

BEAR STEARNS COMPANIES INC
Form 424B5
January 16, 2003

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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-076894

PROSPECTUS SUPPLEMENT

(To Prospectus Dated January 25, 2002)

US\$500,000,000
The Bear Stearns Companies Inc.
4.00% Global Notes due 2008

Set forth below is a summary of the terms of the Notes offered by this prospectus supplement and the accompanying prospectus. For more detail, see "Description of the Notes."

- **Global Offering**

We are offering the Notes in the United States and in parts of Europe and Asia where it is legal to offer the Notes.

- **Interest**

The Notes have a fixed annual rate of 4.00%, which will be paid every six months on January 31 and July 31.

- **Maturity**

The Notes will mature on January 31, 2008.

- **Ranking**

The Notes will be our unsecured senior debt and will rank equally with all of our other unsecured and unsubordinated debt.

- **Redemption**

The Notes are only redeemable prior to maturity if certain events involving US taxation occur.

- **No Sinking Fund**

The Notes will not be subject to any sinking fund.

- **Book-Entry Notes**

The Notes will be represented by one or more global securities registered in the name of Cede & Co., as nominee of The Depository Trust Company.

- **Listing**

We will make application to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 for the Notes to be admitted to the official list of the UK Listing Authority and to the London Stock Exchange plc for such Notes to be admitted to trading on the London Stock Exchange's market for listed securities.

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The Notes that we are offering are a further issuance of, are fungible with and are consolidated to form a single series with our 4.00% Global Notes due January 31, 2008 issued on December 26, 2002. The Notes offered by this prospectus supplement will have the same CUSIP number, Common Code and International Security Identification Number and will trade interchangeably with the previously issued Notes in this series immediately upon settlement. Currently, \$500,000,000 aggregate principal amount of those Notes are outstanding. This issuance increases the aggregate principal amount of the outstanding Notes of this series to \$1,000,000,000.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	<u>Per Note</u>	<u>Total</u>
Initial public offering price	99.677%	\$ 498,385,000
Underwriting discount	0.350%	\$ 1,750,000
Proceeds, before expenses, to us	99.327%	\$ 496,635,000

Bear, Stearns & Co. Inc. is the Global Coordinator for the offering of the Notes. Bear, Stearns International Limited is the International Coordinator for all Notes to be sold to purchasers in Europe. The Underwriters expect to deliver the Notes in book-entry form only through the facilities of The Depository Trust Company, Clearstream Banking, société anonyme and Euroclear Bank S.A./N.V., as operator of the Euroclear System against payment on or about January 17, 2003.

After this offering is complete, the Underwriters may use this prospectus supplement and the accompanying prospectus in connection with market-making transactions at negotiated prices related to the prevailing market prices at the time of sale. The Underwriters may act as principal or agent in these transactions.

Bear, Stearns & Co. Inc.

Bear, Stearns International Limited

Banc of America Securities LLC

Banc One Capital Markets, Inc.
Blaylock & Partners, L.P.
Credit Lyonnais Securities
JPMorgan
Mellon Financial Markets, LLC
Salomon Smith Barney
Wachovia Securities

BB&T Capital Markets
BNP PARIBAS
Fleet Securities, Inc.
McDonald Securities
Morgan Keegan & Company, Inc.
U.S. Bancorp Piper Jaffray
Wells Fargo Brokerage Services, LLC

The date of this prospectus supplement is January 14, 2003

Offers and sales of the Notes are subject to restrictions in certain jurisdictions. In particular, there are restrictions on the distribution of this prospectus supplement and the accompanying prospectus and the offer or sale of the Notes in the United Kingdom, and details of these restrictions are set out in "Underwriting" in this prospectus supplement. The distribution of this prospectus supplement and the accompanying prospectus and the offer or sale of the Notes in certain other jurisdictions may be restricted by law. Persons who come into possession of this prospectus supplement and the accompanying prospectus or any Notes must inform themselves about and observe any applicable restrictions on the distribution of this prospectus supplement and the accompanying prospectus and the offer and sale of the Notes.

We accept responsibility for the information contained in this prospectus supplement and the accompanying prospectus. To the best of our knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this prospectus supplement and the accompanying prospectus is in accordance with the facts and does not omit anything likely to affect the import of the information.

You must read this prospectus supplement and the accompanying prospectus as one along with all the documents which are deemed to be incorporated in this prospectus supplement and the accompanying prospectus by reference (see "Where You Can Find More Information"). This prospectus supplement and the accompanying prospectus must be read and construed on the basis that the incorporated documents are so incorporated and form part of this document, except as specified in this document.

We have not authorized any person to give any information or represent anything not contained in this prospectus supplement and the accompanying prospectus. You must not rely on any unauthorized information.

In order to facilitate the offering of the Notes, Bear Stearns, in its capacity as Global Coordinator of the offering of the Notes, may over-allot or effect transactions which stabilize or maintain the market price of the Notes at a level higher than that which might otherwise prevail in the open market. Specifically, Bear Stearns, on behalf of the Underwriters, may over-allot or otherwise create a short position in the Notes for the account of the Underwriters by selling more Notes than have been sold to them by us. Bear Stearns, on behalf of the Underwriters, may elect to cover any such short position by purchasing Notes in the open market. In addition, Bear Stearns, on behalf of the Underwriters, may stabilize or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales of Notes. No representation is made as to the magnitude or effect of any such stabilization or other transactions. Such stabilizing, if commenced, may be discontinued at any time and in any event shall be discontinued within a limited period. No other party may engage in stabilization.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus include and incorporate by reference "forward-looking statements" within the meaning of the securities laws. All statements regarding our expected financial position, business and financing plans are forward-looking statements. Forward-looking statements also include representations of our expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect of international, national and regional economic conditions and the performance of our products within the prevailing economic environment. Although we believe that the expectations reflected in those forward-looking statements are reasonable, those expectations may prove to be incorrect. Cautionary statements describing important factors that could cause actual results to differ materially from our expectations are disclosed in this prospectus supplement along with the forward-looking statements included or incorporated by reference in this prospectus supplement and the accompanying prospectus. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such cautionary statements. These forward-looking statements speak only as of the date of the document in which they are made. We disclaim any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances on which the forward-looking statement is based.

CERTAIN DEFINITIONS

Unless otherwise stated in this prospectus supplement:

the "Company," "we," "us" and "our" refer to The Bear Stearns Companies Inc. and its subsidiaries;

"AMEX" refers to the American Stock Exchange;

"Bear Stearns" refers to Bear, Stearns & Co. Inc.;

"BSB" refers to Bear Stearns Bank plc;

"BSSC" refers to Bear, Stearns Securities Corp.;

"BSIL" refers to Bear, Stearns International Limited;

"NYSE" refers to the New York Stock Exchange; and

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"US dollars," "dollars," "US \$" and "\$" refer to the lawful currency of the United States of America.

Other capitalized terms that are used but not defined in this prospectus supplement have the meanings given to them in the accompanying prospectus.

Bear Stearns, BSB, BSSC and BSIL are subsidiaries of The Bear Stearns Companies Inc.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file at the SEC's public reference rooms located at 450 Fifth Street, N.W., Washington, D.C. 20549 and at Northwest Atrium Center, 5000 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC's web site at <http://www.sec.gov>. Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, U.S.A.

The SEC allows us to "incorporate by reference" the information that we file with them, which means that we can disclose important information to you by referring you to the other information we have filed with the SEC. The information that we incorporate by reference is considered to be part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information.

The following documents filed by us with the SEC pursuant to Section 13 of the Exchange Act (File No. 1-8989) and any future filings under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act made before the termination of the offering of the Notes are incorporated by reference:

- (i) the Annual Report on Form 10-K (including the portions of the Company's Annual Report to Stockholders and Proxy Statement incorporated by reference therein) for the fiscal year ended November 30, 2001;
- (ii) the Quarterly Report on Form 10-Q for the quarters ended February 28, 2002, May 31, 2002 and August 31, 2002; and
- (iii) the Current Reports on Form 8-K dated December 20, 2001, January 8, 2002, January 8, 2002, January 25, 2002, March 20, 2002, March 27, 2002, June 19, 2002, June 20, 2002, September 18, 2002, September 20, 2002, October 30, 2002, December 18, 2002, December 18, 2002, December 20, 2002 and January 8, 2003.

We will provide to you without charge, a copy of any or all documents incorporated by reference into this prospectus supplement except the exhibits to such documents (unless such exhibits are specifically incorporated by reference in such documents). You may request copies by writing or telephoning us at the Corporate Communications Department, The Bear Stearns Companies Inc., 383 Madison Avenue, New York, New York 10179, U.S.A.; telephone number (212) 272-2000. In addition, once the Notes are admitted to the Official List of the UK Listing Authority (as defined below), these documents will be available from BSIL in its capacity as listing agent for the Notes at its principal office at One Canada Square, London E14 5AD, England.

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SUMMARY OF THE OFFERING

Issuer	The Bear Stearns Companies Inc.
Securities Offered	US \$500,000,000 aggregate principal amount of 4.00% Global Notes due 2008. The Notes that we are offering are a further issuance of, are fungible with and are consolidated to form a single series with our 4.00% Global Notes due January 31, 2008 issued on December 26, 2002. The Notes offered by this prospectus

supplement will have the same CUSIP number, Common Code and International Security Identification Number and will trade interchangeably with the previously issued Notes in this series immediately upon settlement. Currently, \$500,000,000 aggregate principal amount of those Notes are outstanding. This issuance increases the aggregate principal amount of the outstanding Notes of this series to \$1,000,000,000.

