BEAR STEARNS COMPANIES INC
Form 10-Q
October 15, 2001

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 August 31, 2001

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.)

245 Park Avenue, New York, New York 10167
(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 [ ]

As of October 11, 2001, the latest practicable date, there were 94,130,414 shares of Common Stock, $1 par value, outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

THE BEAR STEARNS COMPANIES INC.

Consolidated Statements of Financial Condition

In thousands, except share data	(Unaudited) August 31, 2001
ASSETS	
Cash and cash equivalents	$ 3,839,124
Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations	11,449,568
Securities purchased under agreements to resell	34,301,146

Receivable for securities provided as collateral		234,879
Securities borrowed		52,044,772
Receivables:		
Customers		17,533,384
Brokers, dealers and others		832,857
Interest and dividends		329,598
Financial instruments owned, at fair value		47,150,425
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization		559,024
Other assets		2,830,531
Total Assets	$	171,105,308
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term borrowings	$	11,127,079
Securities sold under agreements to repurchase		45,343,331
Obligation to return securities received as collateral		1,122,329
Payables:		
Customers		54,072,678
Brokers, dealers and others		7,963,911
Interest and dividends		559,814
Financial instruments sold, but not yet purchased, at fair value		20,108,053
Accrued employee compensation and benefits		1,334,651
Other liabilities and accrued expenses		817,493
		142,449,339
Commitments and contingencies (Note 3)		
Long-term borrowings		22,745,075
Guaranteed Preferred Beneficial Interests in Company Subordinated Debt Securities		762,500
STOCKHOLDERS' EQUITY		
Preferred stock		800,000
Common stock, $1.00 par value; 500,000,000 and 200,000,000 shares authorized as of August 31, 2001 and November 30, 2000, respectively; 184,805,848 shares issued as of August 31, 2001 and November 30, 2000		184,806
Paid-in capital		2,589,425
Retained earnings		2,987,350
Employee stock compensation plans		1,843,263
Unearned compensation		(210,659)
Treasury stock, at cost:		
Adjustable Rate Cumulative Preferred Stock Series A: 2,520,750 shares as of August 31, 2001 and November 30, 2000		(103,421)
Common stock: 90,675,936 and 75,823,544 shares as of August 31, 2001 and November 30, 2000, respectively		(2,942,370)
Total Stockholders' Equity		5,148,394
Total Liabilities and Stockholders' Equity	$	171,105,308

See Notes to Consolidated Financial Statements.

THE BEAR STEARNS COMPANIES INC.

Consolidated Statements of Income
(UNAUDITED)

In thousands, except share and per share data	Three Months Ended August 31, 2001	Three Months Ended August 25, 2000
REVENUES		
Commissions	$ 266,958	$ 262,042
Principal transactions	551,156	521,086
Investment banking	212,015	236,897
Interest and dividends	1,233,861	1,353,628
Other income	37,815	35,236
Total revenues	2,301,805	2,408,889
Interest expense	1,097,047	1,137,411
Revenues, net of interest expense	1,204,758	1,271,478
NON-INTEREST EXPENSES		
Employee compensation and benefits	635,034	657,347
Floor brokerage, exchange and clearance fees	41,773	38,120
Communications and technology	112,806	105,132
Occupancy	40,483	33,064
Advertising and market development	33,442	32,531
Professional fees	47,446	47,070
Other expenses	89,088	88,631
Total non-interest expenses	1,000,072	1,001,895
Income before provision for income taxes and cumulative effect of change in accounting principle	204,686	269,583
Provision for income taxes	70,114	88,147
Income before cumulative effect of change in accounting principle	134,572	181,436
Cumulative effect of change in accounting principle, net of tax	-	-
Net income	$ 134,572	$ 181,436
Net income applicable to common shares	$ 124,794	$ 171,658
Basic earnings per share	$ 1.00	$ 1.33
Diluted earnings per share	$ 0.95	$ 1.32
Weighted average number of common shares outstanding:		
Basic	140,331,572	148,816,237
Diluted	149,056,301	149,242,192

Cash dividends declared per common share	$ 0.15	$ 0.15

Note: Certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

See Notes to Consolidated Financial Statements.

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THE BEAR STEARNS COMPANIES INC.

Consolidated Statements of Cash Flows (UNAUDITED)

In thousands	Nine Month August 31, 2001	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 463,746	$
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	153,441	
Deferred income taxes	(101,251)	
Other	113,866	
(Increases) decreases in operating assets:		
Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations	(7,676,336)	
Securities purchased under agreements to resell	1,198,086	
Securities borrowed	9,715,059	
Receivables:		
Customers	(218,152)	
Brokers, dealers and others	(42,806)	
Interest and dividends	282,542	
Financial instruments owned	(2,756,441)	
Other assets	158,352	
(Decreases) increases in operating liabilities:		
Securities sold under agreements to repurchase	(9,118,132)	
Payables:		
Customers	7,287,367	
Brokers, dealers and others	3,517,475	
Interest and dividends	(282,935)	
Financial instruments sold, but not yet purchased	1,102,277	
Accrued employee compensation and benefits	(286,904)	
Other liabilities and accrued expenses	35,921	
Cash provided by (used in) operating activities	3,545,175	
CASH FLOWS FROM FINANCING ACTIVITIES		

Net (payments) proceeds from short-term borrowings	(2,731,350)	
Net proceeds from issuance of long-term borrowings	5,274,042	
Net proceeds from issuance of subsidiary securities	254,231	
Tax benefit of common stock distributions	5,866	
Payments for:		
Retirement of long-term borrowings	(3,644,968)	
Treasury stock purchases	(880,045)	
Cash dividends paid	(76,545)	
Cash (used in) provided by financing activities	(1,798,769)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and leasehold improvements	(169,852)	
Purchases of other assets	(74,407)	
Proceeds from sale of other assets	17,003	
Cash used in investing activities	(227,256)	
Net increase (decrease) in cash and cash equivalents	1,519,150	
Cash and cash equivalents, beginning of year	2,319,974	
Cash and cash equivalents, end of period	$ 3,839,124	$

Note: Certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

See Notes to Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of The Bear Stearns Companies Inc. and its subsidiaries (the "Company"). All material intercompany transactions and balances have been eliminated. The November 30, 2000 Consolidated Statement of Financial Condition and related information was derived from the audited financial statements. The Consolidated Statement of Financial Condition as of August 31, 2001, the Consolidated Statements of Income for the three months and nine months ended August 31, 2001 and August 25, 2000 and the Consolidated Statements of Cash Flows for the nine months ended August 31, 2001 and August 25, 2000 are unaudited.

The consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") with respect to the Form 10-Q and reflect all adjustments which, in the opinion of management, are normal and recurring, as well as the accounting change to adopt Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities", which are necessary for a fair statement of the results for the interim periods presented. In accordance with such rules and regulations, certain disclosures that are normally included in annual financial statements have been omitted. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended November 30, 2000 filed by the Company under the Securities Exchange Act of 1934.

