BEAR STEARNS COMPANIES INC
Form 10-Q
April 14, 2008

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

FORM 10-Q

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

For the quarterly period ended February 29, 2008

or

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

For the transition period from ___________ to ___________

Commission file number 1-8989

The Bear Stearns Companies Inc.

(Exact name of registrant as specified in its charter)

Delaware	13-3286161
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

383 Madison Avenue, New York, New York 10179
(Address of Principal Executive Offices) (Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ] (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of April 8, 2008, the latest practicable date, there were 145,698,482 shares of Common Stock, $1 par value, outstanding.

TABLE OF CONTENTS

Page

AVAILABLE INFORMATION

The Bear Stearns Companies Inc. and its subsidiaries ("Company") file current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended ("Exchange Act"), with the Securities and Exchange Commission ("SEC"). You may read and copy any document the Company files at the SEC's public reference room located at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The Company's SEC filings are also available to the public from the SEC's internet site at http://www.sec.gov. Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

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

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

3

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

THE BEAR STEARNS COMPANIES INC.

Condensed Consolidated Statements of Income

(in millions, except share and per share data)	(Unaudited) Three Months Ended February 29, 2008	(Unaudited) Three Months Ended February 28, 2007
REVENUES		
Commissions	$ 330	$ 281
Principal transactions	515	1,342
Investment banking	230	350
Interest and dividends	2,198	2,657

Asset management and other income	154	168
Total revenues	3,427	4,798
Interest expense	1,948	2,316
Revenues, net of interest expense	1,479	2,482
NON-INTEREST EXPENSES		
Employee compensation and benefits	754	1,204
Floor brokerage, exchange and clearance fees	79	56
Communications and technology	154	128
Occupancy	73	57
Advertising and market development	40	37
Professional fees	100	72
Other expenses	126	93
Total non-interest expenses	1,326	1,647
Income before provision for income taxes	153	835
Provision for income taxes	38	281
Net income	$ 115	$ 554
Preferred stock dividends	5	6
Net income applicable to common shares	$ 110	$ 548
Basic earnings per share	$ 0.89	$ 4.23
Diluted earnings per share	$ 0.86	$ 3.82
Weighted average common shares outstanding:		
Basic	129,128,281	133,094,747
Diluted	138,539,248	149,722,654
Cash dividends declared per common share	$ 0.32	$ 0.32

See Notes to Condensed Consolidated Financial Statements.

4

THE BEAR STEARNS COMPANIES INC.

Condensed Consolidated Statements of
Financial Condition

(in millions, except share data)

ASSETS

Cash and cash equivalents

Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations

Securities received as collateral

Collateralized agreements:

Securities purchased under agreements to resell

Securities borrowed

Receivables:

Customers

Brokers, dealers and others

Interest and dividends

Financial instruments owned, at fair value

Financial instruments owned and pledged as collateral, at fair value

Total financial instruments owned, at fair value

Assets of variable interest entities and mortgage loan special purpose entities

Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of $1,196 and $1,149 as of February 29, 2008 and November 30, 2007, respectively

Other assets

Total Assets

LIABILITIES AND STOCKHOLDERS' EQUITY

Unsecured short-term borrowings (includes $434 and $339 at fair value as of February 29, 2008 and November 30, 2007, respectively)

Obligation to return securities received as collateral

Collateralized financings:

Securities sold under agreements to repurchase

Securities loaned

Other secured borrowings

Payables:

Customers

Brokers, dealers and others

Interest and dividends

Financial instruments sold, but not yet purchased, at fair value

Liabilities of variable interest entities and mortgage loan special purpose entities

Accrued employee compensation and benefits

Other liabilities and accrued expenses

Long-term borrowings (includes $9,018 and $8,500 at fair value as of February 29, 2008 and November 30, 2007, respectively)

Total Liabilities

Commitments and contingencies (Note 12)

STOCKHOLDERS' EQUITY

Preferred stock

Common stock, $1.00 par value; 500,000,000 shares authorized and 184,805,847 shares issued as of both February 29, 2008 and November 30, 2007
Paid-in capital
Retained earnings
Employee stock compensation plans
Accumulated other comprehensive income (loss)
Shares held in RSU trust
Treasury stock, at cost:
Common stock: 39,135,671 and 71,807,227 shares as of February 29, 2008 and November 30, 2007, respectively

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

See Notes to Condensed Consolidated Financial Statements.

THE BEAR STEARNS COMPANIES INC.

Condensed Consolidated Statements of Cash Flows

--

(in millions)

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	$
Adjustments to reconcile net income to cash used in operating activities:	
Non-cash items included in net income:	
Depreciation and amortization	
Employee stock compensation plans	
Changes in operating assets and liabilities:	
Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations	
Securities borrowed, securities loaned, net	
Receivables from customers	
Receivables from brokers, dealers and others	
Financial instruments owned, at fair value	
Other assets	
Securities sold under agreements to repurchase, securities purchased under agreements to resell, net	
Payables to customers	
Payables to brokers, dealers and others	
Financial instruments sold, but not yet purchased, at fair value	
Accrued employee compensation and benefits	
Other liabilities and accrued expenses	

Cash provided by (used in) operating activities

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property, equipment and leasehold improvements, net

Cash used in investing activities

CASH FLOWS FROM FINANCING ACTIVITIES

Payments for/proceeds from unsecured short-term borrowings, net

Payments for other secured borrowings, net

Proceeds from issuance of long-term borrowings

Payments for retirement/repurchase of long-term borrowings

Payments for/proceeds from issuances of derivatives with a financing element, net

Issuance of common stock

Cash retained resulting from tax deductibility under share-based payment arrangements

Treasury stock purchases - common stock

Cash dividends paid

Cash (used in) provided by financing activities

Net (decrease) increase in cash and cash equivalents

Cash and cash equivalents, beginning of year

Cash and cash equivalents, end of period $

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash payments for interest were $2.32 billion and $2.51 billion during the three months ended February 29, 2008 and February 28, 2007, respectively. Cash payments for income taxes, net of an approximate $325 million refund of November 30, 2007 estimated Federal taxes, was ($294.0) million for the three months ended February 29, 2008 and cash payments for income taxes, net of refunds, was $108.8 million for the three months ended February 28, 2007. Cash payments for income taxes, net of an approximate $325 million refund of November 30, 2007 estimated Federal taxes, would have been ($249.0) million for the three months ended February 29, 2008 if increases in the value of equity instruments issued under share-based payment arrangements had not been deductible in determining taxable income. Cash payments for income taxes, net of refunds, would have been $313.9 million for the three months ended February 28, 2007 if increases in the value of equity instruments issued under share-based payment arrangements had not been deductible in determining taxable income.

See Notes to Condensed Consolidated Financial Statements.

THE BEAR STEARNS COMPANIES INC.

Condensed Consolidated Statements of Comprehensive Income

(in millions)	(Unaudited) Three months ended February 29, 2008	February 28, 2007
Net Income	$ 115	$ 554
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(2)	--
Net gains on cash flow hedges	35	--
Comprehensive income	$ 148	$ 554

See Notes to Condensed Consolidated Financial Statements.

7

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

The Bear Stearns Companies Inc. (the "Company") is a holding company that, through its broker-dealer and international bank subsidiaries, principally Bear, Stearns & Co. Inc. ("Bear Stearns"), Bear, Stearns Securities Corp. ("BSSC"), Bear, Stearns International Limited ("BSIL") and Bear Stearns Bank plc ("BSB"), is primarily engaged in business as a securities broker-dealer operating in three principal segments: Capital Markets, Global Clearing Services and Wealth Management. Capital Markets is comprised of the institutional equities, fixed income and investment banking areas. Global Clearing Services provides clearance-related services for prime brokerage clients and clearance on a fully disclosed basis for introducing broker-dealers. Wealth Management is comprised of the private client services ("PCS") and asset management areas. See Note 15, "Segment Data," in the Notes to Condensed Consolidated Financial Statements for a complete description of the Company's principal segments. The Company also conducts significant activities through other wholly owned subsidiaries, including: Bear Stearns Global Lending Limited; Bear Stearns Bank & Trust Company (formerly known as Custodial Trust Company); Bear Stearns Financial Products Inc. ("BSFP"); Bear Stearns Capital Markets Inc.; Bear Stearns Credit Products Inc.; Bear Stearns Forex Inc. ("BS Forex"); EMC Mortgage Corporation; Bear Stearns Commercial Mortgage, Inc.; Bear Stearns Investment Products Inc.; and Bear Energy L.P.

Subsequent Events

The Company experienced a significant liquidity crisis during the end of the week of March 10, 2008 that seriously jeopardized its financial viability and which raises substantial doubt about its ability to continue as a going concern. As a result, on March 16, 2008, the Company and JPMorgan Chase & Co. ("JPMorgan Chase") entered into an agreement and plan of merger, and on March 24, 2008, entered into an amendment to the agreement and plan of merger (as amended the "Merger Agreement'). Pursuant to the Merger Agreement each share of the Company's common stock outstanding immediately prior to the merger will be exchanged for 0.21753 shares of JPMorgan Chase common stock. A summary of the Merger Agreement, related transaction documents and the accounting implications are described in more detail in the Transaction Documents and Accounting Implications sections of Note 17, "Subsequent Events," of Notes to Condensed Consolidated Financial Statements.

In connection with the entry into the amendment to the Merger Agreement, the Company and JPMorgan Chase entered into a share exchange agreement under which JPMorgan Chase will purchase 95 million newly issued shares of the Company's common stock, or 39.5% of the outstanding common stock of the Company after giving effect to the issuance, in exchange for the issuance of 20,665,350 shares of JPMorgan Chase common stock to the Company and the entry by JPMorgan Chase into an amended and restated guaranty agreement and the guaranty agreement with the Federal Reserve Bank of New York ("New York Fed"). The share exchange was completed on April 8, 2008.

Concurrent with the closing of the merger, the New York Fed will take, through a limited liability company formed for this purpose, control of a portfolio of $30 billion in assets of the Company based on the value of the portfolio as of March 14, 2008. The assets will be funded by a $29 billion, 10-year term note from the New York Fed, and a $1 billion, 10-year subordinated note from JPMorgan Chase. The JPMorgan Chase note is subordinated to the New York Fed loan and will bear the first $1 billion of any losses associated with the assets. Any funds remaining after payment of the New York Fed loan, the JPMorgan Chase note and other expenses of the limited liability company, will be paid to the New York Fed.

Since the liquidity crisis and the announcement of the merger, the Company has experienced substantial deterioration of its earnings capacity. The closing of the merger is expected to occur by June 30, 2008. The Company believes that the termination of the JPMorgan Chase guaranties prior to consummation of the merger or the parties' failure to consummate the merger could seriously jeopardize the Company's financial viability. In addition, absent the Guaranty, the Company could face the increased risk of rapid loss of customers and counterparties. The lack of liquidity and the loss of customers and counterparties would materially adversely affect the Company's financial stability and its viability as a going concern. Accordingly, the Company could be forced to file for bankruptcy protection and need to liquidate. The accompanying Condensed Consolidated Financial

Statements do not reflect any adjustments that might result if the Company were unable to continue as a going concern.

Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries and other entities in which the

Company has a controlling financial interest. All material intercompany transactions and balances have been eliminated in consolidation.

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

Voting interest entities are consolidated in accordance with Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements," as amended. ARB No. 51 states that the usual condition for a controlling financial interest in an entity is ownership of a majority voting interest. Accordingly, the Company consolidates voting interest entities in which it has a majority voting interest. VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE occurs when an entity has a variable interest that will absorb a majority of the VIEs expected losses, receive a majority of the VIEs residual returns, or both. The entity with the controlling financial interest, known as the primary beneficiary, consolidates the VIE. In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 (R), "Consolidation of Variable Interest Entities (revised December 2003)--an interpretation of Accounting Research Bulletin ("ARB") No. 51" ("FIN No. 46 (R)"), the Company consolidates any variable interest entities for which it is the primary beneficiary. The assets and related liabilities of such variable interest entities have been shown in the Condensed Consolidated Statements of Financial Condition in the captions "Assets of variable interest entities and mortgage loan special purpose entities" and "Liabilities of variable interest entities and mortgage loan special purpose entities." See Note 5, "Variable Interest Entities and Mortgage Loan Special Purpose Entities," in the Notes to Condensed Consolidated Financial Statements. QSPEs are passive entities that are commonly used in securitization transactions. Statement of Financial Accounting Standards ("SFAS") No. 140, "Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," sets forth the criteria an entity must satisfy to be a QSPE. In accordance with SFAS No. 140, the Company does not consolidate QSPEs.

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

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

The Condensed Consolidated Statement of Financial Condition as of February 29, 2008, the Condensed Consolidated Statements of Income, Cash Flows, and Comprehensive Income for the three months ended February 29, 2008 and February 28, 2007 are unaudited. The Condensed Consolidated Statement of Financial Condition at November 30, 2007 and related information were derived from the audited consolidated financial statements included in the Company's Current Report on Form 8-K, which was filed with the Securities and Exchange Commission ("SEC") on April 11, 2008 (the "Form 8-K").

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

The Condensed Consolidated Financial Statements are prepared in accordance with the rules and regulations of the SEC with respect to the Quarterly Report on Form 10-Q and reflect all adjustments which, in the opinion of management, are normal and recurring, and which are necessary for a fair statement of the results for the interim periods presented. In accordance with such rules and regulations, certain disclosures that are normally included in annual financial statements have been omitted. These Condensed Consolidated Financial Statements should be read together with the Form 8-K.

The Condensed Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. These principles require management to make certain estimates and assumptions, including those regarding fair value measurements, stock-based compensation, certain accrued liabilities, the potential outcome of litigation and tax matters, and the realizability of deferred tax assets, which may affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. Actual results could differ materially from these estimates. The nature of the Company's business is such that the results of any interim period may not be indicative of the results to be expected for an entire fiscal year.

Revenue Recognition Policies

Principal Transactions

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

Investment Banking and Advisory Services

Underwriting revenues and fees for mergers and acquisitions advisory services are accrued when services for the transactions are substantially completed. Transaction expenses are deferred until the related revenue is recognized. Investment banking and advisory services revenues are presented net of transaction-related expenses.

Mortgage Servicing Fees and Advances

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

Commissions

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

Asset Management and Other Income

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

Energy Trading

Energy trading revenues are reported, net of certain direct costs, in "Principal transactions" revenues on the Condensed Consolidated Statements of Income. Energy trading assets and liabilities that are derivatives are reported at fair value with the corresponding changes recognized in income. Non-derivative contracts are accounted for on an accrual basis and recognized in income when the energy is delivered. See Note 16, "Asset Acquisition" for a further discussion on the assets acquired from the Williams Power Company, Inc.

Financial Instruments

The Company follows SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. Additionally, SFAS No. 157 disallows the use of block discounts on positions traded in an active market as well as nullifies certain guidance in EITF No. 02-3 regarding the recognition of inception gains on certain derivative transactions. See Note 2, "Financial Instruments" of Notes to Condensed Consolidated Financial Statements for a complete discussion of SFAS No. 157.

Financial instruments owned and financial instruments sold, but not yet purchased, including contractual commitments arising pursuant to futures, forward and option contracts, interest rate swaps and other derivative contracts, are recorded on a trade-date basis at fair value.

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

Equity interests and securities acquired as a result of private equity and merchant banking activities are reflected in the Condensed Consolidated Financial Statements at fair value, which is often represented at initial cost until significant transactions or developments indicate that a change in the carrying value of the securities is appropriate. This represents the Company's best estimate of exit price as defined by SFAS No. 157. Generally, the carrying values of these securities will be increased based on company performance and in those instances where market values are readily ascertainable by reference to substantial transactions occurring in the marketplace or quoted market prices. Reductions to the carrying value of these securities are made when the Company's estimate of fair value has declined below the carrying value.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115," which provides a fair value option election that permits entities to irrevocably elect to measure financial assets and liabilities (except for those that are specifically scoped out of the Statement) at fair value as the initial and subsequent measurement attribute, with changes in fair value recognized in earnings as they occur. SFAS No. 159 permits the fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument.

Effective December 1, 2007, the Company adopted SFAS No. 159 and elected to apply the fair value option to liabilities of variable interest entities and mortgage loan special purpose entities. The primary reason for electing the fair value option is to simplify the accounting requirements. The Company did not have a transition adjustment upon the adoption of this Statement.

Derivative Instruments and Hedging Activities

The Company follows SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for stand-alone derivative instruments, derivatives embedded within other

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

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

The Company follows FIN No. 39, "Offsetting Amounts Related to Certain Contracts," and offsets assets and liabilities in the Condensed Consolidated Statements of Financial Condition provided that the legal right of offset exists under a master netting agreement. This includes the offsetting of payables or receivables relating to the fair value of cash collateral received or paid associated with its derivative inventory, on a counterparty by counterparty basis.

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

Customer Transactions

Customer securities transactions are recorded on the Condensed Consolidated Statements of Financial Condition on a settlement date basis, which is generally three business days after trade date, while the related commission revenues and expenses are recorded on a trade date basis.

Receivables from and payables to customers include amounts related to both cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are generally not reflected in the Condensed Consolidated Statements of Financial Condition.

Mortgage Servicing Rights

Mortgage servicing rights ("MSRs") are included in "Other assets" on the Condensed Consolidated Statements of Financial Condition. The Company follows SFAS No. 156, "Accounting for Servicing of Financial Assets--an amendment of FASB Statement No. 140," and measures servicing assets at fair value. The fair value of MSRs is determined by using market-based models that discount anticipated future net cash flows considering loan

prepayment predictions, interest rates, default rates, servicing costs, current market data and other economic factors. Changes in the fair value of MSRs are recorded in "Principal transactions" revenues in the Condensed Consolidated Statements of Income.

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

The Company follows SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities--a replacement of FASB Statement No. 125," to account for securitizations and other transfers of financial assets and collateral. SFAS No. 140 establishes accounting and reporting standards with a financial-components approach that focuses on control. Under this approach, financial assets or liabilities are recognized when control is established and derecognized when control has been surrendered or the liability has been extinguished. Control is deemed to be relinquished only when all of the following conditions have been met: (1) the assets have been isolated from the transferor, even in bankruptcy or other receivership; (2) the transferee is a QSPE or has the right to pledge or exchange the assets received; and (3) the transferor has not maintained effective control over the transferred assets. The Company derecognizes financial assets transferred in securitizations provided that such transfer meets all of these criteria.

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

Collateralized Securities Transactions

Transactions involving purchases of securities under agreements to resell ("reverse repurchase agreements") or sales of securities under agreements to repurchase ("repurchase agreements") are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. Resulting interest income and expense is generally included in "Principal transactions" revenues in the

Condensed Consolidated Statements of Income. Reverse repurchase agreements and repurchase agreements are presented in the Condensed Consolidated Statements of Financial Condition on a net-by-counterparty basis, where permitted by generally accepted accounting principles. It is the Company's general policy to take possession of securities or loans with a market value in excess of the principal amount loaned plus the accrued interest thereon, in order to collateralize reverse repurchase agreements. Similarly, the Company is generally required to provide securities or loans to counterparties to collateralize repurchase agreements. The Company's agreements with counterparties generally contain contractual provisions allowing for additional collateral to be obtained, or excess collateral returned. It is the Company's policy to value collateral and to obtain additional collateral, or to retrieve excess collateral from counterparties, when deemed appropriate.

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

Fixed Assets

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

Goodwill and Identifiable Intangible Assets

The Company accounts for goodwill and identifiable intangible assets under the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." In accordance with this guidance, the Company does not amortize goodwill, but amortizes identifiable intangible assets over their useful lives. Goodwill is tested at least annually for impairment and identifiable intangible assets are tested for potential impairment whenever events or changes in

circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." See Note 17, "Subsequent Events," of Notes to the Condensed Consolidated Financial Statements for further discussion.

Earnings Per Share

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

Stock-Based Compensation

The Company follows SFAS No. 123 (R), "Share-Based Payment," to account for its stock-based compensation plans. SFAS No. 123 (R) is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 123 (R) eliminated the ability to account for share-based compensation transactions using APB No. 25, and requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements using a fair value-based method.

Cash Equivalents

The Company has defined cash equivalents as liquid investments not held for sale in the ordinary course of business with original maturities of three months or less that are not part of the Company's trading inventory.

Income Taxes

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted the provisions of FIN No. 48 in the first quarter of 2008. See Note 13, "Income Taxes," of the Notes to Condensed Consolidated Financial Statements for a further discussion.

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

Translation of Foreign Currencies

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

Income. Gains or losses resulting from foreign currency transactions are included in current earnings.

Accounting and Reporting Developments

In March 2008, the FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133." The Statement requires companies to provide enhanced disclosures regarding derivative instruments and hedging activities. It requires companies to better convey the purpose of derivative use in terms of the risks that such company is intending to manage. Disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows are required. This Statement retains the same scope as SFAS No. 133 and is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing implementation plans and does not expect the adoption of SFAS No. 161 to have a material impact, if any, on the Condensed Consolidated Financial Statements.

In February 2008, the FASB issued a FASB Staff Position ("FSP") on Accounting for Transfers of Financial Assets and Repurchase Financing Transactions "FSP FAS 140-3." This FSP addresses the issue of whether or not these transactions should be viewed as two separate transactions or as one "linked" transaction. The FSP includes a "rebuttable presumption" that presumes linkage of the two transactions unless the presumption can be overcome by meeting certain criteria. The FSP will be effective for fiscal years beginning after November 15, 2008 and will apply only to original transfers made after that date; early adoption will not be allowed. The Company is currently evaluating the impact, if any, the adoption of this interpretation will have on the Company's Condensed Consolidated Financial Statements.

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

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

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

In December 2007, the American Securitization Forum published a Streamlined Foreclosure and Loss Avoidance Framework (ASF Framework) to enable mortgage servicers to streamline their loss avoidance and loan modification practices. The framework is an industry-developed, recommended methodology that servicers of securitized subprime ARMS held in QSPEs can use to fulfill their existing obligations to service those loans in a faster and more efficient manner while maximizing recoveries for the benefit of securitization investors. The ASF Framework applies to all first lien subprime residential ARMs that have an initial fixed rate period of 36 months or less that were originated between January 1, 2005 and July 31, 2007, and that have an initial interest rate reset between January 1, 2008 and July 31, 2010.

Under the ASF Framework, the covered loans are divided into three segments:

Segment 1 - includes current loans where the borrower is likely to be able to refinance into any available mortgage product, including FHA, FHA Secure or readily available mortgage industry products;

Segment 2 - includes current loans where the borrower is unlikely to be able to refinance into any readily available mortgage industry product; and

Segment 3 - includes loans where the borrower is not current as defined above, demonstrating difficulty meeting the introductory rate.

The methodology prescribed in the ASF Framework applies to those loans in Segment 2, in advance of the initial reset date. Those loans would be eligible for a "fast track" loan modification under which the interest rate would be kept at the existing rate, generally for five years following the upcoming reset. The ASF Framework provides a methodology which complies with relevant tax regulations and off-balance-sheet accounting standards for QSPEs. Moreover, the SEC's Office of Chief Accountant has concluded that it will not object to continued status as a QSPE if Segment 2 subprime ARM loans are modified pursuant to the specific screening criteria in the ASF Framework. The Company adopted the ASF screening criteria in the first quarter of 2008, and believes that the modification of loans in accordance with the ASF Framework does not impact the off-balance-sheet accounting treatment of QSPEs that hold subprime ARM loans.