Specified Currency The Notes will be denominated in US dollars and all payments on the Notes will be made in US dollars.

Offering Price The Notes are being offered at a price of 99.677% of par.

Date of Original Issuance (Settlement Date) January 17, 2003.

Maturity Date January 31, 2008.

Interest Payment Dates January 31 and July 31 in each year, beginning July 31, 2003.

Ranking The Notes will be unsecured and will rank equally with all our other unsecured and unsubordinated debt. Because we are a holding company, the Notes will be effectively subordinated to the claims of creditors of our subsidiaries with respect to their assets. At August 31, 2002:

we had outstanding (on an unconsolidated basis) approximately \$30.4 billion of debt and other obligations, including approximately \$28.5 billion of senior debt, none of which is secured; and

our subsidiaries had outstanding (after consolidation and eliminations) approximately \$143.9 billion of debt and other obligations (including \$53.1 billion related to securities sold under repurchase agreements, \$53.3 billion related to payables to customers, \$24.7 billion related to financial instruments sold, but not yet purchased, and \$12.8 billion of other liabilities, including \$9.9 billion of debt).

Mandatory Redemption or Sinking Fund None.

Optional Redemption The Notes may only be redeemed prior to maturity if certain events involving US taxation occur. See "Redemption Upon Certain Tax Events" below.

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Payment of Additional Amounts Subject to the various exceptions and limitations set forth in this prospectus supplement, we will pay as additional interest or, as the case may be, principal on the Notes all such additional amounts that are necessary in order that the net payment by us or a paying agent of the principal of and interest on the Notes to a person that is not a US Holder (as defined under "Certain US Federal Income Tax Considerations"), after deduction for any present or future tax, assessment or governmental charge of the United States or a political subdivision or taxing authority of the United States or in the United States, imposed by withholding with respect to the payment, will not be less than the amount provided in the Notes to be then due and

payable. See "Description of the Notes Payment of Additional Amounts" below.

Redemption Upon Certain Tax Events

If (a) as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated under those laws) of the United States (or any political subdivision or taxing authority of the United States or in the United States), or any change in, or amendments to, the official position regarding the application or interpretation of these laws, regulations or rulings, which is announced or becomes effective on or after the date of this prospectus supplement, we become or will become obligated to pay additional amounts as described in this prospectus supplement under the heading "Description of the Notes Payment of Additional Amounts" below or (b) any act is taken by a taxing authority of the United States on or after the date of this prospectus supplement, whether that act is taken with respect to us or any affiliate, that results in a substantial probability that we will or may be required to pay such additional amounts, then we may, at our option, redeem, in whole but not in part, the Notes on any interest payment date on not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of their principal amount, together with interest accrued on the Notes to the date fixed for redemption; provided that we determine, in our business judgment, that the obligation to pay such additional amounts cannot be avoided by the use of reasonable measures available to us, not including substitution of the obligor under the Notes. See "Description of the Notes Redemption Upon Certain Tax Events" below.

Use of Proceeds

We will use the net proceeds before expenses from the sale of the Notes of approximately \$496.6 million for general corporate purposes. These purposes may include additions to working capital, the repayment of short-term and long-term debt and making investments in or extending credit to our subsidiaries.

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Book-Entry Form

The Notes will be issued only in book-entry form. This means that we will not issue certificates to you. Instead, the Notes will be issued in the form of one or more fully registered global securities, which will be deposited with a custodian. The Notes will be registered in the name of Cede & Co., as the nominee for The Depository Trust Company. You will not receive a definitive note representing your interest. This form will be referred to as "book-entry only." You may elect to hold your interests in the global securities through either The Depository Trust Company ("DTC") (in the United States) or Clearstream Banking, société anonyme ("Clearstream") or Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") (in Europe). Interests will be held on behalf of the participants of Clearstream and Euroclear on the books of their respective depositories. See "Description of Debt Securities Global Securities" in the accompanying prospectus and "Description of the Notes Book-Entry, Delivery and Form Global Clearance and Settlement Procedures" below.

Events of Default

See "Description of Debt Securities Events of Default" in the accompanying prospectus.

Limitation on Liens

See "Description of Debt Securities Limitation on Liens" in the accompanying prospectus.

Listing We will make application to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") for the Notes to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's market for listed securities. We cannot guarantee that our application will be approved, and settlement of the Notes is not conditional on obtaining the listing.

Governing Law New York.

Selling Restrictions There are selling restrictions for certain jurisdictions, including the United Kingdom. See "Underwriting" below.

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RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges was 1.7 for the nine months ended August 31, 2002 and 1.2 for the fiscal year ended November 30, 2001. The ratio was calculated by dividing the sum of the fixed charges into the sum of the earnings before taxes and fixed charges. Fixed charges for purposes of the ratio consist of interest expense and certain other immaterial expenses.

THE BEAR STEARNS COMPANIES INC.

We are a holding company that, through our subsidiaries, principally Bear Stearns, BSSC, BSIL and BSB, is a leading investment banking, securities and derivatives trading, clearance and brokerage firm serving corporations, governments, institutional and individual investors worldwide. BSSC, a subsidiary of Bear Stearns, provides professional and correspondent clearing services, in addition to clearing and settling our proprietary and customer transactions. Our business includes:

market-making and trading in US government, government agency, corporate debt and equity, mortgage-related, asset-backed, municipal securities and high yield products;

trading in options, futures, foreign currencies, interest rate swaps and other derivative products;

securities, options and futures brokerage;

providing securities clearance services;

managing equity and fixed income assets for institutional and individual clients;

financing customer activities;

securities lending;

securities and futures arbitrage;

involvement in specialist activities on both the NYSE and the AMEX;

underwriting and distributing securities;

arranging for the private placement of securities;

assisting in mergers, acquisitions, restructurings and leveraged transactions;

making principal investments in leveraged acquisitions;

engaging in commercial real estate activities;

investment management and advisory services; and

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fiduciary, custody, agency and securities research services.

Our business is conducted:

from our principal offices in New York City;

from domestic regional offices in Atlanta, Boston, Chicago, Dallas, Denver, Los Angeles, San Francisco and San Juan;

from representative offices in Herzliya, Milan and Sao Paulo;

through international offices in Dublin, Hong Kong, London, Lugano, Singapore and Tokyo; and

through joint ventures with other firms in Belgium, Greece and Spain.

We are incorporated in the State of Delaware. Our principal executive office is located at 383 Madison, New York, New York 10179, USA, and our telephone number is (212) 272-2000. Our internet address is <http://www.bearstearns.com>.

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Directors of the Company

The following table sets forth certain information concerning the directors of the Company.

Name	Age (as of August 31, 2002)	Principal Occupation and Directorships Held	Year First Elected to Serve as Director of the Company
James E. Cayne	68	Chairman of the Board and Chief Executive Officer of the Company and Bear Stearns and member of the Executive Committee of the Company (the "Executive Committee")	1985
Carl D. Glickman	76	Private Investor; Trustee, Chairman of the Executive Committee, Lexington Corporate Property Trust	1985
Alan C. Greenberg	74	Chairman of the Executive Committee	1985
Donald J. Harrington, C.M.	56	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
William L. Mack	62	Founder and Managing Partner, The Apollo Real Estate Investment Funds; President and Senior Managing Partner, The Mack Organization; Chairman of the Board of Mack-Cali Realty Corporation and Metropolis Realty Trust, Inc.; Director, Vail Resorts, Inc. and Wyndham International, Inc.	1997
Frank T. Nickell	54	President and Chief Executive Officer of Kelso & Company; Director, Blackrock Inc., Earle M. Jorgensen Company and Peebles Inc., NYU	1993

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Name	Age (as of August 31, 2002)	Principal Occupation and Directorships Held	Year First Elected to Serve as Director of the Company
		Hospitals Center Board of Trustees and New York University School of Medicine Foundation Board	
Paul A. Novelly	59	Chairman and CEO of Apex Oil Company Inc.; Director, Intrawest Corporation, Boss Holdings, Inc. and Coastcast Corporation	2002
Frederic V. Salerno	59	Retired Vice Chairman of Verizon Communications; Director, Avnet, Inc., Viacom, Inc. and Zucotto Wireless, Inc.	1992
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Alan D. Schwartz	52	President and Co-Chief Operating Officer of the Company and Bear Stearns, member of the Executive Committee and Head of the Investment Banking Group of Bear Stearns; Director, Champps Entertainment Inc.	1987(1)
Warren J. Spector	44	President and Co-Chief Operating Officer of the Company and Bear Stearns, member of the Executive Committee and Head of the Fixed Income Group of Bear Stearns	1990(1)
Vincent Tese	59	Chairman and Director of Wireless Cable International Inc.; Director, Allied Waste Industries Inc., Bowne & Co. Inc., Cablevision Inc., Mack-Cali Realty Corp., National Wireless Holdings Inc. and Lynch Interactive Corp.	1994
Fred Wilpon	65	Chairman of the Board of Directors of Sterling Equities, Inc.; Director, Loews Corporation; President and Chief Executive Officer of the New York Mets	1993

(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 and prior to June 25, 2001, was President of the Company and Bear Stearns 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 Directors of the Company.

