PROXY Governance, INC.

Contact: Alesandra Monaco
Published: 05/21/2008

BEAR STEARNS COMPANIES INC (NYSE : BSC)

Special Meeting | **Record Date:** 04/18/2008 | **Meeting Date:** 05/29/2008

Classification: Russell 3000, S&P 500
Fiscal Year End: 11/30/2007
Market Capitalization: $1.8B
Solicitor: MacKenzie Partners, Inc.
Shareholder Proposal Deadline: 02/28/2009

- Investor Relations
- Proxy Statement
- SEC Filing 10k
- Company Description

Meeting Agenda

Proposals			Recommendations		
			Management	**PROXY *Governance***	
MGT	**1**	Approve Merger with JPMorgan Chase & Co.	**FOR**	**FOR**	**Analysis**
MGT	**2**	Approve Adjournment of Meeting	**FOR**	**FOR**	**Analysis**

__MGT__ = Management, __SH__=Shareholder, __SHB__=Shareholder— binding proposal

Table of Contents

Comparative Performance Analysis

PROXY Governance's Comparative Performance Analysis contains calculations and graphs that reflect a company's historical performance and that of its industry peers (listed below) based on certain key financial metrics generally over a five–year period.

Comparative Performance Analysis

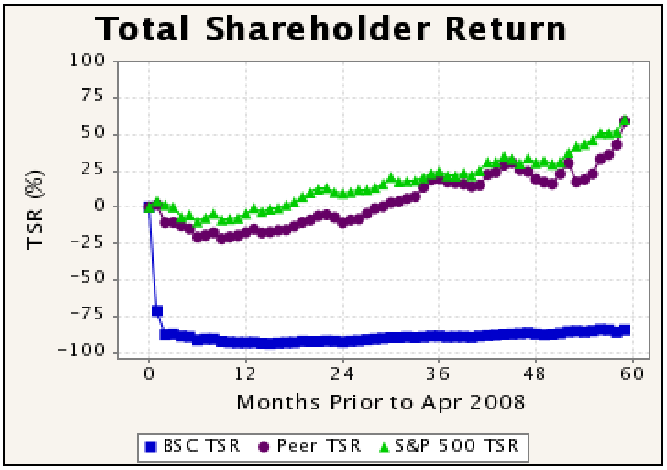
Peer Companies

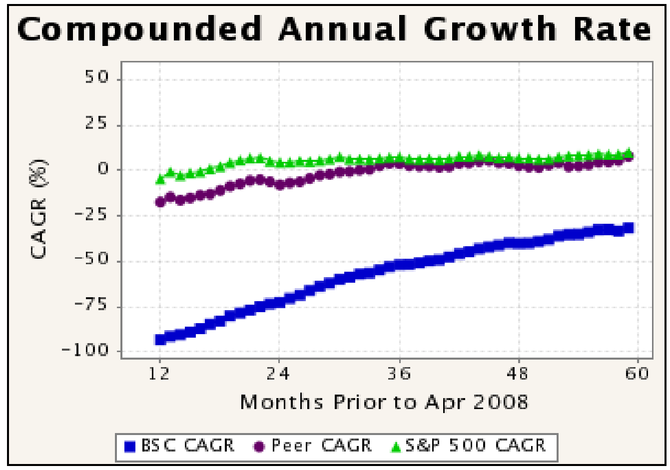
For the Comparative Performance Analysis, generally up to 10 peer companies are selected primarily based on industry, but also considering market capitalization.

Peer Companies			
E TRADE FINANCIAL CORP	EDWARDS AG INC	GOLDMAN SACHS GROUP INC	JEFFERIES GROUP INC
LEHMAN BROTHERS HOLDINGS INC	MERRILL LYNCH & CO INC	MF GLOBAL LTD -REDH	MORGAN STANLEY
RAYMOND JAMES FINANCIAL CORP	TD AMERITRADE HOLDING CORP		

Comparative Performance Analysis

Comparative Return to Shareholders





Source: FAME North American Pricing [NAP]

