BEAR STEARNS COMPANIES INC
Form DEF 14A
March 27, 2007

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [x]
Filed by a Party other than the Registrant [_]

Check the appropriate box:
[_] Preliminary Proxy Statement
[_] Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[x] Definitive Proxy Statement
[_] Definitive Additional Materials
[_] Soliciting Material Under Rule 14a-12

The Bear Stearns Companies Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):
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2) Aggregate number of securities to which transaction applies:
3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

The Bear Stearns Companies Inc.
Proxy Statement

Notice of the Annual Meeting
of Stockholders to be held April 18, 2007

THE BEAR STEARNS COMPANIES INC.
383 Madison Avenue
New York, New York 10179

Dear Stockholders:

You are cordially invited to attend the 2007 Annual Meeting of Stockholders of The Bear Stearns Companies Inc. The meeting will be held on Wednesday, April 18, 2007, at 5:00 p.m. Eastern Daylight Time at our global headquarters located at 383 Madison Avenue, 2nd Floor, New York, New York.

Enclosed herein is a notice of the meeting, a proxy card and a Proxy Statement containing the information to be acted upon at the meeting. At the meeting we will also report to you on the Company's current operations and outlook, and discuss any other items that may be properly brought before the meeting. I hope that many of you will be able to attend the meeting in person.

It is important that your shares be represented and voted regardless of the size of your holdings. Therefore, we request that you either promptly complete, sign and return the enclosed proxy card or vote via the internet or by telephone in accordance with the instructions printed on your proxy card.

Sincerely yours,

James E. Cayne
Chairman of the Board,
Chief Executive Officer

March 27, 2007

THE BEAR STEARNS COMPANIES INC.
383 Madison Avenue
New York, New York 10179

NOTICE OF 2007 ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of The Bear Stearns Companies Inc.:

The 2007 Annual Meeting of Stockholders of The Bear Stearns Companies Inc. (the "Company") will be held on Wednesday, April 18, 2007, at 5:00 p.m. Eastern Daylight Time. The meeting will be held at the Company's global headquarters located at 383 Madison Avenue, 2nd Floor, New York, New York in order to:

1. Elect 13 directors to serve until the next Annual Meeting of Stockholders or until their successors are duly elected and qualified.

2. Approve an amendment to the Company's Stock Award Plan.

3. Approve amendments to the Company's Restricted Stock Unit Plan.

4. Approve amendments to the Company's Capital Accumulation Plan for Senior Managing Directors.

5. Approve the Company's 2007 Performance Compensation Plan.

6. Ratify the appointment of Deloitte & Touche LLP as independent auditors for fiscal 2007.

7. Consider a stockholder proposal.

8. Transact such other business as may properly be brought before the meeting and any adjournments or postponements thereof.

Stockholders of record of the Company's common stock at the close of business on February 20, 2007 will be entitled to notice of, and to vote on, all matters presented at the meeting and at any adjournments or postponements thereof.

If you attend the meeting in person, you will need to present the enclosed admission ticket and proper photo identification at the door. If you have received your materials electronically or hold your common stock beneficially, you may receive a ticket at the door by presenting proper photo identification and an account statement showing your ownership of the stock.

By order of the Board of Directors

Kenneth L. Edlow
Secretary

March 27, 2007

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE MARK, SIGN AND RETURN THE ENCLOSED PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE OR VOTE VIA THE INTERNET OR BY TELEPHONE PURSUANT TO THE INSTRUCTIONS INCLUDED IN YOUR PROXY CARD.

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THE BEAR STEARNS COMPANIES INC.
383 Madison Avenue
New York, New York 10179

PROXY STATEMENT

Annual Meeting of Stockholders
April 18, 2007

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of the Company to be used at the 2007 Annual Meeting of Stockholders on Wednesday, April 18, 2007, at 5:00 p.m. Eastern Daylight Time, and at any adjournments or postponements thereof. These proxy materials are being sent on or about March 27, 2007, to holders of record of the Company's common stock, par value $1.00 per share ("Common Stock") as of February 20, 2007.

Each stockholder is entitled to one vote per share of Common Stock. If you vote by completing the enclosed proxy card, through the internet or by telephone and do not subsequently revoke such vote, your vote will be executed in accordance with your instructions. If no instructions are indicated, the proxy will be voted:

- FOR the slate of directors described in this Proxy Statement;
- FOR the approval of an amendment to the Company's Stock Award Plan;
- FOR the approval of amendments to the Company's Restricted Stock Unit Plan;
- FOR the approval of amendments to the Company's Capital Accumulation Plan for Senior Managing Directors;
- FOR the approval of the Company's 2007 Performance Compensation Plan;
- FOR the ratification of the appointment of Deloitte & Touche LLP as independent auditors for fiscal 2007;
- AGAINST the stockholder proposal;
- and, as to any other matter of business that may be brought before the meeting, in accordance with the judgment of the person or persons voting on the matter.

You may revoke your proxy at any time prior to its exercise in any of the following manners: (i) by giving written notice to the Secretary of the Company; (ii) by submitting another proxy bearing a later date; or (iii) by voting in person at the Annual Meeting. Attendance at the Annual Meeting will not automatically revoke your proxy. A revocation or later-dated proxy received by the Company after a vote on any matter taken by the Company shall not affect such action taken.

In order to encourage stockholder participation in corporate matters and to ensure the confidentiality of stockholder votes, the Company has designated an independent third party, Automatic Data Processing, Inc., to receive and tabulate stockholder proxy votes. The manner in which any stockholder votes on any particular issue will be kept confidential and will not be disclosed to the Company or any of its officers, directors or employees except (i) where disclosure is required by applicable law, (ii) where disclosure is expressly authorized by such stockholder, or (iii) where the Company concludes in good faith that a bona fide dispute exists as to the authenticity or accuracy of any tabulation of one or more proxies, ballots or votes. Aggregate vote totals may be disclosed to the Company from time to time and publicly announced at the Annual Meeting. The Company's policy of stockholder voting confidentiality also applies to shares of Common Stock held in customer accounts at any of the Company's subsidiaries.

