BEAR STEARNS COMPANIES INC
Form 10-Q
July 15, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended May 31, 2004

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
(Address of Principal Executive Offices) (Zip Code)

(212) 272-2000
(Registrant's telephone number, including area code)

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

As of July 12, 2004, the latest practicable date, there were 103,068,727 shares of Common Stock, $1 par value, outstanding.

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AVAILABLE INFORMATION

The Bear Stearns Companies Inc. and its subsidiaries ("Company") files current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended, with the Securities and Exchange Commission ("SEC"). You may read and copy any document the Company files at the SEC's public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The Company's SEC filings are also available to the public from the SEC's internet site at http://www.sec.gov. Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, U.S.A.

The Company's public internet site is http://www.bearstearns.com. The Company makes available free of charge through its internet site, via a link to the SEC's internet site at http://www.sec.gov, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC.

In addition, the Company currently makes available on http://www.bearstearns.com its most recent annual report on Form 10-K, its quarterly reports on Form 10-Q for the current fiscal year and its most recent proxy statement, although in some cases these documents are not available on that site as soon as they are available on the SEC's internet site. Also posted on the Company's website, and available in print upon request of any stockholder to the Investor Relations Department, are charters for the Company's Audit Committee, Compensation Committee, Corporate Governance Committee, Nominating Committee and Qualified Legal Compliance Committee. Copies of the Corporate Governance Guidelines and the Code of Business Conduct and Ethics (the "Code") governing our directors, officers and employees are also posted on the Company's website within the "Corporate Governance" section under the heading "About Bear Stearns." You will need to have on your computer the Adobe Acrobat Reader software to view these documents, which are in the .PDF format.

Part I - Financial Information
Item 1. Financial Statements

THE BEAR STEARNS COMPANIES INC.

Condensed Consolidated Statements of Income

	(Unaudited)		
	Three Months Ended		
(in thousands, except share and per share data)	May 31, 2004	May 31, 2003	M
REVENUES			
Commissions	$ 307,150	$ 267,682	$ 61
Principal transactions	915,469	809,915	1,86
Investment banking	261,564	212,550	52
Interest and dividends	498,469	522,565	1,01
Other income	81,146	37,500	12
Total revenues	2,063,798	1,850,212	4,14
Interest expense	340,260	387,492	69
Revenues, net of interest expense	1,723,538	1,462,720	3,44

NON-INTEREST EXPENSES			
Employee compensation and benefits	860,053	692,181	1,70
Floor brokerage, exchange and clearance fees	59,647	47,540	11
Communications and technology	88,321	90,744	18
Occupancy	34,768	33,088	6
Advertising and market development	29,315	27,507	5
Professional fees	42,370	28,995	8
Other expenses	97,588	114,535	19
Total non-interest expenses	1,212,062	1,034,590	2,40
Income before provision for income taxes	511,476	428,130	1,04
Provision for income taxes	163,673	147,719	33
Net income	$ 347,803	$ 280,411	$ 70
Net income applicable to common shares	$ 340,609	$ 272,616	$ 69
Basic earnings per share	$ 2.77	$ 2.27	$
Diluted earnings per share	$ 2.49	$ 2.05	$
Weighted average common shares outstanding:			
Basic	129,071,295	128,711,363	129,02
Diluted	146,921,897	146,062,838	146,94
Cash dividends declared per common share	$ 0.20	$ 0.17	$

See Notes to Condensed Consolidated Financial Statements.

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THE BEAR STEARNS COMPANIES INC.

Condensed Consolidated Statements of

Financial Condition

(in thousands, except share data)	(Unaudit May 31 2004
ASSETS	
Cash and cash equivalents	$ 1,960,3
Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations	12,018,8
Securities purchased under agreements to resell	45,900,4
Securities received as collateral	7,443,8

Securities borrowed	70,099,5
Receivables:	
Customers	23,333,5
Brokers, dealers and others	4,614,1
Interest and dividends	312,0
Financial instruments owned, at fair value	
Pledged as collateral	31,383,5
Not pledged as collateral	39,231,0
Assets of variable interest entities	1,124,5
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of $780,059 and $816,646 in 2004 and 2003, respectively	366,6
Other assets	3,806,2
Total Assets	$ 241,594,7
LIABILITIES AND STOCKHOLDERS' EQUITY	
Short-term borrowings	$ 11,951,7
Securities sold under agreements to repurchase	54,487,5
Obligation to return securities received as collateral	7,443,8
Securities loaned	6,754,6
Payables:	
Customers	78,835,3
Brokers, dealers and others	5,565,5
Interest and dividends	572,1
Financial instruments sold, but not yet purchased, at fair value	32,125,0
Liabilities of variable interest entities	1,124,5
Accrued employee compensation and benefits	1,307,7
Other liabilities and accrued expenses	1,453,0
	201,621,3
Commitments and contingencies (Note 4)	
Long-term borrowings	31,966,5
Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities	
STOCKHOLDERS' EQUITY	
Preferred stock	489,3
Common stock, $1.00 par value; 500,000,000 shares authorized and 184,805,848 shares issued as of both May 31, 2004 and November 30, 2003	184,8
Paid-in capital	3,331,6
Retained earnings	5,603,0
Employee stock compensation plans	2,205,7
Unearned compensation	(159,7
Treasury stock, at cost:	
Common stock: 81,579,985 and 82,233,811 shares as of May 31, 2004 and November 30, 2003, respectively	(3,648,0
Total Stockholders' Equity	8,006,8
Total Liabilities and Stockholders' Equity	$ 241,594,7

See Notes to Condensed Consolidated Financial Statements.

THE BEAR STEARNS COMPANIES INC.

Condensed Consolidated Statements of Cash Flows

(in thousands)	(Una Six Mo May 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 708,868
Adjustments to reconcile net income to cash used in operating activities:	
Noncash items included in net income:	
Depreciation and amortization	65,675
Deferred income taxes	(30,502)
Employee stock compensation plans	20,854
Other	4,306
Changes in operating assets and liabilities:	
Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations	(3,361,809)
Securities purchased under agreements to resell	(12,077,709)
Securities borrowed	3,218,428
Receivables from customers	(3,686,677)
Receivables from brokers, dealers and others	(883,815)
Financial instruments owned	(10,555,006)
Other assets	23,128
Securities sold under agreements to repurchase	7,023,413
Securities loaned	106,514
Payables to customers	10,168,465
Payables to brokers, dealers and others	2,789,833
Financial instruments sold, but not yet purchased	5,015,946
Accrued employee compensation and benefits	(67,500)
Other liabilities and accrued expenses	194,625
Cash used in operating activities	(1,322,963)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property, equipment and leasehold improvements	(51,095)
Purchases of investment securities and other assets	(184,228)
Proceeds from sales of investment securities and other assets	142,513
Cash used in investing activities	(92,810)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net (payments for) proceeds from short-term borrowings	(1,435,906)
Net proceeds from issuance of long-term borrowings	5,443,454
Proceeds from issuances of derivatives with a financing element, net	99,335
Redemption of preferred stock issued by a subsidiary	(300,000)
Issuance of common stock	135,793

Redemption of preferred stock	(49,043)
Payments for retirement of long-term borrowings	(4,026,012)
Treasury stock purchases - common stock	(272,403)
Cash dividends paid	(56,673)
Cash (used in) provided by financing activities	(461,455)
Net decrease in cash and cash equivalents	(1,877,228)
Cash and cash equivalents, beginning of year	3,837,570
Cash and cash equivalents, end of period	$ 1,960,342

See Notes to Condensed Consolidated Financial Statements.