While a uniform definition of subprime mortgages does not exist in the marketplace, the Company defines subprime primarily as loans issued to higher risk borrowers who do not qualify for the best market interest rates because of their deficient credit history. Although FICO credit scores and prior mortgage or rent payment histories are the main drivers of a subprime designation, subprime also includes borrowers that have had a recent foreclosure or bankruptcy. Other considerations include borrower's reserve funds, residual household income and debt to income ratio. The Company has not yet modified a significant percentage of loans using the ASF Framework; accordingly, the impact to the Company's retained interest has been immaterial.

2. FINANCIAL INSTRUMENTS

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

(in millions)	February 29, 2008	November 30, 2007
FINANCIAL INSTRUMENTS OWNED, AT FAIR VALUE:		
U.S. government and agency	$ 21,310	$ 12,920
Other sovereign governments	2,394	672
Corporate equity and convertible debt	26,975	32,454
Corporate debt and other	23,511	26,330

Mortgages, mortgage- and asset-backed	38,186	46,141
Derivative financial instruments	28,728	19,725
	$ 141,104	$ 138,242

FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED, AT FAIR VALUE:		
U.S. government and agency	$ 9,718	$ 4,563
Other sovereign governments	1,189	2,473
Corporate equity and convertible debt	18,700	18,843
Corporate debt and other	5,079	4,373
Mortgages, mortgage- and asset-backed	348	63
Derivative financial instruments	16,510	13,492
	$ 51,544	$ 43,807

As of February 29, 2008 and November 30, 2007, all financial instruments owned that were pledged to counterparties where the counterparty has the right, by contract or custom, to rehypothecate those securities are classified as "Financial instruments owned and pledged as collateral, at fair value" in the Condensed Consolidated Statements of Financial Condition.

Financial instruments sold, but not yet purchased, at fair value represent obligations of the Company to purchase the specified financial instrument at the then current market price. Accordingly, these transactions result in off-balance-sheet risk as the Company's ultimate obligation to repurchase such securities may exceed the amount recognized in the Condensed Consolidated Statements of Financial Condition.

Concentration Risk

The Company is subject to concentration risk by holding large positions or committing to hold large positions in certain types of securities, securities of a single issuer (including governments), issuers located in a particular country or geographic area, or issuers engaged in a particular industry. Positions taken and commitments made by the Company, including underwritings, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment-grade issuers. At February 29, 2008 and November 30, 2007, the Company's most significant concentrations were related to United States government securities, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation agency-backed securities, which are included in the U.S. government and agency and Mortgages, mortgage-and asset-backed inventory captions above. In addition, a substantial portion of the collateral held by the Company for reverse repurchase agreements consists of securities issued by the U.S. government and agencies.

Fair Value Measurements

The Company follows SFAS No. 157, "Fair Value Measurements." SFAS No. 157 applies to all financial instruments that are measured and reported on a fair value basis. This includes those items currently reported in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value" on the Condensed Consolidated Statements of Financial Condition as well as financial instruments reported in "Other assets" and "Other liabilities" captions that are reported at fair value below.

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

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

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

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

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

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

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

Fair Value Measurements on a Recurring Basis as of February 29, 2008:

(in millions)	Level 1	Level 2	Level
Financial Instruments Owned, at fair value			
U.S. government and agency	$ 5,857	$ 15,453	$ -
Other sovereign governments	--	2,394	-
Corporate equity and convertible debt	19,798	6,830	
Corporate debt and other	14	18,373	5,
Mortgages, mortgage- and asset-backed	--	15,966	22,
Total Non Derivative Trading Assets	25,669	59,016	27,
Derivative financial instruments (1)	202	272,356	6,
Total Financial Instruments Owned, at fair value	25,871	331,372	33,
Other Assets(2)	391	1,607	3,
Total Assets at fair value	$ 26,262	$ 332,979	$ 37,

(in millions)	Level 1	Level 2	Level
Financial Instruments Sold But Not Yet Purchased, at fair value			
U.S. government and agency	$ (9,718)	$ --	$ -

Other sovereign governments	--	(1,189)	-
Corporate equity and convertible debt	(16,554)	(2,145)	
Corporate debt and other	--	(5,053)	
Mortgages, mortgage- and asset-backed	--	(348)	-
Total Non Derivative Trading Liabilities	(26,272)	(8,735)	
Derivative financial instruments (1)	(185)	(254,426)	(5,
Total Financial Instruments Sold But Not Yet Purchased, at fair value	(26,457)	(263,161)	(5,
Other Liabilities(3)	(82)	(7,715)	(1,
Total Liabilities at fair value	$ (26,539)	$ (270,876)	$ (6,

(1) The derivatives trading inventory balances are reported on a gross basis by level with a corresponding adjustment for netting.

(2) Other assets includes certain items such as alternative investments, mortgage servicing rights, net assets of variable interest entities and mortgage securitizations that did not meet the criteria for sale treatment under SFAS No. 140.

(3) Other liabilities are primarily comprised of certain hybrid debt issuances accounted for at fair value as elected in accordance with SFAS No. 155.

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

The non-derivative trading inventory category includes securities such as U.S. Government and agency, other sovereign governments, corporate equities, convertible debt, corporate debt, mortgages, mortgage- and asset-backed, as well as certain other items. They are reported in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value" on the Condensed Consolidated Statements of Financial Condition. The derivatives trading inventory balances in the table above are reported on a gross basis by level with a netting adjustment presented separately in the "Impact of Netting" column. The Company often enters into different types of derivative contracts with a single counterparty and these contracts are covered under one ISDA master netting agreement. The fair value of the individual derivative contracts are reported gross in their respective levels based on the fair value hierarchy.

Other assets and other liabilities represent those financial assets and liabilities that the Company carries at fair value but are not included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value" captions. Other assets includes certain items such as alternative investments, mortgage servicing rights, net assets of VIEs and mortgage securitizations that did not meet the criteria for sale treatment under SFAS No. 140. Other liabilities is primarily comprised of certain hybrid debt issuances accounted for at fair value as elected in accordance with SFAS No. 155.

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

Level 3 Financial Assets and Liabilities
Three months ended February 29, 2008

(in millions)	Beginning Balance as of December 1, 2007	Total Gains/ (Losses) (Realized and Unrealized)	Purchases, Issuances, Sales and Settlements	Transfer In/Out o Level 3
Non-Derivative Trading Assets	$ 22,080	$ (1,435)	$ 118	$ 6,
Non Derivative Trading Liabilities	$ (58)	$ (6)	$ 23	$
Derivative Trading Inventory (Net)	$ (589)	$ 763	$ 290	$
Other Assets	$ 3,758	$ (369)	$ (165)	$
Other Liabilities	$ (1,254)	$ 142	$ (47)	$ (

Non-Derivative Trading Assets and Liabilities

Realized and unrealized gains and losses on Level 3 assets and liabilities are primarily reported in "Principal transactions" revenues in the Condensed Consolidated Statements of Income. The Level 3 non-derivative trading assets reflect an unrealized loss related to the mortgage related inventory write-downs incurred during the first quarter of 2008. The Company manages its exposure on a portfolio basis and regularly engages in offsetting strategies in which financial instruments from one fair value hierarchy level are used to economically offset the risk of financial instruments in the same or different levels. Therefore, realized and unrealized gains and losses reported as Level 3 may be offset by gains or losses attributable to assets or liabilities classified in Level 1 or Level 2.

Derivative Trading Inventory (Net)

The net derivative trading inventory resulted in a gain for the first quarter of 2008. This gain was primarily driven by changes in interest rates and credit spreads related to the Company's interest rate and credit derivative products.

Transfers

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

During the 2008 quarter, there were approximately $6.9 billion of non-derivative trading assets transferred from level 2 to level 3. These transfers were primarily related to mortgages and mortgage-backed securities. The largest

contributors to the transfers were performing residential mortgages and investment-grade mortgage-backed securities. Additionally, during the 2008 quarter, there were approximately $700 million of net derivative trading assets which transferred from level 2 to level 3. These transfers were primarily related to mortgage-related credit default swaps.

These transfers were driven by the continued market and liquidity deterioration in the mortgage markets.

Fair Value Option

SFAS No. 159 provides a fair value option election that permits entities to irrevocably elect to measure financial assets and liabilities (except for those that are specifically scoped out of the Statement) at fair value as the initial and subsequent measurement attribute, with changes in fair value recognized in earnings as they occur. SFAS No. 159 permits the fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument.

Effective December 1, 2007, the Company adopted SFAS No. 159 and elected to apply the fair value option to liabilities of variable interest entities and mortgage loan special purpose entities. Incorporated in the SFAS No. 159 guidance are specific disclosure requirements related to the hybrid financial instruments elected under SFAS No. 155.

In accordance with SFAS No. 155, the Company measures certain hybrid financial instruments at fair value. These hybrid financial instruments are recorded in "Long-term borrowings" and "Unsecured short-term borrowings" in the Condensed Consolidated Statements of Financial Condition. Changes in the fair value of these hybrid financial instruments, including interest, are reflected in "Principal transactions" revenues in the Condensed Consolidated Statements of Income. Gains (losses) related to changes in the fair value of these hybrid financial instruments classified as Long term borrowings amounted to $639 million and $337 million for the three months ended February 29, 2008 and February 28, 2007 respectively, of which $305 million and $35 million were attributable to the widening of the Company's credit spreads and were derived from the Company's bond market spreads during the respective periods. Gains (losses) related to changes in the fair value of these hybrid financial instruments classified as Unsecured short-term borrowings were not material for the three months ended February 29, 2008 and February 28, 2007. As of February 29, 2008 and November 30, 2007, the aggregate principal balance classified as Long term borrowings, exceeded the aggregate fair value by $1.8 billion and $547 million, respectively. As of February 29, 2008 and November 30, 2007, the aggregate principal balance classified as Unsecured short-term borrowings, exceeded the aggregate fair value by approximately $224 million and $203 million, respectively. As a result of the events described in Note 17, "Subsequent Events" of Notes to the Condensed Consolidated Financial Statements, approximately $372 million in losses were recognized during the month ended March 31, 2008, due to tightening of the Company's credit spreads.

3. DERIVATIVES AND HEDGING ACTIVITIES

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

instruments sold, but not yet purchased may result in market and/or credit risk in excess of amounts recorded in the Condensed Consolidated Statements of Financial Condition.

Market Risk

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

Derivatives Credit Risk

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

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

Hedging Activity

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

These financial instruments are subject to the same market and credit risks as those that are traded in connection with the Company's market making and trading activities. The Company has similar controls in place to monitor these risks.

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

such net effect being deemed the "ineffective" portion of the hedge. The gains and losses associated with the ineffective portion of the fair value hedges are included in "Principal transactions" revenues in the Condensed Consolidated Statements of Income. These amounts were immaterial for the three months ended February 29, 2008.

The Company also engages in non-trading derivative activities to manage commodity price risks resulting from exposures to changes in spot and forward prices in electricity and natural gas. The Company actively manages these risks with exchange traded futures, swaps, OTC swaps and options. Certain of these transactions are accounted for as cash flow hedges as defined in SFAS No. 133 which requires the effective portion of the unrealized gain or loss on a derivative designated as a cash flow hedge, as defined in SFAS No. 133, to be reported in "Accumulated other comprehensive income" ("OCI") with the ineffective portion reported in "Principal transactions" revenues in the Condensed Consolidated Statements of Income. Amounts that are reported in OCI are reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of cash flow hedges was deemed immaterial for the three months ended February 29, 2008.

The net gain on derivative instruments designated in cash flow hedging relationships recorded in OCI, net of tax, was $25 million at February 29, 2008. The net increase in fair value recorded in OCI in the first quarter of 2008 was $35 million. The net gain in OCI is expected to be reclassified into earnings as follows: $6 million in fiscal 2008 and the remaining $19 million of gains within five years.

4. TRANSFERS OF FINANCIAL ASSETS AND LIABILITIES

Securitizations

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

In connection with these securitization activities, the Company may retain interests in securitized assets in the form of senior or subordinated securities or as residual interests. Retained interests in securitizations are generally not held to maturity and typically are sold shortly after the settlement of a securitization. The weighted average holding period for retained interest positions in inventory at February 29, 2008 and November 30, 2007 was approximately 210 days and 180 days, respectively. These retained interests are included in "Financial instruments owned, at fair value" in the Condensed Consolidated Statements of Financial Condition and are carried at fair value. Consistent with the valuation of similar inventory, fair value is determined by broker-dealer price quotations and internal valuation pricing models that utilize variables such as yield curves, prepayment speeds, default rates, loss severity, interest rate volatilities and spreads. The assumptions used for pricing variables are based on observable transactions in similar securities and are further verified by external pricing sources, when available.

The Company's securitization activities are detailed below:

(in billions)	Agency Mortgage-Backed	Other Mortgage- and Asset-Backed
Total securitizations		
Three months ended February 29, 2008	$5.4	$3.9
Three months ended February 28, 2007	$4.7	$21.3

The following table summarizes the Company's retained interests by rating as of February 29, 2008 and November 30, 2007:

(in billions)	February 29, 2008	November 30, 2007
Retained Interests:		
AAA rated Agency Mortgage-Backed	$2.6	$2.4

AAA rated Other Mortgage and Asset-Backed	2.9	2.7
Total AAA rated	$5.5	$5.1
Other investment grade	1.4	1.6
Non-investment grade	1.3	1.3
Total retained interests	$8.2	$8.0

The following table summarizes cash flows from securitization trusts related to securitization transactions during the three months ended February 29, 2008 and February 28, 2007:

(in millions)	Agency Mortgage-Backed	Other Mortgage- and Asset-Backed	Total
Cash flows received from retained interests			
Three months ended February 29, 2008	$10.1	$1.2	$11.3
Three months ended February 28, 2007	$13.5	$78.3	$91.8
Cash flows from servicing			
Three months ended February 29, 2008	$ -	$5.1	$5.1
Three months ended February 28, 2007	$ -	$4.5	$4.5

The Company is an active market maker in mortgage-backed securities and therefore may retain interests in assets it securitizes, predominantly highly rated or government agency-backed securities. The models employed in the valuation of retained interests consider possible changes in prepayment speeds in response to changes in future interest rates, as well as potential credit losses. Prepayment speed changes are incorporated by calibrating the distribution of possible future interest rates to the observed levels of implied volatility in the market for interest rate options and generating the corresponding cash flows for the securities using prepayment models. Credit losses are considered through explicit loss models for positions exposed to significant default risk in the underlying collateral, and through option-adjusted spreads that also incorporate additional factors such as liquidity and model uncertainty for all positions. The models use discount rates that are based on the Treasury curve, plus the option-adjusted spread. Key points on the constant maturity Treasury curve at February 29, 2008 were 1.63% for 2-year Treasuries and 3.78% for 10-year Treasuries, and ranged from 1.57% to 4.44%. The weighted average spread was 207 basis points and 561 basis points for agency mortgage-backed securities and other mortgage- and asset-backed securities, respectively, at February 29, 2008.

Weighted key economic assumptions used in measuring the fair value of retained interests in assets the Company securitized at February 29, 2008 were as follows:

	Agency Mortgage-Backed	Other Mortgage- and Asset-Backed
Weighted average life (years)	5.9	3.1
Average prepayment speeds (annual rate)	8% - 36%	8% - 40%
Credit losses	-	0.9% - 53%

The following hypothetical sensitivity analysis as of February 29, 2008 illustrates the potential adverse change in fair value of these retained interests due to a specified change in the key valuation assumptions. The interest rate changes represent a parallel shift in the Treasury curve. This shift considers the corresponding effect of other variables, including prepayments. The remaining valuation assumptions are changed independently. Retained interests in securitizations are generally not held to maturity and are typically sold shortly after the settlement of a securitization. The Company considers the current and expected credit profile of the underlying collateral in determining the fair value and periodically updates the fair value for changes in credit, interest rate, prepayment speeds and other pertinent market factors. Changes in portfolio composition, updates to loss and prepayment models, and changes in the level of interest rates and market prices for retained interests, can combine to produce significant changes in the sensitivities reported even if aggregate market values do not change significantly. Actual credit losses on retained interests have not been significant.

(in millions)	Agency Mortgage-Backed	Other Mortgage- and Asset-Backed
Interest rates		
Impact of 50 basis point adverse change	$ (78)	(113)
Impact of 100 basis point adverse change	(167)	(232)
Prepayment speeds		
Impact of 10% adverse change	(5)	(33)
Impact of 20% adverse change	(10)	(58)
Credit losses		
Impact of 10% adverse change	(18)	(161)
Impact of 20% adverse change	(36)	(294)

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

Mortgage Servicing Rights

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

The Company follows SFAS No. 156 and carries its MSRs at fair value, with changes in fair value reported in earnings.

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

At February 29, 2008, the key economic assumptions and the sensitivity of the current fair value of MSRs to immediate changes in those assumptions were as follows:

(in millions)	February 29, 2008
Fair value of MSRs	$ 771
Weighted average constant prepayment rate (CPR)	10.7%
Impact on fair value of:	
10% adverse change	$ (30)
20% adverse change	(51)
Weighted average discount rate	13.3%
Impact on fair value of:	
10% adverse change	$ (24)
20% adverse change	(46)
Weighted average constant default rate (CDR)	7.7%
Impact on fair value of:	
10% adverse change	$ (25)
20% adverse change	(48)

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

MSRs are included in "Other assets" on the Condensed Consolidated Statements of Financial Condition and are carried at fair value in accordance with SFAS No. 156. The Company's MSRs activities for the three months ended February 29, 2008 and February 28, 2007 were as follows:

(in millions)	February 29, 2008	February 28, 2007
Balance, beginning of period	$ 833	$ 502
Additions	2	112
Paydowns	(23)	(39)
Changes in fair value resulting from changes in valuation inputs/assumptions	(41)	5
Balance, end of period	$ 771	$ 580

5. VARIABLE INTEREST ENTITIES AND MORTGAGE LOAN SPECIAL PURPOSE ENTITIES

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

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

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

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

The Company establishes and operates funds for the benefit of its employees. These funds are considered to be VIEs of which the Company is the primary beneficiary.

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

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

	As of February 29, 2008	
(in millions)	VIE Assets	Maximum Exposure to Loss (1)
Mortgage Securitizations	$ 27,322	$ 2,522
Collateralized Debt and Loan Obligations	1,639	173
Employee Funds(2)	625	429
Energy Investments	405	128
Total	$ 29,991	$ 3,252

(1) Represents the fair value of the Company's interest in these entities.

(2) Maximum exposure to loss includes loans the Company has made to employees who participate in the funds, for which the Company is in a second loss position.

The Company also owns significant variable interests in several VIEs related to collateralized debt obligations and collateralized loan obligations for which the Company is not the primary beneficiary and therefore does not consolidate these entities. In aggregate, these VIEs had assets of approximately $5.8 billion and $11.5 billion at

February 29, 2008 and November 30, 2007, respectively. At February 29, 2008 and November 30, 2007, the Company's maximum exposure to loss from these entities was approximately $61 million and $112 million, respectively, which represents the fair value of its interests and are included in "Financial instruments owned, at fair value" in the Condensed Consolidated Statements of Financial Condition.

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

6. COLLATERALIZED FINANCING ARRANGEMENTS

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

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

At February 29, 2008 and November 30, 2007, the fair value of securities received as collateral by the Company that can be repledged, delivered or otherwise used was approximately $303 billion and $280 billion, respectively. Of these securities received as collateral, those with a fair value of approximately $211 billion and $189 billion were delivered, repledged or otherwise used at February 29, 2008 and November 30, 2007, respectively.

The Company also pledges financial instruments owned to collateralize certain financing arrangements and permits the counterparty to pledge or rehypothecate the securities. These securities are recorded as "Financial instruments owned and pledged as collateral, at fair value" in the Condensed Consolidated Statements of Financial Condition. The carrying value of securities and other inventory positions owned that have been pledged or otherwise encumbered to counterparties where those counterparties do not have the right to sell or repledge was approximately $54 billion and $65 billion at February 29, 2008 and November 30, 2007, respectively.

7. SHORT-TERM BORROWINGS

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

The Company's short-term borrowings at February 29, 2008 and November 30, 2007 consisted of the following:

(in billions)	February 29, 2008	November 30, 2007
Commercial paper	$ 3.9	$ 3.9
Bank loans	1.7	3.1
Medium term notes	0.5	1.9
Other borrowings	2.4	2.7
Total unsecured short-term borrowings	8.5	11.6
Secured borrowings	7.8	12.4
Total short-term borrowings	$ 16.3	$ 24.0

Committed Credit Facilities

As of February 29, 2008, the Company had a committed revolving credit facility ("Facility") totaling $2.9 billion, which permitted borrowing on a secured basis by the Parent Company, BSSC, BSIL and certain other subsidiaries. The Facility terminated on April 7, 2008. There were no borrowings outstanding under the Facility at February 29, 2008 or on the date of termination.

The Company has a $1.50 billion committed revolving securities repo facility ("Repo Facility"), which permits borrowings secured by a broad range of collateral under a repurchase arrangement by the Parent Company, BSIL, BSIT and BSB and BS Forex. The Repo Facility contains financial covenants that require, among other things, maintenance of specified levels of stockholders' equity of the Company. The Repo Facility terminates in August 2008, with all repos outstanding at that date payable no later than August 2009. There were no borrowings outstanding under the Repo Facility at February 29, 2008.

The Company has a $350 million committed revolving credit facility ("Pan Asian Facility"), which permits borrowing on a secured basis by the Parent Company, BSSC, Bear Stearns Japan Limited ("BSJL"), and BSIL. The Pan

Asian Facility contains financial covenants that require, among other things, maintenance of specified levels of stockholders' equity of the Company and net capital of BSSC. The Pan Asian Facility terminates in December 2008 with all loans outstanding at that date payable no later than December 2009. There were no borrowings outstanding under the Pan Asian Facility at February 29, 2008.

As of February 29, 2008, the Company had a $450 million committed revolving credit facility ("Tax Lien Facility"), which permitted borrowing on a secured basis by the Parent Company, Plymouth Park Tax Services and Madison Tax Capital LLC. The Tax Lien Facility terminated in March 2008. There were no borrowings outstanding under the Tax Lien Facility at February 29, 2008 or on the date of termination.

As of February 29, 2008, the Company had a committed revolving credit facility ("AAA Facility") totaling $750 million, which permits borrowing on an unsecured basis by Bear Stearns Financial Products ("BSFP"). Under the AAA Facility, BSFP may borrow up to the committed amount in the event of: (i) a Bankruptcy Event, as defined, at The Bear Stearns Companies Inc.; (ii) the downgrade of The Bear Stearns Companies Inc.'s short term debt rating to A-2 by S&P or to P-2 by Moody's; (iii) the failure of Bear Stearns Capital Markets to post collateral with or make payments to BSFP in accordance with BSFP's Operating Guidelines; (iv) the failure of BSFP to meet the capital requirements required by its Operating Guidelines; or (v) the downgrade of BSFP's counterparty credit rating below A by S&P or below A2 by Moody's. The AAA Facility terminates on April 25, 2008, with all loans outstanding at that date payable no later than April 2009. There were no borrowings outstanding under the AAA Facility at February 29, 2008.

