BEAR STEARNS COMPANIES INC
Form DEF 14A
March 07, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

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SCHEDULE 14A

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

Filed by the Registrant **x**
Filed by a Party other than the Registrant **o**

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule §240.14a-12

The Bear Stearns Companies Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

The Bear Stearns Companies Inc.

Proxy Statement

Notice of the Annual Meeting

of Stockholders to be held April 7, 2005

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

To Our Stockholders:

You are cordially invited to attend the 2005 Annual Meeting of Stockholders, which will be held on Thursday, April 7, 2005, at 5:00 p.m. Eastern Daylight Time, in the Bear Stearns Auditorium, 383 Madison Avenue, 2nd Floor, New York, New York.

At the meeting we will be reporting to you on your Company s current operations and outlook. Stockholders will elect directors of the Company and transact such other items of business as are listed in the Notice of Annual Meeting and more fully described in the Proxy Statement which follows. The Company s Board of Directors and management hope that many of you will be able to attend the meeting in person.

The formal Notice of Annual Meeting and the Proxy Statement follow. It is important that your shares be represented and voted at the meeting, regardless of the size of your holdings. **Accordingly, please mark, sign and date the enclosed Proxy and return it promptly in the enclosed envelope to ensure that your shares will be represented. You may also vote via the internet or by telephone by following the voting instructions printed on your proxy card or included with your proxy materials. If you do attend the Annual Meeting, you may withdraw your Proxy should you wish to vote in person.**

Sincerely yours,

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

March 7, 2005

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD APRIL 7, 2005

To the Stockholders of
THE BEAR STEARNS COMPANIES INC.:

The Annual Meeting of Stockholders of The Bear Stearns Companies Inc., a Delaware corporation (the Company), will be held on Thursday, April 7, 2005, at 5:00 p.m. Eastern Daylight Time, in the Bear Stearns Auditorium, 383 Madison Avenue, 2nd Floor, New York, New York. If you attend the meeting in person, you will need to present at the door the enclosed admission ticket and proper photo identification. If you have received your materials electronically or hold your Common Stock beneficially, you may receive a ticket at the door by presenting proper photo identification and an account statement showing your ownership of the Company s Common Stock. At the meeting you will be asked:

1. To elect 12 directors to serve until the next Annual Meeting of Stockholders or until their successors are duly elected and qualified.

2. To approve amendments to The Bear Stearns Companies Inc. Performance Compensation Plan that increase to $140 million (in the aggregate for any fiscal year) the maximum amount allocable to any Annual Bonus Pool related to participants who are not members of the executive committee of Bear, Stearns & Co. Inc. and set the maximum proportionate share of any Annual Bonus Pool for any individual participant at 30%.

3. To ratify the appointment of Deloitte & Touche LLP as independent auditors for the fiscal year ending November 30, 2005.

4. To transact such other business as may properly be brought before the meeting and any adjournments or postponements thereof.

Holders of record of Common Stock of the Company, par value $1.00 per share, at the close of business on February 23, 2005, will be entitled to notice of, and to vote on, all matters presented at the meeting and at any adjournments or postponements thereof.

By order of the Board of Directors

Kenneth L. Edlow,
Secretary

March 7, 2005

STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING. YOUR VOTE IS IMPORTANT. WHETHER YOU PLAN TO ATTEND THE MEETING OR NOT, PLEASE MARK, SIGN AND RETURN THE ENCLOSED PROXY CARD PROMPTLY IN THE ENCLOSED ENVELOPE OR, IF AVAILABLE, USE TELEPHONE OR INTERNET VOTING PRIOR TO THE MEETING TO ENSURE THAT YOUR SHARES WILL BE REPRESENTED. PLEASE REFER TO THE PROXY CARD OR OTHER VOTING INSTRUCTIONS INCLUDED WITH THESE PROXY MATERIALS IN ORDER TO VOTE VIA THE INTERNET OR BY TELEPHONE. YOU MAY NEVERTHELESS VOTE IN PERSON IF YOU ATTEND THE MEETING.

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

PROXY STATEMENT

Annual Meeting of Stockholders
April 7, 2005

This Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders and form of proxy are being furnished to the holders of Common Stock of The Bear Stearns Companies Inc. (the Company) in connection with the solicitation of proxies by the Board of Directors of the Company for use at the 2005 Annual Meeting of Stockholders of the Company to be held in the Bear Stearns Auditorium, 383 Madison Avenue, 2nd Floor, New York, New York, on Thursday, April 7, 2005, at 5:00 p.m. Eastern Daylight Time, and at any adjournments or postponements thereof. These proxy materials are being sent on or about March 7, 2005, to holders of record on February 23, 2005, of the Company s Common Stock, par value $1.00 per share (Common Stock).

A proxy card may be revoked by a stockholder prior to its exercise in any of three ways: by written notice to the Secretary of the Company; by submission of another proxy bearing a later date; or, by voting in person at the Annual Meeting. A vote through the internet or by telephone may be revoked by executing a later-dated proxy card; by subsequently voting through the internet or by telephone; or, by attending the Annual Meeting and voting in person. Revocation by notice to the Secretary of the Company, or by submission of a later proxy, will not affect a vote on any matter which is taken by the Company prior to the receipt of the notice or later proxy. The mere presence at the Annual Meeting of the stockholder appointing the proxy will not revoke the appointment. If not revoked, the proxy will be voted at the Annual Meeting in accordance with the instructions indicated on the proxy by the stockholder. If no instructions are indicated, the proxy will be voted FOR the slate of directors described in this Proxy Statement; FOR the approval of amendments to The Bear Stearns Companies Inc. Performance Compensation Plan (the Performance Compensation Plan); FOR the ratification of the appointment of Deloitte & Touche LLP as independent auditors for the fiscal year ending November 30, 2005; and, as to any other matter of business that may be brought before the Annual Meeting, in accordance with the judgment of the person or persons voting on the matter.

The Company has adopted a policy of encouraging stockholder participation in corporate governance by ensuring the confidentiality of stockholder votes. The Company has designated an independent third party, Automatic Data Processing, Inc., to receive and to tabulate stockholder proxy votes. The manner in which any stockholder votes on any particular issue will be kept confidential and will not be disclosed to the Company or any of its officers or employees except (i) where disclosure is required by applicable law, (ii) where disclosure of a vote of a stockholder is expressly requested by such stockholder, or (iii) where the Company concludes in good faith that a bona fide dispute exists as to the authenticity of one or more proxies, ballots or votes, or as to the accuracy of any tabulation of such proxies, ballots or votes. However, aggregate vote totals may be disclosed to the Company from time to time and publicly announced at the Annual Meeting. The policy of ensuring confidentiality of stockholder votes will also apply to shares of Common Stock held in customer accounts at the Company s subsidiary, Bear, Stearns Securities Corp. Holders of Common Stock whose shares are held in such accounts will be requested to give instructions with respect to the manner in which their shares are to be voted to Automatic Data Processing, Inc., which has been directed not to disclose such instructions to the Company.

This solicitation is being made by the Company. All expenses incurred by the Company in connection with this solicitation will be borne by the Company. Directors, officers and other employees of the Company also may solicit proxies, without additional compensation, by telephone, in person or otherwise. The Company also requests that brokerage firms, nominees, custodians, and fiduciaries forward proxy materials to the beneficial owners of shares held of record by such persons and will reimburse such persons and the Company s transfer agent for reasonable out-of-pocket expenses incurred by them in forwarding such materials.

