GLASS LEWIS & Co.

PROXY PAPER

Washington Mutual, Inc.

NYSE: WM
Industry: S&L's/Savings Banks
Meeting Date: April 15, 2008
Record Date: February 29, 2008

Eric Dao, Lead Analyst
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2008 ANNUAL MEETING

Proposal	Issue	Board	GL&Co.
1.00	Election of Directors	For	Split
1.01	Elect Stephen Chazen	For	For
1.02	Elect Stephen Frank	For	Withhold
1.03	Elect Kerry Killinger	For	For
1.04	Elect Thomas Leppert	For	For
1.05	Elect Charles Lillis	For	Withhold
1.06	Elect Phillip Matthews	For	Withhold
1.07	Elect Regina Montoya	For	For
1.08	Elect Michael Murphy	For	For
1.09	Elect Margaret Osmer McQuade	For	Withhold
1.10	Elect Mary Pugh	For	Withhold
1.11	Elect William Reed, Jr.	For	For
1.12	Elect Orin Smith	For	For
1.13	Elect James Stever	For	Withhold
2.00	Ratification of Auditor	For	For
3.00	Amendment to the Amended and Restated 2002 Employee Stock Purchase Plan	For	For
4.00	Shareholder Proposal Regarding Independent Board Chair	Against	For
5.00	Shareholder Proposal Regarding Majority Voting	Against	For

Company Profile

ADDRESS

1301 Second Avenue
Seattle, WA 98101
www.wamu.com
Phone: +1 (206) 4612000
Fax: +1 (206) 5542778

Employees: 49,403

STOCK

Ticker:	WM
Exchange:	NYSE
Industry:	S&L's/Savings Banks

COMPANY DESCRIPTION

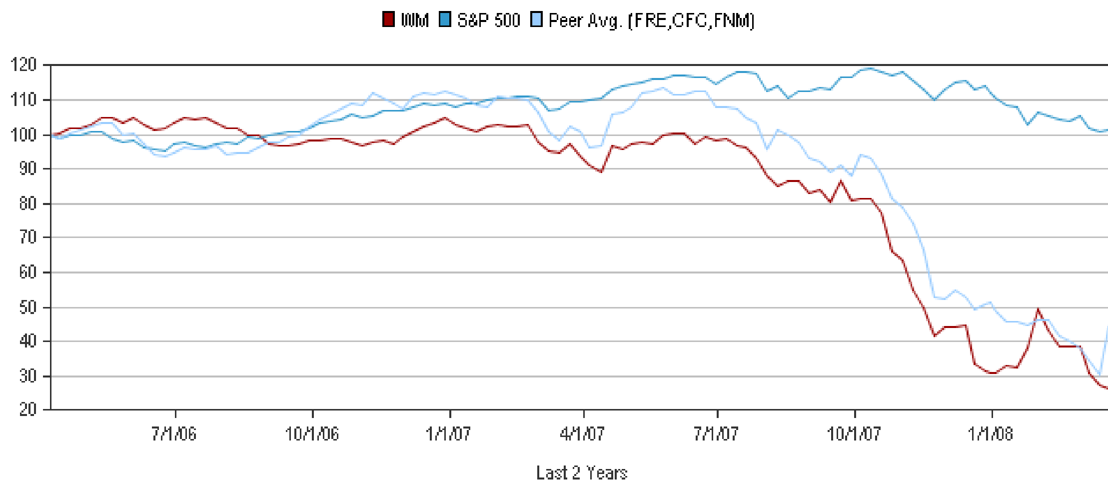
Washington Mutual, Inc. (Washington Mutual) is a retailer of financial services to consumers and small businesses. The Company is a savings and loan holding company. It owns two federal savings associations, as well as numerous non-bank subsidiaries. The Company has four operating segments: the Retail Banking and Financial Services Group; the Home Loans Group; the Card Services Group, and the Commercial Group. The Retail Banking and Financial Services Group, the Home Loans Group and the Card Services Group are consumer-oriented while the Commercial Group serves commercial customers. In addition, the category of Corporate Support/Treasury and Other includes the community lending and investment operations, as well as the Treasury function, which manages the Company's interest rate risk, liquidity, capital, borrowings, and a majority of the Company's investment securities. In October 2006, Washington Mutual completed the acquisition of Commercial Capital Bancorp, Inc.

Source: FactSet

TOP 20 INSTITUTIONAL HOLDERS

Holder	% Owned
1. Capital World Investors	8.08%
2. Capital Research Global Investors	6.82%
3. Brandes Investment Partners LP	5.82%
4. Barrow, Hanley, Mewhinney & Strauss, Inc.	5.22%
5. Hotchkis & Wiley Capital Management LLC	5.04%
6. Harris Associates LP	4.07%
7. Barclays Global Investors NA (CA)	3.39%
8. Dreman Value Management LLC	3.24%
9. State Street Global Advisors	3.18%
10. Franklin Advisers, Inc.	3.16%
11. Vanguard Group, Inc.	3.00%
12. Deutsche Investment Management Americas, Inc.	2.16%
13. Capital Guardian Trust Co.	2.12%
14. Aronson & Johnson & Ortiz LP	1.36%
15. AllianceBernstein LP	1.30%
16. Legg Mason Capital Management, Inc.	1.16%
17. Pzena Investment Management	1.01%
18. Northern Trust Investments	1.01%
19. Delaware Investment Advisers	1.00%
20. LSV Asset Management	0.95%

INDEXED STOCK PRICE



GLASS LEWIS & Co.