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THE BEAR STEARNS COMPANIES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Bear Stearns Companies Inc. is a holding company that, through its broker-dealer and international bank 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 primarily engaged in business as a securities broker-dealer and operates in three principal segments: Capital Markets, Global Clearing Services and Wealth Management. Capital Markets is comprised of the institutional equities, fixed income and investment banking areas. Global Clearing Services provides clearance related services for prime brokerage clients and clearance on a fully-disclosed basis for introducing broker dealers. Wealth Management is comprised of the Private Client Services ("PCS") and asset management areas. See Note 8, "Segment Data," in the Notes to Condensed Consolidated Financial Statements. The Company also conducts significant activities through other wholly owned subsidiaries including: Bear Stearns Global Lending Limited, Custodial Trust Company, Bear Stearns Financial Products Inc., Bear Stearns Capital Markets Inc., EMC Mortgage Corporation, Bear Stearns Commercial Mortgage Inc., Bear Stearns Credit Products Inc. and Bear Stearns Forex Inc.

The condensed consolidated financial statements include the accounts of The Bear Stearns Companies Inc. and its subsidiaries ("Company"). All material intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period's presentation. The Condensed Consolidated Statement of Financial Condition as of May 31, 2004, the Condensed Consolidated Statements of Income for the three and six months ended May 31, 2004 and May 31, 2003 and the Condensed Consolidated Statements of Cash Flows for the six months ended May 31, 2004 and May 31, 2003 are unaudited. The November 30, 2003 Condensed Consolidated Statement of Financial Condition and related information was derived from the audited financial statements.

The condensed consolidated financial statements are prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") with respect to the Form 10-Q and reflect all adjustments which in the opinion of management are normal and recurring, which are necessary for a fair statement of the results for the interim periods presented. In accordance with such rules and regulations, certain disclosures that are normally included in annual financial statements have been omitted. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2003 filed by the Company under the Securities Exchange Act of 1934.

The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest. The Company's policy is to consolidate all entities in which it owns more than 50% of the outstanding voting stock unless it does not control the entity. In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"), or FIN No. 46, as revised ("FIN No. 46 (R)") issued in December 2003, the Company also consolidates any variable interest entities ("VIEs") for which it is the primary beneficiary. The assets and related liabilities of such variable interest entities have been shown in the Condensed Consolidated Statement of Financial Condition in the captions "Assets of variable interest entities" and "Liabilities of variable interest entities." See Note 10, "Consolidation of Variable Interest Entities," in the Notes to Condensed Consolidated Financial Statements.

The Company participates, through a majority-owned joint venture, in specialist activities on the NYSE, AMEX and International Securities Exchange. Due to the occurrence of a Control Event triggered in December 2003, the Company began consolidating this entity beginning in the first quarter of fiscal 2004. Included in the Condensed Consolidated Statements of Financial Condition at May 31, 2004 are total assets of $1.8 billion, including approximately $360 million of goodwill and identifiable intangible assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. These principles 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 consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates. The nature of the Company's business is such that the results of any interim period may not be indicative of the results to be expected for an entire fiscal year.

Financial Instruments

Proprietary securities, futures and other derivatives transactions are recorded on a trade date basis. Financial instruments owned and financial instruments sold, but not yet purchased, including contractual commitments arising pursuant to futures, forward and option contracts, interest rate swaps and other derivative contracts, are recorded at fair value with the resulting net unrealized gains and losses reflected in "Principal Transactions" revenues in the Condensed Consolidated Statements of Income.

Fair value is generally based on quoted market prices. If quoted market prices are not available, or if liquidating the Company's position is reasonably expected to affect market prices, fair value is determined based on other relevant factors, including dealer price quotations, price activity for equivalent instruments and valuation pricing models. Valuation pricing models consider time value, yield curve and volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other economic measurements.

Equity securities acquired as a result of leveraged acquisition transactions are reflected in the consolidated financial statements at their initial costs until significant transactions or developments indicate that a change in the carrying value of the securities is appropriate. Generally, the carrying values of these securities will be increased only in those instances where market values are readily ascertainable by reference to substantial transactions occurring in the marketplace or quoted market prices. Reductions to the carrying value of these securities are made when the Company's estimate of net realizable value has declined below the carrying value.

Customer Transactions

Customer securities transactions are recorded on a settlement date basis, which is generally three business days after trade date, while the related commission revenues and expenses are recorded on a trade date basis. Receivables from and payables to customers include amounts related to both cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are generally not reflected in the Condensed Consolidated Statements of Financial Condition.

Collateralized Securities Transactions

Transactions involving purchases of securities under agreements to resell ("reverse repurchase agreements") or sales of securities under agreements to repurchase ("repurchase agreements") are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. Resulting interest income and expense is generally included in "Principal Transactions" revenues in the Condensed Consolidated Statements of Income. Reverse repurchase agreements and repurchase agreements are presented in the Condensed Consolidated Statements of Financial Condition on a net-by-counterparty basis, where permitted by generally accepted accounting principles. It is the Company's general policy to take possession of securities with a market value in excess of the principal amount

THE BEAR STEARNS COMPANIES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

loaned plus the accrued interest thereon, in order to collateralize reverse repurchase agreements. Similarly, the Company is generally required to provide securities to counterparties to collateralize repurchase agreements.

The Company's agreements with counterparties generally contain contractual provisions allowing for additional collateral to be obtained, or excess collateral returned. It is the Company's policy to value collateral and to obtain additional collateral, or to retrieve excess collateral from counterparties, when deemed appropriate.

Securities borrowed and securities loaned are recorded based upon the amount of cash collateral advanced or received. Securities borrowed transactions facilitate the settlement process and require the Company to deposit cash, letters of credit or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral. The amount of collateral required to be deposited for securities borrowed, or received for securities loaned, is an amount generally in excess of the market value of the applicable securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned, with additional collateral obtained, or excess collateral retrieved, when deemed appropriate.

Fixed Assets

Depreciation of property and equipment is provided by the Company on a straight-line basis over the estimated useful life of the asset. Amortization of leasehold improvements is provided on a straight-line basis over the lesser of the estimated useful life of the asset or the remaining life of the lease.

Goodwill and Identifiable Intangible Assets

The Company accounts for goodwill and identifiable intangible assets under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." In accordance with this guidance, the Company does not amortize goodwill, but amortizes identifiable intangible assets over their useful lives. Goodwill is tested at least annually for impairment and identifiable intangible assets are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at period-end rates of exchange, while income statement items are translated at daily average rates of exchange during the fiscal period. Gains or losses resulting from foreign currency transactions are included in net income.

Income Taxes

The Company and certain of its subsidiaries file a consolidated federal income tax return. The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred income taxes are based on the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. In addition, deferred income taxes are determined by the enacted tax rates and laws expected to be in effect when the related temporary differences are expected to be reversed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings Per Share

Earnings per share ("EPS") is computed in accordance with SFAS No. 128, "Earnings Per Share." Basic EPS is computed by dividing net income applicable to common shares, adjusted for costs related to vested shares under the Capital Accumulation Plan for Senior Managing Directors, as amended ("CAP Plan"), as well as the effect of the redemption of preferred stock, by the weighted average number of common shares outstanding. Common shares outstanding includes vested units issued under certain stock compensation plans, which will be distributed as shares of common stock. Diluted EPS includes the determinants of Basic EPS and, in addition, gives effect to dilutive potential common shares related to stock compensation plans.