This solicitation is being made by the Company and all expenses incurred in connection with this solicitation will be borne by the Company. In addition to solicitation by mail, proxies may be solicited by directors, officers or employees of the Company by telephone, in person or otherwise. Directors, officers and employees will not receive additional compensation for such solicitation. The Company also requests that brokerage firms, nominees, custodians, and fiduciaries forward proxy materials to the stockholders of record as of February 20, 2007 and will reimburse such persons and the Company's transfer agent for reasonable out-of-pocket expenses incurred by them in connection with forwarding such materials.

THE COMPANY

The Company was incorporated under the laws of the State of Delaware on August 21, 1985. The Company succeeded to the business of Bear, Stearns & Co., a New York limited partnership, on October 29, 1985. As used in this Proxy Statement, all references to "Bear Stearns" and "BSSC" are to Bear, Stearns & Co. Inc. and Bear, Stearns Securities Corp., respectively, the principal regulated operating subsidiaries of the Company.

VOTING SECURITIES

Holders of record of Common Stock at the close of business on February 20, 2007 are entitled to notice of, and to vote at, the Annual Meeting and at any adjournments or postponements thereof. Each outstanding share of Common Stock entitles the holder thereof to one vote. Shares of Common Stock represented by CAP Units (as defined under the "Compensation Committee Report" on pages 14-18) and RSUs (as defined under Proposal "III Approval of Amendments to the Restricted Stock Unit Plan" on pages 32-35) are not outstanding and are not entitled to vote at the Annual Meeting.

On February 20, 2007, there were 119,706,696 shares of Common Stock outstanding. The holders of a majority of the outstanding shares of Common Stock, present in person or represented by proxy and entitled to vote, shall constitute a quorum for the transaction of business at the Annual Meeting.

Election of Directors. The affirmative vote of a plurality of the votes cast by holders of shares of Common Stock is required for the election of directors.

Approval of an Amendment to the Company's Stock Award Plan, Approval of Amendments to the Company's Restricted Stock Unit Plan, Approval of Amendments to the Company's Capital Accumulation Plan for Senior Managing Directors, Approval of the Company's 2007 Performance Compensation Plan, Ratification of the Appointment of Independent Auditors and Adoption of the Stockholder Proposal. The affirmative vote of a majority of the votes cast by the holders of shares of Common Stock represented at the meeting and entitled to vote is required for approval of an amendment to the Stock Award Plan, approval of amendments to the Restricted Stock Unit Plan, approval of amendments to the Capital Accumulation Plan for Senior Managing Directors, approval of the Company's 2007 Performance Compensation Plan, ratification of the appointment of Deloitte & Touche LLP as independent auditors and adoption of the stockholder proposal.

An abstention with respect to any proposal will be counted as present for purposes of determining the existence of a quorum, but will have the practical effect of a negative vote as to that proposal.

Broker Authority to Vote. Under New York Stock Exchange ("NYSE") rules, brokers (other than Bear Stearns and BSSC) that do not receive voting instructions from their customers are entitled to vote their customer's shares in the brokers' discretion on the election of directors and ratification of the appointment of Deloitte & Touche LLP as independent auditors. However, brokers that do not receive instructions from their customers are not entitled to vote on any of the other proposals contained in this Proxy Statement. If Bear Stearns and BSSC do not receive voting instructions from a customer, and other brokers are entitled to vote in their discretion on a proposal, Bear Stearns and BSSC are also entitled to vote such shares of Common Stock, but only in the same proportion as all other shares are voted with respect to such proposal. In the event of a broker non-vote with respect to any proposal coming before the meeting caused by the beneficial owner's failure to authorize a vote on such proposal, the proxy will be counted as present for the purpose of determining the existence of a quorum, but will not be deemed present and entitled to vote on that proposal for the purpose of determining the total number of shares of which a majority is required for adoption, having the practical effect of reducing the number of affirmative votes required to achieve a majority vote for such matter by reducing the total number of shares from which a majority is calculated.

Proxy Solicitation. Morrow & Co., Inc. was hired to assist with the solicitation of votes for a fee of $7,500, plus out-of-pocket expenses.

I. ELECTION OF DIRECTORS

The Company's Board of Directors (the "Board"), upon the recommendation of the Corporate Governance and Nominating Committee of the Board and in accordance with the Company's policies regarding board candidates as set forth in Exhibit A to this Proxy Statement, have nominated and are recommending the election of each of the nominees set forth below as a director of the Company. Each nominee who is elected to the Board will hold office until the next Annual Meeting of Stockholders or until his successor is duly elected and qualified or until his earlier resignation or removal. Although the Board does not anticipate that any of the nominees will be unable or unwilling to stand for election, if that situation should arise, proxies will be voted in favor of such other person or persons designated by the Board, unless the Board decides not to fill such vacancy. Each nominee is currently a director of the Company. Since the last election of directors, Michael Goldstein was appointed to the Board on January 10, 2007. Mr. Goldstein was recommended to the Corporate Governance and Nominating Committee and the Board by an executive officer of the Company.

The affirmative vote of a plurality of the votes cast by holders of shares of Common Stock is required for the election of directors. Officers serve at the discretion of the Board.

The Board of Directors unanimously recommends a vote FOR the election of each nominee set forth below.

James E. Cayne, age 72, has been Chairman of the Board and Chief Executive Officer of the Company and Bear Stearns for more than the past five years. Mr. Cayne has served as a Director of the Company since 1985 and is a member of the Executive Committee. Mr. Cayne is not on the board of directors of any other public company.

Henry S. Bienen, age 67, has been President of Northwestern University for more than the past five years. Mr. Bienen has served as a Director of the Company since 2004 and is a member of the Audit and Qualified Legal Compliance Committees. Mr. Bienen is not on the board of directors of any other public companies.

Carl D. Glickman, age 80, has been a private investor for more than the past five years. Mr. Glickman has served as a Director of the Company since 1985 and is a member of the Audit and Qualified Legal Compliance Committees and is the Chairman of the Compensation Committee. He is also the Presiding Trustee and Chairman of the Executive Committee of the Lexington Corporate Properties Trust.

Michael Goldstein, age 65, was the Chairman and Chief Executive Officer of Toys R Us, Inc. until his retirement in June 2001. From June 2001 through May 2006, Mr. Goldstein was the Chairman of Toys R Us, Inc. Childrens Fund. Mr. Goldstein was appointed to the Board of Directors and the Audit Committee on January 10, 2007. Mr. Goldstein is on the boards of the following additional public companies: 4Kids Entertainment, Inc.; Martha Stewart Living Omnimedia, Inc.; Medco Health Solutions, Inc.; Pacific Sunwear of California, Inc.; and United Retail Group, Inc.