Competitors / Peer Comparison[1]

	Washington Mutual, Inc.	Freddie Mac	Countrywide Financial Corporation	Fannie Mae
Ticker	WM	FRE	CFC	FNM
Closing Price (03/27/08)	$ 10.53	$ 27.08	$ 5.88	$ 27.97
Shares Outstanding (mm)	869.0	646.3	578.4	974.1
Market Capitalization (mm)	$ 9,151.0	$ 17,500.9	$ 3,401.2	$ 27,245.7
Enterprise Value (mm)	$ 52,010.9	$ 761,769.0	$ 91,818.2	$ 836,624.0
Revenue (LTM) (mm)	$ 25,531.0	$ 42,910.0	$ 8,442.3	$ 44,766.0
Growth Rate				
Revenue Growth Rate (5 Yrs)	9.2%	2.7%	2.6%	-3.5%
EPS Growth Rate (5 Yrs)	-	-	-	-
Profitability (LTM)				
Return on Equity (ROE)	-0.3%	-11.5%	-4.9%	-4.8%
Return on Assets (ROA)	-0.0%	-0.4%	-0.3%	-0.2%
Dividend Rate	5.7%	3.7%	10.2%	5.0%
Stock Performance				
1 Year Stock Performance	-74.4%	-55.6%	-83.1%	-50.1%
3 Year Stock Performance	-73.1%	-56.9%	-81.5%	-48.4%
5 Year Stock Performance	-70.5%	-50.4%	-59.3%	-58.1%
Annualized 1 Year Total Return (past 3 yrs)	-22.9%	-17.6%	-26.7%	-14.7%
Valuation Multiples (LTM)				
P/E Ratio	-	-	-	-
TEV/Revenue	2.0x	17.8x	10.9x	18.7x
TEV/EBIT	168.3x	23.0x	-70.1x	22.9x
Margins Analysis (LTM)				
Gross Profit Margin	N/A%	7.2%	N/A%	7.5%
Operating Income Margin	N/A%	-10.1%	12.7%	3.2%
Net Income Margin	-0.3%	-7.2%	-8.3%	-4.5%
Liquidity/Risk				
Current Ratio	N/Ax	N/Ax	N/Ax	N/Ax
Debt-Equity Ratio	1.83x	27.64x	6.63x	18.09x
Auditor Data[2]				
Year	2007	2006	2006	2006
Auditor	Deloitte & Touche	PricewaterhouseCoopers	KPMG	Deloitte & Touche
Auditor Fees	$ 10,703,000	$ 45,075,574	$ 13,759,148	$ 42,000,000
Audit Related Fees	$ 2,109,000	$ 8,898,000	$ 6,586,108	$ 192,000
Tax + All Other Fees	$ 2,264,000	-	-	-
Executive Compensation[3]				
Year of Data	2007	2006	2006	2006
Chief Executive Officer	$11,921,569	$12,869,434	$39,941,399	$12,583,149
Other Named Executives	$17,767,272	$27,609,188	$67,251,226	$22,698,718

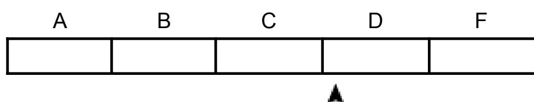
Source: FactSet Research Systems, Reuters, Thomson Financial, and Glass, Lewis & Co. LLC

1. Listed competitors are based on GICS® industry classifications and other financial metrics including market capitalization and revenue.
2. As disclosed by the Company and its peers in their most recent proxy filings.
3. As calculated by Glass Lewis based on information disclosed by the Company and its peers in their proxy filings.

Pay-For-Performance

Washington Mutual's executive compensation received a **D** grade in our proprietary pay-for-performance model, which uses 36 measurement points. The Company paid: about the same compensation to its top officers (as disclosed by the Company) as the median compensation for 40 similarly sized companies with an average enterprise value of $52 billion; about the same as a sector group of 22 large financials companies with enterprise values ranging from $26.9 billion to $69.4 billion; and less than a sub-industry group of 4 thrifts & mortgage finance companies. The CEO was paid about the same as the median CEO in these peer groups. Overall, the Company paid about the same as its peers, but performed worse than its peers.

