Barclays issued $2.00 million of Reverse Convertible Notes linked to QUALCOMM Incorporated on January 18, 2007 at $1,000 per note. These notes are Barclays-branded reverse convertibles. Reverse convertibles pay periodic interest coupons and at maturity convert into shares of the reference security if the price of the reference stock at the notes' maturity is below its price when the notes were issued and had closed below a specified "trigger" during the term of the notes.

These 12-month notes pay monthly coupons at an annualized rate of 10.00%. In addition to the monthly coupons, at maturity on January 16, 2008 investors will receive the market value of 25.24 shares of QUALCOMM Incorporated's stock if on January 11, 2008 QUALCOMM Incorporated's stock price closes below $39.62 (QUALCOMM Incorporated's stock price on January 12, 2007) and had ever closed at or below $27.73 during the term of the notes. Otherwise, investors will receive the $1,000 face value per note.

The payoff diagram shows the final payoff of this note given QUALCOMM Incorporated's stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in QUALCOMM Incorporated's stock directly.
**Analysis**

This reverse convertible’s 10.00% coupon rate is higher than the yield Barclays paid on its straight debt but, in addition to Barclays’s credit risk, investors bear the risk that they will receive shares of QUALCOMM Incorporated’s stock when they are worth substantially less than the face value of the note at maturity.

Investors purchasing reverse convertibles effectively sell put options to Barclays and post the note’s issue price as collateral to secure satisfaction of the investors’ obligations under the option contracts. Barclays pays investors a “coupon” that is part payment for the put options and part interest on the investors’ posted collateral. This reverse convertible is fairly priced if and only if the excess of the reverse convertible’s “coupon rate” above the interest Barclays pays on its straight debt equals the value of the put option investors are giving to Barclays. Whether the reverse convertible is suitable or not is equivalent to whether selling put options on the reference stock at the option premium being paid by Barclays was suitable for the investor.
Barclays’s CDS Rate

Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as Barclays. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of Barclays’s debt, including outstanding Reverse Convertible Note. Fluctuations in Barclays’s CDS rate impact the market value of the notes in the secondary market.

QUALCOMM Incorporated’s Stock Price

The graph above shows the historical levels of QUALCOMM Incorporated’s stock for the past several years. The final payoff of this note is determined by QUALCOMM Incorporated’s stock price at maturity. Higher fluctuations in QUALCOMM Incorporated’s stock price correspond to a greater uncertainty in the final payout of this Reverse Convertible Note.

Realized Payoff

This note matured on January 16, 2008 and investors received $1,000.00 per note.
Reference Asset QUALCOMM Incorporated’s Stock’s Implied Volatility

The annualized implied volatility of QUALCOMM Incorporated’s stock on January 12, 2007 was 34.53%, meaning that options contracts on QUALCOMM Incorporated’s stock were trading at prices that reflect an expected annual volatility of 34.53%. The higher the implied volatility, the larger the expected fluctuations of QUALCOMM Incorporated’s stock price and of the Note’s market value during the life of the Notes.

Decomposition of this Reverse Convertible Note

A zero-coupon note from Barclays

Principal $948.34

A short down-and-in at-the-money put option

Present value of all future coupons

Reverse Convertible Notes linked to QUALCOMM Incorporated

($89.72)

$97.17

This note can be decomposed into different components, and each component can be valued separately. The chart above shows the value of each component of this Reverse Convertible Note.

2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the QUALCOMM Incorporated’s stock on January 12, 2007.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.