Alan C. Greenberg, age 79, has been Chairman of the Executive Committee of the Company for more than the past five years. Mr. Greenberg has served as a Director of the Company since 1985. Mr. Greenberg is on the board of one additional public company: Viacom Inc.

Donald J. Harrington, age 61, has been the President of St. Johns University for more than the past five years. Mr. Harrington has served as a Director of the Company since 1993 and is a member of the Compensation Committee. Mr. Harrington is not on the board of directors of any other public companies.

Frank T. Nickell, age 59, has been President and Chief Executive Officer of Kelso & Company, a privately held merchant banking firm, for more than the past five years. Mr. Nickell has been Chairman of Kelso & Company since June 19, 2006. Mr. Nickell has served as a Director of the Company since 1993 and is a member of the Compensation, Corporate Governance and Nominating, and Finance and Risk Committees. Mr. Nickell is not on the board of directors of any other public company.

Paul A. Novelly, age 63, has been Chairman of the Board and Chief Executive Officer of Apex Oil Company, Inc., a privately held company engaged in wholesale marketing, storage and distribution of petroleum products, for more than the past five years. Mr. Novelly has served as a Director of the Company since 2002 and is a member of the Audit, Corporate Governance and Nominating, and Qualified Legal Compliance Committees and is the Chairman of the Finance and Risk Committee. Mr. Novelly is on the board of one additional public company: Boss Holdings, Inc.

Frederic V. Salerno, age 63, was the Vice Chairman and Chief Financial Officer of Verizon Communications Inc. (formerly Bell Atlantic Corporation) until his retirement on September 30, 2002. Prior to June 2000, Mr. Salerno was the Senior Executive Vice President and Chief Financial Officer/Strategy and Business Development of Bell Atlantic Corporation. Prior to the merger of NYNEX Corp. (NYNEX) and Bell Atlantic Corporation, Mr. Salerno was the Vice Chairman of the Board of NYNEX for more than five years. Mr. Salerno has served as a Director of the Company since 1992 and is a member of the Audit, Finance and Risk, and Qualified Legal Compliance Committees and is the Chairman of the Corporate Governance and Nominating Committee. Mr.

Salerno is on the boards of the following additional public companies: Popular, Inc.; Viacom Inc.; Consolidated Edison, Inc.; Akamai Technologies, Inc.; and IntercontinentalExchange, Inc.

Alan D. Schwartz, age 56, has been the President and Co-Chief Operating Officer of the Company and Bear Stearns for more than the past five years. Mr. Schwartz has served as a Director of the Company from 1987 until 1996 and from 1999 until present and he is a member of the Executive Committee.

Warren J. Spector, age 49, has been the President and Co-Chief Operating Officer of the Company and Bear Stearns for more than the past five years. Mr. Spector has served as a Director of the Company from 1987 until 1996 and from 1999 until present and he is a member of the Executive Committee.

Vincent Tese, age 63, has been the Chairman of Wireless Cable International Inc. for more than the past five years. Mr. Tese has served as a Director of the Company since 1994 and is a member of the Compensation, Corporate Governance and Nominating, and Finance and Risk Committees and is the Chairman of the Audit Committee and the Qualified Legal Compliance Committee. Mr. Tese is on the boards of the following additional public companies: Bowne & Co., Inc.; Cablevision Systems Corporation; Mack-Cali Realty Corporation; IntercontinentalExchange Group; and GAMCO Investors, Inc.

Wesley S. Williams Jr., age 64 had been a partner in the law firm of Covington & Burling LLP for more than five years prior to his retirement on January 1, 2005. He has been President and Chief Operating Officer since 2004, Co-President and Co-Chief Operating Officer from 2003 to 2004, and Co-Chairman and Co-Chief Executive Officer for more than five years, of Lockhart Companies Incorporated, a 32-company conglomerate of real estate, insurance, and consumer finance companies operating largely in the Eastern Caribbean. Prior to his retirement on January 1, 2005, Mr. Williams had been Chairman from 2003 through 2004, Deputy Chairman from 2001 through 2002, and a member of the Board of Directors for more than five years, of the Federal Reserve Bank of Richmond. Mr. Williams has also been Chairman since 2004, and a member of the Board of Directors for more than five years, of the National Prostate Cancer Coalition. Mr. Williams has served as a Director of the Company since 2004 and is a member of the Audit and Qualified Legal Compliance Committees.

There is no family relationship among any of the directors or executive officers of the Company.

Stockholders wishing to submit director recommendations for the 2008 Annual Meeting should write to Mr. Kenneth L. Edlow, Corporate Secretary, The Bear Stearns Companies Inc., 383 Madison Avenue, New York, New York, 10179. Any such stockholder must provide evidence that they meet the minimum eligibility requirements set forth in Exchange Act Rule 14a-8 and must submit, within the requisite timeframe: (1) evidence in accordance with Rule 14a-8 of compliance with the stockholder eligibility requirements; (2) the written consent of the candidate(s) for nomination as a director; (3) a resume or other written statement of the qualifications of the candidate(s) for nomination as director; and (4) all information regarding the candidate(s) and the submitting stockholder that would be required to be disclosed in a proxy statement filed with the Securities and Exchange Commission (the "SEC") if the candidate(s) were nominated for election to the Board.

Board and Board Committees

The Board held six meetings (exclusive of committee meetings) during fiscal 2006. Each director attended 75% or more of the Board and Board committee meetings (including for this purpose, the Executive Committee) on which he served that were held during the period he was a director. The Company believes that it is important for members of the Board to attend the Annual Meeting and therefore adopted a policy encouraging all members to attend Annual Meetings. Ten of the twelve members of the Board attended the Company's 2006 Annual Meeting.

There are five Board committees: Audit, Compensation, Corporate Governance and Nominating, Finance and Risk and Qualified Legal Compliance (collectively the "Board Committees"). Each Board Committee consists solely of "independent" directors of the Board, as that term is defined below under the section entitled "Corporate Governance." In addition, the Company has an Executive Committee which consists of both Board and non-Board members, but may function in a manner comparable to that of a Board committee under certain circumstances.