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

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

Mr. Mack has been Managing Partner of the Apollo Real Estate Investment Funds for more than the past five years. He has been President and Senior Managing Partner of The Mack Organization (a national owner, developer and investor in office and industrial buildings and other

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real estate) for more than the past five years. Mr. Mack is Chairman of the Board of Mack-Cali Realty Corporation (a publicly traded real estate investment trust). He is also Chairman of the Board of Metropolis Realty Trust, Inc. (the owner of high rise office buildings).

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Mr. Nickell has been President of Kelso & Company, a privately held merchant banking firm, for more than the past five years. Mr. Nickell was appointed Chief Executive Officer of Kelso & Company in 1998.

Mr. Novelty has been the Chairman and CEO of Apex Oil Company Inc. for more than the past five years.

Mr. Salerno is the Retired Vice Chairman of Verizon Communications (formerly Bell Atlantic Corporation). Prior to April 2002, Mr. Salerno was the Vice Chairman and CFO of Verizon Communications. Prior to June 2000, Mr. Salerno was the Senior Executive Vice President and CFO/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 served as Chairman of the Board of the State University of New York from 1990 to 1996.

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

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

Mr. Tese has been Chairman of Wireless Cable International Inc. since April 1995. Mr. Tese was Chairman of Cross Country Wireless Inc. from October 1994 to July 1995 and was a corporate officer and a general partner of Cross Country Wireless Inc.'s predecessors, Cross Country Wireless Cable I, L.P. and Cross Country Wireless Cable West, L.P., from 1990 until October 1994. Mr. Tese was the Director of Economic Development for the State of New York from June 1987 to December 1994. Mr. Tese is currently Chairman of the Audit Committee of the Board of Directors of the Company.

Mr. Wilpon has been Chairman of the Board of Directors of Sterling Equities, Inc., a privately held entity, and certain affiliates thereof, which are primarily real estate development/owner management companies, for more than the past five years. Mr. Wilpon has also been President and Chief Executive Officer of the New York Mets baseball team for more than the past five years.

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

All directors hold office until our next Annual Meeting of Stockholders or until their successors have been duly elected and qualified. Officers serve at the discretion of the Board of Directors.

The business address for each director is 383 Madison Avenue, New York, New York 10179, USA.

USE OF PROCEEDS

We will use the net proceeds before expenses from the sale of the Notes of approximately \$496.6 million for general corporate purposes. These purposes may include additions to working capital, the repayment of short-term and long-term debt and making investments in or extending credit to our subsidiaries.

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CAPITALIZATION

The following table sets forth our consolidated capitalization as of August 31, 2002 and as adjusted to give effect to the offering of the Notes. It is important that you read the following information along with the consolidated financial statements and notes thereto incorporated by reference in this prospectus supplement and the accompanying prospectus. See "Where You Can Find More Information" and "General

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Information".

	August 31, 2002	
	Actual	As Adjusted
	(Unaudited, in thousands)	
Short-Term Borrowings(1)(3):		
Bank Borrowings	\$ 4,718,313	\$ 4,718,313
Commercial Paper	4,454,787	4,454,787
Medium-Term Notes	1,655,878	1,655,878
Total Short-Term Borrowings	\$ 10,828,978	\$ 10,828,978
Long-Term Borrowings(2)(3):		
Floating Rate Notes due 2002 to 2007	\$ 2,863,048	\$ 2,863,048
Fixed Rate Senior Notes due 2002 to 2014; interest rates ranging from 4.00% to 8.75%	8,251,744	8,750,129
Medium-Term Notes	11,936,002	11,936,002
Total Long-Term Borrowings	23,050,794	23,549,179
Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities(4)	562,500	562,500
Stockholders' Equity(5):		
Preferred Stock, \$1.00 par value; Series A, E, F, and G, 10,000,000 shares authorized, 6,250,000 shares issued	692,832	692,832
Common Stock, \$1.00 par value; 500,000,000 shares authorized; 184,805,848 shares issued	184,806	184,806
Paid-in Capital	2,744,395	2,744,395
Retained Earnings	3,744,279	3,744,279
Employee Stock Compensation Plans	1,945,682	1,945,682
Unearned Compensation	(192,831)	(192,831)
Treasury Stock:		
Adjustable Rate Cumulative Preferred Stock; Series A: 2,520,750 shares	(103,421)	(103,421)
Common Stock: 87,153,299 shares	(3,061,311)	(3,061,311)
Total Stockholders' Equity	5,954,431	5,954,431
Total Long-Term Borrowings, Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities and Stockholders' Equity	\$ 29,567,725	30,066,110

- (1) Between September 1, 2002 and January 13, 2003, there was a net increase in short-term borrowings of approximately \$7.9 billion.
- (2) Between September 1, 2002 and January 13, 2003, the Company issued approximately \$2.3 billion in long-term borrowings and retired/matured approximately \$1.2 billion of its long-term borrowings.
- (3) By virtue of the nature of the Company's business and that of its subsidiaries, the Company's borrowings, particularly its short-term borrowings, fluctuate from day to day in the ordinary course of business. Except as disclosed in Notes (1), (2) and (5), since August 31, 2002, there has been no material change in our consolidated capitalization.
- (4)

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The Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities reflects the preferred securities of Bear Stearns Capital Trust II and Bear Stearns Capital Trust III. Each of the trusts is a wholly-owned subsidiary of the Company and holds certain of our subordinated debentures as its sole asset.

(5)

At November 30, 2002, total stockholders' equity was approximately \$6.4 billion. Information regarding the Company's results of operations for the fiscal year ended November 30, 2002 is contained in the Company's Current Report on Form 8-K dated December 18, 2002, which is incorporated herein by reference.

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SELECTED CONSOLIDATED FINANCIAL DATA

The financial data in the following table for the nine months ended August 31, 2002 and August 31, 2001 has been derived from our unaudited consolidated financial statements for those periods. The financial data in the following table for the fiscal years ended November 30, 2001, November 30, 2000, the five months ended November 26, 1999, and the fiscal years ended June 30, 1999, 1998 and 1997 has been derived from our audited consolidated financial statements for those periods. See "Where You Can Find More Information" and "General Information".

	Nine Months Ended*	
	August 31, 2002	August 31, 2001
	(Unaudited, in thousands, except share, per share and other data)	
Operating Results:		
Revenues	\$ 5,369,945	\$ 6,887,363
Interest Expense	1,368,717	3,100,160
	4,001,228	3,787,203
Non-interest expenses		
Employee compensation and benefits	1,942,827	2,005,800
Other	1,020,218	1,056,924
	2,963,045	3,062,724
Income before provision for income taxes and cumulative effect of change in accounting principle	1,038,183	724,479
Provision for income taxes	350,387	254,460
	687,796	470,019
Income before cumulative change in accounting principle	687,796	470,019
Cumulative effect of change in accounting principle, net of tax (1)		(6,273)
	687,796	463,746
Net income	\$ 687,796	\$ 463,746
	660,380	434,411
Net income applicable to common shares	\$ 660,380	\$ 434,411
Financial Position:		
Total assets(2)	\$ 185,223,024	\$ 169,982,979
Long-term borrowings	\$ 23,050,794	\$ 22,745,075
Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities(3)	\$ 562,500	\$ 762,500
Stockholders' equity	\$ 5,954,431	\$ 5,148,394
Common shares and common share equivalents outstanding(4)	146,478,611	149,669,365
Per Share Data:(4)		
Basic earnings per share:		

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Nine Months Ended*

Before change in accounting principle	\$ 5.51	\$ 3.39
Cumulative effect of change in accounting principle		(0.05)
	\$ 5.51	\$ 3.34
Diluted earnings per share:		
Before change in accounting principle	\$ 5.10	\$ 3.24
Cumulative effect of change in accounting principle		(0.04)
	\$ 5.10	\$ 3.20
Cash dividends declared per common share	\$ 0.45	\$ 0.45
Book value per common share	\$ 38.10	\$ 32.34
Other Data:		
Return on average common equity	19.3%	13.7%
Profit margin(5)	25.9%	19.1%
Employees	10,493	11,147

*

Certain information regarding the Company's results of operations for the fiscal year ended November 30, 2002 is contained in the Company's Current Report on Form 8-K dated December 18, 2002, which is incorporated herein by reference.

- (1) At December 1, 2000, the Company recognized a cumulative after-tax loss of \$6.3 million as a result of adopting Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities."
- (2) Total assets as of August 31, 2001 have been restated in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."
- (3) As of August 31, 2002, the Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities reflects preferred securities of Bear Stearns Capital Trust II and Bear Stearns Capital Trust III. As of August 31, 2001, the Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities reflects preferred securities of Bear Stearns Capital Trust I, Bear Stearns Capital Trust II and Bear Stearns Capital Trust III. Each of the trusts is a wholly-owned subsidiary of the Company and holds certain of our subordinated debentures as its sole asset.
- (4) Reflects all stock dividends prior to August 31, 2002.
- (5) Represents the ratio of income before provision for income taxes to revenues, net of interest expense.

