BEAR STEARNS COMPANIES INC
Form 10-Q
July 10, 2006

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 May 31, 2006

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large Accelerated Filer [X] Accelerated Filer [__] Non-Accelerated Filer [__]

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 July 6, 2006, the latest practicable date, there were 120,379,528 shares of Common Stock, $1 par value, outstanding.

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AVAILABLE INFORMATION

The Bear Stearns Companies Inc. and its subsidiaries ("Company") files 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 450 Fifth Street, N.W., 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 Committee, 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 on your computer the Adobe Acrobat Reader software to view these documents, which are in the .PDF format.

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

THE BEAR STEARNS COMPANIES INC.

Condensed Consolidated Statements of Income

	(Unaudited) Three Months Ended		(Unau Six Mon
	May 31,	May 31,	May 31,

(in thousands, except share and per share data)	2006	2005	2006
REVENUES			
Commissions	$ 305,251	$ 313,608	$ 591,32
Principal transactions	1,492,478	980,179	2,642,91
Investment banking	318,150	250,426	656,00
Interest and dividends	2,110,876	1,191,785	3,834,86
Asset management and other income	76,994	87,582	217,06
Total revenues	4,303,749	2,823,580	7,942,16
Interest expense	1,804,307	950,028	3,257,52
Revenues, net of interest expense	2,499,442	1,873,552	4,684,64
NON-INTEREST EXPENSES			
Employee compensation and benefits	1,220,216	922,908	2,267,06
Floor brokerage, exchange and clearance fees	58,621	57,262	109,86
Communications and technology	118,169	100,343	222,20
Occupancy	45,422	40,756	90,04
Advertising and market development	35,093	34,577	69,76
Professional fees	65,468	61,278	119,34
Other expenses	122,254	193,989	219,80
Total non-interest expenses	1,665,243	1,411,113	3,098,09
Income before provision for income taxes	834,199	462,439	1,586,55
Provision for income taxes	294,866	164,329	533,06
Net income	$ 539,333	$ 298,110	$ 1,053,48
Net income applicable to common shares	$ 533,957	$ 291,667	$ 1,042,69
Basic earnings per share	$ 4.12	$ 2.32	$ 8.0
Diluted earnings per share	$ 3.72	$ 2.09	$ 7.2
Weighted average common shares outstanding:			
Basic	132,810,062	130,663,337	132,778,75
Diluted	149,945,896	148,037,979	149,780,91
Cash dividends declared per common share	$ 0.28	$ 0.25	$ 0.5

See Notes to Condensed Consolidated Financial Statements.

THE BEAR STEARNS COMPANIES INC.

Condensed Consolidated Statements of
Financial Condition

(in thousands, except share data)

ASSETS	
Cash and cash equivalents	$
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:	
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 $1,082,800 and $1,011,036 as of May 31, 2006 and November 30, 2005, respectively	
Other assets	
Total Assets	$
LIABILITIES AND STOCKHOLDERS' EQUITY	
Short-term borrowings	$
Securities sold under agreements to repurchase	
Obligation to return securities received as collateral	
Securities loaned	
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	
Total Liabilities	
Commitments and contingencies (Note 10)	
STOCKHOLDERS' EQUITY	
Preferred stock	
Common stock, $1.00 par value; 500,000,000 shares authorized and 184,805,847 shares issued as of both May 31, 2006 and November 30, 2005	
Paid-in capital	
Retained earnings	
Employee stock compensation plans	
Unearned compensation	
Treasury stock, at cost:	
Common stock: 63,869,496 and 70,937,640 shares as of May 31, 2006 and November 30, 2005,	

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 thousands)	Ma 2
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 1,
Adjustments to reconcile net income to cash used in operating activities:	
Non-cash items included in net income:	
Depreciation and amortization	
Deferred income taxes	
Employee stock compensation plans	
Changes in operating assets and liabilities:	
Cash and securities deposited with clearing organizations or segregated in compliance with federal regulations	(1,
Securities borrowed, net of securities loaned	(11,
Net receivables from customers	3,
Net receivables from brokers, dealers and others	
Financial instruments owned	(18,
Other assets	(
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	4,
Financial instruments sold, but not yet purchased	6,
Accrued employee compensation and benefits	(
Other liabilities and accrued expenses	(
Cash used in operating activities	(15,
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property, equipment and leasehold improvements	
Cash used in investing activities	
CASH FLOWS FROM FINANCING ACTIVITIES	
Net proceeds from short-term borrowings	12,
Proceeds from issuance of long-term borrowings	8,
Payments for retirement/repurchase of long-term borrowings	(6,

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	
Redemption of preferred stock	
Treasury stock purchases - common stock	(
Cash dividends paid	
Cash provided by financing activities	15,
Net increase in cash and cash equivalents	
Cash and cash equivalents, beginning of year	5,
Cash and cash equivalents, end of period	$ 5,

Supplemental Disclosure of Cash Flow Information:
Cash payments for interest were $3.46 billion and $1.74 billion during the six months ended May 31, 2006 and 2005, respectively.