Statement of Cash Flows

For purposes of the Condensed Consolidated Statements of Cash Flows, the Company has defined cash equivalents as liquid investments not held for sale in the ordinary course of business with original maturities of three months or less. Cash payments for interest approximated interest expense for the six months ended May 31, 2004 and May 31, 2003. Income taxes paid totaled $301.5 million and $212.8 million for the six months ended May 31, 2004 and May 31, 2003, respectively.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation--Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides three alternative methods for a voluntary change to fair value accounting for stock-based compensation as permitted under SFAS No. 123. Effective December 1, 2002, the Company elected to adopt fair value accounting for stock-based compensation consistent with SFAS No. 123 using the prospective method with guidance provided by SFAS No. 148. As a result, commencing with options granted after November 30, 2002, the Company expenses the fair value of stock options issued to employees over the related vesting period. Prior to December 1, 2002, the Company elected to account for its stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), as permitted by

SFAS No. 123. Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of grant over the amount an employee must pay to acquire the stock. Accordingly, no compensation expense had been recognized for stock option awards granted prior to December 1, 2002 because the exercise price was at the fair market value of the Company's common stock on the grant date.

The cost related to stock-based compensation included in the determination of net income for the three months and six months ended May 31, 2004 and May 31, 2003 is less than that which would have been recognized if the fair value based method had been applied to stock option awards since the original effective date of SFAS No. 123.

THE BEAR STEARNS COMPANIES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding awards in each period.

	Three Months Ended		S
(in millions, except per share amounts)	May 31, 2004	May 31, 2003	May 200
Net income, as reported	$347.8	$280.4	$70
Add: Stock-based employee compensation plans expense included in reported net income, net of related tax effects	3.7	10.5	1
Deduct: Total stock-based employee compensation plans expense determined under the fair value based method, net of related tax effects	(11.7)	(23.8)	(2
Pro forma net income	$339.8	$267.1	$69
Earnings per share:			
Basic - as reported	$2.77	$2.27	$5
Basic - pro forma	$2.71	$2.17	$5
Diluted - as reported	$2.49	$2.05	$5
Diluted - pro forma	$2.44	$1.96	$4

Investment Banking and Advisory Services

Underwriting revenues and fees for mergers and acquisitions advisory services are accrued when services for the transactions are substantially completed. Transaction expenses are deferred until the related revenue is recognized.

Derivative Instruments and Hedging Activities

The Company follows SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for stand-alone derivative instruments, derivatives embedded within other contracts or securities, and hedging activities. Accordingly, all derivatives, whether stand-alone or embedded within other contracts or securities (except in narrowly defined circumstances), are carried in the Company's Condensed Consolidated Statements of Financial Condition at their then fair value, with changes in fair value recorded in current earnings. Designated hedged items not carried at fair value are marked (to the extent of the profit or loss on the derivative) for the risk being hedged, with such changes in the fair value recorded in current earnings.

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

The Company follows SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities--a Replacement of FASB Statement No. 125," to account for securitizations and other transfers of financial assets and collateral. SFAS No. 140 establishes accounting and reporting standards with a financial-components approach that focuses on control. Under this approach, financial assets or liabilities

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

are recognized when control is established and derecognized when control has been surrendered or the liability has been extinguished. In addition, specific implementation guidelines have been established to further distinguish transfers of financial assets that are sales from transfers that are secured borrowings.

2. FINANCIAL INSTRUMENTS

Financial instruments owned and financial instruments sold, but not yet purchased, consisting of the Company's proprietary trading inventories, at fair value, were as follows:

(in thousands)	May 31, 2004	November 30, 2003
FINANCIAL INSTRUMENTS OWNED:		
US government and agency	$ 5,570,722	$ 4,963,125
Other sovereign governments	1,060,459	1,019,394
Corporate equity and convertible debt	14,857,033	12,531,849
Corporate debt and other	12,282,190	9,554,939
Mortgages, mortgage- and asset-backed	24,345,935	21,377,386
Derivative financial instruments	12,498,203	9,785,965
	$70,614,542	$59,232,658
FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED:		
US government and agency	$12,337,363	$ 9,991,764
Other sovereign governments	920,853	740,052
Corporate equity and convertible debt	5,291,130	6,301,051
Corporate debt and other	2,875,040	1,477,448
Mortgages, mortgage- and asset-backed	1,162,744	278,294
Derivative financial instruments	9,537,963	8,320,538
	$32,125,093	$27,109,147

As of May 31, 2004 and November 30, 2003, all financial instruments owned that were pledged to counterparties where the counterparty has the right, by contract or custom, to rehypothecate these securities are classified as "Financial Instruments Owned, Pledged as Collateral" in the Condensed Consolidated Statements of Financial Condition.

Financial instruments sold, but not yet purchased represent obligations of the Company to deliver the specified financial instrument at the contracted price and thereby create a liability to purchase the financial instrument in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk as the Company's ultimate obligation to repurchase such securities may exceed the amount recognized in the Condensed Consolidated Statements of Financial Condition.

3. DERIVATIVES AND HEDGING ACTIVITIES

SFAS No. 133 requires that all derivatives, whether stand-alone or embedded within other contracts or securities (except in very defined circumstances) be carried on the Company's Condensed Consolidated Statement of Financial Condition at their then fair value. SFAS No. 133 requires that all derivatives be carried at fair value, including those used as hedges. SFAS No. 133 also requires items designated as being hedged, previously carried at accrued values, now be marked to market for the risk being hedged, provided that the intent to hedge is fully documented. Any resultant net change in value for both the hedging derivative and the hedged item is recognized in earnings immediately, such net effect being deemed the "ineffective" portion of the hedge. The gains and losses associated with the ineffective portion of the fair value hedges are included in "Principal Transactions" revenues in the Condensed Consolidated Statements of Income and were not material for the three month and six month periods ended May 31, 2004 and May 31, 2003.

To measure derivative activity, notional or contract amounts are frequently used. Notional/contract amounts are used to calculate contractual cash flows to be exchanged and are generally not actually paid or received, with the exception of currency swaps, foreign exchange forwards and mortgage-backed securities forwards. The notional/contract amounts of financial instruments that give rise to off-balance-sheet market risk are indicative only to the extent of involvement in the particular class of financial instrument and are not necessarily an indication of overall market risk.

As of May 31, 2004 and November 30, 2003, the Company had notional/contract amounts of approximately $3.03 trillion and $2.15 trillion, respectively, of derivative financial instruments, of which $687.3 billion and $413.1 billion, respectively, were listed futures and option contracts. The aggregate notional/contract value of derivative contracts is a reflection of the level of activity and does not represent the amounts that are recorded in the Condensed Consolidated Statements of Financial Condition. The Company's derivative financial instruments outstanding, which either are used to hedge trading positions, fixed-rate debt, or are part of its derivative dealer activities, are marked to fair value.

The Company's derivatives had a weighted average maturity of approximately 3.8 years and 4.2 years at May 31, 2004 and November 30, 2003, respectively. The maturities of notional/contract amounts outstanding for derivative financial instruments as of May 31, 2004 were as follows:

(in billions)	Less Than One Year	One to Three Years	Three to Five Years	Gre Th Five
Swap agreements, including options, swaptions, caps, collars and floors	$ 464.6	$ 573.9	$ 530.6	$
Futures contracts	179.1	98.9	9.8	
Forward contracts	89.6	--	--	
Options held	280.5	25.3	0.7	
Options written	117.5	9.3	1.0	
Total	$ 1,131.3	$ 707.4	$ 542.1	$
Percent of total	37.3%	23.4%	17.9%	

4. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company has commitments in connection with various activities, the most significant of which are as follows:

Commercial Lending

In connection with certain of the Company's business activities, the Company provides financing or financing commitments to investment-grade and non-investment-grade companies in the form of senior and subordinated debt, including bridge financing. Commitments have varying maturity dates and are generally contingent on the accuracy and validity of certain representations, warranties and contractual conditions applicable to the borrower. Commercial lending commitments to investment-grade borrowers aggregated approximately $1.29 billion at May 31, 2004 (gross commitments of $2.03 billion less $740.3 million of associated hedges). Commercial lending commitments to non-investment-grade borrowers approximated $1.31 billion at May 31, 2004.