The consolidated financial statements are prepared in conformity with generally accepted accounting principles, which require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those 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.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

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

2. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

In thousands	August 31, 2001
FINANCIAL INSTRUMENTS OWNED:	
US government and agency	$ 10,192,058
Other sovereign governments	3,125,961
Corporate equity and convertible debt	6,709,832
Corporate debt	6,628,332
Derivative financial instruments	6,357,358
Mortgages and mortgage-backed securities	12,815,676
Other	1,321,208
	$ 47,150,425
FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED:	
US government and agency	$ 7,633,003
Other sovereign governments	1,730,123
Corporate equity and convertible debt	4,243,889
Corporate debt	2,301,044

Derivative financial instruments	4,199,994
	$ 20,108,053

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

3. COMMITMENTS AND CONTINGENCIES

At August 31, 2001, the Company was contingently liable for unsecured letters of credit of $2.1 billion and letters of credit of $373.1 million secured by financial instruments, which are principally used as collateral for securities borrowed and to satisfy margin requirements at option and commodity exchanges.

In the normal course of business, the Company has been named as a defendant in several lawsuits which involve claims for substantial amounts. Additionally, the Company is involved from time to time in investigations and proceedings by governmental agencies and self-regulatory organizations. 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

3. COMMITMENTS AND CONTINGENCIES (continued)

effect on the operating results in any future period, depending on the level of such results in such period.

4. REGULATORY REQUIREMENTS

The Company's principal operating subsidiaries, Bear, Stearns & Co. Inc. ("Bear Stearns") and Bear, Stearns Securities Corp. ("BSSC"), are registered broker-dealers and, accordingly, are subject to Rule 15c3-1 under the Securities Exchange Act of 1934, as amended, (the "Net Capital Rule") and the capital rules of the New York Stock Exchange, Inc. ("NYSE") and other principal exchanges of which Bear Stearns and BSSC are members. Included in the computation of net capital of Bear Stearns is $875.8 million which is net capital of BSSC in excess of 6% of aggregate debit items arising from customer transactions, as defined. At August 31, 2001, Bear Stearns' net capital, as defined, of $2.65 billion exceeded the minimum requirement by $2.61 billion.

Bear, Stearns International Limited ("BSIL") and Bear Stearns International Trading Limited ("BSIT"), London-based broker-dealer subsidiaries, are subject to regulatory capital requirements of the Securities and Futures Authority, a self-regulatory organization established pursuant to the United Kingdom Financial Services Act of 1986.

Bear Stearns Bank plc ("BSB"), which is indirectly wholly owned by the Company, is incorporated in Dublin and is subject to the regulatory capital requirements of the Central Bank of Ireland.

At August 31, 2001, Bear Stearns, BSSC, BSIL, BSIT and BSB were in compliance with their respective regulatory capital requirements.

5. 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 the Capital Accumulation Plan (the "CAP Plan"), by the weighted average number of common shares outstanding. Common shares include the assumed distribution of shares of common stock vested under various employee stock compensation and benefit plans. Diluted EPS includes the determinants of Basic EPS and, in addition, gives effect to dilutive potential common shares from employee stock compensation and benefit plans.

6. CASH FLOW INFORMATION

Cash payments for interest approximated interest expense for the nine months ended August 31, 2001 and August 25, 2000. Income taxes paid totaled $53.8 million and $632.8 million for the nine months ended August 31, 2001 and August 25, 2000, respectively.

7. DERIVATIVES AND HEDGING ACTIVITIES

Accounting Change

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", later amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities."

SFAS No. 133 establishes accounting and reporting standards for stand-alone derivative instruments, derivatives embedded within other contracts or securities and for hedging activities. It requires that all derivatives, whether stand-alone or embedded within other contracts or securities (except in very defined circumstances) be carried on the Company's balance sheet at their then fair value. The Company adopted SFAS No. 133 on December 1, 2000.

An important objective of the Company's risk management process is to hedge the economic risks associated with its long and short-term debt. To accomplish this objective, the Company modifies the interest rate characteristics of its debt through derivatives, typically interest rate swaps. This is part of the on-going asset and liability risk management function. SFAS No. 133 now requires derivatives designated as hedges to be carried at their fair value, and that the hedged items previously carried at their accrued values now be marked to market to the extent of the mark to market on the derivatives designated as hedges. Any resultant change in values for both the hedging derivative and the hedged item is recognized in earnings immediately, with the net impact being deemed the 'ineffective' portion of the hedge. The gains and losses associated with the ineffective portion of the fair value hedges were included in principal transactions on the Consolidated Statement of Income and were immaterial for the three and nine months ended August 31, 2001.

At December 1, 2000, the Company recognized a cumulative after-tax loss of $6.3 million as a result of adopting SFAS No. 133. This loss is reported in the Consolidated Statement of Income for the nine months ended August 31, 2001 separately as "cumulative effect of change in accounting principle".

7. DERIVATIVES AND HEDGING ACTIVITIES (continued)

Derivatives Credit 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 asset value referenced in the related contract. Some derivatives, such as futures contracts, certain options, and indexed 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-balance-sheet and off-balance-sheet implications 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 hedging 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. The Company also utilizes derivative instruments in order to hedge 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 to hedge its fixed-rate debt issuances as part of its asset and liability management.

Credit risk arises from the potential inability of counterparties to perform in accordance with the terms of the contract. The Company's exposure, at any point in time, to credit risk associated with counterparty nonperformance is generally limited to the net replacement cost of over-the-counter contracts, reported as financial instruments owned, at fair value in the Company's Consolidated Statements of Financial Condition on a net-by-counterparty basis. Exchange traded financial instruments, such as futures and options, generally do not give rise to significant counterparty exposure due to the margin requirements of the individual exchanges. Options written 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.

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

7. DERIVATIVES AND HEDGING ACTIVITIES (continued)

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 August 31, 2001:

Derivative Credit Exposure
($ in millions)

Rating (1)	Exposure	Collateral(2)	Exposure, Net of Collateral(

AAA	$ 1,040	$ 359	$ 683
AA	1,266	229	1,040
A	950	294	703
BBB	168	132	71
BB and lower	332	656	107
Non-rated	1	0	1

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

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

(3) 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.

8. SEGMENT DATA

The Company operates in three principal segments: Capital Markets, Global Clearing Services and Wealth Management. These segments are strategic business units that offer different products and services. They 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 Institutional Equities, Fixed Income and Investment Banking areas. Institutional Equities combines the efforts of sales, trading and research in such areas as block trading, convertible bonds, over-the-counter equities, equity derivatives and risk arbitrage. Fixed Income includes the efforts of sales, trading and research for institutional clients in a variety of products such as mortgage-backed and asset-backed securities, corporate and government bonds, municipal and high yield securities and foreign exchange and fixed income derivatives. Investment Banking provides capabilities in capital raising, strategic advisory, mergers and acquisitions and merchant banking. Capital raising encompasses the Company's underwriting of equity, investment grade and high yield debt securities.

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

The Wealth Management segment is comprised of the Private Client Services ("PCS") and Asset Management areas. PCS provides high-net-worth individuals with an institutional level of service. Asset Management serves the diverse investment needs of corporations, municipal governments, multi-employer plans, foundations, endowments, family groups and high-net-worth individuals and, in turn, earns management and/or performance fees on the institutional and high-net-worth products it offers.

