1-28-2008

Bear Stearns 10-K 2007

Bear Stearns Companies, Inc.

The following is an excerpt from a 10-K SEC Filing, filed by BEAR STEARNS COMPANIES INC on 1/29/2008.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated financial statements of The Bear Stearns Companies Inc. and subsidiaries (the "Company") as of November 30, 2007 and 2006, and for each of the three years in the period ended November 30, 2007, and the Company's internal control over financial reporting as of November 30, 2007, and have issued our reports thereon dated January 28, 2008 (such report on the consolidated financial statements expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 155, "Accounting for Certain Hybrid Instruments, an amendment of FASB Statements No. 133 and 140" and SFAS No. 157, "Fair Value Measurements"); such consolidated financial statements and reports are included in your 2007 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the financial statement schedule (Schedule I) of The Bear Stearns Companies Inc. (Parent Company Only), listed in Item 15. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Effective December 1, 2006, the Company adopted SFAS No. 155, "Accounting for Certain Hybrid Instruments, an amendment of FASB Statements No. 133 and 140" and SFAS No. 157, "Fair Value Measurements."

/s/ Deloitte & Touche LLP

New York, New York
January 28, 2008

SCHEDULE I

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

CONDENSED STATEMENTS OF INCOME
(in millions)

Fiscal Years Ended November 30,	2007	2006	2005
REVENUES			
Interest....................................	$4,102	$3,157	$1,233
Other.......................................	534	195	248
	4,636	3,352	1,481
EXPENSES			
Interest....................................	4,235	3,387	1,582
Other.......................................	198	206	196
	4,433	3,593	1,778
Income (loss) before benefit from income taxes and equity in earnings of subsidiaries............................	203	(241)	(297)
(Provision for) benefit from income taxes...	(160)	20	96
Income (loss) before equity in earnings of subsidiaries	43	(221)	(201)
Equity in earnings of subsidiaries, net of tax	190	2,275	1,663
Net income.................................	$ 233	$2,054	$1,462

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 millions, except share data)

As of November 30,	2007	2006
ASSETS		
Cash and cash equivalents	$ 17,401	$ 2,007
Securities purchased under agreements to resell	1,409	97
Receivables from subsidiaries	47,985	67,185
Subordinated loans receivable from subsidiaries	12,948	9,963
Investments in subsidiaries, at equity	8,097	7,975
Assets of variable interest entities	650	575
Other assets	7,587	3,580
Total Assets	$ 96,077	$ 91,382
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unsecured short-term borrowings	$ 8,723	$ 19,467
Collateralized financings	122	--
Payables to subsidiaries	6,961	6,573
Liabilities of variable interest entities	205	220
Other liabilities and accrued expenses	2,345	1,102
	18,356	27,362
Commitments and contingencies (Note 1)		
Long-term borrowings	65,665	51,628
Long-term borrowings from subsidiaries	263	263
STOCKHOLDERS' EQUITY		
Preferred stock	352	359
Common stock, $1.00 par value; 500,000,000 shares authorized as of November 30, 2007 and 2006; 184,805,847 shares issued as of November 30, 2007 and 2006	185	185
Paid-in capital	4,986	4,579
Retained earnings	9,441	9,385
Employee stock compensation plans	2,478	2,066
Accumulated other comprehensive loss	(8)	--
Treasury stock, at cost:		
Common stock: 71,807,227and 67,396,876 shares as of November 30, 2007 and 2006, respectively	(5,641)	(4,445)
Total Stockholders' Equity	11,793	12,129
Total Liabilities and Stockholders' Equity	$ 96,077	$ 91,382

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 millions)

Fiscal Years Ended November 30,	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 233	$ 2,054	$ 1,462
Adjustments to reconcile net income to cash provided by operating activities:			
Non-cash items included in net income:			
Employee stock compensation plans	31	1,010	801
Equity in earnings of subsidiaries, net of dividends received	(1,292)	(493)	(876)
Other	14	10	10
Decreases (increases) in assets:			
Securities purchased under agreements to resell	(1,312)	77	99
Other assets	(2,397)	1,007	(34)
Increases (decreases) in liabilities:			
Payables to subsidiaries	388	1,566	1,276
Other liabilities and accrued expenses	2,071	(50)	306
Cash (used in) provided by operating activities	(2,264)	5,181	3,044
CASH FLOWS FROM FINANCING ACTIVITIES			
Short-term borrowings, net	(10,744)	9,898	4,524
Collateralized financings	122	--	--
Proceeds from issuance of long-term borrowings	21,193	16,503	14,112
Issuance of common stock	162	289	202
Cash retained resulting from tax deductibility under share-based payment arrangements	254	363	426
Redemption of preferred stock	(7)	(13)	(76)
Payments for:			
Retirement of long-term borrowings	(8,865)	(7,143)	(5,966)
Treasury stock purchases	(1,670)	(1,374)	(870)
Cash dividends paid	(172)	(155)	(139)
Cash provided by financing activities	273	18,368	12,213
CASH FLOWS FROM INVESTING ACTIVITIES			
Receivables from subsidiaries	19,200	(23,691)	(11,313)
Subordinated loans receivable from subsidiaries	(2,985)	223	(1,469)
Investments in subsidiaries, net	1,170	(228)	(321)
Cash provided by (used in) investing activities	17,385	(23,696)	(13,103)
Net increase (decrease) in cash and cash equivalents	15,394	(147)	2,154
Cash and cash equivalents, beginning of fiscal year	2,007	2,154	--
Cash and cash equivalents, end of fiscal year	$ 17,401	$ 2,007	$ 2,154

See Notes to Condensed Financial Information.

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. 2007 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 fair value measurements, stock-based compensation, certain accrued liabilities and the potential outcome of litigation and tax matters, 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 or other 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.

o Summary of Significant Accounting Policies (Note 1)
o Fair Value of Financial Instruments (Note 2)
o Financial Instruments (Note 3)
o Variable Interest Entities and Mortgage Loan Special Purpose Entities (Note 6)
o Short-Term Borrowings (Note 8)
o Long-Term Borrowings (Note 9)
o Preferred Stock (Note 10-refer to section entitled "Preferred Stock Issued by The Bear Stearns Companies Inc.")
o Employee Benefit Plan (Note 12)
o Stock Compensation Plans (Note 13)
o Commitments and Contingencies (Note 17)

The Company engages in derivatives activities in order to modify the interest rate characteristics of its long and short-term debt. See "Hedging Activity" section of Note 4, "Derivatives and Hedging Activities", to the Consolidated Financial Statements in the Annual Report.

2. Statement of Cash Flows

Income taxes paid, net of refunds (consolidated) totaled approximately $561 million, $709 million and $146 million for the fiscal years ended November 30, 2007, 2006 and 2005, respectively. Cash payments for income taxes, net of refunds, would have been approximately $815 million, $1.1 billion and $572 million for the fiscal years ended November 30, 2007, 2006 and 2005, respectively, if increases in the value of equity instruments issued under share-based payment arrangements had not been deductible in determining taxable income. Cash payments for interest approximated interest expense for each of the periods presented.

SCHEDULE I

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

NOTES TO CONDENSED FINANCIAL INFORMATION (CONTINUED)

3. Transactions with Subsidiaries

In the ordinary course of business the Company generates interest income by providing financing to its subsidiaries.

The Company received from its consolidated subsidiaries dividends of approximately $1.5 billion, $1.8 billion and $787 million for the fiscal years ended November 30, 2007, 2006 and 2005, respectively. In addition, the Company provides its subsidiaries with the use of fixed assets for which the Company charges a fee.

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 certain 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.

EXHIBIT 12

THE BEAR STEARNS COMPANIES INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(In millions, except for ratio)

	Fiscal Year Ended November 30,				
	2007	2006	2005	2004	2003
Earnings before taxes on income	$ 193	$ 3,147	$ 2,207	$ 2,022	$ 1,772
Add: Fixed Charges					
Interest	10,206	7,324	4,141	1,609	1,401
Interest factor in rents	73	55	45	37	36
Total fixed charges	10,279	7,379	4,186	1,646	1,437
Earnings before fixed charges and taxes on income	$10,472	$10,526	$ 6,393	$ 3,668	$ 3,209
Preferred stock dividend requirements	17	33	37	42	48
Total combined fixed charges and preferred stock dividends	$10,296	$ 7,412	$ 4,223	$ 1,688	$ 1,485
Ratio of earnings to fixed charges	1.0	1.4	1.5	2.2	2.2
Ratio of earnings to combined fixed charges and preferred stock dividends	1.0	1.4	1.5	2.2	2.2

EXHIBIT 13

Financial Report
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INTRODUCTION

The Bear Stearns Companies Inc. (the "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, and 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 also conducts significant activities through other wholly owned subsidiaries, including: Bear Stearns Global Lending Limited; Custodial Trust Company; Bear Stearns Financial Products Inc. ("BSFP"); Bear Stearns Capital Markets Inc.; Bear Stearns Credit Products Inc.; Bear Stearns Forex Inc. ("BS Forex"); EMC Mortgage Corporation; Bear Stearns Commercial Mortgage, Inc.; Bear Stearns Investment Products Inc.; and Bear Energy L.P. The Company is primarily engaged in business as a securities broker-dealer operating in three principal segments: Capital Markets, Global Clearing Services and Wealth Management. As used in this report, the "Company" refers (unless the context requires otherwise) to The Bear Stearns Companies Inc. and its subsidiaries. Unless specifically noted otherwise, all references to fiscal 2007, 2006 and 2005 refer to the twelve months ended November 30, 2007, 2006 and 2005, respectively.

CERTAIN FACTORS AFFECTING RESULTS OF OPERATIONS

The Company's principal business activities--investment banking, securities and derivatives sales and trading, clearance, brokerage and asset management--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 effects of many factors, including, but not limited to, 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. For further discussion of these risks, see Part 1, Items 1A, "Risk Factors," in Form 10-K.

These and other factors can affect the Company's volume of new securities issuances; mergers and acquisitions and business restructurings; the stability and liquidity of securities and futures markets; inventory valuations; and the ability of issuers, other securities firms and counterparties to perform on their obligations. A decrease in the volume of new securities issuances, 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 it on a principal basis and expose the Company to significant risk of loss. Such risks include, but are not limited to, market, counterparty credit and liquidity risks. For a further discussion of these risks and how the Company seeks to manage risks, see the "Risk Management" and "Liquidity, Funding and Capital" sections in this report.

Substantial legal liability or a significant regulatory action against the Company could have a material adverse effect or cause significant reputational harm to the Company, which in turn could seriously harm the Company's business prospects. Firms in the financial services industry have been operating in a stringent regulatory environment. The Company faces significant legal risks in its businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions have been increasing.

THE BEAR STEARNS COMPANIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements other than historical information or statements of current condition and may relate to management's expectations, strategic objectives, business prospects, anticipated economic performance and financial condition and other similar matters. As a global investment bank, there are a variety of factors, many of which are beyond the Company's control, which affect the Company's operations, performance, business strategy and results and could cause actual results to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, actions and initiations taken by competitors, general economic conditions, the effects of current, pending, and future legislation, regulation and regulatory actions, and other risks and uncertainties disclosed in this report, including those described in Part 1, Item 1A. Risk Factors of the Form 10-K. Readers are cautioned not to place undue reliance on forward-looking statements, which 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 such forward-looking statement is based.

EXECUTIVE OVERVIEW

Summary of Results

The operating environment during the Company's fiscal year ended November 30, 2007, particularly during the second half of the fiscal year, was extremely challenging as the global credit crisis adversely impacted global fixed income markets. Weakness in the Company's fixed income and asset management areas more than offset record years for the Company's institutional equities, global clearing, and private client services ("PCS") businesses and resulted in disappointing overall results. Revenues, net of interest expense ("net revenues"), for the fiscal year ended November 30, 2007 decreased 36% to $5.95 billion from $9.23 billion for the fiscal year ended November 30, 2006, while pre-tax earnings decreased 94% during the same period to $193 million. The pre-tax profit margin for fiscal 2007 decreased to 3.2%, compared with 34.1% for fiscal 2006. Return on average common equity was 1.8% for fiscal 2007, compared with 19.1% for fiscal 2006.

Capital Markets net revenues decreased for fiscal 2007 compared with fiscal 2006 due to decreased net revenues from fixed income and investment banking, partially offset by record net revenues from institutional equities.

Fixed income net revenues decreased significantly during fiscal 2007 from fiscal 2006, due to the extremely challenging U.S. mortgage and credit markets. As a result of these market conditions, the Company recognized significant inventory markdowns in both the mortgage-related and leveraged finance areas in fiscal 2007. Mortgage revenues for fiscal 2007 reflect inventory markdowns in both whole loan collateral and residential and commercial mortgage-backed securities. The Company's leveraged finance revenues reflect markdowns of the pipeline of leveraged finance commitments and loans, as investor concerns served to reduce liquidity and price levels in the leveraged finance market. Credit trading revenues also decreased significantly in fiscal 2007 compared with fiscal 2006, as credit spreads widened dramatically. Partially offsetting these decreases were increases in the Company's interest rate derivatives and foreign exchange revenues, as increased volatility served to increase customer volumes.

Institutional equities net revenues increased to record levels during fiscal 2007 compared with fiscal 2006. Revenues from our institutional equity sales and trading reached record levels during fiscal 2007, reflecting continued strength from European and Asian equities. Structured equity products net revenues also increased during fiscal 2007, reflecting gains on the Company's structured notes portfolio. In addition, revenues from the Company's risk arbitrage area increased to record levels, reflecting favorable market conditions. Partially offsetting these increases was a decrease in revenues from specialist activities during fiscal 2007 compared with fiscal 2006, resulting from the implementation of the NYSE Hybrid trading system. Energy-related revenues also decreased in fiscal 2007 compared with fiscal 2006, as fiscal 2006 included significant gains from the monetization of certain commodity assets.

THE BEAR STEARNS COMPANIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Investment banking net revenues decreased in fiscal 2007 compared with fiscal 2006, largely reflecting less favorable market conditions for fixed income underwriting, resulting in decreased revenues from high yield and high grade underwriting. However, strong U.S. equity market conditions served to increase equity underwriting revenues. Merchant banking revenues decreased, reflecting lower gains on the Company's portfolio of investments during fiscal 2007 compared with fiscal 2006.

Global Clearing Services net revenues increased to record levels in fiscal 2007 compared with fiscal 2006 due to higher average customer margin debt and customer short balances.

Wealth Management net revenues decreased in fiscal 2007 compared with fiscal 2006, reflecting lower asset management revenues, partially offset by record net revenues from the Company's PCS business. Fiscal 2007 results include significant losses associated with the failure of the two Bear Stearns Asset Management ("BSAM")-managed high grade funds. PCS revenues increased on higher levels of fee-based income and commissions.

From a geographical perspective, net revenues from our international activities increased by 41% to $1.73 billion in fiscal 2007 from $1.22 billion in fiscal 2006. Net revenues from international activities represented 29% of total net revenues in fiscal 2007 compared with 13% in fiscal 2006.

Business Environment

Fiscal 2007

The business environment during the first half of the Company's fiscal year ended November 30, 2007 was generally favorable due to a combination of factors, including low unemployment, low corporate interest rates, and strong consumer confidence. However, the second half of the Company's fiscal year ended November 30, 2007 was characterized by a global credit crisis that created extremely difficult market conditions. These conditions resulted in greater volatility, less liquidity, widening credit spreads, a lack of price transparency, and a flight to quality.

The unemployment rate dropped to a low of 4.4% in March 2007, showing a strong labor market, and ended fiscal 2007 at 4.7%. However, rising energy prices continued to be a cause for concern throughout fiscal 2007, as the price of oil increased from a low of approximately $52 a barrel in January 2007 to a high of approximately $95 a barrel in November 2007.

Each of the major U.S. equity indices increased during the fiscal year ended November 30, 2007. The Standard & Poor's 500 Index ("S&P 500"), the Dow Jones Industrial Average ("DJIA") and the National Association of Securities Dealers Automated Quotations ("NASDAQ") Composite Index ("NASDAQ Composite Index") increased 5.7%, 9.4% and 7.6%, respectively. Average daily trading volume on the New York Stock Exchange ("NYSE") decreased 3.0% compared with fiscal 2006, while average daily trading volume on the NASDAQ increased 11.5% compared with fiscal 2006. Industry-wide U.S.-announced M&A volumes increased 12.3%, while industry-wide U.S.-completed M&A volumes increased 42.0%, compared with fiscal 2006. Total industry-wide equity issuance volumes increased 15.1%, while industry-wide initial public offering ("IPO") volumes increased 26.7%, compared with the levels reached during fiscal 2006. Long-term rates, as measured by the 10-year Treasury bond, declined during fiscal 2007. At the close of fiscal 2007, the 10-year Treasury bond yield was 3.94%, compared with 4.46% on November 30, 2006.

The Federal Reserve Board (the "Fed") met ten times (eight scheduled meetings and two unscheduled meetings) during fiscal 2007 and kept the federal funds rate unchanged at 5.25% at each of its first six scheduled meetings. At the Fed's last two scheduled meetings of fiscal 2007, the Fed lowered the federal funds rate by 50 basis points and 25 basis points, respectively, to 4.50%, citing the potential of tightening credit conditions to intensify the housing correction and restrain economic growth, and that such an action is intended to help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in the financial markets and to promote moderate growth over time. In addition, in fiscal 2007, the Fed injected $billions into the money supply for banks to borrow at a low rate in order to try to alleviate the credit crisis. At its two unscheduled meetings of fiscal 2007, the Fed mentioned that it is continuing to monitor the situation of deteriorating market conditions, tighter credit conditions, and increased uncertainty, and is prepared to act as needed to mitigate the adverse effects on the economy arising from disruptions in the financial markets.

The decline in home sales that began in 2006 continued into 2007 and represented the first year-over-year decline in nationwide house prices since 1991. The subprime mortgage industry began to collapse in early 2007, with more than 25 subprime lenders declaring bankruptcy, announcing significant losses, or putting themselves up for sale. The mortgage lenders that retained credit risk (the risk of payment default) were the first to be affected, as borrowers became unable or unwilling to make payments. The significant increase in foreclosure activity and rising interest rates in mid-2007 depressed housing prices further as problems in the subprime markets spread to the near-prime and prime mortgage markets.

The widespread dispersion of credit risk related to mortgage delinquencies through the securitization of mortgage-backed securities, sales of collateralized debt obligations ("CDOs") and the creation of structured investment vehicles ("SIVs") and the unclear impact on large banks of mortgage-backed securities, CDOs and SIVs caused banks to reduce their loans to each other or make them at higher interest rates. Similarly, the ability of corporations to obtain funds through the issuance of commercial paper was negatively impacted. In addition, many lenders stopped offering home equity loans and "stated income" loans. As prices declined and delinquencies increased, investors lost confidence in the rating system for structured products as rating agencies moved to downgrade CDOs and other structured products. In addition, investors lost confidence in commercial paper conduits and SIVs causing concerns over large potential liquidations of AAA collateral. The lack of liquidity and transparency regarding the underlying assets in securitizations, CDOs and SIVs resulted in significant price declines across all mortgage-related products in fiscal 2007. Price declines were further driven by forced sales of assets in order to meet demands by investors for the return of their collateral and collateral calls by lenders. During the second half of 2007, the economic impact of these problems spread on a global basis and disrupted the broader financial markets. The combination of these events caused a large number of mortgage lenders and certain hedge funds to shut down or file for bankruptcy and resulted in the downgrade of certain monoline insurers. In addition, banks and institutional investors have recognized substantial losses as they revalued their CDOs and other mortgage-related assets downward.

As a result of these issues and events, U.S. mortgage-backed securities underwriting volumes decreased 7.5% in fiscal 2007 compared with fiscal 2006 as a result of the more challenging market conditions. Agency collateralized mortgage obligation ("CMO") volumes declined 12.6% industry-wide from the levels reached during fiscal 2006 and non-agency mortgage-backed originations decreased 17.5%. The Mortgage Bankers Association Purchase Index increased approximately 3.8%, compared with fiscal 2006, as average 30-year fixed mortgage rates decreased during fiscal 2007. The ABX subprime mortgage credit indices declined dramatically, reflecting concern due to increased delinquencies in subprime mortgages and the CMBX mortgage indices widened on broader recessionary concerns.

Current Environment

The market conditions that result from, and many of the underlying causes of, the subprime mortgage and global credit crisis discussed above continued in December 2007 and January 2008. If these market conditions continue or worsen during the remainder of fiscal 2008, the Company may continue to face a very challenging business environment for its products and businesses.

Fiscal 2006

The business environment during the Company's fiscal year ended November 30, 2006 was generally favorable due to a combination of factors, including an expanding U.S. economy, improved corporate profitability, low unemployment and moderate inflation. Favorable labor reports provided ongoing support to economic activity in fiscal 2006. The unemployment rate dropped to 4.4% in October 2006, its lowest level since August 2001 and ended fiscal 2006 at 4.5%. However, rising energy prices continued to be a cause for concern throughout fiscal 2006, as the price of oil increased from approximately $57 a barrel in December 2005 to a high of approximately $77 a barrel in August 2006. A decline in oil prices during the fourth quarter of fiscal 2006 helped fuel a year-end rally in the equity markets. The Fed met eight times during fiscal 2006 and raised the federal funds rate during each of its first five meetings, in 25 basis point increments, from 4.00% to 5.25%, supported by gains in productivity, relatively low core inflation and expansion in economic activity. However, during its last three meetings of fiscal 2006, the Fed kept the federal funds rate unchanged at 5.25%, citing a cooling of the housing market and moderating economic growth from its strong pace earlier in the year.

THE BEAR STEARNS COMPANIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Each of the major U.S. equity indices increased during the fiscal year ended November 30, 2006. The S&P 500, the DJIA and the NASDAQ Composite Index increased 12.1%, 13.1% and 8.9%, respectively. Average daily trading volume on the NYSE and the NASDAQ increased 5.5% and 10.3%, respectively, compared with fiscal 2005. Industry-wide U.S.-announced M&A volumes increased 22.0% while industry-wide U.S.-completed M&A volumes increased 40.7%, compared with fiscal 2005. Total industry-wide equity issuance volumes increased 25.3%, while industry-wide IPO volumes increased 3.4%, compared with the levels reached during fiscal 2005.

Fixed income markets remained strong in fiscal 2006 despite challenges associated with higher short-term interest rates and a flat yield curve. Long-term rates, as measured by the 10-year Treasury bond, remained relatively stable during fiscal 2006. At the close of fiscal 2006, the 10-year Treasury bond yield was 4.46%, compared with 4.50% on November 30, 2005. U.S. mortgage-backed securities underwriting volumes increased 10.9% in fiscal 2006 compared with fiscal 2005 and continued to benefit from favorable market conditions. Agency CMO volumes declined 15.9% industry-wide from the levels reached during fiscal 2005, reflecting declining refinancing activity. However, non-agency mortgage-backed originations increased 27.3%. The Mortgage Bankers Association Purchase Index decreased approximately 12.9%, compared with fiscal 2005, as average 30-year fixed mortgage rates increased and the home purchasing market cooled in fiscal 2006 compared with fiscal 2005.

Results of Operations

Firmwide Results

The following table sets forth an overview of the Company's financial results for the fiscal years ended November 30, 2007, 2006 and 2005:

				% Increase (Decrease)	
(in millions, except per share amounts, pre-tax profit margin and return on average common equity)	2007	2006	2005	2007/2006	2006/2005
Revenues, net of interest expense	$ 5,945	$ 9,227	$ 7,411	(36%)	25%
Income before provision for income taxes	193	3,147	2,207	(94%)	43%
Net income	233	2,054	1,462	(89%)	40%
Diluted earnings per share	$ 1.52	$ 14.27	$ 10.31	(89%)	38%
Pre-tax profit margin	3.2%	34.1%	29.8%		
Return on average common equity (annualized)	1.8%	19.1%	16.5%		

The Company reported net revenues of $5.9 billion for fiscal 2007, which represented a decrease of 36% from $9.2 billion for fiscal 2006. The Company reported net income of $233 million, or $1.52 per share (diluted) for fiscal 2007, which represented a decrease of 89% from $2.1 billion, and from $14.27 per share (diluted), for fiscal 2006. Due to the extremely challenging market environment, the Company recorded net inventory markdowns in the second half of fiscal 2007 of approximately $2.6 billion on mortgage-related products and the pipeline of leveraged finance commitments and loans. The third quarter results also included approximately $200 million of losses associated with the failure of the BSAM-managed high grade funds. In addition, the results for the fiscal year ended 2007 includes a non-cash charge of $227 million related to the write-off of intangible assets associated with the Company's NYSE specialist activities and $108 million in severance charges related to headcount reductions. The Company reported net revenues of $7.4 billion and net income of $1.5 billion for fiscal 2005, or $10.31 per share (diluted).

THE BEAR STEARNS COMPANIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2007 versus Fiscal 2006

The Company's commission revenues by reporting category for the fiscal years ended November 30, 2007, 2006 and 2005 were as follows:

				% Increase (Decrease)	
(in millions)	2007	2006	2005	2007/2006	2006/2005
Institutional	$ 891	$ 786	$ 776	13%	1%
Clearance	232	234	261	(1%)	(10%)
Retail	146	143	163	2%	(12%)
Total commissions	$ 1,269	$ 1,163	$ 1,200	9%	(3%)

Institutional commissions increased 13% to $891 million in fiscal 2007 from $786 million in fiscal 2006 due to increased average daily trading volumes on the NASDAQ. Clearance commissions decreased 1% to $232 million in fiscal 2007 from $234 million in fiscal 2006, primarily reflecting lower average trading volumes from prime brokerage and fully disclosed clients. Retail commissions increased 2% to $146 million in fiscal 2007 from $143 million in fiscal 2006 due to higher average trading volumes on the NASDAQ.

The Company's principal transactions revenues by reporting category for the fiscal years ended November 30, 2007, 2006 and 2005 were as follows:

				% Increase (Decrease)	
(in millions)	2007	2006	2005	2007/2006	2006/2005
Fixed income	$ (215)	$ 3,617	$ 2,998	nm	21%
Equities	1,538	1,378	838	12%	64%
Total principal transactions	$ 1,323	$ 4,995	$ 3,836	(74%)	30%

nm - not meaningful

Fixed income principal transactions revenues decreased to a loss of $215 million for fiscal 2007 from $3.62 billion for fiscal 2006, primarily attributable to a decrease in revenues in the mortgage-backed securities, leveraged finance, credit trading, and distressed trading areas. Revenues from the Company's mortgage-backed securities and leveraged finance areas decreased significantly as a result of $2.6 billion of valuation adjustments taken during the second half of fiscal 2007. Additionally, revenues from credit trading decreased as corporate credit spreads widened. Also contributing to the decline in fixed income net revenues were losses associated with the BSAM-managed high grade funds. Revenues derived from the Company's equities activities increased 12% to $1.54 billion in fiscal 2007 from $1.38 billion in fiscal 2006 due to an increase in net revenues from structured equity products, international equity sales and trading, and risk arbitrage, partially offset by a decrease in NYSE specialist activities and energy-related activities.

The Company's investment banking revenues by reporting category for the fiscal years ended November 30, 2007, 2006 and 2005 were as follows:

				% Increase (Decrease)	
(in millions)	2007	2006	2005	2007/2006	2006/2005
Underwriting	$ 529	$ 515	$ 470	3%	10%
Advisory and other fees	828	707	413	17%	71%
Merchant banking	23	112	154	(79%)	(27%)
Total investment banking	$ 1,380	$ 1,334	$ 1,037	3%	29%

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Underwriting revenues increased to $529 million in fiscal 2007 from $515 million in fiscal 2006, primarily due to an increase in equity underwriting resulting from improved global equity market conditions. Partially offsetting this increase were lower levels of high yield and high grade underwriting activity resulting from less favorable market conditions. Advisory and other fees increased to $828 million in fiscal 2007 from $707 million in fiscal 2006, reflecting an improved M&A environment and an increase in mortgage servicing fees. Merchant banking revenues include net realized and unrealized investment gains and performance fees on managed merchant banking funds. Merchant banking revenues decreased to $23 million in fiscal 2007 from $112 million in fiscal 2006, reflecting lower net gains on the Company's portfolio of investments and lower performance fees on managed merchant banking funds.

Net interest revenues (interest and dividends revenue less interest expense) increased 12% to $1.35 billion in fiscal 2007 from $1.21 billion in fiscal 2006. The increase in net interest revenues was primarily attributable to higher average customer margin debt balances and customer short balances.

Asset management and other income revenues increased 19% to $623 million for fiscal 2007 from $523 million for fiscal 2006, primarily reflecting an increase in net revenues from PCS on higher levels of fee-based assets.

Fiscal 2006 versus Fiscal 2005

Institutional commissions increased 1% to $786 million from $776 million in fiscal 2005 due to increased average daily trading volumes. Clearance commissions decreased 10% to $234 million in fiscal 2006 from $261 million in fiscal 2005, primarily reflecting lower average rates from prime brokerage and fully disclosed clients. Retail commissions decreased 12% to $143 million in fiscal 2006 from $163 million in fiscal 2005 due to the transition of certain accounts from a commission-based to a fee-based platform.