The members, purpose and responsibilities of each of the committees is described below.

Audit Committee. The Audit Committee consists of Messrs. Bienen, Glickman, Goldstein, Novelly, Salerno, Tese (Chairman) and Williams. The Board, upon the recommendation of the Corporate Governance and Nominating Committee, has determined that each Audit Committee member is "independent" as that term is defined in NYSE and SEC rules and the Company's Director Independence Standards as set forth in Exhibit B to this Proxy Statement. In addition, the Board has determined that each member of the Audit Committee is financially literate and has accounting or related financial management expertise as required by NYSE rules and satisfies the criteria of an "audit committee financial expert" under SEC rules. Pursuant to NYSE Rule 303A.07, if an audit committee member serves on the audit committees of more than three public companies, the Board is required to determine that such simultaneous service would not impair the member's ability to effectively serve on the Audit Committee. Currently Mr. Goldstein and Mr. Salerno serve on the audit committees of five and six public companies, including the Company, respectively. The Board has determined that based upon Mr. Goldstein and Mr. Salerno's wealth of financial experience, knowledge of the Company and ability to dedicate the necessary time to Board service, their service on the audit committees of five and six public companies, respectively, does not impair their ability to effectively serve on the Company's Audit Committee and that their service on the Audit Committee is in the best interest of the Company and its stockholders.

The purpose of the Audit Committee is to assist the Board in their oversight of: the integrity of the financial statements of the Company; the Company's compliance with legal and regulatory requirements; the qualifications, performance and independence of the Company's independent auditor(s); the performance of the Company's internal audit function; and the Company's systems of disclosure controls and procedures, external financial reporting and internal control over financial reporting. The Audit Committee is also directly and solely responsible for the appointment, retention, compensation, oversight and termination of the Company's independent auditor(s) and for pre-approving all audit and permissible non-audit services to be performed by the independent auditor(s). The Audit Committee is governed by a written charter included as Exhibit C in this Proxy Statement, which it reviews annually, or as necessary or appropriate, to determine whether any changes or modifications are required. The Audit Committee charter was amended on March 22, 2007. The Audit Committee held thirteen meetings during fiscal 2006. The "Audit Committee Report" is on page 13 of this Proxy Statement.

Compensation Committee. The Compensation Committee consists of Messrs. Glickman (Chairman), Harrington, Nickell and Tese. The Board, upon the recommendation of the Corporate Governance and Nominating Committee, has determined that each Compensation Committee member is "independent" as that term is defined in NYSE rules and the Company's Director Independence Standards. Each Compensation Committee member is a "non-employee director" pursuant to Rule 16b-3 under the Exchange Act and satisfies the requirements for "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended. The purpose and scope of authority of the Compensation Committee is set forth in its charter, a copy of which is located on the corporate website at www.bearstearns.com. The Compensation Committee is responsible for discharging the responsibilities of the Board relating to compensation of the Company's Chief Executive Officer and the other participants in the Company's Performance Compensation Plan and to oversee the Company's compensation system and practices. The Compensation Committee also approves the salary and bonus compensation of other executive officers and other Senior Managing Directors based upon recommendations made by the Company's Executive and Management and Compensation Committees, who utilize criteria established by the Compensation Committee. The Compensation Committee also administers certain aspects of the Capital Accumulation Plan for Senior Managing Directors (the "CAP Plan"), the Stock Award Plan and the Restricted Stock Unit Plan (the "RSU Plan"). In addition, the Compensation Committee annually reviews the compensation process for equity research personnel.

Additionally, the Compensation Committee has the sole authority to retain, terminate and approve the retention terms of any compensation consultant(s) at the Company's expense to assist it in performing its duties. The Compensation Committee did not utilize any compensation consultant(s) in fiscal 2006. None of the current members of the Company's Compensation Committee is or has been an officer or an employee of the Company.

There were no "Compensation Committee Interlocks" during fiscal 2006. The Compensation Committee annually, or as necessary or appropriate, reviews its charter to determine whether any changes or modifications are required. The Compensation Committee held seven meetings during fiscal 2006. The "Compensation Committee Report" is on pages 14-18 of this Proxy Statement.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee consists of Messrs. Nickell, Novelly, Salerno (Chairman) and Tese. Prior to February 8, 2007, the Corporate Governance and Nominating Committees were two separate committees. The Corporate Governance Committee consisted of Messrs. Nickell, Novelly and Tese (Chairman) and the Nominating Committee consisted of Messrs. Novelly, Salerno (Chairman) and Tese. In order to increase the efficiency of these committees, the Company decided to consolidate these two committees into one committee which will fulfill all of the responsibilities that each committee was responsible for prior to the consolidation. The purpose of the Corporate Governance and Nominating Committee is: (1) to identify individuals qualified to become Board members and select, or recommend that the Board select, the director nominees to be voted upon at the annual stockholders meeting; (2) to develop and recommend to the Board a set of corporate governance guidelines for the Company; (3) to make recommendations to the Board in support of such guidelines; (4) to take a leadership role in the shaping of the corporate governance of the Company; and (5) to oversee the evaluation of the Board and management. The Corporate Governance and Nominating Committee annually, or as necessary or appropriate, reviews the Company s Board Candidate Guidelines (Exhibit A), Director Independence Standards (Exhibit B), Corporate Governance Guidelines and Code of Business Conduct and Ethics. The Corporate Governance and Nominating Committee is governed by a written charter which it reviews annually, or as necessary or appropriate, to determine whether any changes or modifications are required. A copy of the charter is attached as Exhibit D to this Proxy Statement. The Corporate Governance Committee held four meetings during fiscal 2006 and the Nominating Committee held two meetings in fiscal 2006.

The Corporate Governance and Nominating Committee identifies Board candidates by introduction from management, members of the Board, employees or other sources and stockholders that satisfy the Company s policy regarding stockholder recommended candidates as set forth above. The Corporate Governance and Nominating Committee evaluates director candidates recommended by stockholders in the same manner as director candidates recommended by other sources. In considering Board candidates, the Corporate Governance and Nominating Committee takes into consideration the Company s Board Candidate Guidelines (Exhibit A), the Company s policy regarding stockholder recommended director candidates and all other factors that they deem appropriate, including, but not limited to, the individual s character, education, experience, knowledge and skills. The Corporate Governance and Nominating Committee will also consider the extent of the individual s experience in business, education or public service, his or her ability to bring a desired range of skills, diverse perspective and experience to the Board and whether the individual possesses high ethical standards, a strong sense of professionalism and is capable of serving the interests of stockholders. Additionally, the Corporate Governance and Nominating Committee will consider the number of boards that the candidate already serves on when assessing whether the candidate has the appropriate time to devote to Board service.