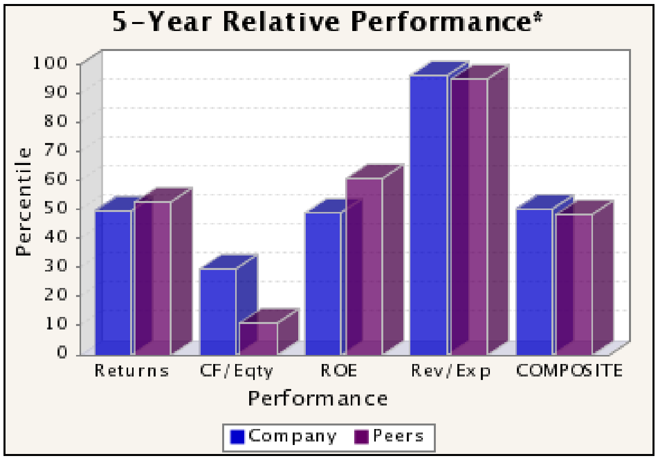
The graphs above depict total shareholder return and compounded annual growth rate at specific points in time over the past five years based on average monthly stock prices. The graphs should be read from left (present time) to right (60 months before present time). The graphs allow the user to determine either the company's total shareholder return or compounded annual growth rate to date based on an investment made at a specific point in time over the last five years. Assumes payment, but not reinvestment, of dividends.

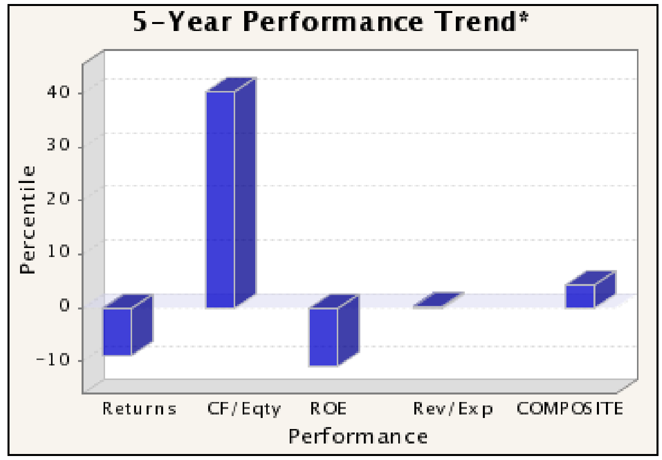
Comparative Performance Analysis

Composite Performance Summary

Composite Performance:

	Percentile relative to S&P 1500		**Percentile Pts.**
	Company	Peers	Trend
Composite:	**50**	**49**	**4**
Quarterly Shareholder Returns:	50	53	-9
Cash Flow from Operations/Equity:	30	11	40
Return on Equity:	49	61	-11
Revenue/Expenses:	96	95	Same as peers



