HOUSTON EXPLORATION CO
Form SC 13D
January 11, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934

(Amendment No.)*

THE HOUSTON EXPLORATION COMPANY

(Name of Issuer)

COMMON STOCK, par value $0.01 per share

(Title of Class of Securities)

442120101

(CUSIP Number)

Cyrus D. Marter IV

Vice President - General Counsel and Secretary

Forest Oil Corporation

707 17th Street, Suite 3600

Denver, Colorado 80202

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

January 7, 2007

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. o

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No.

1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) Forest Oil Corporation 25-0484900		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) o (b) x*		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) BK (see Item 3 below)		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o		
6.	Citizenship or Place of Organization New York		
Number of Shares Beneficially Owned by Each Reporting Person With		7.	Sole Voting Power
		8.	Shared Voting Power 4,131,900 *
		9.	Sole Dispositive Power
		10.	Shared Dispositive Power 4,131,900 *
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 4,131,900 *		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o Not applicable		
13.	Percent of Class Represented by Amount in Row (11) 14.7%**		
14.	Type of Reporting Person (See Instructions) CO		

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* Represents the aggregate number of shares of The Houston Exploration Company common stock held by certain stockholders of The Houston Exploration Company who entered into a Voting Agreement dated January 7, 2007 with Forest Oil Corporation and MJCO Corporation obligating such stockholders to vote such shares in favor of the proposed acquisition of The Houston Exploration Company by Forest Oil Corporation and related matters. Forest Oil Corporation expressly disclaims beneficial ownership of any of the shares of The Houston Exploration Company common stock subject to the Voting Agreement.

** Based on 28,098,172 shares of The Houston Exploration Company common stock outstanding as of January 4, 2007, as represented by The Houston Exploration Company in the Merger Agreement discussed in Items 3, 4 and 6

below.

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CUSIP No.

1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) MJCO Corporation 20-8176856		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) o (b) x*		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) BK (see Item 3 below)		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o		
6.	Citizenship or Place of Organization Delaware		
Number of Shares Beneficially Owned by Each Reporting Person With		7.	Sole Voting Power
		8.	Shared Voting Power 4,131,900 *
		9.	Sole Dispositive Power
		10.	Shared Dispositive Power 4,131,900 *
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 4,131,900 *		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) o Not applicable		
13.	Percent of Class Represented by Amount in Row (11) 14.7%**		
14.	Type of Reporting Person (See Instructions) CO		

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* Represents the aggregate number of shares of The Houston Exploration Company common stock held by certain stockholders of The Houston Exploration Company who entered into a Voting Agreement dated January 7, 2007 with Forest Oil Corporation and MJCO Corporation obligating such stockholders to vote such shares in favor of the proposed acquisition of The Houston Exploration Company by Forest Oil Corporation and related matters. MJCO Corporation expressly disclaims beneficial ownership of any of the shares of The Houston Exploration Company common stock subject to the Voting Agreement.

** Based on 28,098,172 shares of The Houston Exploration Company common stock outstanding as of January 4, 2007, as represented by The Houston Exploration Company in the Merger Agreement discussed in Items 3, 4 and 6

below.

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Item 1. Security and Issuer

The class of equity securities to which this Schedule 13D relates is the common stock, par value $0.01 per share (the Shares), of The Houston Exploration Company, a Delaware corporation (Houston Exploration). The principal executive offices of Houston Exploration are located at 1100 Louisiana Street, Suite 2000, Houston, Texas 77002.

Item 2. Identity and Background

(a) This Schedule 13D is being filed by Forest Oil Corporation, a New York corporation (Forest), and MJCO Corporation, a Delaware corporation (Merger Sub). Forest and Merger Sub have entered into a Joint Filing Agreement, a copy of which is filed with this Schedule 13D as Exhibit A, pursuant to which they have agreed to file this Schedule 13D jointly in accordance with the provisions of Rule 13d-1(k)(1) under the Securities Exchange Act of 1934, as amended (the Exchange Act).

(b) The address of the principal office of each of Forest and Merger Sub is 707 17th Street, Suite 3600, Denver, Colorado 80202.

(c) Forest is an independent oil and gas company engaged in the acquisition, exploration, development, and production of natural gas and liquids primarily in North America. Merger Sub is a newly formed wholly owned subsidiary of Forest that was formed solely in connection with the Mergers and will be merged with and into Houston Exploration in connection with the Mergers (as described below).

(d) During the past five years, neither Forest nor Merger Sub, nor to the knowledge of Forest and Merger Sub, any person named on Schedule I attached hereto has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

(e) During the past five years, neither Forest nor Merger Sub, nor to the knowledge of Forest and Merger Sub, any person named on Schedule I attached hereto was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction as a result of which such entity or person was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

(f) To the knowledge of Forest and Merger Sub, each of the individuals identified on Schedule I attached hereto is a citizen of the United States, with the exception of William L. Britton who is a citizen of Canada.

Set forth on Schedule I is the name and principal occupation or employment of each of the directors and executive officers of Forest as of the date hereof.