Cash payments for income taxes were $326.3 million and $77.6 million for the six months ended May 31, 2006 and 2005, respectively. Cash payments for income taxes would have been $627.2 million and $361.1 million for the six months ended May 31, 2006 and 2005, respectively, if increases in the value of equity instruments issued under share-based payment arrangements had not been deductible in determining taxable income.

See Notes to Condensed Consolidated Financial Statements.

Note: Certain prior period items have been reclassified to conform to the current period's presentation.

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 and operates in three principal segments: Capital Markets, Global Clearing Services and Wealth Management. Capital Markets comprises 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 comprises the private client services ("PCS") and asset management areas. See Note 12, "Segment Data," in the Notes to Condensed Consolidated Financial Statements. The Company also conducts significant activities through other wholly owned subsidiaries, including: Bear Stearns Global Lending Limited; Custodial Trust Company;

Bear Stearns Financial Products Inc.; Bear Stearns Capital Markets Inc.; Bear Stearns Credit Products Inc.; Bear Stearns Forex Inc.; EMC Mortgage Corporation; and Bear Stearns Commercial Mortgage, Inc. and through its majority-owned subsidiary Bear Hunter Holdings LLC. As used in this report, the "Company" refers (unless the context requires otherwise) to The Bear Stearns Companies Inc. and its subsidiaries.

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 interest. In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 (R), "Consolidation of Variable Interest Entities" ("FIN No. 46 (R)"), the Company also consolidates any variable interest entities ("VIEs") 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.

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 Condensed Consolidated Statement of Financial Condition as of May 31, 2006, the Condensed Consolidated Statements of Income for the three and six months ended May 31, 2006 and May 31, 2005 and the Condensed Consolidated Statements of Cash Flows for the six months ended May 31, 2006 and May 31, 2005 are unaudited. The Condensed Consolidated Statement of Financial Condition at November 30, 2005 and related information was derived from the audited consolidated financial statements.

The condensed consolidated financial statements are prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") with respect to the 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 financial statements should be read together with the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2005, as amended by Amendment No. 1 thereto on Form 10-K/A, each as filed by the Company under the Securities Exchange Act of 1934, as amended ("Exchange Act") (together, the "Form 10-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 inventory valuations, stock compensation, certain accrued liabilities and the

(UNAUDITED)

potential outcome of litigation and tax matters, 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. All material intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period's presentation.

Financial Instruments

Proprietary securities, futures and other derivative transactions are recorded on a trade date basis. 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.

Fair value is generally based on quoted market prices. If quoted market prices are not available, or if liquidating the Company's position is reasonably expected to affect market prices, 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.

The Company follows Emerging Issues Task Force ("EITF") Statement No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." This guidance prohibits recognizing profit at the inception of a derivative contract unless the fair value of the derivative is obtained from a quoted market price in an active market or is otherwise evidenced by comparison to other observable current market transactions or based on a valuation technique that incorporates observable market data.

Equity interests and securities acquired as a result of private equity and merchant banking activities are reflected in the condensed consolidated financial statements at their fair value. Fair value is generally defined as an investment's initial cost until significant transactions or developments indicate that a change in the carrying value of the investment is appropriate. Generally, the carrying values of these securities will be increased 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 net realizable value has declined below the carrying value.

Derivative Instruments and Hedging Activities

The Company follows Statement of Financial Accounting Standards ("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 (except in narrowly defined circumstances), are carried in the Company's Condensed Consolidated Statements of Financial Condition at fair value, with changes in fair value recorded in current earnings in "Principal transactions" revenues. Designated hedged items in fair value hedging relationships are marked for the risk being hedged, with such changes recorded in current earnings.