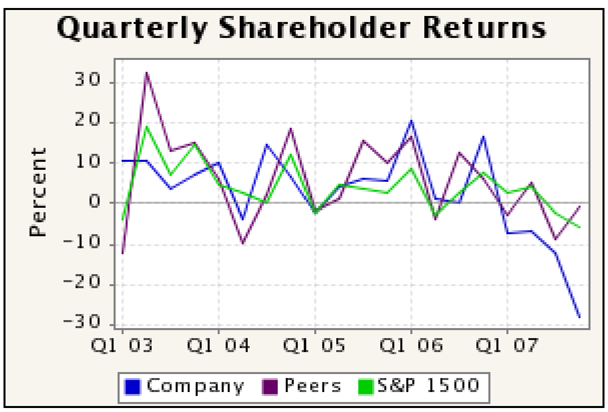


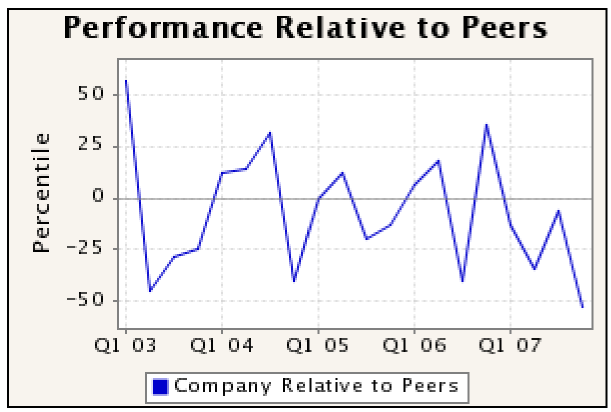
*Based on five-year data when available

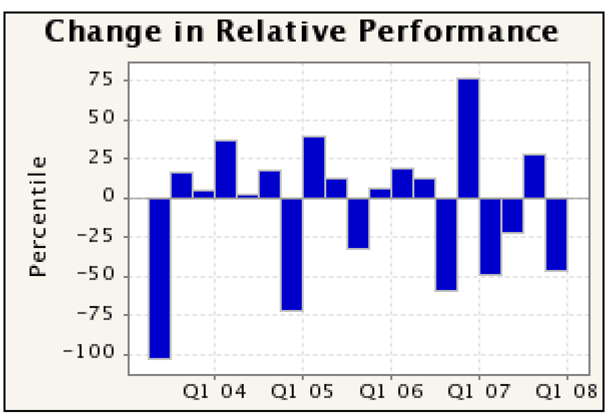
Comparative Performance Analysis

Performance Summary

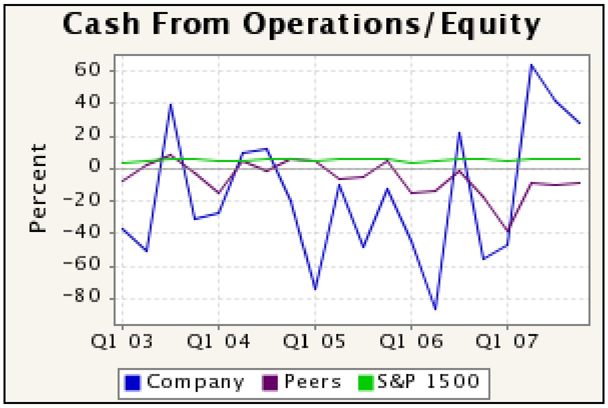
* Five-year performance data not available on the following peer company: MF GLOBAL LTD -REDH (stock began trading in Quarter 3 of 2007).

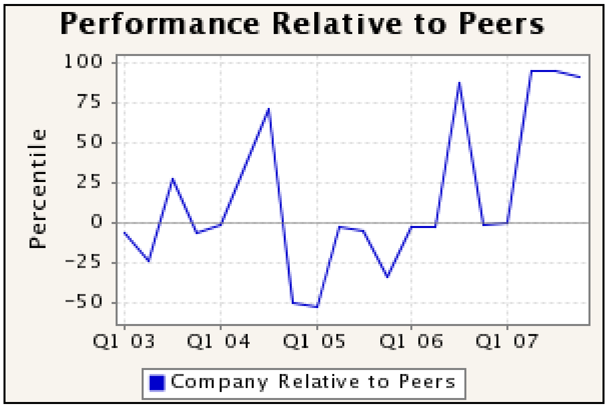


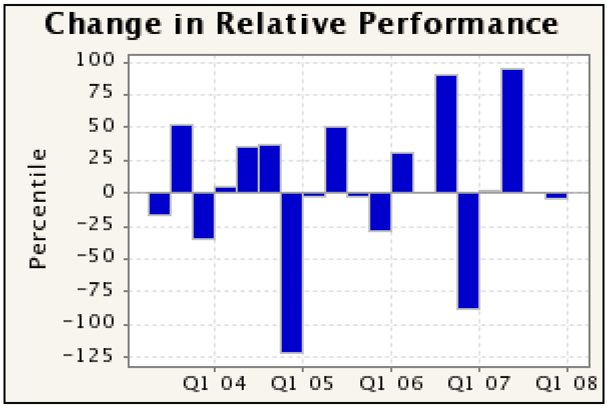




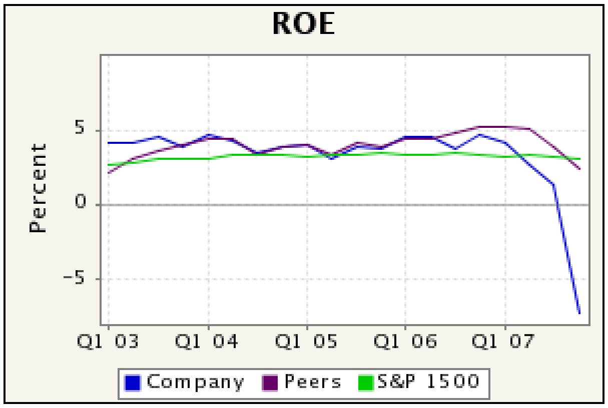
Source: Stock Price — North American Pricing [NAP]

