BEAR STEARNS COMPANIES INC
Form 10-K
February 28, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2002.

OR

[_] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ________ to _________

COMMISSION FILE NUMBER: 1-8989

THE BEAR STEARNS COMPANIES INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	13-3286161
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

383 MADISON AVENUE, NEW YORK, NEW YORK 10179
(212) 272-2000
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $1.00 per share	New York Stock Exchange
Adjustable Rate Cumulative Preferred Stock, Series A	New York Stock Exchange
Depositary Shares, each representing a one-fourth interest in a share of 6.15% Cumulative Preferred Stock, Series E	New York Stock Exchange
Depositary Shares, each representing a one-fourth interest in a share of 5.72% Cumulative Preferred Stock, Series F	New York Stock Exchange
Depositary Shares, each representing a one-fourth interest in a share of 5.49% Cumulative Preferred Stock, Series G	New York Stock Exchange
7.5% Trust Issued Preferred Securities, of Bear Stearns Capital Trust II (and registrant's guarantee thereof)	New York Stock Exchange

7.80% Trust Issued Preferred Securities, of Bear Stearns Capital Trust III (and registrant's guarantee thereof)	New York Stock Exchange
Principal Protected Sector Selector Notes Due 2008	American Stock Exchange
S&P Linked Notes Due 2003	Chicago Board Options Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE
(TITLE OF CLASS)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No [_]

At February 14, 2003, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $5,598,669,829. For purposes of this information, the outstanding shares of common stock owned by directors and executive officers of the registrant were deemed to be shares of common stock held by affiliates.

On February 14, 2003, the registrant had 99,243,757 outstanding shares of common stock, par value $1.00 per share, which is the registrant's only class of common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Parts II and IV of this Form 10-K incorporate information by reference from certain portions of the registrant's 2002 Annual Report to Stockholders. The information required to be furnished pursuant to Part III of this Form 10-K will be set forth in, and incorporated by reference from, the registrant's definitive proxy statement for the annual meeting of stockholders to be held March 26, 2003, which definitive proxy statement will be filed by the registrant with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended November 30, 2002.

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PART I

ITEM 1. BUSINESS.

(a) General Development of the Business

The Bear Stearns Companies Inc. (the "Company") was incorporated under the laws of the State of Delaware on August 21, 1985. The Company is a holding company that through its subsidiaries, principally Bear, Stearns & Co. Inc. ("Bear Stearns"); Bear, Stearns Securities Corp. ("BSSC"); Bear, Stearns International Limited ("BSIL") and Bear Stearns Bank plc ("BSB") is a leading investment banking, securities and derivatives trading, clearance and brokerage firm serving corporations, governments, institutional and individual investors worldwide. BSSC, a subsidiary of Bear Stearns, provides professional and correspondent clearing services, in addition to clearing and settling customer transactions and certain proprietary transactions of the Company. The Company succeeded on October 29, 1985 to the business of Bear, Stearns & Co., a New York limited partnership (the "Partnership"). As used in this report, the "Company" refers (unless the context requires otherwise) to The Bear Stearns Companies Inc., its subsidiaries and the prior business activities of the Partnership.

The Company's website is http://www.bearstearns.com. The Company makes available free of charge on its website its annual reports on Form 10-K; quarterly reports on Form 10-Q and any amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the "SEC").

(b) Financial Information about Industry Segments

The Company is primarily engaged in business as a securities broker and dealer operating in three principal segments: Capital Markets, Global Clearing Services and Wealth Management. These segments are analyzed separately due to the distinct nature of the products they provide and the clients they serve. Certain Capital Markets products are distributed by the Wealth Management and Global Clearing Services distribution networks with the related revenues of such intersegment services allocated to the respective segments.

The Capital Markets segment comprises the institutional equities, fixed income and investment banking areas. The Capital Markets segment operates as a single integrated unit that provides the sales, trading and origination effort for various fixed income, equity and advisory products and services. Each of the three businesses works in tandem to deliver these services to institutional and corporate clients. Institutional equities consists of sales, trading and research in areas such as institutional domestic and international equity sales, block trading, convertible bonds, over-the-counter ("OTC") equities, equity derivatives, risk and convertible arbitrage and New York Stock Exchange, Inc. ("NYSE"), American Stock Exchange, Inc. ("AMEX") and International Securities Exchange ("ISE") specialist activities. Fixed income includes sales, trading and research for institutional clients in a variety of products such as mortgage and asset-backed securities, corporate and government bonds, municipal and high yield products, foreign exchange and fixed income derivatives. Investment banking provides services in capital raising, strategic advice, mergers and acquisitions and merchant banking. Capital raising encompasses the Company's underwriting of equity, investment-grade and high yield debt securities.

The Global Clearing Services segment provides execution, clearing, margin lending and securities borrowing to facilitate customer short sales to clearing clients worldwide. Prime brokerage clients include hedge funds and clients of money managers, short sellers, arbitrageurs and other professional investors. Fully disclosed clients engage in either the retail or institutional brokerage business. At November 30, 2002, the Company held approximately $164 billion of assets in Global Clearing Services client accounts.

The Wealth Management segment is composed of the Private Client Services ("PCS") and asset management areas. PCS provides high-net-worth individuals with an institutional level of service, including access to the Company's resources and professionals. PCS maintains approximately 500 account executives in its principal office and six regional offices. Asset management serves the diverse investment needs of corporations, municipal governments, multi-employer plans, foundations, endowments, family groups and high-net-worth individuals in the US and abroad. The asset management area had $24.0 billion in assets under management at November 30, 2002, which compared to $24.2 billion in assets under management at November 30, 2001. The change in assets under management reflects declines in market value, substantially offset by net inflows.

Financial information regarding the Company's business segments and foreign operations as of November 30, 2002, November 30, 2001, and November 30, 2000 and for the fiscal years ended November 30, 2002, November 30, 2001 and November 30, 2000 is set forth under "Item 8. Financial Statements and Supplementary Data," in Note 16 of Notes to Consolidated Financial Statements, entitled "Segment and Geographic Area Data," and is incorporated herein by reference.

(c) Narrative Description of Business

The business of the Company includes: market-making and trading in US government, government agency, corporate debt and equity, mortgage-related, asset-backed, municipal securities and high yield products; trading in options, futures, foreign currencies, interest rate swaps and other derivative products; securities, options and futures brokerage; providing securities clearance services; managing equity and fixed income assets for institutional and individual clients; financing customer activities; securities lending; securities and futures arbitrage; involvement in specialist activities on the NYSE, AMEX and ISE; underwriting and distributing securities; arranging for the private placement of securities; assisting in mergers, acquisitions, restructurings and leveraged transactions; making principal investments in leveraged acquisitions; engaging in commercial real estate activities; investment management and advisory services; fiduciary, custody, agency and securities research services.

The Company's business is conducted from its principal offices in New York City; from domestic regional offices in Atlanta, Boston, Chicago, Dallas, Denver, Los Angeles, San Francisco and San Juan; from representative offices in Beijing, Herzliya, Hong Kong, Sao Paulo and Shanghai; through international offices in Dublin, Hong Kong, London, Lugano, Milan, Singapore and Tokyo; and through joint ventures with other firms in Belgium, Greece, Spain and Sweden. The Company's international offices provide services and engage in investment activities involving foreign clients and international transactions. Additionally, certain of these foreign offices provide services to US clients. The Company provides trust company and clearance services through its subsidiary, Custodial Trust Company ("CTC"), which is located in Princeton, New Jersey.

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

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

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

As of November 30, 2002, the Company had 10,574 employees.

The following areas are included in the three business segments mentioned above in Item 1(b).

INSTITUTIONAL EQUITIES

General. The Company provides customers with liquidity, sales and trading expertise and equity research in products such as domestic and international equities and convertible securities.

Options and Index Products. The Company provides an array of equity and index option-related execution services to institutional and individual clients. The Company utilizes sophisticated research and computer modeling to formulate specific recommendations relating to options and index trading.

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Arbitrage. The Company engages for its own account in both "classic" and "risk" arbitrage. The Company's risk arbitrage activities generally involve the purchase of securities at a discount from a value that is expected to be realized if a proposed or anticipated merger, recapitalization, tender offer or exchange offer is consummated. In classic arbitrage, the Company seeks to profit from temporary discrepancies (i) between the price of a security in two or more markets, (ii) between the price of a convertible security and its underlying security, (iii) between securities that are, or will be, exchangeable at a future date and (iv) between the prices of securities with contracts settling on different dates. The Company also examines relative value strategies. These strategies focus on pairs of equities or different levels of the capital structure of the same firm. In these relative value cases, the Company believes strong reasons exist for the prices of the securities to be highly correlated.

Strategic Structuring and Transactions ("SST"). The Company targets mispriced assets using sophisticated models and proprietary quantitative methods. The Company maintains substantial proprietary trading and investment positions in domestic and foreign markets covering a wide spectrum of equity and commodity products which include the use of futures, listed and OTC options and swaps.

Equity Securities.

(i) OTC. The Company makes markets on a principal basis in common and preferred stocks, warrants and other securities traded on the NASD's Automated Quotation System and otherwise in the OTC market.

(ii) Direct Access. The Company operates a direct access business by providing execution and operations services to qualified institutional investors. Such investors may directly access brokers on the floor of the NYSE and execute and service orders directly with them.

Equity Research. The Equity Research Department provides innovative, in-depth analysis of the global investment environment. Known for theme-oriented research underpinned by meticulous financial modeling, the department offers detailed information on over 1,000 companies in roughly 100 industries (including approximately 52% of the Standard & Poor's 500 Index). It also has a group of economists and strategists that closely monitors domestic and international markets. The department's broad-based domestic coverage is complemented by research teams in Latin America, Asia and Europe, giving its clients an advantage in a world where national boundaries are becoming more porous. This breadth of coverage allows the department to maintain a particularly wide-ranging recommended securities list and gives clients a steady stream of new investment ideas and insights into the more obscure corners of the financial world.

Convertible Securities. The Company engages in research, sales and trading of equity-linked securities including convertible bonds, convertible preferreds, equity-linked notes and warrants. Market coverage includes the United States, Europe and Latin America.

EQUITY SALES

The Company is one of the leading firms in the US providing brokerage services to institutional investors. Institutional equity sales involves the execution of transactions in US equity and equity-linked securities for domestic and foreign institutional customers and providing these customers with liquidity, trading expertise, trade execution, research and investment advice. The Company provides transaction services for institutional customers who trade in futures and futures-related instruments.

BLOCK STOCK AND PORTFOLIO TRADING

The Company effects transactions in large blocks of securities mainly with institutional customers. The Company also provides customers execution capabilities for baskets of equity securities using sophisticated computer systems. Transactions are handled on an agency basis whenever possible, but the Company may be required to take a long or short position in a security to the extent that an offsetting purchaser or seller is not immediately available.

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SPECIALIST AND MARKET-MAKING

The Company engages in specialist and market-making activities on the NYSE, AMEX and ISE through participation in a joint venture. Such joint venture performs specialist functions in NYSE-listed stocks as well as stocks and options traded on the AMEX and performs market-making functions for options traded on the ISE. The rules of these exchanges generally require specialists to maintain orderly markets in the securities in which they are specialists, which may require commitments of significant amounts of capital to the Company's specialist businesses. The market-making functions of a specialist involve risk of loss during periods of market fluctuation and volatility, since specialists are obligated to take positions in their issues counter to the direction of the market in order to minimize short-term imbalances in the auction market.

Additionally, the Company, apart from the joint venture, performs market-making functions for options traded on the ISE. The Company owns and/or operates Primary Market Maker and Competitive Market Maker memberships to allow it to make markets in the majority of single stock options traded on the ISE. The rules of the ISE require market-makers to provide continuous quoting in a variety of option series and classes. This may also require commitments of capital.

The Company is also registered as a market-maker in single stock futures on the Nasdaq Liffe Markets and OneChicago exchanges.

FIXED INCOME

General. The Company makes inter-dealer markets and trades on a principal basis in a wide range of instruments including: US and foreign government securities, government agency securities, corporate debt, mortgages, mortgage-backed and other asset-backed securities, municipal and other tax-exempt securities and interest rate swaps and other derivative products. Bear Stearns is one of the largest dealers in the US in such fixed income securities. Inventories of fixed income securities are generally carried to facilitate sales to customers and other dealers.