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 Assets, Fees and Advances

Mortgage servicing rights ("MSRs"), which are included in "Other assets" on the Condensed Consolidated Statements of Financial Condition, are reported at the lower of amortized cost or market. MSRs are amortized in proportion to and over the period of estimated net servicing income. MSRs are periodically evaluated for impairment based on the fair value of those rights determined by using market-based models that discount anticipated future net cash flows considering loan prepayment estimates, interest rates, default rates, servicing costs and other economic factors. For purposes of impairment evaluation and measurement, the Company stratifies MSRs by predominant risk characteristics. The excess of amortized cost over market value is reflected as a valuation allowance at balance sheet dates.

Contractual servicing fees, late fees and other ancillary servicing fees earned for servicing mortgage loans are reflected net of MSR amortization and impairment/recovery 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.

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 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. The Company derecognizes financial assets transferred in securitizations provided that such transfer meets all of these criteria.

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 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 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.

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.

Asset Management and Other Income

The Company receives advisory fees for investment management. Advisory fees are recognized over the period that the related service is provided based upon the net asset value. Unearned advisory fees are treated as deferred revenues and are included in "Other liabilities" in the accompanying Condensed Consolidated Statements of Financial Condition. In addition, the Company receives performance incentive fees for managing certain funds based upon the achievement of specified performance targets. These fees are accrued as earned during the period when the assets under management exceed the applicable specific investment performance target.

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."

Earnings Per Share

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

Stock-Based Compensation

Effective December 1, 2002, the Company elected to adopt fair value accounting for stock-based compensation consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," using the prospective method with guidance provided by SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure." As a result, commencing with options granted after November 30, 2002, the Company expenses the fair value of stock

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

options issued to employees over the related vesting period. Prior to December 1, 2002, the Company had elected to account for its stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), as permitted by SFAS No. 123. Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of grant over the amount an employee must pay to acquire the stock. Accordingly, no compensation expense had been recognized for stock option awards granted prior to December 1, 2002 because the exercise price was at the fair market value of the Company's common stock on the grant date.

The cost related to stock-based compensation included in the determination of net income for the three and six months ended May 31, 2006 has been fully recognized under the fair value-based method, and for the three and six months ended May 31, 2005 is less than that which would have been recognized if the fair value-based method had been applied to stock option awards since the original effective date of SFAS No. 123.

The following table illustrates the effect on net income and earnings per share for the three and six months ended May 31, 2005 if the fair value-based method under SFAS No. 123 had been applied to stock options granted for the year ended November 30, 2002.

(in millions, except per share amounts)	Three Months ended May 31, 2005	Six Months ended May 31, 2005
Net income, as reported	$ 298.1	$ 676.9
Add:		
Stock-based employee compensation plans expense included in reported net income, net of related tax effects	8.5	20.7
Deduct:		
Total stock-based employee compensation plans expense determined under the fair value based on method, net of related tax effects	(12.0)	(27.7)
Pro forma net income	$ 294.6	$ 669.9
Earnings per share:		
Basic - as reported	$ 2.32	$ 5.26
Basic - pro forma	$ 2.29	$ 5.21
Diluted - as reported	$ 2.09	$ 4.74
Diluted - pro forma	$ 2.07	$ 4.69

In December 2004, the FASB issued SFAS No. 123 (R), "Share-Based Payment."

SFAS No. 123 (R) is a revision of SFAS No. 123 and supersedes APB No. 25 and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 123 (R) eliminates the ability to account for share-based compensation transactions using APB No. 25 and requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements using a fair value-based method. The Company adopted SFAS No. 123 (R), as required, on December 1, 2005, using the modified prospective method with no material impact on the consolidated financial statements of the Company.

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.

Cash Equivalents

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

Income Taxes

The Company and certain of its subsidiaries file a US 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 resulting from foreign currency transactions are included in net income.

Accounting and Reporting Developments

In June 2005, the EITF reached a consensus on 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. This guidance became effective upon ratification by the FASB on June 29, 2005 for all newly formed limited partnerships and for existing limited partnerships for which the partnership agreements have been modified. For all other limited partnerships, the guidance is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. For new and modified limited partnerships, the adoption of the EITF did not have a material impact on the consolidated financial statements of the Company. For the previously existing limited partnerships, the Company does not expect the EITF consensus to have a material impact on the consolidated financial statements of the Company.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." SFAS No. 155 is an amendment of SFAS No. 133 and SFAS No. 140. SFAS No. 155 permits companies to elect, on a deal by deal basis, to apply a fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect SFAS No. 155 to have a material impact on the consolidated financial statements of the Company.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets." SFAS No. 156 amends SFAS No. 140. SFAS No. 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value. For subsequent measurements, SFAS No. 156 permits companies to choose between using an amortization method or a fair value measurement method for reporting purposes. SFAS No. 156 is effective as of the beginning of a company's first fiscal year that begins after September 15, 2006. The Company does not expect SFAS No. 156 to have a material impact on the consolidated financial statements of the Company.