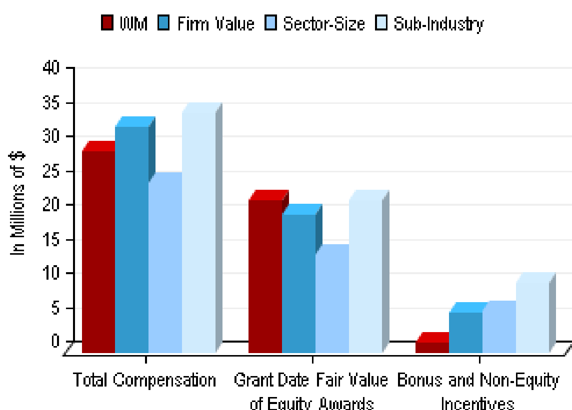
FY 2007 Compensation Committee Grade



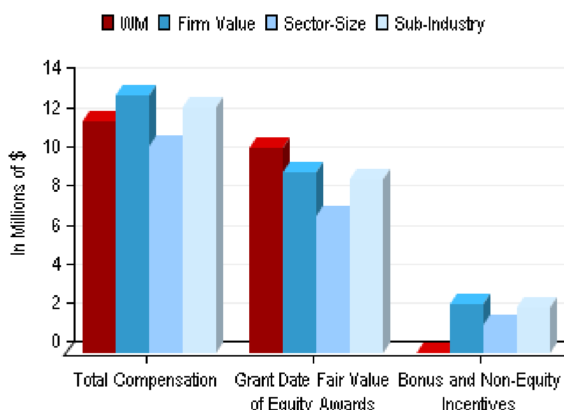
Historical Compensation Score

Fiscal Year	2005	2006	2007
Grade	C	D	D

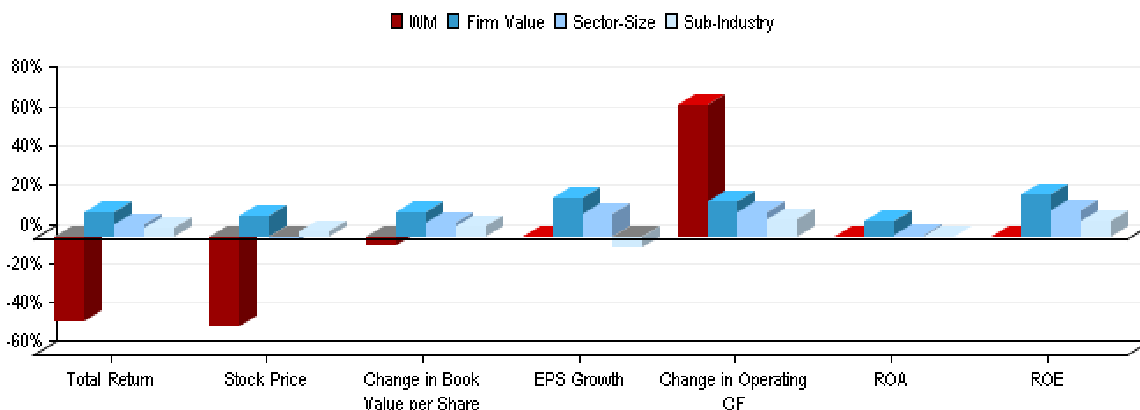
Company Compared with Median



CEO Compared with Median



Shareholder Wealth and Business Performance



Note: Compensation analysis for period ending 12/2007. Performance measures based on weighted average of annualized 1, 2, and 3 year data.

GLASS LEWIS & Co.

Voting Results from Last Annual Meeting (April 17,2007)

Source: 10-Q dated June 30, 2007

ELECTION OF DIRECTORS

No.	Proposal	Votes Withheld
1	Elect Anne Farrell	1.97%
2	Elect Stephen Frank	2.04%
3	Elect Kerry Killinger	1.90%
4	Elect Thomas Leppert	1.41%
5	Elect Charles Lillis	1.97%
6	Elect Phillip Matthews	2.03%
7	Elect Regina Montoya	1.46%
8	Elect Michael Murphy	1.90%
9	Elect Margaret Osmer McQuade	1.54%
10	Elect Mary Pugh	7.81%
11	Elect William Reed, Jr.	2.39%
12	Elect Orin Smith	1.39%
13	Elect James Stever	2.01%

Voting Results from Last Annual Meeting (April 17,2007)

Source: 10-Q dated June 30, 2007 and Form NP-X

OTHER ITEMS

No.	Proposal	Votes			
		For	Against	Abstain	Broker Non-Votes
2	Ratification of Auditor	709,882,232	5,502,012	5,549,846	0
3	Shareholder Proposal Regarding Supplemental Executive Retirement Plan Policy	145,085,583	428,423,362	10,196,523	137,228,622
4	Shareholder Proposal Regarding Majority Voting in Director Elections	251,273,209	324,454,044	7,978,150	137,228,687

Proposal 1.00: Election of Directors

SPLIT

BOARD OF DIRECTORS

Name	Up	Age	GLC Classification	Committees				Term Start	Term End	Attended at least 75% of Meetings
				Audit	Comp	Gov	Nom			
Stephen I. Chazen	✔	61	Independent	✔				2008	2008	Yes
Stephen E. Frank	✔	66	Independent [1]	C	✔			1997	2008	Yes
Kerry K. Killinger	✔	58	Insider [2]					1988	2008	Yes
Thomas C. Leppert	✔	53	Independent [3]	✔		✔	✔	2005	2008	Yes
Charles M. Lillis	✔	66	Independent		✔			2005	2008	Yes
Phillip D. Matthews	✔	69	Independent		✔	✔	✔	1998	2008	Yes
Regina T. Montoya	✔	54	Independent					2006	2008	Yes
Michael K. Murphy	✔	71	Independent [4]	✔				1985	2008	Yes
Margaret Osmer McQuade	✔	69	Independent		✔	✔	✔	2002	2008	Yes
Mary E. Pugh	✔	48	Affiliated [5]					1999	2008	Yes
William G. Reed, Jr.	✔	69	Independent	✔		C	C	1970	2008	Yes
Orin C. Smith	✔	65	Independent	✔		✔	✔	2005	2008	Yes
James H. Stever	✔	64	Independent		C	✔	✔	1991	2008	Yes

C = Chair

1. Lead director.
2. Chairman and CEO.
3. Former chairman and CEO (until December 2006) of The Turner Corporation, which provided general contracting services to the Company prior to his joining the board.
4. Former trustee (until 2005) of the registered investment companies that comprise the WM Group of Funds and whose investment advisor is an indirect wholly owned subsidiary of the Company.
5. Founder, president and CEO of Pugh Capital Management, which received approximately $175,694 from the Company for investment advisory services in fiscal 2006.

The board has nominated thirteen candidates to serve a one-year term each. If elected, their terms would expire at the Company's 2009 annual meeting of shareholders.

Over the past fiscal year, shareholders have seen the Company's stock price plummet by approximately 70% to its lowest levels in over a decade, as an adverse housing market and the deterioration of the credit quality of the Company's loan portfolio have weighed heavily on the Company's performance. Despite these losses, the board recently decided to shield future home loan losses from the 2008 bonus calculation for the Company's executives. We view this as a blatant reaction to the poor performance of the Company, enabling manipulation of bonus calculations by the human resources committee, as it may allow the board to reward executives regardless of performance. Further, the board now faces a campaign initiated by CtW Investment Group to vote against the election of directors Pugh and Stever. We believe that shareholders should hold certain directors accountable for their apparent lack of oversight with respect to the Company's risk management and compensation practices.