Finance and Risk Committee. The Board established the Finance and Risk Committee, which consists of Messrs. Nickell, Novelly (Chairman), Salerno and Tese, on January 10, 2007; accordingly there were no meetings held in fiscal 2006. The Board, upon the recommendation of the Corporate Governance and Nominating Committee, has determined that each Finance and Risk Committee member is independent as that term is defined in NYSE rules and the Company s Director Independence Standards. The purpose of the Committee is to assist the Board in the Board s oversight of the Company s: (1) credit, market and operational risk management; (2) funding, liquidity and liquidity risk management practices; (3) balance sheet and capital management; and (4) insurance programs and related risk issues and mitigation. The Finance and Risk Committee is responsible for reviewing and discussing with the Audit Committee the Company s policies and procedures regarding the assessment and management of the Company s trading and investment risks, counterparty credit risks, operational risks and significant risk exposures and trends. The Committee is also responsible for reviewing the Company s framework for balance sheet management, including categories of assets and liabilities and levels of unfunded committed funding obligations. A copy of the Finance and Risk Committee s charter is attached as Exhibit E to this Proxy Statement.

Qualified Legal Compliance Committee. The Qualified Legal Compliance Committee (the QLCC) consists of Messrs. Bienen, Glickman, Novelly, Salerno, Tese (Chairman) and Williams. The QLCC consists of at least one member of the Audit Committee and two or more members of the Board who are not employed, directly or indirectly, by the Company, as required by the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. The purpose of the QLCC is to, under certain circumstances, receive, retain and investigate reports from the Company s chief legal officer, or any attorney appearing and practicing before the SEC in the representation of the Company, of evidence of a material violation of any United States federal or state securities law, including any breach of fiduciary duty by the Company, its officers, directors, employees or agents. The QLCC held one meeting during fiscal 2006.

Executive Committee. The Executive Committee of the Company consists of Messrs. Cayne, Greenberg (Chairman), Molinaro, Schwartz and Spector. The Executive Committee has the authority to take action with respect to matters delegated to it by the Board that are considered to be in the ordinary course of the Companys business and that are not prohibited by Delaware General Corporation Law or the Companys Certificate of Incorporation. The Executive Committee generally meets each week and held 115 meetings during fiscal 2006.

Corporate Governance

The Company is committed to the highest level of honesty, integrity and ethics. The Company regularly reviews its corporate governance policies in light of legal, regulatory and corporate governance developments and complies with SEC, NYSE and other corporate governance regulatory requirements applicable to the Company.

Independent Directors. The Board annually reviews the members of the Board to ensure that a majority of the Board is independent as required by and defined in NYSE rules. This determination is made after the Board reviews the following information: relationships and/or transactions, if any, that a director has with the Company; a summary of the director and officer questionnaires; and the recommendation of the Corporate Governance and Nominating Committee. Each Board member is also provided with a copy of the text of NYSE Rule 303A. In addition, to assist it in its determination, the Board has adopted Director Independence Standards, which is attached as Exhibit B to this Proxy Statement. The standards set forth the criteria by which director independence will be determined and include: prohibitions on material relationships with the Company; limitations on employment of a director or his or her immediate family members with the Company; limitation on the receipt of direct compensation from the Company; limitations on affiliation with the Companys auditors; and restrictions on commercial relationships.

The Board has determined that each of the non-management directors, constituting a majority of the Board, have no material, direct or indirect, relationships with the Company and are independent pursuant to NYSE rules and the Companys Director Independence Standards. The non-management directors consist of Messrs. Bienen, Goldstein, Glickman, Harrington, Nickell, Novelly, Salerno, Tese and Williams. In assessing the materiality of a directors relationship with the Company, the Board reviewed all relevant facts and circumstances, including all other companies or organizations in which a director has an affiliation and any other relationships with the Company, including, but not limited to, commercial, industrial banking, consulting, legal, accounting, charitable and familial relationships. There were a number of immaterial relationships that were reviewed by the Board, among which are those described below.

Mr. Nickell is the President and Chief Executive Officer of Kelso & Company, which is the manager of various investment partnerships which make investments in portfolio companies. From time to time Bear Stearns acts as underwriter or sells stock for certain of these portfolio companies. In fiscal 2006, Bear Stearns underwrote approximately 9.5 million shares of Endo Pharmaceuticals Holdings Inc. sold by Endo Pharma LLC of which affiliates of Kelso & Company had a beneficial interest in approximately 5.9 million shares. Bear Stearns received fees for this transaction in the amount of approximately $4.1 million. Also in fiscal 2006 Bear Stearns earned approximately $250,000 in arranging an add-on to bank financing for Overwatch, a portfolio company of Kelso & Company, and in December 2006 earned approximately $3.0 million for mergers and acquisition advice to Overwatch. Bear Stearns arranged financing for another portfolio company of Kelso & Company, Insurance Auto Auctions, in fiscal 2006 for which it earned $900,000. In January 2007 Bear Stearns underwrote 7,202,679 shares of Eagle Bulk Shipping Inc. from Eagle Ventures LLC of which 5,748,678 shares were reflective of beneficial ownership of Eagle Ventures LLC common interest by affiliates of Kelso & Company. Bear Stearns re-sold these shares. Mr. Nickell is not an employee nor is he an immediate family member of an executive officer of these portfolio companies. The aforementioned transactions and dealings were performed in the ordinary course of business. Because the amounts received or paid by the Company are not material to the Company or Kelso & Company, the Board determined that these transactions did not affect Mr. Nickells status as an independent director of the Company.

Additionally the Company, in the ordinary course of business, entered into transactions, as principal, involving the purchase or sale of securities and commercial paper (including different forms of repurchase transactions) with non-management directors and members of their immediate families. Because these transactions were made on the same terms as similar transactions with non-affiliated third parties, the Board determined that they were not material and that such transactions did not affect the non-management directors status as independent directors of the Company.