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	Fiscal Year Ended	Fiscal Year Ended	Five Months Ended	Fiscal Year Ended June 30,		
	November 30, 2001	November 30, 2000	November 26, 1999	1999	1998	1997
(In thousands, except share, per share and other data)						
Operating Results:						
Revenues	\$ 8,701,033	\$ 10,247,964	\$ 3,462,549	\$ 7,846,314	\$ 7,964,052	\$ 6,058,095
Interest expense	3,793,998	4,772,286	1,524,046	3,344,190	3,622,629	2,532,181
Revenues, net of interest expense	4,907,035	5,475,678	1,938,503	4,502,124	4,341,423	3,525,914
Non-interest expenses:						
Employee compensation and benefits	2,528,852	2,788,638	964,529	2,265,830	2,094,679	1,716,892
Other	1,443,739	1,515,517	520,382	1,172,186	1,183,252	795,332
Total non-interest expenses	3,972,591	4,304,155	1,484,911	3,438,016	3,277,931	2,512,224

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	Fiscal Year Ended November 30, 2001	Fiscal Year Ended November 30, 2000	Five Months Ended November 26, 1999	Fiscal Year Ended June 30,		
Income before provision for income taxes and cumulative effect of change in accounting principle	934,444	1,171,523	453,592	1,064,108	1,063,492	1,013,690
Provision for income taxes	309,479	398,340	167,778	391,060	403,063	400,360
Income before cumulative effect of change in accounting principle	624,965	773,183	285,814	673,048	660,429	613,330
Cumulative effect of change in accounting principle, net of tax	(6,273)					
Net income	\$ 618,692	\$ 773,183	\$ 285,814	\$ 673,048	\$ 660,429	\$ 613,330
Net income applicable to common shares	\$ 579,579	\$ 734,070	\$ 269,517	\$ 633,618	\$ 629,417	\$ 589,497
Financial Position:						
Total assets	\$ 185,530,228	\$ 168,631,602	\$ 162,037,962	\$ 153,894,340	\$ 154,495,895	\$ 121,433,535
Long-term borrowings	\$ 23,429,054	\$ 20,095,888	\$ 15,911,392	\$ 14,647,092	\$ 13,295,952	\$ 8,120,328
Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities (1)	\$ 762,500	\$ 500,000	\$ 500,000	\$ 500,000	\$ 350,000	\$ 350,000
Stockholders' equity	\$ 5,628,527	\$ 5,654,288	\$ 4,941,947	\$ 4,955,509	\$ 4,291,533	\$ 3,276,371
Common shares and common share equivalents outstanding (2)	146,465,210	158,039,960	165,956,810	167,265,996	167,173,826	167,096,515
Per Share Data: (2)						
Basic earnings per share	\$ 4.49	\$ 5.37	\$ 1.78	\$ 4.26	\$ 4.17	\$ 3.81
Diluted earnings per share	\$ 4.27	\$ 5.35	\$ 1.78	\$ 4.26	\$ 4.17	\$ 3.81
Cash dividends declared per common share	\$ 0.60	\$ 0.55	\$ 0.29	\$ 0.56	\$ 0.54	\$ 0.52
Book value per common share	\$ 33.84	\$ 31.51	\$ 26.93	\$ 25.60	\$ 21.64	\$ 17.74
Other Data:						
Return on average common equity	13.7%	19.1%	16.6%	18.8%	21.7%	27.9%
Profit margin (3)	19.0%	21.4%	23.4%	23.6%	24.5%	28.7%
Employees	10,452	11,201	10,081	9,808	9,180	8,309

- (1) As of November 30, 2001, the Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities reflects preferred securities of Bear Stearns Capital Trust I, Bear Stearns Capital Trust II and Bear Stearns Capital Trust III. As of November 30, 2000, November 26, 1999 and June 30, 1999 the Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities reflects preferred securities of Bear Stearns Capital Trust I and Bear Stearns Capital Trust II. As of June 30, 1998 and 1997, Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities consisted of \$150 million of Exchangeable Preferred Income Cumulative Shares and \$200 million of Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities. Each of the trusts is a wholly-owned subsidiary of the Company and holds certain of our subordinated debentures as its sole asset.
- (2) Reflects all stock dividends prior to August 31, 2002.
- (3) Represents the ratio of income before provision for income taxes to revenues, net of interest expense.

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DESCRIPTION OF THE NOTES

The following discussion of the terms of the Notes and the Indenture supplements the general terms and provisions of the debt securities contained in the accompanying prospectus under the heading "Description of Debt Securities" and identifies any general terms and provisions described in the accompanying prospectus that will not apply to the Notes.

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You can find the definitions of certain capitalized terms used in this section under "Description of Debt Securities" in the accompanying prospectus. For purposes of this section only, references to "we," "us" and "our" include only The Bear Stearns Companies Inc. and not its subsidiaries. We will issue the Notes under the Indenture, dated as of May 31, 1991, as supplemented by the First Supplemental Indenture, dated January 29, 1998 (as supplemented, the "Indenture"), between us and JPMorgan Chase Bank (formerly, The Chase Manhattan Bank), as trustee (the "Trustee").

The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended. A copy of the Indenture has been filed as an exhibit to the Registration Statement and is available as set forth under "Where You Can Find More Information" and "General Information."

The following description along with the description in the accompanying prospectus is a summary of the material provisions of the Indenture. It does not restate the Indenture in its entirety. We urge you to read the Indenture because it, and not these descriptions, defines your rights as a holder of the Notes (a "Holder").

Brief Description of the Notes

The Notes will:

be a single series of our debt securities under the Indenture;

be our unsecured senior debt;

rank equally with all of our other unsecured and unsubordinated debt;

only be redeemable before their maturity if certain events involving US taxation occur as discussed under "Redemption by the Company Upon Certain Tax Events";

be subject to defeasance in compliance with the Indenture, see "Description of Debt Securities Defeasance" in the accompanying prospectus; and

be issued in denominations of \$1,000 increased in multiples of \$1,000.

Because we are a holding company, the Notes will be effectively subordinated to the claims of creditors of our subsidiaries with respect to their assets. At August 31, 2002:

we had outstanding (on an unconsolidated basis) approximately \$30.4 billion of debt and other obligations, including approximately \$28.5 billion of senior debt, none of which is secured; and

our subsidiaries had outstanding (after consolidation and eliminations) approximately \$143.9 billion of debt and other obligations (including \$53.1 billion related to securities sold under repurchase agreements, \$53.3 billion related to payables to customers, \$24.7 billion related to financial instruments sold, but not yet purchased, and \$12.8 billion of other liabilities, including \$9.9 billion of debt).

Principal, Maturity and Interest

The Notes will be issued in the offering and will mature on January 31, 2008. We may, without your consent, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Notes. Any of these additional notes, together with the Notes described in this Prospectus Supplement will constitute a single series of debt securities under the Indenture. However,

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no additional notes may be issued if an Event of Default has occurred and is continuing with respect to the Notes.

The Notes that we are offering are a further issuance of, are fungible with and are consolidated to form a single series with our 4.00% Global Notes due January 31, 2008 issued on December 26, 2002. The Notes offered by this prospectus supplement will have the same CUSIP number, Common Code and International Security Identification Number and will trade interchangeably with the previously issued Notes in this

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series immediately upon settlement. Currently, \$500,000,000 aggregate principal amount of those Notes are outstanding. This issuance increases the aggregate principal amount of the outstanding Notes of this series to \$1,000,000,000.

Interest on the Notes will accrue at the rate of 4.00% per annum and will be paid every six months on each January 31 and July 31, beginning on July 31, 2003 (which first payment includes interest from the date of issuance), to the persons who are registered Holders at the close of business on the January 15 and July 15 immediately before the applicable interest payment date. If an interest payment date is not a business day, the interest payment will be made on the next business day, and the Holder is not entitled to any additional interest for the delay.

Interest on the Notes will accrue from the most recent date to which interest has been paid, or if no interest has been paid, from and including December 26, 2002. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The Notes will not be entitled to the benefit of any mandatory sinking fund.

Principal Paying Agent, Paying Agents, Registrar and Transfer Agent

JPMorgan Chase Bank (formerly, The Chase Manhattan Bank), the Trustee under the Indenture, will initially act as the principal office or agency where Notes may be presented for payment (the "Principal Paying Agent"). We have also agreed that as long as the Notes are listed on the London Stock Exchange and its rules require, we will appoint and maintain a transfer agent and paying agent in London. We have appointed JPMorgan Chase Bank (formerly, The Chase Manhattan Bank) to serve as registrar (the "Registrar") under the Indenture. The terms "paying agent" and "transfer agent" include the Principal Paying Agent and the Registrar and any additional or successor agents appointed by us. The names of the initial Paying Agents and Transfer Agents and their initial specified offices are set out below.

Methods of Receiving Payments on the Notes

The Principal Paying Agent will pay interest to DTC, or its nominee, by wire transfer of same day funds for credit to the accounts of DTC's participants and subsequent distribution to the beneficial owners of the Notes, or, if the Notes are issued in certificated form under the circumstances described below in "Book-Entry, Delivery and Form Definitive Notes," the Principal Paying Agent will pay the registered Holder of the Notes against presentation and surrender by such Holder of its Note to any paying agent, by US dollar check drawn on a bank in New York City and mailed on the business day immediately before the interest due date.