US Government and Agency Obligations. The Company is designated by the Federal Reserve Bank of New York as a primary dealer in US government obligations. The Company participates in the auction of, and maintains proprietary positions in, US Treasury bills, notes, bonds, and stripped principal and coupon securities. The Company also participates as a selling group member and/or underwriter in the distribution of various US government agency and sponsored corporation securities and maintains proprietary positions in such securities. In connection with these activities, the Company enters into transactions in options, futures and forward contracts to hedge such positions.

As a primary dealer, Bear Stearns furnishes weekly reports of its inventory positions and market transactions in US government securities to the Federal Reserve Bank of New York. Bear Stearns also buys and sells government securities directly with the Federal Reserve Bank of New York as part of the Federal Reserve Bank of New York's open-market activities. In addition, the Company engages in matched book activities, which involve acting as an intermediary between borrowers and lenders of short-term funds, mainly via repurchase agreements and reverse repurchase agreements. The objective of this matched book activity is to earn a positive spread between interest rates.

Corporate and Sovereign Fixed Income. The Company acts as a dealer in corporate and sovereign fixed income securities as well as preferred stocks in New York, London and Tokyo. The Company buys and sells these securities for its own account in principal transactions with institutional and individual customers, as well as other dealers. The Company conducts trading in the full spectrum of dollar and non-dollar debt securities. The Company offers hedging and arbitrage services to domestic and foreign institutional and individual customers utilizing financial futures and other instruments. Moreover, the Company offers quantitative, strategic and research services relating to fixed income securities to its domestic and international clients. The Company participates in the trading of investment-grade and non-investment-grade corporate debt securities, commercial loans and sovereign and sovereign agency securities.

Mortgage-Related Securities and Products. The Company trades and makes markets in the following mortgage-related securities and products: Government National Mortgage Association ("GNMA") securities; Federal Home Loan Mortgage Corporation ("FHLMC") participation certificates; Federal National Mortgage Association ("FNMA") mortgage-backed securities; Small Business Administration loans; loans guaranteed by the Farmers Home Loan Administration; Federal Housing Authority insured multi-family loans; real estate mortgage investment conduit ("REMIC") and non-REMIC collateralized mortgage obligations, including residual interests; and other derivative mortgage-backed securities and products. The Company also trades real estate mortgage loans originated by unaffiliated mortgage lenders, both on a securitized and non-securitized basis. The Company acts as underwriter and placement agent in transactions involving rated and non-rated mortgage-related securities issued by affiliated and unaffiliated parties. The Company enters into significant commitments - such as forward contracts - on GNMA, FNMA, and FHLMC securities, and on other rated and non-rated mortgage-related securities. Certain rated and non-rated mortgage-related securities are considered to be liquid, while other such securities, and non-securitized mortgage loans, are considered to be less readily marketable.

The Company trades GNMA, FNMA and FHLMC "to be announced" securities (i.e., securities having a stated coupon and the original term to maturity, although the issuer and/or the specific pool of mortgage loans is not known at the time of the transaction). The Company buys and sells such securities for its own account in transactions with institutional and individual customers, as well as with other dealers.

The Company, through various special purpose subsidiaries, purchases, sells and services entire loan portfolios of varying quality. These portfolios are generally purchased from financial institutions and other secondary mortgage-market sellers. Prior to bidding on a portfolio of loans, an analysis of the portfolio is undertaken by experienced mortgage-loan underwriters. Upon acquisition of a loan portfolio, the loans are classified as either investment-grade or non-investment-grade. Loan collection is emphasized for the non-investment-grade segment of the loan portfolio. A collection department employs a staff of workout specialists and loan counselors who assist delinquent borrowers. If collection efforts are unsuccessful, the foreclosure group will commence and monitor the foreclosure process until either the borrower makes the loan current, or the property securing the loan is foreclosed or otherwise acquired. The portfolio may include real estate that has been foreclosed or was in the process of foreclosure at the time of its acquisition. The foreclosure group maintains and markets properties through regional real estate brokers. Investment-grade mortgage loans are sold to other institutional investors in either securitized or non-securitized form. Moreover, special purpose vehicles issue REMIC and non-REMIC collateralized mortgage obligations directly or through trusts that are established for this purpose.

The Company also operates a commercial mortgage conduit that originates and accumulates commercial mortgage loans for the purpose of securitization. After receipt of loan applications, extensive credit underwriting reviews are conducted. After completing pricing analysis and successful negotiations, the loan will "close" and be included in an ensuing securitization.

Asset-Backed Securities. The Company acts as underwriter and placement agent with respect to investment-grade and non-investment-grade asset-backed securities issued by affiliates as well as unaffiliated third parties. These asset-backed securities include: securities backed by consumer automobile receivables originated by the captive finance subsidiaries of automobile manufacturers, commercial banks and finance companies; credit card receivables; and home-equity lines of credit or second mortgages. The Company also trades and is a market-maker in these asset-backed securities. While there are ready markets for the investment-grade asset-backed securities described above, non-investment-grade securities and related varieties thereof may lack liquidity.

Municipal Securities and Related Products. The Company is a dealer in tax-exempt and taxable municipal securities and instruments including: general obligation and revenue bonds; notes; leases; and variable-rate obligations issued by state and local governments and authorities, as well as not-for-profit institutions. The Company is active as a managing underwriter of negotiated and competitive new security issuances and on a select basis, provides financial advisory services. The Company makes markets in a broad spectrum of long-term and short-term municipal securities, mainly to facilitate transactions with institutional and individual customers, as well as other dealers. As agent for issuers, the Company earns fees by remarketing short-term debt instruments to investors in the variable rate demand and auction rate bond market. The Company offers a variety of derivative products to issuers to assist them in reducing their borrowing costs, maximizing investment returns and managing cash flows and balance sheets, including but not limited to interest rate swaps, caps, floors, options and forward

delivery, and debt service reserve and debt service deposit agreements. The Company periodically uses both municipal and treasury bond futures to hedge its cash-market bond inventory. In addition, the Company maintains a municipal arbitrage portfolio for its own account consisting of municipal futures and cash bond positions. The Company's underwriting, capital markets, trading and sales activities are supported by a municipal research group.

Derivatives. The Company offers to institutional customers, and trades for its own account, a variety of exchange-traded and OTC derivative products, including fixed income, credit and equity derivatives. These products are transacted, as principal, with customers for hedging (credit, currency, interest rate or market), risk management, asset/liability management, investment, financing and other purposes. These transactions are in the form of swaps, options, swaptions, asset swaps and structured notes, as well as more complex, structured trades which are customized to meet customers' specific needs. Derivatives enable customers to build tailor-made risk/return profiles, to customize transaction terms, to develop packaged solutions to a problem, to implement trades that otherwise could not be executed and to transact business with standardized documentation. The Company also enters into derivative transactions for various purposes and to manage the risks to which the Company is exposed in its various businesses and through its funding activities. The Company manages its market and counterparty risks arising from derivatives activities in a manner consistent with its overall risk management policies. The Company has 24 hours a day capabilities with personnel based in New York, Chicago, London, Hong Kong, Tokyo, Singapore and Dublin.

Foreign Exchange. The Company trades foreign exchange with clients as principal and to hedge its securities positions or other assets and liabilities. Foreign exchange products include major and minor currencies on a spot and forward basis, listed and OTC foreign currency options and foreign exchange futures contracts. Foreign exchange trading desks are maintained in New York and London and clients can trade or leave orders 24 hours a day. The Company serves a select list of funds, major corporations and mid-size commercial banks. Currency option strategies are made available to customers to help them meet their specific risk management objectives.

Fixed Income Research. The Company is one of the leaders in the distribution, trading and underwriting of corporate, government, high yield, emerging markets, municipal debt and mortgage-backed and asset-backed securities. The Fixed Income Research Department provides ongoing support for the Company's sales and trading efforts, producing reports, studies and technical market analyses. The Fixed Income Research Department is comprised of economists, industry analysts and strategists covering the full range of research disciplines: quantitative, economic, strategic, credit portfolio, relative value and market-specific analysis. Fixed Income Research is comprised of the following three units located in New York and London:

(i) Financial Analytics and Structured Transactions Group ("F.A.S.T.") is a center of expertise for the creation and analysis of fixed income and derivative securities worldwide. F.A.S.T. uses innovative solutions that employ state-of-the-art analytics and technology to help the Company and its clients successfully meet individual business objectives. F.A.S.T. is a global resource for financial engineering and securitization capabilities, fixed income portfolio management and analytical systems, investment research, trading technology and general financial expertise. A strategic partner for the Company's international trading desks, risk management areas and sales force, F.A.S.T. also serves the Company's external clients. In addition to formulating and executing customized strategic investment and trading solutions, F.A.S.T. develops the tools and recommendations necessary to quantify relevant risks and evaluate portfolios and securities. F.A.S.T.'s resources are used to create and model new types of securities, affording clients the unique perspective of both issuer and investor.

(ii) High grade research provides coverage on 20 industries and 450 companies whose fixed income securities are investment grade.

(iii) High yield research provides coverage on 250 corporate and sovereign issuers whose fixed income securities are non-investment-grade.

INVESTMENT BANKING

The Company is a major global investment banking firm providing a full range of capital formation and advisory services to a broad spectrum of clients. The Company manages and participates in public offerings and arranges the private placement of debt and equity securities directly with institutional investors. The Company provides advisory services to clients on a wide range of financial matters and assists with mergers, acquisitions, leveraged buyouts, divestitures, corporate reorganizations and recapitalizations.

The Company's strategy is to concentrate a major portion of its corporate finance business development efforts within those industries in which the Company has established a leadership position in providing investment banking services. Industry specialty groups include media and entertainment, health care, financial institutions, technology and telecommunications. This list is not exclusive but rather reflects the areas where the Company believes its knowledge and expertise are strongest. The Company also has a group that focuses on financial sponsors. These groups are responsible for initiating, developing and maintaining client relationships and for executing transactions involving these clients. The Company has focused primarily on those industries in which the Company also has a strong research capability.

In addition to being structured according to distinct industry groups, the Company has a number of professionals who specialize in specific types of transactions. These include mergers and acquisitions ("M&A"), equity offerings, high yield securities, leveraged and syndicated bank loans, leveraged acquisitions, commercial real estate and other transaction specialties.

Mergers and Acquisitions. The Company is active in arranging various M&A transactions for its clients. The Company participates in a broad range of domestic and international assignments including acquisitions, divestitures, strategic restructurings, proxy contests, leveraged buyouts and defenses against unsolicited takeovers.

Equity Offerings. The equity capital markets group focuses on providing financing for issuers of equity and convertible equity securities in the public markets. The group assists in the origination and is responsible for the structuring and execution of transactions for a broad range of clients.

High Yield Securities. The high yield securities group focuses on providing financing in the public and private capital markets. The group is responsible for originating, structuring and executing high yield transactions across a wide range of companies and industries, as well as managing client relationships with both high yield corporate issuers and financial sponsors of leveraged transactions.

Leveraged Loan Origination and Syndication. This area of the Company integrates the origination, structuring, underwriting, distribution and trading of loans. Such loans include both funded as well as committed investment-grade and non-investment-grade loans.

Leveraged Acquisitions. The Company makes investments as principal in leveraged acquisitions and in leveraged buy-out funds as a limited partner. The Company's investments generally take the form of either common or preferred stock or warrants. Equity securities purchased in these transactions generally are held for appreciation and are not readily marketable.

Commercial Real Estate. The Company is engaged in a variety of real estate activities on a nationwide basis. It provides comprehensive real estate-related investment banking, capital markets and financial advisory services.

Merchant Banking. Bear Stearns Merchant Banking, the dedicated private equity arm of the Company invests private equity capital in compelling leverage buyouts, recapitalizations and growth capital opportunities in a broad range of industries alongside superior management teams.