Subprime Mortgage Issues

Over the course of the last year, the effects of the collapse of the subprime mortgage market have spread across a broad range of industries, exacting a significant financial toll on a macroeconomic scale. In particular, large financial firms have absorbed the substantial brunt of the financial losses, with those in the S&P 500 index expected to recognize an estimated $125 billion to $175 billion in mortgage and credit-related writedowns. Such writedowns come in addition to an aggregate loss of approximately $593 billion in market value at these financial firms (Tami Luhby. "Credit Writedowns May Total $175B - Analyst." *CNNMoney.com*. February 11, 2008).

Considering the severe impact these costs have had on the financial position of many firms, we believe shareholders would benefit from an extensive review of the Company's present financial, legal and regulatory exposure, as well as any corrective action taken to identify, disclose and ultimately limit future damage to shareholder value.

Effect of the Subprime Writedowns

Like many other financial services firms, the crisis in the subprime mortgage market has resulted in enormous financial losses for the Company. Specifically, on October 17, 2007, the Company disclosed in a Form 8-K that, as a result of falling home values and disruptions in the capital markets, it had recorded $967 million in provisions for loan and lease losses during the third quarter of fiscal year 2007. Further, net income for the same period fell by $538 million compared to the third quarter of fiscal year 2006. Subsequently, the Company disclosed in a Form 10-K that it had recorded a provision for loan losses of approximately $3.1 billion and net charge-offs of approximately $1.6 billion for the fiscal year ended December 31, 2007. Additionally, the Company's net income declined over the past year by approximately $3.6 billion, resulting in a net loss of $67 million for fiscal year 2007. We note that as of December 31, 2007, the Company held for investment approximately $18.6 billion in subprime mortgage channel loans, including approximately $2.5 billion of home equity loans. Given that these loans have a greater probability of delinquencies compared to prime mortgage loans, additional charge-offs in the Company's investment portfolio may ensue, which may have an adverse effect on the Company's results of operations in future periods.

The Company's Response to Reduce Financial Exposure

After reporting disappointing third quarter results in 2007, the Company announced that it would take a series of initiatives to strengthen the Company's capital and liquidity, and accelerate the alignment of the Company's home loans business with its retail banking operations. Specifically, on December 10, 2007, the Company disclosed in a Form 8-K that it would be taking the following actions:

- Issue convertible preferred stock to raise additional capital;
- Undergo a major expense reduction initiative that is projected to reduce non-interest expense in fiscal 2008 by $500 million;
- Close approximately 190 of 336 home loan centers and sales offices;
- Close nine home loan processing and call centers;
- Eliminate approximately 2,600 home loan positions, and 550 corporate and other support positions;
- Shift the strategic focus of the Company's home loan business to increase emphasis on mortgage lending through the Company's retail channels;
- Discontinue all remaining lending through the Company's subprime mortgage channels; and
- Close WaMu Capital Corp, the Company's institutional broker-dealer business, as well as its mortgage banker finance warehouse lending operation.

Further, the Company announced that the board would reduce the quarterly dividend rate for the Company's common stock from $0.56 per share to $0.15 per share. On January 17, 2008, the Company announced in a Form 8-K that it had raised $2.9 billion from the sale of convertible preferred stock.

Despite this turmoil, the Company did not appear to make many executive management changes during the past year. On August 31, 2007, the Company disclosed in a press release that it had named John McMurray as chief credit officer. Mr. McMurray previously served as chief risk officer as Countrywide Financial. The Company states that Mr. McMurray will report to Ron Cathcart, executive vice president and chief enterprise risk officer.

CtW Investment Group's Campaign Against Certain Board Members

On February 8, 2008, CtW Investment Group ("CtW"), which works with pension funds sponsored by unions with a federation of unions called Change to Win, sent letters to nominees Frank, Pugh and Reed asking them to address the specific steps that they took to proactively protect the interests of the Company's shareholders from excessive exposure to risk. In the letters, CtW maintained that Ms. Pugh and Messrs. Frank and Reed, as

members of the finance committee, bear the responsibility for failing to recognize the Company's exposure to the risks of the housing market. (See http://www.ctwinvestmentgroup.com/uploads/media/CtW_Inv_Grp_to_WaMu_Pugh_cc_KK_Feb_8_2008.pdf) Additionally, CtW noted the following concerns with each of the aforementioned directors:

- Mr. Frank may be overcommitted with respect to his directorships and committee service on various company boards;
- Ms. Pugh is a former employee of the Company and has a longstanding business relationship between her firm and the Company; and
- Mr. Reed has served on the board for 37 years and has interlocking directorships with chairman and CEO Kerry Killinger.

On March 21, 2008, Mr. Killinger and other Company executives hosted a private meeting with CtW to discuss, among other things, the Company's risk management programs and executive compensation practices ("WaMu Execs Meet With Pension Fund Group." *Bizjournals.com*. March 21, 2008). On March 27, 2008, CtW sent a letter to the Company's shareholders urging shareholders to vote against nominees Pugh and Stever at the 2008 annual meeting. In the letter, CtW argues that Ms. Pugh's long-time business relationship raises concerns over her independence as well as her willingness to challenge management's desire to increase risk in the hope of expanding margins. CtW further claims that Ms. Pugh was aware of the significant risk the Company had taken on, but she failed to take any action as finance committee chair to mitigate downside exposures to the housing market. With respect to Mr. Stever, chairman of the human resources committee, CtW noted that he could not provide a rationale for removing credit loss and foreclosure cost mitigation as performance measures for 2008 bonuses. (See http://www.ctwinvestmentgroup.com/uploads/media/Wamu_Shareholder_Letter_3-27-08.pdf). To the best of our knowledge, the Company has not publicly commented on the concerns brought forth by CtW. CtW ultimately decided not to recommend shareholders vote against directors Frank or Reed. In a Proxy Talk hosted by Glass Lewis on March 28, 2008, Richard Clayton of CtW explained the group's rationale for not seeking to remove Messrs. Frank and Reed, noting the former was not as overcommitted as originally thought and that the latter had stepped down from one of the boards where he served with CEO Killinger.