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

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

8. SEGMENT DATA (continued)

For the three months ended August 31, 2001:

In thousands	Net Revenues	Pre-Tax Income	Segment
Capital Markets	$ 874,327	$ 196,028	$ 120,1
Global Clearing Services	192,021	43,251	50,7
Wealth Management	128,027	9,750	3,9
Other (a)	10,383	(44,343)	(3,7
Total	$ 1,204,758	$ 204,686	$ 171,1

For the three months ended August 25, 2000:

In thousands	Net Revenues	Pre-Tax Income	Segment
Capital Markets	$ 811,742	$ 150,852	$ 116,2
Global Clearing Services	241,691	100,966	61,3
Wealth Management	160,075	31,026	3,0
Other (a)	57,970	(13,261)	(5,7

Total	$ 1,271,478	$ 269,583	$ 174,8

For the nine months ended August 31, 2001:

In thousands	Net Revenues	Pre-Tax Income	Segment
Capital Markets	$ 2,694,847	$ 660,701	$120,1
Global Clearing Services	623,304	188,243	50,7
Wealth Management	406,532	30,163	3,9
Other (a)	62,520	(154,628)	(3,7
Total	$ 3,787,203	$ 724,479	$171,1

For the nine months ended August 25, 2000:

In thousands	Net Revenues	Pre-Tax Income	Segment
Capital Markets	$ 2,643,414	$ 692,706	$116,2
Global Clearing Services	796,733	356,687	61,3
Wealth Management	524,730	107,216	3,0
Other (a)	133,973	(267,404)	(5,7
Total	$ 4,098,850	$ 889,205	$174,8

(a) Other is comprised of consolidation/elimination entries, unallocated revenues (predominantly interest), and certain corporate administrative functions, including certain legal costs and costs related to the Capital Accumulation Plan for Senior Managing Directors (the "CAP Plan"), which were $30.0 million and $45.7 million for the three months ended August 31, 2001 and August 25, 2000, respectively, and $102.0 million and $111.4 million for the nine months ended August 31, 2001 and August 25, 2000, respectively.

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

9. TRANSFERS AND SERVICING OF FINANCIAL ASSETS

New Accounting Pronouncement

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities--a Replacement of FASB Statement No. 125," which revises the standards for accounting for securitizations and other transfers of financial assets and collateral. The provisions of SFAS No. 140 carry over most of the guidance outlined in SFAS No.

125 and further establish accounting and reporting standards with a financial-components approach that focuses on control. Financial assets or liabilities are recognized when control is established and derecognized when control has been surrendered or the liability has been extinguished. In addition, specific implementation guidelines have been established to further distinguish transfers of financial assets that are sales from transfers that are secured borrowings.

SFAS No. 140 as adopted by the Company is effective prospectively for transfers of financial assets occurring after March 31, 2001, except for certain provisions regarding disclosures and accounting for collateral, which will be adopted by the Company when required at the end of fiscal 2001. The impact of full adoption of the standard is being evaluated by the Company and is currently not expected to have a material effect on the Company's financial condition or results of operations.

Securitization Activities

The Company securitizes commercial and residential mortgages, consumer receivables and other types of financial assets. Fair value of assets sold and retained interests, if any, are determined by reference to quoted market prices when readily available. When quoted market prices are not readily available, the firm estimates fair value generally using pricing models that consider credit risk, prepayment rates, forward yield curves, volatilities, discount rates, default rates, loss severity and other factors. During the period April 1, 2001 to August 31, 2001, the Company securitized approximately $24 billion of financial assets. Retained interests in such securitized assets were not material at August 31, 2001.

Collateralized Financing Transactions

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

The Company receives securities collateral in connection with its business as a broker/dealer including resale agreements, securities lending transactions, derivative transactions, customer margin loans and other secured money lending activities. In many instances, the Company is permitted to sell or repledge such securities. At August 31, 2001, the fair value of securities

9. TRANSFERS AND SERVICING OF FINANCIAL ASSETS (continued)

received as collateral by the Company that can be sold, repledged or otherwise used is approximately $200 billion, of which approximately $138 billion was sold, delivered or repledged.

The Company also pledges its own assets to collateralize financing agreements. At August 31, 2001, the carrying value of securities included in "Financial instruments owned" that had been loaned, pledged to lenders, or otherwise used, was approximately $38 billion.

INDEPENDENT ACCOUNTANTS' REPORT

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

We have reviewed the accompanying consolidated statement of financial condition of The Bear Stearns Companies Inc. and Subsidiaries as of August 31, 2001, and the related consolidated statements of income for the three months and nine months ended August 31, 2001 and August 25, 2000 and cash flows for the nine months ended August 31, 2001 and August 25, 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, 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 review, we are not aware of any material modifications that should be made to such consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of financial condition of The Bear Stearns Companies Inc. and Subsidiaries as of November 30, 2000, and the related consolidated statements of income, cash flows and changes in stockholders' equity for the fiscal year then ended (not presented herein) included in The Bear Stearns Companies Inc.'s Annual Report on Form 10-K for the fiscal year ended November 30, 2000; and in our report dated January 16, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of financial condition as of November 30, 2000 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

DELOITTE & TOUCHE LLP
New York, New York

October 15, 2001

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

The Company's principal business activities, investment banking, securities trading and brokerage, are, by their nature, highly competitive and subject to various risks, in particular, volatile trading markets and fluctuations in the volume of market activity. Consequently, the Company's net income and revenues have been, and are likely to continue to be, subject to wide fluctuations, reflecting the impact of many factors, including general economic conditions, securities market conditions, the level and volatility of interest rates, the level and volatility of equity prices, competitive conditions, liquidity of global markets, international and regional political conditions, regulatory developments, monetary and fiscal policy, investor sentiment, availability and cost of capital, technological changes and events and the size and timing of transactions.

In addition, while the financial services industry has recently been characterized by extremely volatile conditions, the terrorist attack against the United States on September 11, 2001 has resulted in additional economic and financial disruption, as the United States securities markets were closed for several days. These events may continue to cause additional weakness and uncertainty in the general economic and business environment. Certain risk factors noted above may now be more likely to have a greater impact on the Company's future results of operations.

Certain statements contained in this discussion are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements concerning management's expectations, strategic objectives, business prospects, anticipated economic performance and financial condition and other similar matters are subject to risks and uncertainties, including those previously mentioned, which could cause actual results to differ materially from those discussed in the forward-looking statements. Forward-looking statements speak only as of the date of the document in which they are made. We disclaim any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances on which the forward-looking statement is based.

For a description of the Company's business, including its trading in cash instruments and derivative products, its underwriting and trading policies, and their respective risks, and the Company's risk management policies and procedures, see the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2000.

Business Environment

The Company's third quarter ended August 31, 2001 reflected an exceptionally challenging environment with a generally weak U.S. economy marked by a decline in capital spending, an increase in the unemployment rate and modest growth in consumer spending. Fears of a recession persisted as rising unemployment and a declining stock market continued to undermine consumer confidence and spending. The Federal Reserve Board (the "Fed") responded by lowering the Federal Funds rate twice for a total of 50 basis points during the fiscal quarter to 3.5%, while maintaining a weakness bias and hinting at further rate cuts in the future. These market conditions were in

contrast to the market conditions that existed during the comparable prior year quarter which was characterized by strong economic growth and favorable economic trends such as high levels of consumer confidence and spending and historically low levels of unemployment.

Global and domestic equity markets continued to be weak with U.S. equity indices declining during the quarter as the market responded to numerous economic reports, profit warnings, corporate earnings reports and security analyst downgrades. During the third quarter ended August 31, 2001, the Dow Jones Industrial Average ("DJIA") and the Standard and Poor's 500 Index ("S&P 500") declined 9.6% and 11.3%, respectively, to close at 9,950 and 1,134, respectively. The technology-heavy Nasdaq Composite Index ("Nasdaq") declined to 1,805, a decline of 19.8% for the quarter.