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EMERGING MARKETS

The Company provides financial services in various emerging markets worldwide including: securities brokerage, equity and fixed income trading and sales, and securities research, in addition to offering a full range of investment banking, capital formation and advisory services. As part of these activities, the Company manages and participates in public offerings and arranges the private placement of debt and equity securities with institutional investors. The markets currently covered by the Company include Latin America, Asia and Eastern Europe.

GLOBAL CLEARING SERVICES

Global Clearing Services provides a full range of services to hedge funds, broker-dealers and registered investment advisors. The services include custody, clearing, financing, securities lending, execution capabilities and technology solutions for a broad range of clients.

For start-up and established hedge funds located throughout the world, Global Clearing Services provides custody, clearing, financing and securities lending in addition to comprehensive prime brokerage, which includes advanced web-based portfolio reporting, enhanced leverage programs, term financing and cash management, capital introductions and risk management.

Broker-dealers conducting retail, institutional and money management activities utilize the Company's fully disclosed correspondent clearing services. The Company's advanced proprietary technology, combined with comprehensive retail products, integrated prime brokerage, operations experience and exceptional service have enabled the Company to remain an industry leader.

Registered investment advisors whose strategies include the use of leverage and active trading draw on the Company's unique combination of web-based portfolio and transparency reporting (i.e., investor reporting), trading solutions and comprehensive service.

The Company receives revenues both from commissions and service charges realized from clearing activities, as well as from interest income. The Company extends credit directly to the customers of correspondent firms in order to facilitate the conduct of customer securities transactions on a margin basis. The Company also extends margin credit directly to correspondents to the extent that such firms pledge proprietary assets as collateral.

The financial responsibilities arising from the Company's clearing relationships are allocated in accordance with agreements with correspondents. To the extent that the correspondent has available resources, the Company is protected against claims by customers of the correspondent when the correspondent has been allocated responsibility for a function giving rise to a claim. However, if the correspondent is unable to meet its obligations, dissatisfied customers may attempt to seek recovery from the Company.

The Company derives substantial net interest income from customer margin loans and securities lending.

Customer Financing. Securities transactions are effected for customers on either a cash or margin basis. In a margin transaction, the Company extends credit to a customer for a portion of the purchase price that is collateralized by securities and cash in the customer's account, in accordance with regulatory and internal requirements. The Company receives income from interest charged on the extension of credit. The rate of interest charged to customers for margin financing is based upon the federal funds rate, brokers call rate or London Interbank Offered Rate ("LIBOR").

Securities Lending Activities. In connection with both its trading and brokerage activities, the Company borrows securities from and lends securities to brokers and dealers and other trading entities to cover short sales and to complete transactions in which customers have failed to deliver securities by settlement date.

CUSTODIAL TRUST COMPANY

The Company offers a range of trust company and securities-clearance services through its wholly owned subsidiary CTC. CTC provides the Company with banking powers, such as access to the securities and funds-wire services of the Federal Reserve System. CTC provides fiduciary, custody and agency services for institutional accounts; the clearance of government securities for institutions and dealers; the processing of mortgage and mortgage-related products, including derivatives and collateralized mortgage obligations products; and lending. At November 30, 2002, CTC held approximately $94 billion of assets for clients, including institutional clients such as pension funds, mutual funds, endowment funds and insurance companies.

FUTURES

The Company, through BSSC and other subsidiaries, provides, directly or through third-party brokers, futures commission merchant services for customers and other Bear Stearns affiliates who trade contracts in futures on financial instruments and physical commodities, including options on futures. Exchange-traded futures and options derive their values from the values of the underlying selected stock indices, individual equity securities, fixed income securities, currencies, agricultural and energy products and precious metals.

Domestic futures and options trading is subject to extensive regulation by the CFTC pursuant to the Commodity Exchange Act and the Commodity Futures Trading Commission Act of 1974. International futures and options trading activities are subject to regulation by the respective regulatory authorities in the locations where futures exchanges reside, including the FSA in the United Kingdom.

Margin requirements (good faith deposits) covering substantially all transactions in futures and options contracts are subject to each particular exchange's requirements in addition to other regulations. In the US, the Company is a clearing member of the Chicago Board of Trade, the Chicago Mercantile Exchange, the New York Mercantile Exchange and other principal futures exchanges. In the United Kingdom, the Company is a member of the IPE, the London Commodity Exchange ("LCE"), LIFFE and OM London Exchange Limited ("OMLX"). The Company also has non-clearing memberships with MATIF and Eurex in Europe. In Japan, memberships are held with the Tokyo Stock Exchange, the Osaka Stock Exchange ("OSE") and the Tokyo International Financial Futures Exchange ("TIFFE").

PCS

PCS provides high-net-worth individuals with an institutional level of service, including access to the Company's resources and professionals. PCS maintains approximately 500 account executives in its principal office and six regional offices.

ASSET MANAGEMENT

The Company's Asset Management Department manages equity, fixed income and alternative assets for some of the leading corporate pension plans, public systems, endowments, foundations, multi-employer plans, insurance companies, corporations, families and high-net-worth individuals in the US and abroad. With approximately $24 billion in assets under management as of November 30, 2002, clients benefit from the Asset Management Department's ability to leverage the Company's extensive resources and proven skill at turning innovative ideas into rewarding investment opportunities. Institutional and high-net-worth products span a broad spectrum of equity strategies including large cap, small cap, systematic, core and value equity; fixed income strategies including cash and enhanced cash management, short-term, intermediate, core, high yield and leveraged loans; and alternative investment strategies including various equity and fixed income hedge funds, a fund of proprietary hedge funds, private equity funds of funds, venture capital and structured products.

In addition, the Asset Management Department offers individual investors STRATIS, a multi-manager wrap account, and The Bear Stearns Funds, a family of mutual funds which includes the S&P STARS, S&P STARS Opportunities, Intrinsic Value, Small Cap Value, Insiders Select, Alpha Growth, International Equity, Income and High Yield Total Return Portfolios.

ADMINISTRATION AND OPERATIONS

Administration and operations personnel are responsible for the human resources and legal compliance areas; for processing of securities transactions;

receipt, identification and delivery of funds and securities; internal financial controls; accounting functions; regulatory and financial reporting; office services; the custody of customer securities; the overseeing of margin accounts of the Company and correspondent organizations as well as other functions. The processing, settlement and accounting for transactions for the Company, correspondent organizations and the customers of correspondent organizations are handled by employees located in offices in New York, New Jersey and, to a lesser extent, the Company's offices worldwide.

The Company executes its own and correspondent transactions on US exchanges and in the OTC market. The Company clears all of its domestic and international transactions (i.e., delivery of securities sold, receipt of securities purchased and transfer of related funds) through its own facilities, unaffiliated commercial banks, other broker-dealers and through memberships in various clearing corporations.

INTERNATIONAL

Outside the US, the Company, through its international subsidiaries, provides various services including investment banking, securities and derivatives trading and brokerage and clearing activities to corporations, governments, institutions and individual clients throughout the world. These international subsidiaries of the Company have memberships on various foreign securities and futures exchanges.

BSIL is based in London and provides investors and issuers with a full range of products and services in both international and US equities, fixed income, exchange-traded futures and options and foreign exchange. In addition, BSIL is a major sales and trading center within the Company's global fixed income, credit and equity-related derivative businesses. BSIL has an investment banking capability and also services the Company's growing clearance business in Europe.

Bear Stearns Japan, Ltd. ("BSJL"), based in Tokyo, serves the diverse needs of corporations, financial institutions and government agencies by offering a range of international fixed income and equity products as well as listed futures. BSJL also offers a range of derivative products within Japan with special focus on credit and equity derivatives. Asset-backed securitization, mergers and acquisitions, corporate finance and restructuring services are also available for local and cross-border business.

Bear Stearns Asia Limited ("BSAL"), based in Hong Kong, is the Company's primary operating entity in the Asia-Pacific region, excluding Japan. This office provides international equity sales, trading and research services to institutional and individual clients in Asia.

BSB, based in Dublin, allows the Company's existing and prospective clients the opportunity of dealing with a banking counterparty. BSB also serves as a platform from which the Company directs some of its international banking activities, gaining easier access to worldwide markets and thereby expanding its capacity to increase its client base and product range. BSB engages in capital market activities with particular focus on the trading and sales of OTC interest rate derivative products.

COMPETITION

The Company encounters intense competition in all aspects of the securities business, particularly underwriting, trading and advisory services and competes directly with other securities firms - both domestic and foreign - many having substantially greater capital and resources and offering a wider range of financial services than does the Company. The Company's competitors include other brokers and dealers, commercial banks, investment banking firms, investment advisors, mutual funds and hedge funds. In addition to competition from securities firms, in recent years the Company has experienced increasing competition from other sources, such as insurance companies.

The Company believes that the principal factors affecting competition involve the caliber and abilities of professional personnel, the relative price of the service and products being offered, the ability to assist with financing arrangements and the quality of service.

In recent years, there has been substantial consolidation and convergence as institutions involved in a broad range of financial services industries have either ceased operations or have been acquired by or merged into other firms. This has resulted in competitors gaining greater capital and other resources, such as the ability to offer a wider range of products and services. In addition, legislative changes in the US have expanded the activities of commercial banks, as such institutions are allowed to enter businesses previously limited to investment banks. This legislation may further increase competition and accelerate consolidation.

REGULATIONS AND OTHER FACTORS AFFECTING THE COMPANY AND THE SECURITIES INDUSTRY

The securities industry in the US is subject to extensive regulation under both federal and state laws. Moreover, Bear Stearns is registered as an investment adviser with the SEC. Much of the regulation of broker-dealers has been delegated to self-regulatory organizations, principally the NASD, the Municipal Securities Rulemaking Board, and national securities exchanges such as the NYSE, which has been designated by the SEC as the primary regulator of certain of the Company's subsidiaries, including Bear Stearns and BSSC. These self-regulatory organizations (i) adopt rules, subject to approval by the SEC, that govern the industry and (ii) conduct periodic examinations of the Company's operations. Securities firms are also subject to regulation by state securities administrators in those states where they conduct business.

US broker-dealers are subject to regulations which cover all aspects of the securities business including: sales methods; trade practices; use and safekeeping of customer funds and securities; capital structures; recordkeeping; the preparation of research; the extension of credit and the conduct of officers and employees. The types of regulations to which investment advisers are subject also are extensive and include: recordkeeping; fee arrangements; client disclosure; custody of customer assets; and the conduct of officers and employees. The mode of operation and profitability of broker-dealers or investment advisers may be directly affected by new legislation, changes in rules promulgated by the SEC and self-regulatory organizations and changes in the interpretation or enforcement of existing laws and rules. The SEC, self-regulatory organizations and state securities commissions may conduct administrative proceedings that can result in censures, fines, the issuance of cease-and-desist orders and the suspension or expulsion of a broker-dealer or an investment adviser, its officers or employees. The principal purpose of regulation and discipline of broker-dealers and investment advisers is the protection of customers and the securities markets, rather than the protection of creditors and stockholders of broker-dealers or investment advisers. On occasion, the Company's subsidiaries have been subject to investigations and proceedings and sanctions have been imposed for infractions of various regulations, none of which, to date, has had a material adverse effect on the Company or its business.

The Market Reform Act of 1990 (the "Market Reform Act") was adopted to strengthen the SEC's regulatory oversight of the national securities markets and increase the efficacy and stability of such markets by, among other things: (i) providing the SEC with discretion to halt securities trading on any national exchange for the protection of investors; (ii) requiring broker-dealers and other registrants to regularly provide information to the SEC regarding holding companies and other affiliated entities whose activities can impact their financial condition; (iii) requiring broker-dealers and other registrants who execute large-trade orders to provide information to the SEC regarding such transactions; and (iv) allowing the SEC to prosecute market participants who violate SEC rules and regulations designed to maintain fair and orderly markets. The SEC has adopted the Risk Assessment Reporting Requirements for Brokers and Dealers (the "Risk Assessment Rules") to implement the provisions of the Market Reform Act. The Risk Assessment Rules require that broker-dealers: (i) have an organizational chart; (ii) maintain risk management procedures or standards for monitoring and controlling risks; (iii) maintain and preserve records and other information; and (iv) file quarterly reports covering the risk management procedures and the financial and securities activities of the holding companies of broker-dealers, or broker-dealer affiliates or subsidiaries that are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer.