Payment of Additional Amounts

Subject to the various exceptions and limitations set forth below, we will pay as additional interest or principal, as the case may be, on the Notes, all such additional amounts that are necessary in order that the net payment by us or a paying agent of the principal of and interest on the Notes to a person that is not a US Holder (as defined under "Certain US Federal Income Tax Considerations," below), after deduction for any present or future tax, assessment or governmental charge of the United States or a political subdivision or taxing authority thereof or therein, imposed by withholding with respect to

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the payment, will not be less than the amount provided in the Notes to be then due and payable. However, the obligation to pay additional amounts shall not apply:

(1) to a tax, assessment or governmental charge that is imposed or withheld solely by reason of the Holder, or a fiduciary, settlor, beneficiary, member or shareholder of the Holder, if the Holder is an estate, trust, partnership or corporation for federal income tax purposes, or a person holding a power over such an estate, trust, partnership or corporation, or a person holding a power over such an estate or trust administered by a fiduciary holder, being considered as:

(a) being or having been present or engaged in a trade or business in the United States or having or having had a permanent establishment in the United States;

(b) having a current or former connection with the United States, including a connection as a citizen or resident thereof;

(c) being or having been a foreign or domestic personal holding company, a passive foreign investment company or a controlled foreign corporation with respect to the United States or a corporation that has accumulated earnings to avoid United States federal income tax;

(d) being or having been a private foundation or other tax-exempt organization;

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(e) being or having been a "10-percent shareholder" of the Company as defined in Section 871(h)(3) of the United States Internal Revenue Code or any successor provision; or

(f) being a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business;

(2) to any Holder that is not the sole beneficial owner of the Notes, or a portion thereof, or that is a fiduciary or partnership, but only to the extent that a beneficiary or settlor with respect to the fiduciary, a beneficial owner or member of the partnership would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment;

(3) to a tax, assessment or governmental charge that is imposed or withheld solely by reason of the failure of the Holder or any other person to comply with certification, identification or information reporting requirements concerning the nationality, residence, identity or connection with the United States of the Holder or beneficial owner of such Note, if compliance is required by statute or regulation of the United States or of any political subdivision or taxing authority thereof or therein, or by an applicable income tax treaty to which the United States is a party as a precondition to exemption from such tax, assessment or other governmental charge;

(4) to a tax, assessment or governmental charge that is imposed otherwise than by withholding by us or a paying agent from payments on or in respect of a Note;

(5) to a tax, assessment or governmental charge that is imposed or withheld by reason of the presentation by or on behalf of the beneficial owner of any Note for payment on a date more than 15 days after the payment becomes due or is duly provided for, whichever occurs later;

(6) to an estate, inheritance, gift, sales, excise, transfer, wealth or personal property tax or a similar tax, assessment or governmental charge;

(7) to any tax, assessment or other governmental charge required to be withheld by any paying agent from any payment of principal of or interest on any Note, if such payment can be made without such withholding by any other paying agent; or

(8) in the case of any combination of any of the above items;

nor shall additional amounts be paid with respect to any payment on a Note to a Holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such

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payment would be required by the laws of the United States (or any political subdivision thereof) to be included in the income, for tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner held its interest in the Note directly.

The Notes are subject in all cases to any tax, fiscal or other law or regulation or administrative or judicial interpretation that is applicable to them. Except as specifically provided under this heading " Payment of Additional Amounts" and under the heading " Redemption Upon Certain Tax Events," we are not required to make any payments with respect to any tax, assessment or governmental charge imposed by any government or a political subdivision or taxing authority thereof or therein.

Redemption Upon Certain Tax Events

If,

(a) as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of the United States (or any political subdivision or taxing authority thereof or therein), or any change in, or amendment to, the official position regarding the application or interpretation of such laws, regulations or rulings, which is announced or becomes effective on or after the date of this prospectus supplement, we determine that we will be or will become obligated to pay additional amounts as described in this prospectus supplement under the heading " Payment of Additional Amounts"; or

(b) any act is taken by a taxing authority of the United States on or after the date of this prospectus supplement, whether such act is taken with respect to us or any affiliate, that results in a substantial probability that we will or may be required to pay such additional amounts;

then we may, at our option, redeem, as a whole, but not in part, the Notes on any interest payment date on not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of their principal amount, together with interest accrued thereon to the date fixed for redemption; provided that we determine, in our business judgement, that the obligation to pay such additional amounts cannot be avoided by the use of reasonable measures available to us, not including substitution of the obligor under the Notes. No redemption pursuant to clause (b) above may be made unless we have delivered to the Trustee a written opinion of independent legal counsel of recognized legal standing to the effect that an act taken by a taxing authority of the United States has resulted or will result in a substantial probability that it will or may be required to pay the additional amounts described herein under the heading " Payment of Additional Amounts" and that we are therefore entitled to redeem the Notes pursuant to their terms.

Unclaimed Amounts

The Indenture provides that any payments in respect of principal and any interest remaining that are unclaimed for two years after their due date will be paid to us, and the Holder of the Note will after that time look, as an unsecured creditor, only to us for payment of those amounts.

Notices

All notices regarding the Notes will be valid if published (i) in a leading English language daily newspaper of general circulation in London, and (ii) in a leading English language daily newspaper of general circulation in New York. However, it is expected that that publication will be made in (i) the *Financial Times* or another daily newspaper in London approved by the Trustee or, if this is not possible, in one other English language daily newspaper approved by the Trustee with general circulation in Europe, and (ii) *The Wall Street Journal* (Eastern Edition) in New York. Any notice will be deemed to have been given on the date of the first publication in all the relevant newspapers.

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Until the time any definitive Notes are issued under the circumstances described below in " Book-Entry, Delivery and Form Definitive Notes," and as long as the Global Securities are held in their entirety on behalf of Euroclear and/or Clearstream and DTC, publication in the specified newspapers may be replaced with the delivery of the relevant notice to Euroclear and/or Clearstream and DTC for communication by them to the Holders of the Notes. Any notice shall be deemed to have been given to the Holders of the Notes on the seventh day after the day on which the notice was given to Euroclear and/or Clearstream or DTC.

Book-Entry, Delivery and Form

The Notes will be issued only in book-entry form. This means that we will not issue certificates to you. Instead, the Notes will be issued in the form of one or more fully registered global notes (the "Global Securities"), which will be deposited with a custodian. The Notes will be registered in the name of Cede & Co., as the nominee for DTC. You will not receive a definitive note representing your interest. This form will be referred to as "book-entry only."

You may elect to hold your interests in the Global Securities either through DTC (in the United States) or through Clearstream or Euroclear (in Europe). Interests will be held on behalf of Clearstream and Euroclear participants on the books of their respective depositaries.

Denominations

Beneficial interests in the Global Securities will be held in denominations of \$1,000 increased in multiples of \$1,000. Except as set forth below, the Global Securities may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee.

DTC Services

DTC has informed us that DTC is:

a limited purpose trust company organized under the New York Banking Law;

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a "banking organization" within the meaning of the New York Banking Law;

a member of the Federal Reserve System;

a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and

a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC holds securities that its participants ("DTC Participants") deposit with DTC. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC also facilitates the settlement among these DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, which eliminates the need for the physical movement of securities certificates.

DTC's book-entry system is also available for use by other organizations such as securities brokers and dealers, banks and trust companies that work through a DTC Participant, either directly or indirectly. The rules applicable to DTC and the DTC Participants are on file with the SEC.

DTC is owned by a number of DTC Participants and by the NYSE, the AMEX and the National Association of Securities Dealers, Inc.

A further description of DTC's procedures with respect to the Global Securities is set forth in the accompanying prospectus under "Description of Debt Securities Global Securities."

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Clearstream and Euroclear Services

Clearstream is incorporated under the laws of Luxembourg as a professional depository. Clearstream holds securities for its participating organizations ("Clearstream Participants") and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry charges in accounts of Clearstream Participants, which eliminates the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing.

Conducting business in the domestic markets of several countries as a professional depository, Clearstream is regulated by the Luxembourg Monetary Institute. Clearstream Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include some of the Underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant either directly or indirectly.

Distributions with respect to the Notes that are held beneficially through Clearstream will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, and to the extent received by the US depository for Clearstream.

Euroclear was created in 1968 to hold securities for its participants ("Euroclear Participants") and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System is owned by Euroclear Clearance System Public Limited Company ("ECSplc") and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (the "Euroclear Operator").

The Euroclear Operator holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries.

The Euroclear Operator provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing and related services.

Non-participants of Euroclear may hold and transfer book-entry interests in securities through accounts with a direct Euroclear Participant or any other securities intermediary that holds a book-entry interest in securities through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator.

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The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium. Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law (collectively, the "Euroclear Terms and Conditions"). The Euroclear Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear.

All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Euroclear Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

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Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Euroclear Terms and Conditions, to the extent received by the US depository for Euroclear.

Definitive Notes

Definitive Notes may be issued upon:

- (i) Euroclear and/or Clearstream being closed for a continuous period of 14 days (other than by reason of public holidays); and/or
- (ii) in the limited circumstances set forth in "Description of the Debt Securities Global Securities" in the accompanying prospectus.

If definitive Notes are issued, payment of principal of and interest on the Notes will be made as set forth under "Methods of Receiving Payments on the Notes" above. Definitive Notes can be transferred by presentation for registration to the Registrar or other transfer agent at any of their specified offices and must be duly endorsed by the holder or his attorney duly authorized in writing, or accompanied by a written instrument or instruments of transfer in form satisfactory to us or the Trustee duly executed by the holder or his attorney duly authorized in writing. We may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any exchange or registration of transfer of definitive Notes.