Despite these difficult market conditions, certain of the Company's core businesses produced solid financial results during the quarter. The fixed income markets continued to be a major area of strength for the Company during the quarter. The two interest rate cuts by the Fed during the quarter contributed to strong year-over-year fixed income trading revenues, although down sequentially from last quarter's record results. In addition, fixed income underwriting revenues were strong, particularly in the municipal and high yield areas. Continued weakness in global equities markets together with reduced volatility and volumes adversely affected equity trading revenues and equity new issue volumes as well as announced mergers and acquisitions activity. Further, private client activity levels continue to be far below prior year levels as private investors have largely retreated from the equity markets. Net interest revenues during the quarter decreased principally due to lower interest bearing balances.

Results of Operations

Three Months Ended August 31, 2001 Compared to Three Months Ended August 25, 2000

Net income for the three months ended August 31, 2001 was $134.6 million, down 25.8% from $181.4 million for the comparable prior year quarter. Revenues, net of interest expense for the 2001 quarter were $1.2 billion, down 5.2% from $1.3 billion in the 2000 quarter. The results reflect a decrease in net interest profits and investment banking revenues, partially offset by an increase in principal transactions revenues and commissions revenues. Challenging economic conditions and less favorable global equity markets led to reduced levels of new issue volume and mergers and acquisitions activity. Further, continued weakness in the U.S. equity markets resulted in reduced revenue levels from the Company's equity market making and trading activities. Declines in customer margin balances from professional and retail investors persisted throughout the quarter, resulting in declines in average margin balances and reduced net interest profits. These decreases were partially offset by strong fixed income markets, particularly in the

mortgage-backed and asset-backed securities and high yield areas, which benefited from the favorable interest rate environment. Earnings per diluted share were $0.95 for the 2001 quarter, down 28.0% from $1.32 per share for the 2000 quarter.

Business Segments

The remainder of Results of Operations, except the discussion of non-interest expenses, is presented on a business segment basis. The Company's three business segments: Capital Markets, Global Clearing Services and Wealth Management are strategic business units 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 network with the related revenues of such intersegment services allocated to the respective segments through transfer pricing. Certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

The following segment operating results exclude certain unallocated revenues (predominantly interest) as well as certain corporate administrative functions, such as certain legal costs and costs related to the Capital Accumulation Plan for Senior Managing Directors (the "CAP Plan").

Three Months Ended August 31, 2001
Compared to Three Months Ended August 25, 2000

Capital Markets

	Three Months Ended		
In thousands	August 31, 2001	August 25, 2000	% (De In

Net revenues			
Institutional Equities	$ 244,741	$ 358,019	(
Fixed Income	416,128	233,309	
Investment Banking	213,458	220,414	
Total net revenues	$ 874,327	$ 811,742	
Pre-tax income	$ 196,028	$ 150,852	

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

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

Net revenues for Capital Markets were $874.3 million in the 2001 quarter, up 7.7% from $811.7 million in the comparable prior year quarter. Pre-tax income for Capital Markets was $196.0 million in the 2001 quarter, up 29.9% from $150.9 million in the comparable prior year quarter. Fixed Income net revenues increased to $416.1 million in the 2001 quarter or 78.4% from $233.3 million in the comparable prior year quarter. The results were driven by strong performances from the mortgage-backed and asset-backed securities and high yield areas. The fixed income markets benefited from declining short-term interest rates precipitated by two interest rate cuts by the Fed for a total of 50 basis points during the 2001 quarter. Secondary trading volumes remained high during the 2001 quarter reflecting increased investor activity. Revenues from the distressed debt and municipal areas also increased reflecting favorable market conditions and strong investor activity.

Institutional Equities net revenues in the 2001 quarter decreased 31.6% to $244.7 million from $358.0 million in the 2000 quarter, primarily attributable to decreases in the equity derivatives, over-the-counter market making, arbitrage and specialist areas. The decrease in equity revenues resulted from reduced volatility and lower NASDAQ(R) and NYSE trading volumes. The lack of announced M&A activity provided fewer risk arbitrage opportunities and consequently reduced revenue levels. In addition, the move to decimalization and resulting spread compression placed pressure on NASDAQ(R) margins.

Investment Banking net revenues in the 2001 quarter decreased 3.2% to $213.5 million from $220.4 million in the comparable prior year quarter. Continued weakness in the equity underwriting environment resulting from economic uncertainty led to reduced levels of equity new issue volume and announced mergers and acquisitions activity during the 2001 quarter. However, new issue activity in the corporate bonds, high yield and municipal bond markets was strong during the 2001 quarter reflecting the favorable interest rate environment. Equity underwriting revenues for the 2001 quarter decreased 25.4% to $35.0 million from $46.9 million in the comparable prior year quarter. Fixed income underwriting revenues were $49.8 million in the 2001 quarter, a 44.3% increase from $34.5 million in the comparable prior year quarter. Included in investment banking net revenues are merchant banking revenues of $18.2 million and $36.5 million for the 2001 quarter and the comparable prior year quarter, respectively.

Global Clearing Services

	Three Months Ended		
In thousands	August 31, 2001	August 25, 2000	% Decr
Net revenues	$ 192,021	$ 241,691	(20.
Pre-tax income	$ 43,251	$ 100,966	(57.

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

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

Net revenues for Global Clearing Services were $192.0 million in the 2001 quarter, down 20.6% from $241.7 million for the comparable prior year quarter. Pre-tax income for Global Clearing Services was $43.3 million in the 2001 quarter, down 57.2% from $101.0 million for the 2000 quarter. Average daily commissions in the 2001 quarter declined 12.3% when compared to the same period in the prior year. Net interest revenues declined 28.4% to $101.7 million from $142.1 million in the comparable prior year quarter. Customer margin debit and customer short balances declined in the 2001 quarter as a result of difficult equity market conditions and lower leverage levels being employed by prime brokerage customers. Average customer margin debit balances were $38.3 billion during the 2001 quarter compared to $56.4 billion during the comparable prior year quarter. Margin debit balances totaled $34.6 billion at August 31, 2001 compared to $56.0 billion at August 25, 2000. Average customer shorts were $49.8 billion during the 2001 quarter compared to $59.8 billion during the 2000 quarter and totaled $53.0 billion at August 31, 2001, down from $60.0 billion at August 25, 2000. Average free credit balances were $19.7 billion during the 2001 quarter compared to $14.8 billion during the 2000 quarter and totaled $20.3 billion at August 31, 2001, an increase from $13.0 billion at August 25, 2000.

Wealth Management

	Three Months Ended		
In thousands	August 31, 2001	August 25, 2000	% Decre
Net revenues	$ 128,027	$ 160,075	(20.0
Pre-tax income	$ 9,750	$ 31,026	(68.6

The Wealth Management segment is comprised of the Private Client Services ("PCS") and Asset Management areas. PCS provides high-net-worth individuals with an institutional level of service, including access to the Company's resources and professionals. PCS has approximately 450 account executives.

The Asset Management area had $23.5 billion in assets under management at August 31, 2001, which reflected a 41.6% increase over $16.6 billion in assets under management at August 25, 2000. Strong net inflows and performances from certain of the funds' investments led to the growth in assets under management. Assets from alternative investment products grew 93.3% to approximately $5.8 billion under management at August 31, 2001 from $3.0 billion at August 25, 2000, while assets from mutual funds increased 43.8% to $5.6 billion at August 31, 2001 from $3.9 billion at August 25, 2000.