The Insider Trading and Securities Fraud Enforcement Act of 1988 was adopted to strengthen the SEC's ability to deter, detect and punish insider trading by, among other things: (i) increasing civil penalties that can be assessed against controlling persons who purposefully or recklessly fail to take adequate measures to prevent insider trading; (ii) allowing the SEC to provide cash rewards to individuals who provide evidence of insider trading; (iii) affirming the government's ability to obtain criminal sanctions against those found guilty of insider trading; and (iv) requiring broker-dealers and investment advisors to establish and enforce written procedures reasonably designed to prevent the misuse of material, nonpublic information.

The Government Securities Act of 1986 was adopted to decrease volatility and increase investor confidence and liquidity in the government securities market by creating a coordinated and comprehensive regulatory structure for the market where none had previously existed. In particular, the Government Securities Act: (i) requires broker-dealers solely involved in government securities to register with the SEC; (ii) allows the Secretary of the Treasury to adopt rules regarding the custody, use, transfer and control of government securities; and (iii) bestows upon the SEC authority to enforce such rules as to broker-dealers and other SEC registrants.

The futures industry in the US is subject to regulation under the Commodity Exchange Act, as amended. The CFTC is the federal agency charged with the administration of the Commodity Exchange Act and the regulations thereunder. Bear Stearns and BSSC are registered with the CFTC as futures commission merchants and are subject to regulation as such by the CFTC and various domestic boards of trade and other futures exchanges. Bear Stearns' and BSSC's futures business is also regulated by the NFA, a not-for-profit membership organization, which has been designated a registered futures association by the CFTC.

As registered broker-dealers and member firms of the NYSE, both Bear Stearns and BSSC are subject to the Net Capital Rule (Rule 15c3-1) (the "Net Capital Rule") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which has been adopted through incorporation by reference in NYSE Rule 325. The Net Capital Rule, which specifies minimum net capital requirements for registered broker-dealers, is designed to measure the general financial integrity and liquidity of broker-dealers and requires that at least a minimal portion of its assets be kept in relatively liquid form.

Bear Stearns and BSSC are also subject to the net capital requirements of the CFTC and various futures exchanges, which generally require that Bear Stearns and BSSC maintain a minimum net capital equal to the greater of the alternative net capital requirement provided for under the Exchange Act or 4% of the funds required to be segregated under the Commodity Exchange Act and the regulations promulgated thereunder.

Compliance with the Net Capital Rule could limit those operations of Bear Stearns and/or BSSC that require significant capital usage, such as underwriting, trading and the financing of customer margin account debit balances. The Net Capital Rule could also restrict the Company's ability to withdraw capital from Bear Stearns or BSSC, which in turn could limit the Company's ability to pay dividends, pay interest, repay debt, or redeem or purchase shares of its outstanding capital stock. Additional information regarding net capital requirements is set forth under "Item 8. Financial Statements and Supplementary Data" in Note 7 of Notes to Consolidated Financial Statements entitled "Regulatory Requirements".

Bear Stearns and BSSC are members of the Securities Investor Protection Corporation ("SIPC"), which provides insurance protection for customer accounts held by these entities of up to $500,000 for each customer, subject to a limitation of $100,000 for cash balance claims in the event of the liquidation of a broker-dealer. In addition, all BSSC security accounts are protected by an excess securities bond issued by the Travelers Casualty and Surety Company, up to the amount of their total net equity (both cash and securities) in excess of the underlying SIPC protection.

The activities of the Company's bank and trust company subsidiary, CTC, are regulated by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation ("FDIC"). FDIC regulations require certain disclosures in connection with joint advertising or promotional activities conducted by Bear Stearns and CTC. Such regulations also restrict certain activities of CTC in connection with the securities business of Bear Stearns. The Competitive Equality in Banking Act of 1987, as amended, limits the use of overdrafts at Federal Reserve Banks on behalf of affiliates.

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BSIL is a broker-dealer based in London and is a member of the Chicago Board of Trade ("CBOT"), EUREX, LIFFE, Frankfurt Stock Exchange ("FWB"), IPE, International Securities Markets Association ("ISMA"), London Clearing House ("LCH"), Mercato Telematico allIngrosso dei Titoli de Stato ("MTS"), Milan Stock Exchange, NASDAQ, OMLX, Stockholmsboren and Euronext Paris ("EURONEXT"). Euronext Paris is the exchange which itself includes the following markets: Bourse de Paris, Marche a Terme International de France ("MATIF"), Marche des Options Negociables de Paris ("MONEP") and Nouveau Marche ("NM"). Another London subsidiary, Bear Stearns International Trading Limited ("BSIT"), is a market-maker in various non-dollar-denominated equity securities and is a member of the London Stock Exchange, CREST (The Settlement Network) and virt-x Exchange. Both BSIL and BSIT are regulated in the United Kingdom by the FSA, pursuant to The Financial Services and Markets Act 2000. FSA regulates all aspects of the financial services industry in the United Kingdom and its Rules cover (inter alia): senior management responsibilities, regulatory capital, sales and trading practices, safekeeping of customer funds, record keeping, registration standards for individuals and reporting to customers.

BSJL is a Tokyo broker-dealer registered with the Financial Services Agency of Japan. BSJL is a limited trade participant to the Tokyo Stock Exchange and the Osaka Stock Exchange and has a membership on the Tokyo International

Financial Futures Exchange. Bear Stearns Hong Kong Limited is registered as a Commodities Dealer with the Securities and Futures Commission ("SFC") in Hong Kong and its main business consists of sales of US futures products to corporate and retail customers in Hong Kong. BSAL is registered as a Securities Dealer with the SFC in Hong Kong and is a participant (i.e. member) of the Hong Kong Exchange Limited. Bear Stearns Singapore Pte. Limited ("BSSP") has a Capital Market Service license and is also registered with the Monetary Authority of Singapore as an exempt financial adviser. BSSP provides sales, execution and research services on fixed income securities to institutional investors in Asia.

BSB is an Ireland-based bank, which was incorporated as a limited liability company on November 27, 1995 and then re-registered on October 15, 1996 as a public company. BSB was granted a banking license on April 10, 1997 under the Irish Central Bank Act, 1971 and is regulated by the Central Bank of Ireland, which is the principal regulator of banks in Ireland.

The Company's principal business activities - investment banking, securities and derivatives trading and sales, clearance and brokerage - are, by their nature, highly competitive and subject to various risks, including volatile trading markets and fluctuations in the volume of market activity. Consequently, the Company's net income and revenues have been, and are likely to continue to be, subject to wide fluctuations, reflecting the impact of many factors, including general economic conditions, securities market conditions, the level and volatility of interest rates and equity prices, competitive conditions, liquidity of global markets, international and regional political conditions, regulatory developments, monetary and fiscal policy, investor sentiment, availability and cost of capital, technological changes and events, and the size, volume and timing of transactions. These and other factors can affect the Company's volume of security new-issues, mergers and acquisitions and business restructurings; the stability and liquidity of securities and futures markets; and ability of issuers, other securities firms and counterparties to perform on their obligations. Decrease in the volume of security new-issues, mergers and acquisitions or restructurings generally results in lower revenues from investment banking and, to a lesser extent, reduced principal transactions. A reduced volume of securities and futures transactions and reduced market liquidity generally results in lower revenues from principal transactions and commissions. Lower price levels for securities may result in a reduced volume of transactions, and may also result in losses from declines in the market value of securities held in proprietary trading and underwriting accounts. In periods of reduced sales and trading or investment banking activity, profitability may be adversely affected because certain expenses remain relatively fixed. The Company's securities trading, derivatives, arbitrage, market-making, specialist, leveraged lending, leveraged buyout and underwriting activities are conducted by the Company on a principal basis and expose the Company to significant risk of loss. Such risks include market, counterparty credit and liquidity risks. See "Item 7A. Quantitative and Qualitative Disclosures about Market Risk."

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CERTAIN STATEMENTS CONTAINED IN THIS DISCUSSION INCLUDING (WITHOUT LIMITATION) CERTAIN MATTERS DISCUSSED UNDER "LEGAL PROCEEDINGS" IN PART I, ITEM 3 OF THIS REPORT, "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" INCORPORATED BY REFERENCE IN PART II, ITEM 7 OF THIS REPORT, AND "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK" INCORPORATED BY REFERENCE IN PART II, ITEM 7A OF THIS REPORT ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH FORWARD-LOOKING STATEMENTS CONCERNING MANAGEMENT'S EXPECTATIONS, STRATEGIC OBJECTIVES, BUSINESS PROSPECTS, ANTICIPATED ECONOMIC PERFORMANCE AND FINANCIAL CONDITION AND OTHER SIMILAR MATTERS ARE SUBJECT TO RISKS AND UNCERTAINTIES, INCLUDING THOSE DESCRIBED IN THE PRIOR

PARAGRAPH, WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE OF THE DOCUMENT IN WHICH THEY ARE MADE. THE COMPANY DISCLAIMS ANY OBLIGATION OR UNDERTAKING TO PROVIDE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT TO REFLECT ANY CHANGE IN THE COMPANY'S EXPECTATIONS OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH THE FORWARD-LOOKING STATEMENT IS BASED.

ITEM 2. PROPERTIES.

The Company's executive offices and principal administrative offices occupy approximately 1.2 million square feet at 383 Madison Avenue, New York, New York under an operating lease arrangement.

The lease arrangement expires on May 20, 2007. At the end of the lease, the Company may request a lease renewal. In the event the lease renewal cannot be negotiated, the Company has the right to purchase the building for the amount of the then outstanding indebtedness of the lessor or to arrange for the sale of the property with the proceeds of the sale being used to satisfy the lessor's debt obligation.

The Company also leases approximately 320,000 square feet of office space at One MetroTech Center, Brooklyn, New York pursuant to a lease expiring in 2004 for its securities processing, accounting and clearance operations. Additionally, the Company leases approximately 30,000, 140,000, 13,000, 59,000 and 61,000 square feet of space at four locations in New York City under leases expiring in 2002, 2002, 2007, 2009 and 2011, respectively. The Company's offices in Atlanta, Boca Raton, Boston, Chicago, Dallas, Denver, El Paso, Houston, Irving, Los Angeles, Palo Alto, Philadelphia, Pound Ridge, Princeton, San Francisco, San Juan and Tampa occupy an aggregate of approximately 632,000 square feet, while its thirteen foreign offices occupy a total of approximately 178,000 square feet under leases expiring on various dates through the year 2018.

The Company owns approximately 65 acres of land in Whippany, New Jersey, including six buildings comprising an aggregate of approximately 681,000 square feet. The Company is currently using the existing facilities on the property to house its data processing facility and other operations, compliance, personnel and accounting functions.

ITEM 3. LEGAL PROCEEDINGS.

In the normal course of business, the Company and/or subsidiaries of the Company have been named as defendants in several lawsuits which involve claims for substantial amounts. Additionally, the Company is involved from time to time in investigations and proceedings by governmental agencies and self-regulatory organizations. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management, after consultation with counsel, that the resolution of the foregoing matters will not have a material effect on the financial condition of the Company, taken as a whole; such resolution may, however, have a material effect on the operating results in any future period, depending upon the level of income for such period.

A.I.A. Holding, S.A., et al. v. Lehman Brothers, Inc., et al. On July 8, 1997, 277 alleged customers of Ahmad Ihsan El-Daouk ("Daouk") commenced an action in the United States District Court for the Southern District of New York against Lehman Brothers, Inc. ("Lehman") and Bear Stearns. On July 3, 1998, 276 of the 277 original plaintiffs filed an amended complaint against Lehman and Bear Stearns. As amended, the complaint alleges, among other things, that the defendants committed breach of fiduciary duty, fraud, constructive fraud, breach of contract, negligent hiring, retention and supervision, and that they aided and abetted fraud and aided and abetted breach of fiduciary duty in connection with alleged improper trading activities in the accounts of Daouk's

customers. Plaintiffs seek compensatory damages in unspecified amounts and imposition of constructive trusts with respect to any property that "belongs, or may belong" to plaintiffs in Lehman's or Bear Stearns' possession.