For the purposes of this description, "business day" means any day, other than a Saturday or Sunday, that is not a day on which banks are authorized or required by law or regulation to close in New York and, where definitive Notes have been issued, the relevant place of presentation.

Global Clearance and Settlement Procedures

Initial settlement for the Notes will be made in same day funds. Secondary market trading and transfers within DTC, Clearstream or Euroclear, as the case may be, will be made in accordance with the usual rules and operating procedures of those systems. Secondary market trading between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled in same day funds using DTC's Same-Day Funds Settlement System. Secondary market trading between Clearstream Participants and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional eurobonds in registered form in same day funds.

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between DTC Purchasers and Sellers. Secondary market trading between DTC Participants will be settled using the procedures applicable to global bonds in same-day funds.

Trading between Euroclear and/or Clearstream Participants. Secondary market trading between Euroclear Participants and/or Clearstream Participants will be settled using the procedures applicable to conventional eurobonds in same-day funds.

Trading between DTC Seller and Euroclear or Clearstream Purchaser. When Notes are to be transferred from the account of a DTC Participant to the account of a Euroclear or Clearstream Participant, the purchaser will send instructions to Euroclear or Clearstream through a Euroclear or Clearstream Participant, as the case may be, at least one business day before settlement. Euroclear or Clearstream will instruct its respective depository to receive those Notes against payment. Payment for the Notes will then be made by the depository to the DTC

Participant's account against delivery of the Notes. After settlement has been completed, the Notes will be credited to the respective clearing

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systems, and by the clearing system, in accordance with its usual procedures, to the Euroclear or Clearstream Participant's account. The securities credit will appear the next day (European time) and the cash debit will be back-valued to the value date, which would be the preceding day when settlement occurred in New York. If settlement is not completed on the intended value date and the trade fails, the Euroclear or Clearstream cash debit will be valued as of the actual settlement date.

Euroclear and Clearstream Participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement, either from cash on hand or existing lines of credit. However, under this approach, DTC Participants may take on credit exposure to Euroclear and Clearstream until the interests in the Global Security are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to a Euroclear or Clearstream Participant, as the case may be, that Participant may elect not to preposition funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear or Clearstream Participants purchasing Notes would incur overdraft charges for one day, assuming they cleared the overdraft when the Notes were credited to their accounts. However, interest on the Notes would accrue from the value date. Therefore, in many cases the investment income on Notes earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each Participant's particular cost of funds.

Since the settlement occurs during New York business hours, DTC Participants can employ their usual procedures for transferring global bonds to the respective depositories of Euroclear or Clearstream for the benefit of Euroclear or Clearstream Participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC seller, a cross-market sale transaction will settle no differently than a trade between two DTC Participants.

Trading between Euroclear or Clearstream Seller and DTC Purchaser. Because the time zone difference operates in their favor, Euroclear and Clearstream Participants may employ their customary procedures for transactions in which Notes are to be transferred by the respective clearing system, through its respective depository, to a DTC Participant. The seller will send instructions to Euroclear or Clearstream through a Euroclear or Clearstream Participant at least one business day before settlement. In these cases, Euroclear or Clearstream will instruct its respective depository to credit the Notes to the DTC Participant's account against payment. The payment will then be reflected in the account of the Euroclear or Clearstream Participant on the following day, and receipt of the cash proceeds in the Euroclear or Clearstream Participant's account would be back-valued to the value date (which would be the preceding day, when settlement occurred in New York).

If the Euroclear or Clearstream Participant has a line of credit in its respective clearing system and elects to be in a debt position in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (that is, the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream Participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Euroclear or Clearstream to purchase Notes from DTC Participants for delivery to Euroclear or Clearstream Participants should note that these trades automatically fail on the sale side unless some form of affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

(i) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear or Clearstream accounts) in accordance with the clearing system's customary procedures;

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(ii) borrowing the Notes in the United States from a DTC Participant no later than one day before settlement, which would give the Notes sufficient time to be reflected in their Euroclear or Clearstream account in order to settle the sale side of the trade; or

(iii) staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the DTC Participant is at least one day before the value date for the sale to the Euroclear or Clearstream Participant.

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Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Notes among participants of DTC, Clearstream and Euroclear, they are not obligated to perform or continue to perform these procedures. As a result, these procedures may be discontinued at any time.

The information in this section concerning DTC, Clearstream, Euroclear and their book-entry systems has been obtained from sources that we believe to be accurate, but we assume no responsibility for the accuracy of this information. We are not responsible for DTC's, Clearstream's, Euroclear's or their participants' performance of their respective obligations, as they are described above or under the rules and procedures governing their respective operations.

DESCRIPTION OF THE COMPANY

General Development of the Business

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

Financial Information About Industry Segments

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

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 advisory, fixed income, and equity products and services to corporate and institutional clients. Institutional Equities combines the efforts of sales, trading and research in such areas as block trading, convertible bonds, over-the-counter ("OTC") equities, equity derivatives and risk arbitrage. Fixed Income includes the efforts of sales, trading and research for institutional clients in a variety of products such as mortgage-backed and asset-backed securities, corporate and government bonds, municipal and high yield products, foreign exchange and fixed income derivatives. Investment Banking provides capabilities in capital raising, strategic advice, mergers and acquisitions and merchant banking. Capital raising encompasses our underwriting of equity, investment-grade debt and high yield debt products.

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The Global Clearing Services segment provides clearing, margin lending and securities borrowing to facilitate customer short sales to more than 2,900 clearing clients worldwide. Such clients include approximately 2,500 prime brokerage clients including hedge funds, clients of money managers, short sellers, arbitrageurs and other professional investors. In addition, there are approximately 400 fully disclosed introducing brokers who engage in either the retail or the institutional brokerage business.

The Wealth Management segment provides fee-based products and services through the Private Client Services ("PCS") and Asset Management areas. PCS provides high-net-worth individuals with an institutional level of service, including access to our resources and professionals. PCS maintains approximately 500 account executives in its principal office and six regional offices. The Asset Management area had \$23.2 billion in assets under management at August 31, 2002, which reflected a 1.3% decrease from \$23.5 billion in assets under management at August 31, 2001. The decrease in assets under management reflects declines in market value substantially offset by net inflows. Asset Management serves the diverse investment needs of corporations, municipal governments, multi-employer plans, foundations, endowments, family groups and high-net-worth individuals.

Financial information regarding our business segments and foreign operations as of November 30, 2001, November 30, 2000, November 26, 1999 and June 30, 1999 and for the fiscal years ended November 30, 2001, November 30, 2000, the five months ended November 26, 1999 and the fiscal year ended June 30, 1999 is set forth under the Notes to the Consolidated Financial Statements in Footnote 16, entitled "Segment and Geographic Area Data," in our Annual Report on Form 10-K for the fiscal year ended November 30, 2001. See "Where You Can Find More Information" and "General Information."

Narrative Description of Business

Our business includes:

market-making and trading in US government, government agency, corporate debt and equity, mortgage-related, asset-backed, municipal securities and high yield products;

trading in options, futures, foreign currencies, interest rate swaps and other derivative products;

securities, options and futures brokerage;

providing securities clearance services;

managing equity and fixed income assets for institutional and individual clients;

financing customer activities;

securities lending;

securities and futures arbitrage;

involvement in specialist activities on both the NYSE and the AMEX;

underwriting and distributing securities;

arranging for the private placement of securities;

assisting in mergers, acquisitions, restructurings and leveraged transactions;

making principal investments in leveraged acquisitions;

engaging in commercial real estate activities;

investment management and advisory services; and

fiduciary, custody, agency and securities research services.

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Our business is conducted:

from our principal offices in New York City;

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from domestic regional offices in Atlanta, Boston, Chicago, Dallas, Denver, Los Angeles, San Francisco and San Juan;

from representative offices in Herzliya, Milan and Sao Paulo;

through international offices in Dublin, Hong Kong, London, Lugano, Singapore and Tokyo; and

through joint ventures with other firms in Belgium, Greece and Spain.

Our international offices provide services and engage in investment activities involving foreign clients and international transactions. Additionally, certain of these foreign offices provide services to US clients. We provide trust company and clearance services through our subsidiary, Custodial Trust Company ("CTC"), which is located in Princeton, New Jersey.

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

BSIL is a full service broker-dealer based in London and is a member of Eurex (formerly the Deutsche Terminborse), the International Petroleum Exchange ("IPE"), the London Commodity Exchange ("LCE"), the London International Financial Futures and Options Exchange ("LIFFE"), the London Securities & Derivatives Exchange ("OMLX"), Marche à Terme International de France, SA ("MATIF") and the London Clearing House ("LCH"). BSIL is supervised by and is regulated in accordance with the rules of the Financial Services Authority ("FSA").

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

As of August 31, 2002, we had 10,493 employees.

Institutional Equities

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

Option and Index Products. We provide an array of equity and index option-related execution services to institutional and individual clients. We utilize sophisticated research and computer modeling to formulate for clients specific recommendations relating to options and index trading.

Arbitrage. We engage for our own account in both "classic" and "risk" arbitrage. Our risk arbitrage activities generally involve the purchase of securities at a discount from a value that is expected to be realized if a proposed or anticipated merger, recapitalization, tender offer or exchange offer is consummated. In classic arbitrage, we seek to profit from temporary discrepancies (i) between the price of a security in two or more markets, (ii) between the price of a convertible security and its underlying security, (iii) between securities that are, or will be, exchangeable at a future date, and (iv) between the prices of securities with contracts settling on differing dates.