The Company also maintains a series of committed credit facilities, which permit borrowing on a secured basis, to support liquidity needs for the financing of investment-grade and non-investment-grade corporate loans, residential mortgages, commercial mortgages, listed options and whole loans. The facilities are expected to be drawn from time to time and expire at various dates, the longest of such periods ending in fiscal 2008. All of these facilities contain a term-out option of one year or more for borrowings outstanding at expiration. The banks providing these facilities are committed to provide up to an aggregate of approximately $6.7 billion. At February 29, 2008, the borrowings outstanding under these committed credit facilities were $3.3 billion.

8. LONG-TERM BORROWINGS

The Company's long-term borrowings (which have original maturities of at least 12 months) at February 29, 2008 and November 30, 2007 consisted of the following:

(in billions)	February 29, 2008	November 30, 2007
Fixed rate notes due 2008 to 2047	$ 32.5	$ 28.7

Floating rate notes due 2008 to 2046	30.3	31.3
Index/equity/credit-linked notes	9.0	8.5
Total long-term borrowings	$ 71.8	$ 68.5

The Company's long-term borrowings include fair value adjustments in accordance with SFAS No. 133, hybrid financial instruments accounted for at fair value as elected under SFAS No. 155, as well as $263 million of junior subordinated deferrable interest debentures ("Debentures"). The Debentures will mature on May 15, 2031; however, effective May 15, 2006, the Company, at its option, may redeem the Debentures. The Debentures are reflected in the table at their contractual maturity dates. During the three months ended February 29, 2008, the Company issued and retired/repurchased $4.4 billion and $3.5 billion of long-term borrowings, respectively. The weighted average maturity of the Company's long-term borrowings, based upon stated maturity dates, was approximately 4.6 years and 4.3 years at February 29, 2008 and November 30, 2007, respectively.

9. STOCKHOLDERS' EQUITY - RSU TRUST

In connection with the Company's deferred compensation plans, during the first quarter of fiscal 2008, the Company established an irrevocable grantor trust (the "RSU Trust") for the purpose of holding shares of common stock of the Company underlying awards granted to selected employees and certain key executives under The Bear Stearns Companies Inc. Capital Accumulation Plan for Senior Managing Directors and The Bear Stearns Companies Inc. Restricted Stock Unit Plan. During the first quarter, the company transferred 27.3 million treasury shares to the RSU Trust. In accordance with EITF Issue No. 97-14, "Accounting for Deferred Compensation Arrangements where Amounts Earned Are Held in a Rabbi Trust and Invested," assets of the RSU Trust are consolidated and both the shares held by the RSU Trust and the related deferred compensation obligation are recorded in equity. Shares issued to the RSU Trust are recorded in "Shares held in RSU trust" and obligations under deferred compensation plans are recorded in "Employee stock compensation plans," both at an amount equal to the original amount of the compensation deferred (fair value of the deferred stock award at the date of grant) in the Condensed Consolidated Statements of Financial Condition. Changes in fair value of amounts owed to employees are not recognized. Shares transferred to the RSU Trust do not affect the total number of shares used in the calculation of basic and diluted earnings per share. Accordingly, the RSU Trust has no effect on total equity, net income, book value per share or earnings per share.

10. EARNINGS PER SHARE

Basic EPS is computed by dividing net income applicable to common shares, adjusted for costs related to vested shares under the CAP Plan, as well as the effect of the redemption of preferred stock, by the weighted average number of common shares outstanding. Common shares outstanding includes vested units issued under certain stock compensation plans, which will be distributed as shares of common stock. Diluted EPS includes the determinants of basic EPS and, in addition, gives effect to dilutive potential common shares related to stock compensation plans.

The computations of basic and diluted EPS are set forth below:

	Three Months Ended	
(in millions, except per share amounts)	February 29, 2008	February 2 2007
Net income	$ 115	$
Preferred stock dividends	(5)	
Income adjustment (net of tax) applicable to deferred compensation arrangements-vested shares	5	
Net earnings used for basic EPS	115	
Income adjustment (net of tax) applicable to deferred compensation arrangements-nonvested shares	4	
Net earnings used for diluted EPS	$ 119	$
Total basic weighted average common shares outstanding (1)	129	
Effect of dilutive securities:		
Employee stock options	2	
CAP and restricted units	8	
Dilutive potential common shares	10	
Weighted average number of common shares outstanding and dilutive potential common shares	139	
Basic EPS	$ 0.89	$
Diluted EPS	$ 0.86	$

(1) Includes approximately 12 million and 13 million vested units for the three months ended February 29, 2008 and February 28, 2007, respectively, issued under stock compensation plans which will be distributed as shares of common stock.

(2) Options to purchase approximately 8 million shares of common stock at prices ranging from $87.68 to $165.32 were outstanding but were not included in the computation of diluted EPS because the exercise price was greater than the average market price of the common stock.

11. REGULATIONS

The Company is regulated by the SEC as a consolidated supervised entity ("CSE"). As a CSE, the Company is subject to group-wide supervision and examination by the SEC and is required to compute allowable capital and allowances for market, credit and operational risk on a consolidated basis. As of February 29, 2008, the Company was in compliance with the CSE capital requirements.

Bear Stearns and BSSC are registered broker-dealers and futures commission merchants and, accordingly, are subject to Rule 15c3-1 under the Exchange Act ("Net Capital Rule") and Rule 1.17 under the Commodity Futures Trading Commission. Bear Stearns uses Appendix E of the Net Capital Rule ("Appendix E"), which establishes alternative net capital requirements for broker-dealers that are part of consolidated supervised entities. Appendix E allows Bear Stearns to calculate net capital charges for market risk and derivatives-related credit risk based on mathematical models provided that Bear Stearns holds tentative net capital in excess of $1 billion and net capital in excess of $500 million. At February 29, 2008, Bear Stearns' net capital of $2.89 billion exceeded the minimum requirement by $2.34 billion. Bear Stearns' net capital computation, as defined, includes $545 million, which is net capital of BSSC in excess of 5.5% of aggregate debit items arising from customer transactions.

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

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

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

At February 29, 2008, Bear Stearns, BSSC, BSIL, BSIT, BSB and BSBTC were in compliance with their respective regulatory capital requirements. Certain other subsidiaries are subject to various securities regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. At February 29, 2008, these other subsidiaries were in compliance with their applicable local capital adequacy requirements.

12. COMMITMENTS AND CONTINGENCIES

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

Leases

The Company occupies office space under leases that expire at various dates through 2024. At February 29, 2008, future minimum aggregate annual rentals payable under non-cancelable leases (net of subleases), including 383 Madison Avenue in New York City, for fiscal years ended 2008 through

2012 and the aggregate amount thereafter, are as follows:

(in millions)

FISCAL YEAR	
2008 (remaining)	$ 91
2009	117
2010	118
2011	128
2012	95
Thereafter	640
Total	$ 1,189

Lending - Related Commitments

In connection with certain of the Company's business activities, the Company provides financing or financing commitments to investment-grade and non-investment-grade companies in the form of senior and subordinated debt, including bridge financing. Commitments have varying maturity dates and are generally contingent on the accuracy and validity of certain representations, warranties and contractual conditions applicable to the borrower. Lending-related commitments to investment-grade borrowers aggregated approximately $2.59 billion and $3.42 billion at February 29, 2008 and November 30, 2007, respectively. Of these amounts, approximately $841 million and $952 million of the credit risk was offset at February 29, 2008 and November 30, 2007, respectively. Lending-related commitments to non-investment-grade borrowers approximated $2.77 billion and $3.30 billion at February 29, 2008 and November 30, 2007, respectively. Of these amounts, approximately $267 million and $220 million of the credit risk was offset at February 29, 2008 and November 30, 2007, respectively.

The Company also had contingent commitments to non-investment-grade companies of approximately $110 million and $501 million as of February 29, 2008 and November 30, 2007, respectively. Generally, these commitments are provided in connection with leveraged acquisitions. These commitments are not indicative of the Company's actual risk because the borrower may not be successful in the acquisition, the borrower may access the capital markets instead of drawing on the commitment, or the Company's portion of the commitment may be reduced through the syndication process. Additionally, the borrower's ability to draw may be subject to there being no material adverse change in either market conditions or the borrower's financial condition, among other factors. These commitments generally contain certain flexible pricing features to adjust for changing market conditions prior to closing.

Private Equity-Related Investments and Partnerships

In connection with the Company's merchant banking activities, the Company has commitments to invest in merchant banking and private equity-related investment funds as well as commitments to invest directly in private equity-related investments. At February 29, 2008 and November 30, 2007, such commitments aggregated $667 million and $729 million, respectively. These commitments will be funded, if called, through the end of the respective investment periods, with the longest of such periods ending in 2020.

Underwriting

In connection with the Company's mortgage-backed securitizations and fixed income and equity underwriting, the Company had commitments to purchase new issues of securities aggregating $248 million and $652 million, respectively, at February 29, 2008 and November 30, 2007.

Commercial and Residential Loans

The Company participates in the origination, acquisition, securitization, servicing, financing and disposition of commercial and residential loans. At February 29, 2008 and November 30, 2007, the Company had entered into commitments to purchase or finance mortgage loans of $1.33 billion and $2.83 billion, respectively.

Letters of Credit

At February 29, 2008 and November 30, 2007, the Company was contingently liable for unsecured letters of credit of approximately $1.71 billion and $1.42 billion, respectively, and secured (by financial instruments) letters of credit of $1.55 billion and $1.33 billion, respectively. These letters of credit are primarily used to provide collateral for securities borrowed and to satisfy margin requirements at commodity/futures exchanges.

Energy

In connection with its energy activities, the Company has entered into contractual obligations (primarily obligations under tolling agreements, net of re-tolling agreements) that require future cash payments. At February 29, 2008 those contractual obligations, by maturity, were as follows:

(in millions)

FISCAL YEAR	
2008 (remaining)	$ 65
2009	91
2010	90
2011	260
2012	417
Thereafter	3,403
Total	$ 4,326

Other

The Company had commitments to purchase Chapter 13 and other credit card receivables of $189 million and $170 million, respectively, at February 29, 2008 and November 30, 2007.

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

Litigation

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

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

The Company and certain subsidiaries have been named as defendants in various investor lawsuits and FINRA arbitrations relating to the failure of the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd (the "High Grade Fund") and the Enhanced Leverage Master Fund, Ltd. (the "Enhanced Leverage Fund"), which were managed by Bear Stearns Asset Management. Also, the Company and certain subsidiaries have been named as defendants in a lawsuit by the Joint Voluntary Liquidators of the overseas "feeder funds" of the High Grade Fund and Enhanced Leverage Fund. The High Grade Fund had net investor contributions of approximately $775 million. The Enhanced Fund had net investor contributions of approximately $1.08 billion. The relief being sought by the plaintiffs in these matters includes specified and unspecified damages, costs and fees. The Company believes it has substantial defenses to the claims asserted against it in these proceedings. Additionally, the Company and its subsidiaries have been the subject of various state and federal regulatory and law enforcement inquiries, and a state administrative proceeding relating to the Funds.

In the normal course of business, the Company has been named as a defendant in various legal actions, including arbitrations, class actions and other litigation. Certain of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. The Company is also involved in other reviews, investigations and proceedings by governmental and self-regulatory agencies regarding the Company's business, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Because litigation is inherently unpredictable, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss related to such matters, how such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief might be. Consequently, the Company cannot estimate losses or ranges of losses for matters where there is only a reasonable possibility that a loss may have been incurred. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management, after consultation with counsel, that the resolution of the foregoing matters will not have a material adverse effect on the financial condition of the Company, taken as a whole; such resolution may, however, have a material effect on the operating results in any future period, depending on the level of income for such period. See also Note 17, "Subsequent Events," of the Notes to Condensed Consolidated Financial Statements.

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

13. INCOME TAXES

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition

The Company adopted FIN No. 48 effective December 1, 2007 and recognized a decrease to beginning retained earnings of approximately $90.7 million.

The gross amount of unrecognized tax benefits ("UTB") as of the date of adoption of FIN No. 48 was approximately $578.4 million. Of this total, approximately $371.4 million (net of federal benefit of state issues, Competent Authority and foreign tax credit offsets) represents the amount that, if recognized, would favorably affect the effective tax rate in future periods.

The Company recognizes the accrual of interest and penalties, if any, to UTB's in income tax expense. Interest accrued on UTB's as of December 1, 2007 was approximately $108.9 million.

The Company is under examination by the Internal Revenue Service ("IRS") and other tax authorities. The other major exams include Japan, the United Kingdom, and locations in which it has significant business operations, such as New York State and City. The tax years under examination vary by jurisdiction as follows:

Jurisdiction	Open Tax Years Examination in progress	Open Tax Years Examination not yet initiated
United States	2003-2005	2006-2007
United Kingdom	1999-2005	2006-2007
Japan	2000-2003	2004-2007
New York State	1999-2002	2003-2007
New York City	1997-2000	2001-2007

It is reasonably possible that these tax examinations will be completed within the next 12 months. Based on the status of these examinations and the protocol of finalizing audits by the relevant tax authorities, which could include formal appeal and/or legal proceedings, it is not possible to estimate the impact of any amount of such changes, if any, to previously recorded uncertain tax positions.

The tax benefit associated with employee stock plans reduced taxes payable by $254 million, $363 million and $426 million for 2007, 2006 and 2005, respectively. These benefits have been reflected as additional paid-in-capital in the accompanying Condensed Consolidated Statements of Financial Condition, except for certain 2007, 2006 and 2005 stock awards. On December 1, 2005, the Company adopted SFAS No. 123 (R). Under SFAS No. 123 (R) all share-based compensation is required to be recognized as an expense in the year of grant with a corresponding tax benefit recorded to the tax provision. See Note 17, "Subsequent Events," in the Notes to Condensed Consolidated Financial Statements for a discussion of the impact the merger agreement between the Company and JPMorgan Chase will have on the realization of the deferred tax asset recorded in prior years.

14. GUARANTEES

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

The guarantees covered by FIN No. 45 include contracts that contingently require the guarantor to make payments to the guaranteed party based on changes related to an asset, a liability or an equity security of the guaranteed party, contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement and indirect guarantees of the indebtedness of others, even though the payment to the guaranteed party may not be based on changes to an asset, liability or equity security of the guaranteed party. In addition, FIN No. 45 covers certain indemnification agreements that contingently require the guarantor to make payments to the indemnified party, such as an adverse judgment in a lawsuit or the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law.

The following table sets forth the maximum payout/notional amounts associated with the Company's guarantees as of February 29, 2008:

(in millions)	Amount of Guarantee Expiration Pe Less Than One Year	One to Three Years	Three to Five Years
Certain derivative contracts (notional)(1)	$ 537,763	$ 515,993	$ 859,651
Municipal securities	3,131	58	-
Residual value guarantee	-	-	570

(1) The gross carrying value of these derivatives approximated $130.9 billion as of February 29, 2008.

Derivative Contracts

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

On certain of these contracts, such as written interest rate caps and foreign currency options, the maximum payout cannot be quantified since the increase in interest rates and foreign exchange rates is not contractually limited by the terms of the contracts. As such, the Company has disclosed notional amounts as a measure of the extent of its involvement in these classes of derivatives rather than maximum payout. Notional amounts do not represent the maximum payout and generally overstate the Company's exposure to these contracts.

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

Municipal Securities

In 1997, the Company established a program whereby it created a series of municipal securities trusts in which it has retained interests. These trusts purchase fixed-rate, long-term, highly rated, insured or escrowed municipal bonds financed by the issuance of trust certificates. Certain of the trust certificates entitle the holder to receive future payments of principal and variable interest and to tender such certificates at the option of the holder on a periodic basis. The Company acts as placement agent and as liquidity provider. The purpose of the program is to allow the Company's clients to purchase synthetic short-term, floating-rate municipal debt that does not otherwise exist in the marketplace. In the Company's capacity as liquidity provider to the trusts, the maximum exposure to loss at February 29, 2008 was approximately $3.2 billion, which represents the outstanding amount of all trust certificates. This exposure to loss is mitigated by the underlying municipal bonds held by trusts. The underlying municipal bonds in the trusts are either AAA or AA rated, insured or escrowed to maturity. Such bonds had a market value, net of related offsetting positions, approximating $2.9 billion at February 29, 2008. See Note 17, "Subsequent Events," of the Notes to Condensed Consolidated Financial Statements for a further discussion.

Residual Value Guarantee

The Company has entered into an operating lease arrangement for its world headquarters at 383 Madison Avenue in New York City (the "Synthetic Lease"). Under the terms of the Synthetic Lease, the Company is obligated to make monthly payments based on the lessor's underlying interest costs. The Synthetic Lease expires on August 10, 2012 unless both parties agree to a renewal prior to expiration. At the expiration date of the Synthetic Lease, the Company has the right to purchase the building for the amount of the then outstanding indebtedness of the lessor or to arrange for the sale of the property with the proceeds of the sale to be used to satisfy the lessor's debt obligation. If the sale of the property does not generate sufficient proceeds to satisfy the lessor's debt obligation, the Company is required to fund the shortfall up to a maximum residual value guarantee. As of February 29, 2008, there was no expected shortfall and the maximum residual value guarantee was approximately $570 million.

Indemnifications

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions, including certain asset sales and securitizations and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. To mitigate these risks with respect to assets being securitized that have been originated by third parties, the Company seeks to obtain appropriate representations and warranties from such third-party originators upon acquisition of such assets. The Company generally performs due diligence on assets purchased and maintains underwriting standards for assets originated. The Company may also provide indemnifications to certain counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. Generally, there are no stated or notional amounts included in these indemnifications.

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

Other Guarantees

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

15. SEGMENT DATA

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

The Capital Markets segment is comprised of the institutional equities, fixed income and investment banking areas. The Capital Markets segment operates as a single integrated unit that provides the sales, trading and origination effort for various fixed income, equity and advisory products and services. Each of the three businesses work in tandem to deliver these services to institutional and corporate clients.

Institutional equities consists of sales, trading and research, in areas such as domestic and international equities, block trading, over-the-counter equities, equity derivatives, energy and commodity activities, risk and convertible arbitrage and specialist activities on the New York Stock Exchange, American Stock Exchange and International Securities Exchange. Fixed income includes sales, trading, origination and research provided to institutional clients across a variety of products such as mortgage- and asset-backed securities, corporate and government bonds, municipal bonds, high yield products, including bank and bridge loans, foreign exchange and interest rate and credit derivatives. Investment banking provides services in capital raising, strategic advice, mergers and acquisitions and merchant banking. Capital raising encompasses the Company's underwriting of equity, investment grade, municipal and high yield debt products.

The Global Clearing Services segment provides execution, clearing, margin lending and securities borrowing to facilitate customer short sales to clearing clients worldwide. Prime brokerage clients include hedge funds and clients of money managers, short sellers and other professional investors. Fully disclosed clients engage in either the retail or institutional brokerage business.

The Wealth Management segment is composed of the PCS and asset management areas. PCS provides high-net-worth individuals with an institutional level of investment service, including access to the Company's resources and professionals. Asset management manages equity, fixed income and alternative assets for leading corporate pension plans, public systems, endowments, foundations, multi-employer plans, insurance companies, corporations, families and high-net-worth individuals in the United States and abroad.

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

	Three Months ended	
(in millions)	February 29, 2008	February 28, 2007
NET REVENUES		
Capital Markets		
Institutional Equities	$ 811	$ 513
Fixed Income	66	1,149
Investment Banking	159	303
Total Capital Markets	1,036	1,965
Global Clearing Services	253	276
Wealth Management		
Private Client Services (1)	161	136
Asset Management	39	119
Total Wealth Management	200	255
Other (2)	(10)	(14)
Total net revenues	$ 1,479	$ 2,482
PRE-TAX INCOME		
Capital Markets	$ 171	$ 736
Global Clearing Services	86	113

Wealth Management	(42)	44
Other (3)	(62)	(58)
Total pre-tax income	$ 153	$ 835

	Three Months ended	
	February 29, 2008	February 28, 2007
(1) Private Client Services detail:		
Gross revenues, before transfer to Capital Markets segment	$ 183	$ 166
Revenue transferred to Capital Markets segment	(22)	(30)
Private Client Services net revenues	$ 161	$ 136

(2) Includes consolidation and elimination entries.

(3) Includes certain legal costs and costs related to the CAP Plan.

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

	As of	
(in billions)	February 29, 2008	February 28, 2007
SEGMENT ASSETS		
Capital Markets	$ 244	$ 278
Global Clearing Services	124	101
Wealth Management	4	4
Other	27	12
Total segment assets	$ 399	$ 395

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

16. ASSET ACQUISITION

In connection with the acquisition of substantially all of the power-related and natural gas assets comprising the power trading business of Williams Power Company, Inc., an energy trading and marketing subsidiary of The Williams Companies, Inc., which closed on November 8, 2007, the Company recorded intangible assets and intangible liabilities based on contractual arrangements, at their estimated fair values. As of February 29, 2008, the weighted average amortization period for intangible assets and intangible liabilities was approximately 10.6 years and 13.3 years, respectively. The results of operations of the power-related assets and liabilities acquired are included in the Company's Capital Markets segment.

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

(in millions)	Intangible Assets	Intangible Liabilities
FISCAL YEAR		
2008 (remaining)	$ 83	$ 171
2009	98	129
2010	96	98
2011	64	74
2012	50	47
Thereafter	456	359
Total	$ 847	$ 878

17. SUBSEQUENT EVENTS

BACKGROUND OF THE MERGER

The Company experienced a significant liquidity crisis during the end of the week of March 10, 2008 that seriously jeopardized its financial viability and which raises substantial doubt about its ability to continue as a going concern. As a result, on March 16, 2008, the Company and JPMorgan Chase & Co. ("JPMorgan Chase") entered into an agreement and plan of merger, and on March 24, 2008, entered into an amendment to the agreement and plan of merger (as amended, the "Merger Agreement"). Pursuant to the Merger Agreement, each share of the Company's common stock outstanding immediately prior to the merger will be exchanged for 0.21753 shares of JPMorgan Chase common stock. A summary of the Merger Agreement, related transaction documents and the accounting implications are described in more detail in the Transaction Documents and Accounting Implications sections of this note.

In connection with the entry into the amendment to the Merger Agreement, the Company and JPMorgan Chase entered into a share exchange agreement under which JPMorgan Chase will purchase 95 million newly issued shares of the Company's common stock, or 39.5% of the outstanding common stock of the Company after giving effect to the issuance, in exchange for the issuance of 20,665,350 shares of JPMorgan Chase common stock to the Company and the entry by JPMorgan Chase into the amendment to the merger agreement, an amended and restated guaranty agreement and the guaranty agreement with the Federal Reserve Bank of New York ("New York Fed"). The share exchange was completed on April 8, 2008.