Legal and Regulatory Risk: Medium

Over the past several years, the Company has been involved with various legal matters that have brought into question the Company's risk management and general business practices.

As noted in our previous Proxy Papers, in July 2004, the Company and several of its officers were named as defendants in a consolidated class action lawsuit alleging violations of federal securities laws based upon various public statements, in which the defendants allegedly made misrepresentations and failed to disclose material facts concerning, among other things, internal systems problems and the Company's financial hedging strategies. In May 2005, the Company and several of its officers moved to dismiss the suit. In November of the same year, the court, while not dismissing the suit entirely, dismissed the claims against certain of the individual defendants, dismissed claims pleaded on behalf of sellers of put options on the Company's stock, and concluded that the plaintiffs could not rely on supposed violations of accounting standards to support their claims.

The remaining defendants subsequently moved for reconsideration and appealed the ruling to the Ninth Circuit. The district court denied the motion for reconsideration, but granted the motion for certification of the opinion for appeal. On June 9, 2006, the Ninth Circuit granted the defendants' motion to review the district court's decision, indicating that it would hear the merits of the defendants' appeal. According to the Company's most recent annual report, oral argument has been scheduled for April 8, 2008.

Furthermore, as discussed in our previous Proxy Papers, in November 2005, a shareholder derivative lawsuit was filed against several of the Company's officers and current board members who served on the board from April 15, 2003, through June 2004. The allegations mirror those in the aforementioned consolidated securities class action, but seek relief based on claims that the independent director defendants failed to properly respond to the misrepresentations alleged in the class action. The shareholders further allege that the filing of that action has

caused the Company to expend sums to defend itself and the individual defendants and to conduct internal investigations related to the underlying claims. The case was moved to the district court, where the matter is stayed pending the outcome of the aforementioned consolidated securities class action.

On November 1, 2007, Andrew Cuomo, Attorney General of the State of New York, filed a lawsuit against First American Corporation and First American eAppraiseIT ("EA"), alleging that the Company conspired with EA in various ways to falsely increase the valuations done by appraisers. In a press release, Mr. Cuomo announced that his investigation uncovered a series of incriminating emails that showed that EA submitted to pressure from the Company to use a list of preferred "proven appraisers" who provided inflated appraisals on homes. Further, Mr. Cuomo asserts that the Company profited from the higher appraisals because the Company could close more home loans at greater values (see http://www.oag.state.ny.us/press/2007/nov/nov1a_07.html). On November 7, 2007, the Company issued a press release stating that it would investigate the matter and vigorously defend itself from any unfounded allegations or lawsuits. The Company further notes that less than 5% of the appraisals performed under its contract with EA were related to subprime loans. On December 21, 2007, the Wall Street Journal reported that the SEC had begun an investigation into the Company's handling and reporting on mortgage loans that may have been based on inflated home appraisals (Efrati, Amir. "SEC Probes WaMu on Appraisals." *The Wa* *The Wall Street Journal* December 21, 2007).

According to the Company's most recent Form 10-K, four securities class actions were filed in 2007 against the Company and certain of its officers. The plaintiffs in each case allege that the defendants violated federal securities laws by making false and misleading statements and omissions concerning, among other things, the conspiracy with EA as alleged by the State of New York as well as various aspects of the Company's performance and accounting in light of that alleged conspiracy and of changing conditions in the home lending and credit markets.

The Company further states that eight shareholder derivative actions were filed in 2007 against certain of the Company's officers and directors. The allegations mirror those in the aforementioned securities actions, but seek relief based on claims that the defendants, among other things, breached their fiduciary duties, participated in the fraud conspiracy, and have been unjustly enriched. Moreover, beginning in November 2007, eight ERISA class action lawsuits were filed against the Company, and certain officers and directors, asserting that the defendants were fiduciaries of the WaMu Savings Plan and breached their duties to plan participants by not using the skill and prudence necessary to manage the plan and failing to provide accurate information regarding the plan to plan participants.

In our view, shareholders should be concerned with any type of lawsuit involving the Company, as such matters could potentially expand in scope and prove to dampen shareholder value. As such, in the event that members of management or the board are implicated in any such legal proceedings, we may consider recommending that shareholders withhold votes from certain directors on that basis. We believe shareholders should be extremely concerned with the aforementioned accusations, especially in light of the shareholder concerns surrounding the Company's risk management practices. However, due to the ongoing nature of the lawsuits, we do not feel that any such action is necessary at this time. We will continue to monitor the proceedings going forward for any material developments.

Executive Compensation Issues

Exclusion of Loan Losses in the Calculation of 2008 Bonuses

On March 3, 2008, the Company disclosed in a Form 8-K that the human resources committee had established the following performance measures and bonus targets for executives under the Company's 2008 Leadership Bonus Plan:

- 30% weighted on the Company's 2008 net operating profit before taxes, excluding the effects of (i) loan loss provisions other than those related to the Company's credit card business and (ii) expenses related to foreclosed real estate assets;
- 25% weighted on the Company's 2008 noninterest expense, excluding expenses related to (i) business

resizing or restructuring and (ii) foreclosed real estate assets;

- 25% weighted on the Company's 2008 depositor and other retail banking fees; and
- 20% weighted on the Company's 2008 customer loyalty performance.