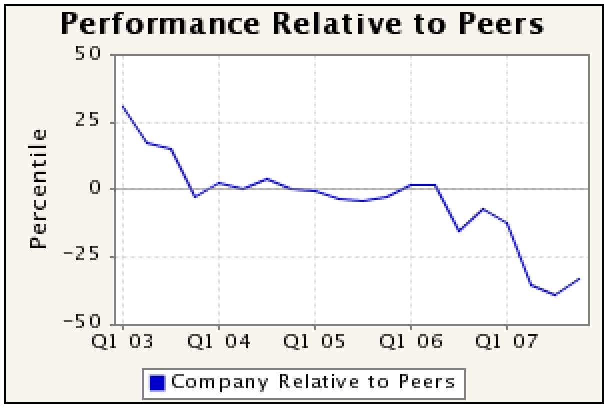


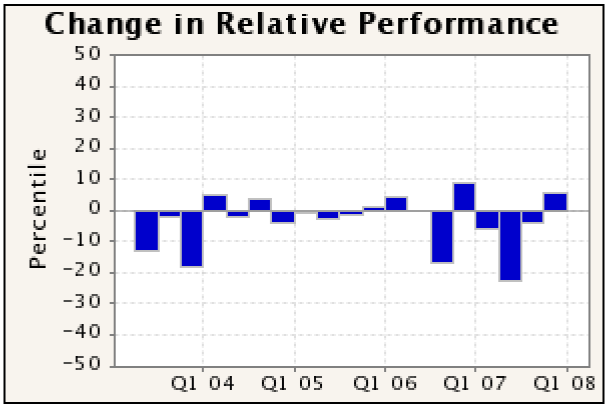




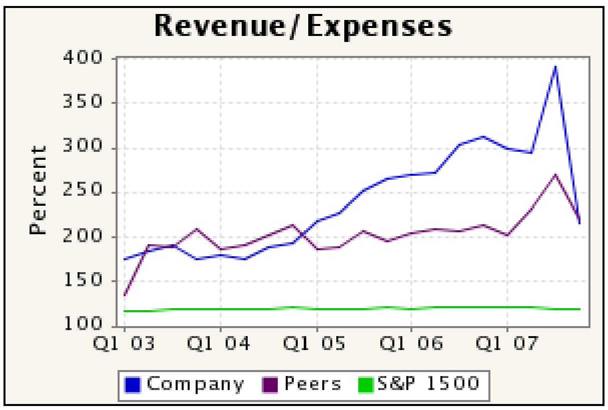
Source: Cash Flow/Equity — Compustat

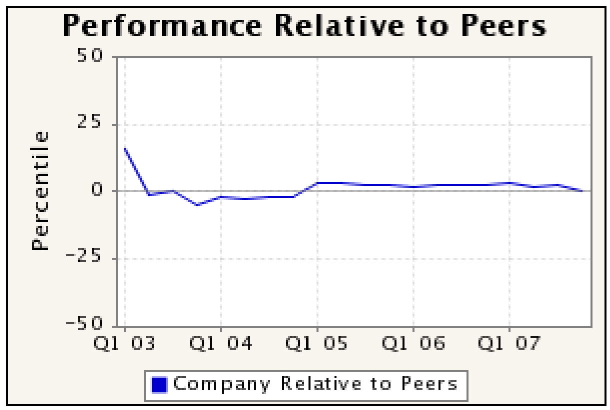


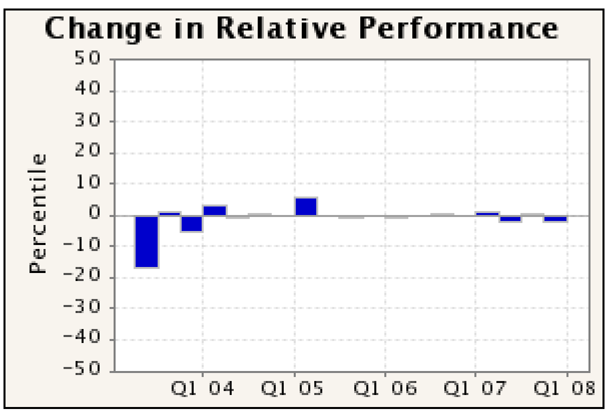




Source: ROE — Compustat







Source: Revenues/Expenses — Compustat

Governance Analysis

Governance Analysis

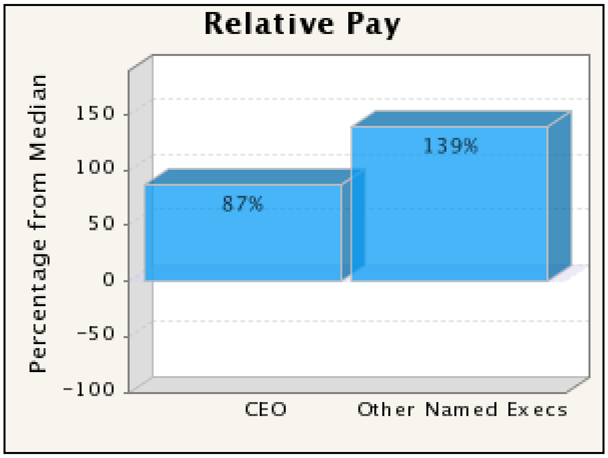
Executive Compensation

PROXY *Governance* evaluates a company's executive compensation over the last three years, as available, and compares that to the median compensation paid by its peers over the same time frame. For our compensation model, generally 20 peer companies are selected based on similarity of market capitalization and broad economic sector using the GICS. Only U.S. and certain U.S. reporting companies that are incorporated offshore are included in this peer group.

The graph that follows shows:

- The average three–year CEO compensation paid by the company expressed as a percentage from median peer compensation.
- The average three–year compensation paid to the company's other named executives (excluding the CEO) as a percentage from median peer compensation.

Domestic Peer Companies			
AMERICAN CAPITAL STRATEGIES	AMERIPRISE FINANCIAL INC	BLACKROCK INC	GOLDMAN SACHS GROUP INC
INTERCONTINENTALEXCHANGE INC	LEGG MASON INC	LEHMAN BROTHERS HOLDINGS INC	LEUCADIA NATIONAL CORP