Private Equity-Related Investments and Partnerships

In connection with the Company's merchant banking activities, the Company has commitments to invest in merchant banking and private equity-related investment funds as well as commitments to invest directly in private equity-related investments. At May 31, 2004, such commitments aggregated $434.9 million. These commitments will be funded, if called, through the end of the respective investment periods, the longest of such periods ending in 2013.

Underwriting

In connection with the Company's mortgage-backed securitizations and fixed income/equity underwriting, the Company had commitments to purchase and sell new issues of securities aggregating $649.7 million at May 31, 2004.

Commercial and Residential Loans

The Company participates in the acquisition, securitization, servicing, financing and disposition of commercial and residential loans. At May 31, 2004, the Company had entered into commitments to purchase, sell or finance mortgage loans of $2.0 billion.

Letters of Credit

At May 31, 2004, the Company was contingently liable for unsecured letters of credit of approximately $2.09 billion and letters of credit of $1.1 billion secured by financial instruments, primarily used to provide collateral for securities borrowed and to satisfy margin requirements at option and commodity exchanges.

Borrow Versus Pledge

At May 31, 2004, the Company had pledged securities, primarily US government and agency securities with a market value of approximately $3.46 billion as collateral for securities borrowed, with an approximate market value of $3.41 billion.

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4. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other

The Company had commitments to purchase Chapter 13 and other credit card receivables of $87.3 million at May 31, 2004.

The Company has entered into agreements with providers of hardware, software, data processing and systems consulting services. At May 31, 2004, commitments over the remaining life of these agreements aggregated $62.5 million.

With respect to certain of the commitments outlined above, the Company utilizes various hedging strategies to actively manage its market, credit and liquidity exposures. Additionally, since these commitments may expire unused, the total commitment amount may not necessarily reflect the actual future cash funding requirements.

Litigation

In the normal course of business, the Company has been named as a defendant in various lawsuits that involve claims for substantial amounts. Also, the Company is involved from time to time in investigations and proceedings by governmental agencies and self-regulatory organizations. Although the ultimate outcome of the various 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 adverse 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 on the level of income for such period.

5. GUARANTEES

In the ordinary course of business, the Company issues various guarantees to counterparties in connection with certain derivative, leasing, securitization and other transactions. The guarantees covered by FIN No. 45, "Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," include contracts that contingently require the guarantor to make payments to the guaranteed party based on changes related to an asset, a liability or an equity security of the guaranteed party, contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement and indirect guarantees of the indebtedness of others, even though the payment to the guaranteed party may not be based on changes to an asset, liability or equity security of the guaranteed party. In addition, FIN No. 45 covers certain indemnification agreements that contingently require the guarantor to make payments to the indemnified party, such as an adverse judgment in a lawsuit or the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law.

THE BEAR STEARNS COMPANIES INC.
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5. GUARANTEES (continued)

The following table sets forth the maximum payout/notional amounts associated with the Company's guarantees as of May 31, 2004:

	Amount of Guarantee Ex		
(in millions)	Less Than One Year	One to Three Years	Three Five Ye
Certain derivative contracts (notional) (1)	$ 260,544	$ 176,548	$ 157,
Municipal securities	2,387	65	
Residual value guarantee	--	--	

(1) The carrying value of these derivatives approximated $8.7 billion.

Derivative Contracts

The Company's dealer activities cause it to make markets and trade a variety of derivative instruments. Certain derivative contracts that the Company has entered into meet the accounting definition of a guarantee under FIN No. 45. Derivatives that meet the FIN No. 45 definition of guarantees include credit default swaps (whereby a default or significant change in the credit quality of the underlying financial instrument may obligate the Company to make a payment), certain written call and put options, swaptions, as well as floors, caps and collars. Since the Company does not track the counterparties' purpose for entering into a derivative contract, it has disclosed derivative contracts that are likely to be used to protect against a change in an underlying financial instrument, regardless of their actual use.

On certain of these contracts, such as written interest rate caps and floors and foreign currency options, the maximum payout cannot be quantified since the increase in interest rates and foreign exchange rates is not contractually limited by the terms of the contracts. As such, the Company has disclosed notional amounts as a measure of the extent of its involvement in these classes of derivatives rather than maximum payout. Notional amounts do not represent the maximum payout and generally overstate the Company's exposure to these contracts. These derivative contracts are recorded at fair value which approximated $8.7 billion at May 31, 2004.

In connection with these activities, the Company attempts to mitigate its exposure to market risk by entering into a variety of offsetting derivative contracts and security positions. For a discussion of derivatives, see Risk Management and Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2003.

Municipal Securities

In 1997, the Company established a program whereby it creates a series of municipal securities trusts in which it has retained interests. These trusts purchase fixed-rate, long-term, highly rated, insured or escrowed municipal bonds financed by the issuance of trust certificates. Certain of the trust certificates entitle the holder to receive future payments of principal and variable interest and to tender such certificates at the option of the holder on a periodic basis. The Company acts as placement agent and as liquidity provider. The purpose of the program is to allow the Company's clients to purchase synthetic short-term, floating-rate municipal debt that does not otherwise exist in the marketplace. In the Company's capacity as liquidity provider to the trusts, the maximum exposure to loss at May 31, 2004 was approximately $2.45 billion, which represents the outstanding amount of

5. GUARANTEES (continued)

all trust certificates. This exposure to loss is mitigated by the underlying municipal bonds. The underlying municipal bonds in the trusts are either AAA- or AA-rated, insured or escrowed to maturity. Such bonds had a market value, net of related hedges, approximating $2.43 billion at May 31, 2004.

Residual Value Guarantee

The Company has entered into an operating lease arrangement for its worldwide headquarters at 383 Madison Avenue (the "Synthetic Lease"). Under the terms of the Synthetic Lease, the Company is obligated to make monthly payments based on the lessor's underlying interest costs. The Synthetic Lease expires on August 15, 2008, after which the Company may request a renewal. If 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 to be used to satisfy the lessor's debt obligation. If the sale of the property does not generate sufficient proceeds to satisfy the lessor's debt obligation, the Company is required to fund the shortfall up to a maximum residual value guarantee. As of May 31, 2004, there was no expected shortfall and the maximum residual value guarantee approximated $570 million.

Indemnifications

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions, including certain asset sales and securitizations and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. To mitigate these risks with respect to assets being securitized that have been originated by third parties, the Company seeks to obtain appropriate representations and warranties from such third party originators upon acquisition of such assets. The Company generally performs due-diligence on assets purchased and maintains underwriting standards for assets originated. The Company may also provide indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur.

Maximum payout information under these indemnifications is not readily available because of the number, size, and lives of these transactions. The Company reviewed its experience with the indemnifications on these structures. Based on such experience, it is unlikely that the Company will have to make significant payments under these arrangements.

Other Guarantees

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the Condensed Consolidated Financial Statements for these arrangements.