Item 3. Source and Amount of Funds or Other Consideration

Forest and Merger Sub entered into an Agreement and Plan of Merger, dated as of January 7, 2007, a copy of which is filed herewith as Exhibit B (the Merger Agreement), with Houston Exploration that provides for the acquisition of Houston Exploration by Forest by means of merging Merger Sub with and into Houston Exploration, with Houston Exploration continuing as the surviving corporation, and immediately thereafter, merging Houston Exploration with and into Forest, with Forest continuing as the surviving corporation (the Mergers). As an inducement for Forest and Merger Sub to enter into the Merger Agreement and in consideration thereof, certain stockholders of Houston Exploration, as identified on Schedule II (collectively, the Stockholders), entered into a separate Voting Agreement with Forest and Merger Sub, dated January 7, 2007 (the Voting Agreement), which is filed herewith as Exhibit C and more fully described in Item 6. Forest and Merger Sub did not pay any additional consideration to the Stockholders in exchange for the Voting Agreement.

Based on the 28,098,172 Shares represented by Houston Exploration in the Merger Agreement to be outstanding as of January 4, 2007, the total consideration payable to the holders of Shares in the Mergers will be approximately 23.6 million shares of common stock of Forest, par value $.01 per share, and approximately $740 million in cash payable by Forest. Forest expects to finance the cash portion with an amended $1.4 billion revolving credit facility, which has been underwritten by JPMorgan Chase Bank, N.A.

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References to, and descriptions of, the Mergers, the Merger Agreement and the Voting Agreement throughout this Schedule 13D are qualified in their entirety by reference to the Merger Agreement filed herewith as Exhibit B to this Schedule 13D and the Voting Agreement filed herewith as Exhibit C to this Schedule 13D, respectively. These agreements are incorporated into this Schedule 13D where such references and descriptions appear.

Item 4. Purpose of Transaction

The Voting Agreement was an inducement to Forest and Merger Sub to enter into the Merger Agreement, and was entered into by the parties thereto in order to facilitate the consummation of the Mergers.

Pursuant to the Merger Agreement, upon the consummation of the Mergers, among other things, each Share will be converted into the right to receive 0.84 shares of Forest common stock and $26.25 in cash (subject to the equalization and pro ration provisions and certain other conditions and exceptions set forth in the Merger Agreement).

If the Mergers are consummated as planned, the Shares will cease to be listed on the New York Stock Exchange and will become eligible for termination of registration pursuant to Section 12(d) of the Securities Exchange Act of 1934, as amended.

Item 5. Interest in Securities of the Issuer

(a) As a result of the Voting Agreement, Forest and Merger Sub each may be deemed to be the beneficial owner of 4,131,900 Shares. This number of Shares represents approximately 14.7% of the issued and outstanding Shares based on the number of Shares outstanding as of January 4, 2007 (as represented by Houston Exploration in the Merger Agreement). Forest and Merger Sub disclaim any beneficial ownership of such Shares, and nothing herein shall be deemed to be an admission by Forest or Merger Sub as to the beneficial ownership of such Shares.

To the knowledge of Forest and Merger Sub, no Shares are beneficially owned by any of the persons identified in Schedule I to this Schedule 13D.

(b) Forest and Merger Sub may be deemed to have shared voting power of the 4,131,900 Shares held by the Stockholders who entered into the Voting Agreement due to Forest s right under the Voting Agreement to direct the voting of such Shares with respect to the matters specified therein (and to vote such shares in accordance with proxies contained therein). However, neither Forest nor Merger Sub controls the voting of such Shares with respect to other matters or possesses any other rights as a Houston Exploration stockholder with respect to such Shares.

Information required by items 2(a)-(c) with respect to each Stockholder who entered into a Voting Agreement with Forest is set forth on Schedule II. To the knowledge of Forest and Merger Sub, none of the Stockholders (i) has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) during the last five years, or (ii) was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree, or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws during the last five years.

(c) Neither Forest nor Merger Sub, nor to the knowledge of Forest and Merger Sub, any person or entity named on Schedule I annexed hereto, has effected any transactions in the Shares during the past 60 days.

(d) To the knowledge of Forest and Merger Sub, no person other than the Stockholders identified on Schedule II has the right to receive or the power to direct the receipt of dividend from, or the proceeds from the sale of, such Shares.

(e) Not applicable.

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Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

Pursuant to the Voting Agreement, each of the Stockholders (i) has granted Forest an irrevocable proxy to vote its Shares (a) in favor of the adoption of the Merger Agreement and the approval of the terms thereof and each of the other transactions contemplated thereby and (b) against any transaction, agreement, matter or other Acquisition Proposal (as defined in the Merger Agreement) that would impede, interfere with, delay, postpone or attempt to discourage the Mergers and the Merger Agreement; and (ii) has agreed not to sell, transfer, pledge, assign or otherwise dispose of any of its Shares or enter into any agreement or grant any proxy with respect thereto, provided that such Stockholder may transfer its shares if the transferee agrees in writing to be bound by the terms of the Voting Agreement.