Fixed income revenues increased 21% to $3.62 billion for fiscal 2006 from $3.00 billion for fiscal 2005, primarily attributable to an increase in net revenues in the mortgage-backed securities, distressed trading and credit derivatives areas. Mortgage-backed securities revenues increased during fiscal 2006 when compared with fiscal 2005 on higher origination volumes as well as increased secondary trading revenues. Revenues derived from distressed trading increased as corporate credit spreads tightened and customer activity increased during fiscal 2006. Revenues from the leveraged finance business increased significantly, associated with increased acquisition finance activity. Additionally, revenues from credit derivatives increased due to higher customer activities reflecting favorable market conditions. Revenues derived from the Company's equities activities increased 64% to $1.38 billion in fiscal 2006 from $838 million in fiscal 2005 due to an increase in net revenues from equity derivatives, international equity sales and trading and risk arbitrage. In addition, fiscal 2006 included gains on the Company's sale of certain commodity assets as well as gains on the Company's investment in the NYSE Group Inc.

Investment banking revenues increased 29% to $1.33 billion in fiscal 2006 from $1.04 billion in fiscal 2005. Underwriting revenues increased primarily due to higher levels of high yield and high grade underwriting activity. Partially offsetting these increases was a decline in equity underwriting revenues reflecting lower levels of equity underwriting activity. Advisory and other fees for fiscal 2006 increased from fiscal 2005, reflecting a significant increase in completed M&A assignments during fiscal 2006. Merchant banking revenues decreased for fiscal 2006 from fiscal 2005, reflecting lower net gains on the Company's portfolio of investments and lower performance fees on managed merchant banking funds.

Net interest revenues increased 25% to $1.21 billion in fiscal 2006 from $965 million in fiscal 2005. The increase in net interest revenues was primarily attributable to higher levels of customer interest-bearing balances and improved net interest margins.

Asset management and other revenues increased 41% to $523 million for fiscal 2006 from $372 million for fiscal 2005, primarily reflecting increased performance fees on proprietary hedge fund products and increased management fees on higher levels of traditional assets under management. PCS fees also increased due to higher levels of fee-based assets.

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Non-Interest Expenses

The Company's non-interest expenses for the fiscal years ended November 30, 2007, 2006 and 2005 were as follows:

(in millions)	2007	2006	2005	% Increase (Decrease) 2007/2006	2006/2005
Employee compensation and benefits	$ 3,425	$ 4,343	$ 3,553	(21%)	22%
Floor brokerage, exchange and clearance fees	279	227	222	23%	2%
Communications and technology	578	479	402	21%	19%
Occupancy	264	198	168	33%	18%
Advertising and market development	179	147	127	22%	16%
Professional fees	362	280	229	29%	22%
Impairment of goodwill and specialist rights	227	--	--	nm	--
Other expenses	438	406	503	8%	(19%)
Total non-interest expenses	$ 5,752	$ 6,080	$ 5,204	(5%)	17%

nm- not meaningful

Fiscal 2007 versus Fiscal 2006 Employee compensation and benefits includes the cost of salaries, benefits and incentive compensation, including Capital Accumulation Plan ("CAP Plan") units, restricted stock units and option awards. Employee compensation and benefits decreased 21% to $3.43 billion for fiscal 2007 from $4.34 billion for fiscal 2006, primarily due to lower compensation associated with the decrease in net revenues. In addition, the Company changed the requisite service period associated with its 2007 stock-based compensation awards to align it with the vesting schedules, resulting in lower employee compensation costs for fiscal 2007. See Note 13, "Stock Compensation Plans," in the Notes to Consolidated Financial Statements. Employee compensation and benefits as a percentage of net revenues was 57.6% for fiscal 2007, compared with 47.1% for fiscal 2006. Full-time employees increased to 14,153 at November 30, 2007 from 13,566 at November 30, 2006.

Non-compensation expenses increased 34% to $2.33 billion for fiscal 2007 from $1.74 billion for fiscal 2006. Non-compensation expenses as a percentage of net revenues increased to 39.1% for fiscal 2007, compared with 18.8% for fiscal 2006. Included in the 2007 results was a non-cash charge of $227 million related to the write-off of intangible assets, representing goodwill and specialist rights, associated with the Company's NYSE specialist activities.
Non-compensation expenses, excluding the non-cash charge, were $2.11 billion for the fiscal year ended November 30, 2007. Floor brokerage, exchange and clearance fees increased 23% to $279 million in fiscal 2007 from $227 million in fiscal 2006, due to increased volumes and clearing house charges attributable to international growth of the Company. Communications and technology costs increased 21% to $578 million in fiscal 2007 from $479 million in fiscal 2006 as increased headcount resulted in higher voice and market data-related costs as well as information technology consulting expenses. Occupancy costs increased 33% to $264 million for fiscal 2007 from $198 million for fiscal 2006, reflecting additional office space requirements and higher leasing costs associated with the Company's headquarters building at 383 Madison Avenue and other office locations in New York City, as well as several international locations, reflecting the Company's growth globally. Advertising and market development costs increased 22% to $179 million for fiscal 2007 from $147 million for fiscal 2006 primarily due to higher levels of client and deal related expenses. Professional fees increased 29% to $362 million in fiscal 2007 from $280 million in fiscal 2006 attributable to higher levels of non-IT consulting fees, employment agency fees, and legal bills. Other expenses increased 8% to $438 million in fiscal 2007 from $406 million in fiscal 2006, principally due to increased litigation associated with the BSAM-managed high-grade funds and severance expenses of $108 million associated with a large year end reduction in headcount. CAP Plan-related costs decreased to $18 million for fiscal 2007 from $154 million in fiscal 2006 due to a lower level of earnings. The Company's pre-tax profit margin was 3.2% for fiscal 2007, down from 34.1% for fiscal 2006.

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The Company's effective tax rate was a benefit of 21.0% for fiscal 2007, compared with a provision of 34.7% for fiscal 2006, primarily due to lower overall earnings, the majority of which was earned in lower tax jurisdictions, which did not entirely offset losses in higher tax jurisdictions and the impact of permanent differences.

Fiscal 2006 versus Fiscal 2005 Employee compensation and benefits increased 22% to $4.34 billion for fiscal 2006 from $3.55 billion for fiscal 2005, primarily due to higher discretionary compensation associated with the increase in net revenues and increased headcount. Employee compensation and benefits as a percentage of net revenues was 47.1% for fiscal 2006, compared with 47.9% for fiscal 2005. Full-time employees increased to 13,566 at November 30, 2006 from 11,843 at November 30, 2005.

Non-compensation expenses increased 5% to $1.74 billion for fiscal 2006 from $1.65 billion for fiscal 2005. Non-compensation expenses as a percentage of net revenues decreased to 18.8% for fiscal 2006, compared with 22.3% for fiscal 2005. The increase in non-compensation-related costs compared with fiscal 2005 was principally related to increased communications and technology costs, professional fees, occupancy costs and advertising and market development costs. Communications and technology costs increased 19% to $479 million in fiscal 2006 from $402 million in fiscal 2005 as increased headcount resulted in higher voice and market data-related costs as well as information technology consulting costs. Professional fees increased 22% to $280 million in fiscal 2006 from $229 million in fiscal 2005 attributable to higher levels of non-IT consulting fees, employment agency fees, and temporary staff. Occupancy costs increased 18% to $198 million for fiscal 2006 from $168 million for fiscal 2005, reflecting additional office space requirements and higher leasing costs associated with the Company's headquarters building at 383 Madison Avenue in New York City. Advertising and market development costs increased 16% to $147 million for fiscal 2006 from $127 million for fiscal 2005 primarily due to higher levels of business promotion expenses. Other expenses decreased 19% to $406 million in fiscal 2006 from $503 million in fiscal 2005, principally due to a reduction in legal and litigation-related costs. Partially offsetting this decrease was an increase in costs related to the CAP Plan. CAP Plan-related costs increased to $154 million for fiscal 2006 from $144 million in fiscal 2005 due to a higher level of earnings. The Company achieved a pre-tax profit margin of 34.1% for fiscal 2006, up from 29.8% for fiscal 2005.

The Company's effective tax rate increased to 34.7% for fiscal 2006, compared with 33.75% for fiscal 2005, primarily due to an increase in the level of earnings in fiscal 2006, as related to preference items.

BUSINESS SEGMENTS

The remainder of "Results of Operations" is presented on a business segment basis. The Company's three business segments--Capital Markets, Global Clearing Services and Wealth Management--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. In fiscal 2006, the Company changed its presentation of segments to allocate certain revenues (predominantly interest) as well as certain corporate administrative expenses from "Other" to its three business segments. These reclassifications were also made to fiscal 2005 amounts and are reflected in the following business segment discussion and in Note 19, "Segment and Geographic Area Data" in the Notes to Consolidated Financial Statements.

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Capital Markets

				% Increase (Decrease)	
(in millions)	2007	2006	2005	2007/2006	2006/2005
Net revenues					
Institutional equities	$ 2,158	$ 1,961	$ 1,446	10%	36%
Fixed income	685	4,190	3,293	(84%)	27%
Investment banking	1,076	1,170	983	(8%)	19%
Total net revenues	$ 3,919	$ 7,321	$ 5,722	(46%)	28%
Pre-tax income	$ (232)	$ 2,801	$ 2,020	nm	39%

nm - not meaningful

The Capital Markets segment comprises institutional equities, fixed income and investment banking. 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 work in tandem to deliver these products and services to institutional and corporate clients.

Institutional equities consists of sales, trading and research, in areas such as domestic and international equities, block trading, over-the counter equities, equity derivatives, energy and commodity activities, risk and convertible arbitrage and specialist activities on the NYSE, American Stock Exchange ("AMEX") and International Stock Exchange ("ISE"). Fixed income includes sales, trading, origination 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, including bank and bridge loans, foreign exchange and interest rate and 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.

Fiscal 2007 versus Fiscal 2006 Net revenues for Capital Markets decreased 46% to $3.92 billion for fiscal 2007, compared with $7.32 billion for fiscal 2006.

Institutional equities net revenues for fiscal 2007 increased 10% to $2.16 billion from $1.96 billion for fiscal 2006. Revenues from the Company's structured equity products increased, reflecting gains from the Company's structured notes business. Revenues from the Company's international equity sales and trading area also increased substantially to a record level, reflecting continued strength in both European and Asian equities. Additionally, risk arbitrage revenues increased during fiscal 2007 on higher levels of global announced M&A volumes. Partially offsetting these increases were decreases in the Company's specialist activities, due to the implementation of the NYSE Hybrid trading system, which automated certain tasks previously performed by specialists and reduced the opportunity for specialists to participate in order processing. Revenues from the Company's energy activities also decreased in fiscal 2007, as fiscal 2006 included significant gains from the sale of certain commodity assets. Fiscal 2007 was a significant build out year for the energy business with significant investments made in the trading and power generation areas, including the acquisition of all the power-related and natural gas assets comprising the power trading business from Williams Power Company, Inc.

Fixed income net revenues decreased 84% to $685 million for fiscal 2007 from $4.19 billion for fiscal 2006. Results for fiscal 2007 were heavily impacted by the severe market conditions across the fixed income sector. The repricing of credit led to significantly lower net revenue levels due to illiquidity in the markets as trading levels deteriorated across the spectrum of fixed income products. Mortgage-backed securities revenues decreased significantly during fiscal 2007 when compared with fiscal

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2006 due to weaker U.S. mortgage markets and challenges associated with the subprime mortgage sector. Significant spread widening in the second half of fiscal 2007 served to reduce inventory values and activity levels. Mortgage-related revenues reflect approximately $2.3 billion in net inventory write downs in the second half of fiscal 2007. A large component of these writedowns were related to ABS CDOs and the unwinding of ABS CDO warehouse facilities. As of November 30, 2007, all ABS CDO warehouse positions have been unwound. The remaining writedowns were experienced across our U.S. and international residential and commercial inventories. Leveraged finance revenues also decreased significantly during fiscal 2007, reflecting challenging market conditions, which resulted in valuation adjustments taken on the Company's leveraged lending commitments and inventory. Leveraged finance revenues reflect valuation adjustments of approximately $.26 billion. Widening credit spreads in a more challenging credit environment during fiscal 2007 also resulted in a decrease in the Company's credit trading revenues. Partially offsetting these decreases were increased revenues from the Company's interest rate product business, as global volatility and higher customer volumes served to increase interest rate product net revenues compared to the prior year.

At November 30, 2007, the Company had approximately $46 billion of mortgages, mortgage backed and asset backed securities including approximately $12 billion of floating rate commercial loans and approximately $3 billion of fixed rate commercial loans.

The Company's CDOs and subprime-related exposures (net of hedges) as of November 30, 2007 is presented below:

($ in millions)		
AAA - Super Senior Exposure:	November 30, 2007	
High - Grade Collateral	$	167
Mezz Collateral		597
CDO^2 Collateral		1
Total AAA - Super Senior Exposure		765
Total Below-AAA Exposure		(10)
Total ABS CDO-Related Exposure	$	755

($ in millions)		
U.S. Subprime Mortgage Exposure:		
Subprime whole loans	$	496
Investment-grade Subprime securities		1,062
Non-investment-grade subprime securities		211
ABS CDS		(2,351)
Total U.S. Subprime Mortgage Exposure	$	(582)

Investment banking revenues decreased 8% to $1.08 billion for fiscal 2007 from $1.17 billion for fiscal 2006. Underwriting revenues decreased 10% to $513 million for fiscal 2007 from $568 million for fiscal 2006, primarily reflecting lower levels of high yield underwriting activity during fiscal 2007, partially offset by increased equity underwriting revenues, reflecting higher volumes of lead and co-managed and follow-on offerings as a result of strong global equity market conditions. Advisory and other fees for fiscal 2007 increased 10% to $541 million from $490 million for fiscal 2006, due to higher M&A fees from increased customer activity. Merchant banking revenues decreased 79% to $23 million for fiscal 2007 from $112 million for fiscal 2006, reflecting lower gains on the Company's portfolio of investments and lower performance fees on managed merchant banking funds.

Fiscal 2006 versus Fiscal 2005 Net revenues for Capital Markets increased 28% to $7.32 billion for fiscal 2006, compared with $5.72 billion for fiscal 2005.

Institutional equities net revenues for fiscal 2006 increased 36% to $1.96 billion from $1.45 billion for fiscal 2005. Revenues from the Company's energy and commodity activities increased, reflecting gains from the sale of certain commodity assets and increased revenues from the Company's energy activities. Equity derivatives revenues increased during fiscal 2006 to record levels reflecting increased customer activity and favorable market conditions. Net revenues from international institutional equities activities increased, reflecting higher customer trading volumes and increased market share in both the European and Asian equity markets. Risk arbitrage revenues also increased during fiscal 2006 on higher announced M&A volumes and market share gains. Fiscal 2006 also included gains on the Company's investment in the NYSE Group Inc.

Fixed income net revenues increased 27% to $4.19 billion for fiscal 2006 from $3.29 billion for fiscal 2005, primarily reflecting strong results from the Company's mortgage-backed securities area as well as record net revenues from the Company's credit businesses. Mortgage-backed securities revenues increased during fiscal 2006 when compared with fiscal 2005 on higher origination volumes from asset-backed securities, ARMs, and commercial mortgage-backed securities, as well as increased secondary trading revenues. Credit products net revenues reached record levels, reflecting a significant increase in revenues from the Company's leveraged finance, distressed trading and credit derivatives areas. Leveraged finance revenues achieved record levels, reflecting the surge in acquisition related financing activity associated with higher M&A volumes and increased market share. Revenues from the Company's interest rate product business declined during fiscal 2006 when compared with fiscal 2005, primarily due to a decrease in interest rate derivatives and foreign exchange revenues.

Investment banking revenues increased 19% to $1.17 billion for fiscal 2006 from $983 million for fiscal 2005. Underwriting revenues increased 7% to $568 million for fiscal 2006 from $532 million for fiscal 2005. Higher levels of high yield and high grade underwriting activity during fiscal 2006 were partially offset by lower levels of equity underwriting activity. Advisory and other fees for fiscal 2006 increased 65% to $490 million from $297 million for fiscal 2005, reflecting an increase in M&A fees resulting from a significant increase in completed M&A assignments. Merchant banking revenues include realized and unrealized investment gains and performance fees on managed merchant banking funds. Merchant banking revenues decreased 27% to $112 million for fiscal 2006 from $154 million for fiscal 2005.

Global Clearing Services

				% Increase (Decrease)	
(in millions)	2007	2006	2005	2007/2006	2006/2005
Net revenues	$ 1,200	$ 1,077	$ 1,029	11%	5%
Pre-tax income	$ 566	$ 465	$ 472	22%	(1%)

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.

Fiscal 2007 versus Fiscal 2006 Net revenues for Global Clearing Services increased 11% to $1.20 billion for fiscal 2007 from $1.08 billion for fiscal 2006. Net interest revenues increased 15% to $923 million for fiscal 2007 from $803 million for fiscal 2006, primarily reflecting increased average customer margin balances and customer short balances. Commission and other revenues essentially remained flat at $277 million for fiscal 2007 compared with $274 million for fiscal 2006. Pre-tax income increased 22% to $566 million for fiscal 2007 from $465 million for fiscal 2006. Pre-tax profit margin was 47.2% for fiscal 2007, compared with 43.2% for fiscal 2006.

The following table presents the Company's interest-bearing balances for the fiscal years ended November 30, 2007 and 2006:

(1) Represents stock-based compensation associated with fiscal 2006 awards that was reflected in equity as of the grant date in December 2006, in accordance with SFAS No. 123(R), "Share-based Payment." Excluding this adjustment for stock-based compensation, gross leverage and net adjusted leverage would be 28.3x and 14.5x, respectively.

(2) The Company changed the requisite service period associated with its 2007 stock-based compensation awards to align it with the vesting schedules. As a result, an adjustment to stockholders' equity was not applicable.

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Total Capital

The Company's total capital base, which consists of long-term debt, preferred equity issued by subsidiaries and total stockholders' equity, increased to $80.3 billion at November 30, 2007 from $66.7 billion at November 30, 2006. This change was primarily due to a net increase in long-term debt.

The Company's total capital base as of November 30, 2007 and 2006 was as follows:

(in millions)	2007	2006
Long-term borrowings:		
Senior debt	$ 67,275	$ 53,307
Subordinated debt (1)	1,263	1,263
Total long-term borrowings	$ 68,538	$ 54,570
Stockholders' equity:		
Preferred stockholders' equity	$ 352	$ 359
Common stockholders' equity	11,441	11,770
Total stockholders' equity	$ 11,793	$ 12,129
Total capital	$ 80,331	$ 66,699

(1) Includes $1.0 billion in subordinated debt issued by the Company and $263 million in junior subordinated deferrable interest debentures ("Debentures") issued by the Company and held by Bear Stearns Capital Trust III ("Capital Trust III") at November 30, 2007 and 2006. See Note 9, "Long-Term Borrowings," and Note 10, "Preferred Stock," in the Notes to Consolidated Financial Statements for further information.

The amount of long-term debt as well as total capital that the Company maintains is driven by a number of factors, with particular focus on asset composition. The Company's ability to support increases in total assets is a function of its ability to obtain short-term secured and unsecured funding, as well as its access to longer-term sources of capital (i.e., long-term debt and equity). The Company regularly measures and monitors its total capital requirements, which are primarily a function of the self-funding ability of its assets. The equity portion of total capital is primarily a function of on- and off-balance-sheet risks (i.e., market, credit and liquidity) and regulatory capital requirements. As such, the liquidity and risk characteristics of assets being held are critical determinants of both total capital and the equity portion thereof, thus significantly influencing the amount of leverage that the Company can employ.

Credit Ratings

The Company's access to external sources of financing, as well as the cost of that financing, is dependent on various factors and could be adversely affected by a deterioration of the Company's long- and short-term debt ratings, which are influenced by a number of factors. These include, but are not limited to:

- Material changes in operating margins;
- Earnings trends and volatility;
- The prudence of funding and liquidity management practices;
- Perceived changes in risk appetite;
- Financial leverage on an absolute basis or relative to peers;
- The composition of the balance sheet and/or capital structure;
- Geographic and business diversification; and
- The Company's market share and competitive position in the business segments in which it operates.

Material deterioration in any one or a combination of these factors could result in a downgrade of the Company's credit ratings, thus increasing the cost of and/or limiting the availability of unsecured financing. Additionally, a reduction in the Company's credit ratings could also trigger incremental collateral requirements, predominantly in the over-the-counter derivatives market. As of November 30, 2007, a downgrade by either Moody's Investors Service or Standard & Poor's in the Company's long-term credit ratings to the level of A3 or A- would have resulted in the Company being required to post $29.6 million in additional collateral pursuant to contractual arrangements for outstanding over-the-counter derivatives contracts. A downgrade to Baa1 or BBB+ would have resulted in the Company being required to post an additional $353.2 million in collateral.

At the date of filing, the Company's long-term/short-term debt ratings were as follows:

	Long-Term Rating	Short-Term Rating
Dominion Bond Rating Service Limited	A(high)	R-1(middle)
Fitch Ratings	A+	F1
Japan Credit Rating Agency, Ltd	AA-	NR
Moody's Investors Service	A2	P-1
Rating & Investment Information, Inc.	AA-	NR
Standard & Poor's Ratings Services	A	A-1

NR - does not assign a short-term rating

Following the Company's announcement on November 14, 2007 of writedowns on collateralized debt obligations ("CDOs") and subprime positions, Standard & Poor's (S&P) lowered the Company's long-term senior unsecured debt from A+ to A and left the outlook on "Negative." S&P stated that the writedown was comparatively less than that of peers and they believe the exposure to be manageable, but that the Company's concentration in fixed income may hinder future revenue generation. Fitch Ratings (Fitch) affirmed the long-term rating of A+ but revised the outlook to "Negative" from "Stable." At the same time, Fitch lowered the short-term rating to F1 from F1+. Fitch acknowledged the Company's strong businesses outside of fixed income and well-managed liquidity, but cited pressure on near term profitability as a concern. Moody's Investors Service (Moody's) revised the outlook on Bear Stearns' A1 rating to "Review for Downgrade". Following the fourth quarter 2007 earnings release, Moody's lowered the long-term senior unsecured debt rating to A2 from A1 and revised the outlook to "Stable". Moody's cited weak performance in 2007 and challenging core operating outlook in 2008 as reasoning for the downgrade, but a strong and increasingly global franchise, historically stable earnings, and ample capital position as support for the "Stable" outlook. Dominion Bond Rating Service Limited (DBRS) had previously revised the outlook on its A (high) rating on the Company to "Stable" from "Positive" in early November. Following the fourth quarter 2007 earnings release, DBRS affirmed both the ratings and outlook.

Committed Credit Facilities

The Company has a committed revolving credit facility ("Facility") totaling $4.0 billion, which permits borrowing on a secured basis by the Parent Company, BSSC, BSIL and certain other subsidiaries. The Facility also allows the Parent Company, BSIL and Bear Stearns International Trading Limited ("BSIT") to borrow up to $4.0 billion of the Facility on an unsecured basis. Secured borrowings can be collateralized by both investment-grade and non-investment-grade financial instruments as the Facility provides for defined advance rates on a wide range of financial instruments eligible to be pledged. The Facility contains financial covenants, the most significant of which require maintenance of specified levels of stockholders' equity of the Company and net capital of BSSC. The Facility terminates in February 2008, with all loans outstanding at that date payable no later than February 2009. The Company intends to renew the Facility at market available terms. There were no borrowings outstanding under the Facility at November 30, 2007.

The Company has a $1.5 billion committed revolving securities repo facility ("Repo Facility"), which permits borrowings secured by a broad range of collateral under a repurchase arrangement by the Parent Company, BSIL, BSIT and BSB and BS Forex. The Repo Facility contains financial covenants that require, among other things, maintenance of specified levels of stockholders' equity of the Company. The Repo Facility terminates in August 2008, with all repos outstanding at that date payable no later than August 2009. There were no borrowings outstanding under the Repo Facility at November 30, 2007.

The Company has a $350 million committed revolving credit facility ("Pan Asian Facility"), which permits borrowing on a secured basis by the Parent Company, BSSC, Bear Stearns Japan Limited ("BSJL"), and BSIL. The Pan Asian Facility contains financial covenants that require, among other things, maintenance of specified levels of stockholders' equity of the Company and net capital of BSSC. In December 2007, the Company renewed the Facility at a $350 million committed level with substantially the same terms. The Pan Asian Facility terminates in December 2008 with all loans outstanding at that date payable no later than December 2009. There were no borrowings outstanding under the Pan Asian Facility at November 30, 2007.

The Company has a $450 million committed revolving credit facility ("Tax Lien Facility"), which permits borrowing on a secured basis by the Parent Company, Plymouth Park Tax Services and Madison Tax Capital LLC. The Tax Lien Facility contains financial covenants that require, among other things, maintenance of specified levels of stockholders' equity of the Company. The Tax Lien Facility terminates in March 2008 with all loans outstanding at that date payable no later than March 2009. There were no borrowings outstanding under the Tax Lien Facility at November 30, 2007.

The Company also maintains a series of committed credit facilities, which permit borrowing on a secured basis, to support liquidity needs for the financing of investment-grade and non-investment-grade corporate loans, residential mortgages, commercial mortgages, listed options and whole loans. The facilities are expected to be drawn from time to time and expire at various dates, the longest of such periods ending in fiscal 2008. All of these facilities contain a term-out option of one year or more for borrowings outstanding at expiration. The banks providing these facilities are committed to provide up to an aggregate of approximately $6.7 billion. At November 30, 2007, the borrowings outstanding under these committed credit facilities were $4.9 billion.

Stock Repurchase Program

The Company has various employee stock compensation plans designed to increase the emphasis on stock-based incentive compensation and align the compensation of its key employees with the long-term interests of stockholders. Such plans provide for annual grants of stock units and stock options. The Company intends to offset the potentially dilutive impact of the annual grants by purchasing common stock throughout the year in open market and private transactions.

On December 13, 2006, the Board of Directors of the Company approved an amendment to the Stock Repurchase Program ("Repurchase Program") to replenish the previous authorizations to allow the Company to purchase up to $2.0 billion of common stock in fiscal 2007 and beyond. On September 18, 2007, the Board of Directors approved an amendment to the Repurchase Program authorizing the purchase of up to $2.5 billion of common stock in fiscal 2007 and beyond. The amendment supersedes the previous $2.0 billion authorization. The Repurchase Program will be used to acquire shares of common stock for the Company's employee stock compensation plans and for up to $1.0 billion in corporate share repurchases. During the fiscal year ended November 30, 2007, the Company purchased under the current and previous authorizations a total of approximately 11.9 million shares at a cost of $1.56 billion of which 3.4 million shares at a cost of $374 million were purchased pursuant to corporate share repurchases beyond employee stock grants. Approximately $2.1 billion was available to be purchased under the current authorization as of November 30, 2007.

Pursuant to a $200 million CAP Plan Earnings Purchase Authorization ("CAP Authorization"), which was approved by the Compensation Committee of the Board of Directors of the Company on December 12, 2006, during the fiscal year ended November 30, 2007, the Company purchased a total of 711,557 shares of its common stock at a total cost of $108 million. Approximately $92 million was available to be purchased under the CAP Authorization as of November 30, 2007.

Cash Flows

Fiscal 2007

Cash and cash equivalents increased $16.81 billion to $21.41 billion at November 30, 2007 from $4.60 billion at November 30, 2006. Cash provided by operating activities was $11.15 billion, primarily attributable to the increase in securities sold under agreements to repurchase, securities purchased under agreements to resell, net and payables to customers, partially offset by increases in financial instruments owned, at fair value, receivables from customers and securities borrowed, securities loaned, net, which occurred in the normal course of business as a result of changes in customer needs, market conditions and trading strategies. Cash used in investing activities of $295 million reflected purchases of property, equipment and leasehold improvements. Cash provided by financing activities of $5.96 billion reflected net proceeds from the issuance of long-term borrowings of $24.92 billion and net proceeds relating to other secured borrowings of $9.09 billion, primarily to fund normal operating activities. This was partially offset by net payments for unsecured short-term borrowings of $14.14 billion and net payments for the retirement/repurchase of long-term borrowings of $12.50 billion. Treasury stock purchases of $1.67 billion were made to provide for the annual grant of CAP Plan units, restricted stock units and stock options and other corporate purposes.

Fiscal 2006

Cash and cash equivalents decreased $1.26 billion to $4.60 billion at November 30, 2006 from $5.86 billion at November 30, 2005. Cash used in operating activities was $19.22 billion, primarily attributable to increases in financial instruments owned, at fair value and securities borrowed, securities loaned, net, partially offset by increases in financial instruments sold, but not yet purchased, at fair value, securities sold under agreements to repurchase, securities purchased under agreements to resell, net and payables to customers, which occurred in the normal course of business as a result of changes in customer needs, market conditions and trading strategies. Cash used in investing activities of $181 million reflected purchases of property, equipment and leasehold improvements. Cash provided by financing activities of $18.14 billion reflected net proceeds from the issuance of long-term borrowings of $19.89 billion, net proceeds relating to unsecured short-term borrowings of $6.03 billion and net proceeds from other secured borrowings of $3.02 billion, primarily to fund normal operating activities. This was partially offset by net payments for the retirement/repurchase of long-term borrowings of $10.25 billion. Treasury stock purchases of $1.37 billion were made to provide for the annual grant of CAP Plan units, restricted stock units and stock options and other corporate purposes.