The Company cites a "challenging business environment and the need to evaluate performance across a wide range of factors" as part of the human resource committee's rationale for choosing these measures. The Company further states that the committee will subjectively evaluate Company performance in credit risk management and other strategic actions that impact overall corporate profitability. However, given that the Company's poor performance during the past fiscal year was due in large part to the Company's home loans business, we question the human resource committee's decision to exclude the effects of home loan losses from the executive bonus calculations for 2008. We are concerned that this change in metrics may be blatant manipulation by the human resources committee to allow the board to continue awarding bonuses to executives regardless of performance. Given that mortgages and real estate loans make up a significant portion of the Company’s business, we find no justification for excluding from the consideration of executive bonuses losses associated with those businesses, especially because the Company had not previously specifically excluded *gains* from those businesses in its executive bonus calculations. We do not believe this decision by the human resources committee is in the best interests of shareholders, as discussed further below.

Compensation Discussion & Analysis Disclosure

In August of 2007, the staff of the SEC, through its Division of Corporate Finance, distributed comment letters to 350 public companies regarding their executive compensation disclosures, including the Compensation Discussion & Analysis ("CD&A") portion of their proxy statements. In light of this additional scrutiny, and considering the nascent nature of the CD&A requirement, we believe that shareholders would benefit from a pointed assessment of the Company's CD&A disclosure. In completing our assessment, we consider, among other factors, how performance goals and metrics are set, how such goals and metrics are used to improve Company performance, the peer group against which the Company believes it is competing and the discretion afforded management or the human resources committee to deviate from any of the foregoing standards.

After review, we find that the Company provides somewhat vague disclosure regarding the processes and procedures by which they compensate their top executives. In addition, we believe the Company provided particularly clear disclosure in the following areas:

- The layout of the compensation elements and objectives, as well as a breakdown of the total percentage of "at risk" compensation for named executive officers ("NEOs");
- The identification of and reasons for the Company's selection of the peers to which it compared itself in determining appropriate compensation for NEOs;
- The reasons for variances in target cash and long-term incentive awards compared to the Company's benchmarking guidelines; and
- The discussion of the process for determining long-term equity incentive compensation for NEOs.

Bearing the foregoing in mind, we note the following concerns with the Company's CD&A disclosure:

- With respect to the performance metrics for annual incentive bonuses, the Company does not disclose its EPS and customer loyalty targets, does not document why the targets should be treated as confidential, and does not meaningfully discuss the likelihood of NEOs achieving those targets;
- The Company does not provide a clear rationale for the change in performance measures for the 2008 bonus plan;
- The Company does not disclose how performance measures are quantified and ultimately translated into objective payments;
- The Company provides limited information regarding the targets for NEOs under the Company's long-term incentive plan; and
- With respect to the performance metrics used to determine performance share payouts, the Company does not disclose its performance relative to its peers.

While we recognize the Company's desire to limit certain disclosures that it feels may harm its competitive position, we believe that the human resources committee can reasonably afford to provide additional disclosure to shareholders in the areas noted above. We will closely monitor the format and clarity of the Company's CD&A going forward, especially considering the human resource committee's decision to exclude the impact of further loan losses in its calculation of 2008 bonuses for NEOs, as noted above.

We recommend withholding votes from the following nominees up for election this year based on the following issues:

Nominee **PUGH** has served on the finance committee during periods in which the committee failed to adequately oversee the Company's risk controls following significant changes in the Company's business strategy. Specifically, Ms. Pugh has served as a member of the committee since 1999 and has served as its chair since fiscal year 2004. As discussed above, the Company recorded a provision for loan losses of approximately $3.1 billion and net charge-offs of approximately $1.6 billion for fiscal 2007. According to proxy statement disclosures, since at least 2006, the finance committee has been responsible for approving and monitoring the Company's management of market and credit risk. We are concerned that the Company's poor risk controls indicate that the finance committee has not effectively served shareholders in this regard.

Our concern is further exacerbated due to the potential that Ms. Pugh's past relationship with the Company might have affected her objectivity and oversight of the Company's risk management. We note that, prior to 1991, Ms. Pugh was senior vice president of Washington Mutual Savings Bank. Since that time, she has served as founder, president and CEO of Pugh Capital Management, Inc., which has received payments from the Company for investment advisory services in years past. In our previous Proxy Papers, we have questioned the need for the Company to engage in professional service relationships with Ms. Pugh and we repeat that concern here. We view such relationships as potentially creating conflicts for directors, as they may be forced to weigh their own interests in relation to shareholder interests when making board decisions. In addition, the Company's decision regarding where to turn for the best professional services may be compromised when doing business with the firm of one of the Company's directors. This concern is further bolstered given her service as chair of the committee charged with overseeing the Company's risk management practices. As such, we believe that shareholders should hold Ms. Pugh, as chair of the finance committee, accountable for the Company's ineffective risk management practices and believe shareholders would be better served by an independent director overseeing the Company's risk management.

Nominees **FRANK, LILLIS, MATTHEWS, MCQUADE** and **STEVER** have served as members of the human resources committee since fiscal year 2007. As discussed above, the human resources committee decided to exclude housing-related loan losses from its pay calculation for executive bonuses in 2008. We question the human resources committee's decision to pay annual cash bonuses to executives based on factors that do not reflect the *entire* performance of the Company. We believe that this compensation structure merely serves to protect the bonuses paid to executives rather than align pay to performance. Further, we believe shareholders should be concerned that such an incentive structure may result in executives turning their attention away from certain issues that may be critical to the Company's success going forward.