The Voting Agreement will terminate upon the earlier of (i) the consummation of the merger of Merger Sub with and into Houston Exploration, (ii) the date on which the Merger Agreement is validly terminated in accordance with its terms, (iii) the date on which Houston Exploration s board of directors withdraws or changes its recommendation with respect to the Mergers or recommends an Acquisition Proposal, (iv) the date of any material amendment to the Merger Agreement that is adverse to Houston Exploration or its stockholders or waiver of any material condition in the Merger Agreement to Houston Exploration s obligation to close the transactions contemplated by the Merger Agreement, or (v) September 30, 2007.

Pursuant to the Merger Agreement, among other things, Houston Exploration agreed to (i) certain covenants regarding the termination of discussions, activities and negotiations regarding other Acquisition Proposals, (ii) the approval, adoption and recommendation of the Mergers (subject to certain exceptions specified in the Merger Agreement), and (iii) various other matters customary in agreements for transactions such as or similar to the Mergers, in each case as more particularly set forth and described in the Merger Agreement incorporated by reference as Exhibit B hereto.

Except as otherwise described herein, to the knowledge of Forest and Merger Sub, there are no contracts, arrangements, understandings or relationships (legal or otherwise) among the persons named in Item 2 or Schedule I annexed hereto and between such persons and any person with respect to any securities of Houston Exploration.

Item 7. Material to Be Filed as Exhibits

A. Joint Filing Agreement, dated January 11, 2007.

B. Agreement and Plan of Merger, dated as of January 7, 2007, by and among Forest Oil Corporation, MJCO Corporation and The Houston Exploration Company.

C. Voting Agreement, dated as of January 7, 2007.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated January 11, 2007

FOREST OIL CORPORATION

By:	/s/ Cyrus D. Marter IV
Name:	Cyrus D. Marter IV
Title:	Vice President - General Counsel and Secretary

MJCO CORPORATION

By:	/s/ Cyrus D. Marter IV
Name:	Cyrus D. Marter IV
Title:	Vice President and Secretary

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (See 18 U.S.C. 1001).

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Schedule I
Directors and Executive Officers of
Forest Oil Corporation

The name, present principal occupation or employment, and the name of any corporation or other organization in which such employment is conducted, of each of the directors and executive officers of Forest Oil Corporation is set forth below. The business address of each director and executive officer is c/o Forest Oil Corporation 707 17th Street, Suite 3600, Denver, Colorado 80202.

Directors	**Title/Occupation**
H. Craig Clark	Mr. Clark has served as President and Chief Executive Officer and as a Director of Forest Oil Corporation since July 2003.
William L. Britton	Mr. Britton has been a Director since 1996. He is currently a consultant with the law firm of Bennett Jones LLP.
Loren K. Carroll	Mr. Carroll has been a Director since 2006. Mr. Carroll served as President and Chief Executive Officer of M-I SWACO, a fluid engineering services company controlled by Smith International, Inc., and as Executive Vice President of Smith International, Inc., a supplier of products and services to the oil and gas, petrochemical, and other industrial markets until his retirement in April 2006.
Cortlandt S. Dietler	Mr. Dietler has been a Director since 1996. He has served as Chairman of the Board of TransMontaigne Inc., an independent provider of supply chain management for fuel, since April 1995.
Dod A. Fraser	Mr. Fraser has been a Director since 2000. He is President of Sackett Partners Incorporated, a consulting company, and member of corporate boards, since 2000.
Forrest E. Hoglund	My Hoglund has been a Director since 2000 and has served as the non-executive Chairman of the Board since September 2003.
James H. Lee	Mr. Lee has been a Director since 1991. He has served as the Managing General Partner of Lee, Hite & Wisda Ltd., an oil and gas consulting firm since 1984.
James D. Lightner	Mr Lightner has been a Director since 2004. He is a Partner and Chief Executive Officer of Orion Energy Partners, an oil and gas exploration and production company.
Patrick R. McDonald	Mr. McDonald has been a Director since 2004. He has served as Chief Executive Officer, President and Director of Nytis Exploration Company, an oil and gas exploration company, since April 2003.

Executive Officers	**Title**
H. Craig Clark	President and Chief Executive Officer
David H. Keyte	Executive Vice President and Chief Financial Officer
Cecil N. Colwell	Senior Vice President Worldwide Drilling

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Leonard C. Gurule	Senior Vice President Alaska
J.C. Ridens	Senior Vice President Gulf Region
R. Scot Woodall	Senior Vice President Western Region
Matthew A. Wurtzbacher	Senior Vice President Corporate Planning and Development
Cyrus D. Marter IV	Vice President, General Counsel and Secretary
Victor A. Wind	Corporate Controller

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Directors and Executive Officers of
MJCO Corporation

The name, present principal occupation or employment, and the name of any corporation or other organization in which such employment is conducted, of each of the directors and executive officers of MJCO Corporation is set forth below. The business address of each director and executive officer is c/o MJCO Corporation 707 17th Street, Suite 3600, Denver, Colorado 80202.