On May 5, 1999, the court granted permission to 21 plaintiffs who moved to dismiss their cases with prejudice on the condition that each provides a covenant not to sue and a release.

The court thereafter randomly divided the remaining plaintiffs into fourteen separate groups for purposes of trial. On January 23, 2002, the court granted in part Bear Stearns' and Lehman's motions for summary judgment with respect to the first group of plaintiffs set for trial. The court dismissed all claims asserted by four of the fourteen plaintiffs in this first group. In addition, the court granted in part defendants' motions with respect to ten of these fourteen plaintiffs, and dismissed all claims except those for breach of fiduciary duty, aiding and abetting a breach of fiduciary duty and aiding and abetting fraud.

On May 9, 2002, the court granted in part motions filed by Bear Stearns, Lehman, and the plaintiffs, seeking reconsideration of the court's January 23, 2002 decision, which granted in part Bear Stearns' and Lehman Brothers' motion for summary judgment. On reconsideration, the court reinstated the claim for aiding and abetting fraud asserted by three of the four plaintiffs whose claims against Bear Stearns had been dismissed in their entirety; the fourth plaintiff's claims against Bear Stearns remain dismissed. In addition, the court reinstated the plaintiffs' secondary liability claims with respect to certain of the plaintiffs. Finally, the court dismissed all claims asserted by the plaintiff with the largest claim against Bear Stearns in the first group of plaintiffs set for trial (the court has randomly divided the remaining plaintiffs into separate groups for purposes of trial).

The parties have entered into an agreement to settle this action.

A.R. Baron & Company, Inc. The following matters arise out of Bear Stearns' role as clearing broker for A.R. Baron & Company, Inc. ("Baron") from July 20, 1995 through June 28, 1996:

(i) John Berwecky, et al. v. Bear, Stearns & Co. Inc., et al./Jack Perry v. Bear, Stearns & Co. Inc., et al. On July 21 and August 22, 1997, shareholders of companies whose securities were underwritten by, or that otherwise had some relationship with Baron (these securities are referred to below as "Baron securities") commenced two actions in the United States District Court for the Southern District of New York against Bear Stearns, BSSC and a managing director of Bear Stearns.

On January 13, 1998, the Berwecky and Perry cases were consolidated for all purposes and lead plaintiffs and lead counsel for plaintiffs were appointed. On April 1, 1998, an amended consolidated class action complaint was filed. As amended, the complaint alleges, among other things, that Bear Stearns, BSSC, a managing director of Bear Stearns and Baron engaged in a scheme to manipulate the market for and to inflate the prices of the Baron securities. Plaintiffs allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder. Plaintiffs purport to represent a class consisting of all persons who acquired Baron securities from Baron between July 20, 1995 and June 28, 1996. Damages in an unspecified amount are sought.

On September 18, 2000, the court certified a class consisting of all persons who acquired Baron securities from Baron between July 20, 1995 and June 28, 1996.

In November 2002, the court gave final approval to the parties' settlement of this action.

(ii) Fezanni, et al. v. Bear, Stearns & Co. Inc., et al. On February 2, 1999, an action was commenced in the United States District Court for the Southern District of New York by eleven individuals or entities that allegedly purchased certain securities underwritten by Baron. Named as defendants are Bear Stearns, BSSC, an officer of BSSC, thirteen former officers and employees of Baron, and 33 other individuals and entities that allegedly participated in alleged misconduct by Baron involving attempts to manipulate the market for securities underwritten by Baron. The complaint alleges that the Bear Stearns defendants violated Sections 9 and 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and RICO, aided and abetted breach of fiduciary duty and committed common law fraud in connection with providing clearing services and financing for Baron. The complaint seeks to recover compensatory damages in excess of $6.5 million, treble damages in excess of $19.5

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million, punitive damages of $6.5 million from each defendant other than Bear Stearns and BSSC, and punitive damages in the aggregate of $130 million from Bear Stearns and BSSC.

Bear Stearns has denied all allegations of wrongdoing asserted against it in this litigation and believes that it has substantial defenses to these claims.

(iii) 110958 Ontario Inc. v. Bear, Stearns & Co. Inc., et al. On February 19, 1997, a brokerage customer of Baron commenced a National Association of Securities Dealers ("NASD") arbitration proceeding against Bear Stearns, BSSC, and three Bear Stearns directors and/or officers. On September 9, 1997, an amended Statement of Claim was filed. Claimant alleges, among other things, that defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder, and committed common law fraud, breach of contract, and negligence, in connection with alleged misconduct by Baron (for whom Bear Stearns acted as clearing broker), Baron's principal and Baron's parent corporation, The Baron Group Inc. ("BGI"), including engaging in unauthorized trading in claimant's brokerage account and fraudulently inducing claimant to give Baron a secured demand note and to invest in BGI. Claimant seeks compensatory damages of $22 million and punitive damages of $75 million.

Bear Stearns has denied all allegations of wrongdoing asserted against it in this NASD arbitration proceeding and believes that it has substantial defenses to these claims.

In re Blech Securities Litigation. On October 24, 1994, a shareholder of certain biotechnology companies whose securities were underwritten by, or that otherwise had some relationship with, D. Blech & Co. ("Blech Securities"), commenced an action in the United States District Court for the Southern District of New York against D. Blech & Co., David Blech, certain money managers and investment advisors, and Bear Stearns, which had been a clearing broker for D. Blech & Co. from September 1993 through September 1994. On December 14, 1994, the action was consolidated with three related actions. On March 27, 1995, an amended consolidated class action complaint was filed. On July 26, 1996, a second amended consolidated complaint was filed.

Plaintiffs' current pleading alleges, among other things, a scheme to manipulate the market for and to inflate the prices of Blech Securities, and alleges that Bear Stearns violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder, and committed common law fraud. On April 2, 1997, the court dismissed plaintiffs' Section 20(a) claim. Plaintiffs seek damages in an unspecified amount.

On May 11, 1999, the court certified the following sub-classes: (i) all persons who traded Blech Securities in the "primary market" between October 21, 1991 and September 21, 1994; (ii) all persons who traded Blech Securities in the "secondary market" between October 21, 1991 and September 21, 1994; and (iii) all persons who traded Blech Securities in the secondary market between September 27, 1993, the date on which Bear Stearns became a clearing broker for D. Blech & Co., Inc., and September 21, 1994.

Bear Stearns has denied all allegations of wrongdoing asserted against it in this litigation and believes that it has substantial defenses to these claims.

Kennilworth Partners LP, et al. v. Bear, Stearns Securities Corp., et al. On May 2, 2000, Kennilworth Partners LP and Kennilworth Partners II LP commenced an NASD arbitration proceeding against BSSC and Bear Stearns. Claimants allege that respondents committed breach of contract, breach of the covenant of good faith and fair dealing, breach of fiduciary duty, common law fraud and tortious interference with contract in connection with the provision of clearing services to the claimants. Compensatory and punitive damages in excess of $50 million are sought.

Bear Stearns and BSSC have denied all allegations of wrongdoing asserted against them in this NASD arbitration proceeding, and believe that they have substantial defenses to these claims.

Henryk de Kwiatkowski v. Bear, Stearns & Co. Inc., et al. On June 25, 1996, a complaint was filed in the United States District Court for the Southern District of New York by a former customer against Bear Stearns, BSSC, Bear Stearns Forex Inc. ("Forex") and a registered representative. On November 4, 1996, an amended complaint was filed, and on October 22, 1998, a second amended complaint was filed against the same individual

and entities that were named as defendants in the original complaint. As amended, the complaint alleges, among other things, claims for breach of fiduciary duty, negligence and violations of Section 4o of the Commodity Exchange Act. Plaintiff sought to recover at least $300 million in losses and at least $100 million in punitive damages.

On May 17, 2000, a jury returned a verdict finding that Bear Stearns, BSSC and Forex were liable to plaintiff for negligence and awarded damages in the amount of $111.5 million. The jury also found that defendants had not breached any fiduciary duties. On June 2, 2000, the court also awarded pre-judgment interest of $52.3 million. On December 29, 2000, the court denied defendants' motions to overturn the verdict.

Defendants appealed the verdict to the United States Court of Appeals for the Second Circuit, and on September 19, 2002, the United States Court of Appeals for the Second Circuit reversed the jury verdict against Bear Stearns in this case and ordered that the complaint be dismissed. On December 5, 2002, the Second Circuit denied plaintiff's motions for reargument and en banc review of this decision.

McKesson HBOC, Inc. The following matters arise out of a merger between McKesson Corporation ("McKesson") and HBO & Company ("HBOC") resulting in an entity called McKesson HBOC, Inc. ("McKesson HBOC").

(i) Mitchell v. McCall, et al. On June 23, 1999, a shareholder of McKesson HBOC commenced a purported derivative action on behalf of McKesson HBOC in the Superior Court of the State of California, County of San Francisco, against Bear Stearns, Arthur Andersen LLP, and certain present and former directors and/or officers of McKesson HBOC, McKesson and/or HBOC. On March 31, 2000, plaintiffs filed an amended complaint against the same defendants as were named in the original complaint. As amended, the complaint alleges, among other things, that Bear Stearns committed breach of fiduciary duty and negligence in connection with acting as a financial advisor to McKesson with respect to a merger between McKesson and HBOC. Compensatory and punitive damages in unspecified amounts are sought.

(ii) In re McKesson HBOC, Inc. Securities Litigation. Beginning on June 29, 1999, 53 purported class actions were commenced in the United States District Court for the Northern District of California. On November 2, 1999, these actions were consolidated, and on February 25, 2000, the plaintiffs filed an amended consolidated complaint, on November 14, 2000, the plaintiffs filed a second amended consolidated complaint and on February 15, 2002, plaintiffs filed a third amended consolidated complaint. As amended, the complaint alleges that Bear Stearns violated Sections 10(b) and 14(a) of the Exchange Act in connection with allegedly false and misleading disclosures contained in a joint proxy statement/prospectus that was issued with respect to the McKesson/HBOC merger. Plaintiffs purport to represent a class consisting of all persons who either (i) acquired publicly traded securities of HBOC between January 20, 1997 and January 12, 1999, or (ii) acquired publicly traded securities of McKesson or McKesson HBOC between October 18, 1998 and April 27, 1999, and who held McKesson securities on November 27, 1998 and January 22, 1999. Named as defendants are McKesson HBOC, certain present and former directors and/or officers of McKesson HBOC, McKesson and/or HBOC, Bear Stearns and Arthur Andersen LLP. Compensatory damages in an unspecified amount are sought.

On January 6, 2003, the court granted Bear Stearns' motion to dismiss the Section 10(b) claim asserted in the complaint, and denied Bear Stearns' motion to dismiss the Section 14(a) claim.

(iii) Utah State Retirement Board and Public Employees' Retirement Association of Colorado v. McKesson HBOC, Inc., et al. / Minnesota State Board of Investment v. McKesson HBOC, Inc., et al. / State of Oregon, by and through the Oregon Public Employees Retirement Board v. Bear, Stearns & Co. Inc., et al. On April 23, 2001, complaints were filed by the Utah State Retirement Board, the Public Employees' Retirement Association of Colorado and the Minnesota State Board of Investment in the Superior Court of California, City and County of San Francisco, asserting allegations similar to those alleged in the second amended consolidated complaint filed in the litigation entitled In re McKesson HBOC, Inc. Securities Litigation pending in the United States District Court for the Northern District of California. In addition, on April 26, 2001, a similar complaint was filed in the Superior Court in San Francisco by the State of Oregon, by and through the Oregon Public Employees Retirement Board.

On August 1, 2002, the plaintiffs in each of these actions filed amended complaints, and on October 2, 2002, these actions were consolidated for pre-trial purposes with the Merrill Lynch Fundamental Growth Fund, Inc. action described below.