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 thousands)	May 31, 2006	November 30, 2005
FINANCIAL INSTRUMENTS OWNED:		
U.S. government and agency	$ 9,536,192	$ 9,914,866
Other sovereign governments	683,193	1,159,265
Corporate equity and convertible debt	26,134,957	18,601,132
Corporate debt and other	30,373,223	21,571,914
Mortgages, mortgage- and asset-backed	41,063,531	40,297,016
Derivative financial instruments	17,278,334	14,700,228
	$ 125,069,430	$ 106,244,421

FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED:		
U.S. government and agency	$ 11,007,916	$ 10,115,133
Other sovereign governments	970,537	1,617,998
Corporate equity and convertible debt	10,565,983	6,900,004
Corporate debt and other	3,598,897	3,274,034
Mortgages, mortgage- and asset-backed	130,686	139,988
Derivative financial instruments	15,179,154	12,957,176
	$ 41,453,173	$ 35,004,333

As of May 31, 2006 and November 30, 2005, 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" in the Condensed Consolidated Statements of Financial Condition.

Financial instruments sold, but not yet purchased, represent obligations of the Company to purchase the specified financial instrument at the then current market price. Accordingly, these transactions result in off-balance-sheet risk as the Company's ultimate obligation to repurchase such securities may exceed the amount recognized in the 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 May 31, 2006 and November 30, 2005, the Company's most significant concentrations are related to US government and agency inventory positions, including those of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. In addition, a substantial portion of the collateral held by the Company for securities purchased under agreements to resell consists of securities issued by the US government and agencies.

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 and equity 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 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. 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 the Company's 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.

Non-Trading Derivatives 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 US 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 US 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 stand-alone or embedded within other contracts or securities (except in very defined circumstances) be carried on the Company's Condensed Consolidated Statement of Financial Condition at fair value. SFAS No. 133 also requires items designated as being fair value hedged to be recorded at fair value, 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 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 and six months ended May 31, 2006 and 2005.

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 May 31, 2006 and November 30, 2005 was approximately 94 days and 90 days, respectively. These retained interests are included in "Financial instruments owned" 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	
Total securitizations				
Six months ended May 31, 2006	$10.8	$49.6	$60.4	
Six months ended May 31, 2005	$14.2	$39.6	$53.8	
Retained interests				
As of May 31, 2006	$2.3	$3.2	$5.5	(1)
As of November 30, 2005	$1.8	$3.7	$5.5	(2)

(1) Includes approximately $0.9 billion in non-investment-grade and unrated retained interests.

(2) Includes approximately $0.8 billion in non-investment-grade and unrated retained interests.

The following table summarizes cash flows from securitization trusts related to securitization transactions during the six months ended May 31, 2006 and May 31, 2005:

(in millions)	Agency Mortgage-Backed	Other Mortgage- and Asset-Backed	Total
Cash flows received from retained			

interests			
Six months ended May 31, 2006	$ 68.3	$180.9	$249.2
Six months ended May 31, 2005	$158.6	$115.6	$274.2
Cash flows from servicing			
Six months ended May 31, 2006	$0.1	$27.2	$27.3
Six months ended May 31, 2005	$0.4	$14.0	$14.4

The Company is an active market maker in these 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 use discount rates that are based on the Treasury curve plus a spread. Key points on the constant maturity Treasury curve at May 31, 2006 were 5.05% for 2-year Treasuries and 5.20% for 10-year Treasuries, and ranged from 4.92% to 5.36%. These models also consider prepayment speeds as well as credit losses. Credit losses are considered through option-adjusted spreads that also incorporate additional factors such as liquidity and optionality.