Fiscal 2005

Cash and cash equivalents increased $1.69 billion to $5.86 billion at November 30, 2005 from $4.17 billion at November 30, 2004. Cash used in operating activities was $14.44 billion, primarily attributable to an increase in financial instruments owned, at fair value and a decrease in payables to customers, partially offset by increases in securities sold under agreements to repurchase, securities purchased under agreements to resell, net and financial instruments sold, but not yet purchased, at fair value and a decrease in securities borrowed, securities loaned, net, which occurred in the normal course of business as a result of changes in customer needs, market conditions and trading strategies. Cash used in investing activities of $203 million reflected purchases of property, equipment and leasehold improvements. Cash provided by financing activities of $16.33 billion reflected net proceeds from the issuance of long-term borrowings of $16.00 billion and net proceeds relating to unsecured short-term borrowings of $8.03 billion, primarily to fund normal operating activities. This was partially offset by net payments for the retirement/repurchase of long-term borrowings of $7.27 billion. Treasury stock purchases of $870 million were made to provide for the annual grant of CAP Plan units, restricted stock units and stock options.

Regulations

The Company is regulated by the Securities and Exchange Commission ("SEC") as a consolidated supervised entity ("CSE"). As a CSE, the Company is subject to group-wide supervision and examination by the SEC and is required to compute allowable capital and allowances for market, credit and operational risk on a consolidated basis. As of November 30, 2007, the Company was in compliance with the CSE capital requirements.

As registered broker-dealers and futures commission merchants, Bear Stearns and BSSC are subject to the net capital requirements of the Exchange Act and Rule 1.17 under the Commodity Futures Trading Commission. Effective December 1, 2005, the SEC approved Bear Stearns' use of Appendix E of the Net Capital Rule, which establishes alternative net capital requirements for broker-dealers that are part of consolidated supervised entities. Appendix E allows Bear Stearns to calculate net capital charges for market risk and derivatives-related credit risk based on mathematical models, provided that Bear Stearns holds tentative net capital in excess of $1 billion and net capital in excess of $500 million. BSIL and BSIT, the Company's London-based broker-dealer subsidiaries, are subject to the regulatory capital requirements of the United Kingdom's Financial Services Authority. Additionally, BSB is subject to the regulatory capital requirements of the Financial Regulator. Custodial Trust Company ("CTC"), a Federal Deposit Insurance Corporation ("FDIC") insured New Jersey state chartered bank, is subject to the regulatory capital requirements of the FDIC. At November 30, 2007, Bear Stearns, BSSC, BSIL, BSIT, BSB and CTC were in compliance with their respective regulatory capital requirements. Certain other subsidiaries are subject to various securities regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. At November 30, 2007, these other subsidiaries were in compliance with their applicable local capital adequacy requirements.

The Company's broker-dealer subsidiaries and other regulated subsidiaries are subject to minimum capital requirements and may also be subject to certain restrictions on the payment of dividends, which could limit the Company's ability to withdraw capital from such regulated subsidiaries, which in turn could limit the Company's ability to pay dividends. See Note 16, "Regulations," in the Notes to Consolidated Financial Statements.

Merchant Banking and Private Equity Investments

In connection with the Company's merchant banking activities, the Company has investments in merchant banking and private equity-related investment funds as well as direct investments in private equity-related investments. At November 30, 2007, the Company held investments with an aggregate recorded value of $986 million, reflected in the Consolidated Statements of Financial Condition in "Other Assets." At November 30, 2006, the Company held investments with an aggregate recorded value of $822 million. In addition to these various direct and indirect principal investments, the Company has made commitments to invest in private equity-related investments and partnerships (see the summary table under "Commitments").

High Yield Positions

As part of its fixed income activities, the Company participates in the underwriting and trading of non-investment-grade corporate debt securities and non-investment-grade commercial and leveraged loans. The Company also invests in, syndicates and trades in loans to below-investment-grade-rated companies (collectively, "high yield positions"). Non-investment-grade debt securities have been defined as non-investment-grade corporate debt and emerging market debt rated BB+ or lower, or equivalent ratings recognized by credit rating agencies. At November 30, 2007 and 2006, the Company held high yield positions approximating $8.84 billion and $10.73 billion, respectively, substantially all of which are in "Financial Instruments Owned" in the Consolidated Statements of Financial Condition, and $716 million and $605 million, respectively, reflected in "Financial Instruments Sold, But Not Yet Purchased" in the Consolidated Statements of Financial Condition. Included in the high yield positions are extensions of credit to highly leveraged companies. At November 30, 2007 and 2006, the amount outstanding to highly leveraged borrowers totaled $6.27 billion and $7.70 billion, respectively. At November 30, 2007, the largest industry concentration to highly leveraged borrowers was the transportation industry, which approximated 23.3% of these highly leveraged borrowers' positions. At November 30, 2006, the largest industry concentration to highly leveraged borrowers was the technology industry, which approximated 22.8% of these highly leveraged borrowers' positions. Additionally, the Company has lending commitments with highly leveraged borrowers (see the summary table under "Commitments").

The Company's Risk Management Department and senior trading managers monitor exposure to market and credit risk for high yield positions and establish limits and concentrations of risk by individual issuer. High yield positions generally involve greater risk than investment grade debt securities due to credit considerations, liquidity of secondary trading markets and increased vulnerability to changes in general economic conditions. The level of the Company's high yield positions, and the impact of such activities on the Company's results of operations, can fluctuate from period to period as a result of customer demand, economic conditions and market considerations.

Contractual Obligations

In connection with its operating activities, the Company enters into contractual obligations that require future cash payments. At November 30, 2007, the Company's contractual obligations by maturity, excluding derivative financial instruments, were as follows:

	Payments Due By Period				
(in millions)	Fiscal 2008	Fiscal 2009- 2010	Fiscal 2011- 2012	Thereafter	Total
Long-term borrowings (1) (2)	$ 9,586	$ 23,895	$ 15,958	$ 19,099	$ 68,538
Future minimum lease payments (3)	125	244	231	650	1,250
Bear Energy (4)	81	165	674	3,399	4,319

(1) Amounts include fair value adjustments in accordance with SFAS No. 133 and hybrid instruments accounted for at fair value as elected under SFAS No. 155, as well as $263 million of junior subordinated deferrable interest debentures ("Debentures"). The Debentures will mature on May 15, 2031; however, effective May 15, 2006, the Company, at its option, may redeem the Debentures. The Debentures are reflected in the table at their contractual maturity dates.

(2) Included in fiscal 2009-2010 are approximately $996 million of floating-rate notes that are redeemable prior to maturity at the option of the noteholder. These notes contain certain provisions that effectively enable noteholders to put these notes back to the Company and, therefore, are reflected in the table at the date such notes first become redeemable. The final maturity dates of these notes are during fiscal 2009, 2010 and 2011.

(3) See Note 17, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements.

(4) Primarily represents obligations under tolling agreements (net of re-tolling agreements) associated with the Company's energy business.

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Commitments

The Company has commitments(1) under a variety of commercial arrangements. At November 30, 2007, the Company's commitments associated with lending and financing, private equity-related investments and partnerships, underwriting, outstanding letters of credit and other commercial commitments summarized by period of expiration were as follows:

	Amount of Commitment Expiration Per Period					
	Fiscal 2008	Fiscal 2009-2010	Fiscal 2011-2012	Thereafter	Commitments with no stated maturity	Total
(in millions)						
Lending-related commitments:						
Investment-grade(2)	$ 630	$ 937	$ 1,785	$ 69	$ --	$ 3,421
Non-investment-grade(2)	745	333	1,790	418	11	3,297
Contingent commitments	501	--	--	--	--	501
Commitments to invest in private equity-related investments and partnerships(3)	101	45	130	425	28	729
Underwriting commitments	652	--	--	--	--	652
Commercial and residential loans	2,229	418	125	56	--	2,828
Letters of credit	2,714	--	35	--	--	2,749
Other commercial commitments	131	39	--	--	--	170

(1) See Note 17, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements.

(2) In order to mitigate the exposure to investment-grade and non-investment-grade borrowings, the Company entered into credit default swaps approximating $952 million and $220 million, respectively, in notional value, at November 30, 2007.

(3) These commitments will be funded, if called, through the end of the respective investment periods, the longest of such periods ending in 2020.

OFF-BALANCE-SHEET ARRANGEMENTS

In the normal course of business, the Company enters into arrangements with special purpose entities ("SPEs"), also known as variable interest entities ("VIEs"). SPEs are corporations, trusts or partnerships that are established for a limited purpose. SPEs, by their nature, are generally not controlled by their equity owners, as the establishing documents govern all material decisions. The Company's primary involvement with SPEs relates to securitization transactions in which transferred assets, including commercial and residential mortgages, consumer receivables, securities and other financial assets are sold to an SPE and repackaged into securities or similar beneficial interests. SPEs may also be used to create securities with a unique risk profile desired by investors and as a means of intermediating financial risk. The Company, in the normal course of business, may establish SPEs, sell assets to SPEs, underwrite, distribute and make a market in securities or other beneficial interests issued by SPEs, transact derivatives with SPEs, own securities or other beneficial interests, including residuals, in SPEs, and provide liquidity or other guarantees for SPEs.

The Company follows Statement of Financial Accounting Standards ("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. In accordance with SFAS No. 140, the Company accounts for transfers of financial assets as sales provided that control has been relinquished. Control is deemed to be relinquished only when all of the following conditions have been met: (1) the assets have been isolated from the transferor, even in bankruptcy or other receivership; (2) the transferee is a Qualifying Special Purpose Entity ("QSPE") or has the right to pledge or exchange the assets received; and (3) the transferor has not maintained effective control over the transferred assets. Therefore, the Company derecognizes financial assets transferred in securitizations, provided that such transfer meets all of these criteria. See Note 5, "Transfers of Financial Assets and Liabilities," in the Notes to Consolidated Financial Statements for a more complete discussion of the Company's securitization activities.

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. The Company consolidates those VIEs in which the Company is the primary beneficiary. See Note 6, "Variable Interest Entities and Mortgage Loan Special Purpose Entities," in the Notes to Consolidated Financial Statements for a complete discussion of the consolidation of VIEs.

The majority of the SPEs that the Company sponsors or transacts with are QSPEs, which the Company does not consolidate in accordance with this guidance. QSPEs are entities that have little or no discretionary activities and may only passively hold assets and distribute cash generated by the assets they hold. The Company reflects the fair value of its interests in QSPEs on its balance sheet but does not recognize the assets or liabilities of QSPEs. QSPEs are employed extensively in the Company's mortgage-backed and asset-backed securitization businesses.

Certain other SPEs do not meet the requirements of a QSPE, because their activities are not sufficiently limited or they have entered into certain non-qualifying transactions. The Company follows the criteria in FIN No. 46 (R) "Consolidation of Variable Interest Entities," in determining whether it should consolidate such entities. These SPEs are commonly employed in collateralized debt obligation transactions where portfolio managers require the ability to buy and sell assets or in synthetic credit transactions.

In addition to the above, in the ordinary course of business the Company issues various guarantees to counterparties in connection with certain derivatives, leasing, securitization and other transactions. See Note 18, "Guarantees," in the Notes to Consolidated Financial Statements for a complete discussion on guarantees.

In 1997, the Company established a program whereby it created 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. In the Company's capacity as liquidity provider to the trusts, the maximum exposure to loss at November 30, 2007 was approximately $3.87 billion, which represents the outstanding amount of all trust certificates. This exposure to loss is mitigated by the underlying municipal bonds held by trusts. 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 offsetting positions, approximating $3.77 billion at November 30, 2007.

The Company does not sponsor any SIVs or Commercial Paper Conduits. Additionally, the Company has no obligation to buy back subprime assets.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are contractual commitments between counterparties that derive their values from changes in an underlying interest rate, currency exchange rate, index (e.g., S&P 500), reference rate (e.g., LIBOR), or asset value referenced in the related contract. Some derivatives, such as futures contracts, certain options and index-referenced warrants, can be traded on an exchange. Other derivatives, such as interest rate and currency swaps, caps, floors, collars, swaptions, equity swaps and options, structured notes and forward contracts, are negotiated in the over-the-counter markets. Derivatives generate both on- and off-balance-sheet risks depending on the nature of the contract. The Company is engaged as a dealer in over-the-counter derivatives and, accordingly, enters into transactions involving derivative instruments as part of its customer-related and proprietary trading activities.

The Company's dealer activities require it to make markets and trade a variety of derivative instruments. In connection with these activities, the Company attempts to mitigate its exposure to market risk by entering into offsetting transactions that may include over-the counter derivative contracts or the purchase or sale of interest-bearing securities, equity securities, financial futures and forward contracts. The Company also utilizes derivative instruments to offset proprietary market-making and trading activities. In this regard, the utilization of derivative instruments is designed to reduce or mitigate market risks associated with holding dealer inventories or in connection with arbitrage-related trading activities. The Company also utilizes interest rate and currency swaps, futures contracts and U.S. Treasury positions to hedge certain debt issuances as part of its asset and liability management. In addition, the Company actively manages commodity price risks resulting from exposures to changes in spot and forward prices in

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electricity and natural gas with exchange traded futures, swaps, OTC swaps and options.

In connection with the Company's dealer activities, the Company formed BSFP and its wholly owned subsidiary, Bear Stearns Trading Risk Management Inc. ("BSTRM"). BSFP is a wholly owned subsidiary of the Company. BSFP and BSTRM were established to provide clients with a AAA-rated counterparty that offers a wide range of global derivative products. BSFP is structured so that if a specified trigger event (including certain credit rating downgrades of the Company, the failure of BSFP to maintain its credit rating and the occurrence of a bankruptcy event with respect to the Company) occurs, BSFP will perform on all of its contracts to their original maturities with the assistance of an independent derivatives portfolio manager who would assume the active management of BSFP's portfolio. BSTRM is structured so that, on the occurrence of a specified trigger event, it will cash-settle all outstanding derivative contracts in a predetermined manner. Clients can use either structure. The AAA/Aaa ratings that BSFP and BSTRM have received are based on their ability to meet their respective obligations without any additional capital from the Company. In the unlikely occurrence of a trigger event, the Company does not expect any significant incremental impact on the liquidity or financial condition of the Company. At November 30, 2007, there was a potential cash settlement payable by BSTRM of $210 million on the occurrence of a trigger event.

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 instruments and are not necessarily an indication of overall market risk.

As of November 30, 2007 and 2006, the Company had notional/contract amounts of approximately $13.40 trillion and $8.74 trillion, respectively, of derivative financial instruments, of which $1.85 trillion and $1.25 trillion, 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 Consolidated Statements of Financial Condition. The Company's derivative financial instruments outstanding, which either are used to offset trading positions, modify the interest rate characteristics of its long- and short-term debt, or are part of its derivative dealer activities, are marked to fair value.

The Company's derivatives had a notional weighted average maturity of approximately 4.2 years at November 30, 2007 and 4.1 years at November 30, 2006. The maturities of notional/contract amounts outstanding for derivative financial instruments as of November 30, 2007 were as follows:

(in billions)	Less Than One Year	One to Three Years	Three to Five Years	Greater Than Five Years	Total
Swap agreements, including options, swaptions, caps, collars and floors	$ 2,624.6	$ 2,795.7	$ 2,321.5	$ 3,250.2	$ 10,992.0
Futures contracts	707.4	387.2	49.1	--	1,143.7
Forward contracts	164.6	--	--	--	164.6
Options held	569.8	28.8	5.2	1.4	605.2
Options written	459.7	25.0	5.0	1.5	491.2
Total	$ 4,526.1	$ 3,236.7	$ 2,380.8	$ 3,253.1	$ 13,396.7
Percent of total	33.8%	24.1%	17.8%	24.3%	100.0%

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements of the Company 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 that could materially affect reported amounts in the consolidated financial statements (see Note 1, "Summary of Significant Accounting

Policies," in the Notes to Consolidated Financial Statements). Critical accounting policies are those policies that are the most important to the consolidated financial statements and/or those that require significant management judgment related to matters that are uncertain.

Valuation of Financial Instruments

The Company has identified the valuation of financial instruments as a critical accounting policy due to the complex nature of certain of its products, the degree of judgment required to appropriately value these products and the pervasive impact of such valuation on the financial condition and earnings of the Company.

The Company adopted SFAS No. 157, "Fair Value Measurements," in the first quarter of 2007. SFAS No. 157 applies to all financial instruments that are being measured and reported on a fair value basis. This includes those items reported in "Financial instruments owned" and "Financial instruments sold, but not yet purchased" as well as other assets and liabilities that are reported at fair value.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Inputs based on quoted market prices for identical assets or liabilities in active markets.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

(1) Financial Instruments Valued Based on Inputs Based on Quoted Market Prices for Identical Assets or Liabilities in Active Markets

The Company's valuation policy is to use quoted market prices from securities and derivatives exchanges where they are available and reliable. Financial instruments valued based on quoted market prices are primarily exchange-traded derivatives and listed equities. Financial instruments that are most typically valued using alternative approaches but for which the Company typically receives independent external valuation information include U.S. Treasuries, other U.S. Government and agency securities, as well as certain corporate debt securities and certain cash instruments such as money market funds and certificates of deposit.

(2) Financial Instruments Whose Inputs are Observable Market Based or Unobservable Inputs that are Corroborated By Market Data

The second broad category consists of financial instruments for which the Company does not receive quoted prices; therefore, models or other methodologies are utilized to value these financial instruments. Such models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. A degree of subjectivity is required to determine appropriate models or methodologies as well as appropriate underlying assumptions. This subjectivity makes these valuations inherently less reliable than quoted market prices. Financial instruments in this category include sovereign debt, certain corporate equities and corporate debt, certain U.S. agency and non-agency mortgage backed securities and non-exchange-traded derivatives such as interest rate swaps. For an indication of the Company's involvement in derivatives, including maturity terms, see the table setting forth notional/contract amounts outstanding in the preceding "Derivative Financial Instruments" section.

(3) Financial Instruments Whose Inputs Used to Determine the Fair Value Is Estimated Based on Internally Developed Models or Methodologies Utilizing Significant Assumptions or Other Data That Are Generally Less Readily Observable from Objective Sources

Certain complex financial instruments and other investments have significant data inputs that cannot be validated by reference to readily observable data. These instruments are typically illiquid, long dated or unique in nature and therefore engender considerable judgment by traders and their management who, as dealers in many of these instruments, have the appropriate knowledge to estimate data inputs that are less readily observable. For certain instruments, extrapolation or other methods are applied to observed market or other data to estimate assumptions that are not observable.

The Company participates in the underwriting, securitization or trading of non-performing mortgage-related assets, certain mortgage-backed securities and residual interests. In addition, the Company has a portfolio of Chapter 13 and other credit card receivables from individuals. Certain of these high yield positions have limited price observability. In these instances, fair values are determined by statistical analysis of historical cash flows, default probabilities, recovery rates, time value of money and discount rates considered appropriate given the level of risk in the instrument and associated investor yield requirements.

The Company is also engaged in structuring and acting as principal in complex derivative transactions. Complex derivatives include certain long-dated equity derivatives, certain credit and municipal derivatives and other complex derivative structures. These non-exchange-traded instruments may have immature or limited markets and, by their nature, involve complex valuation methodologies and models, which are often refined to correlate with the market risk of these instruments.

See Note 3, "Financial Instruments" of Notes to Consolidated Financial Statements for a description of the financial assets and liabilities carried at fair value.

Controls Over Valuation of Financial Instruments

In recognition of the importance the Company places on the accuracy of its valuation of financial instruments as described in the three categories above, the Company engages in an ongoing internal review of its valuations. Members of the Controllers and Risk Management Departments perform analysis of internal valuations, typically on a monthly basis but often on an intra-month basis as well. These departments are independent of the trading areas responsible for valuing the positions. Results of the monthly validation process are reported to the Mark-to-Market Committee ("MTMC"), which is composed of senior management from the Risk Management and Controllers Departments. The MTMC is responsible for ensuring that the approaches used to independently validate the Company's valuations are robust, comprehensive and effective. Typical approaches include valuation comparisons with external sources, comparisons with observed trading, independent comparisons of key model valuation inputs, independent trade modeling and a variety of other techniques.

Merchant Banking

As part of its merchant banking activities, the Company participates from time to time in principal investments. As part of these activities, the Company originates, structures and invests in merger, acquisition, restructuring and leveraged capital transactions, including leveraged buyouts. The Company's principal investments in these transactions are generally made in the form of equity investments, equity-related investments or subordinated loans and have not historically required significant levels of capital investment.

Equity interests and securities acquired are reflected in the consolidated financial statements at fair value, which are often represented as initial cost until significant transactions or developments indicate that a change in the carrying value of the securities is appropriate. This represents the Company's best estimate of exit price as defined by SFAS No. 157. Generally, the carrying values of these securities will be increased based on company performance and 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 in the event that the Company's estimate of fair value has declined below the carrying value. See "Merchant Banking and Private Equity Investments" in Management's Discussion and Analysis for additional details.

Legal, Regulatory and Tax Contingencies

In the normal course of business, the Company has been named as a defendant in various legal actions, including arbitrations, class actions and other litigation. Certain of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. The Company is also involved in other reviews, investigations and proceedings by governmental and self-regulatory agencies regarding the Company's business, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

Reserves for litigation and regulatory proceedings are determined on a case-by-case basis and represent an estimate of probable losses after considering, among other factors, the progress of each case, prior experience and the experience of others in similar cases, and the opinions and views of internal and external legal counsel. Because litigation is inherently unpredictable, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss related to such matters, the ultimate resolution, the timing of resolution or the amount of eventual settlement, fine, penalty or relief, if any.

The Company is subject to the income tax laws of the United States, its states and municipalities and those of the foreign jurisdictions in which the Company has significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. The Company must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and must also make estimates about when in the future certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Company regularly evaluates the likelihood of assessments in each of the taxing jurisdictions resulting from current and subsequent years' examinations and tax reserves are established as appropriate.

The Company establishes reserves for potential losses that may arise out of litigation, regulatory proceedings and tax audits to the extent that such losses are probable and can be estimated, in accordance with SFAS No. 5, "Accounting for Contingencies." Once established, reserves are adjusted as additional information becomes available or when an event requiring a change to the reserves occurs. Significant judgment is required in making these estimates and the ultimate resolution may differ materially from the amounts reserved.

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ACCOUNTING AND REPORTING DEVELOPMENTS

During fiscal 2007, the Company adopted SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments--an amendment of FASB Statements No. 133 and 140," SFAS No. 156, "Accounting for Servicing of Financial Assets--an amendment of FASB Statement No. 140," and SFAS No. 157, "Fair Value Measurements." As a result of the adoption of these standards, the Company recorded a cumulative effect adjustment to increase the opening retained earnings balance by approximately $3.5 million (after tax).

In December 2007, the FASB issued Statement No. 141 R, "Business Combinations (a revision of Statement No. 141)." This Statement applies to all transactions or other events in which an entity obtains control of one or more businesses, including those combinations achieved without the transfer of consideration. This Statement retains the fundamental requirements in Statement No. 141 that the acquisition method of accounting be used for all business combinations. This Statement expands the scope to include all business combinations and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their fair values as of the acquisition date. Additionally, FASB No. 141R changes the way entities account for business combinations achieved in stages by requiring the identifiable assets and liabilities to be measured at their full fair values. Additionally, contractual contingencies and contingent consideration shall be measured at fair value at the acquisition date. This Statement is effective on a prospective basis to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact, if any, that the adoption of this Statement will have on the consolidated financial statements of the Company.

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No.51." This Statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Additionally, this Statement requires that consolidated net income include the amounts attributable to both the parent and the noncontrolling interest. This Statement is effective for interim periods beginning on or after December 15, 2008. The Company is currently evaluating the impact, if any, that the adoption of this Statement will have on the consolidated financial statements of the Company.

In June 2007, the FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-11 "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." This issue requires that the tax benefits related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 is effective prospectively to the income tax benefits on dividends declared in fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact, if any, the adoption of this issue may have on the Company's consolidated financial statements and does not expect a material impact on the consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure financial assets and liabilities (except for those that are specifically scoped out of the Statement) at fair value. The election to measure a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between the carrying value and the fair value at the election date is recorded as a transition adjustment to opening retained earnings. Subsequent changes in fair value are recognized in earnings. The Company adopted SFAS No. 159 effective December 1, 2007. The adoption of SFAS No. 159 did not have a material impact on the consolidated financial statements of the Company.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company will adopt the provisions of FIN No. 48 beginning in the first quarter of 2008. The adoption of FIN No. 48 will not have a material impact on the consolidated financial statements of the Company.

In April 2007, the FASB issued a Staff Position ("FSP") FIN No. 39-1, "Amendment of FASB Interpretation No. 39." FSP FIN No. 39-1 defines "right of setoff" and specifies what conditions must be met for a derivative contract to qualify for this right of setoff. It also addresses the applicability of a right of setoff to derivative instruments and clarifies the circumstances in which it is appropriate to offset amounts recognized for those instruments in the Consolidated Statement of Financial Condition. In addition, this FSP permits offsetting of fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from the same master netting arrangement as the derivative instruments. The provisions of this FSP are consistent with the Company's current accounting practice. The Company will adopt the provisions of FSP FIN No. 39-1 on December 1, 2007. The adoption of FSP FIN No. 39-1 did not impact the consolidated financial statements of the Company.

EFFECTS OF INFLATION

The Company's assets are primarily recorded at their current market value and, to a large extent, are liquid in nature. The rate of inflation affects the Company's expenses, such as employee compensation, office leasing costs, information technology and communications charges, which may not be readily recoverable in the price of services offered by the Company. In addition, to the extent that inflation causes interest rates to rise and has other adverse effects on the securities markets and on the value of securities held in inventory, it may adversely affect the Company's financial position and results of operations.

THE BEAR STEARNS COMPANIES INC.
RISK MANAGEMENT

OVERALL

The Company's principal business activities involve significant market and credit risks. In addition, the Company is subject to operational, legal, funding and other risks. Volatility and uncertainty in the global capital markets may have a significant impact on our business, operations and reputation. Effective identification, assessment and management of these risks are critical to the success and stability of the Company. Comprehensive risk management procedures have been established to identify, monitor and control each of these major risks. Additionally, the Company's diverse business segments and practices contribute to mitigating the risks of a downturn in any one of the global capital markets. Management ensures that a strong internal control environment exists to minimize the adverse impact these risks may create. The risk management process encompasses many units independent of the trading desks, including the Risk Management, Global Credit, Global Clearing Services, Controllers, Operations, Compliance, Legal and Financial Analytics & Structured Transactions ("F.A.S.T.") Departments. The Treasurer's Department is also independent of trading units and is responsible for the Company's funding and liquidity risk management. Funding and liquidity risk management are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in the "Liquidity, Funding and Capital" section.

RISK MANAGEMENT STRUCTURE

The Company has established various management committees that have responsibilities for monitoring and oversight of its activities and risk exposures. The key risk management committees are described below.

The Risk Policy Committee is composed of several members of senior management, including the chief risk officer, chief financial officer and trading division heads. The Risk Policy Committee generally meets weekly and reviews firmwide risk exposures, determines risk measures and limits, and provides a high level of oversight to trading strategies.

The Global Finance Committee is composed of senior managers from Corporate Treasury, Fixed Income Finance, Equity Finance, and Controllers. The Global Finance Committee monitors the firm's liquidity, sets funding policies and strategies, coordinates funding activities to ensure integrity with policies and cost efficiency, and monitors balance sheet and capital usage.

The Credit Policy Committee is composed of senior risk, legal and business managers. The Credit Policy Committee delegates credit approval authority to the Global Credit Committee, approves exposure measurement standards, reviews concentrations of credit risk, establishes documentation and credit support standards, and considers new or unusual credit-related transactions.

The Global Credit Committee, which includes several members of the Credit Policy Committee, implements policy through its review and approval of counterparty credit limits.

The Operations Committee is composed of senior managing directors from various departments, primarily representing key internal control functions. The Operations Committee ensures the coordination of key operational, control and regulatory issues across the Company.

The Model Review Committee is composed of senior members of the Risk Management, Risk Analytics and F.A.S.T. Departments, as well as senior business unit managers who have experience developing and using trading models. The Model Review Committee works with staff of the Risk Management Department to ensure that trading models are independently vetted and controlled.

The Principal Activities Committee is composed of senior investment banking, capital markets, credit and risk management professionals. The Principal Activities Committee reviews and approves loan underwriting proposals. Certain leveraged loan commitments, as well as large or unusual credit extensions, are referred by this committee for approval to the Company's Executive Committee.

THE BEAR STEARNS COMPANIES INC.
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The Mark-to-Market (MTM) Committee is composed of senior management from the Risk Management and Controllers Departments. The MTM Committee is responsible for ensuring that the approaches used to independently validate the Company's valuations are robust, comprehensive and effective.