MERRILL LYNCH & CO INC	MOODY'S CORP	MORGAN STANLEY	NORTHERN TRUST CORP
NYSE EURONEXT	PRICE (T. ROWE) GROUP	SLM CORP	TD AMERITRADE HOLDING CORP



Executive Compensation	Salary	Bonus	Other Annual Comp.	Restricted Stock	Stock Options[1]	LTIP	All Other	1-yr Pay[2]	Avg. Pay[2]
James E. Cayne Chairman of the Board and Chief Executive Officer	$250,000	$17,070,746	$0	$14,838,829	$2,848,995	$0	$6,154,315	$41,162,885	$35,669,509
Jeffrey H. Curler President, Chief Executive Officer and Chairman of the Board	$1,010,000	$0	$0	$0	$0	$0	$25,377	$6,952,112	$8,319,339
Alan C. Greenberg Chairman of the Executive Committee	$250,000	$9,000,000	$0	$7,612,500	$1,495,746	$0	$3,057,772	$21,416,018	$18,819,765
Alan D. Schwartz President and Co-Chief Operating Officer	$250,000	$16,237,150	$0	$14,014,065	$2,694,477	$0	$5,233,207	$38,428,899	$33,228,085
Warren J. Spector President and Co-Chief Operating Officer	$250,000	$16,194,430	$0	$14,052,513	$2,701,721	$0	$4,795,112	$37,993,776	$37,219,917
Samuel L. Molinaro Jr. Executive Vice President and Chief Financial Officer	$250,000	$12,967,500	$0	$10,971,750	$2,124,805	$0	$2,364,500	$28,678,555	$21,131,010
Henry J. Theisen Executive Vice President and Chief Operating Officer	$532,000	$0	$0	$0	$0	$0	$20,326	$2,891,125	$3,024,617
Gene C. Wulf Senior Vice President and Chief Financial Officer	$478,000	$0	$0	$0	$0	$0	$24,392	$2,250,390	$2,521,994
Gene H. Seashore									