We also note that the calculation for incentive compensation to all executives is based on the same performance metrics and relative weights. As such, we do not believe that the human resources committee is providing adequate incentives to certain executives, including the Company's chief enterprise risk officer, to focus them on the duties they are charged with. Rather, in our view, it appears that the committee may be setting up incentive plans that encourage all executives, including those charged with monitoring risk controls, to take on an inappropriate amount of risk. Further, we note that in fiscal years 2006 and 2007, the Company paid about the same compensation to its top executives as its peers but performed worse than its peers. The members of the human resources committee have the responsibility of reviewing all aspects of the compensation program and engaging in fair compensation practices for the Company's executive officers. While we recognize that Mr. Killinger did not accept a bonus in fiscal 2007 despite being eligible for one, given our concerns regarding the Company's compensation practices, it appears that members of this committee have not effectively served

shareholders in this regard.

Accordingly, we recommend that shareholders vote:

WITHHOLD: Frank; Lillis; Matthews; McQuade; Pugh; Stever

FOR: All other nominees

Proposal 2.00: Ratification of Auditor

FOR

Washington Mutual, Inc. Auditor Fees

The Company proposes that Deloitte & Touche serve as the Company's independent auditor for 2008. Deloitte & Touche has served as the Company's auditor for at least the last six years.

During the last fiscal year, the Company paid Deloitte & Touche audit fees of $10,703,000, audit-related fees of $2,109,000 and tax fees of $2,261,000. All other fees totaled $3,000.

We believe the fees paid for non-audit related services are reasonable as a percentage of all fees paid to the auditor. The Company appears to disclose appropriate information about these services in its filings.

Accordingly, we recommend that shareholders vote **FOR** ratification of the appointment of Deloitte & Touche as the Company's auditor for fiscal year 2008.

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Proposal 3.00: Amendment to the Amended and Restated 2002 Employee Stock Purchase Plan

FOR

This proposal seeks shareholder approval to amend the Amended and Restated 2002 Employee Stock Purchase Plan. If approved, it would authorize an additional 4.0 million shares for issuance, which when issued would dilute current shareholders by 0.5%.

Summary of the Proposed Plan:

Plan Title:	Amended and Restated 2002 Employee Stock Purchase Plan
Number of Shares:	4,000,000
Percentage of Outstanding:	0.5%
Award Types Permitted:	Common stock
Participants:	Employees
Administrators:	Human resources committee
Limits:	Individual limit of $25,000 worth of common stock per year and 2,000 shares of common stock per offering period or calendar year
Price:	The lower of 85% of the fair market value on the first or last day of each offering period

Analysis of the Proposed Plan:

Analysis: *Likely Annual Purchase*
Result: *Exceeded Reasonable Limit*
Size of the Plan. Given past issuing patterns, we calculate that employees will purchase approximately 538,450 shares under the plan on an annual basis over the next several years. The plan has adequate shares from its existing available pool to meet this need until at least next year. We generally like to see companies seek approval of new plans when their existing plans are inadequate to meet near-term needs. Moreover, if the proposal were adopted, the Company would have enough shares to last more than 9 years, which we believe to be too long a time horizon for shareholders to have no input into an equity-based compensation plan.

Analysis: *Total Expense*
Costs of the Plan. We estimate that each share offered for purchase would have a cost to the Company of approximately $2.73. The total expense of the requested increase in shares available for issuance is approximately **$10.9 million**.

Based on the rate of issuance, we estimate that the program will cost approximately **$1.5 million** on an annual basis.

Use of Equity-Based Compensation:

We review employee stock purchase plans in the context of a company's overall use of equity to compensate employees. We evaluate the combined cost of the Company's employee stock purchase plan and its other

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equity-based compensation plans as a percentage of several financial metrics compared to its peers as well as compared to several absolute limits.

Cost vs. Financial Performance:	The combined cost falls **within one standard deviation** of the average for most of the same metrics for the Company's peers.
Cost vs. Enterprise Value:	The combined cost falls **within one standard deviation** of the average for the same metric for the Company's peers.
Cost per Employee:	The combined cost falls **within one standard deviation** of the average for the same metric for the Company's peers.
Pace of Grant:	The combined amount of equity granted each year under the ESPP and other plans, net of expected cancellation, will be approximately **0.6% of the outstanding shares**.

Summary:

Our analysis here indicates that the Company uses a reasonable amount of equity in its various programs.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

Proposal 4.00: Shareholder Proposal Regarding Independent Board Chair

FOR

This shareholder proposal requests that the board to adopt a policy that the chairman of the board be a director who is independent from the Company.

Proponent's Perspective

The proponent, the SEIU Master Trust, offers two main reasons why shareholders should vote in favor of this proposal: (i) an independent chairman would provide more independent oversight and accountability of management, including the CEO, by the board of directors; and (ii) the Company currently faces much criticism stemming from its significant subprime exposure, as well as its poor performance with respect to both corporate governance issues and shareholder return.

Board's Perspective

The board offers the following seven reasons why shareholders should vote against this proposal: (i) this proposal would limit the board's ability to select the director best suited to serve as chairman; (ii) the board has a lead independent director; (iii) independent directors make up a substantial majority of the board; (iv) only independent directors serve on the key committees of the board and are active participants; (v) the independent directors meet in executive session, outside the presence of the CEO or any other Company employee, after regular board meetings; (vi) the CEO's compensation is determined by independent directors; and (vii) 65% of all S&P 500 boards have a combined chairman and CEO role.

Glass Lewis' Analysis

Glass Lewis believes that separating the roles of corporate officers and the chairman of the board is almost always a positive change. While we recognize that Stephen Frank serves as the Company's independent lead director, we view this role as a minimal safeguard in the event that the roles of chairman and CEO are not separated. We view an independent chairman as better able to oversee the executives of the Company and set a pro-shareholder agenda without the management conflicts that a CEO or other executive insiders often face. This, in turn, leads to a more proactive and effective board of directors.