THE COMPANY

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

VOTING SECURITIES

Holders of record of Common Stock at the close of business on February 23, 2005, are entitled to notice of, and to vote at, the Annual Meeting and at any adjournments or postponements thereof. Each outstanding share of Common Stock entitles the holder thereof to one vote. Shares of Common Stock represented by CAP Units (as defined under Executive Compensation Compensation Committee Report Equity Ownership and Capital Accumulation Plan) credited pursuant to the Capital Accumulation Plan for Senior Managing Directors (the CAP Plan) and Restricted Stock Units (as discussed under Equity Compensation Plan Information) are not outstanding and are not entitled to vote at the Annual Meeting.

On February 23, 2005, 113,325,173 shares of Common Stock were outstanding. The presence in person or by proxy at the Annual Meeting of the holders of a majority of such shares shall constitute a quorum.

Assuming the presence of a quorum at the Annual Meeting, the affirmative vote of a plurality of the votes cast by holders of shares of Common Stock is required for the election of directors. The affirmative vote of a majority of the shares of Common Stock represented at the meeting and entitled to vote is required for approval of amendments to the Performance Compensation Plan and ratification of the appointment of Deloitte & Touche LLP as independent auditors. An abstention with respect to any proposal will be counted as present for purposes of determining the existence of a quorum, but will have the practical effect of a negative vote as to that proposal. Brokers (other than Bear Stearns and BSSC) who do not receive stockholder instructions are entitled to vote on the election of directors and ratification of the appointment of Deloitte & Touche LLP as independent auditors. Under the rules of the New York Stock Exchange, Inc., brokers who do not receive stockholder instructions will not be entitled to vote on any of the other proposals contained in this Proxy Statement. Under the rules of the NYSE, if Bear Stearns and BSSC do not receive a stockholder s instructions, and other brokers are entitled to vote on a proposal, Bear Stearns and BSSC are also entitled to vote such shares of Common Stock, but only in the same proportion as the shares represented by votes cast by all other record holders with respect to such proposal. In the event of a broker non-vote with respect to any proposal coming before the meeting caused by the beneficial owner s failure to authorize a vote on such proposal, the proxy will be counted as present for the purpose of determining the existence of a quorum, but will not be deemed present and entitled to vote on that proposal for the purpose of determining the total number of shares of which a majority is required for adoption, having the practical effect of reducing the number of affirmative votes required to achieve a majority vote for such matter by reducing the total number of shares from which a majority is calculated.

- 2 -

Security Ownership of Certain Beneficial Owners

As of February 23, 2005, the following are the only entities (other than as set forth under Security Ownership of Directors and Executive Officers below) known to the Company to be the beneficial owners of more than 5% of the Common Stock:

Name and Address of Beneficial Owner	Total Number of Shares Beneficially Owned	Percent of Class
Private Capital Management, L.P. (1) 8889 Pelican Bay Blvd., Suite 500 Naples, Florida 34108	6,083,388 (1)	5.4% (1)

(1) Information provided is based on the Schedule 13G, dated February 14, 2005, filed with the Securities and Exchange Commission by Bruce S. Sherman, Gregg J. Powers and Private Capital Management, L.P., an Investment Adviser incorporated under the laws of Delaware (PCM), and the Company s shares of Common Stock outstanding at December 31, 2004. According to the Schedule 13G, as of December 31, 2004, PCM was the beneficial owner of 6,083,388 shares of Common Stock with shared voting and shared dispositive power over such shares. Bruce S. Sherman is the Chief Executive Officer of PCM and Gregg J. Powers is the President of PCM. In these capacities, Messrs. Sherman and Powers exercise shared voting and shared dispositive power with respect to shares held by PCM s clients and managed by PCM. Messrs. Sherman and Powers disclaim beneficial ownership for the shares held by PCM s clients and disclaim the existence of a group. The Schedule 13G indicates that Mr. Sherman is the beneficial owner of 6,123,162 shares with sole voting and sole dispositive power over 30,000 shares and shared voting and shared dispositive power over 6,093,162 shares and Mr. Powers is the beneficial owner of 6,083,388 shares with shared voting and shared dispositive power over such shares. The Company has calculated both Mr. Sherman s and Mr. Powers shares as representing 5.4% of the outstanding shares of Common Stock of the Company at December 31, 2004.

The determination that there were no other persons, entities or groups (other than as reported in Security Ownership of Directors and Executive Officers and the Company s employees as a group) known to the Company to be the beneficial owner of more than 5% of the Company s outstanding Common Stock was based on a review of all statements filed with the SEC with respect to the Company pursuant to Section 13(d) or 13(g) of the Securities Exchange Act of 1934, as amended (the Exchange Act) since the beginning of fiscal 2004.

- 3 -

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following information with respect to the outstanding shares of Common Stock beneficially owned by each director of the Company, each nominee for director of the Company, each executive officer named in the Summary Compensation Table under Executive Compensation and all directors, nominees and executive officers of the Company as a group, including shares of Common Stock subject to exercisable options and those which are exercisable within the next 60 days as well as vested Restricted Stock Units and those which vest within the next 60 days, is furnished as of January 31, 2005. Also set forth below as of such date is certain information with respect to the number of shares of Common Stock represented by CAP Units and Restricted Stock Units credited to the accounts of such persons pursuant to the CAP Plan, the Performance Compensation Plan and the Non-Employee Directors Stock Option and Stock Unit Plan (the Directors Plan), respectively (notwithstanding that shares underlying CAP Units and Restricted Stock Units generally are not deemed to be beneficially owned for this purpose because the named persons have neither the present ability to direct the vote nor the ability to dispose of such shares and will not have such rights within the next 60 days).

Name and Address (1)	Amount and Nature of Common Stock Beneficially Owned (2)(3)(4)	Percent of Common Stock Beneficially Owned	Common Stock Represented by CAP Units and Restricted Stock Units	Percentage of Outstanding Common Stock, CAP Units and Restricted Stock Units Combined
James E. Cayne (6)	5,919,424	5.21%	843,810	5.91%
Henry S. Bienen		(5)	48	(5)
Carl D. Glickman (7)	330,577	(5)	1,852	(5)
Alan C. Greenberg	15,000	(5)	355,634	(5)
Donald J. Harrington, C.M.	8,510	(5)	849	(5)
Samuel L. Molinaro Jr.	68,525	(5)	254,099	(5)
Frank T. Nickell	47,575	(5)	1,852	(5)
Paul A. Novelly (8)	4,408	(5)	1,517	(5)
Frederic V. Salerno	14,502	(5)	1,852	(5)
Alan D. Schwartz	1,111,353	(5)	730,821	1.61%
Warren J. Spector (9)	507,798	(5)	801,256	1.14%
Vincent Tese	12,556	(5)	1,852	(5)
Wesley S. Williams Jr.		(5)		(5)
All directors, nominees and executive officers as a group (17 individuals) (10)	8,658,889	7.57%	3,338,247	10.19%

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

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

(3) Does not include shares of Common Stock underlying CAP Units credited under the CAP Plan, except for the following number of shares to be distributed during March 2005 to the following persons: Mr. Cayne 25,438; Mr. Molinaro 1,866; Mr. Schwartz 20,002; Mr. Spector 155,398; and 10,551 shares to be distributed to executive officers included in the group of seventeen individuals above.

(4) Includes shares of Common Stock subject to exercisable options and those which are exercisable within the next 60 days held by the following persons: Mr. Cayne 211,864; Mr. Glickman 11,454; Father Harrington 8,454; Mr. Molinaro 43,053; Mr. Nickell 14,074; Mr. Novelly 4,408; Mr. Salerno 14,074; Mr. Schwartz 172,788; Mr. Spector 202,400; Mr. Tese 11,454; and 133,854 shares of Common Stock subject to exercisable options and those which are exercisable within the next 60 days held by executive officers included in the group of seventeen individuals above.