Key economic assumptions used in measuring the fair value of retained interests in assets the Company securitized at May 31, 2006 were as follows:

	Agency Mortgage-Backed	Other Mortgage- and Asset-Backed
Weighted average life (years)	8.1	3.8
Average prepayment speeds (annual rate)	7% - 20%	6% - 50%
Credit losses	-	0% - 8%

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The following hypothetical sensitivity analysis as of May 31, 2006 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 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 and other pertinent market factors. 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	$ (53.8)	$ (82.1)
Impact of 100 basis point adverse change	(109.2)	(174.0)

Prepayment speeds		
Impact of 10% adverse change	(1.3)	(18.4)
Impact of 20% adverse change	(2.2)	(35.0)
Credit spread		
Impact of 10% adverse change	(6.0)	(39.7)
Impact of 20% adverse change	(11.9)	(76.6)

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. At May 31, 2006, 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)	Sub-Prime Loans	Fixed-Rate Prime & Alt-A Loans	Adjustable-Rate Prime & Alt-A Loans
Fair Value of MSRs	$ 180,918	$ 93,656	$ 200,739
Constant prepayment rate (in CPR)	20% - 40%	13% - 34%	20% - 53%
Impact on fair value of:			
5 CPR adverse change	$ (19.2)	$ (7.5)	$ (8.1)
10 CPR adverse change	(33.2)	(14.2)	(14.9)
Discount Rate	15%	13%	13%
Impact on fair value of:			
5% adverse change	$ (15.3)	$ (10.6)	$ (13.9)
10% adverse change	(27.8)	(18.9)	(25.9)

The previous tables 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 tables. Changes in fair value based on a 10% adverse variation 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 tables do not consider the change in fair value of hedging positions, which would generally offset the changes detailed in the tables, nor do they consider any corrective action that the Company may take in response to changes in these conditions. The impact of hedges is not presented because hedging 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. The Company's MSRs activities for the six months ended May 31, 2006 and 2005 were as follows:

(in millions)	May 31, 2006	May 31, 2005
Balance, beginning of period	$ 431.1	$ 230.2
Additions	194.8	154.4
Sales	(94.4)	-
Amortization	(91.2)	(55.4)
(Impairment)/Recovery	(2.2)	2.7
Balance, end of period	$ 438.1	$ 331.9

Changes in the MSR valuation allowance for the six months ended May 31, 2006 and 2005 were as follows:

(in millions)	May 31, 2006	May 31, 2005
Balance, beginning of period	$ (10.6)	$ (33.7)
(Impairment)/Recovery	(2.2)	2.7
Balance, end of period	$ (12.8)	$ (31.0)

5. VARIABLE INTEREST ENTITIES AND MORTGAGE LOAN SPECIAL PURPOSE ENTITIES

The Company regularly creates or transacts with entities that may be VIEs. These entities are an essential part of its securitization, asset management and structured finance businesses. In addition, the Company purchases and sells financial instruments that may be variable interests. The Company adopted FIN No. 46 (R) for its variable interests in fiscal 2004. The Company consolidates those VIEs in which the Company is the primary beneficiary.

The Company may perform various functions, including being 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 is the primary beneficiary often through its ownership of certain beneficial interests, and is, therefore, required to consolidate the assets and liabilities of the VIE.

The Company has a limited number of mortgage securitizations that did not meet the criteria for sale treatment under SFAS No. 140 because the securitization vehicles were not QSPEs. The assets in these mortgage securitizations approximated $3.7 billion and $5.3 billion at May 31, 2006 and November 30, 2005, respectively.

The Company has retained call options on a limited number of securitization transactions that require the Company to continue recognizing the assets subject to the call options. The total assets in these transactions approximated $11.0 billion and $8.7 billion, at May 31, 2006 and November 30, 2005, respectively.

Assets held by VIEs, which are currently consolidated because the Company is the primary beneficiary, approximated $1.3 billion and $1.2 billion at May 31, 2006 and November 30, 2005, respectively. At May 31, 2006 and

November 30, 2005, the Company's maximum exposure to loss as a result of its relationship with these VIEs is approximately $386.6 million and $531.0 million, respectively, which represents the fair value of its interests in the VIEs.

The Company also owns significant variable interests in several VIEs related to collateralized debt obligations or asset securitizations for which the Company is not the primary beneficiary and therefore does not consolidate these entities. In aggregate, these VIEs have assets approximating $8.3 billion and $4.7 billion at May 31, 2006 and November 30, 2005, respectively. At May 31, 2006 and November 30, 2005, the Company's maximum exposure to

loss from these entities approximated $96.5 million and $29.6 million, respectively, which represents the fair value of its interests and is reflected on 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 and deconsolidated at various points in time. Therefore, the Company's variable interests included above may not be held by the Company in future periods.