Vice President Human Resources	$372,000	$0	$0	$0	$0	$0	$9,894	$1,583,189	$1,761,176
William F. Austen Vice President Operations	$399,000	$0	$0	$0	$0	$0	$36,750	$1,757,573	$1,858,334

[1]Options valued using binomial formula.
[2]Restricted stock is annualized over the year of the award and following three years; LTIP is annualized over the year of the award and previous two years. Average pay is based on three-years of pay data, when available.

Source: Salary.com (www.executive.salary.com)
As disclosed for fiscal year end 2006.

Governance Analysis

Stock Ownership/Voting Structure

Type of stock	Outstanding shares	Vote(s) per share
Common	240,739,293	1

Director & Officer Ownership
1.4%

Significant Shareholders
None

Governance Analysis

State Law/Charter/Bylaw Provisions

State Law Statutory Provisions	
State of incorporation	Delaware
Business combination	✓
Control share acquistion	
Fair price provision	
Constituency provision	
Poision pill endorsement	

Charter/Bylaws Provisions	
Classified board	
Cumulative voting	
Dual class/unequal voting rights	
Blank check preferred stock	✓
Poison pill	
Directors may be removed only for cause	
Only directors may fill board vacancies	✓
Only directors can change board size	✓
Supermajority vote to remove directors	
Prohibit shareholders to call special meetings	✓
Prohibit action by written consent	✓
Fair price provision	✓
Supermajority vote for mergers/business transactions	✓
Supermajority to amend charter/bylaw provisions	✓
Constituency provision	

Governance Analysis

Vote Results of Last Annual Meeting

PROXY *Governance* typically provides last year's vote results. However, the company did not have an annual meeting last year, so there are no results to display.

Proposal Analysis

Management

1	Approve Merger with JPMorgan Chase & Co.

PROXY *Governance* Vote Recommendation: FOR

Proposal:

The Bear Stearns Companies, Inc., is seeking shareholder approval to be acquired by JPMorgan Chase & Co. Under the terms of the agreement, Bear Stearns shareholders will receive 0.21753 shares of JPMorgan common stock per share of Bear Stearns common stock held, or $1.2 billion in the aggregate.

The transaction is conditioned on the affirmative vote of a majority of the outstanding shares. JPMorgan held shares representing 49.4% of the voting power as of the record date for the special meeting, which it intends to vote in favor of the merger.

Shareholders do not have appraisal rights in connection with the transaction.

Management View:

The board unanimously approved the initial merger agreement after considering a number of factors, including the following:

- The news on the evening of Friday, March 14, 2008, that the secured lending facility provided by the New York Fed via JPMorgan earlier that day, which had allowed the company to avoid a bankruptcy filing, would no longer be available on Monday March 17, 2008.
- The board's conclusion that the company would be unable to open for business on March 17, 2008 on a stand-alone basis, and therefore would file for bankruptcy, if it did not reach an agreement with JPMorgan.
- The substantial limitations on the availability to the company, as a broker-dealer, of rehabilitation-oriented relief under the U.S. Bankruptcy Code.
- The collective view of the company's financial advisors, legal advisors and management that holders of the company's common stock would likely receive no value for their shares, and certain creditors would likely incur losses, in the event of a bankruptcy, as well as the advice of the financial advisor that the original exchange ratio of 0.05473 (approximately $2.00 per share) was fair, from a financial point of view, to holders of the company's common stock.
- The uniformly unsuccessful efforts by the company's financial advisor from March 14 to March 16, 2008, to elicit additional, viable proposals for acquiring or investing in the company within the timeframe required.
- The efforts by the company's senior management and advisors to obtain greater value than the approximately $2.00 per share in JPMorgan common stock provided for in the original merger agreement, and JPMorgan's indication that, following its discussions with officials of the U.S. Treasury Department and the New York Fed, it was unwilling to pay more than $2.00 per share.
- The guarantees provided by JPMorgan under the terms of the merger with respect to the trading obligations and certain other liabilities of the company, which management believed were essential to the company's ability to continue to operate.
- The financial presentations and opinion delivered by the company's financial advisor, Lazard Frères & Co. LLC, that the merger consideration is fair from a financial point of view.