(5) Less than one percent.

(6) Includes 45,669 shares of Common Stock owned by Mr. Cayne s wife, as to which shares Mr. Cayne disclaims beneficial ownership. Includes 209,515 shares of Common Stock held by a charitable trust, as to which shares Mr. Cayne disclaims beneficial ownership. Does not include 217,454 shares of Common Stock held by trusts established for Mr. Cayne s children, as to which shares Mr. Cayne disclaims beneficial ownership. Does not include 8,248 shares of Common Stock owned by a child of Mr. Cayne, as to which shares Mr. Cayne disclaims beneficial ownership.

(7) Does not include 3,427 shares of Common Stock owned by Mr. Glickman s wife, as to which shares Mr. Glickman disclaims beneficial ownership.

(8) Does not include 66,577 shares of Common Stock held by the Novelly Exempt Trust, as to which shares Mr. Novelly disclaims beneficial ownership.

(9) Does not include 636 shares of Common Stock owned by Mr. Spector s wife, as to which shares Mr. Spector disclaims beneficial ownership.

(10) In addition to the shares as to which beneficial ownership is disclaimed in footnotes (6) through (9), also excludes an aggregate of 13,494 shares of Common Stock as to which beneficial ownership is disclaimed. Includes 22,360 shares of Common Stock subject to presently exercisable stock options and 2,460 shares of Common Stock to be distributed pursuant to the CAP Plan, as to which beneficial ownership is disclaimed.

I. ELECTION OF DIRECTORS

The Nominating Committee and the Board have nominated and are recommending the election of each of the nominees set forth below as a director of the Company to serve until the next Annual Meeting of Stockholders or until his successor is duly elected and qualified. Each nominee is currently a director of the Company. Each nominee who is elected or re-elected to the Board will hold office until the next Annual Meeting of Stockholders, in accordance with the By-laws of the Company. Should any nominee become unable or unwilling to accept nomination or election, it is intended that the persons named in the enclosed proxy will vote the shares that they represent for the election of a substitute nominee designated by the Board, unless the Board reduces the number of directors. At present, it is anticipated that each nominee will be a candidate. Since the last election of directors, Wesley S. Williams Jr. was appointed to the Board on June 16, 2004, and another independent board member, Henry S. Bienen, was appointed to the Board on September 22, 2004. Mr. Bienen and Mr. Williams were recommended to the Nominating Committee and the Board by employees of the Company. William L. Mack resigned from the Board effective October 1, 2004.

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

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

Name	Age as of January 31, 2005	Principal Occupation and Directorships Held	Year First Elected to Serve as Director of the Company
James E. Cayne	70	Chairman of the Board and Chief Executive Officer, the Company and Bear Stearns; member of the Executive Committee of the Company (the Executive Committee); member of the Board of Executives, New York Stock Exchange, Inc.	1985
Henry S. Bienen	65	President, Northwestern University	2004
Carl D. Glickman	78		1985

Name	Age as of January 31, 2005	Principal Occupation and Directorships Held	Year First Elected to Serve as Director of the Company
		Private Investor; Presiding Trustee and Chairman of the Executive Committee, Lexington Corporate Properties Trust	
Alan C. Greenberg	77	Chairman of the Executive Committee; Director, Viacom Inc.	1985
Donald J. Harrington	59	President, St. John s University; Director, The Reserve Fund, Reserve Institutional Trust, Reserve Tax-Exempt Trust, Reserve New York Tax-Exempt Trust and Reserve Special Portfolios Trust	1993
Frank T. Nickell	57	President and Chief Executive Officer, Kelso & Company; Director, BlackRock Inc. and Earle M. Jorgensen Company	1993
Paul A. Novelly	61	Chairman of the Board and Chief Executive Officer, Apex Oil Company, Inc.; Director, Intrawest Corporation and Boss Holdings, Inc.	2002
Frederic V. Salerno	61	Former Vice Chairman and Chief Financial Officer, Verizon Communications Inc.; Director, Popular, Inc., Viacom Inc., Consolidated Edison, Inc., Akamai Technologies, Inc. and Gabelli Asset Management Inc.	1992

Name	Age as of January 31, 2005	Principal Occupation and Directorships Held	Year First Elected to Serve as Director of the Company
Alan D. Schwartz	54	President and Co-Chief Operating Officer, the Company and Bear Stearns; member of the Executive Committee	1987 (1)
Warren J. Spector	47	President and Co-Chief Operating Officer, the Company and Bear Stearns; member of the Executive Committee	1990 (1)
Vincent Tese	61	Chairman, Wireless Cable International Inc.; Director, Bowne & Co., Inc., Cablevision Systems Corporation, Mack-Cali Realty Corporation, NWH, Inc. and Gabelli Asset Management Inc.	1994

(1) Did not serve as director during 1997 and 1998.

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

Mr. Bienen has been President of Northwestern University for more than the past five years.

Mr. Glickman has been a private investor for more than the past five years. Mr. Glickman is also currently Chairman of the Compensation Committee of the Board of the Company.

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

Father Harrington has been the President of St. John s University for more than the past five years.

Mr. Nickell has been President and Chief Executive Officer of Kelso & Company, a privately held merchant banking firm, for more than the past five years.

Mr. Novelly has been Chairman of the Board and Chief Executive Officer of Apex Oil Company, Inc., a privately held company engaged in wholesale marketing, storage and distribution of petroleum products, for more than the past five years.

Mr. Salerno was the Vice Chairman and Chief Financial Officer of Verizon Communications Inc. (formerly Bell Atlantic Corporation) until his retirement on September 30, 2002. Prior to June 2000, Mr. Salerno was the Senior Executive Vice President and Chief Financial Officer/Strategy and Business Development of Bell Atlantic Corporation. Prior to the merger of NYNEX Corp. (NYNEX) and Bell Atlantic Corporation, Mr. Salerno was the Vice Chairman of the Board of NYNEX for more than five years. Mr. Salerno is also currently Chairman of the Nominating Committee of the Board of the Company.

Mr. Schwartz became President and Co-Chief Operating Officer of the Company and Bear Stearns on June 25, 2001. From June 30, 1999 to June 24, 2001, Mr. Schwartz was an Executive Vice President of Bear Stearns. Prior to June 30, 1999, Mr. Schwartz was an Executive Vice President of the Company and of Bear Stearns for more than the preceding five years.

Mr. Spector became President and Co-Chief Operating Officer of the Company and Bear Stearns on June 25, 2001. From June 30, 1999 to June 24, 2001, Mr. Spector was an Executive Vice President of Bear Stearns. Prior to June 30, 1999, Mr. Spector was an Executive Vice President of the Company and of Bear Stearns for more than the preceding five years.

Mr. Tese has been Chairman of Wireless Cable International Inc. for more than five years. Mr. Tese is currently Chairman of the Audit Committee, the Corporate Governance Committee and the Qualified Legal Compliance Committee of the Board of the Company.

Mr. Williams had been a partner in the law firm of Covington & Burling for more than five years prior to his retirement on January 1, 2005. He has been President and Chief Operating Officer since 2004, Co-President and Co-Chief Operating Officer from 2003 to 2004, and Co-Chairman and Co-Chief Executive Officer for more than five years, of Lockhart Cos. Inc., a 24-company conglomerate of real estate, insurance, and consumer finance companies operating in the Eastern Caribbean. Prior to his retirement on January 1, 2005, Mr. Williams had been Chairman from 2003 through 2004, Deputy Chairman from 2001 through 2002, and a member of the Board of Directors for more than five years, of the Federal Reserve Bank of Richmond. Mr. Williams has also been Chairman since 2004, and a member of the Board of Directors for more than five years, of the National Prostate Cancer Coalition.