The New Products and Special Structured Transactions (New Products) Committee is composed of senior management from various departments. The New Products Committee is responsible for ensuring that identified new businesses and products are reviewed in advance for legal, credit, operational, accounting, market and reputational risk and related concerns. The New Products Committee meets on a regular basis to review new business proposals and address related issues.

MARKET RISK

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest and currency exchange rates, equity, futures and commodity prices, changes in the implied volatility of interest rates, foreign exchange rates, equity, futures and commodity prices, and price deterioration or changes in value due to changes in market perception or actual credit quality of either the issuer or its country of origin. Market risk can be exacerbated in times of illiquidity where market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. Market risk is inherent to both cash and derivative financial instruments and, accordingly, the scope of the Company's market risk management procedures includes all market risk-sensitive financial instruments. The Company's exposure to market risk is directly related to its role as a financial intermediary in customer trading transactions and to its proprietary trading, investment and arbitrage activities.

The Risk Management Department is independent of all trading areas and reports to the chief risk officer. The goals of the department are to understand the market risk profile of each trading area, to consolidate common risks on a firmwide basis, to articulate large trading or position risks to senior management, to provide traders with perspectives on their positions and to better ensure accurate mark-to-market pricing. The department supplements the communication between trading managers and senior management by providing its independent perspective on the Company's market risk profile via a daily risk highlights report that is distributed to a number of senior managers in the Company and by regularly providing information on significant risk positions to the Risk Policy Committee.

The Company believes that a clear understanding of how its positions generate profit or loss on a daily basis is crucial to managing risk. Many of the independent units are actively involved in ensuring the integrity and clarity of the daily profit and loss statements. Activities include daily and monthly price verification procedures, position reconciliation, review of pricing models and review of recording of complex transactions.

In addition, trading desk management, senior management and independent units also review the age and composition of proprietary accounts and review risk reports appropriate to the risk profile of each trading activity. Risk limits are established and monitored, market conditions are evaluated, certain transactions are reviewed in detail, and quantitative methods such as value-at-risk and stress testing are employed (see "Value-at-Risk"). These procedures better ensure that trading strategies are followed within acceptable risk parameters.

The Company is an active participant in over-the-counter markets, including derivatives, commercial and residential mortgage loans, leveraged loans and Chapter 13 and other credit card receivables. The nature of many of these financial instruments is such that they are valued through the use of models. The complexities and reduced transparency inherent in financial instruments that are valued using models, as compared with exchange-traded prices or other quoted market valuations, introduce a particular element of operational risk into the Company's business. In most cases, internal valuation models are developed by staff within the F.A.S.T. Department. Traders and trading management supplement and review the development efforts. A further level of review is performed by the independent model review team within the Risk Management Department. Results of the independent model review process are presented to the Model Review Committee. In certain cases, the Company is also able to compare its model-based valuations with counterparties in conjunction with collateral exchange agreements. Senior trading managers and independent Risk Management also emphasize the importance of two-way trading in financial instruments valued using models in order to verify the accuracy of the models. While the Company believes these controls to be effective, it is also important to note that the risk of model-based valuations is inherent in a number of the Company's activities.

Following is a discussion of the Company's primary market risk exposures as of November 30, 2007 and November 30, 2006, including a discussion of how those exposures are managed. The following discussion of the Company's risk management procedures for its principal risks and the estimated amounts of the Company's market risk exposure generated by the Company's statistical analyses contains forward-looking statements. The analyses used to assess such risks are not predictions of future events, and actual results may vary significantly from such analyses due to events in the markets in which the Company operates and certain other factors as described herein.

Interest Rate Risk

Interest rate risk is a consequence of maintaining market-making and proprietary inventory positions and trading in interest rate-sensitive financial instruments. In connection with the Company's dealer and arbitrage activities, including market-making in over-the-counter derivatives contracts, the Company exposes itself to interest rate risk arising from changes in the level or volatility of interest rates, mortgage prepayment speeds or the level and shape of the yield curve. The Company's fixed income activities also expose it to the risk of loss related to changes in credit spreads on debt instruments. Credit spread risk arises from the potential that changes in an issuer's credit rating or credit perception could affect the value of financial instruments. Credit risk resulting from default on counterparty obligations is discussed in the "Credit Risk" section. The Company attempts to hedge its exposure to interest rate risk primarily through the use of interest rate swaps, options, eurodollar and U.S. government securities, and futures and forward contracts designed to reduce the Company's risk profile. Credit spread risk is hedged through the use of credit derivatives such as credit default swaps, and by offsetting long or short positions in various related securities.

Foreign Exchange Rate Risk

Foreign exchange rate risk arises from the possibility that changes in foreign exchange rates will affect the value of financial instruments. When the Company buys or sells a foreign currency or a financial instrument denominated in a currency other than U.S. dollars, exposure exists from a net open currency position. Until the position is covered by selling or buying the equivalent amount of the same currency or by entering into a financing arrangement denominated in the same currency, the Company is exposed to the risk that the exchange rate may move against it. The Company attempts to hedge the risk arising from its foreign exchange activities primarily through the use of currency borrowing, swaps, options, forwards and futures.

Equity Price Risk

The Company is exposed to equity price risk through its market making activities in equity securities, distressed debt, equity derivatives as well as specialist activities. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities or instruments that derive their value from a particular stock, a basket of stocks or a stock index. The Company attempts to reduce the risk of loss inherent in its inventory of equity securities by entering into hedging transactions, including equity options and futures, designed to mitigate the Company's market risk profile.

Commodity Price Risk

Commodity price risk refers to the potential loss the Company could suffer from adverse moves in the levels of commodity prices and derivatives linked to them. The Company is exposed to commodity price risk through its energy trading business, which transacts in both listed and over-the-counter energy derivatives as well as the underlying physical commodities themselves, and through various trading activities which make use of listed commodity futures and options on futures. The Company attempts to mitigate the risk of loss in these activities by using commodity derivatives to limit its exposure to changes in the overall level of any given commodity price, to changes in the volatility of that price, and to changes in the relative levels of future prices for that commodity.

Value-at-Risk

An estimation of potential losses that could arise from changes in market conditions is typically accomplished through the use of statistical models known as value-at-risk ("VaR") that seek to predict risk of loss based on historical and/or market-implied price and volatility patterns. VaR estimates the probability of the value of a financial instrument rising above or falling below a specified amount. The calculation uses the simulated changes in value of the market risk-sensitive financial instruments to estimate the amount of change in the current value that could occur at a specified probability level.

The Company has performed an entity-wide VaR analysis of the Company's financial assets and liabilities, including financial instruments owned and sold, repurchase and resale agreements and funding assets and liabilities. The Company regularly evaluates and enhances such VaR models in an effort to more accurately measure risk of loss. Certain equity-method investments and non-publicly traded investments are not reflected in the VaR results. The VaR related to certain non-trading financial instruments has been included in this analysis and is not reported separately because the amounts are not material. The calculation is based on a methodology that uses a one-day interval and a 95% confidence level. The Company uses a historical simulation approach for VaR, which is supplemented by statistical risk add-ons for risk factors that do not lend themselves readily to historical simulation. Historical simulation involves the generation of price movements in a portfolio using price sensitivities, and actual historical movements of the underlying risk factors to which the securities are sensitive. Risk factors incorporated via historical simulation include interest rate movements, yield curve shape, general market credit spreads, equity price movement, option volatility movement (for certain option types) and foreign exchange movement, among others. Risk factors incorporated via add-on factors include the risk of specific bond issuers, among others. The Company believes that its VaR methodologies are consistent with industry practices for these calculations.

VaR has inherent limitations, including reliance on historical data, which may not accurately predict future market risk, and the quantitative risk information generated is limited by the parameters established in creating the models. There can be no assurance that actual losses occurring on any one day arising from changes in market conditions will not exceed the VaR amounts shown below or that such losses will not occur more than once in 20 trading days. VaR is not likely to accurately predict exposures in markets that exhibit sudden fundamental changes or shifts in market conditions or established trading relationships. Many of the Company's hedging strategies are structured around likely established trading relationships and, consequently, those hedges may not be effective and VaR models may not accurately predict actual results. Furthermore, VaR calculated for a one-day horizon does not fully capture the market risk of positions that cannot be liquidated in a one-day period. However, the Company believes VaR models are an established methodology for the quantification of risk in the financial services industry despite these limitations. VaR is best used in conjunction with other financial disclosures in order to assess the Company's risk profile.

The aggregate VaR presented here is less than the sum of the individual components (i.e., interest rate risk, foreign exchange rate risk, equity risk and commodity price risk), due to the benefit of diversification among the risks. Diversification benefit equals the difference between aggregate VaR and the sum of the VaRs for the four risk categories. This benefit arises because the simulated one-day losses for each of the four primary market risk categories occur on different days and because of general diversification benefits introduced when risk is measured across a larger set of specific risk factors than exist in the respective categories; similar diversification benefits also are taken into account across risk factors within each category.

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The following table illustrates the VaR for each component of market risk as of November 30, 2007 and 2006.

(in millions)	2007	2006
MARKET RISK		
Interest rate	$ 72.4	$ 29.9
Currency	1.4	0.8
Equity	6.5	3.0
Commodity/energy	12.5	0.0
Diversification benefit	(23.5)	(4.9)
Aggregate VaR	$ 69.3	$ 28.8

The table below illustrates the high, low and average VaR for each component of market risk and aggregate market risk during fiscal 2007 and fiscal 2006 (calculated on a daily basis):

	Fiscal 2007			Fiscal 2006		
(in millions)	High	Low	Average	High	Low	Average
MARKET RISK						
Interest rate	$ 72.4	22.5	34.1	$ 41.3	20.3	30.8
Currency	3.4	0.0	1.2	3.2	0.0	0.8
Equity	12.4	1.6	6.4	11.3	1.3	4.3
Commodity/Energy	20.3	0.0	2.8	1.2	0.0	0.2
Aggregate VaR	69.3	22.7	33.1	44.4	19.0	28.6

The increase in VaR during 2007 was due to dramatic increases in volatility across credit, interest rates, and asset backed markets, and to changes in the Company's inventory positions.

The Company utilizes a wide variety of market risk management methods, including trading limits; marking all positions to market on a daily basis; daily profit and loss statements; position reports; daily risk highlight reports; aged inventory position reports; and independent verification of inventory pricing. The Company believes that these procedures, which stress timely communication between traders, trading department management and senior management, are important elements of the risk management process.

Stress testing (also referred to as scenario analysis) measures the risk of loss over a variety of extreme market conditions that are defined in advance. Stress testing is a key methodology used in the management of market risk as well as counterparty credit risk (see "Credit Risk"). Stress tests are calculated at the firmwide level for particular trading books, customer accounts and individual positions. Stress tests are performed on a regular basis as well as on an ad hoc basis, as deemed appropriate. The ongoing evaluation process of trading risks as well as the consideration of new trading positions commonly incorporates an ad hoc discussion of "what-if" stressed market conditions and their impact on profitability. This analysis varies in its degree of formality based on the judgment of trading department management, risk management and senior managers. While the Company recognizes that no methodology can perfectly predict future market conditions, it believes that these tools are an important supplement to the Company's risk management process. The Company expects to continue to develop and refine its formal stress testing methodologies.

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The following chart represents a summary of the daily principal transactions revenues and reflects a combination of trading revenues, net interest revenues for certain trading areas and other revenues for the fiscal years ended November 30, 2007 and 2006. The chart represents a historical summary of the results generated by the Company's trading activities as opposed to the probability approach used by the VaR model. The average daily trading profit was $5 million and $20 million for the fiscal years ended November 30, 2007 and 2006, respectively. There were 62 daily trading losses for the fiscal year ended November 30, 2007 and 13 daily trading losses for the fiscal year ended November 30, 2006. Daily trading losses exceeded the reported average aggregate VaR amounts on 27 days during the fiscal year ended November 30, 2007 and never exceeded the reported average aggregate VaR amounts during the fiscal year ended November 30, 2006. Higher market volatility and reduced market liquidity contributed to an increase in the number of trading days with losses, and to higher magnitude daily losses, in 2007. The Firm uses historical simulation VaR, which is driven by previously observed changes in market variables. During periods in which volatility is increasing, VaR tends to lag since it does not incorporate swings in the relevant markets until they have actually been observed and are incorporated in the historical time series of market data being used for the VaR calculation. This was the case in 2007, when volatility across many markets rose sharply and continuously throughout the year. Substantial trading losses were experienced in the mortgage-related and leveraged finance areas. The number of days with trading losses and the number of days with trading losses that exceeded the reported average aggregate VaR in fiscal 2007 was sharply higher than in fiscal 2006 as a result of increased volatility in underlying markets.

DISTRIBUTION OF DAILY NET TRADING REVENUES

FISCAL YEARS ENDED NOVEMBER 30, 2007 AND NOVEMBER 30, 2006

[BAR CHART - GRAPHIC OMITTED -represented by the plot points below]

(20)+	(20)-(15)	(15)-(10)	(10)-(5)	(5)-0	0-5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	40+	
38	5	6	7	6	21	20	15	43	21	22	16	8	24	2007
0	0	1	2	10	18	35	41	44	36	22	16	8	19	2006

THE BEAR STEARNS COMPANIES INC.
RISK MANAGEMENT

CREDIT RISK

Credit risk arises from potential non-performance by counterparties, customers, borrowers or debt security issuers. The Company is exposed to credit risk as trading counterparty to dealers and customers, as direct lender, as holder of securities and as member of exchanges and clearing organizations. The Company has established policies and procedures to manage credit risk.

Dedicated professionals in several departments contribute to the administration of the Company's credit policies and procedures. The responsible groups include Global Credit, Operations and Administration (Margin), Risk Management, Global Clearing Services (Prime Brokerage) and the Loan Portfolio Management Group.

Global Credit

The Global Credit Department monitors and controls extensions of credit to customers and dealer counterparties and, in conjunction with the Credit Policy Committee and its subcommittee, the Global Credit Committee, establishes and reviews appropriate credit limits and collateral requirements for customers and dealer counterparties. Credit limits are set to control potential exposure arising from repurchase and resale agreements, stock borrowing or loan facilities, derivative financial instruments and other products that may give rise to secured and unsecured credit exposure.

Global Credit Department professionals assess the creditworthiness of the Company's counterparties, assign an internal credit rating that reflects the Global Credit Department's quantitative and qualitative assessment of each counterparty's relative probability of default, and assign or recommend credit limits and requirements. In addition, credit and quantitative analysts assess the quality and acceptability of collateral, measure potential credit exposure associated with certain transactions, monitor compliance with credit limits, obtain appropriate legal documentation and provide comprehensive credit risk reporting to senior management.

The Company is subject to concentration risk by holding large positions or committing to hold large positions in certain types of securities, securities of a single issuer, including governments, issuers located in a particular country or geographic area, or issuers engaged in a particular industry. Positions taken and commitments made by the Company, including underwriting, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment-grade issuers. At November 30, 2007, the Company's most significant concentrations are related to U.S. government and agency inventory positions, including those of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). In addition, a substantial portion of the collateral held by the Company for reverse repurchase agreements consists of securities issued by the U.S. government and agencies. The Company seeks to limit concentration risk through the use of the systems and procedures described in the preceding discussions of market and credit risk.

The Company establishes potential exposure limits across a variety of financing and trading products for all counterparties on a group and individual entity basis. Potential exposure is the statistically estimated net credit exposure associated with adverse market moves over the life of transactions at a 97.7% confidence interval. The potential exposure is estimated daily, using sophisticated, internally developed risk models that employ Monte Carlo simulations. Potential exposure estimates consider the size and maturity of contracts; the volatility of, and correlations among, the underlying assets, indices and currencies; settlement mechanisms; rights to demand additional collateral; and other legally enforceable credit mitigants such as third-party guarantees or insurance.

The Company establishes country concentration limits and monitors actual and potential exposures, including both position and counterparty exposures, in emerging markets. Sovereign risk analysts evaluate international macroeconomic conditions and recommend country concentration limits. The Company limits and monitors its exposure to sovereign default, devaluation and inconvertibility of local currencies.

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OTC Derivatives Credit Exposure

The Company measures its actual credit exposure (the replacement cost of counterparty contracts) on a daily basis. Master netting agreements, collateral and credit insurance are used to mitigate counterparty credit risk. The credit exposures reflect these risk-reducing features to the extent they are legally enforceable. The Company's net replacement cost of derivatives contracts in a gain position at November 30, 2007 and November 30, 2006 approximated $12.54 billion and $4.99 billion, respectively. Exchange-traded financial instruments, which typically are guaranteed by a highly rated clearing organization, have margin requirements that substantially mitigate risk of credit loss.

The following table summarizes the counterparty credit quality of the Company's exposure with respect to over-the-counter derivatives (including foreign exchange and forward-settling mortgage transactions) as of November 30, 2007:

Over-the-Counter Derivatives Credit Exposure(1)

($ in millions)

Rating (2)	Exposure	Collateral (3)	Exposure, Net of Collateral(4)	Percentage of Exposure, Net of Collateral
AAA	$ 5,794	90	5,732	46%
AA	11,416	8,304	3,342	27%
A	5,608	3,831	2,223	18%
BBB	724	360	429	3%
BB and lower	2,590	4,632	751	6%
Non-rated	155	382	62	0%

(1) Excluded are transactions structured to ensure that the market values of collateral will at all times equal or exceed the related exposures. The net exposure for these transactions will, under all circumstances, be zero.
(2) Internal counterparty credit ratings, as assigned by the Company's Credit Department, converted to rating agency equivalents.
(3) For lower-rated counterparties, the Company generally receives collateral in excess of the current market value of derivatives contracts.
(4) In calculating exposure net of collateral, collateral amounts are limited to the amount of current exposure for each counterparty. Excess collateral is not applied to reduce exposure because such excess in one counterparty portfolio cannot be applied to deficient collateral in a different counterparty portfolio.

Operations and Administration

The Margin Department is responsible for evaluating the risk of extending loans to the Company's customers secured by certain marketable securities. The department evaluates the acceptability of collateral and actively monitors to ensure that collateral received meets regulatory and internal requirements. Internal (or "house") margin requirements generally exceed minimum regulatory requirements and may be adjusted for specific securities based on volatility or liquidity. The Special Credit Services unit of the Global Credit Department evaluates and sets terms for loans secured by restricted or control stock, emerging markets securities and concentrated or less liquid securities.

Risk Management

The Risk Management Department is responsible for monitoring the market risk of the Company's proprietary positions. As part of its duties, the group evaluates the credit quality of securities positions held in inventory to quantify and limit the risk to the Company of issuer default or changes in credit spreads. In a similar manner, the department also evaluates the credit quality of reference issuer obligations associated with derivatives contracts whose values are linked to the credit quality or credit spread trading level of reference issuers. The department monitors issuer credit exposures across the various cash and derivatives trading desks that trade in securities or derivatives of the same or related issuers to monitor aggregate exposures. This process also aggregates counterparty credit exposures with issuer exposures to produce a more comprehensive perspective on the Company's exposure to credit risks.

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Global Clearing Services

Global Clearing Services carries the accounts of professional clients, including floor traders and specialists, arbitrageurs, broker-dealers, hedge funds and fund of funds groups. These clients employ a wide variety of trading styles, including option hedging, market-neutral statistical arbitrage, risk arbitrage, hedged convertible strategies and multiple fixed income strategies. Trading strategies are employed in both domestic and international markets. The extension of credit, via secured margin debt for a given customer, is determined by the Risk Department of Global Clearing Services using a systematic analysis of the securities held and trading strategy that such customer employs. Global Clearing Services has established a risk-based margin lending policy under which the minimum capital requirement for a portfolio may be greater than the applicable regulatory capital requirement for the sum of the underlying constituents of that portfolio.

Client portfolios are analyzed and evaluated daily through extensive stress testing simulations designed to estimate market-related risk under different scenarios. Using its internally developed risk management system, known as RACS (Risk Analytic Control System), the Risk Department is able to analyze every professional client's portfolio prior to each market opening and track that portfolio on an intra-day basis. Client positions are simulated across more than 200 different scenarios, resulting in a wide variety of potential profit and loss possibilities. Some basic assumptions used in the analysis are minimum portfolio moves of 20% as well as minimum moves in individual securities of 25% or more. Other scenarios include price movement tests of 1 and 2 standard deviations, fixed percentage moves, beta-weighted and market capitalization-driven extreme price moves. Scenarios are constructed in such a way as to assess position and portfolio sensitivities to changes in underlying prices, volatilities, interest rates, credit spreads, cross-currency rates and forward time horizons. Experienced managers review the results of the stress testing to determine whether additional margin is necessary. In addition to client-level security and portfolio analysis, the system produces over 40 various reports that provide multi-dimensional views, which include industry exposures, country/region exposures and security concentration and liquidity risk.

Loan Portfolio Management Group

The Loan Portfolio Management Group is responsible for managing the credit risk in the Company's loan portfolio. The group is responsible for evaluating transactions originated by investment bankers and advising on pricing or other considerations during the due diligence process. Specific portfolio limits have been established for the various types of lending, and there are formally approved guidelines for hedging the loan portfolio.

OPERATIONAL RISK

Operational risk is the potential for loss arising from inadequate or failed internal processes, people or systems, or from external events. This includes, but is not limited to, limitations in the Company's financial systems and controls, deficiencies in legal documentation, non-compliance with the execution of legal, regulatory and fiduciary responsibilities, deficiencies in technology and the risk of loss attributable to operational problems. These risks are less direct than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing regulation and transaction volumes. In an effort to reduce or mitigate these risks, the Company has established and maintains an internal control environment that incorporates various control mechanisms at different levels throughout the organization and within such departments as Controllers, Operations, Legal, Risk Management, Global Credit, Compliance and Internal Audit. These control mechanisms are designed to better ensure that operational policies and procedures are being followed and that the Company's various businesses are operating within established corporate policies and limits.

Management of the Company has established and maintains effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

The Company has invested heavily in technology over the years to have the ability to gather and process information efficiently and to handle the wide variety of products and services the Company offers. In addition, the Company's investment in technology allows the Company to communicate information efficiently and securely to customers and to groups within the Company.

In addition to these existing control mechanisms, the Company has an Operational Risk Management function, which focuses on facilitating internal communication, disclosure, and supervisory review of operational risk management practices. The Operational Risk Management function has responsibilities related to the development, consistent application and oversight of operational risk policies, processes and procedures firmwide. The function is independent of all business units and formally reports to the chief risk officer.

LEGAL RISK

Legal risk includes the risk of non-compliance with applicable legal and regulatory requirements and the risk that a counterparty will not perform on its obligations due to non-credit-related conditions, including counterparty legal authority and capacity. The Company is generally subject to extensive regulation in the various jurisdictions in which it conducts its business. The Company has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to ensure compliance with applicable statutory and regulatory requirements. The Company has established policies and procedures in an effort to mitigate the risk that counterparty performance obligations will be unenforceable.

OTHER RISKS

Other risks encountered by the Company include, but are not limited to, political, regulatory and tax risks. These risks reflect the potential impact that changes in local and international laws, regulatory requirements or tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, the Company seeks to continuously review new and pending regulations and legislation and participates in various industry interest groups.

THE BEAR STEARNS COMPANIES INC.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of The Bear Stearns Companies Inc. and subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of November 30, 2007. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on its assessment, management believes that, as of November 30, 2007, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has audited the Company's internal control over financial reporting as of November 30, 2007, as stated in their report.

THE BEAR STEARNS COMPANIES INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of The Bear Stearns Companies Inc. and subsidiaries (the "Company") as of November 30, 2007, based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2007, based on the criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of November 30, 2007 and the related consolidated statements of income, comprehensive income, cash flows and changes in stockholders' equity for the year ended November 30, 2007 of the Company and our report dated January 28, 2008 expressed an unqualified opinion on those financial statements and included an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 155, "Accounting for Certain Hybrid Instruments, an amendment of FASB Statements No. 133 and 140" and SFAS No. 157, "Fair Value Measurements."

/s/ Deloitte & Touche LLP
New York, New York
January 28, 2008

THE BEAR STEARNS COMPANIES INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of financial condition of The Bear Stearns Companies Inc. and subsidiaries (the "Company") as of November 30, 2007 and 2006, and the related consolidated statements of income, comprehensive income, cash flows and changes in stockholders' equity for each of the three years in the period ended November 30, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Bear Stearns Companies Inc. and subsidiaries as of November 30, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 and Note 3 to the consolidated financial statements, effective December 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Instruments, an amendment of FASB Statements No. 133 and 140" and Statement of Financial Accounting Standards No. 157, "Fair Value Measurements."

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of November 30, 2007, based on the criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 28, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
New York, New York
January 28, 2008

THE BEAR STEARNS COMPANIES INC.

CONSOLIDATED STATEMENTS OF INCOME

Fiscal Years Ended November 30,	2007	2006	2005
(in millions, except share and per share data)			
REVENUES			
Commissions	$ 1,269	$ 1,163	$ 1,200
Principal transactions	1,323	4,995	3,836
Investment banking	1,380	1,334	1,037
Interest and dividends	11,556	8,536	5,107
Asset management and other income	623	523	372
Total revenues	16,151	16,551	11,552
Interest expense	10,206	7,324	4,141
Revenues, net of interest expense	5,945	9,227	7,411
NON-INTEREST EXPENSES			
Employee compensation and benefits	3,425	4,343	3,553
Floor brokerage, exchange and clearance fees	279	227	222
Communications and technology	578	479	402
Occupancy	264	198	168
Advertising and market development	179	147	127
Professional fees	362	280	229
Impairment of goodwill and specialist rights	227	--	--
Other expenses	438	406	503
Total non-interest expenses	5,752	6,080	5,204
Income before provision for income taxes	$ 193	$ 3,147	$ 2,207
(Benefit from)/provision for income taxes	(40)	1,093	745
Net income	$ 233	$ 2,054	$ 1,462
Preferred stock dividends	(21)	(21)	(24)
Net income applicable to common shares	$ 212	$ 2,033	$ 1,438
Basic earnings per share	$ 1.68	$ 15.79	$ 11.42
Diluted earnings per share	$ 1.52	$ 14.27	$ 10.31
Weighted average common shares outstanding:			
Basic	130,208,999	131,711,382	130,326,947
Diluted	146,442,842	148,575,469	147,467,992

See Notes to Consolidated Financial Statements.

THE BEAR STEARNS COMPANIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

As of November 30,	2007	2006
(in millions, except share data)		
ASSETS		
Cash and cash equivalents	$ 21,406	$ 4,595
Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations	12,890	8,804
Securities received as collateral	15,599	19,648
Collateralized agreements:		
Securities purchased under agreements to resell	27,878	38,838
Securities borrowed	82,245	80,523
Receivables:		
Customers	41,115	29,482
Brokers, dealers and others	11,622	6,119
Interest and dividends	785	745
Financial instruments owned, at fair value	122,518	109,200
Financial instruments owned and pledged as collateral, at fair value	15,724	15,968
Total financial instruments owned, at fair value	138,242	125,168
Assets of variable interest entities and mortgage loan special purpose entities	33,553	30,245
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of $1,149 and $1,152 in 2007 and 2006, respectively	605	480
Other assets	9,422	5,786
Total Assets	$ 395,362	$ 350,433
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unsecured short-term borrowings	$ 11,643	$ 25,787
Obligation to return securities received as collateral	15,599	19,648
Collateralized financings:		
Securities sold under agreements to repurchase	102,373	69,750
Securities loaned	3,935	11,451
Other secured borrowings	12,361	3,275
Payables:		
Customers	83,204	72,989
Brokers, dealers and others	4,101	3,397
Interest and dividends	1,301	1,123
Financial instruments sold, but not yet purchased, at fair value	43,807	42,257
Liabilities of variable interest entities and mortgage loan special purpose entities	30,605	29,080
Accrued employee compensation and benefits	1,651	2,895
Other liabilities and accrued expenses	4,451	2,082
Long-term borrowings	68,538	54,570
Total Liabilities	$ 383,569	$ 338,304
Commitments and contingencies (Note 17)		
STOCKHOLDERS' EQUITY	352	359
Preferred stock		
Common stock, $1.00 par value; 500,000,000 shares authorized as of November 30, 2007 and 2006; 184,805,847 shares issued as of November 30, 2007 and 2006	185	185
Paid-in capital	4,986	4,579
Retained earnings	9,441	9,385
Employee stock compensation plans	2,478	2,066
Accumulated other comprehensive (loss) income	(8)	--
Treasury stock, at cost:		
Common stock: 71,807,227 and 67,396,876 shares as of November 30, 2007 and 2006, respectively	(5,641)	(4,445)
Total Stockholders' Equity	11,793	12,129
Total Liabilities and Stockholders' Equity	$ 395,362	$ 350,433

See Notes to Consolidated Financial Statements.