Concurrent with the closing of the merger, the New York Fed will take, through a limited liability company formed for this purpose, control of a portfolio of $30 billion in assets of the Company based on the value of the portfolio as of March 14, 2008. The assets will be funded by a $29 billion, 10-year term note from the New York Fed, and a $1

billion, 10-year subordinated note from JPMorgan Chase. The JPMorgan Chase note is subordinated to the New York Fed loan and will bear the first $1 billion of any losses associated with the assets. Any funds remaining after payment of the New York Fed loan, the JPMorgan Chase note and other expenses of the limited liability company, will be paid to the New York Fed.

TRANSACTION DOCUMENTS

Agreement and Plan of Merger

Upon the terms and subject to the conditions set forth in the Merger Agreement, a wholly-owned subsidiary of JPMorgan Chase will merge with and into the Company with the Company continuing as the surviving corporation and as a wholly-owned subsidiary of JPMorgan Chase (the "Merger"). At the effective time of the Merger, each share of Company common stock will be converted into the right to receive 0.21753 of a share of JPMorgan Chase common stock. Outstanding Company stock options and phantom stock units will be converted into JPMorgan Chase equity awards, adjusted to reflect the exchange ratio in the Merger. The Company and JPMorgan Chase have agreed to consider providing holders of restricted stock units and capital accumulation plan units with the right to elect, prior to completion of the Merger, to have outstanding awards distributed in cash (rather than stock) at the same time the units would have been settled absent such election, and otherwise subject to the same terms and conditions in the applicable plans and award agreements, as amended.

The Merger Agreement contains representations and warranties of Bear Stearns and JPMorgan Chase relating to their respective businesses. Pursuant to the Merger Agreement, the Company has agreed to operate within its existing credit, principal, market and other risk limits and comply with existing risk-related policies and procedures, subject to JPMorgan Chase's right to oversee the Company's setting and changing of such policies, procedures and limits. Subject to the continued effectiveness of the Guaranty (as defined below), the Company has granted JPMorgan Chase the right to oversee the business, operations and management of the Company in its reasonable discretion. The Company also granted JPMorgan Chase the rights to custody of, and to manage, a scheduled collateral pool and related hedges, which rights were delegated to the New York Fed. Additionally, the Company has agreed not to (i) solicit proposals relating to alternative business combination transactions or (ii) subject to certain exceptions, enter into discussions, or enter into any agreement, concerning, or provide confidential information in connection with, any proposals for alternative business combination transactions.

Consummation of the Merger is subject to the satisfaction of certain conditions including, among other things, (i) approval and adoption of the Merger Agreement by the Company's stockholders; (ii) registration and NYSE listing of the common stock to be issued by JPMorgan Chase in the Merger; (iii) absence of any order, injunction or decree preventing or making illegal the consummation of the Merger; and (iv) receipt of specified governmental and regulatory approvals.

The Merger Agreement contains certain termination rights for both the Company and JPMorgan Chase. In the event the Company's stockholders do not approve and adopt the Merger Agreement at the first stockholders meeting called for that purpose, JPMorgan Chase will have the right to exercise an option to purchase the Company's headquarters building for an amount equal to $1.1 billion less assumed indebtedness and transfer costs. In addition, JPMorgan Chase will also have the right to exercise such option following the termination of the Merger Agreement under the following circumstances: (i) JPMorgan Chase terminates the Merger Agreement because (A) the Company's board of directors made any change of recommendation, (B) the Company breached its no-solicitation and related obligations under the Merger Agreement, or (C) the Company breached its obligations to hold a meeting of its stockholders to approve and adopt the Merger Agreement, or (ii) (A) JPMorgan Chase or the Company terminate the Merger Agreement because both (x) the approval and adoption of the Merger Agreement by the Company's stockholders has not been obtained and (y) 120 days have elapsed from the date of such stockholders meeting (provided that the parties may mutually agree to extend the 120-day period); (B) JPMorgan Chase terminates the Merger Agreement because there has been an uncured breach by the Company of any of the covenants or agreements or any of the representations or warranties in the Merger Agreement that would cause the failure of the closing conditions set forth in the Merger Agreement to be satisfied; or (C) JPMorgan Chase or the Company terminates the Merger Agreement because the merger has not been consummated on or before the first anniversary of the date of the Merger Agreement, and prior to any termination of the merger agreement described in this clause (ii) an alternative proposal has been publicly announced or otherwise communicated or made known to the

Company and has not been irrevocably withdrawn. Upon the exercise of the option to purchase the Company's headquarters building, the Company will, upon the request of JPMorgan Chase, exercise its option to purchase the headquarters building and take all action required to acquire the building and simultaneously convey it to JPMorgan Chase.

The foregoing description of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, which is filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on March 20, 2008 and March 24, 2008 (Amendment No. 1).

Beginning March 17, 2008, various stockholders of the Company filed several purported class action lawsuits against the Company, its board of directors and certain of the Company's present and former executive officers. Among other things, these actions allege that the individual defendants breached their fiduciary duties and obligations to the Company's stockholders by agreeing to the proposed merger. Five of these actions have been filed in the Supreme Court of the State of New York and consolidated under the caption In re Bear Stearns Litigation. Two actions have been filed in the Delaware Court of Chancery where plaintiffs have filed a motion to consolidate their cases in Delaware. JPMorgan Chase is named as a defendant in certain of these cases. In each of these actions, plaintiffs seek to enjoin the proposed merger and enjoin JPMorgan Chase from voting the 95 million shares acquired pursuant to the Share Exchange Agreement (as defined below), other injunctive relief and an unspecified amount of compensatory damages. On April 9, 2008, the Delaware Chancery Court granted JPMorgan Chase's and the Company's motion to stay the Delaware action in favor of the New York action, at least until the preliminary injunction motion is resolved. The Delaware court also granted plaintiffs' motion to consolidate their cases. Additionally, on April 10, 2008, an amended complaint was filed in a previously-filed shareholder derivative suit naming the Company's directors and certain former and present executive officers. This amended complaint seeks, among other things, a declaration that the Merger Agreement is unlawful, unenforceable, and seeks to enjoin the merger.

Share Exchange Agreement

On March 24, 2008, the Company and JPMorgan Chase, in connection with entering into the amendment to the Merger Agreement, entered into a share exchange agreement (the "Share Exchange Agreement"), under which JPMorgan Chase will purchase 95 million newly issued shares of the Company's common stock, or 39.5% of the outstanding shares of the Company's common stock after giving effect to the issuance, in exchange for the issuance of 20,665,350 shares of JPMorgan Chase common stock to the Company and the entry by JPMorgan Chase into the amendment to the merger agreement, an amended and restated guaranty agreement and the guaranty in favor of the New York Fed (each as described below). The share exchange was completed on April 8, 2008.

The foregoing description of the Share Exchange Agreement does not purport to be complete and is qualified in its entirety by reference to the Share Exchange Agreement, which is filed as Exhibit 2.2 to the Company's Current Report on Form 8-K filed on March 24, 2008.

Amended and Restated Guaranty Agreement

On March 24, 2008, JPMorgan Chase, in connection with the amendment to the Merger Agreement, entered into an amended and restated guaranty agreement (the "Guaranty"), effective retroactively from March 16, 2008, which replaces the guaranty agreement entered into on March 16, 2008 in connection with the Merger Agreement. Pursuant to the Guaranty, JPMorgan Chase will guarantee certain liabilities of the Company and certain of its operating subsidiaries (the "Guaranteed Bear Entities") to the extent such liabilities arise prior to the end of the specified "Guaranty Period", including (i) liabilities and obligations under revolving credit facilities, letters of credit and letter of credit facilities, term loan facilities, lines of credit or uncommitted loan facilities, in each case whether secured or unsecured, of the Guaranteed Bear Entities, (ii) brokerage and trading contract obligations of the Guaranteed Bear Entities (including liabilities and obligations arising under prime brokerage agreements and accounts, securities lending agreements, custodial and carrying agreements, securities accounts and securities contracts, commodity contracts, forward contracts, futures contracts, tolling agreements, energy management agreements, repurchase or reverse repurchase agreements, swap agreements, foreign exchange and currency contracts, options or other derivatives, settlement or clearing agreements and arrangements, margin loan agreements, other contracts or transactions similar to any of the foregoing, any customary brokerage commission with respect to

the foregoing, any contractual obligation to provide collateral or margin in respect of any of the foregoing or any obligation under a guaranty of any of the foregoing and (iii) obligations of the Guaranteed Bear Entities to deliver cash, securities or other property to customers pursuant to customary custody arrangements. The Guaranty Period will end (subject to provision of further notice by JPMorgan Chase posted on its website at least three days prior to the end of the Guaranty Period), no sooner than the earliest to occur of (i) the date that is 120 days following the failure of the Company's stockholders to approve and adopt the Merger Agreement at a meeting of the Company's stockholders convened for that purpose, (ii) the date that is 120 days following closing of the Merger and (iii) the date of termination of the Merger Agreement.

The foregoing description of the Guaranty does not purport to be complete and is qualified in its entirety by reference to the Guaranty, which is filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on March 24, 2008.

Guarantee and Collateral Agreement

On March 24, 2008, JPMorgan Chase, in connection with the amendment to the Merger Agreement and the Guaranty, entered into a guarantee and collateral agreement (the "Guarantee and Collateral Agreement") with the Company and certain of its subsidiaries (collectively, the "Collateral Parties") pursuant to which the Collateral Parties agreed to guarantee the obligations of each of them to repay to JPMorgan Chase (1) any loans or other advances of credit by JPMorgan Chase and its affiliates to the Company and its affiliates and (2) any amounts paid by JPMorgan Chase to creditors of the Company and its affiliates under the Guaranty and the Fed Guarantee (as defined below). Each of the Collateral Parties secured their guarantee by granting a lien on substantially all of their respective assets, subject to certain carve-outs.

The foregoing description of the Guarantee and Collateral Agreement does not purport to be complete and is qualified in its entirety by reference to the Guarantee and Collateral Agreement, which is filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on March 28, 2008.

Fed Guaranty Agreement

On March 24, 2008, JPMorgan Chase, in connection with the amendment to the Merger Agreement, entered into a guarantee in favor of the New York Fed (the "Fed Guarantee"), pursuant to which JPMorgan Chase guaranteed certain obligations of the Company and certain of its affiliates to the New York Fed. Such guarantee will apply with respect to transactions entered into prior to the termination of the Merger Agreement and may be terminated by JPMorgan Chase with respect to transactions thereafter.

The foregoing description of the Fed Guaranty does not purport to be complete and is qualified in its entirety by reference to the Fed Guarantee, which is filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on March 24, 2008.

ACCOUNTING IMPLICATIONS

Based on the activities discussed above, the following accounting impacts on the Condensed Consolidated Financial Statements have occurred or are expected to occur for periods ending after March 10, 2008:

Municipal Securities

The Company acts as placement agent and as liquidity provider under a municipal tender option bond program as described in Note 14, "Guarantees" in Notes to the Condensed Consolidated Financial Statements of the Company. Under the program, the Company has created a series of municipal securities trusts which purchase fixed-rate, long-term, highly rated, insured or escrowed municipal bonds financed by the issuance of trust certificates. The trust certificates entitle the holder to tender such certificates at the option of the holder on a periodic basis. Subsequent to March 10, 2008, holders of all the Class A trust certificates had tendered such certificates to the Company, resulting in the Company owning 100% of the trusts and consolidation of the trusts. As a result, the Company recognized losses of approximately $200 million in the second quarter of 2008.

Deferred Tax Asset

As of February 29, 2008, the Company had approximately $1.5 billion in net deferred tax assets (approximately $1.3 billion was associated with its stock-based compensation plans). In accordance with SFAS No. 109, the gross deferred tax assets of $1.7 billion will be evaluated for future realization and be reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Management will be required to make certain estimates and assumptions in order to assess the realizability of the deferred tax assets. Further full realization of the deferred tax asset for stock-based compensation requires the shares for RSUs and CAP units to be distributed at a price equaling or exceeding the fair value at the grant date. The provisions of SFAS No. 123 (R), however, do not allow a valuation allowance to be recorded based on the current fair value of the Company's shares. Accordingly, given the activities discussed above, the Company believes it is likely that a significant portion of this deferred tax asset will not be realized in the future.

Goodwill and Intangibles

As of February 29, 2008, the Company had goodwill and intangible assets. Based on the proposed merger agreement, the Company believes an impairment loss for the $88 million is probable, and would be recorded in the second quarter of 2008.

Since the liquidity crisis and the announcement of the merger, the Company has experienced substantial deterioration of its earnings capacity. The closing of the merger is expected to occur by June 30, 2008. The Company believes that the termination of the JPMorgan Chase guaranties prior to consummation of the merger or the parties' failure to consummate the merger could seriously jeopardize the Company's financial viability. In addition, absent the Guaranty, the Company could face the increased risk of rapid loss of customers and counterparties. The lack of liquidity and the loss of customers and counterparties would materially adversely affect the Company's financial stability and its viability as a going concern. Accordingly, the Company could be forced to file for bankruptcy protection and need to liquidate. The accompanying Condensed Consolidated Financial Statements do not reflect any adjustments that might result if the Company were unable to continue as a going concern.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated statement of financial condition of The Bear Stearns Companies Inc. and subsidiaries (the "Company") as of February 29, 2008, and the related condensed consolidated statements of income, comprehensive income and cash flows for the three-month periods ended February 29, 2008 and February 28, 2007. These interim financial statements are the responsibility of the Company's management.

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

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

The accompanying condensed consolidated interim financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Notes 1 and 17 to the condensed consolidated interim financial statements and Note 23 to the annual consolidated financial statements for the year ended November 30, 2007 (not presented herein), certain conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Notes 1, 17 and 23 to the respective consolidated financial statements.

As discussed in Note 1 to the condensed consolidated interim financial statements, effective December 1, 2007, the Company adopted the Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109."

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of November 30, 2007, and the related consolidated statements of income, comprehensive income, cash flows and changes in stockholders' equity for the year then ended (not presented herein); and in our report dated January 28, 2008 (April 11, 2008 as to Note 23), we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph concerning matters that raise substantial doubt about the Company's ability to continue as a going concern. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of November 30, 2007 is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York
April 14, 2008

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

INTRODUCTION

The Bear Stearns Companies Inc. (the "Company" or the "Firm") is a holding company that, through its broker-dealer and international bank subsidiaries, principally Bear, Stearns & Co. Inc. ("Bear Stearns"), Bear, Stearns Securities Corp. ("BSSC"), Bear, Stearns International Limited ("BSIL") and Bear Stearns Bank plc ("BSB"), is a leading investment banking, securities and derivatives trading, clearance and brokerage firm serving corporations, governments, institutional and individual investors worldwide. BSSC, a subsidiary of Bear Stearns, provides professional and correspondent clearing services in addition to clearing and settling customer transactions and certain proprietary transactions of the Company. The Company also conducts significant activities through other wholly owned subsidiaries, including: Bear Stearns Global Lending Limited; Bear Stearns Bank & Trust Company ("BSBTC") (formerly Custodial Trust Company); Bear Stearns Financial Products Inc.; Bear Stearns Capital Markets Inc.; Bear Stearns Credit Products Inc.; Bear Stearns Forex Inc. ("BS Forex"); EMC Mortgage Corporation; Bear Stearns Commercial Mortgage, Inc.; Bear Stearns Investment Products Inc.; and Bear Energy L.P. The Company is primarily engaged in business as a securities broker-dealer operating in three principal segments: Capital Markets, Global Clearing Services and Wealth Management. As used in this report, the "Company" refers (unless the context requires otherwise) to The Bear Stearns Companies Inc. and its subsidiaries. Unless specifically noted otherwise, all references to the three months of 2008 and 2007 refer to the three months ended February 29, 2008 and February 28, 2007, respectively, and all references to quarters are to the Company's fiscal quarters.

For a description of the Company's business, including its trading in cash instruments and derivative products, its underwriting and trading policies, and their respective risks, and the Company's risk management policies and procedures, see the Company's Current Report on Form 8-K filed on April 11, 2008 (the "Form 8-K").

The Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial

Statements in the Form 8-K.

RECENT DEVELOPMENTS

The Company experienced a significant liquidity crisis during the end of the week of March 10, 2008 that seriously jeopardized its financial viability. On March 16, 2008, the Company and JPMorgan Chase & Co. ("JPMorgan Chase") entered into an agreement and plan of merger, and on March 24, 2008, entered into an amendment to the agreement and plan of merger (as amended the "Merger Agreement"). The liquidity crisis and the transaction documents are described in detail in Note 17, "Subsequent Events," in the Notes to Condensed Consolidated Financial Statements. As a result of the liquidity crisis and the events that followed, the Company's earnings capacity has declined significantly. While the decline in the business outlook has occurred overwhelmingly since the end of the week of March 10, 2008, the information to follow will compare balances and activity as of March 24, 2008 with that as of and for the period ended February 29, 2008. A substantial number of prime brokerage clients have moved accounts to other clearing brokers. Customer margin balances were $66 billion at March 24, 2008, down 23% from $86 billion at February 29, 2008. Customer shorts at March 24, 2008 were $66 billion, down from $88 billion at February 29, 2008. Institutional equity and fixed income commission and sales activity has declined precipitously to well less than 50% of activity levels in the first quarter of 2008. Assets under management for the Company have declined to approximately $36 billion at March 24, 2008, down 8% from $39 billion at February 29, 2008. The extremely challenging market environment and the unique issues associated with the operating environment of the Company have adversely affected the Company's day-to-day business operations. As a result, the franchise has experienced substantial deterioration of its earnings capacity.

At the time of the anticipated merger with JPMorgan Chase (which is expected to occur by June 30, 2008), the merger will be accounted for by JPMorgan Chase as a "purchase" for accounting and financial reporting purposes, as that term is used under accounting principles generally accepted in the United States. Under purchase accounting, there may be adjustments as of the closing date. Our financial statements as of and for the period ended February 29, 2008 do not reflect these adjustments. Such adjustments will reflect the effect on inventory valuations of market disruptions and the liquidity crisis encountered by the Company subsequent to February 29, 2008, merger integration costs and restructuring actions that may be necessary as a result of the merger, or costs likely to be incurred by the Company to delever its balance sheet prior to the closing of the merger.

Note 17, "Subsequent Events," in the Notes to Condensed Consolidated Financial Statements also provides the current status of the Company's funding (in particular, the Company's reliance on JPMorgan Chase and the Federal Reserve Bank of New

York). Such arrangements have changed substantially from the funding plan as disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity, Funding and Capital."

Beginning March 17, 2008, various stockholders of the Company filed several purported class action lawsuits against the Company, its board of directors and certain of the Company's present and former executive officers, alleging, among other things, that the individual defendants breached their fiduciary duties and obligations to the Company's stockholders by agreeing to the proposed merger. In each of these actions, plaintiffs seek, among other things, to enjoin the proposed merger and enjoin JPMorgan Chase from voting the 95 million shares acquired pursuant to the share exchange agreement. Additionally, on April 10, 2008, an amended complaint was filed in a previously-filed shareholder derivative suit naming the Company's directors and certain present and former executive officers. This amended complaint seeks, among other things, a declaration that the Merger Agreement is unlawful, unenforceable, and seeks to enjoin the merger. In addition, following the announcement of the merger, various Bear Stearns stockholders filed purported class action lawsuits against Bear Stearns, members of Bear Stearns' executive committee and certain of Bear Stearns' present and former executive officers. Two of the complaints allege violations of the federal securities laws; several other complaints allege violations of the Employee Retirement Income Security Act. In these cases, plaintiffs seek, among other things, an unspecified amount of compensatory damages and attorneys fees. The Company and its directors each plan to defend themselves against the claims made in these lawsuits, which the Company believes to be without merit. Although the Company is unable at this time to determine the ultimate outcome of these lawsuits, injunctive relief or an adverse determination could affect the Company's ability to complete the merger.

The Company believes that the termination of the JPMorgan Chase guaranties prior to the consummation of the merger or the parties failure to consummate the merger could seriously jeopardize the Company's financial viability. In addition, absent the Guaranty (as defined in Note 17), the Company could face the increased risk of rapid loss of customers and counterparties. The lack of liquidity and the loss of customers and counterparties would materially and adversely affect the Company's financial stability and its viability as a going concern. Accordingly, the Company could be forced to file for bankruptcy protection and need to liquidate.

CERTAIN FACTORS AFFECTING RESULTS OF OPERATIONS

The Company's principal business activities--investment banking, securities and derivatives sales and trading, clearance, brokerage and asset management--are, by their nature, highly competitive and subject to various risks, including volatile trading markets and fluctuations in the volume of market activity. Consequently, the Company's net income and revenues have been, and are likely to continue to be, subject to wide fluctuations, reflecting the effect of many factors, including, but not limited to, general economic conditions, securities market conditions, the level and volatility of interest rates and equity prices, competitive conditions, liquidity of global markets, international and regional political conditions, regulatory and legislative developments, monetary and fiscal policy, investor sentiment, availability and cost of capital, technological changes and events, outcome of legal proceedings, changes in currency values, inflation, credit ratings and the size, volume and timing of transactions.

In addition, the Company's net income and revenues will be adversely impacted in the event JP Morgan Chase terminates its operating guaranty in respect of certain trading and other obligations of the Company and certain of the Company's subsidiaries or its guaranty to the Federal Reserve Bank of New York of the Company's borrowings from the Federal Reserve Bank of New York at the Prime Dealer Discount Window.

These and other factors can affect the Company's volume of new securities issuances, mergers and acquisitions and business restructurings; the stability and liquidity of securities and futures markets; and the ability of issuers, other securities firms and counterparties to perform on their obligations. A decrease in the volume of new securities issuances, mergers and acquisitions or restructurings generally results in lower revenues from investment banking and, to a lesser extent, reduced principal transactions. A reduced volume of securities and futures transactions and reduced market liquidity generally results in lower revenues from principal transactions and commissions. Lower price levels for securities may result in a reduced volume of transactions, and may also result in losses from declines in the market value of securities held in proprietary trading and underwriting accounts. In periods of reduced sales and trading or investment banking activity, profitability may be adversely affected because certain expenses remain relatively fixed. The Company's securities trading, derivatives, arbitrage, market-making, specialist, leveraged lending, leveraged buyout and underwriting activities are conducted by it on a principal basis and expose the Company to significant risk of loss. Such risks include market, counterparty credit and liquidity risks. For a further discussion of these risks and how the Company seeks to manage risks, see the "Risk Factors," "Risk Management" and "Liquidity Funding and Capital" sections of the Form 8-K and the "Liquidity, Funding and Capital" and "Risk Factors" sections in this Quarterly Report on Form 10-Q.

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

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements other than historical information or statements of current condition and may relate to management's expectations, strategic objectives, business prospects, anticipated economic performance and financial condition and other similar matters. As a global investment bank, there are a variety of factors, many of which are beyond the Company's control, which affect the Company's operations, performance, business strategy and results and could cause actual results to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, actions and initiations taken by competitors, general economic conditions, the effects of current, pending, and future legislation, regulation and regulatory actions, the ability to obtain governmental and self-regulatory organization approvals of the merger with JPMorgan Chase on the proposed terms and schedule and any changes to regulatory agencies' outlook on, responses to and actions and commitments taken in connection with the merger with JPMorgan Chase and the agreements and arrangements related thereto and other risks and uncertainties disclosed in this report, including those described in Part 1, Item 1A. Risk Factors of the Form 10-K, as amended. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of the document in which they are made. The Company disclaims any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which such forward-looking statement is based.