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

Board and Committees

The Board is currently comprised of 12 members. The Board has determined that all eight of the Company s non-employee directors, constituting a majority of the Board, meet the independence standards of NYSE Corporate Governance Standards Section 303A.02 and the Company s Director Independence Standards, which are attached as Exhibit D to this Proxy Statement. The eight non-employee directors consist of Messrs. Bienen, Glickman, Harrington, Nickell, Novelly, Salerno, Tese and Williams.

The Company s non-management directors have met in regularly scheduled executive sessions without management throughout fiscal 2004. Mr. Tese has been appointed by the non-management directors to serve as the presiding director of such sessions. Stockholders and other interested persons may contact the presiding director or the non-management directors individually or as a group, by writing to the presiding director or to such director(s) in care of the Corporate Secretary, The Bear Stearns Companies Inc., 383 Madison Avenue, 6th Floor, New York, New York 10179. Any such communications will be promptly distributed by the Secretary to the presiding director or such individual director(s).

The Company has also adopted a procedure by which stockholders may send communications as defined within Item 7(h) of Schedule 14A under the Exchange Act to one or more members of the Board by writing to such director(s) or to the whole Board in care of the Corporate Secretary, The Bear Stearns Companies Inc., 383 Madison Avenue, 6th Floor, New York, New York 10179. Any such communications will be promptly distributed by the Secretary to such individual director(s) or to all directors if addressed to the whole Board.

The Board held six meetings (exclusive of committee meetings) during fiscal 2004. The Board has established five committees whose functions and current members are described below. The Audit Committee, Compensation Committee, Nominating Committee, Corporate Governance Committee and the Qualified Legal Compliance Committee (collectively, the Board Committees) are committees of the Board and consist solely of members of the Board. In addition, there is an Executive Committee which includes both members and non-members of the Board, but may function in a manner comparable to that of Board committees, under certain circumstances as described below. During fiscal 2004, each current director attended 75% or more of the aggregate number of meetings of the Board and Board Committees (including for this purpose, the Executive Committee) on which he served, that were held during his period of service. The composition, purpose and responsibilities of each committee are set forth below.

Executive Committee. The Executive Committee of the Company consists of Messrs. Cayne, Greenberg (Chairman), Mark E. Lehman (an Executive Vice President of the Company), Molinaro, Schwartz and Spector. The Executive Committee normally met each week having held 110 meetings during fiscal 2004. The Executive Committee has the authority between meetings of the Board to take action with respect to a variety of matters delegated by the Board that are considered to be in the ordinary course of the Company s business.

Audit Committee. The Audit Committee of the Board consists of Messrs. Bienen, Glickman, Novelly, Salerno, Tese (Chairman) and Williams. Messrs. Bienen and Williams were appointed to the Audit Committee on September 22, 2004 after the Board reviewed their credentials and determined that their background and expertise would be beneficial to the Audit Committee. The Board has determined that each member of the Audit Committee is an independent director as that term is defined in NYSE Corporate Governance Standards Section 303A.02 and the Company s Director Independence Standards and meets the independence requirements contained in Exchange Act Rule 10A-3(b)(1). In addition, the Board has determined that each member of the Audit Committee meets the NYSE standards of financial literacy and accounting or related financial management expertise and the SEC criteria of an audit committee financial expert . Pursuant to NYSE Corporate Governance Standards Section 303A.07, no director may serve as a member of the Audit Committee if he serves on the audit committees of more than three other public companies unless the Board determines that such simultaneous service would not impair his ability to serve effectively on the Audit Committee. The Board has determined that Mr. Salerno s service on the audit committees of four of the five public companies wherein he serves as a director (Popular, Inc., Consolidated Edison, Inc., Akamai Technologies, Inc. and Gabelli Asset Management Inc.), as identified in his biography on page 6 of this Proxy Statement, does not impair his ability to serve effectively on the Company s Audit Committee and that his continued service on the Audit Committee is in the best interest of the Company and its stockholders. The Audit Committee is responsible for assisting the Board in their oversight of: the integrity of the financial statements of the Company; the Company s compliance with legal and regulatory requirements; the qualifications, performance and independence of the Company s independent auditor(s); the performance of the Company s internal audit function; and the Company s systems of disclosure controls and procedures, external financial reporting and internal control over financial reporting. The Audit Committee is also directly and solely responsible for the appointment, retention, compensation, oversight and termination of the Company s independent auditor(s) and for pre-approving all audit and permissible non-audit services to be performed by the independent auditor(s). The Audit Committee held 14 meetings during fiscal 2004. The Audit Committee Report begins on page 13 of this Proxy Statement.

Compensation Committee. The Compensation Committee of the Board consists of Messrs. Glickman (Chairman), Harrington, Nickell and Tese. The Board has determined that each member of the Compensation Committee is an independent director as that term is defined in NYSE Corporate Governance Standards Section 303A.02 and the Company s Director Independence Standards. The Compensation Committee establishes the compensation policies used in determining the compensation of all executive officers and other Senior Managing Directors, including members of the Board who are employees of the Company. The Compensation Committee administers the Performance Compensation Plan pursuant to which the salary and bonus compensation of certain Senior Managing Directors (including the Chief Executive Officer and certain executive officers) of the Company is determined based upon an evaluation of the performance of such individuals in relation to approved goals and objectives. The Compensation Committee also approves the salary and bonus compensation of other executive officers and other Senior Managing Directors based upon recommendations made by the Executive Committee and the Bear, Stearns and Co. Inc. Management and Compensation Committee, who are applying criteria established by the Compensation Committee. The Compensation Committee also administers certain aspects of the CAP Plan, the Stock Award Plan and the Restricted Stock Unit Plan (the RSU Plan). In addition, the Compensation Committee annually reviews the compensation process for equity research personnel. The Compensation Committee held nine meetings during fiscal 2004. The Compensation Committee Report begins on page 14 of this Proxy Statement.

Nominating Committee. The Nominating Committee of the Board consists of Messrs. Novelly, Salerno (Chairman) and Tese. Mr. Novelly was appointed to the Nominating Committee effective April 28, 2004. The Board has determined that each member of the Nominating Committee is an independent director as that term is defined in NYSE Corporate Governance Standards Section 303A.02 and the Company s Director Independence Standards.

The Nominating Committee makes recommendations to the Board with respect to the size and composition of the Board and identifies potential candidates to serve as directors. The Nominating Committee identifies Board candidates by introduction from management, members of the Board, employees or other sources and stockholders that satisfy the Company s policy regarding stockholder recommended candidates. The Nominating Committee does not evaluate director candidates recommended by stockholders differently than director candidates recommended by other sources. Stockholders wishing to submit recommendations for the 2006 Annual Meeting should write to the Corporate Secretary, The Bear Stearns Companies Inc., 383 Madison Avenue, 6th Floor, New York, New York 10179. Any such stockholder must meet and evidence the minimum eligibility requirements specified in Exchange

Act Rule 14a-8 and must submit, within the same timeframe for submitting a stockholder proposal required by Rule 14a-8: (1) evidence in accordance with Rule 14a-8 of compliance with the stockholder eligibility requirements, (2) the written consent of the candidate(s) for nomination as a director, (3) a resume or other written statement of the qualifications of the candidate(s) for nomination as a director, and (4) all information regarding the candidate(s) and the submitting stockholder that would be required to be disclosed in a proxy statement filed with the SEC if the candidate(s) were nominated for election to the Board.