6. REGULATORY REQUIREMENTS

Bear Stearns and BSSC are registered broker-dealers and, accordingly, are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 ("Net Capital Rule") and the capital rules of the New York Stock Exchange, Inc. ("NYSE"), the Commodity Futures Trading Commission ("CFTC") and other principal exchanges of which Bear Stearns and BSSC are members. Included in the computation of net capital of Bear Stearns, as defined, is $686.2 million, which is net capital of BSSC in excess of 5.5% of aggregate debit items arising from customer transactions. At May 31, 2004, Bear Stearns' net capital of $2.27 billion exceeded the minimum requirement by $2.19 billion.

BSIL and Bear Stearns International Trading Limited ("BSIT"), London-based broker-dealer subsidiaries, are subject to the regulatory capital requirements of the Financial Services Authority.

BSB, an Ireland-based bank principally involved in the trading and sales of fixed income products, is registered in Ireland and is subject to the regulatory capital requirements of the Irish Financial Services Regulatory Authority.

At May 31, 2004, Bear Stearns, BSSC, BSIL, BSIT and BSB were in compliance with their respective regulatory capital requirements.

7. EARNINGS PER SHARE

EPS is computed in accordance with SFAS No. 128, "Earnings Per Share." Basic EPS is computed by dividing net income applicable to common shares, adjusted for costs related to vested shares under the Capital Accumulation Plan for Senior Managing Directors, as amended ("CAP Plan"), as well as the effect of the redemption of preferred stock, by the weighted average number of common shares outstanding. Common shares outstanding includes vested units issued under certain stock compensation plans, which will be distributed as shares of common stock. Diluted EPS includes the determinants of Basic EPS and, in addition, gives effect to dilutive potential common shares related to stock compensation plans.

7. EARNINGS PER SHARE (continued)

The computations of Basic and Diluted EPS are set forth below:

	Three Months E	
(in thousands, except per share amounts)	May 31, 2004	M
Net income	$ 347,803	$ 2
Preferred stock dividends	(7,194)	
Redemption of preferred stock	--	
Income adjustment (net of tax) applicable to deferred compensation arrangements-vested shares	17,553	
Net earnings used for basic EPS	358,162	2
Income adjustment (net of tax) applicable to deferred compensation arrangements-nonvested shares	7,865	
Net earnings used for diluted EPS	$ 366,027	$ 2

Total basic weighted average common shares outstanding (1)	129,071	1
Effect of dilutive securities:		
Employee stock options	3,471	
CAP and restricted units	14,380	
Dilutive potential common shares	17,851	
Weighted average number of common shares outstanding and dilutive potential common shares	146,922	1
Basic EPS	$ 2.77	$
Diluted EPS	$ 2.49	$

(1) Includes 24,573,060 and 29,891,922 vested units for the three months ended May 31, 2004 and May 31, 2003, respectively, and 25,171,895 and 30,064,127 vested units for the six months ended May 31, 2004 and May 31, 2003, respectively, issued under certain stock compensation plans which will be distributed as shares of common stock.

8. SEGMENT DATA

The Company operates in three principal segments -- Capital Markets, Global Clearing Services and Wealth Management. These segments offer different products and services and are managed separately as different levels and types of expertise are required to effectively manage the segments' transactions.

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 research, sales and trading in areas such as domestic and international equities, block trading, convertible bonds, over-the-counter equities, equity derivatives, risk and convertible arbitrage and through a majority-owned subsidiary, the NYSE, American Stock Exchange, Inc. ("AMEX") and International Securities Exchange specialist activities. Fixed income includes sales, trading and research provided to institutional clients across a variety of products such as mortgage- and asset-backed securities, corporate and government bonds, municipal bonds, high yield products, foreign exchange and interest rate and

8. SEGMENT DATA (continued)

credit 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, municipal and high yield debt products.

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 and other professional investors. Fully disclosed clients engage in either the retail or institutional brokerage business.

The Wealth Management segment is comprised of the Private Client Services ("PCS") and Asset Management areas. PCS provides high-net-worth individuals with an institutional level of investment service, including access to the Company's resources and professionals. Asset management manages equity, fixed income and alternative assets for 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.

The three business segments comprise many business areas with interactions among each. Revenues and expenses include those that are directly related to each segment. Revenues from intersegment transactions are based upon specific criteria or agreed-upon rates with such amounts eliminated in consolidation. Individual segments also include revenues and expenses relating to various items, including corporate overhead and interest, which are internally allocated by the Company primarily based on balance-sheet usage or expense levels. The Company generally evaluates performance of the segments based on net revenues and profit or loss before provision for income taxes.

8. SEGMENT DATA (continued)

(in thousands)	Three Months Ended May 31, 2004	Three Months Ended May 31, 2003	May 200
NET REVENUES			
Capital Markets			
Institutional Equities	$ 252,004	$ 189,346	$ 549,
Fixed Income	844,436	765,190	1,666,
Investment Banking	254,872	223,439	508,

Total Capital Markets	1,351,312	1,177,975	2,724,
Global Clearing Services	223,676	187,405	441,
Wealth Management			
Private Client Services (1)	117,272	91,142	228,
Asset Management	59,244	33,263	101,
Total Wealth Management	176,516	124,405	329,
Other (2)	(27,966)	(27,065)	(45,
Total net revenues	$ 1,723,538	$ 1,462,720	$ 3,449,
PRE-TAX INCOME			
Capital Markets	$ 491,002	$ 483,971	$ 1,007,
Global Clearing Services	86,705	37,798	165,
Wealth Management	25,719	4,948	46,
Other (2)	(91,950)	(98,587)	(176,
Total pre-tax income	$ 511,476	$ 428,130	$ 1,042,

	As of		
(in thousands)	May 31, 2004	November 30, 2003	May 3 2003
SEGMENT ASSETS			
Capital Markets	$ 175,247,414	$ 143,866,138	$ 142,323,
Global Clearing Services	73,655,826	69,974,025	69,563,
Wealth Management	4,015,910	3,705,922	3,346,
Other (3)	(11,324,377)	(5,377,975)	(7,322,
Total segment assets	$ 241,594,773	$ 212,168,110	$ 207,910,

	Three months ended		Six mon
	May 31, 2004	May 31, 2003	May 31, 2004
(1) Private Client Services Detail:			
Gross revenues, before transfer to Capital Markets segment	$ 139,266	$ 115,033	$ 276,895
Revenue transferred to Capital Markets segment	(21,994)	(23,891)	(48,726)
Private Client Services net revenues	$ 117,272	$ 91,142	$ 228,169

(2) Includes consolidation and elimination entries, unallocated revenues (predominantly interest), and certain corporate administrative functions, including certain legal costs and costs related to the CAP Plan. CAP Plan costs approximated $44.5 million and $46.0 million for the three months ended May 31, 2004 and May 31, 2003, respectively, and $88.5 million and $94.0 million for the six months ended May 31, 2004 and May 31, 2003, respectively.

(3) Includes consolidation and elimination entries.

Note: Certain prior period items have been reclassified within the Wealth Management segment to conform to the current period's presentation.

THE BEAR STEARNS COMPANIES INC.
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9. TRANSFERS OF FINANCIAL ASSETS AND LIABILITIES

Securitizations

The Company regularly securitizes commercial and residential mortgages, consumer receivables and other financial assets. Interests in these securitized assets may be retained in the form of senior or subordinated securities or as residual interests. These retained interests are included in "Financial Instruments Owned" in the Condensed Consolidated Statements of Financial Condition and are carried at fair value. Securitization transactions are generally treated as sales, with resulting gain or loss included in "Principal Transactions" revenue in the Condensed Consolidated Statements of Income. Consistent with the valuation of similar inventory, fair value is determined by broker-dealer price quotations and internal valuation pricing models that utilize variables such as yield curves, prepayment speeds, default rates, loss severity, interest rate volatilities and spreads. The assumptions used for pricing variables are primarily based on observable transactions in similar securities and are further verified by external pricing sources, when available.