THE BEAR STEARNS COMPANIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended November 30,	2007	2006	2005
(in millions)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 233	$ 2,054	$ 1,462
Adjustments to reconcile net income to cash used in operating activities:			
Non-cash items included in net income:			
Impairment of goodwill and specialist rights	227	--	--
Depreciation and amortization	186	350	277
Deferred income taxes	(33)	(85)	113
Employee stock compensation plans	31	1,010	801
Changes in operating assets and liabilities:			
Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations	(4,086)	(3,534)	(847)
Securities borrowed, securities loaned, net	(9,238)	(16,261)	6,264
Receivables from customers	(11,633)	1,791	841
Receivables from brokers, dealers and others	(5,503)	(2,575)	(610)
Financial instruments owned, at fair value	(13,111)	(21,357)	(26,938)
Other assets	(4,111)	(1,597)	(831)
Securities sold under agreements to repurchase, securities purchased under agreements to resell, net	43,583	7,427	10,275
Payables to customers	10,215	3,118	(9,513)
Payables to brokers, dealers and others	704	740	57
Financial instruments sold, but not yet purchased, at fair value	1,539	8,895	3,546
Accrued employee compensation and benefits	(405)	207	171
Other liabilities and accrued expenses	2,548	596	494
Cash provided by (used in) operating activities	11,146	(19,221)	(14,438)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and leasehold improvements, net	(295)	(181)	(203)
Cash used in investing activities	(295)	(181)	(203)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for/proceeds from unsecured short-term borrowings, net	(14,144)	6,026	8,030
Proceeds from/payments for other secured borrowings, net	9,086	3,021	(225)
Proceeds from issuance of long-term borrowings	24,923	19,892	15,997
Payments for retirement/repurchase of long-term borrowings	(12,495)	(10,250)	(7,273)
Proceeds from issuances of derivatives with a financing element, net	23	339	255
Issuance of common stock	162	289	202
Cash retained resulting from tax deductibility under share-based payment arrangements	254	363	426
Redemption of preferred stock	(7)	(13)	(76)
Treasury stock purchases - common stock	(1,670)	(1,374)	(870)
Cash dividends paid	(172)	(155)	(139)
Cash provided by financing activities	5,960	18,138	16,327
Net increase (decrease) in cash and cash equivalents	16,811	(1,264)	1,686
Cash and cash equivalents, beginning of year	4,595	5,859	4,173
Cash and cash equivalents, end of period	$ 21,406	$ 4,595	$ 5,859

Supplemental Disclosure of Cash Flow Information:

Cash payments for interest were $10.86 billion, $7.93 billion and $4.30 billion during the fiscal years ended November 30, 2007, 2006 and 2005 respectively. Cash payments for income taxes, net of refunds, were $561 million, $709 million and $146 million for the fiscal years ended November 30, 2007, 2006 and 2005, respectively. Cash payments for income taxes, net of refunds, would have been $815 million, $1.07 billion and $572 million for the fiscal years ended November 30, 2007, 2006 and 2005, respectively, if increases in the value of equity instruments issued under share based payment arrangements had not been deductible in determining taxable income.

See Notes to Consolidated Financial Statements.

THE BEAR STEARNS COMPANIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

in millions, except share and per share data	Preferred Stock	Common Stock $1 Par Value	Paid-in Capital	Retained Earnings	Employee Stock Compensation Plans	Treasury Stock - Common Stock	Total
BALANCE, NOVEMBER 30, 2004	$ 448	$ 185	$ 3,548	$ 6,177	$ 2,509	$ (3,876)	$ 8,991
Net income				1,462			
Dividends declared--							
Common ($1.00 per share)				(121)	7		
Preferred				(25)			
Treasury Stock--							
Common stock purchased (8,483,483 shares)						(870)	
Common stock issued out of treasury (18,565,624 shares)			13		(729)	921	
Redemption of preferred stock	(76)						
Income tax benefit related to distributions from employee stock compensation plans			426				
Unearned employee stock compensation, net					15		
Employee stock compensation awards, net			123		655		
Amortization of preferred stock issue costs			(1)				
BALANCE, NOVEMBER 30, 2005	$ 372	$ 185	$ 4,109	$ 7,493	$ 2,457	$ (3,825)	$ 10,791
Net Income				2,054			
Dividends declared--							
Common ($1.12 per share)				(141)	7		
Preferred				(21)			
Treasury Stock--							
Common stock purchased (10,582,214 shares)						(1,374)	
Common stock issued out of treasury (14,122,978 shares)			91		(551)	754	
Redemption of preferred stock	(13)			--			
Income tax benefit related to distributions from employee stock compensation plans			363				
Unearned employee stock compensation, net					(13)		
Employee stock compensation awards, net			17		166		
Amortization of preferred stock issue costs			(1)				
BALANCE, NOVEMBER 30, 2006	$ 359	$ 185	$ 4,579	$ 9,385	$ 2,066	$ (4,445)	$ 12,129

See Notes to Consolidated Financial Statements

THE BEAR STEARNS COMPANIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock $1 Par Value	Paid-in Capital	Retained Earnings	Employee Stock Compensation Plans	Accumulated Other Comprehensive Income	Treasury Stock - Common Stock	Total
BALANCE, NOVEMBER 30, 2006	$ 359	$ 185	$ 4,579	$ 9,385	$ 2,066	$ --	$ (4,445)	$ 12,129
Net Income				233				
Dividends declared--								
Common ($1.28 per share)				(159)	8			
Preferred				(21)				
Treasury Stock--								
Common stock purchased (12,044,779 shares)							(1,670)	
Common stock issued out of treasury (7,634,428 shares)			58		(370)		474	
Redemption of preferred stock	(7)							
Income tax benefit related to distributions from employee stock compensation plans			254					
Unearned employee stock compensation, net					(31)			
Employee stock compensation awards, net			96		805			
Amortization of preferred stock issue costs			(1)					
Foreign currency translation, net of tax						2		
Net (losses) on cash flow hedges, net of tax						(10)		
Implementation of accounting principles				3				
BALANCE, NOVEMBER 30, 2007	$ 352	$ 185	$ 4,986	$ 9,441	$ 2,478	$ (8)	$ (5,641)	$ 11,793

See Notes to Consolidated Financial Statements

THE BEAR STEARNS COMPANIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Fiscal Years Ended November 30,	2007	2006	2005
(in millions)			
Net Income	$ 233	$ 2,054	$ 1,462
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	2	--	--
Net gains (losses) on cash flow hedges	(10)	--	--
Comprehensive income	$ 225	$ 2,054	$ 1,462

See Notes to Consolidated Financial Statements.

THE BEAR STEARNS COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

The Bear Stearns Companies Inc. (the "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 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 19, "Segment and Geographic Area Data," in the Notes to Consolidated Financial Statements for a complete description of the Company's principal segments. 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. ("BSFP"); Bear Stearns Capital Markets Inc.; Bear Stearns Credit Products Inc.; Bear Stearns Forex Inc. ("BS Forex"); EMC Mortgage Corporation; Bear Stearns Commercial Mortgage, Inc.; Bear Stearns Investment Products Inc.; and Bear Energy L.P.

BASIS OF PRESENTATION

The 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. All material intercompany transactions and balances have been eliminated in consolidation.

The Company determines whether it has a controlling financial interest in an entity by evaluating whether an entity is a voting interest entity, a variable interest entity ("VIE") or a qualifying special purpose entity ("QSPE") under generally accepted accounting principles.

Voting interest entities are consolidated in accordance with Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements," as amended. ARB No. 51 states that the usual condition for a controlling financial interest in an entity is ownership of a majority voting interest. Accordingly, the Company consolidates voting interest entities in which is has a majority voting interest. VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE occurs when an entity has a variable interest that will absorb a majority of the VIEs expected losses, receive a majority of the VIEs residual returns, or both. The entity with the controlling financial interest, known as the primary beneficiary, consolidates the VIE. In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 (R), "Consolidation of Variable Interest Entities (revised December 2003)--an interpretation of Accounting Research Bulletin ("ARB") No. 51" ("FIN No. 46 (R)"), the Company consolidates any variable interest entities for which it is the primary beneficiary. The assets and related liabilities of such variable interest entities have been shown in the Consolidated Statements of Financial Condition in the captions "Assets of variable interest entities and mortgage loan special purpose entities" and "Liabilities of variable interest entities and mortgage loan special purpose entities." See Note 6, "Variable Interest Entities and Mortgage Loan Special Purpose Entities," in the Notes to Consolidated Financial Statements. QSPEs are passive entities that are commonly used in securitization transactions. Statement of Financial Accounting Standards ("SFAS") No. 140, "Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," sets forth the criteria an entity must satisfy to be a QSPE. In accordance with SFAS No. 140, the Company does not consolidate QSPEs.

When the Company does not have a controlling interest in an entity, but exerts significant influence over the entity's operating and financial decisions (generally defined as owning a voting or economic interest of 20% to 50%), the Company applies the equity method of accounting.

As of December 1, 2006, the Company has adopted Emerging Issues Task Force ("EITF") Issue No. 04-5 "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights." The EITF consensus requires a general partner in a limited partnership to consolidate the limited partnership unless the presumption of control is overcome. The general partner may overcome this presumption of control and not consolidate the entity if the limited partners have: (a) the substantive ability to dissolve or liquidate the limited partnership or otherwise remove the general partner without having to show cause; or (b) substantive participating rights in managing the partnership.

The 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 fair value measurements, stock-based compensation, certain accrued liabilities and the potential outcome of litigation and tax matters, which may affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates.

REVENUE RECOGNITION POLICIES

Principal Transactions

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 Consolidated Statements of Income.

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. Investment banking and advisory services revenues are presented net of transaction-related expenses.

Mortgage Servicing Fees and Advances

Contractual servicing fees, late fees and other ancillary servicing fees earned for servicing mortgage loans are reflected in "Investment banking" revenues in the Consolidated Statements of Income. Contractual servicing fees are recognized when earned based on the terms of the servicing agreement. All other fees are recognized when received. In the normal course of its business, the Company makes principal, interest and other servicing advances to external investors on mortgage loans serviced for these investors. Such advances are generally recoverable from the mortgagors, related securitization trusts or from the proceeds received from the sales of the underlying properties. A charge to earnings is recognized to the extent that servicing advances are estimated to be uncollectible under the provisions of the servicing contracts.

Commissions

Commission revenues primarily include fees from executing and clearing client transactions on stock, options and futures markets worldwide. These fees are recognized on a trade date basis. The Company records its share of the commission under certain clearing agreements where the Company is acting as agent for another broker, in accordance with EITF Statement No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent."

Asset Management and Other Income

The Company receives advisory fees for investment management. In addition, the Company receives performance incentive fees for managing certain funds. Advisory fees are recognized over the period of advisory service. Unearned advisory fees are treated as deferred revenues and are included in "Other liabilities" in the accompanying Consolidated Statements of Financial Condition. Performance incentive fees are accrued throughout the year based on a fund's performance to date against specified performance targets.

Energy Trading

Energy trading revenues are reported, net of certain direct costs, in "Principal transactions" on the Consolidated Statement of Income. Energy trading assets and liabilities that are derivatives are reported at fair value with the corresponding changes recognized in income. Non-derivative contracts are accounted for on an accrual basis and recognized in income when the energy is delivered. See Note 21, "Asset Acquisition" for a further discussion on the assets acquired from the Williams Power Company, Inc.

FINANCIAL INSTRUMENTS

On December 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. Additionally, SFAS No. 157 disallows the use of block discounts on positions traded in an active market as well as nullifies certain guidance in EITF No. 02-3 regarding the recognition of inception gains on certain derivative transactions. See Note 3, "Financial Instruments" of Notes to Consolidated Financial Statements for a complete discussion of SFAS No. 157.

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 on a trade-date basis at fair value.

Fair value is generally based on quoted market prices. If quoted market prices are not available, 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 measurements.

Equity interests and securities acquired as a result of private equity and merchant banking activities are reflected in the consolidated financial statements at fair value, which is often represented at initial cost until significant transactions or developments indicate that a change in the carrying value of the securities is appropriate. This represents the Company's best estimate of exit price as defined by SFAS No. 157. Generally, the carrying values of these securities will be increased based on company performance and 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 fair value has declined below the carrying value.

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, are carried in the Company's Consolidated Statements of Financial Condition at fair value, with changes in fair value recorded in "Principal transactions" revenues. Designated hedged items in fair value hedging relationships are marked for the risk being hedged, with such changes also recorded in "Principal transactions" revenues. Derivatives designated as cash flow hedges are carried at fair value. The effective portion of the change in fair value on a derivative designated as a cash flow hedge is reported in "Accumulated other comprehensive (loss) income." The ineffective portion is reported in "Principal transactions" revenues in the Consolidated Statements of Income. Amounts that are reported in "Accumulated other comprehensive (loss) income" are reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

On December 1, 2006, the Company adopted SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140." SFAS No. 155 permits companies to elect on an instrument-by-instrument basis, to apply a fair value measurement to hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation under SFAS No. 133. As permitted, on December 1, 2006, the Company elected to apply a fair value measurement to all existing hybrid financial instruments that met the SFAS No. 155 definition. The Company has elected the fair value measurement for certain qualifying hybrid financial instruments issued on or after December 1, 2006. The Company's reason for electing to carry these instruments on a fair value basis was to enable the Company to more efficiently hedge these instruments and to simplify the accounting process. Changes in fair value are reflected in "Principal transactions" revenues in the Consolidated Statements of Income. For fiscal 2007, the increase to revenues due to changes in fair value pursuant to the election of SFAS No. 155 was $664 million.

The Company follows FIN No. 39, "Offsetting Amounts Related to Certain Contracts," and offsets assets and liabilities in the Consolidated Statements of Financial Condition provided that the legal right of offset exists under a master netting agreement. This includes the offsetting of payables or receivables relating to the fair value of cash collateral received or paid associated with its derivative inventory, on a counterparty by counterparty basis. The amounts netted reduced Financial Instruments Owned and Payable to Customers, by $12.5 billion as of November 30, 2007 and $6.3 billion as of November 30, 2006, and reduced Financial Instruments Sold, But Not Yet Purchased and Receivable From Customers by $9.6 billion as of November 30, 2007 and $3.2 billion as of November 30, 2006.

CUSTOMER TRANSACTIONS

Customer securities transactions are recorded on the Consolidated Statements of Financial Condition 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 Consolidated Statements of Financial Condition.

MORTGAGE SERVICING RIGHTS

Mortgage servicing rights ("MSRs") are included in "Other assets" on the Consolidated Statements of Financial Condition. On December 1, 2006, the Company adopted SFAS No. 156, "Accounting for Servicing of Financial Assets--an amendment of FASB Statement No. 140," and elected to measure servicing assets at fair value. The fair value of MSRs is determined by using market-based models that discount anticipated future net cash flows considering loan prepayment predictions, interest rates, default rates, servicing costs, current market data and other economic factors. Changes in the fair value of MSRs are recorded in "Principal transactions" revenues in the Consolidated Statements of Income.

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 are recognized when control is established and derecognized when control has been surrendered or the liability has been extinguished. Control is deemed to be relinquished only when all of the following conditions have been met: (1) the assets have been isolated from the transferor, even in bankruptcy or other receivership; (2) the transferee is a QSPE or has the right to pledge or exchange the assets received; and (3) the transferor has not maintained effective control over the transferred assets. The Company derecognizes financial assets transferred in securitizations provided that such transfer meets all of these criteria.

Mortgage securitization transactions, net of certain direct costs, are recorded in "Principal transactions" revenues in the Consolidated Statements of Income.

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 Consolidated Statements of Income. Reverse repurchase agreements and repurchase agreements are presented in the 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 or loans with a market value in excess of the principal amount loaned plus the accrued interest thereon, in order to collateralize reverse repurchase agreements. Similarly, the Company is generally required to provide securities or loans 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.

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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 excess collateral retrieved or additional collateral obtained, when deemed appropriate.

FIXED ASSETS

Depreciation of property and equipment is calculated 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 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." See Note 20, "Acquisition of Minority Interest and Impairment of Intangible Assets."

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.

STOCK-BASED COMPENSATION

The Company follows the provisions of SFAS No. 123 (R), "Share-Based Payment," to account for its stock-based compensation plans. SFAS No. 123 (R) is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 123 (R) eliminated the ability to account for share-based compensation transactions using APB No. 25 and requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements using a fair value-based method. The Company adopted SFAS No. 123 (R) effective December 1, 2005, using the modified prospective method. Because the fair value recognition provisions of SFAS No. 123 and SFAS No. 123 (R) were materially consistent under the Company's equity plans, the adoption of SFAS No. 123 (R) did not have a material impact on the Company's financial position or results of operations.

Prior to the Company's adoption of SFAS No. 123 (R), tax benefits in excess of recognized compensation costs were reported as operating cash flows. SFAS No.
123 (R) requires excess tax benefits to be reported as a financing cash inflow.

The Company previously 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, "Accounting for Stock-Based Compensation--Transition and Disclosure," effective December 1, 2002. As a result, commencing with options granted after November 30, 2002, the Company expenses the fair value of stock options issued to

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employees over the related vesting period. Prior to December 1, 2002, the Company had elected to account for its stock-based compensation plans using the intrinsic value method prescribed by APB No. 25, as permitted by SFAS No. 123. Under the provisions of APB No. 25, compensation cost for stock options was 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 was recognized for stock option awards granted prior to December 1, 2002 because the exercise price was equal to the fair market value of the Company's common stock on the grant date.

The cost related to stock-based compensation included in net income for the fiscal years ended November 30, 2007 and 2006 has been fully determined under the fair value-based method, and for the fiscal year ended November 30, 2005 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 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 fiscal year ended November 30, 2005.

Fiscal Year Ended November 30, 2005		
(in millions, except per share amounts)		
Net income, as reported	$	1,462
Add: Stock-based employee compensation plan expense included in reported net income, net of related tax effect		375
Deduct: Total stock-based employee compensation plan expense determined under the fair value-based method, net of related tax effect		(387)
Pro forma net income	$	1,450
Earnings per share:		
Basic-as reported	$	11.42
Basic-pro forma	$	11.33
Diluted-as reported	$	10.31
Diluted-pro forma	$	10.23

CASH EQUIVALENTS

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 that are not part of the Company's trading inventory.

INCOME TAXES

The Company and certain of its subsidiaries file a U.S. 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.

The Company is under continuous examination by various tax authorities in jurisdictions in which the Company has significant business operations. The Company regularly evaluates the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which the Company believes to be adequate in relation to the probability for additional assessments. Once established, reserves are adjusted as information becomes available or when an event requiring a change to the reserve occurs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated at fiscal year-end rates of exchange, while income statement items are translated at daily average rates of exchange during the fiscal year. Gains or losses on translation of the financial statements of foreign subsidiaries from their respective functional currency to the U.S. dollar are included, net of tax, on the Consolidated Statements of Comprehensive Income. Gains or losses resulting from foreign currency transactions are included in current earnings.

ACCOUNTING AND REPORTING DEVELOPMENTS

During fiscal 2007, the Company adopted SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments--an amendment of FASB Statements No. 133 and 140," SFAS No. 156, "Accounting for Servicing of Financial Assets--an amendment of FASB Statement No. 140," and SFAS No. 157, "Fair Value Measurements." As a result of the adoption of these standards, the Company recorded a cumulative effect adjustment to increase the opening retained earnings balance by approximately $3.5 million (after tax).

In December 2007, the FASB issued Statement No. 141 R, "Business Combinations (a revision of Statement No. 141)." This Statement applies to all transactions or other events in which an entity obtains control of one or more businesses, including those combinations achieved without the transfer of consideration. This Statement retains the fundamental requirements in Statement No. 141 that the acquisition method of accounting be used for all business combinations. This Statement expands the scope to include all business combinations and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their fair values as of the acquisition date. Additionally, FASB No. 141R changes the way entities account for business combinations achieved in stages by requiring the identifiable assets and liabilities to be measured at their full fair values. Additionally, contractual contingencies and contingent consideration shall be measured at fair value at the acquisition date. This Statement is effective on a prospective basis to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact, if any, that the adoption of this Statement will have on the consolidated financial statements of the Company.

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No.51". This Statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Additionally, this Statement requires that consolidated net income include the amounts attributable to both the parent and the noncontrolling interest. This Statement is effective for interim periods beginning on or after December 15, 2008. The Company is currently evaluating the impact, if any, that the adoption of this Statement will have on the consolidated financial statements of the Company.

In June 2007, the FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-11 "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." This issue requires that the tax benefits related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 is effective prospectively to the income tax benefits on dividends declared in fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact, if any, the adoption of this issue may have on the Company's consolidated financial statements and does not expect a material impact on the consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure financial assets and liabilities (except for those that are specifically scoped out of the Statement) at fair value. The election to measure a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between the carrying value and the fair value at the election date is recorded as a transition adjustment to opening retained earnings. Subsequent changes in fair value are recognized in earnings. The Company adopted SFAS No. 159 effective December 1, 2007. The adoption of SFAS No. 159 did not have a material impact on the consolidated financial statements of the Company.

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In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company will adopt the provisions of FIN No. 48 beginning in the first quarter of 2008. The adoption of FIN No. 48 will not have a material impact on the consolidated financial statements of the Company.

In April 2007, the FASB issued a Staff Position ("FSP") FIN No. 39-1, "Amendment of FASB Interpretation No. 39." FSP FIN No. 39-1 defines "right of setoff" and specifies what conditions must be met for a derivative contract to qualify for this right of setoff. It also addresses the applicability of a right of setoff to derivative instruments and clarifies the circumstances in which it is appropriate to offset amounts recognized for those instruments in the Consolidated Statement of Financial Condition. In addition, this FSP permits offsetting of fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from the same master netting arrangement as the derivative instruments. The provisions of this FSP are consistent with the Company's current accounting practice. The Company adopted the provisions of FSP FIN No. 39-1 on December 1, 2007. The adoption of FSP FIN No. 39-1 did not impact the consolidated financial statements of the Company.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all of the Company's assets and liabilities are carried at fair value or contracted amounts that approximate fair value. Assets that are recorded at contracted amounts approximating fair value consist largely of short-term secured receivables, including reverse repurchase agreements, securities borrowed, customer receivables and certain other receivables. Similarly, the Company's short-term liabilities, such as bank loans, commercial paper, medium-term notes, structured notes, repurchase agreements, securities loaned, customer payables and certain other payables, are recorded at contracted amounts approximating fair value. These instruments generally have variable interest rates and/or short-term maturities, in many cases overnight, and accordingly, their fair values are not materially affected by changes in interest rates.

The Company uses derivatives to modify the interest rate characteristics of its long- and short-term debt. The Company generally enters into interest rate swaps and other transactions designed to either convert its fixed-rate debt into floating-rate debt or otherwise hedge its exposure to changes in interest rates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. FINANCIAL INSTRUMENTS

Financial instruments owned and financial instruments sold, but not yet purchased, consisting of the Company's proprietary trading inventories, at fair value, as of November 30, 2007 and 2006, were as follows:

(in millions)	2007	2006
FINANCIAL INSTRUMENTS OWNED, AT FAIR VALUE:		
U.S. government and agency	$ 12,920	$ 10,842
Other sovereign governments	672	1,372
Corporate equity and convertible debt	32,454	28,893
Corporate debt and other	26,330	32,551
Mortgages, mortgage- and asset-backed	46,141	39,893
Derivative financial instruments	19,725	11,617
	$ 138,242	$ 125,168
FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED, AT FAIR VALUE:		
U.S. government and agency	$ 4,563	$ 11,724
Other sovereign governments	2,473	1,275
Corporate equity and convertible debt	18,843	12,623
Corporate debt and other	4,373	4,451
Mortgages, mortgage- and asset-backed	63	319
Derivative financial instruments	13,492	11,865
	$ 43,807	$ 42,257

As of November 30, 2007 and 2006, all financial instruments owned that were pledged to counterparties where the counterparty has the right, by contract or custom, to rehypothecate those securities are classified as "Financial Instruments Owned and Pledged as Collateral, at Fair Value" in the Consolidated Statements of Financial Condition.

Financial instruments sold, but not yet purchased, represent obligations of the Company to purchase the specified financial instrument at the then-current market price. 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 Consolidated Statements of Financial Condition.

CONCENTRATION RISK

The Company is subject to concentration risk by holding large positions or committing to hold large positions in certain types of securities, securities of a single issuer (including governments), issuers located in a particular country or geographic area, or issuers engaged in a particular industry. Positions taken and commitments made by the Company, including underwritings, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment-grade issuers. At November 30, 2007, the Company's most significant concentrations are related to United States government securities, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation agency mortgage-backed securities, which are included in the U.S. government and agency and mortgages, mortgage- and asset-backed inventory captions above. In addition, a substantial portion of the collateral held by the Company for reverse repurchase agreements consists of securities issued by the U.S. government and agencies.

FAIR VALUE MEASUREMENTS

On December 1, 2006, the Company adopted SFAS No. 157, "Fair Value Measurements." SFAS No. 157 applies to all financial instruments that are measured and reported on a fair value basis. This includes items currently reported in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value" on the Consolidated Statements of Financial Condition as well as financial

THE BEAR STEARNS COMPANIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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instruments reported in "Other assets" and "Other liabilities" that are reported at fair value.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as exchange-traded derivatives and listed equities. This category also includes financial instruments that are valued using alternative approaches but for which the Company typically receives independent external valuation information including U.S. Treasuries, other U.S. Government and agency securities and certain cash instruments such as money market funds and certificates of deposit.

Level 2 includes financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category include sovereign debt, certain corporate equities, corporate debt, certain U.S. agency and non-agency mortgage-backed securities and non-exchange-traded derivatives such as interest rate swaps.

Level 3 is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are generally less readily observable. Included in this category are distressed debt, non-performing mortgage-related assets, certain performing residential and commercial mortgage loans, certain mortgage- and asset-backed securities and residual interests, Chapter 13 and other credit card receivables from individuals, and complex derivative structures including long-dated equity derivatives.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to SFAS No. 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

THE BEAR STEARNS COMPANIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Fair Value Measurements on a Recurring Basis as of November 30, 2007:

(in millions)	Level 1	Level 2	Level 3	Impact of Netting	Balance as of November 30, 2007
Financial Instruments Owned, at fair value					
U.S. government and agency	$ 3,680	$ 9,240	$ --	$ --	$ 12,920
Other sovereign governments	--	672	--	--	672
Corporate equity and convertible debt	23,984	8,208	262	--	32,454
Corporate debt and other	447	21,315	4,568	--	26,330
Mortgages, mortgage- and asset-backed	--	28,891	17,250	--	46,141
Total Non Derivative Trading Assets	28,111	68,326	22,080	--	118,517
Derivative financial instruments (1)	928	157,370	2,331	(140,904)	19,725
Total Financial Instruments Owned, at fair value	29,039	225,696	24,411	(140,904)	138,242
Other Assets (2)	428	1,450	3,758	--	5,636
Total Assets at fair value	$ 29,467	$ 227,146	$ 28,169	$ (140,904)	$ 143,878

(in millions)	Level 1	Level 2	Level 3	Impact of Netting	Balance as of November 30, 2007
Financial Instruments Sold But Not Yet Purchased, at fair value					
U.S. government and agency	$ (4,563)	$ --	$ --	$ --	$ (4,563)
Other sovereign governments	--	(2,473)	--	--	(2,473)
Corporate equity and convertible debt	(18,327)	(516)	--	--	(18,843)
Corporate debt and other	--	(4,367)	(6)	--	(4,373)
Mortgages, mortgage- and asset-backed	--	(11)	(52)	--	(63)
Total Non Derivative Trading Liabilities	(22,890)	(7,367)	(58)	--	(30,315)
Derivative financial instruments (1)	(110)	(148,481)	(2,920)	138,019	(13,492)
Total Financial Instruments Sold But Not Yet Purchased, at fair value	(23,000)	(155,848)	(2,978)	138,019	(43,807)
Other Liabilities (3)	(96)	(7,588)	(1,254)	--	(8,938)
Total Liabilities at fair value	$ (23,096)	$ (163,436)	$ (4,232)	$ 138,019	$ (52,745)

(1) The derivatives trading inventory balances are reported on a gross basis by level with a corresponding adjustment for netting.
(2) Other assets includes certain items such as alternative investments, mortgage servicing rights, net assets of variable interest entities and mortgage securitizations that did not meet the criteria for sale treatment under SFAS No. 140.
(3) Other liabilities are primarily comprised of certain hybrid debt issuances accounted for at fair value as elected in accordance with SFAS No. 155.

As stated above SFAS No. 157 applies to all financial assets and liabilities that are reported on a fair value basis. These valuations are adjusted for various factors including credit risk. For applicable financial assets carried at fair value, the credit standing of the counterparties is analyzed and factored into the fair value measurement of those assets. SFAS No. 157 states that the fair value measurement of a liability must reflect the nonperformance risk of the entity. Therefore, the impact of credit standing as well as any potential credit enhancements (e.g. collateral) has been factored into the fair value measurement of both financial assets and liabilities.

The derivative financial instruments balances in the table above are reported on a gross basis by level with a netting adjustment presented separately in the "Impact of Netting" column. The Company often enters into different types of derivative contracts with a single counterparty and these contracts are covered under one ISDA master netting agreement. The fair value of the individual derivative contracts are reported gross in their respective levels based on the fair value hierarchy.