In considering Board candidates, the Nominating Committee takes into consideration the Company s Board Candidate Guidelines, located in the Company s Corporate Governance Guidelines and attached as Exhibit C to this Proxy Statement, the Company s policy regarding stockholder recommended director candidates, as set forth above, and all other factors that they deem appropriate, including, but not limited to, the individual s character, education, experience, knowledge and skills. The Nominating Committee will also consider the extent of the individual s experience in business, education or public service, his or her ability to bring a desired range of skills, diverse perspectives and experience to the Board and whether the individual possesses high ethical standards, a strong sense of professionalism and is capable of serving the interests of stockholders. Additionally, the Nominating Committee will consider the number of boards that the candidate already serves on when assessing whether the candidate has the appropriate time to devote to Board service. The Nominating Committee held three meetings during fiscal 2004.

Corporate Governance Committee. The Corporate Governance Committee of the Board consists of Messrs. Nickell, Novelly and Tese (Chairman). The Board has determined that each member of the Corporate Governance Committee is an independent director as that term is defined in NYSE Corporate Governance Standards Section 303A.02 and the Company s Director Independence Standards. The purpose of the Corporate Governance Committee is to develop and recommend a set of corporate governance guidelines for the Company; to make recommendations to the Board in support of such guidelines; to take a leadership role in the shaping of the corporate governance of the Company; and to oversee the evaluation of the Board and management. The Corporate Governance Committee held two meetings during fiscal 2004.

Qualified Legal Compliance Committee. The Qualified Legal Compliance Committee of the Board (the QLCC) consists of Messrs. Bienen, Glickman, Novelly, Salerno, Tese (Chairman) and Williams. Mr. Novelly was elected to the QLCC effective March 31, 2004. Messrs. Williams and Bienen were elected to the QLCC effective September 22, 2004. The QLCC consists of at least one member of the Audit Committee and two or more members of the Board who are not employed, directly or indirectly, by the Company, as required by the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. The purpose of the QLCC is to receive, retain and investigate reports made by the Chief Legal Officer or an attorney appearing and practicing before the SEC in the representation of the Company of evidence of material violations of any United States federal or state securities law, including any breach of fiduciary duty by the Company, its officers, directors, employees or agents. The QLCC held one meeting during fiscal 2004.

Corporate Governance

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

Independent Directors. The Company has established and adopted Corporate Governance Guidelines which set forth guidelines for the appointment, retention, term, responsibilities, powers, qualifications and compensation regarding the Board and its committees. The Corporate Governance Guidelines (which include the Board Candidate Guidelines attached as Exhibit C to this Proxy Statement) contain the formal director qualification and independence standards adopted by the Board. The standards set forth the criteria by which director independence will be determined and include: prohibitions on material relationships with the Company; limitations on employment of a director or his or her immediate family members with the Company; limitation on the receipt of direct compensation from the Company; limitations on affiliation with the Company s auditors; and restrictions on commercial relationships. Audit Committee members are further restricted from receiving any compensatory fee from the Company or any subsidiary thereof, other than in the member s capacity as a member of the Board or any committee thereof. The Board has determined that a majority of the members of the Board, and each member

of the Audit Committee, Compensation Committee, Nominating Committee, Corporate Governance Committee and QLCC, are independent under these standards.

The Company s non-management directors meet in regularly scheduled executive sessions without management present in order to freely evaluate the performance of the Company s management. As noted above, Mr. Tese has been appointed to serve as the presiding director at such executive sessions. In addition, the non-management directors elected Mr. Tese as Lead Director of the Board. As Lead Director, Mr. Tese: presides at all Board meetings at which the chairman is not present, including executive sessions of the non-management directors; serves as liaison between the chairman and the independent directors; approves information sent to the Board; approves meeting agendas for the Board; approves meeting schedules to help ensure that there is sufficient time for discussion of all agenda items; has the authority to call meetings of the independent directors; and, if requested by stockholders, is available for consultation and direct communication.

As set forth above, the Company has adopted a procedure for interested parties to communicate with the non-management directors and a procedure for stockholders to communicate with the Board. In addition, to assure that members of the Board dedicate a sufficient amount of time to effectively serve the Company and its stockholders, the Company has adopted a policy limiting the number of public boards of directors that a Company director may serve on. The Company believes that it is important for members of the Board to attend the Annual Meetings of stockholders and therefore adopted a policy encouraging all directors to attend Annual Meetings. Ten members of the Board attended the Company s 2004 Annual Meeting.

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

Annual Performance Evaluations. The Board and each of the Board Committees conducted a self-evaluation. Accordingly, each Board Committee compared its performance with the provisions of its charter, set forth its objectives for the upcoming year and if the committee deemed necessary or appropriate, recommended changes to the Board. Each Board Committee reported the results of its evaluation to the Board. Furthermore, the Board evaluated itself and its committees to determine whether they are functioning effectively and to determine whether any modifications were necessary.

Audit Committee. The Board has determined that all of the members of the Audit Committee meet the NYSE standards of financial literacy and accounting or related financial management expertise and the SEC criteria of an audit committee financial expert . The Audit Committee operates under a formal charter, which in accordance with NYSE listing standards addresses the purpose, duties and responsibilities, and requires an annual performance evaluation, of the Audit Committee. A copy of the charter is attached as Exhibit A to this Proxy Statement.

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

Code of Business Conduct and Ethics. All of the Company s employees, officers (including senior executive, financial and accounting officers) and directors are held accountable for adherence to the Company s Code of Business Conduct and Ethics. The Code is intended to establish standards necessary to deter wrongdoing and to promote compliance with applicable governmental laws, rules and regulations and honest and ethical conduct. The Code covers all areas of professional conduct, including conflicts of interest, fair dealing, financial reporting and disclosure, protection of Company assets and confidentiality. Employees have an obligation to promptly report any known or suspected violation of the Code without fear of retaliation. Waiver of any provision of the Code for executive officers and directors may only be granted by the Board or one of its committees and any such waiver of the Code relating to such individuals will be disclosed by the Company.

A copy of the Code is filed as an exhibit to the Company s Annual Report on Form 10-K and is available on the Company s website at http://www.bearstearns.com. The website contains a corporate governance page, located within the Corporate Governance section under the heading About Bear Stearns . Copies of the Company s Corporate Governance Guidelines, Code, and the charters of each of the Audit Committee, Compensation Committee, Corporate Governance Committee, Nominating Committee and QLCC are available on the website and may also be obtained by any stockholder upon request without charge by writing to the Corporate Secretary, The Bear Stearns Companies Inc., 383 Madison Avenue, 6th Floor, New York, New York 10179.

AUDIT COMMITTEE REPORT

The members of the Audit Committee have been appointed by the Board. The Audit Committee is comprised of six directors who each meet the independence and experience requirements of the NYSE and the SEC criteria of an audit committee financial expert . The Audit Committee is governed by a charter (attached as Exhibit A) which has been approved and adopted by the Board and is reviewed and reassessed annually by the Audit Committee.

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

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

Management is responsible for the preparation and integrity of the Company s financial statements. The Audit Committee reviewed the Company s audited financial statements for the year ended November 30, 2004 and met with both management and the Company s external auditors to discuss those financial statements, including the critical accounting policies on which the financial statements are based. Management and the external auditors have represented to the Audit Committee that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Audit Committee has received from and discussed with the external auditors their written disclosure and letter regarding their independence from the Company as required by Independence Standards Board Standard No. 1. The Audit Committee also discussed with the external auditors any matters required to be discussed by Statement on Auditing Standards No. 61.