On October 17, 2002, the plaintiffs in these actions filed a consolidated amended complaint. Named as defendants are McKesson HBOC, certain present and former directors and/or officers of McKesson HBOC, McKesson and/or HBOC, Bear Stearns and Arthur Andersen LLP. As amended, the complaint alleges that Bear Stearns violated Section 25500 of the California Business and Professions Code and California Civil Code Sections 1709 and 1710, and committed common law fraud and deceit and negligent misrepresentation based on allegations similar to those in the third amended consolidated complaint filed in the litigation entitled In re McKesson HBOC, Inc. Securities Litigation pending in the United States District Court for the Northern District of California. Compensatory and punitive damages in unspecified amounts are sought.

(iv) Kelly v. Bear, Stearns & Co. Inc., et al. On April 19, 2001, a complaint was filed in the Court of Common Pleas, Trial Division, Philadelphia County, Pennsylvania, by former shareholders of KWS&P, Inc. and KWS&P/SFA, Inc. (collectively, "KWS&P") against the Company and a former employee of the Company arising out of the Company's engagement by KWS&P in connection with a merger between KWS&P and McKesson HBOC. The complaint alleges claims based on common law fraud, civil conspiracy, breach of fiduciary duty, tortious interference with contract, misrepresentation and omission, negligence and violations of the Pennsylvania Unfair Trade Practices and Consumer Protection Law as well as for negligent supervision against the Company. Compensatory and punitive damages in an unspecified amount are sought.

On July 2, 2001, the defendants filed preliminary objections to the complaint. On December 18, 2001, the court sustained defendants' preliminary objections and dismissed the complaint. On January 7, 2002, plaintiff filed a notice of appeal. On September 9, 2002, the Pennsylvania Superior Court affirmed the lower court's order granting Bear Stearns' motion to dismiss the complaint in this action on the ground that venue was improper. On April 26, 2002, Plaintiffs in this action filed a lawsuit alleging similar claims in the Supreme Court, State of New York, New York County.

(v) Pacha, et al v. McKesson HBOC, Inc., et al. On July 27, 2001, an action was commenced in the United States District Court for the Northern District of California by individuals who owned McKesson common stock that was converted into common stock of McKesson HBOC in connection with the McKesson/HBOC merger. Named as defendants are McKesson HBOC, certain present or former directors and/or officers of McKesson HBOC, McKesson and/or HBOC, Bear Stearns and Arthur Andersen LLP. The complaint alleges, among other things, that Bear Stearns violated Section 14(a) of the Exchange Act and aided and abetted a breach of fiduciary duty in connection with allegedly false and misleading disclosure contained in a joint proxy statement/prospectus that was issued with respect to the McKesson/HBOC merger. Compensatory and punitive damages in an unspecified amount are sought.

On November 13, 2001, this action was consolidated for pre-trial purposes with the In re McKesson HBOC, Inc. Securities Litigation described above.

(vi) Merrill Lynch Fundamental Growth Fund, Inc., et al. v. McKesson HBOC, Inc., et al. On or around March 19, 2002, an action was commenced in the Superior Court of the State of California, County of San Francisco, by two investment funds that acquired the common stock of McKesson HBOC between February 5 and March 12, 1999. Named as defendants are McKesson HBOC, HBOC, certain present or former officers and/or directors of McKesson, HBOC and/or McKesson HBOC, Arthur Andersen and Bear Stearns. The complaint alleges, among other things, that Bear Stearns violated Section 25500 of the California Corporations Code and committed common law fraud, negligent misrepresentation and conspiracy in connection with allegedly false and misleading disclosure contained in a joint proxy statement/prospectus that was issued with respect to the McKesson/HBOC merger. Compensatory damages in an unspecified amount are sought. Bear Stearns has not been served with the complaint in this action.

On August 6, 2002, plaintiffs and Bear Stearns entered into a tolling agreement pursuant to which any statute of limitations applicable to the claims asserted against Bear Stearns in the complaint will be tolled until the earlier of (a) 30 days after written termination of the tolling agreement or (b) the date plaintiffs file a new complaint

against Bear Stearns. The tolling agreement may be terminated by either party upon written notice, at which time plaintiffs may reinstate their claims. The agreement further provides that plaintiffs may obtain the benefit of an adverse judgment against Bear Stearns in any of the pending state or federal cases arising from the McKesson-HBOC merger (to the extent permitted by principles of res judicata and collateral estoppel). On August 8, 2002, plaintiffs filed an amended complaint that does not name Bear Stearns as a defendant. On October 2, 2002, this action was consolidated with the Pension Fund Cases described above for pre-trial purposes (although the plaintiffs in this action will not join or be plaintiffs in the consolidated complaint to be filed by the plaintiffs in the Pension Fund Cases).

Bear Stearns has denied all allegations of wrongdoing asserted against it in these litigations and believes that it has substantial defenses to these claims.

Manhattan Investment Fund Limited. The following matters arise out of the failure and subsequent bankruptcy filing of Manhattan Investment Fund Limited ("MIFL").

(i) Scotia Nominees, as nominees for L.C.O. Investments, Ltd. v. Michael Berger, et al. On January 25, 2000, an action was commenced in the Supreme Court of the State of New York, County of New York, by Scotia Nominees, a shareholder of MIFL. On March 27, 2000, plaintiff filed an amended complaint, and on March 6, 2001, plaintiffs filed a second amended complaint, and named as defendants in the second amended complaint are MIFL, three directors of MIFL, Manhattan Capital Management, Inc., BSSC, Deloitte & Touche, and Fund Administration Services (Bermuda) Ltd. ("FASB").

As amended, the complaint alleges that BSSC aided and abetted a breach of fiduciary duty and conspired to convert plaintiffs' funds by, among other things, failing to alert the shareholders of MIFL about false and misleading statements made by certain of the other defendants related to the financial condition of MIFL and continuing to provide credit to MIFL. Compensatory damages in excess of $5 million are sought from BSSC.

On January 18, 2002, the court announced a tentative ruling dismissing all claims against BSSC. The court subsequently issued an order dismissing all claims asserted in this action with prejudice.

(ii) Helen Gredd, Chapter 11 Trustee for Manhattan Investment Fund Ltd. v. Bear, Stearns Securities Corp. On April 24, 2001, an action was commenced in the United States Bankruptcy Court for the Southern District of New York by the Chapter 11 Trustee for MIFL. BSSC is the sole defendant. The complaint alleges, among other things, that certain transfers of cash and securities to BSSC in connection with short sales of securities by MIFL in 1999 were "fraudulent transfers" made in violation of Sections 548 and 550 of the United States Bankruptcy Code and are recoverable by the Trustee. The Trustee also alleges that any claim that may be asserted by BSSC against MIFL should be equitably subordinated to the claims of other creditors pursuant to Sections 105 and 510 of the Bankruptcy Code. The Trustee seeks to recover in excess of $1.9 billion in connection with the allegedly fraudulent transfers to BSSC.

On March 21, 2002, the court dismissed the trustee's claims seeking to recover allegedly fraudulent transfers in amounts exceeding $1.9 billion. The district court also remanded to the bankruptcy court the trustee's remaining claims, which seek to recover allegedly fraudulent transfers in the amount of $141.4 million and to equitably subordinate any claim that may be asserted by BSSC against MIFL to the claims of other creditors.

BSSC has denied all allegations of wrongdoing asserted against it in this litigation, and believes that it has substantial defenses to these claims.

Sterling Foster & Co., Inc. The following matter arises out of Bear Stearns' role as clearing broker for Sterling Foster & Co., Inc. ("Sterling Foster").

(i) Levitt, et al. v. Bear Stearns, et al. On February 16, 1999, a purported class action was commenced in the United States District Court for the Southern District of New York on behalf of all persons who purchased ML Direct, Inc. common stock or warrants through Sterling Foster between September 4, 1996 and December 31, 1996. Named as defendants are Bear Stearns and BSSC. The complaint alleges, among other things, that the defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder and

committed common law fraud in connection with providing clearing services to Sterling Foster with respect to certain transactions by customers of Sterling Foster in ML Direct common stock and warrants. Compensatory damages of $50 million and punitive damages of approximately $100 million are sought.

On March 15, 1999, this action was transferred by the Judicial Panel on Multi-District Litigation to the United States District Court for the Eastern District of New York.

On June 27, 2002, the court granted defendants' motion and dismissed this action in its entirety. On August 1, 2002, plaintiff filed a notice of appeal from the district court order dismissing the complaint in this action.

Bear Stearns and BSSC have denied all allegations of wrongdoing asserted against them in these litigations, and believe that they have substantial defenses to these claims.

IPO Allocation Securities and Antitrust Litigations

The Company, along with many other financial services firms, has been named as a defendant in many putative class actions filed during 2001 and 2002 in the United States District Court for the Southern District of New York involving the allocation of securities in certain initial public offerings ("IPOs"). The complaints in these purported class actions generally allege, among other things, that between 1998 and 2000: (i) the underwriters of certain "hot" IPOs of technology and internet-related companies obtained excessive compensation by allocating shares in these IPOs to preferred customers who, in return, purportedly agreed to pay additional compensation to the underwriters, and the underwriters failed to disclose this additional compensation; and/or (ii) the underwriters' customers, in return for a favorable allocation of these securities, agreed to purchase additional shares in the aftermarket at pre-arranged prices or to pay additional compensation in connection with other transactions.

Beginning on April 19, 2002, the plaintiffs in these litigations filed amended complaints by virtue of which the public offerings of each of the 308 issuers is now the subject of a separate complaint. Bear Stearns is a defendant in 94 of these amended complaints. As amended, the complaints allege, among other things, that the underwriters, including Bear Stearns, violated Section 11 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, based on the wrongdoing alleged in the original complaints and by causing their securities analysts to issue unwarranted positive reports regarding the issuers. Compensatory damages in unspecified amounts are sought.

In January 2002, the Company was named as a defendant, along with nine other financial services firms, in an antitrust complaint filed in the same Court on behalf of a putative class of purchasers who, either in IPOs or the aftermarket, purchased technology-related securities during the period March 1997 to December 2000. Plaintiffs allege that the defendants conspired to require that customers, in return for an allocation in the IPOs, (i) pay charges in addition to the IPO price, such as non-competitively determined commissions on the purchase or sale of other securities; and/or (ii) agree to purchase the IPO securities in the aftermarket at prices above the IPO price. Plaintiffs claim that these alleged practices violated Section 1 of the Sherman Act and state antitrust laws and seek compensatory and treble damages.

The Company denies all allegations of wrongdoing asserted against it in these litigations and believes that it has substantial defenses to these claims.

IPO and Research Investigation

The SEC, NASD, NYSE and several state attorney generals' offices are conducting an industry-wide investigation of certain research and initial public offering practices of major brokerage firms, including Bear Stearns. Bear Stearns is cooperating fully with the investigation. On December 20, 2002, these regulatory agencies and the North American Securities Administrators Association announced an agreement in principle with 10 brokerage firms, including Bear Stearns (and shortly thereafter an additional two brokerage firms) to resolve the investigation concerning research practices. This agreement is subject to approval of the governing bodies of these regulatory and/or governmental authorities, including the SEC. The agreement requires, among other things, that Bear Stearns pay $80 million in penalties, restitution and money for investor education. In addition, all firms that are a party to the agreement are required: (i) to sever the links between research and investment banking, including

analyst compensation for equity research, and the practice of analysts accompanying investment banking personnel on pitches and road shows; (ii) for a five-year period, to contract with no less than three independent research firms that will provide research to the brokerage firms and customers; and (iii) not to allocate IPO shares to corporate executives and directors who are in a position to influence investment banking decisions.

The Company is also involved from time to time in investigations and proceedings by governmental agencies and self-regulatory organizations.

* * *

The Company and/or subsidiaries of the Company also have been named as defendants in numerous other civil actions arising out of its activities as a broker and dealer, as an underwriter, as an investment banker, as an employer or arising out of alleged employee misconduct. Several of these actions allege damages in large or indeterminate amounts and some of these actions are class actions. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management, after consultation with counsel, that the resolution of the foregoing matters will not have a material effect on the financial condition of the Company, taken as a whole; such resolution, may, however, have a material effect on the operating results in any future period, depending upon the level of income for such period.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth certain information as of January 31, 2003 concerning executive officers of the Company as of November 30, 2002.