Net revenues for Wealth Management were $128.0 million in the 2001 quarter, down 20.0% from $160.1 million for the comparable prior year quarter. Pre-tax income for Wealth Management was $9.8 million in the 2001 quarter, down 68.6% from $31.0 million for the comparable prior year quarter. Private client service revenues decreased 24.5% from the August 2000 quarter due to reduced commission levels and a decline in net interest profits as private investors continued to retreat from the equity markets. Asset Management revenues decreased slightly due to lower levels of performance-based fees on alternative investment products, partially offset by increased management fees from mutual funds, hedge funds and wrap accounts.

Non-Interest Expenses

Employee compensation and benefits for the 2001 quarter decreased 3.4% to $635.0 million from $657.3 million for the comparable prior year quarter. Employee compensation and benefits as a percentage of net revenues was 52.7% for the 2001 quarter versus 51.7% for the comparable prior year quarter. The generally weak operating environment being experienced by many of the Company's business areas, including investment banking, as well as the decline in net interest profit, continue to adversely impact compensation as a percentage of net revenues during the 2001 quarter. In addition, the expansion of the European capital markets' platform has placed short-term pressure on the ratio of compensation to net revenues.

Non-compensation expenses were $365.0 million for the 2001 quarter, an increase of 5.9% from $344.5 million in the comparable prior year quarter. Expenses were up primarily due to non-recurring costs for severance and accelerated depreciation and amortization costs associated with the write-off of technology equipment and leasehold improvements in connection with the Company's pending move to new corporate headquarters at 383 Madison Avenue. Expenses related to the CAP Plan for the 2001 quarter, which were $30.0 million, down from $45.7 million in the 2000 quarter reflecting the lower level of earnings in the 2001 quarter as compared to the comparable prior year quarter.

The Company's effective tax rate increased to 34.3% in the 2001 quarter compared to 32.7% for the comparable 2000 quarter.

Nine Months Ended August 31, 2001
Compared to Nine Months Ended August 25, 2000

Net income for the nine months ended August 31, 2001, after the cumulative effect of a change in accounting principle, was $463.7 million, down 19.8% from $578.0 million for the comparable prior year period. Revenues, net of interest expense for the 2001 period were $3.8 billion, down 7.6% from $4.1 billion in the 2000 period. Earnings per diluted share were $3.20 for the 2001 period, after the accounting change, down from $4.00 per diluted share for the comparable prior year period. The prior year period results included an after-tax litigation charge of $96.0 million or $0.63 per share. Earnings per diluted share for the 2001 period were $3.24 and net income was $470.0 million before including the effect of the required adoption of Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities". The results reflect a decrease in investment banking, net interest and commission revenues due to the industry-wide, broad-based weakness in the equity markets, partially offset by an increase in principal transactions revenues.

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

Capital Markets

	Nine Months Ended		
In thousands	August 31, 2001	August 25, 2000	% (De In
Net revenues			
Institutional Equities	$ 934,262	$ 1,155,433	(1
Fixed Income	1,270,803	751,606	6
Investment Banking	489,782	736,375	(3
Total net revenues	$ 2,694,847	$ 2,643,414	
Pre-tax income	$ 660,701	$ 692,706	(

Net revenues for Capital Markets were $2.7 billion in the 2001 period, up 1.9% from $2.6 billion in the comparable prior year period. Pre-tax income for Capital Markets was $660.7 million in the 2001 period, down 4.6% from $692.7 million in the 2000 period. Fixed Income net revenues increased to a record $1.3 billion in the 2001 period or 69.1% from $751.6 million in the comparable prior year period due to the favorable environment created by the seven interest rate reductions for a total of 300 basis points during the 2001 period by the Fed. Fixed income principal transactions revenues during the 2001 period were driven by superior results from the Company's mortgage-backed and asset-backed securities area as well as strong results from the high yield, municipal securities and corporate bonds areas.

Institutional Equities net revenues in the 2001 period decreased 19.1% to $934.3 million from $1.2 billion in the 2000 period, primarily attributable to decreases in the equity derivatives, international equity sales and trading, over-the-counter market making and arbitrage areas.

Investment Banking net revenues in the 2001 period decreased 33.5% to $489.8 million from $736.4 million in the comparable prior year period. Unfavorable global equity markets led to declining equity underwriting and mergers and acquisitions activity, partially offset by an increase in fixed income underwriting revenues, particularly in the high yield and municipal bond market areas during the 2001 period. Equity underwriting revenues for the 2001 period decreased 60.8% to $93.3 million from $238.1 million in the comparable prior year period. Fixed income underwriting revenues were $121.0 million in the 2001 period, a 20.5% increase from $100.4 million in the comparable prior year period. Included in investment banking net revenues are merchant banking revenues of $64.9 million and $82.8 million for the 2001 period and the comparable prior year period, respectively.

Global Clearing Services

In thousands	Nine Months Ended August 31, 2001	Nine Months Ended August 25, 2000	% Decr
Net revenues	$ 623,304	$ 796,733	(21
Pre-tax income	$ 188,243	$ 356,687	(47

Net revenues for Global Clearing Services were $623.3 million in the 2001 period, down 21.8% from $796.7 million for the comparable prior year period. Pre-tax income for Global Clearing

Services was $188.2 million in the 2001 period, down 47.2% from $356.7 million for the 2000 period. The decrease in net revenues in the 2001 period was primarily due to a decrease in customer margin debit as average customer margin balances were down sharply from the levels of August 2000 and customer short balances resulting in reduced net interest profits compared to the 2000 period. The decline in margin debit and customer short balances was a result of deteriorating equity market conditions and lower overall leverage levels being employed by retail and prime brokerage customers. Average customer margin debit balances were $39.3 billion during the 2001 period compared to $57.6 billion during the comparable prior year period. Margin debit balances totaled $34.6 billion at August 31, 2001 compared to $56.0 billion at August 25, 2000. Average customer shorts were $51.6 billion during the 2001 period compared to $62.2 billion during the 2000 period and totaled $53.0 billion at August 31, 2001, down from $60.0 billion at August 25, 2000. Average free credit balances were $18.7 billion during the 2001 period compared to $15.0 billion during the 2000 period and totaled $20.3 billion at August 31, 2001, an increase from $13.0 billion at August 25, 2000.

Wealth Management

Nine Months Ended August 31,	Nine Months Ended August 25,

In thousands	2001	2000	% Decre
Net revenues	$ 406,532	$ 524,730	(22.5
Pre-tax income	$ 30,163	$ 107,216	(71.9

Net revenues for Wealth Management were $406.5 million in the 2001 period, down 22.5% from $524.7 million for the comparable prior year period. Pre-tax income for Wealth Management was $30.2 million in the 2001 period, down 71.9% from $107.2 million for the 2000 period. Private client service revenues in the 2001 period declined from the 2000 period as retail investors have reduced activity levels significantly as a result of uncertain market conditions and the decline in the equity markets. Asset management revenues increased, reflecting higher levels of management fees on the Company's mutual fund and alternative investment products, partially offset by reduced performance fees from alternative investment products.

Non-Interest Expenses

Employee compensation and benefits for the 2001 period decreased 3.1% to $2.0 billion from $2.1 billion for the comparable prior year period. Employee compensation and benefits, as a percentage of net revenues was 53.0% in the 2001 period versus 50.5% in the comparable prior year period principally due to lower levels of net interest and investment banking revenue experienced in the 2001 period. In addition, the expansion of the European capital markets platform has placed additional short-term pressure on the ratio of compensation to net revenues.