Director	Title/Occupation
David H. Keyte	Mr. Keyte is the Chief Financial Officer of Forest Oil Corporation.

Executive Officers	Title
David H. Keyte	President
Cyrus D. Marter IV	Vice President and Secretary
Lizbeth J. Stenmark	Assistant Secretary

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Schedule II
Parties to Voting Agreement with
Forest Oil Corporation

The following table sets forth the name and principal occupation or employment of each Stockholder of Houston Exploration that has entered into a Voting Agreement with Forest in connection with the Merger Agreement, and the aggregate number of shares of Houston Exploration common stock held by each such Stockholder as of January 7, 2007. The business address of each Stockholder set forth in Schedule II hereto is: c/o JANA Partners LLC, 200 Park Avenue, Suite 3300, New York, New York 10166.

Name		Shares Held as of January 7, 2007
JANA Master Fund, Ltd.	a material suspension of or limitation imposed on trading by the relevant stock exchange for such security or otherwise at any time during the one-hour period that ends at the scheduled closing time for the relevant stock exchange for such security on that day, whether by reason of movements in price exceeding limits permitted by the relevant stock exchange or otherwise; any event, other than an early closure, that materially disrupts or impairs the ability of market participants in general to effect transactions in, or	

obtain market values for, such security on its relevant stock exchange at any time during the one-hour period that ends at the scheduled closing time for the relevant stock exchange for such security on that day; or

the closure on any exchange business day of the relevant stock exchange for such security prior to its scheduled closing time unless the earlier closing is announced by such relevant stock exchange at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such relevant stock exchange and (ii) the submission deadline for orders to be entered into the relevant stock exchange system for execution at the scheduled closing time for such relevant stock exchange on that day.

(B) Any of the following events occurs or exists with respect to futures or options contracts relating to the underlier or any successor underlier:

a material suspension of or limitation imposed on trading by any related futures or options exchange or otherwise at any time during the one-hour period that ends at the close of trading on such related futures or options exchange on that day, whether by reason of movements in price exceeding limits permitted by the related futures or options exchange or otherwise;

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any event, other than an early closure, that materially disrupts or impairs the ability of market participants in general to effect transactions in, or obtain market values for, futures or options contracts relating to the underlier or successor underlier on any related futures or options exchange at any time during the one-hour period that ends at the close of trading on such related futures or options exchange on that day; or

the closure on any exchange business day of any related futures or options exchange prior to its scheduled closing time unless the earlier closing time is announced by such related futures or options exchange at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such

related futures or options exchange and (ii) the submission deadline for orders to be entered into the related futures or options exchange system for execution at the close of trading for such related futures or options exchange on that day.

(C) The underlier sponsor fails to publish the level of the underlier or any successor underlier (other than as a result of the underlier sponsor having discontinued publication of the underlier or successor underlier and no successor underlier being available).

(D) Any related futures or options exchange fails to open for trading during its regular trading session.

For purposes of determining whether a market disruption event has occurred:

(1) the relevant percentage contribution of a security included in the underlier or any successor underlier to the level of such underlier will be based on a comparison of (x) the portion of the level of such underlier attributable to that security to (y) the overall level of such underlier, in each case using the official opening weightings as published by the underlier sponsor as part of the market opening data;

(2) the scheduled closing time of any relevant stock exchange or related futures or options exchange on any trading day means the scheduled weekday closing time of such relevant stock exchange or related futures or options exchange on such trading day, without regard to after

hours or any other trading outside the regular trading session hours; and

(3) an <u>exchange business day</u> means any trading day on which (i) the underlier sponsor publishes the level of the underlier or any successor underlier and (ii) each related futures or options exchange is open for trading during its regular trading session, notwithstanding any related futures or options exchange closing prior to its scheduled closing time.

If a market disruption event occurs or is continuing on the determination date, then the determination date will be postponed to the first succeeding trading day on which a market disruption event has not occurred and is not continuing; however, if such first succeeding trading

day has not occurred as of the eighth trading day after the originally scheduled determination date, that eighth trading day shall be deemed to be the determination date. If the determination date has been postponed eight trading days after the originally scheduled determination date and a market disruption event occurs or is continuing on such eighth trading day, the calculation agent will determine the closing level of the underlier on such eighth trading day in accordance with the formula for and method of calculating the closing level of the underlier last in effect prior to commencement of the market disruption event, using the closing price (or, with respect to any relevant security, if a market disruption event has occurred with respect to such security, its good faith estimate of the value of such security at the time at which the official closing level of the underlier is calculated and published by the underlier sponsor) on such date of each security included in

the underlier. As used herein, "closing price" means, with respect to any security on any date, the relevant stock exchange traded or quoted price of such security as of the time at which the official closing level of the underlier is calculated and published by the underlier sponsor.