In approving the amendment to the merger agreement eight days later, the board also considered additional factors, including the following:

- The company's ongoing liquidity drain even subsequent to the merger announcement, as customers continued to withdraw funds, counterparties remained unwilling to make secured funding available on customary terms, and funding (other than from JPMorgan and the New York Fed) remained unavailable, which the board believed was due to concerns that the scope and terms of JPMorgan's guaranty was deficient or that the merger would not be completed and the JPMorgan guaranty would terminate.
- JPMorgan's unwillingness to guaranty the company's New York Fed borrowings or continue to extend credit after March 21, 2008 unless the terms of the transaction were amended to provide stability and increase the likelihood that the merger would be consummated.
- The belief of senior management that the company, lacking any other source of liquidity, would be compelled to file for bankruptcy by Monday, March 24, 2008 if the New York Fed and JPMorgan withdrew their funding and guarantees.
- The clarification of and enhancements to JPMorgan's operating guaranty, and issuance of a new guaranty for borrowings from the New York Fed which enabled Bear Stearns to continue to obtain funding from the New York Fed.
- The belief that the company's uncertain cash position would force a bankruptcy filing under the liquidation-oriented procedures of Chapter 7 rather than the rehabilitation-oriented procedures of Chapter 11.
- The collective view of the company's financial advisors, legal advisors and management that holders of the company's common stock would likely receive no value for their shares, and certain creditors would likely incur losses, in the event of a bankruptcy, as well as the advice of the financial advisor that the exchange ratio of 0.21753 (approximately $10.00 per share) was fair, from a financial point of view, to holders of the company's common stock;
- The increase in the value of the merger consideration from approximately $2.00 per share on March 16, 2008 to approximately $10.00 per share on March 24, 2008.
- The other changes to the terms of the merger required by JPMorgan as conditions to enhancing its offer and guarantees, including (1) the share exchange agreement which would provide JPMorgan with approximately 39.5% of the company's diluted common shares outstanding, (2) revisions to the definition of "superior proposal" and the terms of the option to purchase the company's headquarters building, and the potential effects of these items on (A) the ability of Bear Stearns stockholders to reject the merger and (B) other parties that might be interested in proposing a transaction with Bear Stearns.
- The financial presentations and opinion delivered by the company's financial advisor, Lazard Frères & Co. LLC, that the merger consideration is fair from a financial point of view.

Analysis:

Deal Terms/Market Reaction

Based on closing prices on March 14, 2008, the last full day of trading prior to the announcement of the merger agreement, the initial exchange ratio of 0.05473 shares of JPMorgan per share of Bear Stearns common stock represented a merger consideration of $1.98 per share, a discount of 93.4% to Bear Stearns's closing price of $30.00.

A merger amendment quadrupling the exchange ratio was announced on March 24, 2008. Based on closing prices on March 20, 2008, the last full day of trading prior to announcement of the merger amendment, the revised exchange ratio of 0.21753 shares of JPMorgan per share of Bear Stearns common stock represented a merger consideration of $9.92 per share, a premium of 66.4% over Bear Stearns's closing price of $5.96.

The revised merger consideration nonetheless represents a steep 66.9% discount to the stock's closing price on March 14, 2008, the last day of trading prior to the announcement of the merger. The revised merger consideration also represents steep discounts to the average closing prices of the company's stock for the two-week (85.8%), one-year (91.3%), three-year (91.8%) and five-year (90.5%) periods ending on March 21, 2008.

Following the announcement of the merger amendment, Bear Stearns shares rose 88.8% to close at $11.25 per share on March 24, 2008. Shares of JPMorgan have since trended up slightly, closing at $45.91 on May 14, 2008 to make the market value of the offer $9.99. Shares of Bear Stearns closed at $10.11 on that date, a premium of 1.2% to the market value of the merger consideration.