Strategic Structuring and Transactions (SST). We target mispriced assets using sophisticated models and proprietary quantitative methods. We maintain substantial proprietary trading and investment

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positions in domestic and foreign markets covering a wide spectrum of equity and commodity products which include the use of futures, listed and OTC options and swaps.

Equity Securities

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(1) *OTC.* We make markets on a principal basis in common and preferred stocks, warrants, and other securities traded on the NASD's Automated Quotation System and otherwise in the OTC market.

(2) *Direct Access.* We operate a direct access business by providing execution and operation services to qualified institutional investors. Such investors may directly access brokers on the floor of the NYSE and execute and service orders directly with them.

Equity Research. We provide innovative, in-depth analysis of the global investment environment. Known for theme-oriented research underpinned by meticulous financial modeling, we offer detailed information on over 1,000 companies in roughly 100 industries (including approximately 55% of the Standard & Poor's 500 Index). We also have a group of economists and strategists that closely monitors domestic and international markets. Our broad-based domestic coverage is complemented by research teams in Latin America, Asia and Europe, giving our clients an advantage in a world where national boundaries are becoming more porous. This breadth of coverage allows the department to maintain a particularly wide-ranging recommended securities list, and gives clients a steady stream of new investment ideas and insights into the more obscure corners of the financial world.

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

Equity Sales

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

Block Trading

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

Specialist and Market-Making Activities

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

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Additionally, we apart from the joint venture, perform market-making functions for options traded on the ISE.

Fixed Income

General. We make inter-dealer markets and trade on a principal basis in a wide range of instruments including:

US and foreign government securities;

government agency securities, corporate debt mortgages and mortgage-backed securities;

other asset-backed securities;

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municipal and other tax-exempt securities; and

interest rate swaps and other derivative products.

Bear Stearns is one of the largest dealers in the US in such fixed income securities. Inventories of fixed income securities are generally carried to facilitate sales to customers and other dealers.

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

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

Corporate and Sovereign Fixed Income Securities. We act as a dealer in corporate and sovereign fixed income securities as well as preferred stocks in New York, London and Tokyo. We buy and sell these securities for our own account in principal transactions with institutional and individual customers, as well as other dealers. We conduct trading in the full spectrum of dollar and non-dollar debt securities. We offer hedging and arbitrage services to domestic and foreign institutional and individual customers utilizing financial futures and other instruments. Moreover, we offer quantitative, strategic, and research services relating to fixed income securities to our domestic and international clients. We participate in the trading of investment-grade and non-investment-grade corporate debt securities and commercial loans and sovereign and sovereign agency securities.

Mortgage-Related Securities and Products. We trade and make markets in the following mortgage-related securities and products:

Government National Mortgage Association ("GNMA") securities;

Federal Home Loan Mortgage Corporation ("FHLMC") participation certificates;

Federal National Mortgage Association ("FNMA") mortgage-backed securities;

Small Business Administration loans;

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loans guaranteed by the Farmers Home Loan Administration;

Federal Housing Authority insured multi-family loans;

real estate mortgage investment conduit ("REMIC") and non-REMIC collateralized mortgage obligations, including residual interests; and

other derivative mortgage-backed securities and products.

We also trade real estate mortgage loans originated by unaffiliated mortgage lenders, both on a securitized and non-securitized basis. We act as underwriter and placement agent in transactions involving rated and non-rated mortgage-related securities issued by affiliated and unaffiliated

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parties. We enter into significant commitments such as forward contracts on GNMA, FNMA, and FHLMC securities, and on other rated and non-rated mortgage-related securities. Certain rated and non-rated mortgage-related securities are considered to be liquid, while other such securities, and non-securitized mortgage loans, are considered to be less readily marketable.

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

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

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

Asset-Backed Securities. We act as underwriter and placement agent with respect to investment-grade and non-investment-grade asset-backed securities issued by affiliates as well as unaffiliated third parties. These asset-backed securities include:

securities backed by consumer automobile receivables originated by the captive finance subsidiaries of automobile manufacturers, commercial banks and finance companies;

credit card receivables; and

home-equity lines of credit or second mortgages.

We also trade and are a market-maker in these asset-backed securities. While there are ready markets for the investment-grade asset-backed securities described above, non-investment-grade securities and related varieties thereof may lack liquidity.

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Municipal Securities and Related Products. We are a dealer in tax-exempt and taxable municipal securities and instruments including:

general obligation and revenue bonds;

notes;

leases; and

variable-rate obligations issued by state and local governments and authorities, as well as not-for-profit institutions.

We are active as a managing underwriter of negotiated and competitive new security issuances and on a select basis, provide financial advisory services. We make markets in a broad spectrum of long-term and short-term municipal securities, mainly to facilitate transactions with

institutional and individual customers, as well as other dealers. As agent for issuers, we earn fees by remarketing short-term debt instruments to investors in the variable rate, demand bond market. We periodically use both municipal and treasury bond futures to hedge our cash-market bond inventory. In addition, we maintain a municipal arbitrage portfolio for our own account consisting of municipal futures and cash bond positions. Our underwriting, trading and sales activities are supported by a municipal research group.

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

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

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

- (1) Financial Analytics and Structured Transactions Group ("F.A.S.T.") is a center of expertise for the creation and analysis of fixed income and derivative securities worldwide. F.A.S.T. uses

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

- (2) *High grade research* provides coverage for over 25 industries and 500 companies whose fixed income securities are investment grade.

- (3) *High yield research* provides coverage for over 250 corporate and sovereign issuers whose fixed income securities are non-investment-grade.

Investment Banking

We are a major global investment banking firm providing a full range of capital formation and advisory services to a broad spectrum of clients. We manage and participate in public offerings and arrange the private placement of debt and equity securities directly with institutional investors. We provide advisory services to clients on a wide range of financial matters and assist with mergers, acquisitions, leveraged buyouts, divestitures, corporate reorganizations and recapitalizations.

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

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

Mergers and Acquisitions. We are active in arranging various M&A transactions for our clients. We participate in a broad range of domestic and international assignments including acquisitions, divestitures, strategic restructurings, proxy contests, leveraged buyouts and defenses against unsolicited takeovers.

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

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

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

Leveraged Acquisitions. As part of our investment banking activities, we make investments as principal in leveraged acquisitions and in leveraged buy-out funds as a limited partner. Our investments generally take the form of either common or preferred stock or warrants. Equity securities purchased in these transactions generally are held for appreciation and are not readily marketable. While we believe that the current carrying value of these instruments is at least equal to their eventual realizable value, it is not possible to determine whether, or when, we will realize the value of these investments.

Commercial Real Estate. We are engaged in a variety of real estate activities on a nationwide basis. We provide comprehensive real estate-related investment banking, capital markets and financial advisory services.

Emerging Markets

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

Global Clearing Services Activities

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

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

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

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

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

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

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We derive substantial net interest income from customer margin loans and securities lending.

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

Securities Lending Activities. In connection with both our trading and brokerage activities, we borrow securities from and lend securities to brokers and dealers and other trading entities to cover short sales and to complete transactions in which customers have failed to deliver securities by settlement date.

Custodial Trust Company

We offer a range of trust company and securities-clearance services through our wholly owned subsidiary CTC. CTC provides us with banking powers, such as access to the securities and funds-wire services of the Federal Reserve System. CTC provides fiduciary, custody and agency services for institutional accounts; the clearance of government securities for institutions and dealers; the processing of mortgage and mortgage-related products, including derivatives and collateralized mortgage obligations products; and margin lending. At November 30, 2001, CTC held approximately \$103 billion of assets for clients, including institutional clients such as pension funds, mutual funds, endowment funds, religious organizations and insurance companies.

Futures

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

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

Margin requirements (good faith deposits) covering substantially all transactions in futures and options contracts are subject to each particular exchange's requirements in addition to other regulations. In the US, we are a clearing member of the Chicago Board of Trade, the Chicago Mercantile Exchange, the New York Mercantile Exchange and other principal futures exchanges. In the United Kingdom, we are a member of the IPE, the LCE, the LIFFE and OMLX. We also have non-clearing memberships with MATIF and Eurex in Europe. In Japan, memberships are held with the Tokyo Stock Exchange, the Osaka Stock Exchange and the Tokyo International Financial Futures Exchange ("TIFFE") for clearing Japanese government bond futures, for clearing Japanese stock index products and for executing financial futures, respectively.

PCS

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

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Asset Management

Our Asset Management Department manages equity, fixed income and alternative assets for some of the leading corporate pension plans, public systems, endowments, foundations, multi-employer plans, insurance companies, corporations, families and high net-worth individuals in the US and abroad. With approximately \$23.2 billion in assets under management as of August 31, 2002, the Asset Management Department provides diverse products, expertise and experience and seeks to enhance investment returns by identifying and capitalizing on investment opportunities in the financial markets. Institutional and high-net-worth products span a broad spectrum of equity strategies including large cap, small cap, core and value equity; fixed income strategies including cash management, short, intermediate, core, emerging market, high yield and leveraged loans; and alternative investment strategies including multiple hedge funds, a fund of proprietary hedge funds, private equity funds of funds, venture capital and structured products.