Adjustments to the Underlier

If at any time the sponsor or publisher of the underlier (the "underlier sponsor") makes a material change in the formula for or the method of calculating the underlier, or in any other way materially modifies the underlier (other than a modification prescribed in that formula or method to maintain the underlier in the event of changes in constituent stock and capitalization and other routine events), then, from and after that time, the calculation agent will, at the close of business in New York, New York, on each date that the closing level of the underlier is to be calculated, calculate a substitute closing level of the underlier

in accordance with the formula for and method of calculating the underlier last in effect prior to the change, but using only those securities that comprised the underlier immediately prior to that change. Accordingly, if the method of calculating the underlier is modified so that the level of the underlier is a fraction or a multiple of what it would have been if it had not been modified, then the calculation agent will adjust the underlier in order to arrive at a level of the underlier as if it had not been modified.

Discontinuance of the Underlier

If the underlier sponsor discontinues publication of the underlier, and the underlier sponsor or another entity publishes a successor or substitute equity index that the calculation agent determines, in its sole discretion, to be comparable to the underlier (a successor underlier), then, upon the calculation agent s notification of that determination to the trustee and

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Wells Fargo, the calculation agent will substitute the successor underlier as calculated by the relevant underlier sponsor or any other entity and calculate the final underlier level as described above. Upon any selection by the calculation agent of a successor underlier, Wells Fargo will cause notice to be given to holders of the securities.

In the event that the underlier sponsor discontinues publication of the underlier prior to, and the discontinuance is continuing on, the determination date and the calculation agent determines that no successor underlier is available at such time, the calculation agent will calculate a substitute closing level for the underlier in accordance with the formula for and method of calculating the underlier last in effect prior to the discontinuance, but using only those securities that comprised the underlier immediately prior to that discontinuance. If a successor underlier is selected

or the calculation agent calculates a level as a substitute for the underlier, the successor underlier or level will be used as a substitute for the underlier for all purposes, including the purpose of determining whether a market disruption event exists.

If on the determination date the underlier sponsor fails to calculate and announce the level of the underlier, the calculation agent will calculate a substitute closing level of the underlier in accordance with the formula for and method of calculating the underlier last in effect prior to the failure, but using only those securities that comprised the underlier immediately prior to that failure; *provided* that, if a market disruption event occurs or is continuing on such day, then the provisions set forth above under Market Disruption Events shall apply in lieu of the foregoing.

Notwithstanding these alternative arrangements, discontinuance of the publication of, or the

failure by the underlier sponsor to calculate and announce the level of, the underlier may adversely affect the value of the securities.

Events of Default and Acceleration

If an event of default with respect to the securities has occurred and is continuing, the amount payable to a holder of a security upon any acceleration permitted by the securities, with respect to each security, will be equal to the cash settlement amount, calculated as provided herein. The cash settlement amount will be calculated as though the date of acceleration were the determination date.

The MSCI EAFE Index

The MSCI EAFE® Index is an equity index that is designed to measure equity performance in developed markets, excluding the United States and Canada.

Effective with the November 2015 semi-annual index review, companies traded outside of their country of classification (i.e., foreign listed companies) will become eligible for inclusion in the component country indices included in the MSCI EAFE Index. In order for a component country index to be eligible to include foreign listed companies, it must meet the Foreign Listing Materiality Requirement. To meet the Foreign Listing Materiality Requirement, the aggregate market capitalization of all securities represented by foreign listings should represent at least (i) 5% of the free float-adjusted market capitalization of the relevant component country index and (ii) 0.05% of the free-float adjusted market

capitalization of the MSCI ACWI Investable Market Index (an index that measures equity performance in both the developed and emerging markets). In connection with the November 2015 semi-annual index review, three of the component country indices included in the MSCI EAFE Index, the MSCI Hong Kong Index, the MSCI Israel Index and the MSCI Netherlands Index, became eligible to include foreign listed companies. The newly eligible foreign listed securities were added at half their free float-adjusted market capitalization as part of the November 2015 semi-annual index review, and their remaining free float-adjusted market capitalization was added as part of the May 2016 semi-annual index review.

The information about the MSCI EAFE Index contained herein updates the information included in the accompanying market measure supplement. See Description of Equity Indices The MSCI

EAFE® Index in the accompanying market measure supplement for additional information about the MSCI EAFE Index.

Historical Information

We obtained the closing levels set forth in the graph below from Bloomberg Financial Markets, without independent verification.

The historical performance of the underlier should not be taken as an indication of the future performance of the underlier during the term of the securities.

The following graph sets forth the daily closing levels of the underlier for each day in the period from January 1, 2007 through March 1, 2017. The closing level on March 1, 2017 was 1,760.15.

Benefit Plan Investor Considerations

Each fiduciary of a pension, profit-sharing or other employee benefit plan to which Title I of the Employee Retirement Income Security Act of 1974 (ERISA) applies (a plan), should consider the fiduciary standards of ERISA in the context of the plan s particular circumstances before authorizing an investment in the securities. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan. When we use the term holder in this section, we are referring to a beneficial owner of the securities and not the record holder.