EXECUTIVE OVERVIEW

Summary of Results - Quarter Ended February 29, 2008 Compared with Quarter Ended February 28, 2007

The continuation of the global liquidity crisis coupled with a further repricing of credit risk created a difficult operating environment during the Company's quarter ended February 29, 2008. Weakness in the Company's fixed income, investment banking and asset management businesses more than offset a record quarter for the Company's institutional equities and strong results for the Private Client Services ("PCS") business. The Company's revenues, net of interest expense ("net revenues") for the three months ended February 29, 2008 decreased 40% to $1.48 billion from $2.48 billion for the three months ended February 28, 2007, while pre-tax earnings decreased 82% during the same period. Pre-tax profit margins for the 2008 quarter decreased to 10.3% when compared with 33.7% in the 2007 quarter. Annualized return on average common equity was 4.2% for the quarter ended February 29, 2008 compared with 18.3% in the 2007 quarter.

Capital Markets net revenues for the 2008 quarter decreased compared with the 2007 quarter due to decreased net revenues from fixed income and investment banking, partially offset by record net revenues from institutional equities.

Fixed income net revenues decreased significantly in the 2008 quarter from the 2007 quarter, due to extremely challenging U.S. mortgage and credit markets. The Company recognized approximately $0.6 billion in net inventory markdowns during the 2008 quarter primarily related to losses experienced in the mortgage-related and leveraged finance areas. Mortgage revenues for the 2008 quarter reflected inventory markdowns in both Alt-A and commercial mortgage-backed securities. In addition, the large supply of pending leverage finance activity, together with investor concerns, served to reduce liquidity and price in the leverage finance market during the 2008 quarter. Credit and distressed trading revenues also decreased significantly in the 2008 quarter, as credit spreads widened dramatically as investors were concerned with the higher probability of corporate defaults. Interest rate derivatives and foreign exchange revenues increased during the 2008 quarter, reflecting favorable market conditions and increased customer volumes.

Institutional equities net revenues increased to record levels in the 2008 quarter from the 2007 quarter. Revenues from our international equity sales and trading increased, reflecting continued strength in both European and Asian equities. Additionally, revenues from domestic equity sales rose due to higher average trading volumes on the New York Stock Exchange ("NYSE"). In addition, structured equity net revenues increased during the 2008 quarter compared with the 2007 quarter principally reflecting gains on the Company's structured notes portfolio. Energy related revenues also increased in the

2008 quarter compared with the 2007 quarter, principally reflecting revenues generated from the Williams transaction and certain proprietary trading gains.

Investment banking net revenues decreased in the 2008 quarter compared with the

2007 quarter, reflecting less favorable market conditions for equity and fixed income underwriting. Equity underwriting revenues decreased in the 2008 quarter compared with the 2007 quarter on lower volumes of equity follow-on offerings and convertible new issue activity. Fixed income underwriting revenues decreased in the 2008 quarter compared with the 2007 quarter as a result of decreased revenues from high yield and high grade underwriting revenues. Mergers and acquisitions ("M&A") and advisory revenues also decreased during the 2008 quarter compared with the 2007 quarter due to more challenging market conditions. Merchant banking revenues decreased, reflecting lower gains on the Company's portfolio of investments in the 2008 quarter compared with the 2007 quarter.

Global Clearing Services net revenues decreased in the 2008 quarter compared with the 2007 quarter due to lower net interest revenues, partially offset by increased commission revenues. Average prime broker margin debt increased while average customer short balances decreased during the 2008 quarter compared with the 2007 quarter.

Wealth Management net revenues decreased during the 2008 quarter driven by a decrease in asset management net revenues, partially offset by an increase in PCS net revenues. Asset management revenues decreased for the 2008 quarter compared with the 2007 quarter primarily due to lower performance fees due to challenging market conditions. PCS revenues increased on growth in fee-based assets.

From a geographical perspective, net revenues from our international activities increased by 50% to $671 million in the 2008 quarter from $448 million in the 2007 quarter. Net revenues from international activities represented 45% of total net revenues in the 2008 quarter compared with 18% in the 2007 quarter.

Business Environment

Fiscal 2008 Quarter

The business environment during the Company's first fiscal quarter ended February 29, 2008 was characterized by a global credit crisis resulting primarily from concerns about sub-prime mortgages which created extremely difficult market conditions. These conditions resulted in greater volatility, less liquidity, widening credit spreads, a lack of price transparency, and a flight to quality. The Federal Reserve Board (the "Fed") met five times (two scheduled meetings and three unscheduled meetings) during the February 2008 quarter. The Fed lowered the federal funds rate by 150 basis points to 3.00% during the 2008 quarter, citing slowing economic growth and deterioration in the financial markets.

Each of the major U.S. equity indices decreased during the 2008 quarter. The Standard & Poor's 500 Index ("S&P 500"), the Dow Jones Industrial Average ("DJIA"), and the National Association of Securities Dealers Automated Quotations ("NASDAQ") Composite Index ("NASDAQ Composite Index") decreased 10.2%, 8.3% and 13.2%, respectively, during the 2008 quarter. Average daily trading volume on the NYSE and the NASDAQ increased 4.5% and 4.8%, respectively in the 2008 quarter, compared to the 2007 quarter. Industry-wide U.S.-announced M&A volumes decreased 37.8% while industry-wide U.S.-completed M&A volumes decreased 83.5% compared to the 2007 quarter. Total equity issuance volumes decreased 18.4% while initial public offering ("IPO") volumes decreased 73.4% compared to the 2007 quarter.

Fixed income activity continued to be adversely affected by the global credit crisis and significantly weaker U.S. mortgage markets during the 2008 quarter. Long-term interest rates, as measured by the 10-year Treasury bond, decreased during the 2008 quarter. The 10-year Treasury bond yield was 3.51% at the end of the 2008 quarter, down from 3.94% at the beginning of the quarter. Overall U.S.

mortgage-backed securities new issue volume decreased 72.5% during the 2008 quarter compared with the results achieved in the 2007 quarter. Agency collateralized mortgage obligation ("CMO") security volumes decreased approximately 9.9% industry-wide during the 2008 quarter from the levels reached in the 2007 quarter, while non-agency mortgage-backed origination volumes decreased approximately 90.0% industry-wide compared to the 2007 quarter.

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

Fiscal 2007 Quarter

The business environment during the Company's first quarter ended February 28, 2007 was generally favorable due to a combination of factors including low unemployment, low corporate interest rates, and strong consumer confidence. The unemployment rate dropped to 4.5% at the end of February 2007, reflecting a strong labor market. Additionally, the price of oil decreased from approximately $63 a barrel at the beginning of the quarter and closed the quarter at approximately $62 on February 28, 2007. The Fed met twice during the 2007 quarter, leaving the federal funds rate unchanged at 5.25%, citing cooling of the housing market and moderate economic expansion.

Each of the major U.S. equity indices increased during the 2007 quarter. The S&P 500, the DJIA, and the NASDAQ Composite Index increased 9.9%, 11.6% and 5.9%, respectively, during the 2007 quarter. Average daily trading volume on the NYSE decreased 7.7% while average daily trading volume on the NASDAQ increased 13.6% in the 2007 quarter, compared to the 2006 quarter. Industry-wide U.S.-announced M&A volumes increased 196.2% while industry-wide U.S.-completed M&A volumes increased 22.4% compared to the first quarter of 2006. Total equity issuance volumes increased 9.2% while IPO volumes increased 27.1% compared to the 2006 quarter.

Fixed income activity remained strong during the 2007 quarter as corporate credit spreads tightened and trading volumes increased. Long-term interest rates, as measured by the 10-year Treasury bond, remained relatively stable during the 2007 quarter. The 10-year Treasury bond yield was 4.57% at the end of the 2007 quarter, up from 4.46% at the beginning of the quarter. Overall US mortgage-backed securities new issue volume decreased 11.9% during the 2007 quarter compared with the strong results achieved in the 2006 quarter. Agency CMO volumes decreased approximately 35.1% industry-wide during the 2007 quarter from the levels reached in the 2006 quarter, while non-agency mortgage-backed originations volumes decreased approximately 8.5% industry-wide compared to the 2006 quarter. During February 2007, the ABX subprime mortgage credit indices widened dramatically, reflecting investor concern due to increased delinquencies in subprime mortgages. Through quarter end, problems in the subprime market had not spread to the broader mortgage market.

RESULTS OF OPERATIONS

Firmwide Results

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

(in millions, except per share amounts, pre-tax profit margin and return on average common equity)		Th February 29, 2008
Revenues, net of interest expense	$	1,479
Income before provision for income taxes	$	153
Net income	$	115
Diluted earnings per share	$	0.86
Pre-tax profit margin		10.3%
Return on average common equity (annualized)		4.2%

The results for the three months ended February 29, 2008 includes approximately $0.6 billion in net inventory markdowns during the 2008 quarter primarily related to losses experienced in the mortgage-related and leveraged finance areas, as a result of extremely challenging market conditions.

51

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

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

(in millions)		Th February 29, 2008
Institutional	$	232
Clearance		63
Retail		35
Total commissions	$	330

Institutional commissions increased 20% to $232 million for the 2008 quarter from $193 million for the comparable prior year quarter due to higher average trading volumes on both the NASDAQ and the NYSE. Clearance commissions increased 17% to $63 million for the 2008 quarter from $54 million for the comparable prior year quarter due to higher average trading volumes from prime broker clients. Retail commissions were $35 million in the 2008 quarter, up from $34 million in the 2007 quarter due to higher average trading volumes.

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

Th

(in millions)		February 29, 2008
Fixed income	$	(117)
Equities		632
Total principal transactions	$	515

nm - not meaningful

Fixed income revenues decreased to a loss of $117 million for the 2008 quarter from $970 million for the 2007 quarter, primarily reflecting a decrease in revenues in the mortgage-backed securities, leveraged finance, credit trading, and distressed trading areas. Revenues from the Company's mortgage-backed securities and leveraged finance areas decreased significantly as a result of inventory markdowns, partially offset by gains on various derivative hedges. Revenues from the Company's credit and distressed trading decreased on significant widening of corporate credit spreads. Revenues derived from equities activities increased 70% to $632 million during the 2008 quarter from $372 million in the 2007 quarter primarily due to an increase in institutional equity sales and trading, structured equity products, and energy-related revenues.

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

		Th
(in millions)		February 29, 2008
Underwriting	$	72
Advisory and other fees		144
Merchant banking		14
Total investment banking	$	230

Equity, high yield and high grade underwriting revenues decreased for the 2008 quarter due to lower volumes, reflecting a more difficult capital markets environment. Advisory and other fees decreased on lower levels of M&A fees, partially offset by higher mortgage servicing fees. Merchant banking revenues decreased in the 2008 quarter compared with the 2007 quarter, reflecting lower gains on the Company's portfolio of investments and lower performance fees on managed merchant banking funds.

Net interest revenues (interest and dividends revenue less interest expense) decreased 27% to $250 million for the 2008 quarter from $341 million for the 2007 quarter. The decrease in net interest revenues was primarily attributable to lower average customer short balances.

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

Asset management and other income revenues decreased 8% to $154 million for the 2008 quarter from $168 million for the 2007 quarter reflecting lower performance fees and management fees on lower levels of traditional and alternative assets under management. This decrease was partially offset by increased PCS net revenues resulting from higher levels of fee-based assets.

Non-Interest Expenses

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

	Th
(in millions)	February 29, 2008
Employee compensation and benefits	$ 754
Floor brokerage, exchange and clearance fees	79
Communications and technology	154
Occupancy	73
Advertising and market development	40
Professional fees	100
Other expenses	126
Total non-interest expenses	$ 1,326

Employee compensation and benefits includes the cost of salaries, benefits and incentive compensation, including Capital Accumulation Plan ("CAP Plan") units, restricted stock units and option awards. Employee compensation and benefits decreased 37% to $754 million for the 2008 quarter from $1.20 billion for the 2007 quarter, primarily due to lower compensation associated with the decrease in net revenues and headcount. Employee compensation and benefits as a percentage of net revenues increased to 51.0% for the 2008 quarter from 48.5% for the 2007 quarter. Full-time employees decreased to 13,834 at February 29, 2008 from 14,409 at February 28, 2007.

Non-compensation expenses increased 29% to $572 million for the 2008 quarter from $443 million for the 2007 quarter. Non-compensation expenses as a percentage of net revenues increased to 38.7% for the 2008 quarter compared with 17.8% for the 2007 quarter. Floor brokerage, exchange and clearance fees increased 41% to $79 million in the 2008 quarter from $56 million in the 2007 quarter, due to increased volumes and clearing house charges attributable to international growth of the Company. Communications and technology costs increased 20% to $154 million 2008 quarter from $128 million in the 2007 quarter, reflecting higher voice and market data-related costs as well as higher information technology consulting expenses. Occupancy costs increased 28% to $73 million in the 2008 quarter from $57 million in the 2007 quarter, reflecting additional office space requirements and higher leasing costs associated with the Company's headquarters building at 383 Madison Avenue and other office locations in New York City, as well as several international locations, reflecting the Company's growth globally. Advertising and market development costs increased 8% to $40 million for the 2008 quarter from $37 million from the 2007 quarter, due to higher levels of client and deal related expenses. Professional fees increased 39% to $100 million for the 2008 quarter from $72 million in the 2007 quarter, due to higher levels of non-information technology consulting fees and legal bills. Other expenses increased 35% to $126 million in the 2008 quarter from $93 million in the 2007 quarter, primarily due to increased litigation costs associated with the Bear Stearns Asset Management ("BSAM")-managed high-grade funds. CAP Plan related costs decreased 60% to $17 million for the 2008 quarter from $42 million in the 2007 quarter, reflecting the lower level of earnings. Pre-tax profit margin was 10.3% for the 2008 quarter versus 33.7% for the 2007 quarter.

The Company's effective tax rate decreased to 25.0% for the 2008 quarter from 33.7% for the 2007 quarter reflecting the significant decline in pre-tax earnings and relatively fixed level of tax preference items.

53

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

Business Segments

The remainder of "Results of Operations" is presented on a business segment basis. The Company's three business segments--Capital Markets, Global Clearing Services and Wealth Management--are analyzed separately due to the distinct nature of the products they provide and the clients they serve. Certain Capital Markets products are distributed by the Wealth Management and Global Clearing Services distribution networks, with the related revenues of such intersegment services allocated to the respective segments. See Note 15, "Segment Data" in the Notes to Condensed Consolidated Financial Statements for complete segment information.

Capital Markets

	Th
(in millions)	February 29, 2008
Net revenues	
Institutional equities	$ 811
Fixed income	66
Investment banking	159
Total net revenues	$ 1,036
Pre-tax income	$ 171

The Capital Markets segment comprises institutional equities, fixed income and investment banking. The Capital Markets segment operates as a single integrated unit that provides the sales, trading and origination effort for various fixed income, equity and advisory products and services to institutional and corporate clients.

Institutional equities consists of sales, trading and research, in areas such as domestic and international equities, block trading, over-the-counter equities, equity derivatives, energy and commodity activities, risk and convertible arbitrage and specialist activities on the NYSE, American Stock Exchange ("AMEX") and International Securities Exchange ("ISE"). Fixed income includes sales, trading, origination and research provided to institutional clients across a variety of products such as mortgage- and asset-backed securities, corporate and government bonds, municipal bonds, high yield products, including bank and bridge loans, foreign exchange and interest rate and credit derivatives. Investment banking provides services in capital raising, strategic advice, mergers and acquisitions and merchant banking. Capital raising encompasses the Company's underwriting of equity, investment grade, municipal and high yield debt products.

Net revenues for Capital Markets decreased 47% to $1.04 billion for the 2008 quarter compared with $1.97 billion for the 2007 quarter.

Institutional equities net revenues for the 2008 quarter increased 58% to $811 million from $513 million for the comparable prior year quarter. International equity sales and trading revenues increased, representing continued strength in our European and Asian equities. Domestic equity sales revenues also increased on higher average trading volumes on the NYSE. Additionally, structured equity products net revenues increased approximately $227 million in the 2008 quarter from the 2007 quarter primarily reflecting gains from the Company's structured notes portfolio. The Company's energy-related revenues also increased, primarily reflecting revenues from the Williams transaction and certain proprietary gains.

Fixed income net revenues decreased 94% to $66 million for the 2008 quarter from $1.15 billion for the 2007 quarter. The Company recognized approximately $0.6 billion in net inventory markdowns during the 2008 quarter related to losses in the mortgage-related and leveraged finance areas. The exceptionally weak capital markets conditions experienced in the residential mortgage markets served to decrease origination volumes in the 2008 quarter compared with the 2007 quarter. The inability to securitize and distribute mortgage assets served to exacerbate the impact of inventory markdowns on mortgage revenues. Additionally, the large supply of pending leveraged finance activity, together with investor concerns served to dramatically reduce liquidity and pricing in the leveraged finance market. Distressed trading and credit trading revenues also decreased, as credit spreads widened during the 2008 quarter. Partially offsetting these decreases were record revenues from interest rates products, as higher volatility increased customer activity compared with the 2007 quarter.

Investment banking revenues decreased 48% to $159 million for the 2008 quarter from $303 million for the 2007 quarter. Underwriting revenues decreased 56% to $77 million for the 2008 quarter from $176 million for the 2007 quarter. Equity

underwriting revenues decreased, reflecting lower volumes of equity follow-on and convertible new issue offerings. Additionally, high yield and high grade underwriting revenues decreased, reflecting challenging market conditions. Advisory and other fees for the 2008 quarter decreased 27% to $68 million from $93 million for the prior year quarter reflecting decreased M&A fees due to a decrease in customer activity. Merchant banking revenues decreased 59% to $14 million in the 2008 quarter from $34 million during the 2007 quarter, reflecting lower gains in the Company's portfolio of investments compared to the prior year quarter.

Global Clearing Services

(in millions)	Th
	February 29, 2008
Net revenues	$ 253
Pre-tax income	$ 86

The Global Clearing Services segment provides execution, clearing, margin lending and securities borrowing to facilitate customer short sales to clearing clients worldwide. Prime brokerage clients include hedge funds and clients of money managers, short sellers, arbitrageurs and other professional investors. Fully disclosed clients engage in either the retail or institutional brokerage business. At February 29, 2008 and February 28, 2007, the Company held approximately $274 billion and $298 billion, respectively, in equity in Global Clearing Services client accounts.

Net revenues for Global Clearing Services decreased 8% to $253 million for the 2008 quarter from $276 million in the 2007 quarter. Net interest revenues decreased 15% to $180 million for the 2008 quarter from $212 million for the 2007 quarter, primarily reflecting decreased average customer short balances. Commissions and other revenues increased 14% to $73 million for the 2008 quarter from $64 million for the 2007 quarter reflecting higher trading volumes from both prime brokerage and fully-disclosed clients. Pre-tax income decreased 24% to $86 million for the 2008 quarter from $113 million for the 2007 quarter. Pre-tax profit margin was 34.0% for the 2008 quarter compared with 40.9% for the 2007 quarter.

The following table presents the Company's interest-bearing balances for the fiscal periods ended:

(in billions)	Th
Margin debt balances, average for period	
Margin debt balances, at period end	
Customer short balances, average for period	
Customer short balances, at period end	
Securities borrowed, average for period	
Securities borrowed, at period end	
Free credit balances, average for period	
Free credit balances, at period end	
Equity held in client accounts, at period end	

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

Wealth Management

		Th
(in millions)		February 29, 2008
Private client services revenues	$	183
Revenue transferred to Capital Markets segment		(22)
Private client services net revenues		161
Asset management		39
Total net revenues	$	200
Pre-tax income	$	(42)

nm - not meaningful

The Wealth Management segment is composed of the PCS and asset management areas. PCS provides high-net-worth individuals with an institutional level of investment service, including access to the Company's resources and professionals. At February 29, 2008, PCS had approximately 500 account executives in its principal office, six regional offices and two international offices. Asset management manages equity, fixed income and alternative assets for corporate pension plans, public systems, endowments, foundations, multi-employer plans, insurance companies, corporations, families and high-net-worth individuals in the United States and abroad.

Net revenues for Wealth Management decreased 22% in the 2008 quarter to $200 million from $255 million for the 2007 quarter. Asset management revenues decreased 67% to $39 million for the 2008 quarter compared to $119 million for the 2007 quarter, primarily due to lower performance fees, reflecting declines in alternative investment fund performances and proprietary investments, as a result of the difficult market environment. Management fees also declined due to lower assets under management. PCS net revenues increased 18% to $161 million for the 2008 quarter from $136 million for the 2007 quarter, reflecting higher levels of fee-based income and commissions.

Total assets under management were $39.3 billion at February 29, 2008, reflecting a 27% decrease from $54.1 billion in assets under management at February 28, 2007. The decrease in assets under management reflects $8.8 billion transfer of assets related to the spin-off of O'Shaughnessy Asset Management. Assets under management at February 29, 2008 include $7.6 billion of assets from alternative investment products, a decrease from $8.7 billion at February 28, 2007.

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

LIQUIDITY, FUNDING AND CAPITAL

Recent Developments

On February 29, 2008, the Company had available liquidity at the parent company equal to $17.3 billion. However, over the course of the week of March 10, market speculation was that Bear Stearns was experiencing a serious liquidity problem. On the evening of March 10, 2008, the Company issued a press release denying the market rumors. On Wednesday, March 12, 2008, the Company disclosed that its liquidity position was largely unchanged since the beginning of the year as contrasted with the unsubstantiated market rumor and speculation. During the course of the day on March 12, 2008, however, an increased volume of customers expressed a desire to withdraw funds from and certain counterparties expressed increased concern regarding maintaining their ordinary course exposure to Bear Stearns. Over the course of the day on March 13, 2008, an unusually high number of customers withdrew funds and a significant number of counterparties and lenders were unwilling to make secured financing available on customary terms, which resulted in a sharp deterioration in the Company's liquidity position. As of the evening of March 13, 2008, available liquidity declined materially and expected funding requirements on March 14, 2008 were significantly in excess of available liquidity. The inability to borrow against high quality collateral and rapid withdrawal of customer funds contributed to the liquidity issues. On the morning of March 14, 2008, the Company issued a press release announcing that it had obtained a secured lending facility from JPMorgan Chase and that it was discussing permanent financing and other alternatives with JPMorgan Chase. Despite this announcement, throughout the day on March 14, 2008, customers continued to withdraw funds at an increasing rate and counterparties continued to seek to reduce their exposure to the Company also at an increasing rate. On the evening of March 14, 2008, the Company was informed that the secured lending facility that had been entered into earlier that day would not be available on March 17, 2008. On March 16, 2008, the Company and JPMorgan Chase entered into the agreement and plan of merger. JPMorgan Chase issued the Guaranty (as defined in Note 17) of the Company's trading and certain other obligations.

