as the owner of the global securities for all purposes. Neither we nor the depositary will have any responsibility or liability for any

aspect of the records relating to or payments made on account of your beneficial ownership interests in a global security or for maintaining, supervising or reviewing the records relating to you as the owner of a beneficial interest in such global securities. We expect that the depositary will credit immediately the respective accounts of the participants upon receipt of any dividend payment or other distribution on a global security. We expect that participants' payments to owners of the beneficial interests in a global security will be governed by standing customer instructions and customary practices, and will be the participants' responsibility.

The depositary nominee is the only person who can exercise a right to repayment of a global security. If you own a beneficial interest in a global security and want to exercise a right to repayment, then you must instruct your participant (for example, your broker) to notify the nominee of your desire to exercise such right. Different participants have different procedures for accepting instructions from their customers (for example, cut-off times for notice), and accordingly, you should consult your participant to inform yourself about their particular procedures.

Unless otherwise specified in the applicable prospectus supplement, preferred stock or depositary shares will be issued initially as book-entry preferred stock or depositary shares. Generally, we will issue book-entry preferred stock or depositary shares only in the form of global securities. Preferred stock or depositary shares represented by a global security may be exchanged for the relevant definitive security with the same terms in authorized denominations if:

the depositary notified us that it is unwilling or unable to continue as a depositary and a successor depositary is not appointed by us within 90 days; or

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we determine not to have any preferred stock or depositary shares represented by a global security.

In these circumstances, you will be entitled to physical delivery of a definitive certificate or other instrument evidencing such preferred stock or depositary shares in an amount equal to your beneficial ownership interest and registered in your name.

PLAN OF DISTRIBUTION

We may sell the securities by any of the following methods:

to underwriters (including Bear Stearns) or dealers, who may act directly or through a syndicate represented by one or more managing underwriters (including Bear Stearns);

through broker-dealers (including Bear Stearns) we have designated to act on our behalf as agents;

directly to one or more purchasers;

directly to the public through Bear Stearns utilizing DAiSSSM (Dutch Auction internet Syndication SystemSM), a rules-based, proprietary, single-priced, modified Dutch Auction syndication system for the pricing and allocation of securities; or

through a combination of any of these methods of sale.

Each prospectus supplement will set forth the manner and terms of an offering of securities, including:

whether that offering is being made to underwriters or through agents or directly;

the rules and procedures for the auction process through DAiSSSM, if used;

any underwriting discounts, dealer concessions, agency commissions and any other items that may be deemed to constitute underwriters', dealers' or agents' compensation;

the securities' purchase price or initial public offering price; and

the proceeds we anticipate from the sale of the securities.

When securities are to be sold to underwriters, unless otherwise set forth in the applicable prospectus supplement, the underwriters' obligations to purchase those securities will be subject to certain conditions precedent. If the underwriters purchase any of the securities, they will be obligated to purchase all of the securities. The underwriters will acquire the securities for their own accounts and may resell them, either directly to the public or to securities dealers, at various times in one or more transactions, including negotiated transactions, either at a fixed public offering price or at varying prices determined at the time of sale.

Any initial public offering price and any concessions allowed or reallocated to dealers may be changed intermittently.

To the extent that any securities underwritten by Bear Stearns are not resold by Bear Stearns for an amount at least equal to their public offering price, the proceeds from the offering of those securities will be reduced. Until resold, any such preferred stock and depositary shares will be treated as if they were not outstanding. Bear Stearns intends to resell any of those securities at various times after the termination of the offering at varying prices related to prevailing market prices at the time of sale, subject to applicable prospectus delivery requirements.

Unless otherwise indicated in the applicable prospectus supplement, when securities are sold through an agent, the designated agent will agree, for the period of its

appointment as agent, to use its best efforts to sell the securities for our account and will receive commissions from us as will be set forth in the applicable prospectus supplement.

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Securities bought in accordance with a redemption or repayment under their terms also may be offered and sold, if so indicated in the applicable prospectus supplement, in connection with a remarketing by one or more firms acting as principals for their own accounts or as agents for us. Any remarketing firm will be identified and the terms of its agreement, if any, with us and its compensation will be described in the prospectus supplement. Remarketing firms may be deemed to be underwriters in connection with the securities remarketed by them.