Non-compensation expenses were $1.06 billion for the 2001 period, a decrease of 7.3% from $1.14 billion from the comparable prior year period. However, excluding the litigation charge included in the 2000 period, these expenses increased 6.7% primarily due to non-recurring costs for severance and accelerated depreciation and amortization costs associated with the write-off of technology equipment and leasehold improvements in connection with the Company's pending

move to new corporate headquarters at 383 Madison Avenue, partially offset by a decrease in the CAP Plan expense. Expenses related to the CAP Plan for the 2001 period were $102.0 million, down from $111.4 million in the comparable prior year period due to a lower level of earnings.

The Company's effective tax rate of 35.0% was the same in the 2001 period and the comparable prior year period.

Liquidity and Capital Resources

Financial Leverage

The Company maintains a highly liquid balance sheet with the vast majority of the Company's assets consisting of cash, marketable securities inventories, which are marked-to-market daily, 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 in order 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 attributable to its clearance business, results in significant levels of customer-related balances, including customer margin debt, securities borrowing and repurchase activity. The Company's total assets and financial leverage can fluctuate, depending largely upon economic and market conditions, volume of activity and customer demand.

The Company's total assets at August 31, 2001 decreased to $171.1 billion from $171.2 billion at November 30, 2000. The decrease was primarily attributable to a decrease in securities borrowed, partially offset by an increase in cash and securities deposited with clearing organizations or segregated in compliance with federal regulations and financial instruments owned, at fair value. The Company's total capital base, which consists of long-term debt, preferred equity issued by subsidiaries and total stockholders' equity, increased to $28.7 billion at August 31, 2001 from $26.3 billion at November 30, 2000 primarily due to an increase in long-term borrowings.

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 a function of balance sheet risk (i.e., market, credit and liquidity) and regulatory capital requirements. The Company seeks to ensure the adequacy of its total capital base, the size of which is determined primarily as a function of the self-funding ability of its assets. As such, the mix and liquidity characteristics of assets being held are the primary determinant of required total capital, thus significantly influencing the amount of leverage that the Company can employ.

The following table sets forth total assets, adjusted assets, and net adjusted assets with the resultant leverage ratios at August 31, 2001 and November 30, 2000. With respect to a comparative measure of financial risk and capital adequacy, the Company believes that the low risk spread nature of its securities borrowed position renders net adjusted leverage as the most relevant measure.

In billions, except ratios	August 31, 2001	November 30, 2000
Total Assets	$ 171.1	$ 171.2
Adjusted Assets (1)	$ 136.6	$ 135.1
Net Adjusted Assets (2)	$ 84.5	$ 73.3
Leverage Ratio (3)	28.9	27.8
Adjusted Leverage (4)	23.1	21.9
Net Adjusted Leverage (5)	14.3	11.9

(1) Adjusted Assets represent Total Assets less securities purchased under agreements to resell and the receivable for securities provided as collateral.
(2) Net Adjusted Assets represent Adjusted Assets less securities borrowed.
(3) Leverage Ratio equals Total Assets divided by stockholders' equity and preferred stock issued by subsidiaries.
(4) Adjusted Leverage equals Adjusted Assets divided by stockholders' equity and preferred stock issued by subsidiaries.
(5) Net Adjusted Leverage equals Net Adjusted Assets divided by stockholders' equity and preferred stock issued by subsidiaries.

Funding Strategy

The Company's general funding strategy seeks to ensure liquidity and diversity of funding sources in order to meet the Company's financing needs at all times and in all market environments. The Company attempts to finance its balance sheet by maximizing, where economically competitive, its use of secured funding. In addition, with respect to short-term, unsecured financing, the Company's emphasis on diversification by product, geography, maturity and instrument results in prudent, moderate usage of more credit sensitive, potentially less stable funding. Short-term sources of cash consist principally of collateralized borrowings, including repurchase transactions, securities lending arrangements and customer free credit balances. Short-term funding also includes unsecured commercial paper, medium-term notes and bank borrowings generally having maturities from overnight to one year.

The vast majority of the Company's balance sheet is financed with short-term secured and longer-term sources of funding. The Company views its secured funding as inherently less credit sensitive and therefore more stable due to the collateralized nature of the borrowing. The Company seeks to limit its reliance on unsecured borrowings by maintaining an adequate total capital base and extensive use of secured funding.

In addition to short-term funding sources, the Company utilizes long-term senior debt and medium-term notes as a longer-term source of unsecured financing. During the nine months ended August 31, 2001, the Company received proceeds of approximately $5.3 billion from the issuance of long-term debt, which was offset by payments approximating $3.6 billion related to retirements of long-term debt.

The amount of long-term debt, as well as total capital, that the Company maintains is a function of its asset composition. The Company regularly monitors and analyzes the size, composition and liquidity characteristics of its asset base in the context of each asset's ability to be used to obtain secured financing and the associated margin level required for such financing. This

analysis results in a determination of the Company's aggregate need for long-term funding sources, which translates into the amount of long-term debt required for a given equity base and mix of assets.

The Company maintains an alternative funding strategy focused on the liquidity and self-funding ability of the underlying assets. The objective is to maintain sufficient total capital and funding sources to enable the Company to refinance unsecured borrowings with fully secured borrowings. The analysis focuses on a twelve-month time period and assumes that the Company does not liquidate assets and cannot issue any new unsecured debt, including commercial paper. Within this context, the Company monitors its cash position and the borrowing value of unencumbered, unhypothecated marketable securities in relation to its unsecured debt maturing over the next twelve months, striving to maintain the ratio of liquidity sources to maturing debt at 100% or greater.

In addition, the Company monitors the maturity profile of its unsecured debt to minimize refinancing risk, maintains relationships with a broad global base of debt investors and bank creditors, establishes and adheres to strict short-term debt investor concentration limits and periodically tests its secured and unsecured committed credit facilities. The Company also maintains available sources of short-term funding that exceed the actual utilization thereof to allow it to endure changes in investor appetite and credit capacity to hold the Company's debt obligations.

The Company has in place a committed revolving credit facility (the "facility") totaling $3.105 billion, which permits borrowing on a secured basis by Bear, Stearns & Co. Inc. ("Bear Stearns"), Bear, Stearns Securities Corp. ("BSSC") and certain affiliates. The facility also provides that the Company may borrow up to $1.5525 billion of the facility on an unsecured basis. Secured borrowings can be collateralized by both investment-grade and non-investment-grade financial instruments. In addition, the facility provides for defined margin levels on a wide range of eligible financial instruments that may be pledged under the secured portion of the facility. The facility terminates in February 2002 with all loans outstanding at that date payable no later than February 2003. There were no borrowings outstanding under the facility at August 31, 2001.

The Company has in place a $1.25 billion committed revolving securities repo facility (the "repo facility") which permits borrowings, under a repurchase arrangement, by Bear, Stearns International Limited ("BSIL"), Bear Stearns International Trading Limited ("BSIT") and Bear Stearns Bank plc ("BSB"). The repo facility terminates in August 2002 with all repos outstanding at that date payable no later than August 2003. There were no borrowings outstanding under the repo facility at August 31, 2001.

The Company has in place a $500 million committed revolving credit facility, which permits borrowing on a secured basis against Japanese securities by BSSC.

The facility terminates in December 2001 with all loans outstanding at that date payable no later than December 2002. There were no borrowings outstanding under the facility at August 31, 2001.