Corporate Governance Guidelines. The Company has established and adopted Corporate Governance Guidelines which set forth guidelines for the appointment, retention, term, responsibilities, powers, qualifications and compensation regarding the Board and its committees. The Corporate Governance Guidelines, which include the Board Candidate Guidelines attached as Exhibit A to this Proxy Statement, contain the formal director qualification and independence standards adopted by the Board.

Lead Director. The non-management directors have elected Mr. Tese as Lead Director of the Board. As Lead Director, Mr. Tese: presides at all Board meetings at which the chairman is not present, including executive sessions of the non-management directors; serves as liaison between the chairman and the independent directors; approves information sent to the Board; approves meeting agendas for the Board; approves meeting schedules to help ensure that there is sufficient time for discussion of all agenda items; and has the authority to call meetings of the independent directors.

Executive Sessions. The Companys non-management directors meet in regularly scheduled executive sessions without management present in order to freely evaluate the performance of the Companys management. The Company has a policy requiring the non-management directors to meet in executive sessions not less than quarterly. The non-management directors held six executive sessions in fiscal 2006. The Lead Director, Mr. Tese, serves as the Presiding Director at such executive sessions.

Communications to the Non-Management Directors. The Company has adopted a procedure for stockholders to communicate with the non-management directors. Stockholders and other interested persons may contact the Presiding Director or the non-management directors individually or as a group, by writing to the Presiding Director or to such director(s) in care of Mr. Kenneth L. Edlow, Corporate Secretary, The Bear Stearns Companies Inc., 383 Madison Avenue, New York, New York 10179. Any such communications will be promptly distributed by the Corporate Secretary to the Presiding Director or such individual director(s).

Communications to the Board. The Company has also adopted a procedure by which stockholders may send communications as defined within Item 7(h) of Schedule 14A under the Exchange Act to one or more members of the Board by writing to such director(s) or to the whole Board in care of Mr. Kenneth L. Edlow, Corporate Secretary, The Bear Stearns Companies Inc., 383 Madison Avenue, New York, New York 10179. Any such communications will be promptly distributed by the Corporate Secretary to such individual director(s) or to all directors if addressed to the whole Board.

Policy on Directorships. In order to assure that members of the Board dedicate a sufficient amount of time to effectively serve the Company and its stockholders, the Company has adopted a policy limiting the number of public boards of directors that a Company director may serve on to six.

Director Orientation and Continuing Education. The Company has established an orientation process for newly appointed directors. The orientation process consists of familiarizing the director with the Company and its significant businesses, practices and personnel. It also includes educating the director regarding the Companys financial reporting and risk management processes, any material litigation and the Companys Code of Business Conduct and Ethics. In addition, supplemental continuing education information is prepared and forwarded to each director as necessary and appropriate.

Review of Director Status. The Company has adopted a policy that requires the non-management directors to submit information regarding any changes in their primary job responsibilities for consideration by the Corporate Governance and Nominating Committee.

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Stock Ownership. In order to further align the interests of members of the Board and the Companys executive officers to the stockholders, the Company has established minimum stock ownership requirements for its non-management directors and executive officers. Non-management directors are required to hold 500 shares of Common Stock or Common Stock Equivalents and executive officers are required to hold 5,000 shares of

Common Stock or Common Stock Equivalents. Common Stock Equivalents include all vested CAP Units, vested options or vested Restricted Stock Units held by participants in the CAP Plan, the Stock Award Plan and the Non-Employee Directors Stock Option and Stock Unit Plan (the “Directors’ Plan”). New non-management directors and executive officers are given 3 years from the date of their initial election or appointment to meet their minimum stock ownership requirement.

Director Tenure and Retirement. The Board does not believe that a policy mandating director tenure or retirement is appropriate for the Company. A director’s experience as a director of the Company allows him or her to acquire insight to the Company and knowledge of the Company’s significant businesses and processes and makes him or her a valuable resource to the Company.

Whistleblowing. The Company has continued its long-standing practice of encouraging whistleblowing. Accordingly, the Audit Committee has established procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters and to allow for the confidential and anonymous submission by employees of concerns regarding accounting or auditing matters. Additionally, the Company has reminded employees of its policy to not retaliate or take any other detrimental action against employees who in good faith provide evidence of fraud.

Code of Business Conduct and Ethics. All of the Company’s employees (including those of the Company’s subsidiaries and affiliates), officers (including senior executive, financial and accounting officers) and directors are held accountable for adherence to the Company’s Code of Business Conduct and Ethics (the “Code”). The Code is intended to establish standards necessary to deter wrongdoing and to promote compliance with applicable governmental laws, rules and regulations and honest and ethical conduct. The Code covers all areas of professional conduct, including conflicts of interest, fair dealing, financial reporting and disclosure, protection of Company assets and confidentiality.

Copies of the Company’s Corporate Governance Guidelines, Code, and the charters of each of the Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee, Finance and Risk Committee and QLCC are available on the Company’s website at http://www.bearstearns.com. The website contains a corporate governance page, located within the “Corporate Governance” section under the heading “Our Firm”. Copies of these documents may also be obtained by any stockholder upon request without charge by writing to Mr. Kenneth L. Edlow, Corporate Secretary, The Bear Stearns Companies Inc., 383 Madison Avenue, New York, New York 10179.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth beneficial ownership information as of January 31, 2007 with respect to shares of Common Stock owned by each current director of the Company (including all director nominees), each executive officer named in the “Summary Compensation Table” under “Compensation Tables and Other Information”, and all directors and executive officers of the Company as a group. Also set forth below is information with respect to the number of shares of Common Stock represented by CAP Units and Restricted Stock Units credited to the accounts of the aforementioned persons pursuant to the Company’s CAP Plan and the Directors’ Plan. These amounts do not include shares underlying CAP Units and Restricted Stock Units that are not deemed to be beneficially owned for this purpose because such persons do not have the present ability to direct the vote or the ability to dispose of such shares and will not have such rights within the next 60 days.