Section 406 of ERISA and Section 4975 of the Code prohibit plans, as well as individual retirement accounts and Keogh plans to

which Section 4975 of the Code applies (also plans), from engaging in specified transactions involving plan assets with persons who are parties in interest under ERISA or disqualified persons under the Code (collectively, parties in interest) with respect to such plan. A violation of those prohibited transaction rules may result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless statutory or administrative exemptive relief is available. Therefore, a fiduciary of a plan should also consider whether an investment in the securities might constitute or give rise to a prohibited transaction under ERISA and the Code.

Employee benefit plans that are governmental plans, as defined in Section 3(32) of ERISA, certain church plans, as defined in Section 3(33) of ERISA, and foreign plans, as described in Section 4(b)(4) of ERISA (collectively, Non-ERISA

Arrangements), are not subject to the requirements of ERISA, or Section 4975 of the Code, but may be subject to similar rules under other applicable laws or regulations (Similar Laws).

We and our affiliates may each be considered a party in interest with respect to many plans. Special caution should be exercised, therefore, before the securities are purchased by a plan. In particular, the fiduciary of the plan should consider whether statutory or administrative exemptive relief is available. The U.S. Department of Labor has issued five prohibited transaction class exemptions (PTCEs) that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the securities. Those class exemptions are:

PTCE 96-23, for specified transactions determined by in-house asset managers;

PTCE 95-60, for specified transactions involving insurance company general accounts;

PTCE 91-38, for specified transactions involving bank collective investment funds;

PTCE 90-1, for specified transactions involving insurance company separate accounts; and

PTCE 84-14, for specified transactions determined by independent qualified professional asset managers.

In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide an exemption for transactions between a plan and a person who is a party in interest (other than a fiduciary who has or exercises any discretionary authority or control with respect to

investment of the plan assets involved in the transaction or renders investment advice with respect thereto) solely by reason of providing services to the plan (or by reason of a relationship to such a service provider), if in connection with the transaction of the plan receives no less, and pays no more, than adequate consideration (within the meaning of Section 408(b)(17) of ERISA).

Any purchaser or holder of the securities or any interest in the securities will be deemed to have represented by its purchase and holding that either:

no portion of the assets used by such purchaser or holder to acquire or purchase the securities constitutes assets of any plan or Non-ERISA Arrangement; or

the purchase and holding of the securities by such purchaser or holder will not constitute a

non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any Similar Laws.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the securities on behalf of or with plan assets of any plan consult with their counsel regarding the potential consequences under ERISA and the Code of the acquisition of the securities and the availability of exemptive relief.

The securities are contractual financial instruments. The financial exposure provided by the securities is not a substitute or proxy for, and is not intended as a substitute or proxy for, individualized investment management or advice for the benefit

of any purchaser or holder of the securities. The securities have not been designed and will not be administered in a manner intended to reflect the individualized needs and objectives of any purchaser or holder of the securities.

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Each purchaser or holder of the securities acknowledges and agrees that:

(i) the purchaser or holder or its fiduciary has made and shall make all investment decisions for the purchaser or holder and the purchaser or holder has not relied and shall not rely in any way upon us or our affiliates to act as a fiduciary or adviser of the purchaser or holder with respect to (a) the design and terms of the securities, (b) the purchaser or holder s investment in the securities, or (c) the exercise of or failure to exercise any rights we have under or with respect to the securities;

(ii) we and our affiliates have acted and will act solely for our own account in connection with (a) all

transactions relating to the securities and (b) all hedging transactions in connection with our obligations under the securities;

(iii) any and all assets and positions relating to hedging transactions by us or our affiliates are assets and positions of those entities and are not assets and positions held for the benefit of the purchaser or holder;

(iv) our interests may be adverse to the interests of the purchaser or holder; and

(v) neither we nor any of our affiliates is a fiduciary or adviser of the purchaser or holder in connection with any such assets, positions or transactions, and any information that we or any of our affiliates

may provide is not intended to be impartial investment advice.

Purchasers of the securities have the exclusive responsibility for ensuring that their purchase, holding and subsequent disposition of the securities does not violate the fiduciary or prohibited transaction rules of ERISA, the Code or any Similar Law. Nothing herein shall be construed as a representation that an investment in the securities would be appropriate for, or would meet any or all of the relevant legal requirements with respect to investments by, plans or Non-ERISA Arrangements generally or any particular plan or Non-ERISA Arrangement.

United States Federal Tax Considerations

The following is a discussion of the material U.S. federal income and certain estate tax consequences of the ownership and disposition of the securities. It applies to you only if you purchase a security for cash in the initial offering at the issue price, which is the first price at which a substantial amount of the securities is sold to the public, and hold the security as a capital asset within the meaning of Section 1221 of the Code. It does not address all of the tax consequences that may be relevant to you in light of your particular circumstances or if you are an investor subject to special rules, such as:

- a financial institution;
- a regulated investment company ;
- a tax-exempt entity, including an

individual retirement account or Roth IRA ;

a dealer or trader subject to a mark-to-market method of tax accounting with respect to the securities;

a person holding a security as part of a straddle or conversion transaction or who has entered into a constructive sale with respect to a security;

a U.S. holder (as defined below) whose functional currency is not the U.S. dollar; or

an entity classified as a partnership for U.S. federal income tax purposes.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the securities, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partnership

holding the securities or a partner in such a partnership, you should consult your tax adviser as to your particular U.S. federal tax consequences of holding and disposing of the securities.