NAME	AGE AS OF JANUARY 31, 2003	PRINCIPAL OCCUPATION
James E. Cayne	68	Chairman of the Board and Chief Executive Officer of the Company and Bear Stearns and member of the Executive Committee of the Company (the "Executive Committee")
Alan C. Greenberg	75	Chairman of the Executive Committee
Mark E. Lehman	51	Executive Vice President and General Counsel of the Company and Bear Stearns and member of the Executive Committee
Marshall J Levinson	60	Controller of the Company
Michael Minikes	59	Treasurer of the Company and Bear Stearns
Samuel L. Molinaro Jr. ..	45	Executive Vice President and Chief Financial Officer of the Company and Bear Stearns and member of the Executive Committee
Alan D. Schwartz	52	President and Co-Chief Operating Officer of the Company and Bear Stearns and member of the Executive Committee
Warren J. Spector	45	President and Co-Chief Operating Officer of the Company and Bear Stearns and member of the Executive Committee

Each of the executive officers of the Company has been a Senior Managing Director of Bear Stearns for more than the past five years.

Mr. Cayne became Chairman of the Board on June 25, 2001. Mr. Cayne has been Chief Executive Officer of the Company and Bear Stearns for more than the past five years and prior to June 25, 2001, was President of the Company and Bear Stearns for more than the past five years.

Mr. Greenberg has been Chairman of the Executive Committee for more than the past five years and prior to June 25, 2001, was Chairman of the Board of the Company for more than the past five years.

Mr. Lehman has been an Executive Vice President and General Counsel of the Company and Bear Stearns for more than the past five years.

Mr. Levinson has been Controller of the Company since October 1998. Prior thereto, Mr. Levinson was Chief Financial Officer and Chief Administrative Officer of Bear, Stearns International Limited in London.

Mr. Minikes has been Treasurer of the Company and Bear Stearns for more than the past five years.

Mr. Molinaro became Executive Vice President of the Company and Bear Stearns on December 1, 2001 and has been Chief Financial Officer of the Company and Bear Stearns since October 1996. Prior to December 1, 2001, Mr. Molinaro was the Senior Vice President-Finance of the Company and Bear Stearns for more than the past five years.

Mr. Schwartz became President and Co-Chief Operating Officer of the Company and Bear Stearns and a member of the Executive Committee on June 25, 2001 and was an Executive Vice President of Bear Stearns for more than the past five years. Prior to June 30, 1999, Mr. Schwartz was an Executive Vice President of the Company and a member of the Executive Committee for more than the past five years.

Mr. Spector became President and Co-Chief Operating Officer of the Company and Bear Stearns and a member of the Executive Committee on June 25, 2001 and was an Executive Vice President of Bear Stearns for more than the past five years. Prior to June 30, 1999, Mr. Spector was an Executive Vice President of the Company and a member of the Executive Committee for more than the past five years.

Officers serve at the discretion of the Board of Directors.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The information required to be furnished pursuant to this item is set forth under the caption "Price Range of Common Stock and Dividends" in the Annual Report, which is incorporated herein by reference to Exhibit No. 13 of this report.

ITEM 6. SELECTED FINANCIAL DATA.

The information required to be furnished pursuant to this item is set forth under the caption "Selected Financial Data" in the Annual Report, which is incorporated herein by reference to Exhibit No. 13 of this report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required to be furnished pursuant to this item is set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report, which is incorporated herein by reference to Exhibit No. 13 of this report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information required to be furnished pursuant to this item is set forth under the caption "Risk Management" in the Annual Report, which is incorporated herein by reference to Exhibit No. 13 of this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required to be furnished pursuant to this item is contained in the Consolidated Financial Statements together with the Notes to Consolidated Financial Statements and the Independent Auditors' Report, all included in the Annual Report. Such information is incorporated herein by reference to Exhibit No. 13 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required to be furnished pursuant to this item with respect to Directors of the Company will be set forth under the caption "Election of Directors" in the registrant's proxy statement (the "Proxy Statement") to be furnished to stockholders in connection with the solicitation of proxies by the Company's Board of Directors for use at the 2003 Annual Meeting of Stockholders to be held on March 26, 2003, and is incorporated herein by reference, and the information with respect to Executive Officers is set forth, pursuant to General Instruction G of Form 10-K, under Part I of this Report.

The information required to be furnished pursuant to this item with respect to compliance with Section 16(a) of the Exchange Act will be set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required to be furnished pursuant to this item will be set forth under the caption "Executive Compensation" in the Proxy Statement, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required to be furnished pursuant to this item will be set forth under the captions "Voting Securities," "Security Ownership of Management" and "Equity Compensation Plan Information" in the Proxy Statement, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required to be furnished pursuant to this item will be set forth under the caption "Certain Relationships and Related Party Transactions" in the Proxy Statement, and is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures within 90 days of the filing date of this annual report, and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) LIST OF FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND EXHIBITS:

FINANCIAL STATEMENTS:

The financial statements required to be filed hereunder are listed on page F-1 hereof.

FINANCIAL STATEMENT SCHEDULES:

The financial statement schedules required to be filed hereunder are listed on page F-1 hereof.

EXHIBITS:
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(3)(a)(1) Restated Certificate of Incorporation of the registrant (incorporated by reference to Exhibit (4)(a)(1) to the registrant's registration statement on Form S-3 (File No. 333-57083)).

(3)(a)(2) Certificate of Amendment of Restated Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 4(a)(2) to the registrant's registration statement on Form S-8 (File No. 333-92357)).

(3)(a)(3) Certificate of Stock Designation relating to the registrant's Adjustable Rate Cumulative Preferred Stock, Series A (incorporated by reference to Exhibit 4(a)(6) to the registrant's registration statement on Form S-8 (File No. 33-49979)).

(3)(a)(4) Certificate of Correction to the Certificate of Stock Designation relating to the registrant's Adjustable Rate Cumulative Preferred

Stock, Series A (incorporated by reference to Exhibit 4(a)(7) to the registrant's registration statement on Form S-8 (File No. 33-49979)).

(3)(a)(5)	Certificate of Stock Designation relating to the registrant's 6.15% Cumulative Preferred Stock, Series E (incorporated by reference to Exhibit 1.4 to the registrant's registration statement on Form 8-A filed on January 14, 1998).
(3)(a)(6)	Certificate of Stock Designation relating to the registrant's 5.72% Cumulative Preferred Stock, Series F (incorporated by reference to Exhibit 1.4 to the registrant's registration statement on Form 8-A filed on April 20, 1998).
(3)(a)(7)	Certificate of Stock Designation relating to the registrant's 5.49% Cumulative Preferred Stock, Series G (incorporated by reference to Exhibit 1.4 to the registrant's registration statement on Form 8-A filed on June 18, 1998).
(3)(a)(8)	Certificate of Elimination of the Cumulative Convertible Preferred Stock, Series A; Cumulative Convertible Preferred Stock, Series B; Cumulative Convertible Preferred Stock, Series C; and Cumulative Convertible Preferred Stock, Series D of the registrant (incorporated by reference to Exhibit 4(d)(9) to the registrant's Current Report on Form 8-K filed with the Commission on January 15, 2002).
(3)(a)(9)	Certificate of Elimination of the 7.88% Cumulative Convertible Preferred Stock, Series B of the registrant (incorporated by reference to Exhibit 4(d)(10) to the registrant's Current Report on Form 8-K filed with the Commission on January 15, 2002).

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(3)(a)(10)	Certificate of Elimination of the 7.60% Cumulative Convertible Preferred Stock, Series C of the registrant (incorporated by reference to Exhibit 4(d)(11) to the registrant's Current Report on Form 8-K filed with the Commission on January 15, 2002).
(3)(b)	Amended and Restated By-laws of the registrant as amended through January 8, 2002 (incorporated by reference to Exhibit 4(d)(6) to the registrant's Current Report on Form 8-K filed with the Commission on January 15, 2002).
(4)(a)	Indenture, dated as of May 31, 1991, between the registrant and JPMorgan Chase Bank (formerly, The Chase Manhattan Bank), as trustee (incorporated by reference to Exhibit (4)(a) to registrant's registration statement on Form S-3 (File No. 33-40933)).
(4)(b)	Supplemental Indenture, dated as of January 29, 1998, between the registrant and JPMorgan Chase Bank (formerly, The Chase Manhattan Bank), as trustee (incorporated by reference to Exhibit 4(a)(2) to the registrant's Current Report on Form 8-K filed with the Commission on February 2, 1998).
(4)(c)	Except as set forth in (4)(a) and (4)(b) above, the instruments defining the rights of holders of long-term debt securities of the registrant and its subsidiaries are omitted pursuant to Section (b)(4)(iii) of Item 601 of Regulation S-K. Registrant hereby agrees to furnish copies of these instruments to the SEC upon request.

(4)(d)	Form of Deposit Agreement (incorporated by reference to Exhibit (4)(d) to the registrant's registration statement on Form S-3 (File No. 33-59140)).
(10)(a)(1)	Capital Accumulation Plan for Senior Managing Directors, as amended and restated as of October 28, 1999 (incorporated by reference to Exhibit (10)(a)(4) to the registrant's Quarterly Report on Form 10-Q for its fiscal quarter ended December 31, 1999).*
(10)(a)(2)	Capital Accumulation Plan for Senior Managing Directors, as amended and restated as of November 29, 2000 for Plan Years beginning on or after July 1, 1999 (incorporated by reference to Exhibit 10(a)(1) to the registrant's Quarterly Report on Form 10-Q for its fiscal quarter ended February 23, 2001).*
(10)(a)(3)	Performance Compensation Plan, as amended and restated as of October 28, 1999 (incorporated by reference to Exhibit 10(a)(5) to the registrant's Quarterly Report on Form 10-Q for its fiscal quarter ended December 31, 1999).*
(10)(a)(4)	Stock Award Plan, as amended and restated as of March 26, 2002 (incorporated by reference to Exhibit 4(c) to the registrant's registration statement on Form S-8 (File No. 333-86060)).*
(10)(a)(5)	Non-Employee Directors' Stock Option and Stock Unit Plan, amended and restated as of January 8, 2002 (incorporated by reference to Exhibit 10(a)(1) to the registrant's Quarterly Report on Form 10-Q for its fiscal quarter ended August 31, 2002).*
(10)(a)(6)	Restricted Stock Unit Plan, as of November 29, 2000 (incorporated by reference to Exhibit 10(a)(6) to the registrant's Quarterly Report on Form 10-Q for its fiscal quarter ended February 23, 2001).*
(10)(a)(7)	The Bear Stearns Companies Inc. AE Investment and Deferred Compensation Plan, effective January 1, 1989 (the "AE Investment and Deferred Compensation Plan") (incorporated by reference to Exhibit 10(a)(14) to the registrant's Annual Report on Form 10-K for its fiscal year ended June 30, 1996).*
(10)(a)(8)	Amendment to the AE Investment and Deferred Compensation Plan, adopted April 29, 1996 and effective as of January 1, 1995 (incorporated by reference to Exhibit 10(a)(15) to the registrant's Annual Report on Form 10-K for its fiscal year ended June 30, 1996).*

(10)(b)(1)	Lease, dated as of November 1, 1991, between Forest City Jay Street Associates and The Bear Stearns Companies Inc. with respect to the premises located at One MetroTech Center, Brooklyn, New York (incorporated by reference to Exhibit (10)(b)(1) to the registrant's Annual Report on Form 10-K for its fiscal year ended June 30, 1992).
(10)(b)(2)	First Amendment to Lease, dated December 20, 1999, between Forest City Jay Street Associates, L.P. and The Bear Stearns Companies Inc. with respect to the premises located at One MetroTech Center, Brooklyn, New York (incorporated by reference to Exhibit (10)(b)(2) to the registrant's Annual Report on Form 10-K for its fiscal year ended November 30, 2001).

(10)(b)(3) Lease, dated as of March 6, 1987, among Olympia & York 245 Lease Company, 245 Park Avenue Company and The Bear Stearns Companies Inc. (incorporated by reference to Exhibit (10)(c)(2) to the registrant's registration statement on Form S-1 (File No. 33-15948)).