	Amount and Nature of Common Stock Beneficially	**Percent of Common Stock Beneficially**	**Common Stock Represented by CAP Units and**	**Percentage of Outstanding Common Stock, CAP Units and**

Name and Address (1)	Owned (2)(3)(4)	Owned	Restricted Stock Units	Restricted Stock Units Combined
James E. Cayne (6)	6,399,914	5.32%	633,627	5.82%
Henry S. Bienen	3,465	(5)	1,646	(5)
Carl D. Glickman (7)	315,172	(5)	3,060	(5)
Michael Goldstein	0	(5)	0	(5)
Alan C. Greenberg	16,818	(5)	355,168	(5)
Donald J. Harrington	7,975	(5)	2,037	(5)
Samuel L. Molinaro Jr.	239,058	(5)	319,544	(5)
Frank T. Nickell	18,884	(5)	3,060	(5)
Paul A. Novelly (8)	41,967	(5)	2,931	(5)
Frederic V. Salerno	19,316	(5)	3,060	(5)
Alan D. Schwartz	1,414,513	1.18%	596,956	1.67%
Warren J. Spector (9)	519,879	(5)	599,125	(5)
Vincent Tese	14,919	(5)	3,060	(5)
Wesley S. Williams Jr.	6,965	(5)	1,171	(5)
All directors, nominees and executive officers as a group (17 individuals)	9,338,465	7.68%	2,648,109	9.66%

(1) The address in each case is 383 Madison Avenue, New York, New York 10179.

(2) Nature of Common Stock beneficially owned is sole voting or investment power, except as indicated in subsequent notes. Includes an aggregate of 1,211 shares of Common Stock owned by directors, nominees and executive officers through The Bear Stearns Companies Inc. Employee Stock Ownership Plans (the ESOPs). Shares owned by the ESOPs that are allocated to employees accounts are voted on a pass through basis by the employees to whose accounts such shares are allocated. Any allocated shares for which voting directions have not been received, are voted by the trustee of the ESOPs in proportion to the manner in which allocated shares are directed to be voted by the employees.

(3) Does not include shares underlying CAP Units credited under the CAP Plan, except for the following number of shares to be distributed during March 2007 to the following persons: Mr. Cayne 3,118; Mr. Greenberg 1,818; Mr. Molinaro 1,482; Mr. Schwartz 2,934; Mr. Spector 2,962 and 1,434 shares to be distributed to the remaining executive officers included in the group of seventeen individuals referred to above.

(4) Includes shares of Common Stock subject to exercisable options and those which are exercisable within the next 60 days held by the following persons: Mr. Bienen 1,422; Mr. Cayne 536,007; Mr. Glickman 14,919; Mr. Harrington 7,919; Mr. Molinaro 189,635; Mr. Nickell 18,884; Mr. Novelly 8,544; Mr. Salerno 18,884; Mr. Schwartz 480,095; Mr. Spector 441,410; Mr. Tese 14,919; Mr. Williams 3,465; and 64,404 shares of Common Stock subject to exercisable options and those which are exercisable within the next 60 days held by the remaining executive officers included in the group of seventeen individuals referred to above.

(5) Less than one percent.

(6) Includes 45,669 shares of Common Stock owned by Mr. Caynes wife, as to which shares Mr. Cayne disclaims beneficial ownership. Includes 205,315, shares of Common Stock held by a charitable trust, as to which shares Mr. Cayne disclaims beneficial ownership but for which Mr. Cayne has voting and dispositive power. Does not include 213,254 shares of Common Stock held by trusts established for Mr. Caynes children, as to which shares Mr. Cayne disclaims beneficial ownership. Does not include 8,593 shares of Common Stock owned by the children of Mr.

Cayne, as to which shares Mr. Cayne disclaims beneficial ownership.

(7) Includes 3,427 shares of Common Stock owned by Mr. Glickmans wife, as to which shares Mr. Glickman disclaims beneficial ownership.

(8) Does not include 125,000, shares of Common Stock held by St. Albans Global Management LLLP, of which Mr. Novelly is the chief executive officer and as to which shares Mr. Novelly disclaims beneficial ownership.

(9) Includes 636 shares of Common Stock owned by Mr. Spectors wife, as to which shares Mr. Spector disclaims beneficial ownership.

Security Ownership of Certain Beneficial Owners

Based upon a review of filings made pursuant to Section 13(d) or 13(g) of the Securities Exchange Act of 1934, as amended, the following are the only persons (other than as set forth under Security Ownership of Directors and Executive Officers and the Companys employees as a group) known to the Company to be the beneficial owners of more than 5% of the Companys Common Stock as of February 20, 2007:

Name and Address of Beneficial Owner	Total Number of Shares Beneficially Owned		Percent of Class	
Private Capital Management, L.P. (1) 8889 Pelican Bay Blvd., Suite 500 Naples, Florida 34108	7,043,319	(1)	5.9%	(1)
Putnam LLC, d/b/a Putnam Investments and related entities (2) One Post Office Square Boston, Massachusetts 02109	6,627,344	(2)	5.5%	(2)

(1) Information provided is based on the Schedule 13G/A filed February 14, 2007 with the Securities and Exchange Commission by Private Capital Management, L.P., an Investment Adviser incorporated under the laws of Delaware (PCM). According to the Schedule 13G/A, PCM was the beneficial owner of 6,839,032 shares of Common Stock with shared voting and shared dispositive power over such shares. The Schedule 13G/A indicates that PCM is also the beneficial owner of 204,287 shares with sole voting and sole dispositive power. The Schedule 13G/A provides that PCM disclaims beneficial ownership of shares over which it has dispositive power and disclaims the existence of a group. In the above table, the Company has calculated PCMs shares as representing 5.9% of the outstanding shares of Common Stock of the Company as of December 31, 2006.

(2) Information provided is based on the Schedule 13G, filed February 13, 2007 with the Securities and Exchange Commission by Putnam, LLC (d/b/a Putnam Investment, PI), on behalf of itself and Marsh & McLennan Companies, Inc. (M&MC), Putnam Investment Management, LLC (PIM) and The Putnam Advisory Company, LLC (PAC). The Putnam reporting entities disclosed that PI, a wholly owned subsidiary of M&MC, wholly owns PIM, which is the investment adviser to the Putnam family of mutual funds, and wholly owns PAC, which is the investment adviser to Putnams institutional clients. The Putnam reporting entities disclosed voting and dispositive power as follows: PI, shared voting power as to 344,265 shares and shared dispositive power as to 6,627,344 shares; PIM, shared voting power as to 79,146 shares and shared dispositive power as to 6,209,236 shares; and PAC, shared voting power as to 265,119 shares and shared dispositive power as to 418,108 shares. No shares were reported as owned by M&MC. M&MC and PI disclaimed beneficial ownership and voting and dispositive power of any securities covered by the Schedule 13G. In the above table, the Company has calculated PIs shares as representing 5.5% of the outstanding shares of

Common Stock of the Company as of December 31, 2006.