Despite the financial support from the merger agreement and the Guaranty, the Company's liquidity position continued to deteriorate, customers continued to withdraw funds and funding (other than from JPMorgan Chase and the New York Fed) was not available. As of March 21, 2007, management estimated that Bear Stearns had little to no available liquidity. On March 24, 2008, the Company and JPMorgan Chase entered into the amendment to the agreement and plan of merger, the share exchange agreement and certain other ancillary transaction documents and JPMorgan Chase issued the guaranty to the New York Fed and the amended and restated operating guaranty, which clarified and enhanced the terms of the guaranty.

The closing of the merger is expected to occur by the end of the calendar second quarter 2008. The Company believes that the termination of the Guaranty prior to closing of the merger or the parties' failure to close the merger could seriously jeopardize its financial viability. In addition, absent the Guaranty, the Company could face the increased risk of rapid loss of customers and counterparties. The lack of liquidity and the loss of customers and counterparties would materially and adversely affect the Company's financial stability and its viability as a going concern. Accordingly, the Company could be forced to file for bankruptcy protection and need to liquidate. See Note 17, "Subsequent Events," of Notes to Condensed Consolidated Financial Statements.

General

The discussion below reflects data as of February 29, 2008 and the qualitative process that was employed in the management of funding and liquidity risk. Prior to February 29, 2008 and during prior periods, the liquidity risk and funding framework was predicated on access to secured funding versus fixed income and equities securities as collateral.

Liquidity Risk Management

The Global Finance Committee, in consultation with the Chief Financial Officer, has established a funding framework for the Firm. A fundamental premise of the liquidity risk management framework is that the Firm is not reliant upon nor does it contemplate forced balance sheet reduction to endure a period of constrained funding availability. The Company's liquidity risk management framework is centered on the following concepts and metrics:

- Unencumbered Collateral - The Company monitors the market value and borrowing value of unencumbered, unhypothecated financial instruments owned by the Company. These assets may be monetized to generate liquidity for the repayment of debt obligations or meet other cash outflows as required. Given that the unencumbered collateral is held in both regulated and unregulated subsidiaries, there may be limitations on availability of this liquidity to the Parent Company.

- Liquidity Ratio - The ratio of cash plus the borrowing value of unencumbered collateral in relation to total unsecured debt maturing over the next twelve months. The firm strives to maintain this ratio at 110% or greater.

- Excess Liquidity - The Company maintains cash and cash equivalents to meet a broad array of potential cash outflows in a stressed liquidity environment. This excess liquidity is maintained at the Parent Company to ensure ready availability to meet cash outflows as needed.

- Net Cash Capital - The measurement of cash capital sources (i.e., equity plus long-term debt maturing in more than 12 months) relative to cash capital requirements. The Company strives to maintain positive net cash capital of $2.0 billion or more. The cash capital framework is discussed in more detail below.

Unencumbered Collateral and Liquidity Ratio

The Company's liquidity ratio is calculated using advance rates that are considered readily available, reflecting what can be reliably realized in a stressed liquidity environment. The cash capital model is calculated using haircuts, which are consistent and symmetrical with the advance rates used in the liquidity ratio in that the haircut is equal to one minus the advance rate. In the vast majority of circumstances/asset classes, advance rates are derived from committed secured bank facilities, whereby a bank or group of banks are contractually obligated to lend to the Company at a pre-specified advance rate on specific types of ("eligible") collateral regardless of "market environment." As such, the advance rates/haircuts used in calculating the liquidity ratio and in assessing cash capital requirements are typically more conservative than those the Company realizes in normalized repo and secured lending markets.

As of February 29, 2008, the market value of eligible unencumbered, unhypothecated financial instruments owned by the Company was approximately $14.4 billion with a borrowing value of $12.3 billion. These eligible assets are primarily comprised of U.S. equities and residential and commercial mortgage whole loans, mortgage- and asset-backed securities, investment grade municipal and corporate bonds. The vast majority of advance rates on these different asset types are 70% or higher, and as described above, is based predominantly on committed, secured facilities that the Company and its subsidiaries maintain in different regions globally. The liquidity ratio, explained above, based solely on Company-owned securities, has averaged 161% over the previous 12 months, including the Company's $2.9 billion unused committed unsecured bank credit, and 145%, excluding the committed unsecured revolving credit facility. On this same basis, as of February 29, 2008 the liquidity ratio was 183% and 167%, respectively.

The Company monitors unrestricted liquidity available to the Parent Company via the ability to monetize unencumbered assets held in unregulated and regulated entities. As of February 29, 2008, approximately $4.5 billion of the market value identified in the liquidity ratio data above was held in unregulated entities and thus likely to be available to the Parent Company. The remaining $9.9 billion market value of unencumbered securities was held in regulated entities, a portion of which may not be available to provide liquidity to the Parent Company.

Excess Liquidity

The Company maintains cash and cash equivalents to meet a broad range of potential cash outflows in a stressed liquidity environment. This excess liquidity is maintained at the Parent Company to ensure ready availability to meet cash outflows as needed. The size of the Parent Company Liquidity Pool is determined from Company-specific stressed liquidity events that the firm could face over the next 12 months. Specific events that are accounted for in sizing the liquidity pool include, but are not limited to the following:

- Derivative collateral outflows that would be required if the firm were to experience a 2-notch ratings downgrade;
- Derivative collateral outflows that could be required after a variety of stress market moves;
- Potential draws on unfunded committed funding obligations;
- Widening of haircuts in secured financing transactions; and
- Financing haircuts for certain off-balance sheet-financing transactions.

The liquidity pool consists of liquidity immediately accessible by the Parent Company at all times. This liquidity pool can take the form of cash deposits and money market instruments that are held at the Parent Company level and high-quality collateral (corporate bonds, municipal bonds, equity securities) that is owned by subsidiaries and explicitly pledged to and segregated for the benefit of the Parent Company and maintained at a third-party custodian. For purposes of calculating the aggregate value of the Parent Company Liquidity Pool, the contractually obligated advance rates described herein are used to determine the borrowing value of collateral pledged. As of February 29, 2008 the Parent Company Liquidity Pool was $17.3 billion comprised entirely of money market funds, bank deposits and short-term high quality money market investments.

Net Cash Capital

The cash capital framework is utilized to evaluate the Company's long-term funding sources and requirements in their entirety. Cash capital required to support all of the Company's assets is determined on a regular basis. The Company holds cash capital to support longer-term funding requirements, including, but not limited to, the following:

- That portion of financial instruments owned that cannot be funded on a secured basis (i.e., the haircuts);
- Margin loans and resale principal in excess of the borrowing value of collateral received;
- Operational cash deposits required to support the regular activities of the Company (e.g., exchange initial margin);
- Unfunded committed funding obligations, such as leveraged loan commitments;
- Less liquid and illiquid assets, such as restricted securities and fixed assets;

- Uncollateralized funded loans and funded loans secured by illiquid and/or collateral that cannot be rehypothecated;
- Merchant banking assets and other long-term investments; and
- Regulatory capital in excess of a regulated entity's cash capital based longer-term funding requirements.

At February 29, 2008, the Company's net cash capital position, defined as the surplus of long-term funding sources versus long-term funding requirements was $3.6 billion. Fluctuations in net cash capital are common and are a function of variability in total assets, balance sheet composition and total capital. The Company attempts to maintain cash capital sources in excess of the aggregate longer-term funding requirements of the firm with a target for positive net cash capital of $2.0 billion or more. For fiscal year 2008, the Company's total cash capital requirement, cash capital intensity ratio (average haircut), and net cash capital position have averaged $65.9 billion, 16.1% and $3.1 billion, respectively.

Funding Framework

The firm's overall objective is to ensure sufficient diversity and reliability of funding sources to meet its financing needs at all times and in all market environments. With this objective at the forefront, the Company modified its general funding structure, beginning in late 2006, consistent with the following elements:

- Increased use of secured funding given the view that secured funding is inherently less credit sensitive and thus more stable due to the collateralized nature of the borrowing;
- Introduced substantially greater amounts of longer tenor secured funding into the repo and bank loan portions of its secured funding mix;
- Reduced reliance on short-term unsecured funding sources, thereby lessening both exposure to rollover risk and dependence on any large, single short-term unsecured creditor;
- Expanded the size and scope of the Parent Company Liquidity Pool, which consists of cash and cash equivalents held at the parent company for deployment as needed; and

- Increased the target for net cash capital, which measures the surplus of longer-term funding sources versus longer-term funding requirements.

In general, the Company funds its assets based on their liquidity characteristics as measured by an asset's reliable self-funding ability. As such, the firm's liability and capital structure is primarily a function of asset composition. Most assets are funded with a mix of short-term (predominantly secured) and longer-term funding (i.e, cash capital). The relative funding mix is a function of the asset and is determined by the advance rate that an asset warrants in currently active and utilized secured funding markets. Secured funding with market driven haircuts is used wherever possible, while the haircut portion plus a conservative add-on is funded with cash capital. Illiquid assets are funded entirely with cash capital. Unfunded commitments are pre-funded with cash capital, while the necessary amount of which is determined by the haircut to be assigned to the asset once funded.

The Company's use of unsecured funding is dominated by the long-term unsecured component. Long-term debt with the maturity greater than one year is a source of cash capital and serves to provide stability to the firm's overall funding profile. The firm accesses long-term debt in a number of currencies allowing it to tap a broad and diverse investor base. Maturity concentration guidelines have been established and are regularly monitored to both minimize rollover risk and target prospective issuance. Long-term debt totaling $60.8 billion and $59.0 billion had remaining maturities beyond one year at February 29, 2008 and November 30, 2007, respectively. As of February 29, 2008, the weighted average maturity of the Company's long-term debt was 4.6 years. The Company accesses funding in a variety of markets in the United States, Europe and Asia. The Company issues debt through syndicated U.S.-registered offerings, U.S.-registered and 144A medium-term note programs, other U.S. and non-U.S. bond and note offerings.

With respect to short-term unsecured funding, the Company seeks to ensure prudent usage thereof, as well as tapping a broad diverse base of credit providers and funding markets. In aggregate, usage of short-term unsecured debt has declined in recent periods given the emphasis on greater use of secured funding with a significant term component. Diversification by product, geography, maturity and creditor/investor facilitates management of related funding risks. Reduced reliance over the last

twelve months on more credit sensitive, potentially less stable short-term unsecured funding is positive to the firm's liquidity profile and was accomplished intentionally concurrent with the desired shift in funding framework. In addition to the above considerations, the Company:

- Regularly monitors and quantifies potential draws on its liquidity. These include, but are not limited to, ratings downgrades, commitments to extend credit, repo haircut widening and stressed market derivative collateral outflows. The associated liquidity risk is mitigated by inclusion in the Company's Parent Company Liquidity Pool;

- Monitors and prudently funds illiquid and other hard to fund assets, ensuring these are predominantly funded by 100% cash capital;

- Maintains ongoing dialogue and relationships with broad, diverse base of debt investors and bank creditors, as these key creditor constituents are crucial to the Company's liquidity and financial health;

- Manages investor and maturity concentration risk via strict adherence to short-term debt investor concentration limits and regularly monitors the maturity profile of its unsecured debt; and

- Adheres to a general guideline of no more than 20% of its long-term debt maturing in any one year, as well as no more than 10% maturing in any one quarter over the next five years. As of February 29, 2008, the Company was in compliance with these guidelines.

Legal Entity Structure

The Parent Company, operating as the centralized unsecured funding arm of the Company, raises the vast majority of the Company's unsecured debt, including both commercial paper and long-term debt. The Parent Company is thus the "central bank" of the Company, where all capital is held and from which capital is deployed. The benefits of a centralized funding approach include greater control of issuance and flexibility to meet subsidiary funding needs, while the legal entity structure can constrain liquidity available to the Company. The Firm's inter-company funding approach mitigates this risk. The Parent Company advances funds in the form of debt or equity to subsidiaries to meet their operating funding needs and, in the case of regulated entities, regulatory capital requirements. Primary regulated subsidiaries include Bear Stearns, BSSC, BSIL, BSIT, BSB, and BSBTC. See Note 11, "Regulations," in the Notes to Condensed Consolidated Financial Statements. In addition to the primary regulated subsidiaries, the Company also conducts significant activities through other wholly owned subsidiaries, including: Bear Stearns Global Lending Limited, Bear Stearns Financial Products Inc., Bear Stearns Capital Markets Inc., Bear Stearns Credit Products Inc., Bear Stearns Forex Inc., EMC Mortgage Corporation, Bear Stearns Commercial Mortgage, Inc., Bear Stearns Investment Products Inc., and Bear Energy L.P. In connection with all of the Company's operating activities, a substantial portion of the Company's long-term borrowings and equity has been used to fund investments in, and advances to, these subsidiaries, including subordinated debt advances.

Within this funding framework, the Company attempts to fund equity investments in subsidiaries with equity from the Parent Company (i.e., utilize no equity double leverage). At February 29, 2008, the Parent Company's equity investment in subsidiaries was $8.5 billion versus common stockholders' equity and preferred equity of $11.5 billion and $352 million, respectively. As such, at February 29, 2008, the ratio of the equity investment in subsidiaries to Parent Company equity (equity double leverage) was approximately 0.73 based on common equity and 0.71 including preferred equity. At November 30, 2007, these measures were 0.71 based on common equity and 0.69 including preferred equity. Additionally, all subordinated debt advances to regulated subsidiaries for use as regulatory capital, which totaled $14.0 billion at the first quarter of fiscal 2008, are funded with long-term debt issued by the Company, having a remaining maturity equal to or greater than the maturity of the subordinated debt advance. The Company regularly monitors the nature and significance of assets or activities conducted in all subsidiaries and attempts to fund such assets with both capital and/or borrowings having a maturity profile and relative mix consistent with the nature and self-funding ability of the assets being financed. The funding mix also takes into account regulatory capital requirements for regulated subsidiaries.

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

Balance Sheet and Financial Leverage

Asset Composition

The Company's actual level of balance sheet capital, capital requirements and thereby the level of financial leverage, is a function of numerous variables, including asset composition, rating agency/creditor perception, business prospects, regulatory requirements, balance sheet liquidity, cost/availability of capital and risk of loss. The Company consistently maintains a highly liquid balance sheet, with the vast majority of the Company's assets consisting of cash, marketable securities inventories and collateralized receivables arising from customer-related and proprietary securities transactions.

Collateralized receivables consist of resale agreements secured predominantly by U.S. government and agency securities, customer margin loans and securities borrowed, which are typically secured by marketable corporate debt and equity securities. The nature of the Company's business as a securities dealer requires it to carry significant levels of securities inventories to meet its customer and proprietary trading needs. Additionally, the Company's role as a financial intermediary for customer activities, which it conducts on a principal basis, together with its customer-related activities in its clearance business, results in significant levels of customer-related balances, including customer margin debt, securities borrowed and reverse repurchase activity. The Company's total assets and financial leverage can and do fluctuate, depending largely on economic and market conditions, volume of activity and customer demand.

The Company's total assets at February 29, 2008 increased to $399.0 billion from $395.4 billion at November 30, 2007. The increase was primarily attributable to increases in cash and securities deposited with clearing organizations or segregated in compliance with federal regulations, securities borrowed, and financial instruments owned, at fair value, partially offset by a decrease in assets of variable interest entities and mortgage loan special purpose entities.

Balance Sheet Size and Variability

Given the nature of the Company's market-making and customer-financing activity, the overall size of the balance sheet fluctuates from time to time. The Company's total assets at each quarter end are typically lower than would be observed on an average basis. At the end of each quarter, the Company typically uses excess cash to finance high-quality, highly liquid securities inventory that otherwise would be funded via the repurchase agreement market. In addition, the Company reduces its matched book repurchase and reverse repurchase activities at quarter end. Finally, the Company may reduce the aggregate level of inventories through ordinary course, open market activities in the most liquid portions of the balance sheet, which are principally U.S. government and agency securities and agency mortgage pass-through securities.

At February 29, 2008 and November 30, 2007, total assets of $399.0 billion and $395.4 billion were approximately 12.4% and 12.2%, respectively, lower than the average of the month-end balances observed over the trailing 12-month period. Despite fluctuations in total assets at each quarter end, the Company's overall market, credit and liquidity risk profile does not change materially, since the reduction in asset balances is predominantly in highly liquid, short-term instruments that are financed on a secured basis. This periodic reduction verifies the inherently liquid nature of the balance sheet and provides consistency with respect to creditor constituents' evaluation of the Company's financial condition.

Leverage Ratios

Balance sheet leverage measures are one approach to assessing the capital adequacy of a securities firm, such as the Company. Gross leverage equals total assets divided by stockholders' equity, inclusive of preferred and trust preferred equity. The Company views its trust preferred equity as a component of its equity capital base given the equity-like characteristics of the securities. The Company also receives rating agency equity credit for these securities. Net adjusted leverage equals net adjusted assets divided by tangible equity capital, which excludes goodwill and intangible assets from both the numerator and the denominator, as equity used to support goodwill and intangible assets is not available to support

61

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

the balance of the Company's net assets. With respect to a comparative measure of financial risk and capital adequacy, the Company believes that the low-risk, collateralized nature of the items excluded in deriving net adjusted assets (see table below) renders net adjusted leverage as the more relevant measure.

The following table presents total assets and net adjusted assets with the resultant leverage ratios at February 29, 2008 and November 30, 2007:

(in millions, except ratios)	
Total assets	$
Deduct:	
Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations	
Securities purchased under agreements to resell	
Securities received as collateral	
Securities borrowed	
Receivables from customers	
Assets of variable interest entities and Mortgage loan special purpose entities, net	
Goodwill & intangible assets	
Subtotal	
Add:	
Financial instruments sold, but not yet purchased	
Deduct:	
Derivative financial instruments	
Net adjusted assets	$

Stockholders' equity	
Common equity	$
Preferred stock	
Total stockholders' equity	
Add:	
Trust preferred equity	
Subtotal - leverage equity	
Deduct:	
Goodwill & intangible assets	
Tangible equity capital	$
Gross leverage	
Net adjusted leverage	

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

Total Capital

The Company's total capital base, which consists of long-term debt, preferred equity issued by subsidiaries and total stockholders' equity, increased to $83.7 billion at February 29, 2008 from $80.3 billion at November 30, 2007. This change was primarily due to a net increase in long-term debt.

The Company's total capital base as of February 29, 2008 and November 30, 2007 was as follows:

(in millions)	February 29, 2008	November 30, 2007
Long-term borrowings:		
Senior debt	$ 70,490	$ 67,275
Subordinated debt (1)	1,263	1,263
Total long-term borrowings	$ 71,753	$ 68,538
Stockholders' equity:		
Preferred stockholders' equity	$ 352	$ 352
Common stockholders' equity	11,544	11,441
Total stockholders' equity	$ 11,896	$ 11,793
Total capital	$ 83,649	$ 80,331

(1) Includes $1.0 billion in subordinated debt issued by the Company and $263 million in junior subordinated deferrable interest debentures ("Debentures") issued by the Company and held by Bear Stearns Capital Trust III ("Capital Trust III") at February 29, 2008 and November 30, 2007.

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

Credit Ratings

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

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

63

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

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

	Long-Term Rating	Short-Term Rating
Dominion Bond Rating Service Limited	A	R-1(low)
Fitch Ratings	A-	F2
Japan Credit Rating Agency, Ltd	AA-	NR
Moody's Investors Service (1)	Baa1	P-2
Rating & Investment Information, Inc.	A-	NR
Standard & Poor's Ratings Services	AA-	A-1+

NR - does not assign a short-term rating

(1) On March 25, 2008, Moody's assigned Aa2 Backed Long-term and Prime-1 Backed Short-term Issuer ratings to Bear Stearns and certain rated subsidiaries that explicitly benefit from the Amended and Restated Guaranty Agreement from JPMorgan Chase & Co.

The above ratings and/or associated outlooks, to varying degrees, are positively influenced by the proposed merger with and guarantee by JPMorgan Chase. In the absence of the guarantee and merger, the ratings and/or outlook assigned to the Company by all agencies would be lower and/or negative. Following the March 24, 2008 amendment to the merger agreement and execution of the amended and restated guarantee (See Note 17, "Subsequent Events," of Notes to Condensed Consolidated Financial Statements), all rating agencies listed above took favorable rating actions.

Committed Credit Facilities

As of February 29, 2008, the Company had a committed revolving credit facility ("Facility") totaling $2.9 billion, which permitted borrowing on a secured basis by the Parent Company, BSSC, BSIL and certain other subsidiaries. The Facility terminated on April 7, 2008. There were no borrowings outstanding under the Facility at February 29, 2008 or on the termination date.

The Company has a $1.50 billion committed revolving securities repo facility ("Repo Facility"), which permits borrowings secured by a broad range of collateral under a repurchase arrangement by the Parent Company, BSIL, BSIT and BSB and BS Forex. The Repo Facility contains financial covenants that require, among other things, maintenance of specified levels of stockholders' equity of the Company. The Repo Facility terminates in August 2008, with all repos outstanding at that date payable no later than August 2009. There were no borrowings outstanding under the Repo Facility at February 29, 2008.

The Company has a $350 million committed revolving credit facility ("Pan Asian Facility"), which permits borrowing on a secured basis by the Parent Company, BSSC, Bear Stearns Japan Limited ("BSJL"), and BSIL. The Pan Asian Facility contains financial covenants that require, among other things, maintenance of specified levels of stockholders' equity of the Company and net capital of BSSC. The Pan Asian Facility terminates in December 2008 with all loans outstanding at that date payable no later than December 2009. There were no borrowings outstanding under the Pan Asian Facility at February 29, 2008.

As of February 29, 2008, the Company had a $450 million committed revolving credit facility ("Tax Lien Facility"), which permitted borrowing on a secured basis by the Parent Company, Plymouth Park Tax Services and Madison Tax Capital LLC. The Tax Lien Facility terminated in March 2008. There were no borrowings outstanding under the Tax Lien Facility at February 29, 2008 or on the date of termination.

As of February 29, 2008, the Company had a committed revolving credit facility ("AAA Facility") totaling $750 million, which permits borrowing on an unsecured basis by Bear Stearns Financial Products ("BSFP"). Under the AAA Facility, BSFP may borrow up to the committed amount in the event of: (i) a Bankruptcy Event, as defined, at The Bear Stearns Companies Inc.; (ii) the downgrade of The Bear Stearns Companies Inc.'s short term debt rating to A-2 by S&P or to P-2 by Moody's; (iii) the failure of Bear Stearns Capital Markets to post collateral with or make payments to BSFP in accordance with BSFP's Operating Guidelines; (iv) the failure of BSFP to meet the capital requirements required by its Operating Guidelines; or (v) the downgrade of BSFP's counterparty credit rating below A by S&P or below A2 by Moody's. The AAA Facility terminates on April 25, 2008, with all loans outstanding at that date payable no later than April 2009. There were no borrowings outstanding under the AAA Facility at February 29, 2008.