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The following table provides a reconciliation of the beginning and ending balances for the major classes of assets and liabilities measured at fair value using significant unobservable inputs (Level 3):

Level 3 Financial Assets and Liabilities

Year Ended November 30, 2007

(in millions)	Beginning Balance as of December 1, 2006	Total Gains/ (Losses) (Realized and Unrealized)	Purchases, Issuances, Sales and Settlements	Transfers In/Out of Level 3	Ending Balance as of November 30, 2007	Changes in Unrealized Gains/(Losses) relating to Assets and Liabilities held at the reporting date
Non-Derivative Trading Assets	$ 9,000	$ (1,891)	$ 10,606	$ 4,365	$ 22,080	$ (1,016)
Non Derivative Trading Liabilities	$ (190)	$ (19)	$ 451	$ (300)	$ (58)	$ 2
Derivative Trading Inventory (Net)	$ (2,223)	$ 375	$ 1,435	$ (176)	$ (589)	$ 584
Other Assets	$ 2,836	$ (391)	$ 783	$ 530	$ 3,758	$ (934)
Other Liabilities	$ (3,515)	$ 201	$ 1,603	$ 457	$ (1,254)	$ 43

Non-Derivative Trading Assets and Liabilities

Realized and unrealized gains and losses on Level 3 assets and liabilities are primarily reported in "Principal transactions" revenues in the Consolidated Statements of Income. The Level 3 non-derivative trading assets reflect an unrealized loss related to the mortgage related inventory write-downs incurred during the fourth quarter of 2007. The Company manages its exposure on a portfolio basis and regularly engages in offsetting strategies in which financial instruments from one fair value hierarchy level are used to economically offset the risk of financial instruments in the same or different levels. Therefore, realized and unrealized gains and losses reported as Level 3 may be offset by gains or losses attributable to assets or liabilities classified in Level 1 or Level 2.

Derivative Trading Inventory (Net)

The net derivative trading inventory resulted in a gain for fiscal 2007. This gain was primarily driven by changes in interest rates and credit spreads related to the Company's interest rate and credit derivative products.

Transfers

The Company reviews the fair value hierarchy classifications on a monthly basis. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in/out of Level 3 at fair value in the month in which the changes occur.

During fiscal 2007, there were significant transfers into Level 3. The majority of these transfers related to mortgage and mortgage-related securities. The largest contributors to the transfers were to commercial loans, performing residential loans and investment grade CDOs. These transfers were primarily driven by the fact that there was a significent reduction in observable trading activity for these instruments during the latter part of fiscal 2007.

4. DERIVATIVES AND HEDGING ACTIVITIES

The Company, in its capacity as a dealer in over-the-counter derivative financial instruments and its proprietary market-making and trading activities, enters into transactions in a variety of cash and derivative financial instruments for proprietary trading and to manage its exposure to market and credit risk. These risks include interest rate, exchange rate, equity price and commodity price risk. Derivative financial instruments represent contractual commitments between counterparties that derive their value from changes in an underlying interest rate, currency exchange rate, index (e.g., Standard & Poor's 500 Index), reference rate (e.g., London Interbank Offered Rate, or LIBOR), or asset value referenced in the related contract. Some derivatives, such as futures contracts, certain options and index-referenced warrants, can be traded on an exchange. Other derivatives, such as interest rate and currency swaps, caps, floors, collars, swaptions, equity swaps and options, credit derivatives, structured notes and forward contracts, are negotiated in the over-the-counter markets. Derivatives generate both on- and off-balance-sheet risks depending on the nature of the contract. Generally, these financial instruments represent commitments or rights to exchange interest payment streams or currencies or to purchase or sell other securities at specific terms at specified future dates. Option contracts generally provide the holder with the right, but not the obligation, to purchase or sell a financial instrument at a specific price on or before an established date or dates. Financial instruments sold, but not yet purchased may result in market and/or credit risk in excess of amounts recorded in the Consolidated Statements of Financial Condition.

MARKET RISK

Derivative financial instruments involve varying degrees of off-balance-sheet market risk, whereby changes in the level or volatility of interest rates, foreign currency exchange rates or market values of the underlying financial instruments may result in changes in the value of a particular financial instrument in excess of the amounts currently reflected in the Consolidated Statements of Financial Condition. The Company's exposure to market risk is influenced by a number of factors, including the relationships among and between financial instruments with off-balance-sheet risk, the Company's proprietary securities, futures and derivatives inventories as well as the volatility and liquidity in the markets in which the financial instruments are traded. The Company mitigates its exposure to market risk by entering into offsetting transactions, which may include over-the-counter derivative contracts or the purchase or sale of interest-bearing securities, equity securities, financial futures and forward contracts. In this regard, the utilization of derivative instruments is designed to reduce or mitigate market risks associated with holding dealer inventories or in connection with arbitrage-related trading activities.

DERIVATIVES CREDIT RISK

Credit risk arises from the potential inability of counterparties to perform in accordance with the terms of the contract. At any point in time, the Company's exposure to credit risk associated with counterparty non-performance is generally limited to the net replacement cost of over-the-counter contracts, net of the value of collateral held. Such financial instruments are reported at fair value on a net-by-counterparty basis pursuant to enforceable netting agreements. Exchange-traded financial instruments, such as futures and options, generally do not give rise to significant unsecured counterparty exposure due to margin requirements of the exchanges, as well as the Company's internal margin requirements, which may be greater than those prescribed by the individual exchanges. Options written by the Company generally do not give rise to counterparty credit risk since they obligate the Company (not its counterparty) to perform.

The Company has controls in place to monitor credit exposures by assessing the future creditworthiness of counterparties and limiting transactions with specific counterparties. The Company also seeks to control credit risk by following an established credit approval process, monitoring credit limits and requiring collateral where appropriate.

HEDGING ACTIVITY

To modify the interest rate characteristics of its long- and short-term debt, the Company also engages in non-trading derivatives activities. The Company has issued U.S. dollar-and foreign currency-denominated debt with both variable- and fixed-rate interest payment obligations. The Company has entered into interest rate swaps, primarily based on LIBOR, to convert fixed-rate interest payments on its debt obligations into variable-rate payments. In addition, for foreign currency debt obligations that are not used to fund assets in the same currency, the Company has entered into currency swap agreements that effectively convert the debt into U.S. dollar obligations. Such transactions are accounted for as fair value hedges.

These financial instruments are subject to the same market and credit risks as those that are traded in connection with the Company's market-making and trading activities. The Company has similar controls in place to monitor these risks. Interest rate swap agreements increased interest expense on the Company's long- and short-term debt obligations by $506 million and $376 million during the fiscal years ended November 30, 2007 and 2006, respectively and reduced interest expense on the Company's long- and short-term debt obligations by $115 million during the fiscal year ended November 30, 2005.

SFAS No. 133, as amended by SFAS No. 138 and SFAS No. 149, establishes accounting and reporting standards for stand-alone derivative instruments, derivatives embedded within other contracts or securities and for hedging activities. It requires that all derivatives, whether stand-alone or embedded within other contracts or securities be carried on the Company's Consolidated Statements of Financial Condition at fair value. SFAS No. 133 also requires the value of items designated as being fair value hedged to be adjusted for the risk being hedged, as defined in SFAS No. 133, provided that the intent to hedge is fully documented. Any resultant net change in value for both the hedging derivative and the hedged item for the risk being hedged 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 Consolidated Statements of Income. These amounts were immaterial for fiscal 2007, 2006 and 2005.

The Company also engages in non-trading derivative activities to manage commodity price risks resulting from exposures to changes in spot and forward prices in electricity and natural gas. The company actively manages these risks with exchange traded futures, swaps, OTC swaps and options. Certain of these transactions are accounted for as cash flow hedges as defined in SFAS No. 133 which requires the effective portion of the unrealized gain or loss on a derivative designated as a cash flow hedge, as defined in SFAS No. 133, to be reported in "Accumulated other comprehensive income" ("OCI") with the ineffective portion reported in `Principal transactions" revenues in the Consolidated Statements of Income. Amounts that are reported in OCI are reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of cash flow hedges was deemed immaterial for fiscal 2007.

The net loss on derivative instruments designated in cash flow hedging relationships recorded in OCI, net of tax, was $10 million at November 30, 2007, which represents the net change in fair value recorded in OCI in fiscal 2007. The net loss in OCI is expected to be reclassified into earnings as follows: $4 million in fiscal 2008 and the remaining $6 million of losses within five years.

5. TRANSFERS OF FINANCIAL ASSETS AND LIABILITIES

SECURITIZATIONS

The Company is a market leader in mortgage-backed securitizations and other structured financing arrangements. In the normal course of business, the Company regularly securitizes commercial and residential mortgages, consumer receivables and other financial assets. Securitization transactions are generally treated as sales, provided that control has been relinquished. In connection with securitization transactions, the Company establishes special-purpose entities ("SPEs"), in which transferred assets, including commercial and residential mortgages, consumer receivables and other financial assets are sold to an SPE and repackaged into securities or similar beneficial interests. Transferred assets are recorded at fair value prior to securitization. The majority of the Company's involvement with SPEs relates to securitization transactions meeting the definition of a QSPE under the provisions of SFAS No. 140. Provided it has relinquished control over such assets, the Company derecognizes financial assets transferred in securitizations and does not consolidate the financial statements of QSPEs. For SPEs that do not meet the QSPE criteria, the Company uses the guidance in FIN No. 46 (R) to determine whether the SPE should be consolidated.

In connection with these securitization activities, the Company may retain interests in securitized assets in the form of senior or subordinated securities or as residual interests. Retained interests in securitizations are generally not held to maturity and typically are sold shortly after the settlement of a securitization. The weighted average holding period for retained interest positions in inventory at November 30, 2007 and 2006 was approximately 180 days and 150 days, respectively. These retained interests are included in "Financial instruments owned, at fair value" in the Consolidated Statements of Financial Condition and are carried at fair value. 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 based on observable transactions in similar securities and are further verified by external pricing sources, when available.

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The Company's securitization activities are detailed below:

(in billions)	Agency Mortgage-Backed	Other Mortgage- and Asset-Backed	Total
Total securitizations			
Fiscal 2007	$ 23.0	$ 73.8	$ 96.8
Fiscal 2006	$ 21.8	$ 99.3	$ 121.1

The following table summarizes the Company's retained interests by rating as of November 30, 2007 and 2006:

(in billions)	November 30, 2007	November 30, 2006
Retained Interests:		
AAA rated Agency Mortgage-Backed	$2.4	$1.5
AAA rated Other Mortgage-and Asset-Backed	2.7	1.5
Total AAA rated	$5.1	$3.0
Other investment grade	1.6	1.3
Non-investment grade	1.3	1.3
Total retained interests	$8.0	$5.6

The following table summarizes cash flows from securitization trusts related to securitization transactions during the fiscal years ended November 30, 2007 and 2006:

(in millions)	Agency Mortgage-Backed	Other Mortgage- and Asset-Backed	Total
Cash flows received from retained interests			
Fiscal 2007	$ 254	$ 748	$ 1,002
Fiscal 2006	$ 296	$ 760	$ 1,056
Cash flows from servicing			
Fiscal 2007	$ 1	$ 68	$ 69
Fiscal 2006	$--	$ 90	$ 90

The Company is an active market maker in mortgage-backed securities and therefore may retain interests in assets it securitizes, predominantly highly rated or government agency-backed securities. The models employed in the valuation of retained interests consider possible changes in prepayment speeds in response to changes in future interest rates, as well as potential credit losses. Prepayment speed changes are incorporated by calibrating the distribution of possible future interest rates to the observed levels of implied volatility in the market for interest rate options and generating the corresponding cash flows for the securities using prepayment models. Credit losses are considered through explicit loss models for positions exposed to significant default risk in the underlying collateral, and through option-adjusted spreads that also incorporate additional factors such as liquidity and model uncertainty for all positions. The models use discount rates that are based on the Treasury curve, plus the option-adjusted spread. Key points on the constant maturity Treasury curve at November 30, 2007 were 3.03% for 2-year Treasuries and 4.14% for 10-year Treasuries, and ranged from 3.03% to 4.47%. The weighted average spread was 116 basis points and 411 basis points for agency mortgage-backed securities and other mortgage- and asset-backed securities, respectively, at November 30, 2007.

Weighted average key economic assumptions used in measuring the fair value of retained interests in assets the Company securitized at November 30, 2007 were as follows:

	Agency Mortgage-Backed	Other Mortgage- and Asset-Backed
Weighted average life (years)	5.7	2.8
Average prepayment speeds (annual rate)	7% - 39%	6% - 39%
Credit losses	--	0.5% - 49%

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The following hypothetical sensitivity analysis as of November 30, 2007 illustrates the potential adverse 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 Treasury curve. This shift considers the corresponding effect of other variables, including prepayments. The remaining valuation assumptions are changed independently. Retained interests in securitizations are generally not held to maturity and are typically sold shortly after the settlement of a securitization. The Company considers the current and expected credit profile of the underlying collateral in determining the fair value and periodically updates the fair value for changes in credit, interest rate, prepayment speeds and other pertinent market factors. Changes in portfolio composition, updates to loss and prepayment models, and changes in the level of interest rates and market prices for retained interests, can combine to produce significant changes in the sensitivities reported even if aggregate market values do not change significantly. Actual credit losses on retained interests have not been significant.

(in millions)	Agency Mortgage-Backed	Other Mortgage- and Asset-Backed
Interest rates		
Impact of 50 basis point adverse change	$ (66)	$ (144)
Impact of 100 basis point adverse change	(143)	(284)
Prepayment speeds		
Impact of 10% adverse change	(5)	(31)
Impact of 20% adverse change	(8)	(54)
Credit losses		
Impact of 10% adverse change	(10)	(222)
Impact of 20% adverse change	(19)	(408)

The above 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. Changes in fair value based on adverse variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is not usually linear. In addition, the table does not consider the change in fair value of offsetting 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 offsetting positions is not presented because these positions are established on a portfolio level and allocating the impact would not be practicable.

MORTGAGE SERVICING RIGHTS

In the normal course of business, the Company originates and purchases conforming and non-conforming, conventional fixed-rate and adjustable-rate residential mortgage loans and sells such loans to investors. In connection with these activities, the Company may retain MSRs that entitle the Company to a future stream of cash flows based on the contractual servicing fee. In addition, the Company may purchase and sell MSRs.

As of December 1, 2006, the Company adopted SFAS No. 156 and elected to carry its MSRs at fair value, with changes in fair value reported in earnings. Prior to December 1, 2006, the Company reported the MSRs on a lower of cost or market basis.

The determination of fair value of the Company's MSRs requires management judgment because they are not actively traded. The determination of fair value for MSRs requires valuation processes which combine the use of discounted cash flow models and extensive analysis of current market data to arrive at an estimate of fair value. The cash flow and prepayment assumptions used in the Company's discounted cash flow model are based on empirical data drawn from the historical performance of the Company's MSRs adjusted to reflect current Market conditions, which the Company believes are consistent with assumptions used by market participants valuing similar MSRs. The key risks and therefore the key assumptions used in the valuation of MSRs include mortgage prepayment speeds, discount rates and constant default rates. These variables can, and generally will, change from quarter to quarter as market conditions and projected interest rates change. The Company mitigates the income statement effect of changes in fair value of MSRs by entering into offsetting economic transactions.

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At November 30, 2007, the key economic assumptions and the sensitivity of the current fair value of MSRs to immediate changes in those assumptions were as follows:

(in millions)

Fair value of MSRs	$	833
Weighted average constant prepayment rate (CPR)		14%
Impact on fair value of:		
10% adverse change	$	(33)
20% adverse change		(70)
Weighted average discount rate		13%
Impact on fair value of:		
10% adverse change	$	(26)
20% adverse change		(51)
Weighted average constant default rate (CDR)		5%
Impact on fair value of:		
10% adverse change	$	(29)
20% adverse change		(58)

The above 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. Changes in fair value based on adverse variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is not usually linear. In addition, the table does not consider the change in fair value of offsetting 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 offsetting positions is not presented because these positions are established on a portfolio level and allocating the impact would not be practicable.

MSRs are included in "Other assets" on the Consolidated Statements of Financial Condition and are carried at fair value as of December 1, 2006, in accordance with SFAS No. 156. The Company's MSR activities for the fiscal year ended November 30, 2007 were as follows:

(in millions)		2007
Balance, beginning of year	$	502
Additions		351
Paydowns		(153)
Changes in fair value resulting from changes in valuation inputs/assumptions		133
Balance, end of year	$	833

The Company's MSR activities for the fiscal year ended November 30, 2006, carried at the lower of amortized cost or market, were as follows:

(in millions)		2006
Balance, beginning of year	$	431
Additions		366
Sales, net		(109)
Amortization		(188)
Recovery		2
Balance, end of year	$	502

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Changes in the MSR valuation allowance for the fiscal year ended November 30, 2006 were as follows:

(in millions)	2006
Balance, beginning of year	$ (11)
Recovery	2
Balance, end of year	$ (9)

6. VARIABLE INTEREST ENTITIES AND MORTGAGE LOAN SPECIAL PURPOSE ENTITIES

The Company regularly creates or transacts with entities that may be VIEs. These entities are an essential part of the Company's securitization, asset management and structured finance businesses. In addition, the Company purchases and sells financial instruments that may be variable interests. The Company follows the guidance in FIN No. 46 (R) and consolidates VIEs in which the Company is the primary beneficiary.

The Company may perform various functions, including acting as the seller, servicer, investor, structurer or underwriter in securitization transactions. These transactions typically involve entities that are considered to be QSPEs as defined in SFAS No. 140. QSPEs are exempt from the requirements of FIN No. 46 (R). For securitization vehicles that do not qualify as QSPEs, the holders of the beneficial interests have no recourse to the Company, only to the assets held by the related VIE. In certain of these VIEs, the Company could be determined to be the primary beneficiary through its ownership of certain beneficial interests, and would, therefore, be required to consolidate the assets and liabilities of the VIE.

The Company has mortgage securitizations that did not meet the criteria for sale treatment under SFAS No. 140, including transactions where the retained call option did not meet the definition of a clean up call under SFAS No. 140. As such, the Company continues to carry the assets and liabilities from these transactions on its Consolidated Statements of Financial Condition.

The Company acts as portfolio manager and/or underwriter in several collateralized debt obligation and collateralized loan 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. The holders of the trust certificates have recourse only to the underlying assets of the trusts and not to the Company's other assets. In addition, the Company may receive variable compensation for managing the portfolio and 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 Company establishes and operates funds for the benefit of its employees. These funds are considered to be VIEs of which the Company is the primary beneficiary.

The Company has made investments in entities that own power plants. Certain entities are VIEs of which the Company is the primary beneficiary.

The following table sets forth the Company's total assets and maximum exposure to loss associated with its significant variable interests in consolidated VIEs and securitizations that did not qualify for sale treatment. This information is presented based on principal business activity.

	As of November 30, 2007		As of November 30, 2006	
(in millions)	VIE Assets	Maximum Exposure to Loss (1)	VIE Assets	Maximum Exposure to Loss (1)
Mortgage Securitizations	$ 30,313	$ 2,075	$ 28,985	$ 762
Collateralized Debt and Loan Obligations	2,150	297	685	48
Employee Funds(2)	650	445	575	355
Energy Investments	440	131	--	--
Total	$ 33,553	$ 2,948	$ 30,245	$ 1,165

(1) Represents the fair value of the Company's interest in these entities.
(2) Maximum exposure to loss includes loans the Company has made to employees who participate in the funds, for which the Company is in a second loss position.

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The Company also owns significant variable interests in several VIEs related to collateralized debt obligations and collateralized loan obligations for which the Company is not the primary beneficiary and therefore does not consolidate these entities. In aggregate, these VIEs had assets of approximately $11.5 billion and $14.8 billion at November 30, 2007 and 2006, respectively. At November 30, 2007 and 2006, the Company's maximum exposure to loss from these entities was approximately $112 million and $163 million, respectively, which represents the fair value of its interests and are included in "Financial instruments owned, at fair value" in the Consolidated Statements of Financial Condition.

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 or deconsolidated at various points in time. Therefore, the Company's variable interests included above may not be held by the Company in future periods.

7. COLLATERALIZED FINANCING ARRANGEMENTS

The Company enters into secured borrowing and 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 lending activities. In many instances, the Company is also permitted by contract or custom to rehypothecate securities received as collateral. These securities may be used to secure repurchase agreements, enter into securities lending or derivative transactions or cover short positions.

At November 30, 2007 and 2006, the fair value of securities received as collateral by the Company that can be repledged, delivered or otherwise used was $280 billion and $286 billion, respectively. Of these securities received as collateral, those with a fair value of approximately $189 billion and $190 billion were delivered, repledged or otherwise used at November 30, 2007 and 2006, respectively.

The Company also pledges financial instruments owned to collateralize certain financing arrangements and permits the counterparty to pledge or rehypothecate the securities. These securities are recorded as "Financial instruments owned and pledged as collateral, at fair value" in the Consolidated Statements of Financial Condition. The carrying value of securities and other inventory positions owned that have been pledged or otherwise encumbered to counterparties where those counterparties do not have the right to sell or repledge was $65 billion and $42 billion at November 30, 2007 and 2006, respectively.

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8. SHORT-TERM BORROWINGS

The Company obtains unsecured short-term borrowings through the issuance of commercial paper, bank loans, medium term notes and other borrowings. In addition, the Company obtains secured short-term borrowings primarily through master notes and secured bank loans. A master note is an agreement under which a lender may make one or more loans to a borrower, the repayment obligation of which is reflected in a promissory note to the lender. In the case of secured master notes, these agreements are secured by collateral. The interest rates on such short-term borrowings reflect market rates of interest at the time of the transactions.

The Company's short-term borrowings at November 30, 2007 and 2006 consisted of the following:

(in billions)	2007	2006
Unsecured borrowings:		
Commercial paper	$ 3.9	$ 20.7
Bank loans	3.1	1.7
Medium term notes	1.9	0.3
Other unsecured borrowings	2.7	3.1
Total unsecured borrowings	11.6	25.8
Secured borrowings	12.4	3.3
Total short-term borrowings	$ 24.0	$ 29.1

The effective weighted average interest rates for short-term borrowings were as follows:

	As of November 30,		Fiscal Years Ended November 30,		
	2007	2006	2007	2006	2005
Commercial paper	4.67%	5.25%	5.34%	4.92%	3.28%
Bank loans and other borrowings	4.90%	5.23%	5.19%	4.74%	3.33%

Committed Credit Facilities

The Company has a committed revolving credit facility ("Facility") totaling $4.0 billion, which permits borrowing on a secured basis by the Parent Company, BSSC, BSIL and certain other subsidiaries. The Facility also allows the Parent Company, BSIL and Bear Stearns International Trading Limited ("BSIT") to borrow up to $4.0 billion of the Facility on an unsecured basis. Secured borrowings can be collateralized by both investment-grade and non-investment-grade financial instruments as the Facility provides for defined advance rates on a wide range of financial instruments eligible to be pledged. The Facility contains financial covenants, the most significant of which require maintenance of specified levels of stockholders' equity of the Company and net capital of BSSC. The Facility terminates in February 2008, with all loans outstanding at that date payable no later than February 2009. The Company intends to renew the Facility at market available terms. There were no borrowings outstanding under the Facility at November 30, 2007.

The Company has a $1.5 billion committed revolving securities repo facility ("Repo Facility"), which permits borrowings secured by a broad range of collateral under a repurchase arrangement by the Parent Company, BSIL, BSIT and BSB and BS Forex. The Repo Facility contains financial covenants that require, among other things, maintenance of specified levels of stockholders' equity of the Company. The Repo Facility terminates in August 2008, with all repos outstanding at that date payable no later than August 2009. There were no borrowings outstanding under the Repo Facility at November 30, 2007.

The Company has a $350 million committed revolving credit facility ("Pan Asian Facility"), which permits borrowing on a secured basis by the Parent Company, BSSC, Bear Stearns Japan Limited ("BSJL"), and BSIL. The Pan Asian Facility contains financial covenants that require, among other things, maintenance of specified levels of stockholders' equity of the Company and net capital of BSSC. In December 2007, the Company renewed the Facility at a $350 million committed level with substantially the same terms. The Pan Asian Facility terminates in December 2008 with all loans outstanding at that date payable no later than December 2009. There were no borrowings outstanding under the Pan Asian Facility at November 30, 2007.

The Company has a $450 million committed revolving credit facility ("Tax Lien Facility"), which permits borrowing on a secured basis by the Parent Company, Plymouth Park Tax Services and Madison Tax Capital LLC. The Tax Lien Facility contains financial covenants that require, among other things, maintenance of specified levels of stockholders' equity of the Company. The Tax Lien Facility terminates in March 2008 with all loans outstanding at that date payable no later than March 2009. There were no borrowings outstanding under the Tax Lien Facility at November 30, 2007.

The Company also maintains a series of committed credit facilities, which permit borrowing on a secured basis, to support liquidity needs for the financing of investment-grade and non-investment-grade corporate loans, residential mortgages, commercial mortgages, listed options and whole loans. The facilities are expected to be drawn from time to time and expire at various dates, the longest of such periods ending in fiscal 2008. All of these facilities contain a term-out option of one year or more for borrowings outstanding at expiration. The banks providing these facilities are committed to provide up to an aggregate of approximately $6.7 billion. At November 30, 2007, the borrowings outstanding under these committed credit facilities were $4.9 billion.

9. LONG-TERM BORROWINGS

The Company's long-term borrowings (which have original maturities of at least 12 months) at November 30, 2007 and 2006 consisted of the following:

(in billions)	2007	2006
Fixed-rate notes due 2008 to 2047:		
U.S. dollar-denominated (1) (2)	$ 19.8	$ 15.3
Non-U.S. dollar-denominated	8.9	7.3
Floating rate notes due 2008 to 2046:		
U.S. dollar-denominated	21.9	16.5
Non-U.S. dollar-denominated	9.4	6.7
Index/equity/credit-linked notes:		
U.S. dollar-denominated	2.5	2.8
Non-U.S. dollar-denominated	6.0	6.0
Total long-term borrowings	$ 68.5	$ 54.6

Amounts include fair value adjustments in accordance with SFAS No. 133, hybrid financial instruments accounted for at fair value as elected under SFAS No. 155, as well as $263 million of junior subordinated deferrable interest debentures ("Debentures"). The Debentures will mature on May 15, 2031; however, effective May 15, 2006, the Company, at its option, may redeem the Debentures. The Debentures are reflected in the table at their contractual maturity dates.

(1) At November 30, 2007 and 2006, U.S. dollar-denominated fixed-rate notes were at interest rates ranging from 2.7% to 7.7% and from 1.0% to 7.5%, respectively.
(2) Included in U.S. dollar-denominated fixed rate notes at November 30, 2007 and 2006 were $1.0 billion of Subordinated Global Notes due January 22, 2017 that have an annual interest rate of 5.5%, which rank junior in right of payment to all of the Company's senior indebtedness.

The Company has entered into interest rate swaps and other transactions to convert its fixed-rate notes into floating rates based on LIBOR. For floating-rate notes that are not based on LIBOR, the Company has generally entered into interest rate swaps and other transactions to convert them into floating rates based on LIBOR. Index/equity-linked borrowings include various structured instruments whose payments and redemption values are linked to the performance of a specific index (e.g., Dow Jones Industrial Average), a basket of stocks or a specific equity security. To minimize the exposure resulting from movements in the underlying equity position or index, the Company has entered into various equity swap contracts. Credit-linked notes include various structured instruments whose payments and redemption values are linked to the performance of a basket of credit products, an index or an individual security. To minimize exposure to these instruments, the Company has entered into swaps that pay the performance of the underlying security or index.

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The effective weighted average interest rates for long-term borrowings, after giving effect to the swaps, were as follows:

	As of November 30,		Fiscal Year Ended November 30,		
	2007	2006	2007	2006	2005
Fixed-rate notes	5.51%	5.77%	5.89%	5.47%	3.59%
Floating-rate notes	5.14%	5.50%	5.57%	5.19%	3.56%

The Company's long-term borrowings at November 30, 2007 mature as follows:

	U.S. Dollar			Non-U.S. Dollar			
(in millions)	Fixed Rate	Floating Rate	Index/ Equity/ Credit Linked	Fixed Rate	Floating Rate	Index/ Equity/ Credit Linked	Total
FISCAL YEAR							
2008	$ 2,367	$ 5,376	$ 622	$ 389	$ 253	$ 579	$ 9,586
2009	799	7,239	794	976	2,258	1,399	13,465
2010	2,976	4,083	321	1,622	395	1,033	10,430
2011	931	2,420	365	1,327	245	1,428	6,716
2012	4,152	1,138	253	1,903	1,446	350	9,242
Thereafter	8,587	1,631	138	2,730	4,852	1,161	19,099
Total	$ 19,812	$ 21,887	$ 2,493	$ 8,947	$ 9,449	$ 5,950	$ 68,538

Included in fiscal 2009 are approximately $996 million of floating-rate notes that are redeemable prior to maturity at the option of the noteholder. These notes contain certain provisions that effectively enable noteholders to put these notes back to the Company and, therefore, are reflected in the table at the date such notes first become redeemable. The final maturity dates of these notes are during fiscal 2009, 2010 and 2011.

Instruments governing certain indebtedness of the Company contain various financial covenants, including maintenance of minimum levels of stockholders' equity of the Company. At November 30, 2007, the Company was in compliance with all covenants contained in these debt agreements.

10. PREFERRED STOCK

PREFERRED STOCK ISSUED BY THE BEAR STEARNS COMPANIES INC.