The Company's securitization activity relating to transfers of its financial assets is detailed below:

(in billions)	Agency Mortgage-Backed	Other Mortgage-Backed	Other Asset-Backed
Total securitizations			
Quarter ended May 31, 2004	$ 11.7	$ 14.5	$ 0.4
Quarter ended May 31, 2003	$ 14.7	$ 9.9	$ 2.9
Retained interests			
As of May 31, 2004	$ 2.4	$ 1.0	$ 0.1
As of November 30, 2003	$ 1.8	$ 1.4	$ 0.2

The Company is an active market-maker in these securities and as a result, may retain interests in assets it securitizes, predominantly highly rated or government agency-backed securities. The models employed in the valuation of retained interests use discount rates that are based on the swap curve plus a spread. Key points on the swap curve at May 31, 2004 were 2.94% for 2-year swaps and 5.13% for 10-year swaps. These models also consider prepayment speeds, as well as credit losses. Credit losses are considered through option-adjusted spreads that also utilize additional factors such as liquidity and optionality.

Key valuation assumptions used in measuring the current fair value of retained interests in assets the Company securitized at May 31, 2004 were as follows:

	Agency Mortgage-Backed	Other Mortgage-Backed	Asse
Weighted average life (years)	6.71	4.91	
Average prepayment speeds (annual rate)	7% - 37%	0% - 41%	
Credit losses	0.68%	4.35%	

9. TRANSFERS OF FINANCIAL ASSETS AND LIABILITIES (continued)

The following hypothetical sensitivity analysis as of May 31, 2004 illustrates the potential change in fair value of these retained interests due to a specified change in the key valuation assumptions. The interest rate changes represent a parallel shift in the swap curve. This shift considers the effect of other variables, including prepayments. The remaining valuation assumptions are changed independently.

(in millions)	Agency Mortgage-Backed	Other Mortgage-Backed	Other Asset-Backed
Interest rates			
50 basis point increase	$ (73.1)	$ (26.1)	$ 0.1
100 basis point increase	(148.5)	(49.6)	(0.8)
50 basis point decrease	66.8	20.7	0.4
100 basis point decrease	123.1	29.5	0.8
Prepayment speeds			
10% increase	7.0	(2.3)	N/A
20% increase	13.5	(4.5)	N/A
10% decrease	(7.4)	2.9	N/A
20% decrease	(15.1)	6.1	N/A

Credit losses			
10% increase	(3.4)	(9.1)	(0.4)
20% increase	(6.8)	(17.2)	(0.9)
10% decrease	3.5	10.6	0.4
20% decrease	7.0	23.3	0.7

The previous table should be viewed with caution since the changes in a single variable generally cannot occur without changes in other variables or conditions that may counteract or amplify the effect of the changes outlined in the table. In addition, the table does not consider the change in fair value of hedging positions which would generally offset the changes detailed in the table, nor does it consider any corrective action that the Company may take in response to changes in these conditions. The impact of hedges is not presented because hedging positions are established on a macro level and allocating the effect would not be practicable.

The following table summarizes cash flows from securitization trusts related to securitization transactions during the quarter ended May 31, 2004:

(in millions)	Agency Mortgage-Backed	Other Mortgage-Backed	As
Cash flows received from retained interests	$ 85.9	$ 57.5	$
Cash flows from servicing	N/A	$ 4.9	

Collateralized Financing Arrangements

The Company enters into secured borrowing or lending agreements to obtain collateral necessary to effect settlements, finance inventory positions, meet customer needs or re-lend as part of its dealer operations.

The Company receives collateral under reverse repurchase agreements, securities borrowing transactions, derivative transactions, customer margin loans and other secured money-lending activities. In many instances, the Company is permitted to rehypothecate such securities. The Company also pledges financial instruments owned to collateralize certain financing arrangements. These securities are recorded as "Financial Instruments Owned, Pledged As Collateral" in the Condensed Consolidated Statements of Financial Condition.

9. TRANSFERS OF FINANCIAL ASSETS AND LIABILITIES (continued)

At May 31, 2004 and November 30, 2003, the Company had received securities pledged as collateral that can be repledged, delivered or otherwise used with a fair value of approximately $246.0 billion and $223.1 billion, respectively. This collateral was generally obtained under reverse repurchase, securities borrowing or margin lending agreements. Of these securities received as collateral, those with a fair value of approximately $144.8 billion and $140.7 billion were delivered or repledged, generally as collateral under repurchase or securities lending agreements or to cover short sales at May 31, 2004 and November 30, 2003, respectively.

10. CONSOLIDATION OF VARIABLE INTEREST ENTITIES

The Company regularly creates or transacts with entities that may be VIEs. These entities are an essential part of its securitization, asset management and structured finance businesses. In addition, the Company purchases and sells instruments that may be variable interests.

In fiscal 2003, the Company adopted the provisions of FIN No. 46, "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51," for VIEs created after January 31, 2003 and for VIEs in which the Company acquired an interest after January 31, 2003, with no material effect on the consolidated financial statements. In October 2003, the FASB deferred the effective date of FIN No. 46 for arrangements with VIEs existing prior to February 1, 2003 to fiscal periods ending after December 15, 2003. In December 2003, the FASB issued FIN No. 46 (R), a revision of FIN No. 46 to address certain technical corrections and implementation issues that have arisen. As of May 31, 2004, the Company has adopted FIN No. 46 or FIN No. 46 (R) for its variable interests. For these variable interests, the Company has consolidated those VIEs in which the Company is the primary beneficiary. In accordance with FIN No. 46 (R) the Company has deconsolidated Capital Trust III, which had issued $262.5 million of Preferred Securities, beginning on February 29, 2004. As a result, the junior subordinated deferrable interest debentures issued by the Company to Capital Trust III are included within long-term borrowings. In addition, the Preferred Securities issued by Capital Trust III will no longer be included in the Company's Condensed Consolidated Statement of Financial Condition. The adoption of FIN No. 46 and FIN No. 46 (R) did not have a material effect on the Company's condensed consolidated financial statements.

The Company acts as transferor, seller, investor, structurer, underwriter or derivative counterparty in securitization transactions. These transactions typically involve entities that are qualifying special purpose entities as defined in SFAS No. 140. However, occasionally such entities are VIEs. The VIEs in these transactions own the securitized assets and issue beneficial interests in the assets. The holders of the beneficial interest have no recourse to the Company, only to the assets held by the VIE. In certain of these VIEs, the Company is the primary beneficiary through its ownership of certain beneficial interests, which it may sell in the normal course of business.

The Company also acts as portfolio manager and/or underwriter in several collateralized debt obligation transactions. In these transactions, the Company establishes a trust that purchases a portfolio of assets and issues trust certificates that represent interests in the portfolio of assets. In addition to receiving variable compensation for managing the portfolio, the Company may also retain certain trust certificates. In certain of these transactions, these interests result in the Company becoming the primary beneficiary of these entities. The holders of the trust certificates have recourse only to the underlying assets of the trusts and not to other assets of the Company.

Assets held by VIEs, which are currently consolidated, in which the Company is the primary beneficiary, as discussed in the preceding two paragraphs, approximated $1.1 billion. At May 31, 2004, the Company's maximum exposure to

10. CONSOLIDATION OF VARIABLE INTEREST ENTITIES (continued)

loss as a result of its relationship with these VIEs is approximately $28.2 million, which represents the fair value of its interests and is reflected in the Company's condensed consolidated financial statements.