The Company was the general partner of certain limited partnerships in which the limited partners did not have sufficient voting or control rights. Under EITF No. 04-5, the Company was required to consolidate these limited partnerships. The assets held by the limited partnerships approximated $426.5 million as of May 31, 2006. The Company's maximum exposure to loss as a result of its relationship with these limited partnerships is approximately $12.3 million as of May 31, 2006, which represents the fair value of its interests and is reflected on the Condensed Consolidated Statements of Financial Condition.

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 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 May 31, 2006 and November 30, 2005, the fair value of securities received as collateral by the Company that can be repledged, delivered or otherwise used was approximately $253.6 billion and $254.6 billion, respectively. Of these securities received as collateral, those with a fair value of approximately $179.3 billion and $184.3 billion were delivered or

repledged at May 31, 2006 and November 30, 2005, 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 $29.2 billion and $20.8 billion at May 31, 2006 and November 30, 2005, respectively.

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7. LONG-TERM BORROWINGS

The Company's long-term borrowings (which have original maturities of at least 12 months) at May 31, 2006 and November 30, 2005 consisted of the following:

(in thousands)	May 31, 2006	November 30, 2005
Fixed rate notes due 2006 to 2036	$ 20,359,117	$ 21,973,171
Floating rate notes due 2006 to 2036	18,142,325	14,208,786
Index/equity/credit-linked notes	8,145,702	7,307,659
Total long-term borrowings	$ 46,647,144	$ 43,489,616

The Company's long-term borrowings include fair value adjustments in accordance with SFAS No. 133. During the six months ended May 31, 2006, the Company issued and retired/repurchased $8.8 billion and $6.4 billion of long-term borrowings, respectively. The weighted average maturity of the Company's long-term borrowings, based upon stated maturity dates, was approximately 4.4 years at May 31, 2006.

8. 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 thousands, except per share amounts)	May 31, 2006	May 31, 2005	
Net income	$ 539,333	$ 298,110	$
Preferred stock dividends	(5,376)	(6,443)	
Redemption of preferred stock	-	-	
Income adjustment (net of tax) applicable to deferred compensation arrangements-vested shares	12,597	10,894	
Net earnings used for basic EPS	546,554	302,561	
Income adjustment (net of tax) applicable to deferred compensation arrangements-nonvested shares	11,679	7,099	
Net earnings used for diluted EPS	$ 558,233	$ 309,660	$
Total basic weighted average common shares outstanding (1)	132,810	130,663	
Effect of dilutive securities:			
Employee stock options	6,120	3,879	
CAP and restricted units	11,016	13,496	
Dilutive potential common shares	17,136	17,375	
Weighted average number of common shares outstanding and dilutive potential common shares	149,946	148,038	
Basic EPS	$ 4.12	$ 2.32	$
Diluted EPS	$ 3.72	$ 2.09	$

(1) Includes 12,153,620 and 17,447,208 vested units for the three months ended May 31, 2006 and May 31, 2005, respectively, and 13,409,146 and 18,856,095 vested units for the six months ended May 31, 2006 and May 31, 2005, respectively, issued under stock compensation plans which will be distributed as shares of common stock.

9. REGULATORY REQUIREMENTS

Effective December 1, 2005, the Company became 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 May 31, 2006, the Company was in compliance with the CSE capital requirements.

Bear Stearns and BSSC are registered broker-dealers and futures commission merchants and, accordingly, are subject to Rule 15c3-1 under the Securities Exchange Act of 1934 ("Net Capital Rule") and Rule 1.17 under the Commodity Futures Trading Commission. Effective December 1, 2005, the SEC approved

Bear Stearns' use of Appendix E of the Net Capital Rule which establishes alternative net capital requirements for broker-dealers that are part of consolidated supervised entities. Appendix E allows Bear Stearns to calculate net capital charges for market risk and derivatives-related credit risk based on mathematical models provided that Bear Stearns holds tentative net capital in excess of $1 billion and net capital in excess of $500 million. At May 31, 2006, Bear Stearns' net capital of $5.28 billion exceeded the minimum requirement by $4.71 billion. Bear Stearns' net capital computation, as defined, includes $670.2 million, which is net capital of BSSC in excess of 5.5% of aggregate debit items arising from customer transactions.

BSIL and Bear Stearns International Trading Limited ("BSIT"), London-based broker-dealer subsidiaries, are subject to the regulatory capital requirements of the U.K.'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.

At May 31, 2006, Bear Stearns, BSSC, BSIL, BSIT and BSB were in compliance with their respective regulatory capital requirements.