Based upon these reviews and discussions, the Audit Committee has recommended to the Board that the audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended November 30, 2004 for filing with the SEC.

AUDIT COMMITTEE

Henry S. Bienen
Carl D. Glickman
Paul A. Novelly
Frederic V. Salerno
Vincent Tese, Chairman
Wesley S. Williams Jr.

EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT

Compensation Policies

The Compensation Committee is empowered by the Board and the stockholders to oversee the compensation programs of the Company with particular attention to the compensation of the executive officers of the Company. The compensation philosophy of the Company has been strongly influenced by the principle that the compensation of the executive officers should be structured to link their financial reward to the achievement of annual and long-term performance goals. Thus, executives would both share in the success of the Company as a whole and be adversely affected by poor Company performance, thereby aligning their interests with the interests of the stockholders. In making decisions with respect to the compensation of executive officers, the Compensation Committee follows certain guidelines:

Total compensation should be comparable to that of the Company s primary competitors, so that the Company may recruit and retain talented executive officers who are key to the Company s long-term success.

Executive compensation should be directly linked to the Company s financial performance as measured annually, primarily through return on equity.

A significant portion of the total compensation paid to executive officers should be delivered in the form of equity-based awards. The value of equity-based awards cannot be realized immediately and depends upon the future performance of the Company and an increase in the market value of its stock.

To implement the foregoing philosophy, the salary and bonus compensation of executive officers is determined principally by the operation of the Performance Compensation Plan.

Performance Compensation Plan

Under the Performance Compensation Plan, executive officers, including the executive officers named in the Summary Compensation Table, and key employees receive a base salary of $200,000 per annum and a share of a performance-based bonus pool. The Compensation Committee determines the formula for calculating one or more bonus pools within 90 days after the beginning of each fiscal year based upon one or more of the following criteria, individually or in combination, adjusted in such manner as the Compensation Committee shall determine: (a) pre-tax or after-tax return on common equity; (b) earnings per share; (c) pre-tax or after-tax net income; (d) business unit or departmental pre-tax or after-tax income; (e) book value per share; (f) market price per share; (g) relative performance to peer group companies; (h) expense management; and (i) total return to stockholders.

The share of one or more of the bonus pools to be allocated to each executive officer in any fiscal year is determined by the Compensation Committee in its sole discretion. However, under no circumstance may the aggregate amount of the bonuses paid under the Performance Compensation Plan exceed 100% of any of the applicable bonus pools computed under the formula designated by the Compensation Committee. The maximum amount allocable to members of the executive committee of Bear, Stearns & Co Inc. in the aggregate for any fiscal year is $165,000,000 (the Executive Committee Pool). The maximum allocation to any individual member of the Executive Committee Pool is 30%. In fiscal 2004, the Executive Committee consisted of six members: the Company s Chief Executive Officer, Chairman of the Executive Committee, Co-Presidents, Chief Financial Officer and an Executive Vice President.

In fiscal 2004, the Compensation Committee determined that the formula used to calculate the Executive Committee Pool would be based on the Company s adjusted after-tax return on common equity. The Compensation Committee decided to exercise its negative discretion under the Performance Compensation Plan and awarded total annual compensation of $104,450,000, which was less than the aggregate bonus pool authorized under the terms of the Performance Compensation Plan. This amount consisted of a combination of cash, CAP Units (as defined below under Equity Ownership and Capital Accumulation Plan) and stock options (see Stock Award Plan). The participants in the Executive Committee Pool received 42.3% in cash, 20.0% in stock options and 37.7% in CAP units. The Compensation Committee believes that this amount of equity-based compensation strengthens the alignment of the interests of the executive officers with those of all stockholders, as the ultimate realization of the benefits attributable to stock options only occurs with an increase in the Company s stock price.

Equity Ownership and Capital Accumulation Plan

A focus on performance and growth and the direct alignment of employee and stockholder interests flows from the substantial ownership of Common Stock and CAP Units by senior executives of the Company. At January 31, 2005, the members of the Executive Committee beneficially owned 8.88% of the outstanding Common Stock, CAP Units and restricted stock units combined.

All executive officers receive a substantial portion of their annual compensation in awards made pursuant to the CAP Plan. In aggregate, 383,198 CAP Units were granted to the members of the Executive Committee related to fiscal 2004. Stock units (CAP Units) awarded pursuant to the CAP Plan vest 50% on each of the second and third anniversaries of the original grant date. After a five-year period, each officer will be entitled to receive from the Company a number of freely transferable shares of Common Stock equal to the number of CAP Units then credited to such officer s Capital Accumulation Account related to such award.

Stock Award Plan

The Stock Award Plan was established in 1999 and provides the Company the ability to award key employees stock options as a component of their annual compensation. The determination of recipients of stock options, the terms and conditions of such options within the parameters of the Stock Award Plan, and the number of shares covered by each option is determined by the Compensation Committee, based on management s recommendation.

In aggregate, 712,217 ten-year options were granted to members of the Executive Committee relating to their performance in fiscal 2004. These options were granted with exercise prices equal to the fair market value of the Common Stock on the date of grant and become exercisable after three years. The Compensation Committee believes that the award of stock options is an important component in the compensation of executive officers, as the ultimate economic value of such awards can only be achieved as a result of share price growth. As a result, the interests of executive officers are directly aligned with those of the stockholders.

Compensation of Chief Executive Officer

The total compensation of Mr. Cayne, the Company s Chief Executive Officer, along with other members of the Executive Committee, is determined in all respects by the Performance Compensation Plan. Pursuant to the terms of the Performance Compensation Plan for fiscal 2004, Mr. Cayne received a base salary of $200,000 and shared in a bonus pool based on the Company s fiscal 2004 after-tax return on common equity. Mr. Cayne s proportionate share of the fiscal 2004 bonus pool (as well as that of the other members of the Executive Committee) was determined by the Compensation Committee in February 2004. Based upon Mr. Cayne s individual performance in fiscal 2004 and the performance of the Company, the Compensation Committee determined that Mr. Cayne would receive total compensation in fiscal 2004 of $24,721,875 consisting of the following components (including 168,585 stock options):

Base Salary	Cash Bonus	CAP Units	Stock Options	Total
$200,000	$10,081,291	$9,496,209	$4,944,375	$24,721,875

Such compensation was less than that which could have been awarded under the terms of the Performance Compensation Plan. The Compensation Committee believes that Mr. Cayne s fiscal 2004 compensation was fair given the Company s absolute performance and also its performance compared to its key competitors. In fiscal 2004, the Company achieved exceptional results. Earnings per share for the year ended November 30, 2004 were a record $9.76 per share, an increase of 15% from the prior year. Net income for fiscal 2004 was a record $1.34 billion, an increase of 16% when compared to fiscal 2003. Net revenues for fiscal 2004 also reached a record level of $6.8 billion, an increase of 14% from the prior year. Annualized return on average common equity for the year ended November 30, 2004 was 19.1%. Book value grew by more than $10 per share to $59.13 in fiscal 2004 and the stock increased by 35%. Over the same period, the Company s peer group shares rose an average of 4%. Due to the substantial portion of Mr. Cayne s compensation being delivered in the form of stock units and stock options, the ultimate realization of benefits from his current bonus will depend on the future performance of the Company and the value of its Common Stock.