The Company also maintains a series of committed credit facilities, which permit borrowing on a secured basis, to support liquidity needs for the financing of investment-grade and non-investment-grade corporate loans, residential mortgages, commercial mortgages, listed options and whole loans. The facilities are expected to be drawn from time to time and expire at various dates, the longest of such periods ending in fiscal 2008. All of these facilities contain a term-out option of one year or more for borrowings outstanding at expiration. The banks providing these facilities are committed to provide up to an aggregate of approximately $6.7 billion. At February 29, 2008 the borrowings outstanding under these committed credit facilities were $3.3 billion.

Stock Repurchase Program

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

On September 18, 2007, the Board of Directors approved an amendment to the Repurchase Program authorizing the purchase of up to $2.5 billion of common stock in fiscal 2007 and beyond. During the quarter ended February 29, 2008, the Company purchased under the current authorization a total of 710,549 shares at a cost of $69.9 million. The Repurchase Program will be used to acquire shares of common stock for the Company's employee stock compensation plans and for up to $1.0 billion in corporate share repurchases. Approximately $2.0 billion was available to be purchased under the current authorization as of February 29, 2008.

Pursuant to a $200 million CAP Plan Earnings Purchase Authorization ("CAP Authorization"), which was approved by the Compensation Committee of the Board of Directors of the Company on December 12, 2006, during the quarter ended February 29, 2008, the Company purchased no shares of its common stock. Approximately $92 million was available to be purchased under the CAP Authorization as of February 29, 2008.

Cash Flows

Cash and cash equivalents decreased $620 million to $20.79 billion at February 29, 2008 from $21.41 billion at November 30, 2007. Cash provided by operating activities was $6.37 billion, primarily attributable to increases in payables to customers and financial instruments sold, but not yet purchased, at fair value, partially offset by an increase in securities borrowed, securities loaned, net and a decrease in securities sold under agreements to repurchase, securities purchased under agreements to resell, net, which occurred in the normal course of business as a result of changes in customer needs, market conditions and trading strategies. Cash used in investing activities of $51 million reflected purchases of property, equipment and leasehold improvements. Cash used in financing activities of $6.94 billion reflected net payments for other secured borrowings of $4.58 billion, net payments for the retirement/repurchase of long-term borrowings of $3.54 billion, and net payments for unsecured short-term borrowings of $3.11 billion. This was partially offset by net proceeds from the issuance of long-term borrowings of $4.40 billion, primarily to fund normal operating activities. Treasury stock purchases of $70 million were made to provide for the annual grant of CAP Plan units, restricted stock and stock options.

Cash and cash equivalents increased $1.30 billion to $5.89 billion at February 28, 2007 from $4.60 billion at November 30, 2006. Cash used in operating activities was $6.16 billion, primarily attributable to increases in financial instruments owned, at fair value, receivables from customers and securities borrowed, securities loaned, net, partially offset by increases in securities sold under agreements to repurchase, securities purchased under agreements to resell, net and payables to customers which occurred in the normal course of business as a result of changes in customer needs, market conditions and trading strategies. Cash used in investing activities of $67 million reflected purchases of property, equipment and leasehold improvements. Cash provided by financing activities of $7.52 billion reflected net proceeds from the issuance of long-term borrowings of $8.08 billion and net proceeds relating to unsecured short-term borrowings of $4.92 billion, primarily to fund normal operating activities. This was partially offset by net payments for the retirement/repurchase of long-term borrowings of $3.55 billion and net payments for other secured borrowings of $1.76 billion. Treasury stock purchases of $473 million were made to provide for the annual grant of CAP Plan units, restricted stock and stock options.

Regulations

The Company is regulated by the SEC as a consolidated supervised entity ("CSE"). As a CSE, the Company is subject to group-wide supervision and examination by the SEC and is required to compute allowable capital and allowances for market, credit and operational risk on a consolidated basis. As of February 29, 2008, the Company was in compliance with the CSE capital requirements.

As registered broker-dealers and futures commission merchants, Bear Stearns and BSSC are subject to the net capital requirements of the Exchange Act and Rule 1.17 under the Commodity Futures Trading Commission. Bear Stearns uses Appendix E of the Net Capital Rule which establishes alternative net capital requirements for broker-dealers that are part of consolidated supervised entities. Appendix E allows Bear Stearns to calculate net capital charges for market risk and derivatives-related credit risk based on mathematical models provided that Bear Stearns holds tentative net capital in excess of $1 billion and net capital in excess of $500 million. BSIL and BSIT, the Company's London-based broker-dealer subsidiaries, are subject to the regulatory capital requirements of the United Kingdom's Financial Services Authority. Additionally, BSB is subject to the regulatory capital requirements of the Financial Regulator. BSBTC, a Federal Deposit Insurance Corporation ("FDIC") insured New Jersey state chartered bank, is subject to the regulatory capital requirements of the FDIC. At February 29, 2008, Bear Stearns, BSSC, BSIL, BSIT, BSB and BSBTC were in compliance with their respective regulatory capital requirements. Certain other subsidiaries are subject to various securities regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. At February 29, 2008, these other subsidiaries were in compliance with their applicable local capital adequacy requirements.

The Company's broker-dealer subsidiaries and other regulated subsidiaries are subject to minimum capital requirements and may also be subject to certain restrictions on the payment of dividends, which could limit the Company's ability to withdraw capital from such regulated subsidiaries, which in turn could limit the Company's ability to pay dividends. See Note 11, "Regulations," in the Notes to Condensed Consolidated Financial Statements.

Merchant Banking and Private Equity Investments

In connection with the Company's merchant banking activities, the Company had investments in merchant banking and private equity-related investment funds as well as direct investments in private equity-related investments. At February 29, 2008, the Company held investments with an aggregate recorded fair value of approximately $1.04 billion, reflected in the Condensed Consolidated Statements of Financial Condition in "Other assets." At November 30, 2007, the Company held investments with an aggregate recorded value of approximately $986 million. In addition to these various direct and indirect principal investments, the Company has made commitments to invest in private equity-related investments and partnerships (see the summary table under "Commitments").

High Yield Positions

As part of its fixed income activities, the Company participates in the underwriting and trading of non-investment-grade corporate debt securities and also invests in, syndicates and trades in loans to highly leveraged, below investment grade rated companies (collectively, "high yield positions"). Non-investment-grade debt securities have been defined as non-investment-grade corporate debt and emerging market debt rated BB+ or lower, or equivalent ratings recognized by credit rating agencies. At February 29, 2008 and November 30, 2007, the Company held high yield positions approximating $7.13 billion and $8.84 billion, respectively, substantially all of which are in "Financial instruments owned, at fair value" in the Condensed Consolidated Statements of Financial Condition, and $765 million and $716 million, respectively, reflected in "Financial instruments sold, but not yet purchased, at fair value" in the Condensed Consolidated Statements of Financial Condition. Included in the high yield positions are extensions of credit to highly leveraged companies. At February 29, 2008 and November 30, 2007, the amount outstanding to highly leveraged borrowers totaled $4.95 billion and $6.27 billion, respectively. The largest industry concentration to highly leveraged borrowers was the transportation industry which approximated 27.1% of these highly leveraged borrowers' positions at February 29, 2008. The largest industry concentration to highly leveraged borrowers was the technology industry which approximated 23.3% of these highly leveraged borrowers' positions at November 30, 2007. Additionally, the Company has lending commitments with highly leveraged borrowers (see the summary table under "Commitments").

The Company's Risk Management Department and senior trading managers monitor exposure to market and credit risk for high yield positions and establish overall limits and concentration limits of risk by individual issuer. High yield positions generally involve greater risk than investment grade debt securities due to credit considerations, liquidity of secondary

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

trading markets and increased vulnerability to changes in general economic conditions. The level of the Company's high yield positions, and the impact of such activities on the Company's results of operations, can fluctuate from period to period as a result of customer demand, economic conditions and market considerations.

Contractual Obligations

In connection with its operating activities, the Company enters into contractual obligations that require future cash payments. At February 29, 2008, the Company's contractual obligations by maturity, excluding derivative financial instruments, were as follows:

	Payments Due By Period				
(in millions)	Remaining Fiscal 2008	Fiscal 2009- 2010	Fiscal 2011- 2012	Thereafter	T
Long-term borrowings (1) (2)	$ 7,166	$ 24,166	$ 16,352	$ 24,069	$
Future minimum lease payments (3)	91	235	223	640	
Bear Energy(4)	65	181	677	3,403	

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

(2) Included in fiscal 2009-2010 are approximately $113 million of floating-rate notes that are redeemable prior to maturity at the option of the noteholder. These notes contain certain provisions that effectively enable noteholders to put these notes back to the Company and, therefore, are reflected in the table at the date such notes first become redeemable. The final maturity dates of these notes are during fiscal 2009, 2010 and 2011.

(3) See Note 12, "Commitments and Contingencies," in the Notes to Condensed Consolidated Financial Statements.

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

Commitments

The Company has commitments(1) under a variety of commercial arrangements. At February 29, 2008, the Company's commitments associated with lending and financing, private equity-related investments and partnerships, outstanding letters of credit, underwriting and other commercial commitments summarized by period of expiration were as follows:

	Amount of Commitment Expiration Per Perio			
(in millions)	Remaining Fiscal 2008	Fiscal 2009- 2010	Fiscal 2011- 2012	Thereafter
Lending-related commitments:				
Investment-grade (2)	$ 749	$ 643	$ 1,194	$ --
Non-investment-grade(2)	534	282	1,402	406
Contingent commitments	110	--	--	--
Commitments to invest in private equity-related investments and partnerships (3)	60	30	127	422
Underwriting commitments	248	--	--	--
Commercial and residential loans	906	407	--	16
Letters of credit	2,926	300	35	--
Other commercial commitments	57	132	--	--

(1) See Note 12, "Commitments and Contingencies," in the Notes to Condensed Consolidated Financial Statements.

(2) In order to mitigate the exposure to investment-grade and non-investment-grade borrowings the Company entered into credit default swaps approximating $841 million and $267 million, respectively, in notional value, at February 29, 2008.

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

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

OFF-BALANCE-SHEET ARRANGEMENTS

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

The Company follows SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities--a Replacement of FASB Statement No. 125," to account for securitizations and other transfers of financial assets. In accordance with SFAS No. 140, the Company accounts for transfers of financial assets as sales provided that control has been relinquished. Control is deemed to be relinquished only when all of the following conditions have been met: (1) the assets have been isolated from the transferor, even in bankruptcy or other receivership; (2) the transferee is a Qualifying Special Purpose Entity ("QSPE") or has the right to pledge or exchange the assets received; and (3) the transferor has not maintained effective control over the transferred assets. Therefore, the Company derecognizes financial assets transferred in securitizations, provided that such transfer meets all of these criteria. See Note 4, "Transfers of Financial Assets and Liabilities," in the Notes to Condensed Consolidated Financial Statements for a more complete discussion of the Company's securitization activities.

The Company regularly creates or transacts with entities that may be VIEs. These entities are an essential part of its securitization, asset management and structured finance businesses. In addition, the Company purchases and sells instruments that may be variable interests. The Company consolidates those VIEs in which the Company is the primary beneficiary. See Note 5, "Variable Interest Entities and Mortgage Loan Special Purpose Entities," in the Notes to Condensed Consolidated Financial Statements for a complete discussion of the consolidation of VIEs.

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

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

In addition to the above, in the ordinary course of business the Company issues various guarantees to counterparties in connection with certain derivatives, leasing, securitization and other transactions. See Note 14, "Guarantees," in the Notes to Condensed Consolidated Financial Statements for a complete discussion on guarantees.

In 1997, the Company established a program whereby it created a series of municipal securities trusts in which is has retained interests. These trusts purchase fixed-rate, long-term, highly rated, insured or escrowed municipal bonds financed by the issuance of trust certificates. In the Company's capacity as liquidity provider to the trusts, the maximum exposure to loss at February 29, 2008 was approximately $3.2 billion, which represents the outstanding amount of all trust certificates. This exposure to loss is mitigated by the underlying municipal bonds held by trusts. The underlying municipal bonds in the trusts are either AAA- or AA-rated, insured or escrowed to maturity. Such bonds had a market value, net of related offsetting positions, approximating $2.9 billion at February 29, 2008. See Note 17, "Subsequent Events," of the Notes to the Condensed Consolidated Financial Statements for a further discussion.

The Company does not sponsor any SIV's or Commercial Paper Conduits. Additionally, the Company has no obligation to buy back subprime assets or CDO's collateralized by subprime assets.

68

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

As of February 29, 2008 and November 30, 2007, the Company had notional/contract amounts of approximately $14.2 trillion and $13.4 trillion, respectively, of derivative financial instruments, of which $1.6 trillion and $1.9 trillion, respectively, were listed futures and option contracts. The aggregate notional/contract value of derivative contracts is a reflection of the level of activity and does not represent the amounts that are recorded in the Condensed Consolidated Statements of Financial Condition. The Company's derivative financial instruments outstanding, which either are used to offset trading positions, modify the interest rate characteristics of its long- and short-term debt, or are part of its derivative dealer activities, are marked to fair value.

The Company's derivatives had a notional weighted average maturity of approximately 4.2 years at February 29, 2008 and November 30, 2007. The maturities of notional/contract amounts outstanding for derivative financial instruments as of February 29, 2008 were as follows:

(in billions)	Less Than One Year	One to Three Years	Three to Five Years	Gr F
Swap agreements, including options, swaptions, caps, collars and floors	$ 3,219.8	$ 2,767.0	$ 2,736.9	$
Futures contracts	644.6	355.6	53.6	
Forward contracts	180.7	-	-	
Options held	519.7	21.3	3.3	
Options written	374.6	19.7	6.4	
Total	$ 4,939.4	$ 3,163.6	$ 2,800.2	$
Percent of total	34.8%	22.3%	19.7%	

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

CRITICAL ACCOUNTING POLICIES

The Condensed Consolidated Financial Statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America. These principles require management to make certain estimates and assumptions that could materially affect reported amounts in the financial statements (see Note 1, "Summary of Significant Accounting Policies," in the Notes to Condensed Consolidated Financial Statements). Critical accounting policies are those policies that are the most important to the financial statements and/or those that require significant management judgment related to matters that are uncertain.

Valuation of Financial Instruments

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

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

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

Level 1: Inputs based on quoted market prices for identical assets or liabilities in active markets.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

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

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

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

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

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

including maturity terms, see the table setting forth notional/contract amounts outstanding in the preceding "Derivative Financial Instruments" section.

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

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

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

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

See Note 2, "Financial Instruments" of Notes to Condensed Consolidated Financial Statements for a description of the financial assets and liabilities carried at fair value.

Level 3 Activity

With Level 3, the fair value of the Level 3 assets represents approximately 25.9% of the total assets measured at fair value. The fair value of the Level 3 liabilities represents approximately 11.4% of the total liabilities measured at fair value.

Transfers

During the 2008 quarter, there were approximately $6.9 billion of non-derivative trading assets transferred from level 2 to level 3. These transfers were primarily related to mortgages and mortgage-backed securities. The largest contributors to the transfers were performing residential mortgages and investment-grade mortgage-backed securities. Additionally, during the 2008 quarter, there were approximately $700 million of net derivative trading assets which transferred from level 2 to level 3. These transfers were primarily related to mortgage-related credit default swaps.

These transfers were driven by the continued market and liquidity deterioration in the mortgage markets.

Any gains or losses that resulted from these transfers are reported in the changes in unrealized column in the Level 3 Financial Assets and Liabilities table of Note 2, "Financial Instruments," of Notes to Condensed Consolidated Financial Statements.

The fair value of the instruments classified in level 3 declined during the quarter as a result of the continued deterioration in the mortgage and credit markets.

Fair Value Option

SFAS No. 159 provides a fair value option election that permits entities to irrevocably elect to measure financial assets and liabilities (except for those that are specifically scoped out of the Statement) at fair value as the initial and subsequent measurement attribute, with changes in fair value recognized in earnings as they occur. SFAS No. 159 permits the fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument.

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

Effective December 1, 2007, the Company adopted SFAS No. 159 and elected to apply the fair value option to liabilities that resulted from the consolidation of variable interest entities as well as certain transactions that were accounted for as financings under SFAS No. 140. As a result of the adoption of SFAS No. 159, there was no transition adjustment.

Controls Over Valuation of Financial Instruments

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

Merchant Banking

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

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

Legal, Regulatory and Tax Contingencies

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

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

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

subsequent years' examinations and tax reserves are established as appropriate. See Note 13, "Income Taxes," of Notes to Condensed Consolidated Financial

Statements for a discussion for the Company's adoption of FIN No. 48.

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

Loan Modification - Streamlined Foreclosure and Loss Avoidance Framework

In December 2007, the American Securitization Forum published a Streamlined Foreclosure and Loss Avoidance Framework (ASF Framework) to enable mortgage servicers to streamline their loss avoidance and loan modification practices. The framework is an industry-developed, recommended methodology that servicers of securitized subprime ARMS held in Qualifying Special Purpose Entities (QSPEs) can use to fulfill their existing obligations to service those loans in a faster and more efficient manner while maximizing recoveries for the benefit of securitization investors. The ASF Framework applies to all first lien subprime residential ARMs that have an initial fixed rate period of 36 months or less that were originated between January 1, 2005 and July 31, 2007, and that have an initial interest rate reset between January 1, 2008 and July 31, 2010.

Under the ASF Framework, the covered loans are divided into three segments:

Segment 1 - includes current loans where the borrower is likely to be able to refinance into any available mortgage product, including FHA, FHA Secure or readily available mortgage industry products;
Segment 2 - includes current loans where the borrower is unlikely to be able to refinance into any readily available mortgage industry product; and
Segment 3 - includes loans where the borrower is not current as defined above, demonstrating difficulty meeting the introductory rate.

The methodology prescribed in the ASF Framework applies to those loans in Segment 2, in advance of the initial reset date. Those loans would be eligible for a "fast track" loan modification under which the interest rate would be kept at the existing rate, generally for five years following the upcoming reset. The ASF Framework provides a methodology which complies with relevant tax regulations and off-balance sheet accounting standards for QSPEs. Moreover, the SEC's Office of Chief Accountant has concluded that it will not object to continued status as a QSPE if Segment 2 subprime ARM loans are modified pursuant to the specific screening criteria in the ASF Framework. The Company adopted the ASF screening criteria in the first quarter of 2008, and believes that the modification of loans in accordance with the ASF Framework does not impact the off-balance-sheet accounting treatment of QSPEs that hold subprime ARM loans.

While a uniform definition of subprime mortgages does not exist in the marketplace, the Company defines subprime primarily as loans issued to higher risk borrowers who do not qualify for the best market interest rates because of their deficient credit history. Although FICO credit scores and prior mortgage or rent payment histories are the main drivers of a subprime designation, subprime also includes borrowers that have had a recent foreclosure or bankruptcy. Other considerations include borrower's reserve funds, residual household income and debt to income ratio.

The total amount of assets owned by Company sponsored QSPEs that hold subprime ARM loans as of February 29, 2008 was approximately $17.0 billion, which included $860 million of real estate owned. These subprime ARM loans are serviced by the Company. The retained interests in Company sponsored QSPEs that hold subprime ARM loans totaled approximately $16 billion of which the Company has retained $2 billion as of February 29, 2008.

Of the loans that meet the ASF Framework criteria, the unpaid principal balance of loans that are included in these segments are $1.4 billion for Segment 1, $1.8 billion for Segment 2, and $3 billion for Segment 3. The Company has not yet modified a significant percentage of loans using the ASF Framework; accordingly, the impact to the Company's retained interest has been immaterial.

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

ACCOUNTING AND REPORTING DEVELOPMENTS

In March 2008, the FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133." The Statement requires companies to provide enhanced disclosures regarding derivative instruments and hedging activities. It requires companies to better convey the purpose of derivative use in terms of the risks that such company is intending to manage. Disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows are required. This Statement retains the same scope as SFAS No. 133 and is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing implementation plans and does not expect the adoption of SFAS No. 161 to have a material impact, if any, on the Condensed Consolidated Financial Statements.

In February 2008, the FASB issued a FASB Staff Position ("FSP") on Accounting for Transfers of Financial Assets and Repurchase Financing Transactions "FSP FAS 140-3". This FSP addresses the issue of whether or not these transactions should be viewed as two separate transactions or as one "linked" transaction. The FSP includes a "rebuttable presumption" that presumes linkage of the two transactions unless the presumption can be overcome by meeting certain criteria. The FSP will be effective for fiscal years beginning after November 15, 2008 and will apply only to original transfers made after that date; early adoption will not be allowed. The Company is currently evaluating the impact, if any, the adoption of this interpretation will have on the Company's Condensed Consolidated Financial Statements.

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

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

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

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

EFFECTS OF INFLATION

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of the Company's risk management policies, including a discussion of the Company's primary market risk exposures, which include interest rate risk, foreign exchange rate risk, equity price risk and commodity price risk, as well as a discussion of the Company's credit risk and a discussion of how those exposures are managed, refer to the Company's Form 8-K.

Value-at-Risk

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

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

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

The aggregate VaR presented here is less than the sum of the individual components (i.e., interest rate risk, foreign exchange rate risk, equity risk, and commodity risk), due to the benefit of diversification among the risks. Diversification benefit equals the difference between aggregate VaR and the sum of the VaRs for the four risk categories. This benefit arises because the simulated one-day losses for each of the four primary market risk categories occur on different days and because of general diversification benefits introduced when risk is measured across a larger set of specific risk factors than exist in the respective categories; similar diversification benefits also are taken into account across risk factors within each category. The following table illustrates the VaR for each component of market risk as of February 29, 2008, November 30, 2007, August 31, 2007 and May 31, 2007.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

(in millions)	February 29, 2008	November 30, 2007	August 31, 2007
MARKET RISK			
Interest rate	$ 51.3	$ 72.4	$ 41.6
Currency	1.7	1.4	1.3
Equity	6.2	6.5	6.8
Commodity/energy	28.4	12.5	3.1
Diversification benefit	(25.2)	(23.5)	(17.8)
Aggregate VaR	$ 62.4	$ 69.3	35.0

The table below illustrates the high, low and average VaR for each component of market risk and aggregate market risk during the quarters ended February 29, 2008 and November 30, 2007:

	Quarter Ended February 29, 2008			Quarter
(in millions)	High	Low	Average	High
MARKET RISK				
Interest rate	$ 74.8	43.8	56.9	$ 72
Currency	7.4	0.6	2.7	2
Equity	12.6	3.7	7.5	7
Commodity/Energy	28.4	6.4	14.5	20
Aggregate VaR	72.5	49.5	59.2	69

Aggregate average VaR increased to $59.2 million for the 2008 quarter from $45.5 for the quarter ended November 30, 2007. The increase was primarily due to higher levels of exposure to interest rates and commodities, and increased volatility for many of the underlying risk factors.