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

Administration and Operations

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

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

International

Outside the US, we, through our international subsidiaries, provide various services including investment banking, securities and derivatives trading and brokerage and clearing activities to corporations, governments, institutions and individuals throughout the world. These international subsidiaries have memberships on various foreign securities and futures exchanges.

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

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

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Bear Stearns Asia Limited ("BSAL"), based in Hong Kong, acts as the regional headquarters for our activities in the Asia-Pacific region, excluding Japan. This office provides international equity sales, trading and research services to institutional and individual clients in Asia.

BSB, based in Dublin, allows our existing and prospective clients the opportunity of dealing with a banking counterparty. BSB also serves as a platform from which we direct our international banking activities, gaining easier access to worldwide markets and thereby expanding our

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capacity to increase our client base and product range. BSB engages in capital market activities with particular focus on the trading and sales of OTC interest rate derivative products.

Competition

We encounter intense competition in all aspects of the securities business, particularly underwriting, trading and advisory services, and compete directly with other securities firms both domestic and foreign many having substantially greater capital and resources and offering a wider range of financial services than we do. Our competitors include other brokers and dealers, commercial banks, investment banking firms, investment advisors, mutual funds and hedge funds. In addition to competition from securities firms, in recent years we have experienced increasing competition from other sources, such as insurance companies.

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

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

Regulations and Other Factors Affecting The Company and The Securities Industry

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

US broker-dealers are subject to regulations which cover all aspects of the securities business including: sales methods; trade practices; use and safekeeping of customer funds and securities; capital structures; recordkeeping; and the conduct of directors, officers and employees. The types of regulations to which investment advisers are subject include: recordkeeping; fee arrangements; client disclosure; and the conduct of directors, officers and employees. The mode of operation and profitability of broker-dealers or investment advisers may be directly affected by new legislation, changes in rules promulgated by the SEC and self-regulatory organizations, and changes in the interpretation or enforcement of existing laws and rules. The SEC, self-regulatory organizations and state securities commissions may conduct administrative proceedings that can result in censures, fines, the issuance of cease-and-desist orders, and the suspension or expulsion of a broker-dealer or an investment adviser, its officers or employees. The principal purpose of regulation and discipline of

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broker-dealers and investment advisers is the protection of customers and the securities markets, rather than the protection of creditors and stockholders of broker-dealers or investment advisers. On occasion our subsidiaries have been subject to routine investigations and proceedings and sanctions have been imposed for infractions of various regulations, none of which, to date, has had a material adverse effect on us or our business.

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

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

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

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

As registered broker-dealers and member firms of the NYSE, both Bear Stearns and BSSC are subject to the Net Capital Rule (Rule 15c3-1) (the "Net Capital Rule") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which has been adopted through incorporation by reference in NYSE Rule 325. The Net Capital Rule, which specifies minimum net capital requirements

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for registered broker-dealers, is designed to measure the general financial integrity and liquidity of broker-dealers and requires that at least a minimal portion of assets be kept in relatively liquid form.

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

Compliance with the Net Capital Rule could limit those operations of Bear Stearns and/or BSSC that require significant capital usage, such as underwriting, trading and the financing of customer margin account debit balances. The Net Capital Rule could also restrict our ability to withdraw capital from Bear Stearns or BSSC, which in turn could limit our ability to pay dividends, pay interest, repay debt, or redeem or purchase shares of our outstanding capital stock. Additional information regarding net capital requirements is set forth in Footnote 7, entitled "Regulatory Requirements" in our Annual Report on Form 10-K for the fiscal year ended November 30, 2001. See "Where You Can Find More Information" and "General Information."

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

The activities of our bank and trust company subsidiary, CTC, are regulated by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation ("FDIC"). FDIC regulations applicable to CTC limit the extent to which CTC and Bear Stearns may have common directors or may share physical facilities. FDIC regulations require certain disclosures in connection with joint advertising or promotional activities conducted by Bear Stearns and CTC. Such regulations also restrict certain activities of CTC in connection with the securities business of Bear Stearns. The Competitive Equality in Banking Act, as amended, limits the use of overdrafts at Federal Reserve banks on behalf of affiliates.

BSIL is a full service broker-dealer based in London and is a member of the Eurex, IPE, LCE, LIFFE, OMLX, MATIF and LCH. Another London subsidiary, Bear, Stearns International Trading Limited ("BSIT"), is a market-maker in various non-dollar denominated equity securities and is a member of the London Stock Exchange. BSIL and BSIT are subject to the United Kingdom Financial Services and Markets Act 2000, which governs all aspects of the investment business in the United Kingdom including: regulatory capital, sales and trading practices, use and safekeeping of customer funds, securities recordkeeping, margin practices and procedures, registration standards for individuals, periodic

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reporting and settlement procedures. BSIL and BSIT are supervised by and are regulated in accordance with the rules of the FSA.

BSJL is a Tokyo broker-dealer registered with the Japanese Ministry of Finance. BSJL has a membership on the Tokyo Stock Exchange, TIFFE and the Osaka Stock Exchange. Bear Stearns Hong Kong Limited is a member of the Securities and Futures Commission and sells US futures to retail customers. BSAL is a member of the Shanghai Stock Exchange and the Stock Exchange of Hong Kong. Bear Stearns Singapore Pte. Limited is a broker-dealer registered with the Monetary Authority of Singapore and sells fixed income and equity securities, including derivatives, to institutional investors in Singapore, Southeast Asia, Australia and New Zealand.

BSB is an Ireland-based bank registered in 1996 and subsequently granted a banking license under the Irish Central Bank Act, 1971.

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

Unless otherwise noted, all information contained under "Description of the Company" is as of November 30, 2001.

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CERTAIN US FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Cadwalader, Wickersham & Taft, special tax counsel to us, the following discussion summarizes certain US federal income tax consequences of the purchase, beneficial ownership and disposition of Notes. Except as provided below under " Federal Income Tax Consequences to Non-US Holders," this summary deals only with a Holder that is:

a citizen or resident of the United States;

a corporation, or other entity that is treated as a corporation for US federal income tax purposes, created or organized in or under the laws of the United States or any State thereof (including the District of Columbia);

an estate whose income is subject to US federal income taxation regardless of its source; or

a trust if a court within the United States is able to exercise primary supervision over its administration, and one or more United States persons have the authority to control all of its substantial decisions (each, a "US Holder").

As used in this summary, the term "Non-US Holder" means a Holder that is not a "US Holder."

An individual may, subject to certain exceptions, be deemed to be a resident of the United States by reason of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar

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year (counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year).

If a partnership (including any entity that is treated as a partnership for US federal tax purposes) is a beneficial owner of Notes, the treatment of a partner in the partnership will generally depend upon the status of the partner and upon the activities of the partnership. A beneficial owner of Notes that is a partnership, and partners in such a partnership, should consult their tax advisors about the US federal income tax consequences of holding and disposing of the Notes.

This summary is based on interpretations of the Internal Revenue Code of 1986, as amended (the "Code"), regulations issued thereunder, and rulings and decisions currently in effect (or in some cases proposed), all of which are subject to change. Any such change may be applied retroactively and may adversely affect the federal income tax consequences described herein.

This summary addresses only Holders that purchase Notes at initial issuance and own Notes as capital assets and not as part of a "straddle" or a "conversion transaction" for federal income tax purposes or as part of some other integrated investment. This summary does not discuss all of the tax consequences that may be relevant to particular investors or to investors subject to special treatment under the federal income tax laws (such as life insurance companies, retirement plans, regulated investment companies, securities dealers, expatriates or investors whose functional currency is not the US dollar). Persons considering the purchase of Notes should consult their own tax advisors concerning the application of US federal income tax laws to their particular situations as well as any consequences of the purchase, beneficial ownership and disposition of Notes arising under the laws of any other taxing jurisdiction.

Federal Income Tax Consequences to US Holders

Treatment of Interest

Stated interest on the Notes will be taxable to a US Holder as ordinary interest income as the interest accrues or is paid (in accordance with the US Holder's method of tax accounting).

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Treatment of Dispositions of Notes

Upon the sale, exchange, retirement or other taxable disposition of a Note, a US Holder will recognize gain or loss equal to the difference between the amount received (other than amounts in respect of accrued and unpaid interest, which will be taxable as such) and the adjusted tax basis of the Note. A US Holder's tax basis in a Note will be, in general, such US Holder's cost therefor. Gain or loss realized on the sale, exchange or retirement of a Note generally will be capital gain or loss, and will be long-term capital gain or loss if, at the time of such sale, exchange or retirement, the Note had been held for more than one year.

Market Discount and Bond Premium

If a US Holder purchases the Notes for a price that is less than 99.717% of face amount (which was the issue price of the 4.00% Global Notes due January 31, 2008 issued on December 26, 2002 and which is treated as the issue price of the Notes) by more than a *de minimis* amount ($\frac{1}{4}$ of 1 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity from the date of purchase), the US Holder will be considered to have acquired the Notes with market discount in an amount equal to the difference. Market discount accrues ratably under the "ratable method" during the period from the date of acquisition to the maturity date of the Notes, unless the US Holder elects to accrue market discount on a constant interest method. A US Holder may elect to include market discount in income currently as it accrues, under either the ratable or constant interest method. The election to include market discount in income currently, once made, applies to all market discount obligations acquired in or after the first taxable year to which the election applies, and may not be revoked without the consent of the Internal Revenue Service ("IRS"). Special rules and limitations apply to taxpayers who make this election.