10. 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 May 31, 2006, future minimum aggregate annual rentals payable under non-cancelable leases (net of subleases), including 383 Madison Avenue in New York City, for fiscal years 2006 through 2010 and the aggregate amount thereafter, are as follows:

(in thousands)	
FISCAL YEAR	
2006 (remaining)	$ 41,856
2007	85,710
2008	85,408
2009	81,302
2010	64,903
Thereafter	228,983
Total	$ 588,162

Lending - Related Commitments

In connection with certain of the Company's business activities, the Company provides financing or financing commitments to investment-grade and non-investment-grade companies in the form of senior and subordinated debt, including bridge financing. Commitments have varying maturity dates and are generally contingent on the accuracy

and validity of certain representations, warranties and contractual conditions applicable to the borrower. Lending-related commitments to investment-grade borrowers aggregated approximately $3.15 billion and $2.37 billion at May 31, 2006 and November 30, 2005, respectively. Of these amounts, approximately $736.3 million and $652.5 million were hedged at May 31, 2006 and November 30, 2005, respectively. Lending-related commitments to non-investment-grade borrowers approximated $1.96 billion and $1.44 billion at May 31, 2006 and November 30, 2005, respectively.

The Company also had contingent commitments to investment-grade and non-investment-grade companies of approximately $4.91 billion and $3.89 billion as of May 31, 2006 and November 30, 2005, 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 never draw upon the commitment. In fact, 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 May 31, 2006 and November 30, 2005, such commitments aggregated $191.6 million and $222.1 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 2017.

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 $439.1 million and $943.1 million, respectively, at May 31, 2006 and November 30, 2005.

Commercial and Residential Loans

The Company participates in the acquisition, origination, securitization, servicing, financing and disposition of commercial and residential loans. At May 31, 2006 and November 30, 2005, the Company had entered into commitments to purchase or finance mortgage loans of $2.50 billion and $5.1 billion, respectively.

Letters of Credit

At May 31, 2006 and November 30, 2005, the Company was contingently liable for unsecured letters of credit of approximately $2.40 billion and $2.50 billion, respectively, and letters of credit of $1.46 billion and $985.6 million, respectively, secured by financial instruments, primarily used to provide collateral for securities borrowed and to satisfy margin requirements at option and commodity exchanges.

Other

The Company had commitments to purchase Chapter 13 and other credit card receivables of $87.4 million and $159.8 million, respectively, at May 31, 2006 and November 30, 2005.

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 reflect the actual future cash funding requirements.

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Litigation

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

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

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

Tax

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

requiring a change to the reserve occurs.

11. 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 May 31, 2006:

	Amount of Guarantee Expiration Per Perio			
(in millions)	Less Than One Year	One to Three Years	Three to Five Years	Great Fiv
Certain derivative contracts (notional)(1)	$ 116,849	$ 296,629	$ 250,941	$ 99
Municipal securities	2,614	121	-	
Residual value guarantee	-	-	570	

(1) The carrying value of these derivatives approximated $383.3 million as of May 31, 2006.

Derivative Contracts

The Company's dealer activities cause it to make markets and trade a variety of derivative instruments. Certain derivatives 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 derivatives 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. These derivatives contracts are recorded at fair value, which approximated $383.3 million at May 31, 2006.

In connection with these activities, the Company attempts to mitigate its exposure to market risk by entering into a variety of offsetting derivatives 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 May 31, 2006 was approximately $2.73 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 hedges, approximating $2.77 billion at May 31, 2006.

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 13, 2010 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 May 31, 2006, there was no expected shortfall and the maximum residual value guarantee approximated $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 some 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, and the contingencies triggering the obligation to indemnify are not expected to occur.

Maximum payout information under these indemnifications is not readily available because of the number, size and duration 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 the Company will have to make significant payments under these arrangements.

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. If a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is recorded in the consolidated financial statements for these arrangements.

12. 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 comprises 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 research, sales and trading in areas such as domestic and international equities, block trading, convertible

bonds, over-the-counter equities, equity derivatives, risk and convertible arbitrage and the NYSE, American Stock Exchange and International Securities Exchange specialist activities. Fixed income includes sales, trading 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, 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 US 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		Six Months ended	
(in thousands)	May 31, 2006	May 31, 2005	May 31, 2006	May 31, 2005
NET REVENUES				
Capital Markets				
Institutional Equities	$ 554,469	$ 390,453	$ 1,042,963	$ 703,393
Fixed Income	1,167,308	808,013	2,056,046	1,673,520
Investment Banking	278,405	231,935	574,999	449,329