AUDIT COMMITTEE REPORT

The Audit Committee is comprised of seven non-management directors. The Board has determined that each Audit Committee member satisfies the independence and financial experience requirements of the NYSE and the SEC and is an "audit committee financial expert" as that term is defined in SEC rules. The Audit Committee is governed by a written charter (attached as Exhibit C to this Proxy Statement) which has been adopted by the Board and is reviewed and reassessed annually by the Audit Committee. The Audit Committee charter was last amended on March 22, 2007.

The following Audit Committee Report does not constitute soliciting material and shall not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended or the Exchange Act, except to the extent the Company specifically incorporates this Audit Committee Report by reference into any such filing.

The purpose of the Audit Committee is to assist the Board in its oversight of: (1) the integrity of the financial statements of the Company, (2) the Company's compliance with legal and regulatory requirements, (3) the qualifications, performance and independence of the Company's independent auditor(s), (4) the performance of the Company's internal audit function and (5) the Company's systems of disclosure controls and procedures, external financial reporting and internal control over financial reporting.

Management is responsible for the preparation and integrity of the Company's financial statements and the establishment and effectiveness of the Company's internal controls and procedures over financial reporting. The independent auditors are responsible for performing an independent audit of the Company's financial statements in accordance with the standards of the Public Company Accounting Oversight Board and for issuing a report to the Audit Committee on the Company's conformance to such standards and on management's assessment of the Company's internal controls over financial reporting. The Audit Committee oversees these processes.

In connection with its oversight role, the Audit Committee reviewed the Company's audited financial statements for the fiscal year ended November 30, 2006 and met with both management and the Company's independent auditors to review and discuss such statements, including the critical accounting policies on which the financial statements were based. Management and the independent auditors have represented to the Audit Committee that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Audit Committee has received and discussed the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1. The Committee has also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 and the auditors' independence.

Based upon the foregoing reports and discussions with management and the independent auditors, the Audit Committee has recommended to the Board that the audited financial statements of the Company be included in its Annual Report on Form 10-K for the fiscal year ended November 30, 2006.

AUDIT COMMITTEE

Henry S. Bienen
Carl D. Glickman
Michael Goldstein
Paul A. Novelly
Frederic V. Salerno

Vincent Tese, Chairman
Wesley S. Williams Jr.

* * *

EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT

Compensation Program Objectives

The Compensation Committee is responsible for overseeing the compensation policies, programs, and practices of the Company, with particular attention to the compensation of the Company’s executive officers. One of the Company’s long held guiding principles is a belief that all employees should be recognized and rewarded based on results. Consistent with this principle of meritocracy, the objective of the compensation program is to directly link executives’ financial rewards to the achievement of the Company’s annual and long-term performance goals, taking into account their individual contributions to those goals. Under this approach, executives have the opportunity to share in the Company’s success or be adversely affected by poor Company performance, thereby closely aligning their interests with those of the Company’s stockholders.

In support of these objectives, the following parameters guide the Compensation Committee’s design and administration of the Company’s compensation program for executive officers:

- *Performance-Based* — nearly all of an executive officer’s total compensation opportunity is performance-based and variable, with base salaries representing a very small portion of total compensation. Further, the Company chooses to refrain from offering supplemental benefits or perquisites to our executive officers.
- *Ownership* — a significant portion of the total compensation paid to executive officers is delivered in the form of equity-based awards, with vesting provisions and holding requirements. The total value of these awards is dependent on the future performance of the Company and an increase in the market value of its stock.
- *Competitiveness* — the Company operates in a highly competitive market and, therefore, offers total compensation packages that are comparable to its competitors in order to ensure that it can recruit and retain the caliber of executive talent needed to drive the Company’s long-term success.
- *Judgment* — decisions regarding the design and operation of the compensation program and specific pay levels for individual executive officers are made by the Compensation Committee, based on both objective and subjective considerations.

Components of the Compensation Program

To implement the foregoing, pay is comprised of two elements for executive officers and other key employees — base salary and a performance-based annual bonus, which is payable in both cash and equity-based components. The Performance Compensation Plan principally governs the annual performance-based bonus, and operates in conjunction with the Company’s equity plans as discussed in more detail below.

The Performance Compensation Plan was originally approved by stockholders at the 1996 Annual Meeting, and was most recently amended by stockholders at the 2005 Annual Meeting. A new Performance Compensation Plan will be voted upon at the 2007 Annual Meeting of Stockholders.

Base Salary

For fiscal 2006 the base salary for all executive officers was $250,000. Consistent with the objectives of the compensation program, base salaries are intended to represent a minimal portion of total compensation in order to ensure that almost all pay received is based on performance.

Performance-Based Annual Bonus

Under the Performance Compensation Plan, executive officers and other key employees are eligible to receive a share of performance-based bonus pools. As described in more detail below, the performance-based bonus is paid in both cash and non-cash equity-based components, under both the CAP Plan and the Stock Award Plan.

Overview of Annual Bonus Pools

The Performance Compensation Plan currently provides for two separate bonus pools. The first pool covers the annual compensation for members of the Executive Committee. The second pool covers certain other members of senior management who are not members of the Executive Committee. In fiscal 2006 the five members of the Executive Committee of the Company the Chief Executive Officer, Chairman of the Executive Committee, two Co-Presidents, and Chief Financial Officer were also the named executive officers in the Summary Compensation Table. The following discussion will focus on the compensation awarded from the first pool described above to each of the members of the Executive Committee (the Executive Committee Pool).

Establishing and Allocating Bonus Pools

Within 90 days after the beginning of each fiscal year, the Compensation Committee determines the formula that will be used to calculate the Executive Committee Pool. The formula can be based upon one or more of the following criteria, individually or in combination, adjusted in such manner as the Compensation Committee determines: (a) pre-tax or after-tax return on common equity; (b) earnings per share; (c) pre-tax or after-tax net income; (d) business unit or departmental pre-tax or after-tax incom