The Company also owns significant variable interests in several VIEs related to collateralized debt obligations or asset securitizations for which the Company is not the primary beneficiary and therefore does not consolidate these entities. In aggregate, these VIEs have assets approximating $4.8 billion. At May 31, 2004, the Company's maximum exposure to loss from these entities approximates $17 million, which represents the fair value of its interests and is reflected in the Company's condensed consolidated financial statements.

The Company purchases and sells interests in entities that may be deemed to be VIEs in its market-making capacity in the ordinary course of business. As a result of these activities, it is reasonably possible that such entities may be consolidated and deconsolidated at various points in time. Therefore, the Company's variable interests included above may not be consolidated or even held by the Company in future periods.

11. PREFERRED STOCK ISSUED BY SUBSIDIARIES

On December 15, 2003, the Company exercised its option and prepaid all of the outstanding Debentures, resulting in the corresponding redemption of $300.0 million aggregate principal amount of preferred securities issued by Bear Stearns Capital Trust II.

Bear Stearns Capital Trust III ("Capital Trust III"), a wholly owned subsidiary of the Company, has issued $262.5 million (10,500,000 shares) of Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities ("Preferred Securities"). The Preferred Securities are fixed-rate securities, which have a liquidation value of $25 per security. Holders of the Preferred Securities are entitled to receive quarterly preferential cash distributions at an annual rate of 7.8% through May 15, 2031. The proceeds of the issuance of the Preferred Securities were used to acquire junior subordinated deferrable interest debentures ("Debentures") issued by the Company. The Debentures have terms that correspond to the terms of the Preferred Securities and are the sole assets of Capital Trust III. The Preferred Securities will mature on May 15, 2031. The Company, at its option, may redeem the Preferred Securities at their principal amount plus accrued distributions beginning May 15, 2006.

In accordance with FIN No. 46 (R) the Company has deconsolidated Capital Trust III effective beginning with the quarter ended February 29, 2004. As a result, the Debentures issued by the Company to Capital Trust III are included within long-term borrowings. The $262.5 million of Preferred Securities issued by Capital Trust III is still outstanding, providing the funding for such Debentures. In addition, the Preferred Securities issued by Capital Trust III will no longer be included in the Company's Condensed Consolidated Statements of Financial Condition.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated statement of financial condition of The Bear Stearns Companies Inc. and subsidiaries as of May 31, 2004, and the related condensed consolidated statements of income for the three month and six month periods ended May 31, 2004 and 2003 and cash flows for the six month periods ended May 31, 2004 and 2003. These interim financial statements are the responsibility of The Bear Stearns Companies Inc.'s management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of The Bear Stearns Companies Inc. and subsidiaries as of November 30, 2003, and the related consolidated statements of income, cash flows and changes in stockholders' equity for the fiscal year then ended (not presented herein) included in The Bear Stearns Companies Inc.'s Annual Report on Form 10-K for the fiscal year ended November 30, 2003; and in our report dated February 13, 2004, (which reports express unqualified opinions and explanatory paragraphs relating to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure, an amendment of FASB Statement No. 123," in 2003, discussed in note 1 to the consolidated financial statements) we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of November 30, 2003 is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

/s/ Deloitte & Touche LLP
New York, New York
July 13, 2004

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Bear Stearns Companies Inc. ("Company") is a holding company that through its broker-dealer and international bank 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. The Company also conducts significant activities through other wholly owned subsidiaries including: Bear Stearns Global Lending Limited, Custodial Trust Company, Bear Stearns Financial Products Inc., Bear Stearns Capital Markets Inc., EMC Mortgage Corporation, Bear Stearns Mortgage Capital Corporation, Bear Stearns Credit Products Inc. and Bear Stearns Forex Inc. 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.

For a description of the Company's business, including its trading in cash instruments and derivative products, its underwriting and trading policies, and their respective risks, and the Company's risk management policies and procedures, see the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2003.

Certain Factors Affecting Results of Operations

The Company's principal business activities -- investment banking, securities and derivatives sales and trading, 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 effect 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 and legislative developments, monetary and fiscal policy, investor sentiment, availability and cost of capital, technological changes and events, outcome of legal proceedings, changes in currency values, inflation, credit ratings and the size, volume and timing of transactions.

Forward-Looking Statements

Certain statements contained in this discussion 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. We disclaim any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances on which the forward-looking statement is based.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

Revenues, net of interest expense and pre-tax earnings for the quarter ended May 31, 2004 increased 17.8% and 19.5%, respectively, from the quarter ended May 31, 2003. In addition, pre-tax profit margins increased to 29.7% when compared to 29.3% in the fiscal 2003 quarter. Return on equity was 19.6% for the quarter ended May 31, 2004 versus 19.7% in the 2003 quarter. A generally favorable operating environment characterized by active fixed income markets, a recovering US economy and improving US capital market conditions provided a healthy climate for the Company's business during the quarter.

Capital Markets net revenues increased 14.7% to $1.35 billion from $1.18 billion. In Institutional Equities, net revenues increased 33.1% when compared to the second quarter of fiscal 2003 reflecting increased commission revenues. In addition, net revenues include the revenues of the Company's majority-owned specialist subsidiary, Bear Wagner Specialists, LLC. The Fixed Income area achieved record revenues for the quarter, up 10.4% from a year ago, with mortgages and interest rate products reporting significant year-over-year improvement. Investment banking revenues were up 14.1% as merger and acquisition fees increased on positive market conditions. Global Clearing Services net revenues increased 19.4% due to increased customer activity and higher customer margin debt balances. In Wealth Management, revenues from private client services increased on higher levels of private client investment activity and asset management revenues rose primarily reflecting the sale of the mutual funds business to Dreyfus completed during the second quarter of 2004.

Business Environment

The business environment during the Company's second quarter ended May 31, 2004 was characterized by a strengthening US economy and low inflation. Consumer confidence increased during the second quarter of fiscal 2004 reflecting the largest job growth rate in four years. Despite the Federal Reserve Board's decision to leave the federal funds rate unchanged at 1.00%, the expectation of higher interest rates pushed the rate on the benchmark 10-year treasury from 3.98% to 4.66% during the quarter. As a result, refinancing volumes slowed from the record levels as mortgage rates continued to slowly rise.

The major indices were all slightly down during the quarter ended May 31, 2004. The Dow Jones Industrial Average ("DJIA") and the Standard & Poors 500 Index ("S&P 500") decreased 3.7% and 2.1%, respectively, while the NASDAQ decreased 2.1%. Average daily trading volume on the New York Stock Exchange, Inc. ("NYSE") and Nasdaq increased 4.2% and 15.8%, respectively, compared to the 2003 quarter. Continued fiscal and monetary stimulus and encouraging corporate profit reports served to increase equity new issue activity as well as US announced and completed mergers and acquisitions volumes, which increased 26.7% industry-wide compared to the May 2003 quarter.

The fixed income markets continued to perform extremely well in the second quarter of fiscal 2004, benefiting from the combination of a steep yield curve and the continued low level of interest rates. However diminished refinancing activity resulted in a significant decline in agency collateralized mortgage obligation ("CMO") activity with agency industry-wide issuance down approximately 40%. The decline in CMO activity was substantially offset by higher secondary mortgage-backed securities activity levels. Also, the steepening yield curve and favorable housing market experienced during the 2004 second quarter resulted in mortgage origination volume shifting to adjustable rate mortgages, contributing to strong non-agency CMO activity. These factors led to the industry's continued solid performance in the second quarter of fiscal 2004.