Tax Deductibility under Section 162(m)

Section 162(m) of the Internal Revenue Code of 1986, as amended, limits deductibility for federal income tax purposes of compensation in excess of $1,000,000 annually paid to individual executive officers named in the Summary Compensation Table unless certain exceptions, including compensation based on performance goals, are satisfied. The Performance Compensation Plan, the CAP Plan and the Stock Award Plan have been established and maintained in an effort to comply with the performance-based exception to limits on deductibility of executive officer compensation. However, while the Compensation Committee currently seeks to maximize the deductibility of compensation paid to executive officers, it will maintain the flexibility to take actions which may be based upon other considerations.

Conclusion

The Compensation Committee believes that the Company performed well in the current business environment. The Company s performance as measured by profit margins and earnings per share increased significantly from the prior year and return on common equity was among the highest of its key competitors. Therefore, the compensation paid to the Company s executive officers reflects the Company s strong absolute and relative performance. Attracting and retaining talented and motivated management and employees is essential to creating long-term stockholder value. Offering a competitive performance-based compensation program with a significant equity component helps to achieve this objective.
The Compensation Committee believes that the Performance Compensation Plan, the CAP Plan and the Stock Award Plan provide appropriate incentives to senior management of the Company and are fair and reasonable methods for determining the compensation of executive officers, including the Chief Executive Officer. The compensation program of the Company properly serves to align the interests of executives and stockholders.

COMPENSATION COMMITTEE

Carl D. Glickman, Chairman
Donald J. Harrington
Frank T. Nickell
Vincent Tese

COMPENSATION TABLES AND OTHER INFORMATION

The following table sets forth information with respect to the Chief Executive Officer and the four most highly compensated executive officers of the Company (other than the Chief Executive Officer) for the fiscal years ended November 30, 2004, 2003 and 2002:

Summary Compensation Table

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS		
Name and Principal Position	**Fiscal Year**	**Salary**	**Bonus (1)**	**Restricted Stock Awards (2)(3)(4)**	**Securities Underlying Options (#)**	**All Other Compensation (5)**
James E. Cayne	2004	$200,000	$10,081,291	$ 9,496,209	168,585	$ 6,482,057
Chairman of the Board	2003	200,000	11,009,432	10,419,633	256,143	12,296,347
and Chief Executive Officer	2002	200,000	10,006,750	7,982,583	68,000	10,178,600
Alan C. Greenberg	2004	$200,000	$ 5,933,750	$ 5,383,750	98,176	$ 1,737,163
Chairman of the Executive	2003	200,000	6,516,519	5,963,136	150,396	5,005,360
Committee	2002	200,000	5,995,000	4,591,667	40,000	4,224,231
Samuel L. Molinaro Jr.	2004	$200,000	$ 5,736,500	$ 4,961,500	92,895	$ 1,307,296

			ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS		
Executive Vice President	2003	200,000	5,300,765	4,538,107	116,582		776,663
and Chief Financial Officer	2002	200,000	4,332,500	3,027,500	30,000		406,524
Alan D. Schwartz	2004	$200,000	$ 9,596,080	$ 8,948,920	159,784		$ 5,400,154
President and Co-Chief	2003	200,000	10,486,887	9,836,524	242,307		9,032,967
Operating Officer	2002	200,000	9,537,500	7,475,833	65,000		7,452,512
Warren J. Spector	2004	$200,000	$ 9,563,562	$ 8,981,438	159,784		$ 17,378,312
President and Co-Chief	2003	200,000	10,429,968	9,874,471	243,207		17,750,992
Operating Officer	2002	200,000	9,493,592	7,519,741	65,000		13,921,316

(1) Represents amounts payable under the Performance Compensation Plan. See Executive Compensation Compensation Committee Report Performance Compensation Plan .

(2) Represents the portion of the named executive officer s bonus deferred pursuant to the CAP Plan. See Executive Compensation Compensation Committee Report Equity Ownership and Capital Accumulation Plan .

(3) As of December 31, 2004, the value and the aggregate number of CAP Units in the accounts of each named person (based on the closing price of the Common Stock on the Consolidated Transaction Reporting System on December 31, 2004) was: Mr. Cayne $88,932,760 (869,247 units); Mr. Greenberg $36,384,958 (355,634 units); Mr. Molinaro $25,646,234 (250,671 units); Mr. Schwartz $76,816,698 (750,822 units); and Mr. Spector $97,875,187 (956,653 units).

(4) On December 11, 2000, Mr. Molinaro received restricted stock units as part of his compensation pursuant to the Performance Compensation Plan. Mr. Molinaro s grant was $788,021, which represents 15,879 restricted stock units. Dividend equivalents of additional restricted stock units are payable by the Company on all such holdings from the date of grant. On June 30, 2004, Mr. Molinaro vested into and received a distribution of 5,489 restricted stock units, which represented 33 1/3% of the units originally granted plus all related dividend equivalents through the vesting date. The remaining restricted stock units will vest on June 30, 2005.

(5) Represents preferential earnings paid in the form of CAP Units pursuant to the CAP Plan that exceed cash dividends paid on the equivalent shares of Common Stock.

Option Grants in Last Fiscal Year(1)

Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date (2)	Grant Date Present Value (3)
James E. Cayne	168,585	3.89%	$102.65	12/28/14	$4,944,375
Alan C. Greenberg	98,176	2.26%	102.65	12/28/14	2,879,375
Samuel L. Molinaro Jr.	92,895	2.14%	102.65	12/28/14	2,724,500
Alan D. Schwartz	159,784	3.68%	102.65	12/28/14	4,686,250
Warren J. Spector	159,784	3.68%	102.65	12/28/14	4,686,250

(1) Represents awards made in December 2004 for performance in fiscal year 2004.

(2) All stock options become exercisable three years after grant date.

(3) Valued using a modified Black-Scholes option pricing model. The exercise price of each stock option ($102.65) is equal to the closing price on the Consolidated Transaction Reporting System of a share of Common Stock on December 27, 2004, the date immediately preceding the date of the grant. The assumptions used for the variables in the model were: 23.50% volatility (a projection of the volatility of the Common Stock over the 120 month term of the options); a 4.24% risk-free rate of return (based on the USD Interest Rate Swap Curve, expressed as a zero-coupon rate over the 120 month term); a 1.45% dividend yield (which was an estimated projected dividend yield on the date of grant); and a ten year option term (which is the maximum term of the options). A discount was applied to the option value yielded by the model to reflect the non-marketability of the options. The actual gain, if any, that executives will realize on their stock options will depend on the future price of the Common Stock and cannot be accurately forecasted by application of an option pricing model.

Aggregated Stock Option Exercises Made in Last Fiscal Year and Fiscal Year-End Option Values

			Underlying Unexercised Options at Fiscal Year-End		In-the-Money Options at Fiscal Year-End (1)	
Name	**Shares Acquired on Exercise**	**Value Realized**	**Exercisable (2)**	**Unexercisable**	**Exercisable**	**Unexercisable**
James E. Cayne			211,864	492,728	$ 10,725,717	$ 8,387,328
Alan C. Greenberg (3)	66,475	$ 1,759,261	18,702	288,572	761,171	4,927,137
Samuel L. Molinaro Jr.			43,053	239,477	2,011,977	3,785,549
Alan D. Schwartz			172,788	467,091	8,701,445	7,956,876
Warren J. Spector			202,400	467,991	10,247,191	7,978,323

(1) This valuation represents the difference between $97.58, the closing price of a share of Common Stock reported on the Consolidated Transaction Reporting System on November 30, 2004 and the exercise prices of those stock options outstanding at November 30, 2004 multiplied by the number of options outstanding at each exercise price. The actual value, if any, that executives will realize upon the exercise of any option will depend upon the difference between the exercise price of the option and the market price of the Common Stock on the date the option is exercised.