The Company is authorized to issue a total of 10 million shares of preferred stock at par value of $1.00 per share. At November 30, 2007, the Company has 1,758,106 shares issued and outstanding under various series as described below. All preferred stock has a dividend preference over the Company's common stock in the paying of dividends and a preference in the liquidation of assets.

The Company has outstanding 3,272,450 depositary shares representing 818,113 shares of Cumulative Preferred Stock, Series E ("Series E Preferred Stock"), having an aggregate liquidation preference of $164 million as of November 30, 2007. Each depositary share represents a one-fourth interest in a share of Series E Preferred Stock. Dividends on the Series E Preferred Stock are payable at an annual rate of 6.15%. Series E Preferred Stock is redeemable at the option of the Company at any time on or after January 15, 2008, in whole or in part, at a redemption price of $200 per share (equivalent to $50 per depositary share), plus accrued but unpaid dividends to the redemption date. During the fiscal year ended November 30, 2007, the Company redeemed and retired 75,800 depositary shares.

The Company has outstanding 1,715,300 depositary shares representing 428,825 shares of Cumulative Preferred Stock, Series F ("Series F Preferred Stock"), having an aggregate liquidation preference of $86 million as of November 30, 2007. Each depositary share represents a one-fourth interest in a share of Series F Preferred Stock. Dividends on the Series F Preferred Stock are payable at an annual rate of 5.72%. Series F Preferred Stock is redeemable at the option of the Company at any time on or after April 15, 2008, in whole or in part, at a redemption price of $200 per share (equivalent to $50 per depositary share), plus accrued but unpaid dividends to the redemption date. During the fiscal year ended November 30, 2007, the Company redeemed and retired 74,900 depositary shares.

THE BEAR STEARNS COMPANIES INC.
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The Company has outstanding 2,044,675 depositary shares representing 511,169 shares of Cumulative Preferred Stock, Series G ("Series G Preferred Stock"), having an aggregate liquidation preference of $102 million as of November 30, 2007. Each depositary share represents a one-fourth interest in a share of Series G Preferred Stock. Dividends on the Series G Preferred Stock are payable at an annual rate of 5.49%. Series G Preferred Stock is redeemable at the option of the Company at any time on or after July 15, 2008, in whole or in part, at a redemption price of $200 per share (equivalent to $50 per depositary share), plus accrued but unpaid dividends to the redemption date. During the fiscal year ended November 30, 2007, the Company did not redeem or retire depositary shares.

PREFERRED STOCK ISSUED BY SUBSIDIARIES

Bear Stearns Capital Trust III ("Capital Trust III"), a wholly owned subsidiary of the Company, has issued $263 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. Effective May 15, 2006, the Preferred Securities became redeemable at the Company's option at their principal amounts plus accrued distributions.

In accordance with FIN No. 46 (R), the Company has deconsolidated Capital Trust III. As a result, the Debentures issued by the Company to Capital Trust III are included within long-term borrowings at November 30, 2007 and 2006. The $263 million of Preferred Securities issued by Capital Trust III are still outstanding, providing the funding for such Debentures. The Preferred Securities issued by Capital Trust III are no longer included in the Company's Consolidated Statements of Financial Condition.

THE BEAR STEARNS COMPANIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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11. EARNINGS PER SHARE

Basic EPS is computed by dividing net income applicable to common shares, adjusted for costs related to vested shares under the 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.

The computations of Basic and Diluted EPS for the fiscal years ended November 30, 2007, 2006 and 2005 are set forth below:

(in millions, except per share amounts)	2007	2006	2005
Net income	$ 233	$ 2,054	$ 1,462
Preferred stock dividends	(21)	(21)	(24)
Income adjustment (net of tax) applicable to deferred compensation arrangements-vested shares	7	47	50
Net earnings used for basic EPS	219	2,080	1,488
Income adjustment (net of tax) applicable to deferred compensation arrangements-non-vested shares	4	41	32
Net earnings used for diluted EPS	$ 223	$ 2,121	$ 1,520
Total basic weighted average common shares outstanding (1)	130	132	130
Effect of dilutive securities:			
Employee stock options	5	6	4
CAP and restricted units	11	11	13
Dilutive potential common shares	16	17	17
Weighted average number of common shares outstanding and dilutive potential common shares	146	149	147
Basic EPS	$ 1.68	$ 15.79	$ 11.42
Diluted EPS	$ 1.52	$ 14.27	$ 10.31

(1) Includes approximately 13 million, 13 million and 18 million vested units for the fiscal years ended November 30, 2007, 2006 and 2005, respectively, issued under certain employee stock compensation plans, which will be distributed as shares of common stock.

12. EMPLOYEE BENEFIT PLAN

The Company has a qualified non-contributory profit sharing plan covering substantially all employees. Contributions are made at the discretion of management in amounts that relate to the Company's level of income before provision for income taxes. The Company's expense related to the profit sharing plan for the fiscal years ended November 30, 2007, 2006 and 2005 was $3 million, $45 million and $37 million, respectively.

13. STOCK COMPENSATION PLANS

The Company has various stock compensation plans designed to increase the emphasis on stock-based incentive compensation and align the compensation of its key employees with the long-term interests of stockholders. As discussed in Note 1, "Summary of Significant Accounting Policies," effective December 1, 2005, the Company adopted SFAS No. 123 (R) using the modified prospective application method. Stock-based compensation cost is measured at grant date, based on the fair value of the award and is recognized as expense over the requisite service period. Beginning in fiscal 2007, the requisite service period was changed to align with the vesting schedule for the Company's stock-based incentive plans (in line with industry practice and the Company's retention strategy). As a result of this change, compensation cost for fiscal 2007 was less than the amount that would have been recognized had the Company not changed the requisite service period. The compensation cost that has been charged against income for the Company's stock compensation plans was $30 million, $848 million and $650 million for the fiscal years ended November 30, 2007, 2006 and 2005, respectively. The total income tax benefit recognized in the income statement for stock-based compensation arrangements was $13 million, $357 million and $273 million for fiscal years ended November 30, 2007, 2006 and 2005, respectively.

THE BEAR STEARNS COMPANIES INC.
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The Company concluded that under SFAS No. 123 (R), the grant date for stock-based compensation awards is the date the awards are approved by the Company's Compensation Committee. The Compensation Committee approved the 2007 stock-based compensation awards in December 2007 following the end of the Company's 2007 fiscal year. In years prior to fiscal 2006, stock-based compensation granted in December was included in stockholders' equity at November year end. The Company's stock-based compensation plans are summarized below.

STOCK REPURCHASE PROGRAM

The Company intends to offset the potentially dilutive impact of the annual grants by purchasing common stock throughout the year in open market and private transactions. On December 13, 2006, the Board of Directors of the Company approved an amendment to the Stock Repurchase Program ("Repurchase Program") to replenish the previous authorization in order to allow the Company to purchase up to $2.0 billion of common stock in fiscal 2007 and beyond. In addition, on September 18, 2007, the Board of Directors approved an amendment to the Repurchase Program authorizing the purchase of up to $2.5 billion of common stock in fiscal 2007 and beyond. The amendment supersedes the previous $2.0 billion authorization. The Company expects to utilize the repurchase authorization to offset the dilutive impact of annual share awards. The Company may, depending upon price and other factors, repurchase additional shares in excess of that required for annual share awards. The Company's policy is to issue shares out of treasury upon share option exercise or share unit conversion.

CAPITAL ACCUMULATION PLAN

Pursuant to the CAP Plan, certain key executives receive a portion of their total annual compensation in the form of CAP units. The number of CAP units credited is a function of the dollar amount awarded to each participant and the closing fair market value of the Company's common stock on the date the award is granted. The CAP units awarded under the CAP Plan are subject to vesting and convert to common stock after five years. CAP units granted in each of the periods presented contain selling restrictions subsequent to the vesting date. Holders of CAP units may forfeit ownership of a portion of their award if employment is terminated before the end of the vesting period. The total number of CAP units that may be issued under the CAP Plan during any fiscal year may not exceed 15% of the sum of issued and outstanding shares of common stock and CAP units outstanding determined as of the last day of the current fiscal year.

Beginning with the December 2007 grant, the Company measured compensation cost based on the market price of the Company's common stock on grant date less a discount for post-vesting restrictions. The discount of approximately 5% - 6% per year, was derived based on short forward hedging models and market based pricing as well as academic research. For CAP units granted prior to December 2007, the Company measured compensation cost based on the market value of the Company's common stock at the grant date.

Each CAP unit gives the participant an unsecured right to receive, on an annual basis, an amount equal to the Company's pre-tax income per share, as defined by the CAP Plan, less net income per share, as defined by the CAP Plan, plus dividends per share ("earnings adjustment"), subject to certain limitations. The earnings adjustment will be credited to each participant's deferred compensation account in the form of additional CAP units, based on the number of CAP units in such account at the end of each fiscal year. The number of CAP units credited depends on the amount awarded to each participant and the average per share cost of common stock acquired by the Company. On completion of the five-year deferral period, participants are entitled to receive shares of common stock equal to the number of CAP units then credited to their respective deferred compensation accounts. Amounts recognized attributable to CAP units with respect to the earnings adjustment are recorded in "Other Expenses" in the Consolidated Statements of Income.

Beginning with the December 2007 grant, the requisite service period was changed to align with the vesting schedule for the CAP units and, as a result, there was no expense associated with the 2007 grants. During the fiscal years ended November 30, 2006 and 2005, the Company expensed $545 million and $363 million, respectively, attributable to CAP units granted to participants for each of those years. In addition, during the fiscal years ended November 30, 2007, 2006 and 2005, the Company recognized expense of $18 million, $154 million and $144 million, respectively, attributable to CAP units with respect to the earnings adjustment. Awards allocated pursuant to the CAP Plan are credited to participants' deferred compensation accounts in the form of CAP units and are included in stockholders' equity. During the fiscal years ended November 30, 2007, 2006 and 2005, the Company recognized total compensation expense, net of forfeitures, related to the CAP plan, of ($25) million, $528 million and $353 million, respectively.

THE BEAR STEARNS COMPANIES INC.
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For awards granted in December 2007, there was $426 million of total unrecognized compensation cost related to these awards, which is expected to be amortized over a weighted average period of approximately 2.3 years.

RESTRICTED STOCK UNIT PLAN

The Restricted Stock Unit Plan ("RSU Plan") provides for a portion of certain key employees' compensation to be granted in the form of restricted stock units ("RSUs"), with allocations made to participants' deferred compensation accounts. Under the RSU Plan, RSUs granted to employees generally vest over three years and generally convert to common stock within four years. Such units are restricted from sale, transfer or assignment until the end of the restriction period. RSU's granted in each of the periods presented contain selling restrictions subsequent to the vesting date. Holders of RSUs generally may forfeit ownership of a portion of their award if employment is terminated before the end of the vesting period. Holders of RSUs are entitled to receive a dividend in the form of additional RSUs, based on dividends declared on the Company's common stock. The total number of RSUs that may be granted under the RSU Plan may not exceed 25,000,000. As of November 30, 2007, the total number of RSUs outstanding was 6,725,447.

Beginning with the December 2007 grant, the Company measured the compensation cost based on the market price of the Company's common stock on grant date less a discount for post-vesting restrictions. The discount of approximately 5% - 6% per year, was derived based on short forward hedging models and market based pricing as well as academic research. For RSUs granted prior to December 2007, the Company measured compensation cost based on the market value of the Company's common stock at the grant date.

During the fiscal years ended November 30, 2007, 2006 and 2005, the Company recognized compensation expense of $19 million, $201 million and $135 million, respectively, related to awards granted to participants in each of those years. During the fiscal years ended November 30, 2007, 2006 and 2005, the Company recognized total compensation expense related to the RSU Plan of $46 million, $218 million and $174 million, respectively.

As of November 30, 2007, there was $186 million of total unrecognized compensation cost related to stock-based compensation granted under the RSU Plan which is expected to be recognized over a weighted average period of approximately 3.3 years. For awards granted in December 2007, $176 million of unrecognized compensation cost related to these awards is expected to be recognized over a weighted average period of approximately 3.1 years.

STOCK AWARD PLAN

Pursuant to the Stock Award Plan, certain key employees are given the opportunity to acquire common stock through the grant of options. Stock options generally have a 10-year expiration. The total number of stock options that may be issued under the Stock Award Plan may not exceed 45,000,000. As of November 30, 2007, the total number of stock options under the Stock Award Plan outstanding was 19,390,856.

The Company awarded approximately $3 million, $89 million and $108 million of employee stock options in fiscal 2007, 2006 and 2005, respectively, of which approximately $1 million, $89 million and $99 million were expensed in fiscal 2007, 2006 and 2005, respectively. Unvested awards granted are expensed over the future vesting periods, generally over three years. In fiscal 2007, 2006 and 2005, the Company recognized total compensation expense related to stock options of $10 million, $102 million and $123 million, respectively.

Fair value was estimated at grant date based on a modified Black-Scholes option-pricing model. The weighted average fair value of options granted relating to the fiscal years ended November 30, 2007, 2006 and 2005 was $24.03, $45.83 and $26.50 per option, respectively. These amounts reflect adjustments for vesting requirements and potential maturity shortening. Estimates of fair value are not intended to predict the value ultimately realized by employees who receive equity awards and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company.

The total intrinsic value of options exercised during the years ended November 30, 2007, 2006 and 2005 was $151 million, $247 million and $149 million, respectively. The total cash received from employees as a result of stock option exercises for the years ended November 30, 2007, 2006 and 2005 was approximately $162 million, $290 million and $202 million, respectively. In connection with these exercises, the tax benefits realized by the Company for the years ended November 30, 2007, 2006 and 2005 were $55 million, $90 million and $59 million, respectively.

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The grant date fair value was estimated based on a modified Black-Scholes option pricing model using the following assumptions:

	2007	2006	2005
Risk-free interest rate(1)	3.58%	4.57%	4.46%
Expected option life(2)	5 years	5 years	5 years
Expected stock price volatility(3)	28%	26%	21%
Dividend yield	1.42%	0.68%	0.90%

(1) Represents the interest rate of the five-year U.S. Treasury note.
(2) The expected option life is the number of years that the Company estimates, based on history, that options will be outstanding prior to exercise or forfeiture.
(3) The Company's estimates of expected volatility are principally based on implied volatility of the Company's common stock and other relevant factors.

NON-EMPLOYEE DIRECTORS' STOCK OPTION AND STOCK UNIT PLAN

Pursuant to the Non-Employee Directors' Stock Option and Stock Unit Plan ("Directors' Plan"), members of the Board of Directors of the Company who are not employees of the Company or any of its subsidiaries ("Non-Employee Directors") may be granted stock options or RSUs. Non-Employee Directors may elect to exchange a portion of their annual cash retainer paid by the Company for services rendered as a director, for stock options or RSUs. Stock options and RSUs issued under the plan generally vest six months after the date of issuance and stock options have a 10-year expiration. The total number of stock options and RSUs combined that may be issued under the Directors' Plan may not exceed 300,000. As of November 30, 2007, the total number of stock options and RSUs outstanding was 101,580, and 24,674, respectively. During the fiscal years ended November 30, 2007, 2006 and 2005, the Company recognized expense of $0.3 million, $2 million and $1 million, respectively, related to these awards.

SUMMARY OF ALL STOCK UNIT AND OPTION ACTIVITY

The following is a summary of CAP units and RSUs outstanding:

	CAP Units	Weighted Average Fair Value	RSUs	Weighted Average Fair Value
Balance, November 30, 2006	18,525,655	$ 86.49	6,976,588	$ 87.63
Granted(1)	3,412,043	$ 164.82	2,041,497	157.21
Forfeited	(190,910)	$ 139.91	(368,660)	110.37
Distributed	(3,557,908)	$ 67.68	(1,899,304)	68.30
Balance, November 30, 2007	18,188,880	$ 104.34	6,750,121	112.53

(1) The weighted average grant-date fair value for CAP units and RSUs combined was $161.87, $132.01 and $112.01 for fiscal years ended November 30, 2007, 2006 and 2005.

Note: In December 2007, the Company granted 6,093,917 and 1,992,257 CAP units and RSUs, respectively, at an average market price of $89.95. In addition, in December 2007, 3,996,173 and 1,497,992 CAP units and RSUs, respectively, were converted into common shares and distributed to participants. The award grants and distributions made in December 2007 are not reflected in the table above.

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Activity with respect to stock options for the fiscal year ended November 30, 2007 is presented below:

	2007	
	Number of Shares	Weighted Average Exercise Price
Beginning balance	19,840,381	$ 78.39
Granted	1,907,803	$ 164.92
Exercised	(2,153,989)	$ 74.42
Forfeited	(101,759)	$ 134.22
Ending balance	19,492,436(1)	$ 86.75

Note: In December 2007, the Company granted 34,807 options with an exercise price of $89.95. These option grants are not reflected in the table above.

(1) At November 30, 2007, 18,303,886 stock options were exercisable with a weighted average exercise price of $85.22 and had an average remaining contractual life of 5.9 years. The aggregate intrinsic value for options outstanding and options exercisable as of November 30, 2007 was $432.0 million and $431.9 million respectively.

Information for the Company's stock options as of November 30, 2007 is presented in the following table:

	Options Outstanding		
Rang of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)
$35.00-$49.99	3,271,833	$47.17	2.8
$50.00-$64.99	4,415,195	$60.40	4.5
$65.00-$79.99	3,325,440	$73.73	6.0
$80.00-$94.99	19,764	$87.82	6.6
$95.00-$109.99	3,486,580	$102.63	7.1
$110.00-$124.99	3,082,553	$116.50	8.1
$125.00-$139.99	30,886	$136.23	6.5
$140.00-$166.00	1,860,185	$164.94	8.9
Total	19,492,436	$86.75	5.9

14. CUSTOMER ACTIVITIES

CUSTOMER CREDIT RISKS

The Company's clearance activities for both clearing clients and customers (collectively, "customers"), involve the execution, settlement and financing of customers' securities and futures transactions. Customers' securities activities are transacted on either a cash or margin basis, while customers' futures transactions are generally transacted on a margin basis subject to exchange regulations.

In connection with the customer clearance activities, the Company executes and clears customer transactions involving the short sale of securities ("short sales"), entering into futures transactions and the writing of option contracts. Short sales require the Company to borrow securities to settle customer short sale transactions and, as such, these transactions may expose the Company to loss if customers are unable to fulfill their contractual obligations and customers' collateral balances are insufficient to fully cover their losses. In the event customers fail to satisfy their obligations, the Company may be required to purchase financial instruments at prevailing market prices in order to fulfill the customers' obligations.

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The Company seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels and, pursuant to such guidelines, may require customers to deposit additional cash or collateral, or to reduce positions, when deemed necessary. The Company also establishes credit limits for customers engaged in futures activities and monitors credit compliance. Additionally, with respect to the Company's correspondent clearing activities, introducing correspondent firms generally guarantee the contractual obligations of their customers. Further, the Company seeks to reduce credit risk by entering into netting agreements with customers, which permit receivables and payables with such customers to be offset in the event of a customer default.

In connection with the Company's customer financing and securities settlement activities, the Company may pledge customers' securities as collateral to satisfy the Company's exchange margin deposit requirements or to support its various secured financing sources such as bank loans, securities loaned and repurchase agreements. In the event counterparties are unable to meet their contractual obligations to return customers' securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices to satisfy its obligations to such customers. The Company seeks to control this risk by monitoring the market value of securities pledged and by requiring adjustments of collateral levels in the event of excess exposure. Moreover, the Company establishes credit limits for such activities and monitors credit compliance.

CONCENTRATIONS OF CREDIT RISKS

The Company is engaged in providing securities processing services to a diverse group of individuals and institutional investors, including affiliates. A substantial portion of the Company's transactions is collateralized and is executed with, or made on behalf of, institutional investors, including other brokers and dealers, commercial banks, insurance companies, pension plans, mutual funds, hedge funds and other financial institutions. The Company's exposure to credit risk, associated with the nonperformance of customers in fulfilling their contractual obligations pursuant to securities and futures transactions, can be directly affected by volatile or illiquid trading markets, which may impair customers' ability to satisfy their obligations to the Company. The Company attempts to minimize credit risk associated with these activities by monitoring customers' credit exposure and collateral values and requiring, when deemed necessary, additional collateral to be deposited with the Company.

From time to time, the Company enters into large financing commitments. During fiscal 2007, the Company led a syndicate that underwrote a large commercial mortgage loan to finance the acquisition of Hilton Hotels Corporation by certain affiliates of The Blackstone Group L.P. including Blackstone Real Estate Partners VI, L.P. as well as certain minority investors. As of November 30, 2007, the Company had advanced approximately $4.6 billion. The Company has sold a portion of the loan and intends to further reduce its remaining position.

In the ordinary course of business, the company manages the risk of derivatives and other businesses through dealer-to-dealer transactions with other large, highly rated global financial institutions. As a result, the Company is exposed to risk of non-performance on counterparty contracts with such dealers. The Company seeks to mitigate risk of loss through independent assessment of the financial condition of dealers and the collection of collateral to fully or partially secure exposure on a mark-to-market basis. Nonetheless, periods of severe volatility and illiquidity expose the market to potential systemic stress and heightened exposure and risk of default of one or more counterparties.

The Company has entered into a variety of transactions and acquired inventory positions that rely in part on financial guaranties provided by monoline credit insurance entities. The Company's exposure to one such entity, resulting from the purchase of credit default protection on structured asset-backed and corporate credit positions, was fully reserved as of November 30, 2007. In general, the Company has limited its unsecured credit extensions to monoline insurance counterparties. As a result, the Company's direct exposure to non-performance by any of the remaining large monoline insurance companies is not material.

A significant portion of the Company's securities processing activities includes clearing transactions for hedge funds, brokers and dealers and other professional traders, including affiliates. Due to the nature of these operations, which may include significant levels of credit extension such as leveraged purchases, short selling and option writing, the Company may incur credit exposure should these customers be unable to meet their commitments. In addition, the Company may be subject to concentration risk through providing margin to those customers holding large positions in certain types of securities, securities of a single issuer, including sovereign governments, issuers located in a particular country or geographic area or issuers engaged in a particular industry, where the Company receives such large positions as collateral. The Company seeks to control these risks by monitoring margin collateral levels for compliance with both regulatory and internal guidelines. Additional collateral is obtained when necessary. To further control these risks, the Company has developed automated risk control systems that analyze the customers' sensitivity to major market movements. The Company will require customers to deposit additional margin collateral, or to reduce positions if it is determined that customers' activities may be subject to above-normal market risk.

The Company acts as a clearing broker for substantially all of the customer and proprietary securities and futures activities of its affiliates on either a fully disclosed or omnibus basis. Such activities are conducted on either a cash or margin basis. The Company requires its affiliates to maintain margin collateral in compliance with various regulatory guidelines. The Company monitors required margin levels and requests additional collateral when deemed appropriate.

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15. INCOME TAXES

The Company and certain of its subsidiaries file a U.S. consolidated federal income tax return. The (benefit) provision for income taxes for the fiscal years ended November 30, 2007, 2006 and 2005 consisted of the following:

(in millions)	2007	2006	2005
CURRENT:			
Federal	$ (72)	$ 806	$ 449
State and local	(6)	182	59
Foreign	71	190	124
Total current	(7)	1,178	632
DEFERRED:			
Federal	(81)	(47)	94
State and local	28	(1)	35
Foreign	20	(37)	(16)
Total deferred	(33)	(85)	113
Total (benefit) provision for income taxes	$ (40)	$ 1,093	$ 745

As of November 30, 2007, the Company had approximately $1.5 billion in accumulated earnings permanently reinvested overseas. If such income were repatriated, additional federal income tax (net of available tax credits) at current tax rates would be approximately $303 million.

Significant components of the Company's deferred tax assets (liabilities) as of November 30, 2007 and 2006 were as follows:

(in millions)	2007	2006
DEFERRED TAX ASSETS:		
Deferred compensation	$ 1,276	$ 1,213
Liability reserves and valuation adjustments	83	108
Unrealized loss	17	36
Partnerships	202	61
Other	171	170
Total deferred tax assets	1,749	1,588
DEFERRED TAX LIABILITIES:		
Unrealized appreciation	(142)	(43)
Depreciation/amortization	(70)	(67)
Other	(73)	(47)
Total deferred tax liabilities	(285)	(157)
Net deferred tax assets	$ 1,464	$ 1,431

At November 30, 2007 and 2006, no valuation allowance has been established against deferred tax assets since it is more likely than not that the deferred tax assets will be realized. Net deferred tax assets are included in "Other Assets" in the Consolidated Statements of Financial Condition.

The Company is estimating state and local net operating loss carryforwards of $1.18 billion as of November 30, 2007. These carryforwards can be used through November 30, 2028.

The Company is under continuous examination by various tax authorities in jurisdictions in which the Company has significant business operations. The Company regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which the Company believes to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted as information becomes available or when an event requiring a change to the reserve occurs. The resolution of tax matters could have a material impact on the Company's effective tax rate.

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A reconciliation of the statutory federal income tax rates to the Company's effective tax rates for the fiscal years ended November 30, 2007, 2006 and 2005 was as follows:

	2007	2006	2005
Statutory rate	35.0%	35.0%	35.0%
State and local income taxes, exclusive of effect of legislative changes, net of federal benefit	(9.8)	3.7	2.2
Dividend received deduction	(10.1)	(0.3)	(0.6)
Tax-exempt interest income, net	(14.2)	(0.8)	(1.5)
Lower tax rates applicable to non-U.S. earnings	(31.3)	(1.0)	(0.6)
Domestic tax credits	(17.6)	(0.4)	(0.5)
Effect of legislative changes, net of federal benefit	25.7	--	0.5
Other, net	1.3	(1.5)	(0.7)
Effective tax rate	(21.0)%	34.7%	33.8%

Not included in the effective tax rate is the effect of approximately $254 million, $363 million and $426 million in income tax benefits attributable to the distribution of common stock under the CAP Plan and other deferred compensation plans as well as the exercise of options, credited directly to paid-in capital, for fiscal 2007, 2006 and 2005, respectively.

16. REGULATIONS

The Company is regulated by the Securities and Exchange Commission ("SEC") as a consolidated supervised entity ("CSE"). As a CSE, the Company is subject to group-wide supervision and examination by the SEC and is required to compute allowable capital and allowances for market, credit and operational risk on a consolidated basis. As of November 30, 2007, the Company was in compliance with the CSE capital requirements.

Bear Stearns and BSSC are registered broker-dealers and futures commission merchants and, accordingly, are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 ("Net Capital Rule") and Rule 1.17 under the Commodity Futures Trading Commission. Bear Stearns uses Appendix E of the Net Capital Rule ("Appendix E"), which establishes alternative net capital requirements for broker-dealers that are part of consolidated supervised entities. Appendix E allows Bear Stearns to calculate net capital charges for market risk and derivatives-related credit risk based on mathematical models, provided that Bear Stearns holds tentative net capital in excess of $1 billion and net capital in excess of $500 million. At November 30, 2007, Bear Stearns' net capital of $3.60 billion exceeded the minimum requirement by $3.05 billion. Bear Stearns' net capital computation, as defined, includes $1.16 billion, which represents net capital of BSSC in excess of 5.5% of aggregate debit items arising from customer transactions.

BSIL and BSIT, London-based broker-dealer subsidiaries, are subject to the regulatory capital requirements of the United Kingdom's 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 Financial Regulator.

Custodial Trust Company ("CTC"), a Federal Deposit Insurance Corporation ("FDIC") insured New Jersey state chartered bank, offers a range of trust, lending, deposit and securities-clearing products and services. CTC provides the Company with banking powers, including access to the securities and funds-wire services of the Federal Reserve System. CTC is subject to the regulatory capital requirements of the FDIC.

At November 30, 2007, Bear Stearns, BSSC, BSIL, BSIT, BSB and CTC were in compliance with their respective regulatory capital requirements. Certain other subsidiaries are subject to various securities regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. At November 30, 2007, these other subsidiaries were in compliance with their applicable local capital adequacy requirements.

Regulatory rules, as well as certain covenants contained in various instruments governing indebtedness of the Company, Bear Stearns and other regulated subsidiaries, may restrict the Company's ability to withdraw capital from its regulated subsidiaries, which in turn could limit the

Company's ability to pay dividends. Also, the Company's broker-dealer subsidiaries and other regulated subsidiaries are subject to minimum capital requirements that may restrict the Company's ability to withdraw capital from its regulated subsidiaries, which in turn could limit the Company's ability to pay dividends. At November 30, 2007, approximately $5.04 billion in equity capital of Bear Stearns, BSSC, BSIL, BSIT, BSB and CTC was restricted as to the payment of cash dividends and advances to the Company.

17. 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:

LEASES

The Company occupies office space under leases that expire at various dates through 2024. At November 30, 2007, future minimum aggregate annual rentals payable under non-cancelable leases (net of subleases), including 383 Madison Avenue in New York City, for fiscal years ended November 30, 2008 through 2012 and the aggregate amount thereafter, are as follows:

(in millions)

FISCAL YEAR

2008	$	125
2009		122
2010		122
2011		133
2012		98
Thereafter		650
Total		1,250

The various leases contain provisions for periodic escalations resulting from increased operating and other costs. Rental expense, including escalations and net of sublease rental income, under these leases was $218 million, $164 million and $134 million for the fiscal years ended November 30, 2007, 2006 and 2005, respectively.