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK

The following chart represents a summary of the daily principal transactions revenues and reflects a combination of trading revenues, net interest revenues for certain trading areas and other revenues for the quarters ended February 29, 2008 and February 28, 2007. The chart represents a historical summary of the results generated by the Company's trading activities as opposed to the probability approach used by the VaR model. The average daily trading profit was $8.4 million and $22.4 million for the quarters ended February 29, 2008 and February 28, 2007, respectively. There were 18 daily trading losses for the quarter ended February 29, 2008 and 4 daily trading losses for the quarter ended February 28, 2007. Daily trading losses exceeded the reported average aggregate VaR amounts on 8 days during the fiscal quarter ended February 29, 2008 and 1 day greater than the reported average aggregate VaR amounts during the fiscal quarter ended February 28, 2007. Trading losses experienced in the mortgage-related and leveraged finance areas contributed to the number of daily trading losses for the 2008 quarter. The Company uses historical simulation VaR, which is driven by previously observed changes in market variables. During periods in which volatility is increasing, VaR tends to lag since it does not incorporate swings in the relevant markets until they have actually been observed and are incorporated in the historical time series of market data being used for the VaR calculation. This was the case in the fiscal 2008 quarter, when volatility across many markets rose sharply and continuously throughout the quarter. Substantial trading losses were experienced in the mortgage-related and leveraged finance areas. The number of days with trading losses and the number of days with trading losses that exceeded the reported average aggregate VaR in quarter ended February 29, 2008 was sharply higher than in quarter ended February 28, 2007 as a result of increased volatility in underlying markets.

DISTRIBUTION OF DAILY NET TRADING REVENUES

Quarters Ended February 29, 2008 and February 28, 2007

[BAR CHART - GRAPHIC OMITTED REPRESENTED BY THE PLOT POINTS BELOW]

	2008	2007
(20)+	12	2
(20)-(15)	3	2
(15)-(10)	1	0
(10)-(5)	0	0
(5)-0	2	0
0-5	3	5
5-10	6	2
10-15	2	5
15-20	2	12
20-25	3	8
25-30	3	10
30-35	2	6
35-40	4	2
40+	18	6

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Credit Risk

The Company measures its actual credit exposure (the replacement cost of counterparty contracts) on a daily basis. Master netting agreements, collateral and credit insurance are used to mitigate counterparty credit risk. The credit exposures reflect these risk-reducing features to the extent they are legally enforceable. The Company's net replacement cost of derivative contracts in a gain position at February 29, 2008 and November 30, 2007 approximated $20.02 billion and $12.54 billion, respectively. Exchange-traded financial instruments, which typically are guaranteed by a highly rated clearing organization, have margin requirements that substantially mitigate the risk of credit loss.

The following table summarizes the counterparty credit quality of the Company's exposure with respect to over-the-counter derivatives (including foreign exchange and forward-settling mortgage transactions) as of February 29, 2008:

Over-the-Counter Derivative Credit Exposure (1)
($ in millions)

Rating (2)		Exposure	Collateral (3)	Expos Coll
AAA	$	8,581	538	
AA		19,247	12,973	
A		9,402	6,615	
BBB		1,191	358	
BB and lower		3,670	5,045	
Non-rated		138	225	

(1) Excluded are covered transactions structured to ensure that the market values of collateral will at all times equal or exceed the related exposures. The net exposure for these transactions will, under all circumstances, be zero.

(2) Internal counterparty credit ratings, as assigned by the Company's Credit Department, converted to rating agency equivalents.

(3) For lower-rated counterparties, the Company generally receives collateral in excess of the current market value of derivative contracts.

(4) In calculating exposure net of collateral, collateral amounts are limited to the amount of current exposure for each counterparty. Excess collateral is not applied to reduce exposure because such excess in one counterparty portfolio cannot be applied to deficient collateral in a different counterparty portfolio.

Item 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b) of the Exchange Act, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of the end of the period covered by this quarterly report (i) to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) to ensure that information required to be disclosed by the Company in the reports that the Company submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. As required by Rule 13a-15(d) under the Exchange Act, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal control over financial reporting to determine whether any changes occurred during the quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there have been no such changes during the quarter covered by this quarterly report. Without qualifying the foregoing, reference is made to the matters discussed in the last paragraph of this Item 4.

The Company's system of controls is designed to provide reasonable, not absolute, assurance regarding the reliability and integrity of accounting and financial reporting. Management does not expect that the Company's disclosure controls and procedures or the Company's internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. These inherent limitations include the following:

- Judgments in decision-making can be faulty, and control and process breakdowns can occur because of simple errors or mistakes.

- Controls can be circumvented by individuals, acting alone or in collusion with each other, or by management override.

- The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

- Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures.

- The design of a control system must reflect the fact that resources are constrained, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Events that occurred commencing late in the week of March 10, 2008, including the deterioration of the Company's liquidity position, the subsequent merger agreement with JPMorgan Chase and other developments described in "Management's Discussion and Analysis of Results of Operations and Financial Condition--Recent Developments" highlight the impact that extraordinary events could have on the Company's system of controls described above. Human error in times of extreme difficulty and turmoil, such as the Company recently experienced and continues to experience, can occur. Moreover, control and process breakdowns may be more frequent when a company is operating under duress and its employees become distracted by crisis management and the uncertainty surrounding the viability of the enterprise. These events and potential impacts may have had and may have an adverse impact on the efficacy of our disclosure controls and procedures and our internal controls over financial reporting. However, management has concluded that the Company's disclosure controls and procedures and our internal controls over financial reporting were effective as of February 29, 2008 to accomplish their objectives and believes that such controls and procedures were effective for purposes of preparing this Quarterly Report including the financial statements contained herein.

Part II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Because litigation is inherently unpredictable, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss related to such matters, how such matters will be resolved, when they will be ultimately resolved, or what the eventual settlement, fine, penalty or other relief might be. Consequently, the Company cannot estimate losses or ranges of losses for matters where there is only a reasonable possibility that a loss may have been incurred. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management that the resolution of the foregoing matters will not have a material adverse effect on the financial condition of the Company, taken as a whole; such resolution may, however, have a material effect on the operating results in any future period, depending on the level of income for such period.

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

Certain legal proceedings in which the Company is involved are discussed in Note 17 to the consolidated financial statements included in the Company's 2007 Financial Report; Part I, Item 3, of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2007, as amended, ("Form 10-K") and in Note 12 to the Condensed Consolidated Financial statements included herein. The following discussion is limited to recent developments concerning our legal proceedings and should be read in conjunction with those earlier Reports.

Shareholder Litigation and Related Matters

Litigation Relating To Proposed Merger with J.P. Morgan Chase & Co. ("JPMC")

Beginning March 17, 2008, various shareholders of the Company filed a number of purported class action lawsuits against the Company, its Board of Directors and certain of the Company's present and former executive officers. Among other things, these actions allege that the individual defendants breached their fiduciary duties and obligations to the Company's shareholders by agreeing to the proposed acquisition of the Company by JPMC. Five of these actions have been filed in the Supreme Court of the State of New York and have been consolidated under the caption In re Bear Stearns Litigation; two of these actions have been filed in the Delaware Court of Chancery where plaintiffs filed a motion to consolidate their cases in Delaware. JPMC is named as a defendant in certain of these cases. In each of these actions, plaintiff seeks to enjoin the proposed merger, other injunctive relief and an unspecified amount of compensatory damages. On April 9, 2008, the Delaware Court of Chancery granted the Company's and JPMC's motion to stay the Delaware action in favor of the New York action, at least until the preliminary injunction motion is resolved. The Delaware court also granted plaintiffs' motion to consolidate their cases.

As previously reported in the Company's Form 10-K, the Company's Board of Directors and certain of the Company's present and former executive officers have been named as defendants in two purported shareholder derivative suits, respectively captioned Cohen v. Cayne, et al. and Birn v. Cayne, et al., each of which was commenced in the U.S. District Court for the Southern District of New York. The Company was named as a nominal defendant in both actions. By Court Order dated February 14, 2008, the Birn action was consolidated with the Cohen action. A consolidated amended complaint was filed on March 3, 2008, and a second amended complaint was filed on April 10, 2008. The second amended complaint asserts claims against the Board of Directors for breach of fiduciary duty in connection with the proposed merger with JPMC; it also asserts claims for violations of federal securities laws, waste of corporate assets and gross mismanagement, unjust enrichment, abuse of control and indemnification and contribution, in connection with the losses sustained by the Company as a result of its purchases of sub-prime loans and certain repurchases of its own common shares. Certain individual defendants are also alleged to have sold their holdings of the Company's common shares while in possession of material non-public information. The second amended complaint seeks a declaration that the merger agreement with JPMC is unlawful and unenforceable, to enjoin the merger, compensatory damages in an unspecified amount and an order directing the Company to improve its corporate governance procedures.

Part II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

ERISA Litigation

The Company and certain of its current and former officers and/or directors have also been named as defendants in several putative class actions commenced in the U.S. District Court for the Southern District of New York purporting to represent the interests of participants in the Company's Employee Stock Ownership Plan ("ESOP") during the time period of December 2006 through the present (the "Class Period"). These actions allege defendants breached their fiduciary duties to plaintiffs and to the other participants and beneficiaries of the ESOP by (a) failing to prudently manage the ESOP's investment in Company securities; (b) failing to communicate fully and accurately about the risks of the ESOP's investment in the Company's stock; (c) failing to to avoid or address alleged conflicts of interest; and (d) failing to monitor those who managed and administered the ESOP. In connection with these allegations each Plaintiff asserts claims for violations under various sections of the Employee Retirement Income Security Act ("ERISA") and seeks reimbursement to the ESOP for all losses, an unspecified amount of monetary damages and imposition of a constructive trust.

Other Shareholder Litigation

In addition to the foregoing, various shareholders of the Company have commenced purported class actions against the Company and certain of its current and former officers and/or directors on behalf of all persons who purchased or otherwise acquired common stock of the Company between December 14, 2006 and March 14, 2008 (the "Class Period"). These three actions, commenced in the U.S. District Court for the Southern District of New York, allege that defendants issued materially false and misleading statements regarding the Company's business and financial results and that as a result of those false statements, the Company's common stock traded at artificially inflated prices during the Class Period. In connection with these allegations, the Complaint asserts claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended.

Requests for Information and Documents

The Company has been contacted by and received requests for information and documents from federal regulatory and law enforcement authorities relating to events surrounding the Company's liquidity crisis and its proposed merger with JPMC.

Mortgage-Related Matters

The Company's subsidiary EMC Mortgage Corporation (EMC) has been cooperating with a civil investigative demand (CID) from the Federal Trade Commission (FTC) seeking documents and data relating to EMC's business and servicing practices. In March 2008, the Company received notice from the Staff of the FTC that the Staff believes EMC and the Company have violated certain Federal consumer protection statutes in connection with EMC's servicing activities. The Staff has requested an opportunity to resolve the matter though consent negotiations before it seeks approval from the FTC to proceed with the filing of a complaint against EMC and the Company. EMC expects to engage in such discussions with the Staff.

Municipal Derivatives Matters

The Antitrust Division of the U.S. Department of Justice ("DOJ") and the Securities and Exchange Commission ("SEC") are investigating possible anti-competitive bidding practices in the municipal derivatives industry involving various parties, including Bear Stearns, from the early 1990s to date. The activities at issue in these industry-wide government investigations generally concern the bidding process for municipal derivatives that are offered to states, municipalities and other issuers of tax-exempt bonds. Bear Stearns has cooperated, and continues to cooperate, with the DOJ and the SEC. In February 2008, Bear Stearns received a "Wells Notice" advising that the SEC Staff is considering recommending that the SEC bring a civil injunctive action and/or an administrative proceeding in connection with the bidding for various financial instruments associated with municipal securities. Bear Stearns understands that it will have an opportunity to respond to the Wells Notice and to discuss the matter with the Staff before any recommendation is made to the Commission.

BSAM-Managed Hedge Fund Matters

The Company, Bear Stearns, Bear Stearns Asset Management ("BSAM"), and certain former BSAM employees have been named as defendants in a lawsuit filed on April 4, 2008 in the United States District Court for the Southern District of New York by the Joint Voluntary Liquidators of Bear Stearns High Grade Structured Credit Strategies (Overseas) Ltd. and Bear Stearns High Grade Structured Credit Strategies Enhanced Leverage (Overseas) Ltd. (collectively, the "Overseas Feeder Funds"). The Overseas Feeder Funds are two of the "feeder funds" that invested substantially all their assets in the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd. or the Bear

Stearns High Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd., for which BSAM served as investment manager. The complaint asserts claims for, among other things, fraud, breach of fiduciary duty, breach of contract, recklessness, gross negligence, negligence, and unjust enrichment. Plaintiffs seek damages of not less than $1 billion, unspecified punitive damages, costs, and fees. The Company believes it has substantial defenses to the claims.

Part II - OTHER INFORMATION

Item 1A. RISK FACTORS

You should carefully consider the risk factors disclosed in our Form 10-K, in Part I, Item 1A, Risk Factors. Our business, financial condition or results of operations or cash flows could be materially adversely affected by any of those risks. The following are additional risk factors that were not disclosed in our Form 10-K. Also, additional risks not presently known to us or that we currently deem immaterial may also adversely affect our business, financial condition, or results of operations.

The merger is subject to closing conditions, including stockholder approval, that, if not satisfied or waived, will result in the merger not being completed, which may result in material adverse consequences to our business and operations and significant risk to our ability to continue as a going concern. The merger is subject to closing conditions, including the approval of our stockholders that, if not satisfied, will prevent the merger from being completed. The closing condition that our stockholders approve and adopt the merger agreement may not be waived under applicable law and must be satisfied for the merger to be completed. If our stockholders do not approve and adopt the merger agreement and the merger is not completed, our financial viability could be seriously jeopardized, which would raise substantial doubt as to our ability to continue as a going concern. JPMorgan Chase has provided an operating guaranty in respect of certain trading and other obligations of Bear Stearns and certain of its subsidiaries. In addition, JPMorgan Chase has provided a guaranty to the New York Fed of our borrowings from the New York Fed at the Prime Dealer Discount Window. The two guaranties have provided liquidity and the support necessary for our financial stability and viability. In the event our stockholders do not vote in favor of the merger, the operating guaranty would, by its terms, terminate 120 days following such a "no" vote. JPMorgan Chase would also terminate the guaranty to the New York Fed under those circumstances. Absent the operating guaranty, we could face the increased risk of rapid loss of clients, customers and counterparties, and absent the guaranty to the New York Fed, we could be unable to obtain necessary funding. The lack of liquidity and the loss of clients, customers and counterparties could seriously jeopardize our financial viability, which would raise substantial doubt as to our ability to continue as a going concern. Accordingly, we could be forced to file for bankruptcy protection and to liquidate our assets, resulting in material adverse consequences for our stockholders, creditors and employees.

If the merger is not completed the $29 billion special funding facility to be provided by the New York Fed with respect to a pool of collateral currently owned by us would not take effect and any losses related thereto would remain with us. In connection with our entry into the merger agreement with JPMorgan Chase, the New York Fed announced that it would provide to JPMorgan Chase special funding facility secured by a pool of collateral consisting of investment grade securities (largely mortgage-related), residential and commercial mortgage loans classified as performing and related hedges held by us. Under this financing facility, JPMorgan Chase would bear the first $1 billion in losses associated with the collateral pool, and the New York Fed would provide $29 billion of funding on a non-recourse basis. This financing, and the New York Fed's assumption of the collateral pool are contingent upon the completion of the merger. If the merger is not completed for any reason, including due to the failure to obtain stockholder approval, the New York Fed's announced financing would not take effect and the related pool of collateral and any losses related thereto would remain with us.

The merger is subject to the receipt of consents and approvals from regulatory authorities that may impose conditions that could have an adverse effect on JPMorgan Chase or, if not obtained, could prevent completion of the merger. Before the merger may be completed, various approvals or consents must be obtained from regulatory entities. These regulators may impose conditions on the completion of the merger or require changes to the terms of the merger. Although we do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of JPMorgan Chase following the merger.

Because the market price of JPMorgan Chase common stock will fluctuate, our stockholders cannot be sure of the market value of the merger consideration they will receive. Upon completion of the merger, each share of our common stock will be converted into 0.21753 of a share of JPMorgan Chase common stock. Any change in the market price of JPMorgan Chase common stock prior to completion of the merger will affect the market value of the merger consideration that our stockholders will receive upon completion of the merger. Accordingly, at the time of the special meeting, our stockholders will not know or be able to calculate the market value of the merger consideration they would receive upon completion of the merger. Neither company is permitted to terminate the merger agreement or resolicit the vote of our stockholders solely because of changes in the market prices of either company's stock. There will be no adjustment to the merger consideration for changes in the market price of either shares of JPMorgan Chase common stock or shares of our common stock. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in our respective businesses, operations and prospects, and regulatory considerations. Many of these factors are beyond our control.

Part II - OTHER INFORMATION

Item 1A. RISK FACTORS

JPMorgan Chase may fail to realize all of the anticipated benefits of the merger. The success of the merger will depend, in part, on JPMorgan Chase's ability to successfully combine the businesses of JPMorgan Chase and Bear Stearns. To realize these anticipated benefits, after the completion of the merger, JPMorgan Chase expects to integrate Bear Stearns' business into its own. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. The loss of key employees could adversely affect JPMorgan Chase's ability to successfully conduct its business in the markets in which we now operate, which could have an adverse effect on JPMorgan Chase's financial results and the value of its common stock. If JPMorgan Chase experiences difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause us to lose customers or cause customers to remove their accounts from us and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of Bear Stearns and JPMorgan Chase during this transition period and for an undetermined period after consummation of the merger.

The market price of JPMorgan Chase common stock after the merger may be affected by factors different from those affecting the shares of Bear Stearns or JPMorgan Chase currently. The businesses of JPMorgan Chase and Bear Stearns differ in material respects and, accordingly, the results of operations of the combined company and the market price of the combined company's shares of common stock may be affected by factors different from those currently affecting the independent results of operations of each of JPMorgan Chase and Bear Stearns.

The fairness opinion obtained by us from our financial advisor in connection with the merger will not reflect changes in circumstances between signing the merger agreement and the completion of the merger. Changes in the operations and prospects of Bear Stearns or JPMorgan Chase, general market and economic conditions and other factors that may be beyond the control of Bear Stearns and JPMorgan Chase, and on which the fairness opinion was based, may alter the value of Bear Stearns or JPMorgan Chase or the prices of shares our common stock or JPMorgan Chase common stock by the time the merger is completed. The opinion does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. Because we do not anticipate asking our financial advisor to update its opinion, the opinion will not address the fairness of the merger consideration, from a financial point of view, at the time the merger is completed.

Bear Stearns, Bear Stearns' directors and officers, and JPMorgan Chase are named parties to a number of actions relating to the merger. A number of actions are pending in New York and Delaware state and federal courts relating to the merger. These include securities and ERISA class actions against us and our current and former directors and officers, and class-action complaints on behalf of a putative Bear Stearns shareholder class against us, our current directors and officers and JPMorgan Chase. Depending on the outcome, these actions could result in a court enjoining the merger or enjoining JPMorgan Chase from voting the 95 million shares of our common stock acquired pursuant to the share exchange agreement, or could otherwise impede the closing of the merger and could have adverse financial effects or cause reputational harm to us and JPMorgan Chase.

At the time of the anticipated merger with JPMorgan Chase (which is expected to occur by June 30, 2008), the merger will be accounted for by JPMorgan Chase as a "purchase" for accounting and financial reporting purposes, as that term is used under accounting principles generally accepted in the United States. Under purchase accounting, there may be adjustments as of the closing date. Our financial statements as of and for the period ended February 29, 2008 do not reflect these adjustments. Such adjustments will reflect the effect on inventory valuations of market disruptions and the liquidity crisis encountered by the Company subsequent to February 29, 2008, merger integration costs and restructuring actions that may be necessary as a result of the merger, or costs likely to be incurred by us to delever our balance sheet prior to the closing of the merger.

Our system of controls could be negatively impacted by the events that occurred commencing late in the week of March 10, 2008. As described above under "Controls and Procedures" the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of February 29, 2008 to accomplish their objectives. However, events that occurred commencing late in the week of March 10, 2008, including the deterioration of the Company's liquidity position, the subsequent merger agreement with JPMorgan Chase and other developments described in "Management's Discussion and Analysis of Results of Operations and Financial

Condition--Recent Developments" highlight the impact that extraordinary events could have on the Company's system of controls described above under "Controls and Procedures." Human error in times of extreme difficulty and turmoil, such as the Company recently experienced and continues to experience, can occur. Moreover, control and process breakdowns may be more frequent when a company is operating under duress and its employees become distracted by crisis management and the uncertainty surrounding the viability of the enterprise. These events and potential impacts may have had and may have an adverse impact on the efficacy of our disclosure controls and procedures and our internal controls over financial reporting. However, management has concluded that the Company's disclosure controls and procedures and our internal controls over financial reporting were effective as of February 29, 2008 to accomplish their objectives and believes that such controls and procedures were effective for purposes of preparing this Quarterly Report including the financial statements contained herein.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth the information with respect to purchases made by the Company of the Company's common stock during the first quarter of fiscal 2008:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shar Purchased as Part o Publicly Announced Plans or Programs (1
12/1/07 - 12/31/07	705,803	$ 98.40	
1/1/08 - 1/31/08	3,407	88.41	
2/1/08 - 2/29/08	1,339	90.60	
Total	710,549	98.33	

(1) On September 18, 2007, the Board of Directors approved an amendment to the Repurchase Program authorizing the purchase of up to $2.5 billion of common stock in fiscal 2007 and beyond. During the quarter ended February 29, 2008, the Company purchased under the current authorization a total of 710,549 shares at a cost of approximately of $69.9 million. Approximately $2.0 billion was available to be purchased under the current authorization as of February 29, 2008.

During the quarter ended February 29, 2008, the Company did not purchase any shares of its common stock pursuant to a $200 million CAP Plan Earnings Purchase Authorization, which was approved by the Compensation Committee of the Board of Directors of the Company on December 12, 2006. Approximately $92 million was available to be purchased under the CAP Plan Earnings Purchase Authorization as of February 29, 2008.

Item 6. EXHIBITS

Exhibits

(3.1)	Restated By-Laws of The Bear Stearns Companies Inc., as amended
(11)	Computation of Per Share Earnings. (The calculation of per share earnings is in Note 9, "Earnings Per Share," of Notes to Condensed Consolidated Financial Statements (Earnings Per Share) and is omitted here in accordance with Section (b) (11) of Item 601 of Regulation S-K)
(12)	Computation of Ratio of Earnings to Fixed Charges and to Combined Fixed Charges and Preferred Stock Dividends
(15)	Letter re: Unaudited Interim Financial Information
(31.1)	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d -14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(31.2)	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(32.1)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(32.2)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Bear Stearns Companies Inc.

(Registrant)

Date: April 14, 2008

By: /s/ Jeffrey M. Farber
Jeffrey M. Farber
Senior Vice President - Finance,
Controller
(Principal Accounting Officer)

THE BEAR STEARNS COMPANIES INC.
FORM 10-Q

EXHIBIT INDEX

Exhibit No.	Description
(3.1)	Restated By-Laws of The Bear Stearns Companies Inc., as amended
(12)	Computation of Ratio of Earnings to Fixed Charges and to Combined Fixed Charges and Preferred Stock Dividends
(15)	Letter re: Unaudited Interim Financial Information
(31.1)	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d -14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(31.2)	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d -14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(32.1)	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(32.2)	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002