(10)(b)(4) Lease, dated as of August 26, 1994, between Tenth City Associates and The Bear Stearns Companies Inc. (incorporated by reference to Exhibit 10(b)(3) to the registrant's Annual Report on Form 10-K for its fiscal year ended June 30, 1994).

(11) Statement re: computation of per share earnings. (The calculation of per share earnings is in Part II, Item 8, Note 9 to the Consolidated Financial Statements (Earnings Per Share) and is omitted in accordance with Section (b)(11) of Item 601 of Regulation S-K).

(12) Statement re: computation of ratio of earnings to fixed charges and computation of ratio of earnings to fixed charges and preferred stock dividends.

(13) 2002 Annual Report to Stockholders (only those portions expressly incorporated by reference herein shall be deemed filed with the Commission).

(21) Subsidiaries of the registrant.

(23) Consent of Deloitte & Touche LLP.

(99.1) Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(99.2) Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Executive Compensation Plans and Arrangements

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(b) REPORTS ON FORM 8-K.

The Company filed the following Current Reports on Form 8-K during the last quarter of the period covered by this report:

(i) A Current Report on Form 8-K dated September 18, 2002 and filed September 19, 2002, pertaining to the Company's results of operations for the quarter ended August 31, 2002.

(ii) A Current Report on Form 8-K dated September 20, 2002 and filed September 26, 2002, announcing the United States Court of Appeals for the Second Circuit overturned a district court decision that upheld a jury verdict awarding Henryk de Kwiatowski, a former customer of Bear Stearns, approximately $164.5 million in damages and interest in May 2000 and ordered the district court to dismiss the case.

(iii) A Current Report on Form 8-K dated October 30, 2002 and filed November 6, 2002, pertaining to an opinion of Cadwalader, Wickersham & Taft as to the legality of the 5.70% Global Notes due 2014 ("Global Notes") issued by the Company, certain federal income tax consequences in connection with the offering of the Global Notes, and a consent in connection with the offering of the Global Notes.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 28th day of February 2003.

THE BEAR STEARNS COMPANIES INC.
(Registrant)

By: /s/ SAMUEL L. MOLINARO JR.
....
Samuel L. Molinaro Jr.
Executive Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 28th day of February 2003.

NAME	TITLE
/s/ ALAN C. GREENBERG .... Alan C. Greenberg	Chairman of the Executive Committee and Director
/s/ JAMES E. CAYNE .... James E. Cayne	Chairman of the Board and Chief Executive Officer (Principal Executive Officer) and Director
/s/ CARL D. GLICKMAN .... Carl D. Glickman	Director
/s/ DONALD J. HARRINGTON .... Donald J. Harrington	Director
/s/ WILLIAM L. MACK .... William L. Mack	Director

/s/ FRANK T. NICKELL .... Frank T. Nickell	Director
/s/ PAUL A. NOVELLY .... Paul A. Novelly	Director
/s/ FREDERIC V. SALERNO .... Frederic V. Salerno	Director

/s/ ALAN D. SCHWARTZ .... Alan D. Schwartz	President, Co-Chief Operating Officer and Director
/s/ WARREN J. SPECTOR .... Warren J. Spector	President, Co-Chief Operating Officer and Director
/s/ VINCENT TESE .... Vincent Tese	Director
/s/ FRED WILPON .... Fred Wilpon	Director
/s/ SAMUEL L. MOLINARO JR. .... Samuel L. Molinaro Jr.	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ MARSHALL J LEVINSON .... Marshall J Levinson	Controller (Principal Accounting Officer)

CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James E. Cayne, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Bear Stearns Companies Inc.;

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements

were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the "Evaluation Date"); and

c) presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this Annual Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 28, 2003

/s/ JAMES E. CAYNE

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

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CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Samuel L. Molinaro, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of The Bear Stearns Companies Inc.;

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the "Evaluation Date"); and

c) presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this Annual Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 28, 2003

/s/ SAMUEL L. MOLINARO JR.

Samuel L. Molinaro, Jr.
Executive Vice President,
Chief Financial Officer

THE BEAR STEARNS COMPANIES INC.
INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES
ITEMS 15(a)(1) AND 15(a)(2)

* Incorporated by reference from the indicated pages of the 2002 Annual Report to Stockholders.

All other schedules are omitted because they are not applicable or the requested information is included in the consolidated financial statements or notes thereto.

DELOITTE
& TOUCHE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
The Bear Stearns Companies Inc.:

We have audited the consolidated statements of financial condition of The Bear Stearns Companies Inc. and subsidiaries (the "Company") as of November 30, 2002 and November 30, 2001, and the related consolidated statements of income, cash flows and changes in stockholders' equity for the fiscal years ended November 30, 2002, November 30, 2001 and November 30, 2000, and have issued our report thereon dated January 15, 2003; such consolidated financial statements and report are included in the Company's Annual Report to Stockholders on Form 10-K and are incorporated herein by reference. Our audits also included the financial statement schedules of The Bear Stearns Companies Inc. (Parent Company Only), listed in Item 15. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedules based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

New York, New York
January 15, 2003

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SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
THE BEAR STEARNS COMPANIES INC.
(PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF INCOME
(IN THOUSANDS)

	FISCAL YEAR ENDED NOVEMBER 30, 2002	FISCAL YEAR ENDED NOVEMBER 30, 2001	FISCA EN NOVEMBER
REVENUES			
Interest	$ 504,086	$1,327,435	$1,
Other	259,236	331,757	
	763,322	1,659,192	2,
EXPENSES			
Interest	770,735	1,752,063	2,
Other	171,525	214,748	
	942,260	1,966,811	2,
Loss before benefit from income taxes, cumulative effect of change in accounting principle and equity in earnings of subsidiaries	(178,938)	(307,619)	(
Benefit from income taxes	514	180,162	
Loss before cumulative effect of change in accounting principle and equity in earnings			

of subsidiaries	(178,424)	(127,457)	(
Cumulative effect of change in accounting principle, net of tax	--	(6,273)	
Equity in earnings of subsidiaries, net of tax	1,056,769	752,422	1,
Net income	$ 878,345	$ 618,692	$

See Notes to Condensed Financial Information.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
THE BEAR STEARNS COMPANIES INC.
(PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF FINANCIAL CONDITION
(IN THOUSANDS, EXCEPT SHARE DATA)

	NOVEMBER 30, 2002	NOVEMBER 30, 2001
ASSETS		
Cash and cash equivalents	$ --	$ 6,712,580
Securities purchased under agreements to resell ...	94,013	--
Receivables from subsidiaries	27,160,708	19,889,935
Subordinated loans receivable from subsidiaries ...	5,289,478	4,697,000
Investments in subsidiaries, at equity	6,146,820	5,882,014
Other assets	2,674,106	2,633,836
Total Assets	$41,365,125	$39,815,365
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term borrowings	$8,825,971	$ 9,293,866
Payables to subsidiaries	1,878,983	990,629
Other liabilities and accrued expenses	959,520	435,391
	11,664,474	10,719,886
Long-term borrowings	22,756,068	22,688,988
Long-term borrowings from subsidiaries	562,500	777,964
STOCKHOLDERS' EQUITY		
Preferred stock	692,832	800,000
Common stock, $1.00 par value; 500,000,000 shares authorized as of November 30, 2002 and November 30, 2001; 184,805,848 shares issued as of November 30, 2002 and November 30, 2001	184,806	184,806
Paid-in capital	2,866,290	2,728,981
Retained earnings	3,909,272	3,118,635
Employee stock compensation plans	2,213,979	2,015,375

Unearned compensation	(208,588)	(230,071)
Treasury stock, at cost:		
Adjustable Rate Cumulative Preferred Stock Series A: 2,520,750 shares as of November 30, 2002 and November 30, 2001	(103,421)	(103,421)
Common stock: 84,781,479 and 84,763,780 shares as of November 30, 2002 and November 30, 2001, respectively	(3,173,087)	(2,885,778)
Total Stockholders' Equity	6,382,083	5,628,527
Total Liabilities and Stockholders' Equity	$41,365,125	$39,815,365

See Notes to Condensed Financial Information.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
THE BEAR STEARNS COMPANIES INC.
(PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FISCAL YEAR ENDED NOVEMBER 30, 2002	FISCA EN NOVEMBER
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 878,345	$ 6
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Employee stock compensation plans	533,240	3
Equity in earnings of subsidiaries, net of dividends received	112,141	
Other	16,043	
(Increases) decreases in assets:		
Securities purchased under agreements to resell	(94,013)	
Other assets	83,571	1
Increases (decreases) in liabilities:		
Payables to subsidiaries	891,019	3
Other liabilities and accrued expenses	652,257	(1
Cash provided by (used in) operating activities	3,072,603	1,2
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments for) proceeds from short-term borrowings	(467,895)	(3,5
Net proceeds from issuance of long-term borrowings	4,764,610	6,1
(Decrease) increase in long-term borrowings from subsidiaries ...	(215,464)	2
Issuance of common stock	26,436	
Proceeds from put option premium	--	
Redemption of preferred stock	(91,336)	
Payments for:		
Retirement of long-term borrowings	(5,083,978)	(4,1

Treasury stock purchases	(629,664)	(1,0
Cash dividends paid	(97,544)	(1
Cash (used in) provided by financing activities	(1,794,835)	(2,5
CASH FLOWS FROM INVESTING ACTIVITIES		
Receivables from subsidiaries	(6,957,557)	7,5
Subordinated loans receivable from subsidiaries	(592,478)	(2
Investments in subsidiaries, net	(376,947)	(
Business acquisition	--	(2
Purchases of investment securities and other assets	(79,924)	(
Proceeds from sale of investment securities and other assets	16,558	
Cash (used in) provided by investing activities	(7,990,348)	6,9
Net (decrease) increase in cash and cash equivalents	(6,712,580)	5,7
Cash and cash equivalents, beginning of fiscal year	6,712,580	1,0
Cash and cash equivalents, end of fiscal year	$ --	$ 6,7

See Notes to Condensed Financial Information.

Note: Certain reclassifications have been made to prior period amounts to conform to the current year's presentation.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
THE BEAR STEARNS COMPANIES INC.
(PARENT COMPANY ONLY)
NOTES TO CONDENSED FINANCIAL INFORMATION

1. GENERAL

The condensed financial information of the Company (Parent Company Only) should be read in conjunction with the Consolidated Financial Statements of The Bear Stearns Companies Inc. and subsidiaries and the Notes thereto in The Bear Stearns Companies Inc. 2002 Annual Report to Stockholders (the "Annual Report") incorporated by reference in this Form 10-K.

The condensed unconsolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America which require management to make certain estimates and assumptions, including those regarding inventory valuations, stock compensation, certain accrued liabilities and the potential outcome of litigation, which may affect the amounts reported in the condensed unconsolidated financial statements and accompanying notes. Actual results could differ materially from these estimates.

Investments in wholly owned subsidiaries are accounted for using the equity method.

For information on the following, refer to the indicated Notes to the Consolidated Financial Statements within the Annual Report.

- Long-term borrowings (Note 5)
- Preferred stock (Note 8 - refer to section entitled "Preferred Stock Issued by The Bear Stearns Companies Inc.")
- Commitments and contingencies (Note 15)

The Company engages in derivatives activities in order to modify the interest rate characteristics of its long and short-term debt.

2. STATEMENT OF CASH FLOWS

Income taxes paid (consolidated) totaled approximately $222 million, $55 million and $985 million for the fiscal years ended November 30, 2002, 2001 and 2000, respectively. Cash payments for interest approximated interest expense for each of the periods presented.

3. TRANSACTIONS WITH SUBSIDIARIES

The Company received from its consolidated subsidiaries dividends of approximately $1,169 million, $751 million and $297 million for the fiscal years ended November 30, 2002, 2001 and 2000, respectively.

The Company has transactions with its subsidiaries determined on an agreed-upon basis. The Company also guarantees certain unsecured lines of credit and certain other obligations of subsidiaries, including obligations associated with foreign exchange forward contracts and interest rate swap transactions. Additionally, the Company guarantees obligations related to Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities issued by subsidiaries.

The Company also issues guarantees of counterparty obligations to subsidiaries in connection with certain activities of such subsidiaries.