We will not attempt to ascertain whether any of the issuers of the underlying stocks of the underlier (the underlying stocks) is treated as a passive foreign investment company (PFIC) within the meaning of Section 1297 of the Code. If any of the issuers of the underlying stocks were so treated, certain adverse U.S. federal income tax consequences might apply to you, if you are a U.S. holder (as defined below), upon the sale, exchange or other disposition of the securities. You should refer to information filed with the Securities and Exchange Commission or another governmental authority by the issuers of the underlying stocks and consult your tax adviser regarding the possible consequences to you if any of the issuers of the underlying

stocks is or becomes a PFIC.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date of this pricing supplement, changes to any of which subsequent to the date of this pricing supplement may affect the tax consequences described herein, possibly with retroactive effect. This discussion does not address the effects of any applicable state, local or non-U.S. tax laws or the potential application of the alternative minimum tax or of the Medicare tax on investment income. You should consult your tax adviser concerning the application of U.S. federal income and estate tax laws to your particular situation (including the possibility of alternative treatments of the securities), as well as any tax consequences arising under the laws of any state, local or non-U.S. jurisdiction.

Tax Treatment of the Securities

In the opinion of our counsel, Davis Polk & Wardwell LLP, which is based on current market conditions, a security should be treated as a prepaid derivative contract that is an open transaction for U.S. federal income tax purposes. By purchasing a security, you agree (in the absence of an administrative determination or judicial ruling to the contrary) to this treatment.

Due to the absence of statutory, judicial or administrative authorities that directly address the U.S. federal tax treatment of the securities or similar instruments, significant aspects of the treatment of an investment in the securities are uncertain. We do not plan to request a ruling from the IRS, and the IRS or a court might not agree with the treatment described below. Accordingly, you should consult your tax adviser regarding all aspects of the U.S. federal income and estate tax

consequences of an investment in the securities. Unless otherwise indicated, the following discussion is based on the treatment of the securities as prepaid derivative contracts that are open transactions.

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Tax Consequences to U.S. Holders

This section applies only to U.S. holders. You are a U.S. holder if you are a beneficial owner of a security that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Tax Treatment Prior to Maturity. You should not be required to recognize income over the term of the securities prior to maturity, other than pursuant to a sale, exchange or retirement as described below.

Sale, Exchange or Retirement of the Securities. Upon a sale, exchange or retirement of the securities, you should recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and your tax basis in the securities that are sold, exchanged or retired. Your tax basis in the securities should equal the amount you paid to acquire them. This gain or loss should be long-term capital gain or loss if at the time of the sale, exchange or retirement you held the securities for more than one year, and short-term capital gain or loss otherwise. Long-term capital gains recognized by non-corporate U.S. holders are generally subject to taxation at reduced rates. The deductibility of capital losses is subject to certain limitations.

Possible Alternative Tax Treatments of an Investment in the Securities

Alternative U.S. federal income tax treatments of the securities are possible

that, if applied, could materially and adversely affect the timing and/or character of income, gain or loss with respect to them. It is possible, for example, that the securities could be treated as debt instruments governed by Treasury regulations relating to the taxation of contingent payment debt instruments. In that case, regardless of your method of tax accounting for U.S. federal income tax purposes, you would be required to accrue income based on our comparable yield for similar non-contingent debt, determined as of the time of issuance of the securities, in each year that you held the securities, even though we are not required to make any payment with respect to the securities prior to maturity. In addition, any gain on the sale, exchange or retirement of the securities would be treated as ordinary income.

Other possible U.S. federal income tax treatments of the securities could also affect the timing and character of income or loss with respect to

the securities. In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of prepaid forward contracts and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; and whether these instruments are or should be subject to the constructive ownership regime, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose a notional interest charge. While the notice requests

comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect. You should consult your tax adviser regarding the possible alternative treatments of an investment in the securities and the issues presented by this notice.

Tax Consequences to Non-U.S. Holders

This section applies only to non-U.S. holders. You are a non-U.S. holder if you are a beneficial owner of a security that is, for U.S. federal income tax purposes:

- an individual who is classified as a nonresident alien;
- a foreign corporation; or
- a foreign estate or trust.

You are not a non-U.S. holder for purposes of this discussion if you are (i) an individual who is present in the United States for 183 days or more in the taxable year of disposition or (ii) a former citizen or resident of the United States. If you

are or may become such a person during the period in which you hold a security, you should consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities.

Sale, Exchange or Retirement of the Securities. Subject to the discussion below regarding Section 871(m), you generally should not be subject to U.S. federal income or withholding tax in respect of amounts paid to you, provided that income in respect of the securities is not effectively connected with your conduct of a trade or business in the United States.