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

Capital Resources

The Company conducts a substantial portion of its operating activities within its regulated subsidiaries Bear Stearns, BSSC, BSIL, BSIT and BSB. In connection therewith, a substantial portion of the Company's long-term borrowings and equity has been used to fund investments in, and advances to, these regulated subsidiaries. The Company regularly monitors the nature and significance of assets or activities conducted outside the regulated subsidiaries and attempts to fund such assets with either capital or borrowings having maturities consistent with the nature and liquidity of the assets being financed.

Long-term debt totaling $19.4 billion and $16.7 billion had remaining maturities beyond one year at August 31, 2001 and November 30, 2000, respectively. The Company's access to external sources of financing, as well as the cost of that financing, is at least partially dependent on the Company's short-term and long-term debt ratings. At August 31, 2001, the Company's long-term/short-term debt ratings were as follows:

Moody's Investors Service	A2/P-1
Standard & Poor's	A/A-1
Fitch	A+/F1+
Dominion Bond Rating Service	A/R-1 (middle)
Japan Rating & Investment Information	A+/not rated

The Stock Repurchase Program (the "Repurchase Program") allows the Company to purchase (in addition to any shares purchased under a previous repurchase authorization) up to an aggregate of $1.2 billion in Common Stock. The purchases under the $1.2 billion repurchase authorization may be made periodically in 2001 or beyond in the open market or otherwise at prices then prevailing. During the quarter ended August 31, 2001, the Company purchased, under the current repurchase program authorization, a total of 8,753,914 shares of Common Stock through open market and private transactions at a cost of approximately $505.9 million in connection with various employee compensation plans, including the CAP Plan. Included in these totals are 5,222,600 shares purchased pursuant to an agreement which is designed to adjust the cost of such shares to approximate the average price during the fourth quarter. The Company intends, subject to market conditions and plan limitations, to continue to purchase a sufficient number of shares of Common Stock in the open market to enable the Company to issue shares with respect to stock compensation.

Cash Flows

Cash and cash equivalents increased $1.5 billion to $3.8 billion at August 31, 2001 from $2.3 billion at November 30, 2000. Cash provided by operating activities was $3.5 billion, primarily attributable to a decrease in securities borrowed, and increases in payables to customers and brokers, dealers, and others, partially offset by an increase in cash and securities deposited with clearing organizations or segregated in compliance with federal regulations, and a decrease in securities

sold under agreements to repurchase. Cash used in financing activities of $1.8 billion reflected net payments for short-term borrowings and the retirement of long-term borrowings, partially offset by net proceeds from the issuance of long-term borrowings. Cash used in investing activities of $0.2 billion reflected purchases of property, equipment and leasehold improvements, as well as a net increase in other assets.

Regulated Subsidiaries

As registered broker-dealers, Bear Stearns and BSSC are subject to the net capital requirements of the Securities Exchange Act of 1934, as amended, the New York Stock Exchange and the Commodity Futures Trading Commission, which are designed to measure the general financial soundness and liquidity of broker-dealers. BSIL and BSIT, London-based broker-dealer subsidiaries, are subject to the regulatory capital requirements of the Securities and Futures Authority, a self-regulatory organization established pursuant to the United Kingdom Financial Services Act of 1986. Additionally, BSB is subject to the regulatory capital requirements of the Central Bank of Ireland. At August 31, 2001, Bear Stearns, BSSC, BSIL, BSIT, and BSB were in compliance with their respective regulatory capital requirements.

Merchant Banking Investments

As part of its merchant banking activities, the Company participates from time to time in principal investments in leveraged transactions. 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. At August 31, 2001, the Company held investments in 22 leveraged transactions with an aggregate carrying value of approximately $199.3 million. In addition, the Company has various direct and indirect principal investments in, as well as commitments to participate in, private investment funds that invest in leveraged transactions.

High Yield Positions

As part of the Company's fixed income securities activities, the Company participates in the underwriting, securitization and trading of non-investment-grade debt securities, non-investment-grade mortgage loans, non-investment-grade commercial loans and securities of companies that are the subject of pending bankruptcy proceedings (collectively "high yield positions"). Also included in high yield positions is a portfolio of credit card receivables from individuals that are subject to bankruptcy proceedings. Non-investment-grade debt securities have been defined as high yield and emerging market debt rated BB+ or lower or equivalent ratings recognized by credit rating agencies. Non-investment-grade mortgage loans are principally secured by residential properties and include non-performing loans. At August 31, 2001 and November 30, 2000, the Company held high yield positions approximating $2.6 billion and $2.3 billion, respectively, in long inventory, and $0.5 billion and $0.4 billion, respectively, in short inventory.

In addition, the Company provides extensions of credit to highly leveraged companies in loan syndication transactions and then participates out a portion of these leveraged transactions. At August 31, 2001 and November 30, 2000, the amount outstanding to highly leveraged borrowers totaled $565.8 million and $336.9 million, respectively. Additionally, lending commitments to non-investment-grade borrowers totaled approximately $0.6 billion and $1.0 billion at August 31, 2001 and November 30, 2000, respectively. The Company also has exposure to non-investment-grade counterparties related to its trading-related derivative activities; such amounts at August 31, 2001 and November 30, 2000 were $108.0 million and $49.0 million, net of collateral, respectively.

The Company's Risk Committee monitors exposure to market and credit risk with respect to high yield positions and establishes limits with respect to overall market exposure and concentrations of risk by both individual issuer and industry group. High yield positions generally involve greater risk than investment-grade debt securities due to credit considerations, liquidity of secondary trading markets, and increased vulnerability to changes in general economic conditions. The level of the Company's high yield positions, and the impact of such activities upon the Company's results of operations, can fluctuate from period to period as a result of customer demand and economic and market considerations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of the Company's risk management policies and Value-at-Risk ("VaR") model, including a discussion of the Company's primary market risk exposures, which include interest rate risk, foreign exchange rate risk and equity price risk and a discussion of how those exposures are managed, refer to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2000.

The total VaR presented below is less than the sum of the individual components (i.e., interest rate risk, foreign exchange rate risk, equity risk) due to the benefit of diversification among the risks. This table illustrates the VaR for each component of market risk at August 31, 2001, November 30, 2000, and August 25, 2000.

In millions	August 31, 2001	November 30, 2000	August 25, 2000
MARKET RISK			
Interest rate	$ 15.9	$ 11.7	$ 9.0
Currency	0.9	1.4	1.1
Equity	5.6	10.7	10.1
Diversification benefit	(5.5)	(7.9)	(6.6)
Total	$ 16.9	$ 15.9	$ 13.6

The table below illustrates the high, low and average (calculated on a monthly basis) VaR for each component of market risk and aggregate market risk during the 2001 quarter:

In millions	High	Low	Average
MARKET RISK			
Interest rate	$ 17.8	$ 9.2	$ 13.9
Currency	1.1	0.9	1.0
Equity	6.6	5.6	6.1
Aggregate Value-at-Risk	18.8	11.3	15.3

The following charts represent a summary of the daily revenues generated by the Company's trading departments and reflect a combination of trading revenues, net interest revenues for certain trading areas and other revenues for the quarter ended August 31, 2001 and August 25, 2000. These charts represent a historical summary of the results generated by the Company's trading departments as opposed to the probability approach used by the VaR model. The average daily trading profit was $8.1 million and $8.3 million for the quarters ended August 31, 2001 and August 25, 2000, respectively. During the quarters ended August 31, 2001 and August 25, 2000, there were no trading days in which daily trading losses exceeded the reported period end VaR amounts. The frequency distribution of the Company's daily trading profit (loss) reflects the Company's historical ability to manage its exposure to market risk and the diversified nature of its trading activities.

QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK

DAILY TRADING PROFIT FREQUENCY DISTRIBUTION

[Vertical bar graphs of Frequency (y-axis) versus Daily Trading Profit (Loss) (x-axis) representing the following information appear here in paper format]

Three Months Ended August 31, 2001

Daily Trading Profit (Loss) ($ in millions)	Frequency (Number of Trading Days)
(7)	1
(1)	2
1	3
2	3
3	2
4	5
5	9
6	4
7	4
8	7
9	7
10	7
11	2
12	2
13	3
15	1
18	1
20	2
21	1
28	1
34	1

[Vertical bar graphs of Frequency (y-axis) versus Daily Trading Profit (Loss) (x-axis) representing the following information appear here in paper format]

Three Months Ended August 25, 2000

Daily Trading Profit (Loss) ($ in millions)	Frequency (Number of Trading Days)
(3)	1
(1)	1

0	2
2	3
3	2
4	5
5	6
6	10
7	3
8	5
9	6
10	3
11	4
12	2
13	1
14	2
15	1
16	1
17	1
18	1
19	1
30	1
35	1

Part II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

McKesson HBOC, Inc. Litigations

As previously reported in the Company's Fiscal Year 2000 Form 10-K and Report on Form 10-Q for the fiscal quarter ended May 25, 2001 ("Second Fiscal Quarter 2001 Form 10-Q"), the Company is a defendant in various litigations arising out of a merger between McKesson Corporation ("McKesson") and HBO & Company ("HBOC") resulting in an entity called McKesson HBOC, Inc. ("McKesson HBOC").

Pacha, et al v. McKesson HBOC, Inc., et al.

On July 27, 2001, an action was commenced in the United States District Court for the Northern District of California by individuals who owned McKesson common stock that was converted into common stock of McKesson HBOC in connection with the McKesson/HBOC merger. Named as defendants are McKesson HBOC, certain present or former directors and/or officers of McKesson HBOC, McKesson and/or HBOC, Bear Stearns and Arthur Andersen LLP. The complaint alleges, among other things, that Bear Stearns violated Section 14(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and aided and abetted a breach of fiduciary duty in connection with allegedly false and misleading disclosure contained in a joint proxy statement/prospectus that was issued with respect to the McKesson/HBOC merger. Compensatory and punitive damages in an unspecified amount are sought.

The Company has denied all allegations of wrongdoing asserted against it in this litigation, and believes that it has substantial defenses to these claims.

IPO Allocation Litigations

As previously reported in the Company's Second Fiscal Quarter 2001 Form 10-Q, The Company, along with many other financial services firms, has been named as a defendant in many putative class actions filed during the last several months in the United States District Court for the Southern District of New York involving the allocation of securities in certain initial public offerings ("IPOs"). The complaints in these purported class actions allege, among other things, that between 1998 and 2000: (i) the underwriters of certain "hot" IPOs of technology and internet-related companies obtained excessive compensation by allocating shares in these IPOs to preferred customers who, in return, purportedly agreed to pay additional compensation to the underwriters, and the underwriters failed to disclose this additional compensation; and/or (ii) the underwriters' customers, in return for a favorable allocation of these securities, agreed to purchase additional shares in the aftermarket at pre-arranged prices or to pay additional compensation in connection with other transactions. The complaints allege, among other things, that the underwriters violated Sections 11 and 12(a)(2) of the Securities Act of 1933 and Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. Although certain of the complaints also asserted antitrust claims, such claims against Bear Stearns have been voluntarily dismissed without prejudice. Compensatory and statutory damages in unspecified amounts are sought.

The Company denies all allegations of wrongdoing asserted against it in these litigations, and believes that it has substantial defenses to these claims.

LEGAL PROCEEDINGS

The Company also is involved from time to time in investigations and proceedings by governmental agencies and self-regulatory organizations.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(3)(a)(1) Restated Certificate of Incorporation (incorporated by reference to Exhibit (4)(a)(1) to the Registration Statement on Form S-3 (File No. 333-57083)).

(3)(a)(2) Certificate of Amendment of Restated Certificate of Incorporation, filed April 2, 2001 (incorporated by reference to Exhibit 4(a)(2) to Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (File No. 333-92357)).

(3)(a)(3)	Certificate of Stock Designation relating to the Company's Adjustable Rate Cumulative Preferred Stock, Series A (incorporated by reference to Exhibit 4(a)(6) to the Registration Statement on Form S-8 (File No. 33-49979)).
(3)(a)(4)	Certificate of Stock Designation relating to the Company's Cumulative Preferred Stock, Series E (incorporated by reference to Exhibit 1.4 to the Registration Statement on Form 8-A filed on January 14, 1998).
(3)(a)(5)	Certificate of Stock Designation relating to the Company's Cumulative Preferred Stock, Series F (incorporated by reference to Exhibit 1.4 to the Registration Statement on Form 8-A filed on April 20, 1998).
(3)(a)(6)	Certificate of Stock Designation relating to the Company's Cumulative Preferred Stock, Series G (incorporated by reference to Exhibit 1.4 to the Registration Statement on Form 8-A filed on June 18, 1998).
(3)(b)	By-laws, Amended and Restated as of June 25, 2001.
(10)(a)(3)	Stock Award Plan, amended and restated as of March 29, 2001 (incorporated by reference to Exhibit 4(c) to Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (File No. 333-92357)).
(10)(a)(7)	Non-Employee Directors' Stock Option Plan (incorporated by reference to Exhibit 4(c) to the Registration Statement on Form S-8 (File No. 333-63002)).
(11)	Computation of Per Share Earnings
(12)	Computation of Ratio of Earnings to Fixed Charges

EXHIBITS AND REPORTS ON FORM 8-K

(b) Reports on Form 8-K

During the quarter, the Company filed the following Current Reports on Form 8-K.

(i) A Current Report on Form 8-K dated June 26, 2001 and filed on June 27, 2001, announcing that James E. Cayne has been named to the additional post of Chairman of the Board of Directors and the appointment of each of Alan D. Schwartz and Warren J. Spector as President and Co-Chief Operating Officer.

(ii) A Current Report on Form 8-K dated June 20, 2001 and filed on June 26, 2001, pertaining to the Company's results of operations for the three months ended May 25, 2001.

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: October 15, 2001

By: /s/ Marshall J Levinson
Marshall J Levinson
Controller
(Principal Accounting Officer)

THE BEAR STEARNS COMPANIES INC.
FORM 10-Q
EXHIBIT INDEX

Exhibit No.	Description	Page
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(3)(a)(4)	Certificate of Stock Designation relating to the Company's Cumulative Preferred Stock, Series E (incorporated by reference to Exhibit 1.4 to the	

	Registration Statement on Form 8-A filed on January 14, 1998).	
(3)(a)(5)	Certificate of Stock Designation relating to the Company's Cumulative Preferred Stock, Series F (incorporated by reference to Exhibit 1.4 to the Registration Statement on Form 8-A filed on April 20, 1998).	
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(3)(b)	By-laws, Amended and Restated as of June 25, 2001.	39
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(10)(a)(7)	Non-Employee Directors' Stock Option Plan (incorporated by reference to Exhibit 4(c) to the Registration Statement on Form S-8 (File No. 333-63002)).	
(11)	Computation of Per Share Earnings	67
(12)	Computation of Ratio of Earnings to Fixed Charges	68