LENDING-RELATED COMMITMENTS

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. Lending-related commitments to investment-grade borrowers aggregated approximately $3.42 billion and $3.83 billion at November 30, 2007 and 2006, respectively. Of these amounts, approximately $952 million and $698 million of the credit risk was offset at November 30, 2007 and 2006, respectively. Lending-related commitments to non-investment-grade borrowers approximated $3.30 billion and $2.04 billion at November 30, 2007 and 2006, respectively. Of these amounts, approximately $220 million and $89 million of the credit risk was offset at November 30, 2007 and 2006, respectively.

The Company also had contingent commitments to non-investment-grade companies of $501 million as of November 30, 2007 and contingent commitments to investment grade and non-investment grade companies of $17.5 billion as of November 30, 2006. Generally, these commitments are provided in connection with leveraged acquisitions. These commitments are not indicative of the Company's actual risk because the borrower may not be successful in the acquisition, the borrower may access the capital markets instead of drawing on the commitment, or the Company's portion of the commitment may be reduced through the syndication process. Additionally, the borrower's ability to draw may be subject to there being no material adverse change in either market conditions or the borrower's financial condition, among other factors. These commitments generally contain certain flexible pricing features to adjust for changing market conditions prior to closing.

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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 November 30, 2007 and 2006, such commitments aggregated $729 million and $788 million, respectively. These commitments will be funded, if called, through the end of the respective investment periods, with the longest of such periods ending in 2020.

UNDERWRITING

In connection with the Company's mortgage-backed securitizations and fixed income and equity underwriting, the Company had commitments to purchase new issues of securities aggregating $652 million and $205 million, respectively, at November 30, 2007 and 2006.

COMMERCIAL AND RESIDENTIAL LOANS

The Company participates in the origination, acquisition, securitization, servicing, financing and disposition of commercial and residential loans. At November 30, 2007 and 2006, the Company had entered into commitments to purchase or finance mortgage loans of $2.83 billion and $4.23 billion, respectively.

LETTERS OF CREDIT

At November 30, 2007 and 2006, the Company was contingently liable for unsecured letters of credit of approximately $1.42 billion and $3.30 billion, respectively, and secured (by financial instruments) letters of credit of $1.33 billion and $1.25 billion, respectively. These letters of credit are primarily used to provide collateral for securities borrowed and to satisfy margin requirements at commodity/futures exchanges.

ENERGY

In connection with its energy activities, the Company has entered into contractual obligations (primarily obligations under tolling agreements, net of re-tolling agreements) that require future cash payments. At November 30, 2007, those contractual obligations, by maturity, were as follows:

(millions)

Fiscal Year	
2008	$ 81
2009	82
2010	83
2011	258
2012	416
Thereafter	3,399
Total	4,319

Strategic Alliance

In October 2007, the Company announced an agreement in principle to form a strategic alliance with CITIC Securities Co. Limited ("CITIC"). The companies will work together to develop new financial products and services to meet the evolving needs of the Chinese market. This alliance will include sharing management expertise and technology to develop new capital markets products and businesses in China, establishing an exclusive joint venture combining the existing businesses of both companies in the rest of Asia, and cross-investments of approximately $1 billion in each firm by the other. The Company and CITIC have agreed to negotiate with each other on an exclusive basis. The proposed transactions are subject to the negotiation of definitive agreements, the approval by the respective boards of directors of the Company and CITIC, and various governmental and regulatory approvals. There can be no assurances that the Company and CITIC will be able to successfully complete negotiations or consummate the transaction.

OTHER

The Company had commitments to purchase Chapter 13 and other credit card receivables of $170 million and $96 million respectively, at November 30, 2007 and 2006.

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

The Company is the sole defendant in an action commenced in the United States Bankruptcy court for the Southern District of New York by the Chapter 11 Trustee for Manhattan Investment Fund Limited ("MIFL"). The complaint seeks to recover from the Company, among other things, certain allegedly fraudulent transfers made by MIFL in the amount of $141 million plus pre-judgment interest. The Company provided prime brokerage services to MIFL prior to its bankruptcy. In January 2007, the Bankruptcy Court granted the Trustee's motion for summary judgment on the fraudulent transfer claims against the Company. The Company believes it has substantial defenses to the Trustee's claims and intends to appeal the decision of the Bankruptcy Court.

On appeal, the District Court affirmed the Bankruptcy Court's findings in part, but also reversed in part, the Bankruptcy's Court's grant of summary judgment to the Trustee, finding that a trial is necessary to make a factual finding as to whether the Company acted in good faith with respect to its receipt of the alleged fraudulent transfers.

The Company and certain subsidiaries have been named as defendants in various investor lawsuits and FINRA arbitrations relating to the failure of the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd (the "High Grade Fund") and the Enhanced Leverage Master Fund, Ltd. (the "Enhanced Leverage Fund"), which were managed by Bear Stearns Asset Management. The High Grade Fund had net investor contributions of approximately $775 million. The Enhanced Fund had net investor contributions of approximately $1.08 billion. The relief being sought by the plaintiffs

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in these matters includes specified and unspecified damages, costs and fees. The Company believes it has substantial defenses to the claims asserted against it in these proceedings. Additionally, the Company and its subsidiaries have been the subject of various state and federal regulatory and law enforcement inquiries, and a state administrative proceeding relating to the Funds.

In the normal course of business, the Company has been named as a defendant in various legal actions, including arbitrations, class actions and other litigation. Certain of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. The Company is also involved in other reviews, investigations and proceedings by governmental and self-regulatory agencies regarding the Company's business, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Because litigation is inherently unpredictable, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss related to such matters, how such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief might be. Consequently, the Company cannot estimate losses or ranges of losses for matters where there is only a reasonable possibility that a loss may have been incurred. 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 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.

The Company has provided reserves for such matters in accordance with SFAS No. 5, "Accounting for Contingencies." The ultimate resolution may differ materially from the amounts reserved.

Tax

The Company is under continuous examination by various tax authorities in jurisdictions in which the Company has significant business operations. The Company regularly evaluates the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which the Company believes to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted as information becomes available or when an event requiring a change to the reserve occurs.

18. GUARANTEES

In the ordinary course of business, the Company issues various guarantees to counterparties in connection with certain derivative, leasing, securitization and other transactions. FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" requires the Company to recognize a liability at the inception of certain guarantees and to disclose information about its obligations under certain guarantee arrangements.

The guarantees covered by FIN No. 45 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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The following table sets forth the maximum payout/notional amounts associated with the Company's guarantees as of November 30, 2007:

	Amount of Guarantee Expiration Per Period				
(in millions)	Less Than One Year	One to Three Years	Three to Five Years	Greater than Five Years	Total
Certain derivative contracts (notional) (1)	$ 495,124	$ 472,384	$ 742,138	$ 806,319	$ 2,515,965
Municipal securities	3,370	502	--	--	3,872
Residual value guarantee	--	--	570	--	570

(1) The gross carrying value of these derivatives approximated $59.6 billion as of November 30, 2007.

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), put options, 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 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.

In connection with these activities, the Company mitigates its exposure to market risk by entering into a variety of offsetting derivative contracts and security positions.

MUNICIPAL SECURITIES

In 1997, the Company established a program whereby it created 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 November 30, 2007 was approximately $3.87 billion, which represents the outstanding amount of all trust certificates. This exposure to loss is mitigated by the underlying municipal bonds held by trusts. 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 offsetting positions, approximating $3.77 billion at November 30, 2007.

THE BEAR STEARNS COMPANIES INC.
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RESIDUAL VALUE GUARANTEE

The Company has entered into an operating lease arrangement for its world headquarters at 383 Madison Avenue in New York City (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 10, 2012 unless both parties agree to a renewal prior to expiration. At the expiration date of the Synthetic Lease, 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 November 30, 2007, there was no expected shortfall and the maximum residual value guarantee was approximately $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 certain 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.

Maximum payout information under these indemnifications is not readily available because of the number, size and lives of these transactions. In implementing this accounting interpretation, the Company reviewed its experience with the indemnifications on these structures. Based on such experience, it is unlikely that these arrangements will have a material impact on the Consolidated Financial Statements of the Company.

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. Therefore, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these 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 remote. Accordingly, no contingent liability is recorded in the Consolidated Financial Statements for these arrangements.

19. SEGMENT AND GEOGRAPHIC AREA 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 is comprised of 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 work in tandem to deliver these services to institutional and corporate clients.

Institutional equities consists of sales, trading and research, in areas such as domestic and international equities, block trading, over-the-counter equities, equity derivatives, energy and commodity activities, risk and convertible arbitrage and specialist activities on the NYSE, AMEX and International Stock Exchange. Fixed income includes sales, trading, origination 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, including bank and bridge loans, foreign exchange and interest rate and 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 composed of the 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 United States 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 allocated 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.

THE BEAR STEARNS COMPANIES INC.
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Fiscal Years Ended November 30,	2007	2006	2005
(in millions)			
NET REVENUES			
Capital Markets			
Institutional Equities	$ 2,158	$ 1,961	$ 1,446
Fixed Income	685	4,190	3,293
Investment Banking	1,076	1,170	983
Total Capital Markets	3,919	7,321	5,722
Global Clearing Services	1,200	1,077	1,029
Wealth Management			
Private Client Services (1)	602	522	453
Asset Management	228	336	228
Total Wealth Management	830	858	681
Other (2)	(4)	(29)	(21)
Total net revenues	$ 5,945	$ 9,227	$ 7,411
PRE-TAX INCOME			
Capital Markets	$ (232)(4)	$ 2,801	$ 2,020
Global Clearing Services	566	465	472
Wealth Management	(45)	69	37
Other (3)	(96)	(188)	(322)
Total pre-tax income	$ 193	$ 3,147	$ 2,207
NET INTEREST REVENUES			
Capital Markets	$ 382	$ 350	$ 172
Global Clearing Services	923	803	736
Wealth Management	39	59	57
Other	6	-	-
Total net interest revenues	$ 1,350	$ 1,212	$ 965

(1) Private Client Services detail:			
Gross revenues, before transfer to Capital Markets segment	$ 710	$ 620	$ 547
Revenue transferred to Capital Markets segment	(108)	(98)	(94)
Private Client Services net revenues	$ 602	$ 522	$ 453

(2) Includes consolidation and elimination entries.
(3) Includes certain legal costs and costs related to the CAP Plan, which approximate $18 million, $154 million and $144 million for the fiscal years ended November 30, 2007, 2006, 2005, respectively.
(4) Includes a non-cash charge of $227 million related to the write-off of intangible assets, representing goodwill and specialist rights associated with our NYSE specialist activities.

As of November 30,	2007	2006	2005
(in billions)			
SEGMENT ASSETS			
Capital Markets	$ 247	$ 230	$ 183
Global Clearing Services	118	109	93
Wealth Management	4	3	3
Other	26	8	8
Total segment assets	$ 395	$ 350	$ 287

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The operations of the Company are conducted primarily in the United States of America. The Company also maintains offices in Europe, Asia and Latin America. The following are net revenues, income before provision for income taxes and assets by geographic region for the fiscal years ended November 30, 2007, 2006 and 2005:

(in millions)	2007	2006	2005
Net Revenues-U.S.	$ 4,219	$ 8,006	$ 6,488
Non-U.S.	1,726	1,221	923
Total net revenues	$ 5,945	$ 9,227	$ 7,411
(Loss) Income before provision for income taxes-U.S.	$ (561)	$ 2,669	$ 1,868
Non-U.S.	754	478	339
Total income before provision for income taxes	$ 193	$ 3,147	$ 2,207
Total Assets-U.S.	$ 480,824	$ 437,419	$ 344,758
Non-U.S.	126,507	92,836	70,436
Eliminations	(211,969)	(179,822)	(127,901)
Total assets	$ 395,362	$ 350,433	$ 287,293

Because of the international nature of the financial markets and the resultant integration of U.S. and non-U.S. services, it is difficult to precisely separate foreign operations. The Company conducts and manages these activities with a view toward the profitability of the Company as a whole. Accordingly, the foreign operations information is, of necessity, based on management judgments and internal allocations.

20. ACQUISITION OF MINORITY INTEREST AND IMPAIRMENT OF INTANGIBLE ASSETS

At the close of business on April 30, 2007, the Company completed an acquisition of the outstanding minority interest in Bear Hunter Holdings LLC (the parent of Bear Wagner Specialists) from its partner, Hunter Partners LLC.

The Company tests goodwill at least annually for impairment in accordance with SFAS No. 142 by comparing the fair value of a reporting unit with the carrying amount, including goodwill. In addition, the Company amortizes identifiable intangible assets over their estimated useful lives in accordance with SFAS No. 142 and tests for potential impairment whenever events or changes in circumstances suggest that an asset's carrying value may not be fully recoverable in accordance with SFAS No. 144. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset, is recognized if the expected undiscounted cash flows relating to the asset are less than the corresponding carrying value.

During the fourth quarter of fiscal 2006, the New York Stock Exchange introduced its Hybrid trading system, a new electronic trading system designed to make it more competitive. The Hybrid trading system automated certain of the tasks previously performed by specialists and dramatically reduced the opportunity for specialists to participate in the order process. The Company monitored the impact of the introduction of the Hybrid trading system on its specialist business. As a result, during the May 2007 quarter, the Company tested its goodwill and specialist rights associated with its NYSE specialist activities and recognized a non-cash impairment charge of $227 million relating to the original purchase of Wagner Stott Mercator, LLC in April 2001. The impairment charge is included on a separate line item on the Consolidated Statements of Income and within the Company's Capital Markets segment for the fiscal year ended November 30, 2007.

THE BEAR STEARNS COMPANIES INC.
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21. ASSET ACQUISITION

On May 20, 2007, Bear Energy L.P., a Houston-based, wholly owned subsidiary of the Company, signed a definitive agreement to acquire substantially all of the power-related and natural gas assets comprising the power trading business of Williams Power Company, Inc., an energy trading and marketing subsidiary of The Williams Companies, Inc. The transaction closed on November 8, 2007 for cash consideration of $496 million. The purchase price allocation resulted in recording trading assets of $548 million, intangible assets of $863 million, and intangible liabilities of $915 million based on contractual arrangements, at their estimated fair values. As of November 30, 2007, the weighted average amortization period for intangible assets and intangible liabilities was approximately 10.8 years and 13.4 years, respectively. As of November 8, 2007, the results of operations of the power-related assets and liabilities acquired were included in the Company's Capital Markets segment.

The estimated aggregate amortization expense for each of the five succeeding fiscal years for intangible assets and intangible liabilities were as follows:

(in millions)	Intangible Assets	Intangible Liabilities
FISCAL YEAR		
2008	$ 99	$ 208
2009	98	129
2010	96	98
2011	64	74
2012	50	47
Thereafter	456	359
Total	863	915

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22. QUARTERLY INFORMATION (UNAUDITED)

The unaudited quarterly results of operations of the Company for the fiscal years ended November 30, 2007 and 2006 are prepared in conformity with accounting principles generally accepted in the United States of America, which include industry practices, and reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. Results of any interim period are not necessarily indicative of results for a full year.

	Quarters Ended,				Fiscal Year,
(in millions, except per share data)	February 28, 2007	May 31, 2007	August 31, 2007	November 30, 2007	November 30, 2007 (1)
Revenues	$ 4,798	$ 4,976	$ 4,340	$ 2,038	$ 16,151
Interest expense	2,316	2,464	3,009	2,417	10,206
Revenues, net of interest expense	2,482	2,512	1,331	(379)	5,945
Non-interest expenses					
Employee compensation and benefits	1,204	1,231	664	326	3,425
Other	443	727	492	666	2,327
Total non-interest expenses	1,647	1,958	1,156	992	5,752
Income (loss) before provision (benefit) for income taxes	835	554	175	(1,371)	193
Provision (benefit) for income taxes	281	192	4	(517)	(40)
Net income (loss)	554	362	171	(854)	233
Basic earnings per share	$ 4.23	$ 2.78	$ 1.30	$ (6.90)	$ 1.68
Diluted earnings (loss) per share	$ 3.82	$ 2.52	$ 1.16	$ (6.90)(2)	$ 1.52
Cash dividends declared per common share	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 1.28

	Quarters Ended,				Fiscal Year,
(in millions, except per share data)	February 28, 2006	May 31, 2006	August 31, 2006	November 30, 2006	November 30, 2006 (1)
Revenues	$ 3,638	$ 4,304	$ 4,136	$ 4,474	$ 16,551
Interest expense	1,453	1,805	2,007	2,061	7,324
Revenues, net of interest expense	2,185	2,499	2,129	2,413	9,227
Non-interest expenses					
Employee compensation and benefits	1,047	1,220	1,025	1,052	4,343
Other	386	445	437	468	1,737
Total non-interest expenses	1,433	1,665	1,462	1,520	6,080
Income before provision for income taxes	752	834	667	893	3,147
Provision for income taxes	238	295	229	330	1,093
Net income	514	539	438	563	2,054
Basic earnings per share	$ 3.92	$ 4.12	$ 3.34	$ 4.42	$ 15.79
Diluted earnings per share	$ 3.54	$ 3.72	$ 3.02	$ 4.00	$ 14.27
Cash dividends declared per common share	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 1.12

(1) Beginning with the fourth quarter of 2007, the Company's results of operations were rounded in $ millions. Quarterly results prior to the fourth quarter are rounded based on previously disclosed figures. As a result, the sum of the quarterly results of operations may differ from the full fiscal year amounts disclosed on the Company's Consolidated Statement of Income.

(2) Due to the net loss in the fourth quarter of 2007, the diluted earnings per share calculation excludes 15.1 million dilutive potential common shares, as they were anti-dilutive.

PRICE RANGE OF COMMON STOCK AND DIVIDENDS

The common stock of the Company is traded on the NYSE under the symbol BSC. The table below sets forth for the periods indicated the closing high and low prices for the common stock and the cash dividends declared on the common stock.

As of January 28, 2008, there were 1,390 holders of record of the Company's common stock. On January 28, 2008, the last reported sales price of the Company's common stock was $91.10.

Dividends are payable on January 15, April 15, July 15 and October 15 in each year on the Company's outstanding Cumulative Preferred Stock, Series E; Cumulative Preferred Stock, Series F; and Cumulative Preferred Stock, Series G (collectively, the "Preferred Stock"). The terms of the Preferred Stock require that all accrued dividends in arrears be paid prior to the payment of any dividends on the common stock.

Since the Company is a holding company, its ability to pay dividends is limited by the ability of its subsidiaries to pay dividends and to make advances to the Company. See Note 16, "Regulations," in the Notes to Consolidated Financial Statements for a further description of the restrictions on dividends.

	High	Low	Cash Dividends Declared Per Common Share
FISCAL YEAR ENDED NOVEMBER 30, 2007			
First Quarter (through February 28, 2007)	$ 171.51	$ 151.49	$ 0.32
Second Quarter (through May 31, 2007)	158.39	142.97	0.32
Third Quarter (through August 31, 2007)	153.50	103.15	0.32
Fourth Quarter (through November 30, 2007)	131.58	91.04	0.32
FISCAL YEAR ENDED NOVEMBER 30, 2006			
First Quarter (through February 28, 2006)	$ 136.40	$ 110.50	$ 0.28
Second Quarter (through May 31, 2006)	147.07	127.28	0.28
Third Quarter (through August 31, 2006)	145.49	123.43	0.28
Fourth Quarter (through November 30, 2006)	158.60	128.07	0.28

PERFORMANCE GRAPH

The following graph compares the performance of an investment in the Company's Common Stock over the last five fiscal years with its Peer Group, the S&P 500 Investment Banking & Brokerage Index and the S&P 500 Index. The entities included in the Company's peer group consist of Merrill Lynch & Co., Inc., Morgan Stanley, The Goldman Sachs Group, Inc. and Lehman Brothers Holdings Inc. The performance graph assumes the value of the investment in the Company's Common Stock and each index was $100 on November 30, 2002, and that all dividends have been reinvested. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

[LINE CHART - GRAPHIC OMITTED]

Assumes $100 invested on November 30, 2002 in the Company's Common Stock, Peer Group, S&P 500 Investment Banking & Brokerage Index and the S&P 500 Index and that all dividends have been reinvested.

	2002	2003	2004	2005	2006	2007
The Bear Stearns Companies Inc.	$ 100.00	$ 114.46	$ 155.68	$ 178.84	$ 247.68	$ 163.46
Peer Group	100.00	125.88	129.21	161.5	223.50	206.38
S&P 500 Investment Banking & Brokerage Index	100.00	122.94	126.50	154.16	213.14	191.06
S&P 500 Index	100.00	115.09	129.89	140.85	160.90	173.32

FINANCIAL HIGHLIGHTS

Fiscal years ended November 30,	2007	2006	2005	2004	2003
(in millions, except common share Data, financial ratios and other data)					
RESULTS					
Revenues, net of interest expense	$ 5,945	$ 9,227	$ 7,411	$ 6,813	$ 5,994
Employee compensation and benefits	3,425	4,343	3,553	3,254	2,881
Non-compensation expenses	2,327	1,737	1,651	1,537	1,342
Total expenses	5,752	6,080	5,204	4,791	4,222
Net income	$ 233	$ 2,054	$ 1,462	$ 1,345	$ 1,156
Net income applicable to common shares	$ 212	$ 2,033	$ 1,438	$ 1,317	$ 1,125
FINANCIAL POSITION					
Total assets (1)	$ 395,362	$ 350,433	$ 287,293	$ 252,113	$ 209,181
Long-term borrowings	$ 68,538	$ 54,570	$ 43,490	$ 36,843	$ 29,430
Guaranteed Preferred Beneficial Interest in Company Subordinated Debt Securities(2)	$ --	$ --	$ --	$ --	$ 563
Stockholders' equity	$ 11,793	$ 12,129	$ 10,791	$ 8,991	$ 7,470
COMMON SHARE DATA					
Basic earnings per share	$ 1.68	$ 15.79	$ 11.42	$ 10.88	$ 9.44
Diluted earnings per share	$ 1.52	$ 14.27	$ 10.31	$ 9.76	$ 8.52
Cash dividends declared per common share	$ 1.28	$ 1.12	$ 1.00	$ 0.85	$ 0.74
Book value per common share	$ 84.09	$ 86.39(3)	$ 71.08	$ 59.13	$ 48.69
Common shares outstanding(4)	136,155,586	145,693,021	146,431,767	144,484,099	142,369,836
FINANCIAL RATIOS					
Return on average common equity	1.8%	19.1%	16.5%	19.1%	20.2%
Profit margin(5)	3.2%	34.1%	29.8%	29.7%	29.6%
OTHER DATA					
Assets under management (in billions)	$ 44.6	$ 52.5	$ 41.9	$ 37.8	$ 29.2
Average value-at-risk (in millions)	$ 33.1	$ 28.6	$ 20.5	$ 15.8	$ 15.8
Employees (end of year)	14,153	13,566	11,843	10,961	10,532

(1) As of November 30, 2006, the Company elected, under FIN No. 39, "Offsetting Amounts Related to Certain Contracts," to net cash collateral received or paid against its derivatives inventory, on a counterparty basis, provided that the legal right of offset exists. The Consolidated Statements of Financial Condition as of November 30, 2005, 2004, and 2003 have been adjusted to conform to the current year's presentation.

(2) In accordance with FIN No. 46 (R) the Company has deconsolidated Bear Stearns Capital Trust III effective beginning with the quarter ended February 29, 2004. As a result, the Debentures issued by the Company to Bear Stearns Capital Trust III are included within long-term borrowings. The $263 million of Preferred Securities issued by Capital Trust III is still outstanding, providing the funding for such Debentures. The Preferred Securities issued by Capital Trust III are no longer included in the Company's Consolidated Statements of Financial Condition. As of November 30, 2003, Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities consists of $300 million of Preferred Securities issued by Bear Stearns Capital Trust II and $263 million of Preferred Securities issued by Bear Stearns Capital Trust III.

(3) For book value purposes, at November 30, 2006, common stockholders' equity was adjusted by $816 million and common stock outstanding was adjusted by 4.6 million units, which represents stock-based compensation associated with fiscal 2006 awards that was reflected in stockholders' equity as of the grant date in December 2006, in accordance with SFAS No. 123 (R), "Share-based Payment." In years prior to fiscal 2006, stock-based compensation granted in December was included in stockholders' equity at November year-end. The Company changed the requisite service period associated with its 2007 stock-based compensation awards to align it with the vesting schedules. As a result, an adjustment to stockholders' equity was not applicable.

(4) Common shares outstanding include units issued under certain stock compensation plans, which will be distributed as shares of common stock.

(5) Represents the ratio of income before provision for income taxes to revenues, net of interest expense.

EXHIBIT 21

The following are subsidiaries of The Bear Stearns Companies Inc. as of November 30, 2007 and the jurisdictions in which they are organized. The names of certain subsidiaries have been omitted because in the aggregate they do not constitute a significant subsidiary as determined by the Company.

Subsidiary	Jurisdiction of Incorporation / Organization
Bear, Stearns & Co. Inc.	Delaware
Bear, Stearns Securities Corp.	Delaware
Bear, Stearns International Limited	United Kingdom
Bear Stearns Bank plc......................................	Ireland
Bear Stearns Global Lending Limited........................	Cayman Islands
Custodial Trust Company....................................	New Jersey
Bear Stearns Financial Products Inc.	Delaware
Bear Stearns Capital Markets Inc.	Delaware
Bear Stearns Credit Products Inc.	Delaware
Bear Stearns Forex Inc.	Delaware
EMC Mortgage Corporation...................................	Delaware
Bear Stearns Commercial Mortgage, Inc.	New York
Bear Energy LP...	Delaware
Bear Investment Products Inc...............................	New York

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our reports dated January 28, 2008, relating to the consolidated financial statements and the financial statement schedule of The Bear Stearns Companies Inc. (which reports express unqualified opinions and include explanatory paragraphs relating to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 155, "Accounting for Certain Hybrid Instruments, an amendment of FASB Statements No. 133 and 140" and SFAS No. 157, "Fair Value Measurements"), and the effectiveness of The Bear Stearns Companies Inc.'s internal control over financial reporting, appearing in or incorporated by reference in the Annual Report on Form 10-K of The Bear Stearns Companies Inc. for the year ended November 30, 2007.

Filed on Form S-3:	Filed on Form S-8:
Registration Statement No. 033-52053	Registration Statement No. 033-56103
Registration Statement No. 033-52701	Registration Statement No. 333-16041
Registration Statement No. 033-55673	Registration Statement No. 333-50928
Registration Statement No. 033-56009	Registration Statement No. 333-57460
Registration Statement No. 033-60065	Registration Statement No. 333-57661
Registration Statement No. 033-63561	Registration Statement No. 333-58007
Registration Statement No. 333-03685	Registration Statement No. 333-63002
Registration Statement No. 333-17985	Registration Statement No. 333-66353
Registration Statement No. 333-31277	Registration Statement No. 333-74200
Registration Statement No. 333-42295	Registration Statement No. 333-81901
Registration Statement No. 333-43565	Registration Statement No. 333-83580
Registration Statement No. 333-57083	Registration Statement No. 333-86060
Registration Statement No. 333-61437	Registration Statement No. 333-92357
Registration Statement No. 333-66861	Registration Statement No. 333-101461
Registration Statement No. 333-79417	Registration Statement No. 333-104006
Registration Statement No. 333-83049	Registration Statement No. 333-106567
Registration Statement No. 333-31980	Registration Statement No. 333-106631
Registration Statement No. 333-49876	Registration Statement No. 333-108976
Registration Statement No. 333-52902	Registration Statement No. 333-116983
Registration Statement No. 333-76894	
Registration Statement No. 333-104455	
Registration Statement No. 333-109793	
Registration Statement No. 333-121744	
Registration Statement No. 333-136599	
Registration Statement No. 333-136666	
Registration Statement No. 333-138353	

/s/ Deloitte & Touche LLP

New York, New York
January 28, 2008

EXHIBIT 31.1

CERTIFICATION

I, Alan D. Schwartz, 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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 29, 2008

/s/ Alan D. Schwartz
Alan D. Schwartz
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 29, 2008

/s/ Samuel L. Molinaro Jr.
Samuel L. Molinaro Jr.
Executive Vice President,
Chief Financial Officer and Chief Operating Officer

EXHIBIT 32.1

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

In connection with the Annual Report of The Bear Stearns Companies Inc. (the "Company") on Form 10-K for the fiscal year ended November 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan D. Schwartz, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 29, 2008

/s/ Alan D. Schwartz
Alan D. Schwartz
President and Chief Executive Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section.

EXHIBIT 32.2

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

In connection with the Annual Report of The Bear Stearns Companies Inc. (the "Company") on Form 10-K for the fiscal year ended November 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Samuel L. Molinaro Jr., Executive Vice President, Chief Financial Officer and Chief Operating Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 29, 2008

/s/ Samuel L. Molinaro Jr.
Samuel L. Molinaro Jr.
Executive Vice President,
Chief Financial Officer and Chief Operating Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section.