(2) Includes options that vested and became exercisable on December 17, 2004.

(3) In addition, Mr. Greenberg also exercised and sold 18,702 options on January 3, 2005, which represented the options that vested on December 17, 2004.

Compensation of Directors

In fiscal 2004, each director who was not an employee of the Company received an annual retainer of $50,000, plus $1,500 for each meeting of the Board attended, and reasonable expenses relating to attendance at such meetings. No increases to these amounts have been proposed for fiscal 2005. Directors who are members of the Audit Committee, Compensation Committee, Nominating Committee, Corporate Governance Committee and QLCC receive additional compensation at the rate of $1,500 for each meeting of the Audit Committee, Compensation

Committee, Nominating Committee, Corporate Governance Committee and QLCC attended, with the exception of telephone conference committee meetings for which the compensation paid for participation is $200.

Pursuant to the provisions of the Directors Plan, each of the directors of the Company who is not an officer or employee of the Company or any of its subsidiaries (the Non-Employee Directors) as of the date of an annual meeting of stockholders and whose service will continue after such meeting is granted an option to purchase shares of Common Stock and a number of restricted stock units. The exercise price of an option is equal to the closing price of the Common Stock on the NYSE on the date the grant is made. The number of shares covered by the option and the number of restricted stock units is equal to the quotient of an amount determined by the Executive Committee divided by the average closing price of the Common Stock for the five trading days immediately preceding the date of such meeting, subject to adjustment as provided in the Directors Plan. The options have a ten-year term, are exercisable six months from the date of grant and are subject to termination upon the occurrence of certain events as provided in the Directors Plan.

Pursuant to the annual grant provisions of the Directors Plan, all of the Company s Non-Employee Directors at March 31, 2004 received stock options valued at $42,500 in fiscal 2004. In addition, each Non-Employee Director at March 31, 2004 received restricted stock units valued at $42,500 in fiscal 2004. On February 9, 2005, the Board approved the following changes to fees paid to the Company s non-employee directors. The Board felt that these changes were appropriate to reflect both the additional time commitments required of directors as a result of legislative and regulatory developments as well as to maintain the Company s ability to attract qualified directors in light of the director fees paid by the Company s competitors. The annual grant made pursuant to the Directors Plan will be increased from $42,500 to $67,500 in value of options to purchase shares of Common Stock and from $42,500 to $67,500 in value of restricted stock units, beginning on April 7, 2005. The increase in value of grants of stock options and restricted stock units is the first since fiscal 2002. In addition, the Company also instituted the payment of annual fees to the Chairman of the Audit Committee ($25,000), the Chairman of the Compensation Committee ($10,000) and the Lead Director ($20,000). These additional fees will be paid on a quarterly basis commencing April 7, 2005. The Directors Plan also permits Non-Employee Directors to elect to receive options or shares of Common Stock in exchange for up to one-half of the annual cash retainer paid by the Company for services rendered as a director.

PERFORMANCE GRAPH

The following performance 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 26, 1999, and that all dividends have been reinvested. There can be no assurance that the Company s future stock performance will correlate with past stock performance.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

Assumes $100 invested on November 26, 1999 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.

	1999	2000	2001	2002	2003	2004
The Bear Stearns Companies Inc.	$100.00	$116.00	$146.77	$165.04	$188.90	$256.93
Peer Group (1)	100.00	116.94	114.21	102.14	129.21	134.90
S&P 500 Investment Banking & Brokerage Index	100.00	117.05	98.88	83.05	102.10	105.06
S&P 500 Index	100.00	93.92	82.44	68.83	79.21	89.40

(1) In fiscal year 2000, The Goldman Sachs Group, Inc. was added to the Peer Group. The Goldman Sachs Group, Inc. is not included in results for 1999.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Certain Transactions

The Company, in the ordinary course of business, has extended credit to certain of its directors, officers and employees in connection with their purchase of securities. Such extensions of credit have been made on substantially the same terms (including as to interest rates and collateral requirements) as those prevailing at the time for comparable transactions with non-affiliated persons, except that for some credit products, the interest rates charged were equivalent to the lowest of the interest rates charged to other persons or were the same as those charged to Company employees and did not involve more than the normal risk of collectability or have unusual terms or conditions which are disadvantageous to the Company. To the extent that officers and employees of the Company and members of their immediate families wish to purchase securities in brokerage transactions, they ordinarily are required to do so through Bear Stearns, which offers them a discount from its standard commission rates that could be substantial depending on various factors, including the size of the transaction. Bear Stearns periodically, in the ordinary course of its business, enters into transactions, as principal, involving the purchase or sale of securities and commercial paper (including different forms of repurchase transactions) with directors, officers, employees of the Company and members of their immediate families. Such purchases and sales of securities or commercial paper on a principal basis are effected on substantially the same terms as similar transactions with unaffiliated third parties.

The Company, from time to time, has made loans to its executive officers and other employees. All loans outstanding between the Company and any of its directors or executive officers on and after July 30, 2002, including those discussed in this section, have been in existence without material modification since such date or are otherwise exempt from the prohibitions of Section 13(k) of the Exchange Act. The Company has formed several limited partnerships which provide investment opportunities for the Company s key employees. For certain of the partnerships, the Company provides nonrecourse, interest-bearing loans to the participants. The loans bear interest at the London Interbank Offered Rate (LIBOR) plus 1.0% or 1.75%, depending on the partnership. At November 30, 2004, in aggregate for these partnerships, the total amounts loaned in excess of $60,000 to directors and executive officers are as follows: James E. Cayne ($231,706), Jeffrey M. Farber (Controller of the Company) ($92,682), Mark E. Lehman ($231,706), Michael Minikes (Treasurer of the Company) ($185,364), Samuel L. Molinaro Jr. ($185,364), Alan D. Schwartz ($231,706) and Warren J. Spector ($811,963). The partnerships made distributions during fiscal 2004 to the participants. The total amounts distributed in excess of $60,000 to directors and executive officers in fiscal 2004 were as follows: Mr. Cayne ($93,941), Mr. Schwartz ($93,941) and Mr. Spector ($291,941). These distributions are net of amounts used to repay principal and interest on the nonrecourse, interest-bearing loans to the participants. For the fiscal year ended November 30, 2004, in aggregate for these partnerships, the total amounts used to repay loan principal and interest for the aforementioned participants were as follows: Mr. Cayne ($203,062), Mr. Schwartz ($203,062) and Mr. Spector ($364,813).

Mr. Cayne and his wife own in excess of 10% of the limited partnership interests in Colden Capital Partners L.P. (Colden). The managing partner of Colden is Colden Capital Management LLC, the managing member of which is a son-in-law of the Caynes. Colden is a prime brokerage client of Bear Stearns and as such it is eligible to receive a wide variety of services from Bear Stearns which include clearing services and the use of office space. All transactions between Colden and Bear Stearns are conducted in the ordinary course of business and on terms comparable with transactions of unrelated third parties. During the fiscal year ended November 30, 2004, Colden received net interest income of $376,702 from Bear Stearns. In addition, during the fiscal year ended November 30, 2004, Colden and its affiliates paid Bear Stearns $265,350 in clearance fees and charges.

Mr. Novelly s adult son, Paul A. Novelly II, had been employed as an Account Executive in the Private Client Services department of Bear Stearns since September 1990. During fiscal 2004