If so indicated in the applicable prospectus supplement, we will authorize agents, underwriters or dealers to solicit offers by certain specified institutions to purchase securities at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a future date specified in the prospectus supplement. These contracts will be subject only to those conditions set forth in the applicable prospectus supplement, and the prospectus supplement will set forth the commissions payable for solicitation of these contracts.

Underwriters and agents participating in any distribution of securities may be deemed "underwriters" within the meaning of the Securities Act and any discounts or commissions they receive in connection with the distribution may be deemed to be underwriting compensation. Those underwriters and agents may be entitled, under their agreements with us, to indemnification by us against certain civil liabilities, including liabilities under the Securities Act, or to contribution by us to payments that they may be required to make in respect of those civil liabilities. Various of those underwriters or agents may be customers of, engage in transactions with or perform services for us or our affiliates in the ordinary course of business.

Following the initial distribution of any series of securities (and in the case of shares of preferred stock, subject to obtaining approval or exemption from the NYSE), Bear Stearns may

offer and sell previously issued securities of that series at various times in the course of its business as a broker-dealer. Bear Stearns may act as principal or agent in those transactions. Bear Stearns will use this prospectus and the prospectus supplement applicable to those securities in connection with those transactions. Sales will be made at prices related to prevailing prices at the time of sale or at related or negotiated prices. Our other affiliates, including BSIL, may also engage in such transactions and may use this prospectus and any applicable prospectus supplement for such purpose.

In order to facilitate the offering of certain securities under this Registration Statement or an applicable prospectus supplement, certain persons participating in the offering of those securities may engage in transactions that stabilize, maintain or otherwise affect the price of those securities during and after the offering of those securities. Specifically, if the applicable prospectus supplement permits, the underwriters of those securities may over-allot or otherwise create a short position in those securities for their own account by selling more of those securities than have been sold to them by us and may elect to cover any such short position by purchasing those securities in the open market.

In addition, the underwriters may stabilize or maintain the price of those securities by bidding for or purchasing those securities in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering are reclaimed if securities previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the securities at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of securities to the extent that it discourages resales of the securities. No representation is made as to the magnitude or effect of any such stabilization or other transactions. Such transactions, if commenced, may be discontinued at any time.

Each series of offered securities will be a new issue of securities and will have no established trading market. Any underwriters to whom offered securities are sold for public offering and sale may make a market in such offered securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice.

The offered securities may or may not be

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listed on a national securities exchange. No assurance can be given that there will be a market for the offered securities.

We may from time to time offer securities directly to the public through Bear Stearns and may utilize DAiSSSM, a rules-based, proprietary, single-priced, modified Dutch Auction syndication system for the pricing and allocation of such securities. DAiSSSM allows bidders to directly participate, through Internet access to an auction site, by submitting conditional offers to buy (each, a "bid") that are subject to acceptance by the underwriter, and which may directly affect the price at which such securities are sold.

The final offering price at which securities will be sold and the allocation of securities among bidders will be based solely on the results of the auction, subject to possible stabilization activity previously described.

During an auction, DAiSSSM will present to each bidder, on a real-time basis, the clearing spread at which the offering would be sold, based on the bids submitted and not withdrawn, and whether a bidder's individual bids would be accepted, prorated or rejected. Upon completion of the auction, the offering price of the securities will be the lowest spread at which the aggregate dollar amount of bids submitted, and not removed, at that spread and lower spreads equals or exceeds the size of the offering as disclosed in the prospectus supplement which is the final clearing spread. If DAiSSSM is utilized, prior to the auction we and Bear Stearns will establish minimum admissible bids, maximum quantity restrictions and other specific rules governing the auction process, all of which will be made available to bidders in the offering cul-de-sac and described in the prospectus supplement.

Bids at a lower spread than the final clearing spread will be fully allocated. Bids at the final clearing spread will be prorated based on the time of submission and pursuant to the allocation procedures in the auction rules. Bids above the final clearing spread will receive no allocation.

If an offering is made using DAiSSSM you should review the auction rules, as displayed in

the offering cul-de-sac and described in the prospectus supplement, for a more detailed description of the offering procedures.

Because Bear Stearns and BSIL are our wholly owned subsidiaries, each distribution of securities will conform to the requirements set forth in Rule 2720 of the NASD Conduct Rules. Furthermore, any underwriters offering the offered securities will not confirm sales to any accounts over which they exercise discretionary authority without the prior approval of the customer.