Total Capital Markets	2,000,182	1,430,401	3,674,008	2,826,242
Global Clearing Services	289,523	276,160	553,515	546,552
Wealth Management				
Private Client Services (1)	128,889	105,637	257,683	219,512
Asset Management	22,182	50,148	116,657	105,463
Total Wealth Management	151,071	155,785	374,340	324,975
Other (2)	58,666	11,206	82,782	13,443
Total net revenues	$ 2,499,442	$ 1,873,552	$ 4,684,645	$ 3,711,212
PRE-TAX INCOME				
Capital Markets	$ 702,005	$ 455,776	$ 1,336,756	$ 937,459
Global Clearing Services	139,045	142,989	268,617	280,763
Wealth Management	(13,317)	6,054	18,856	21,033
Other (2)	6,466	(142,380)	(37,677)	(198,488)
Total pre-tax income	$ 834,199	$ 462,439	$ 1,586,552	$ 1,040,767

	Three Months ended		Six Months ended	
	May 31, 2006	May 31, 2005	May 31, 2006	May 31, 2005
(1) Private Client Services detail:				
Gross revenues, before transfer to Capital Markets segment	$ 153,014	$ 130,284	$ 306,092	$ 263,579
Revenue transferred to Capital Markets segment	(24,125)	(24,647)	(48,409)	(44,067)
Private Client Services net revenues	$ 128,889	$ 105,637	$ 257,683	$ 219,512

(2) Includes consolidation and elimination entries, unallocated revenues (predominantly interest), and certain corporate administrative functions, including certain legal costs and costs related to the CAP Plan. CAP Plan costs were $42.5 million and $31.5 million for the three months ended May 31, 2006 and May 31, 2005, respectively and $78.5 million and $69.5 million for the six months ended May 31, 2006 and May 31, 2005, respectively.

	As of		
(in thousands)	May 31, 2006	November 30, 2005	May 31, 2005
SEGMENT ASSETS			

Capital Markets	$ 216,888,711	$ 195,292,625	$ 158,526,191
Global Clearing Services	98,289,543	85,625,396	103,978,620
Wealth Management	3,003,208	2,751,749	2,719,933
Other	7,998,867	8,965,463	11,556,865
Total segment assets	$ 326,180,329	$ 292,635,233	$ 276,781,609

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 as of May 31, 2006, and the related condensed consolidated statements of income for the three month and six month periods ended May 31, 2006 and 2005 and cash flows for the six month periods ended May 31, 2006 and 2005. These interim financial statements are the responsibility of The Bear Stearns Companies Inc.'s management.

We conducted our reviews in accordance with 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 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.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of The Bear Stearns Companies Inc. and subsidiaries as of November 30, 2005, 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, 2005, as amended by Amendment No. 1 thereto on Form 10-K/A; and in our report dated February 10, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of November 30, 2005 is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

New York, New York
July 7, 2006

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

INTRODUCTION

The Bear Stearns Companies Inc. (the "Company") is a holding company that through its broker-dealer and international bank subsidiaries, principally Bear, Stearns & Co. Inc. ("Bear Stearns"), Bear, Stearns Securities Corp. ("BSSC"), Bear, Stearns International Limited ("BSIL") and Bear Stearns Bank plc ("BSB"), is a leading investment banking, securities and derivatives trading, clearance and brokerage firm serving corporations, governments, institutional and individual investors worldwide. BSSC, a subsidiary of Bear Stearns, provides professional and correspondent clearing services in addition to clearing and settling customer transactions and certain proprietary transactions of the Company. The Company also conducts significant activities through other wholly owned subsidiaries, including: Bear Stearns Global Lending Limited; Custodial Trust Company; Bear Stearns Financial Products Inc.; Bear Stearns Capital Markets Inc.; Bear Stearns Credit Products Inc.; Bear Stearns Forex Inc.; EMC Mortgage Corporation; and Bear Stearns Commercial Mortgage, Inc. and through its majority owned subsidiary Bear Hunter Holdings LLC. 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 and six months of 2006 and 2005 refer to the three and six months ended May 31, 2006 and May 31, 2005, 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 Annual Report on Form 10-K for the fiscal year ended November 30, 2005, as amended by Amendment No. 1 thereto on Form 10-K/A, each as filed by the Company under the Securities Exchange Act of 1934, as amended ("Exchange Act") (together, the "Form 10-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 10-K.

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 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.

These and other factors can affect the Company's volume of security new issues, mergers and acquisitions and business restructurings; the stability and

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

Subs