Research suggests that combining the positions of chairman and CEO impacts a board's decision to dismiss an ineffective CEO. A study conducted by Vidhan K. Goyal and Chul W. Park, entitled "Board Leadership Structure and CEO Turnover " (July, 2001) (*Journal of Corporate Finance 8 (2002): 49-66*), found that "the sensitivity of CEO turnover to firm performance is significantly lower when the CEO and chairman responsibilities are vested in the same individual." It is the board's responsibility to select a CEO who can best serve the Company and its shareholders and to replace this person when they are not fulfilling their duty. Such a replacement becomes more difficult and happens less frequently than we believe it should when the CEO is also in the position of overseeing the board. Given the large writeoffs by the Company, we believe shareholders would be better served by an independent chairman who would provide independent oversight over management and the board agenda, and be in a better position to oversee risk management.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

Proposal 5.00: Shareholder Proposal Regarding Majority Voting

FOR

This shareholder proposal requests that the board initiate the appropriate process to amend the Company's articles of incorporation to provide that director nominees will be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders for uncontested elections.

Proponent's Perspective

The proponent, the board of trustees of the International Brotherhood of Electrical Workers Pension Benefit Fund, offers three main reasons why shareholders should vote in favor of this proposal: (i) under the Company's current plurality vote standard, a nominee in a director election can be elected with as little as a single affirmative vote, even if a substantial majority of the votes cast are "withheld" from that nominee; (ii) an increasing number of public companies have either adopted the majority vote standard in response to strong shareholder support, or have adopted director resignation policies to address post-election issues related to the status of director nominees that fail to win election; and (iv) a combination of a majority vote standard and post-election director resignation policy would establish a meaningful right for shareholders to elect directors, while reserving for the board an important post-election role in determining the continued status of an unelected director.

Board's Perspective

The board offers the following three reasons why shareholders should vote against this proposal: (i) the board recently amended the Company's bylaws to establish a majority voting policy with a director resignation policy; (ii) the Company's existing voting provisions ensure that shareholders have a significant voice in the director election process but prevent automatic termianation of a director's term, which allows the board to respond to the shareholders' vote in a way that best serves the interests of the Company and its shareholders; and (iii) the process of amending the articles of incorporation would require the delay and expense fo calling a shareholders' meeting.

Glass Lewis' Analysis

Repeatedly over the past several decades, shareholders have sought a mechanism by which they might have a genuine voice in the election of directors at companies where they hold an interest. Proposals seeking to establish a majority vote standard in the election of directors have become a means by which shareholders can have an impact on director elections on a company-specific basis, allowing shareholders to decide whether nominees proposed by the board should serve as the representatives of shareholders in the boardroom. According to our research, in 2005, 60 majority vote proposals received the support of, on average, 43.5% of shareholder votes, over a 270% increase from the 2004 average.

Companies in opposition to the majority voting standard argue that the existing holdover rule prevents failed elections by allowing a director to retain his/her seat on the board until a successor is elected, and that because such a rule is in place, a majority vote standard would be futile. However, instances of failed elections are extremely rare, and we believe they would only occur where there was deep widespread dissatisfaction with a particular candidate. In 2005, less than 0.11% of directors among over 17,000 we surveyed received a withhold vote of 50% or greater. Moreover, the recent amendments adopted by the American Bar Association, as well as the Delaware General Corporate Law, remedy many of the technical issues that may arise from the adoption of majority voting, and therefore the holdover rule is no longer an impediment to implementing any such proposal.

After extensive research and review, the American Bar Association proposed amendments to the Model Business Corporation Act that emphasize individual corporate action in the adoption of majority voting. These amendments, as well as the additions to the Delaware General Corporate Law, propose irrevocable director resignations (such agreements could become requirements for initial nomination to the board), as well as a 90-day truncated hold-over period, and stipulate that the majority vote standard can be adopted unilaterally either

by the board or shareholders and, once approved by shareholders, cannot be amended or repealed by the board. These new provisions specifically address many of the concerns surrounding the existing holdover rule and implementation of majority voting.

In this instance, the Company has already adopted a majority vote policy in its bylaws whereby any director nominee who receives a greater number of votes “withheld” from his/her election than votes “for” must submit his/her resignation, which is then reviewed by the governance committee for recommendation to the full board, who ultimately will make the final decision to accept or reject the director’s resignation.

While we recognize that such a policy is a step in the right direction and an improvement from the plurality method commonly used to elect directors, we are concerned that this policy does not take the majority vote standard far enough. We view it as an example of the board enacting corporate governance reforms that appear to address the concerns put forth by shareholders, but when examined more closely, lack the substance that shareholders deserve. The most troubling aspect of the Company’s majority voting policy is the fact that any nominee who receives "withhold" votes from a majority of votes cast for his/her election will be required to submit a letter of resignation to the board, and therefore the board retains the ultimate authority to allow the director to continue to serve on the board.

Pursuant to this proposal, a director must receive the support of a majority of the shares cast in a director election in order to assume the role of a director. Thus, shareholders could collectively vote to reject a director they believe has not or will not pursue their best interests. We think this very minimal amount of protection for shareholders is reasonable and will neither upset the corporate structure nor reduce the willingness of qualified shareholder-focused directors to serve in the future, but rather will produce more attentive directors. Furthermore, we believe that a policy as important as a majority vote policy should be ratified by shareholders and added to the Company’s articles of incorporation, not simply included in the Company’s bylaws, which can be more easily amended by the board without shareholder approval.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

Disclosure

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