ERISA CONSIDERATIONS

Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), prohibits the borrowing of money, the sale of property and certain other transactions involving the assets of plans that are qualified under the Code ("Qualified Plans") or individual retirement accounts ("IRAs") and persons who have certain specified relationships to them. Section 406 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), prohibits similar transactions involving the assets of employee benefit plans that are subject to ERISA ("ERISA Plans"). Qualified Plans, IRAs and ERISA Plans and entities treated for purposes of ERISA and the Code as holding assets thereof are in this prospectus collectively referred to as "Plans."

Persons who have such specified relationships are referred to as "parties in interest" under ERISA and as "disqualified persons" under the Code. "Parties in interest" and "disqualified persons" encompass a wide range of persons, including any fiduciary (for example, investment manager, trustee or custodian), any person providing services (for example, a broker), the Plan sponsor, an employee organization any of whose members are covered by the Plan, and certain persons related to or affiliated with any of the foregoing.

Each of us, Bear Stearns and BSSC may be considered a "party in interest" or "disqualified person" with respect to many Plans, including, for example, IRAs established with us or them. The

purchase and/or holding of securities by a Plan with respect to which we, Bear Stearns, BSSC and/or certain of our affiliates is a fiduciary and/or a service provider (or otherwise is a "party in interest" or "disqualified person") could constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, unless such securities are acquired or held pursuant to and in accordance with an applicable statutory or administrative exemption.

Applicable exemptions may include certain prohibited transaction class exemptions ("PTCEs") (for example, PTCE 84-14 relating to qualified professional asset managers, PTCE 96-23 relating to certain in-house asset managers, PTCE 90-1 relating to insurance company pooled separate accounts, PTCE 91-38 relating to bank collective trust funds and PTCE 95-60 relating to insurance company general accounts).

A fiduciary who is responsible for an ERISA Plan engaging in a non-exempt prohibited transaction may be liable for any losses to the Plan resulting from such transaction and may be subject to a penalty under ERISA. Also, Code Section 4975 generally imposes an excise tax on disqualified persons who engage, directly or indirectly, in similar types of non-exempt transactions with the assets of Plans subject to such Section.

In accordance with ERISA's general fiduciary requirement, a fiduciary with respect to any ERISA Plan who is considering the purchase of securities on behalf of such plan should determine whether such purchase is permitted under the governing plan document and is prudent and appropriate for the ERISA Plan in view of its overall investment policy and the composition and diversification of its portfolio. Plans established with, or for which services are provided by, us, Bear Stearns, BSSC and/or certain of our affiliates should consult with counsel before making any acquisition. Each purchaser of any securities, the assets of which constitute the assets of one or more Plans and each fiduciary that directs such purchaser with respect to the purchase or holding of such securities, will be deemed to represent that the purchase and holding of the securities does not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code for which an exemption is not available.

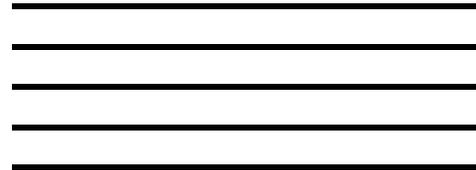
EXPERTS

The consolidated financial statements and the related financial statement schedules incorporated in this prospectus by reference from our 2002 Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports, which are incorporated in this prospectus by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

VALIDITY OF THE SECURITIES

The validity of the debt securities, the warrants, the preferred stock and the depositary shares will be passed on for us by Cadwalader, Wickersham & Taft LLP, New York, New York.

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You should only rely on the information contained in this pricing supplement, the accompanying prospectus supplement and prospectus. We have not authorized anyone to provide you with information or to make any representation to you that is not contained in this pricing supplement, the accompanying prospectus supplement and prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This pricing supplement, the accompanying prospectus supplement and prospectus are not an offer to sell these securities, and these documents are not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted. You should not under any circumstances assume that the information in this pricing supplement, the accompanying prospectus supplement and prospectus is correct on any date after their respective dates.

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\$36,834,000

**The Bear Stearns
Companies Inc.**

**Medium-Term Notes,
Series B**

**Principal Protected Notes Linked
to the S&P 500® Index**

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Due October 1, 2008

PRICING SUPPLEMENT

Bear, Stearns & Co. Inc.

September 25, 2003