If you are engaged in a U.S. trade or business, and if income from the securities is effectively connected with the conduct of that trade or business, you generally will be subject to regular U.S. federal income tax with respect to that income in the same manner as if you were a U.S. holder, unless an applicable income tax treaty provides otherwise. If you are

such a holder and you are a corporation, you should also consider the potential application of a 30% (or lower treaty rate) branch profits tax.

Tax Consequences Under Possible Alternative Treatments. If all or any portion of a security were recharacterized as a debt instrument, subject to the discussions below regarding FATCA and Section 871(m), any payment made to you with respect to the security generally should not be subject to U.S. federal withholding or income tax, provided that: (i) income or gain in respect of the security is not effectively connected with your conduct of a trade or business in the United States, and (ii) you provide an appropriate IRS Form W-8 certifying under penalties of perjury that you are not a United States person.

Other U.S. federal income tax treatments of the securities are also possible. In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal

income tax treatment of prepaid forward contracts and similar instruments. Among the issues addressed in the notice is the degree, if any, to which income with respect to instruments such as the securities should be subject to U.S. withholding tax. While the notice requests comments on appropriate transition rules and effective dates, it is possible that any Treasury regulations or other guidance promulgated after consideration of these issues might materially and adversely affect the withholding tax consequences of an investment in the securities, possibly with retroactive effect. Accordingly, you should consult your tax adviser regarding the issues presented by the notice.

Possible Withholding Under Section 871(m) of the Code. Section 871(m) of the Code and Treasury regulations promulgated thereunder (Section 871(m)) generally impose a 30% withholding tax on dividend equivalents paid or deemed paid

to non-U.S. holders with respect to certain financial instruments linked to U.S. equities (U.S. Underlying Equities) or indices that include U.S. Underlying Equities. Section 871(m) generally applies to instruments that substantially replicate the economic performance of one or more U.S. Underlying Equities, as determined based on tests set forth in the applicable Treasury regulations (a Specified Security). However, the regulations exempt financial instruments issued in 2017 that do not have a delta of one. Based on the terms of the securities and representations provided by us, our counsel is of the opinion that the securities should not be treated as transactions that have a delta of one within the meaning of the regulations with respect to any U.S. Underlying Equity and, therefore, should not be Specified Securities subject to withholding tax under Section 871(m).

A determination that the securities are not

subject to Section 871(m) is not binding on the IRS, and the IRS may disagree with this treatment. Moreover, Section 871(m) is complex and its application may depend on your particular circumstances. For example, if you enter into other transactions relating to the underlier, you could be subject to withholding tax or income tax liability under Section 871(m) even if the securities are not Specified Securities subject to Section 871(m) as a general matter. You should consult your tax adviser regarding the potential application of Section 871(m) to the securities.

In the event withholding applies, we will not be required to pay any additional amounts with respect to amounts withheld.

U.S. Federal Estate Tax

If you are an individual non-U.S. holder or an entity the property of which is potentially includible in such an individual s gross estate for U.S. federal estate tax purposes

(for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers), you should note that, absent an applicable treaty exemption, the securities may be treated as U.S. situs property subject to U.S. federal estate tax. If you are such an individual or entity, you should consult your tax adviser regarding the U.S. federal estate tax consequences of investing in the securities.

Information Reporting and Backup Withholding

Amounts paid on the securities, and the proceeds of a sale, exchange or other disposition of the securities, may be subject to information reporting and, if you fail to provide certain identifying information (such as an accurate taxpayer identification number if you are a U.S. holder) or meet certain other conditions, may also be subject to backup withholding

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at the rate specified in the Code. If you are a non-U.S. holder that provides an appropriate IRS Form W-8, you will generally establish an exemption from backup withholding. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the relevant information is timely furnished to the IRS.

FATCA Legislation

Legislation commonly referred to as FATCA generally imposes a withholding tax of 30% on payments to certain non-U.S. entities (including financial intermediaries) with respect to certain financial instruments, unless various U.S. information reporting and due diligence requirements have been satisfied. An intergovernmental agreement between the United States and the non-U.S. entity s jurisdiction may modify these requirements. This legislation applies to certain financial instruments that are

treated as paying U.S.-source interest, dividends or dividend equivalents or other U.S.-source fixed or determinable annual or periodical income (FDAP income). If required under FATCA, withholding applies to payments of FDAP income and, after 2018, to payments of gross proceeds of the disposition (including upon retirement) of certain financial instruments treated as providing U.S.-source interest or dividends. If the securities were treated as debt instruments, the withholding regime under FATCA would apply to the securities. If withholding applies to the securities, we will not be required to pay any additional amounts with respect to amounts withheld. If you are a non-U.S. holder, or a U.S. holder holding securities through a non-U.S. intermediary, you should consult your tax adviser regarding the potential application of FATCA to the securities.

The preceding discussion constitutes the full

opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of owning and disposing of the securities.

You should consult your tax adviser regarding all aspects of the U.S. federal income and estate tax consequences of an investment in the securities and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.