Weak global and US economic conditions characterized the business environment during the second quarter of fiscal 2003. The lack of capital spending, prolonged slump in the labor markets and high energy prices contributed to difficult market conditions. The Federal Reserve Board met twice during the fiscal quarter and kept the federal funds rate unchanged at 1.25%. At its May 2003 meeting, the Federal Reserve Board changed its economic bias to weakness, citing that the balance of risks is

weighted toward economic weakness in the foreseeable future. However, geopolitical tensions subsided during the second quarter of fiscal 2003. In addition, there was growing sentiment that the economy and corporate profits were strengthening and, as a result, consumer confidence increased during the quarter. The major indices were all up for the quarter ended May 31, 2003. The DJIA increased 12.2%, while the S&P 500 and the Nasdaq Composite Index increased 14.6% and 19.3%, respectively. Weak equity market conditions continued to negatively impact equity-related businesses. Trading volumes on the exchanges were mixed. Average daily trading volume on the NYSE increased 12.4%, while average daily trading volume on the NASDAQ declined 10.1% from the quarter ended May 31, 2002. Global and US announced merger and acquisition volumes remained at low levels. However, the interest rate environment provided favorable conditions for fixed income activities. A combination of low interest rates, a steep yield curve and tightening of corporate credit spreads resulted in very strong demand for domestic debt issuances and strong secondary market activity. Mortgage-backed securities underwriting benefited from high levels of residential mortgage refinancings.

Results of Operations

In the discussion to follow, results for the quarter ended May 31, 2004 will be compared with the results for the quarter ended May 31, 2003 and results for the six months ended May 31, 2004 will be compared with the results for the six months ended May 31, 2003.

Three Months Ended May 31, 2004

Compared to Three Months Ended May 31, 2003

The following table sets forth an overview of the Company's financial results:

(in thousands, except per share amounts, pre-tax profit margin and return on average common equity)	Three Months Ended May 31, 2004	M
Revenues, net of interest expense	$ 1,723,538	$ 1,4
Income before provision for income tax	$ 511,476	$ 4
Net Income	$ 347,803	$ 2
Diluted earnings per share	$ 2.49	$
Pre-tax profit margin	29.7%	
Return on average common equity (annualized)	19.6%	

The Company reported net income of $347.8 million, or $2.49 per share (diluted), for the quarter ended May 31, 2004 which represented an increase of 24.0% from $280.4 million, or $2.05 per share (diluted), for the quarter ended May 31, 2003.

Revenues, net of interest expense ("net revenues") increased 17.8% to $1.72 billion for the quarter ended May 31, 2004 from $1.46 billion for the quarter ended May 31, 2003, due to an increase in principal transactions revenues, investment banking revenues, commission revenues and net interest revenues.

The Company's commission revenues were as follows:

(in thousands)	Three Months Ended May 31, 2004	May 31, 2003	% Increase
Institutional	$ 155,791	$ 135,465	15.0%
Clearance	82,557	77,124	7.0%
Retail & other	68,802	55,093	24.9%
Total commissions	$ 307,150	$ 267,682	14.7%

Note: Certain prior period items have been reclassified within commission revenues to conform to the current period's presentation.

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Commission revenues for the 2004 quarter increased 14.7% to $307.2 million from $267.7 million for the 2003 quarter. Institutional commissions increased 15.0%

to $155.8 million for the 2004 quarter from $135.5 million for the 2003 quarter. The increase in institutional commissions is primarily due to increased trading volumes as well as the impact of the consolidation of Bear Wagner Specialists, LLC commencing in the first quarter of 2004. Clearance commissions increased 7.0% to $82.6 million for the 2004 quarter from $77.1 million for the 2003 quarter due primarily to increased levels of fully disclosed customer activity resulting from an improvement in global equity market conditions. Retail and other commissions increased 24.9% to $68.8 million in the 2004 quarter from $55.1 million in the 2003 quarter due to an increase in individual customer activity levels.

The Company's principal transactions revenues by reporting category were as follows:

	Three Months Ended		
(in thousands)	May 31, 2004	May 31, 2003	% Increase
Fixed income	$ 678,705	$ 656,223	3.4%
Equities	93,684	42,945	118.1%
Derivative financial instruments	143,080	110,747	29.2%
Total principal transactions	$ 915,469	$ 809,915	13.0%

Revenues from principal transactions for the 2004 quarter increased 13.0% to $915.5 million from $809.9 million for the 2003 quarter, due to an increase in the Company's equities activities, derivative financial instruments activities and fixed income activities. Fixed income revenues increased 3.4% to $678.7 million for the 2004 quarter from $656.2 million for the 2003 quarter due primarily to increases in the mortgage-backed securities and interest rate products areas, partially offset by declines in the Company's credit products business, particularly in the high yield and corporate bonds trading areas. Mortgage-backed securities revenues achieved record levels primarily due to an increase in the volume of non-agency CMOs and the secondary trading activities. Revenues derived from equities activities increased 118.1% to $93.7 million during the 2004 quarter from $42.9 million in the 2003 quarter, primarily due to the impact of the consolidation of Bear Wagner Specialists, LLC. In addition, international equities revenues increased during the 2004 quarter, as a result of increased volumes triggered by increased investor confidence and improved economic conditions in international markets. Revenues from derivative financial instruments increased 29.2% to $143.1 million in the 2004 quarter from $110.7 million in the 2003 quarter, due to increases in fixed income derivatives and foreign exchange trading activities as a result of the favorable market environment.

The Company's investment banking revenues by reporting category were as follows:

	Three Months Ended		
(in thousands)	May 31, 2004	May 31, 2003	% Increase / (Decrease)
Underwriting	$ 130,594	$ 89,658	45.7%

Advisory services	89,640	78,604	14.0%
Merchant banking	41,330	44,288	(6.7)%
Total investment banking	$ 261,564	$ 212,550	23.1%

Investment banking revenues increased 23.1% to $261.6 million for the 2004 quarter from $212.6 million for the 2003 quarter. Investment banking revenues include fees earned for underwriting public and private offerings of fixed income and equity securities and advising clients on mergers and acquisitions and other services, and merchant banking revenues. Underwriting revenues increased 45.7% to $130.6 million for the 2004 quarter from $89.7 million for the 2003 quarter, reflecting an increase in equity underwriting due to increased volume of new issue activity. Fixed income underwriting increased

marginally from the 2003 quarter as a result of improved high yield underwriting revenues based on increased new issues volumes and market share. These increases were partially offset by lower high grade underwriting revenues, reflecting the impact of lower new issue activity. Advisory services revenues for the 2004 quarter increased 14.0% to $89.6 million from $78.6 million for the 2003 quarter reflecting increased completed mergers and acquisitions activity. Merchant banking revenues decreased 6.7% to $41.3 million for the 2004 quarter, compared to $44.3 million for the 2003 quarter.

Net interest revenues (interest and dividend revenue less interest expense) increased 17.1% to $158.2 million for the 2004 quarter, from $135.1 million for the 2003 quarter. The increase in net interest revenues was primarily attributable to higher levels of customer interest-bearing balances reflecting improved US equity market conditions. Average customer margin debt balances increased 18.2% to $46.7 billion for the 2004 quarter from $39.5 billion for the 2003 quarter. Average customer short balances increased 24.5% to $77.2 billion for the 2004 quarter from $62.0 billion for the 2003 quarter and average stock borrowed balances increased 22.5% to $58.7 billion for the 2004 quarter from $47.9 billion for the 2003 quarter.

Non-Interest Expenses

The Company's non-interest expenses were as follows:

	Three Months Ended		
(in thousands)	May 31, 2004	May 31, 2003	%In (De