Analyst Opinion:

On news of the initial funding agreement with JPMorgan on Friday, March 14, even after shares had fallen 47% on trading volume of more than 20 times average daily volume, equity analysts in reports compiled by Reuters had already begun to question whether share prices would have a hard floor in what amounted to a run on the bank. Oppenheimer & Co., Inc., lowered its rating on the company's shares to Underperform "as this investment simply is mired in too much risk, even at these levels." Noting that "a company is only as solvent as the perception of its solvency," Oppenheimer predicted that the company's equity "could become worthless as forced sales create asset deflation, which could cause cannibalization of remaining capital." Other firms, such as Wachovia Securities, suspended ratings entirely.

Even amid that backdrop of uncertainty, however, many equity analysts echoed the response of HSBC Global Research to the news of the sale the following Monday, calling the loss of 97% of market value in one week "decidedly unsettling" both for the company's shareholders specifically, and for sector investors generally. Credit Suisse, noting that the deal carried a price-to-book multiple of 0.0, remarked that the "price paid is well below what we would have expected." Banc of America Securities calculated the price should be nearer $40.00, even including $6.0 billion for litigation costs, the costs of deleveraging and integration, loss of 25% of the firm's clients, and substantial markdowns on all assets, concluding that the deal "had little to do with maximizing value for shareholders and more with stemming a potential financial crisis and the cascade effect that could ensue given the breadth of counterparties" to the firm's daily transactions. Oppenheimer & Co., Inc concluded that "we believe that [JPMorgan] is acting as the stability agent for the Fed in this transaction, and that the concern for the $2.5 trillion in notional counterparty exposure trumps the interest of the existing [Bear Stearns] shareholder." Even given the extraordinary circumstances under which the company was driven to a sale, Oppenheimer conceded that equity holders had simply avoided a slightly worse outcome.

(Subsequently, in a gesture signaling the limitations of quantitative analysis, the firm suspended its morning newsletter for one day. Contending instead that "in times of crisis, great verse is a sanctuary like none other," the firm offered subscribers a reprint of the Tennyson elegy "In Memoriam A.H.H.")

Fox-Pitt Kelton Cochran Caronia Waller offered the relatively uncommon opinion that "liquidity had been quite sufficient, and credit exposure was no worse than its peers," contending that the liquidity crisis and subsequent sale were not driven by fundamental economic weaknesses at the company. Shareholder value evaporated in the liquidity crisis because the company was "light on friends, first due to its unwillingness to participate in the bailout of [Long Term Capital Management] in 1998 and second due to its refusal to bail out its troubled funds last summer; JPMorgan itself may have played hardball with Bear in a form of retaliation."

Proof of the argument, the analysis concluded, came during the conference call announcing the merger, in which JPMorgan management asserted "they were getting great businesses [and] assets, they believed Bear had strong risk management and had marked [its] credit exposures in line with [JPMorgan], and if we take their write-downs projections and factor out the fire-sale context, additional write-downs over time would not have been so severe as to warrant a panic." The firm held out hope of a higher valuation, observing that "since 30% of the shareholders are employees, a "no" vote is quite plausible, as emotion is involved and they may insist the stock is worth more.… Bear's balance sheet appears marked correctly in a non-fire sale context. So a buyer that could keep the assets could pay far more than $2.00, while even one that planned a fire-sale could probably beat $2.00, which reflected the short-term crisis at hand this weekend."

With the announcement one week later of the merger amendment, which quintupled the merger consideration, analysts seemed to accept if not quite embrace the deal. Fox-Pitt Kelton Cochran Caronia Waller observed that "the sweetened offer is intended to win over shareholders, including some of Bear's largest, who were considering voting down the original deal. It also avoids criticism that JPMorgan took advantage of a troubled situation over the prior weekend… Although JPMorgan is paying more, with Bear Stearns now valued at $1.2 billion, the buyer is still making out quite well—last Monday, when the original deal was announced, JPMorgan's market cap increased by $14 billion on a big down day for financials." Under the headline "What Are We Missing Here? Bear Stearns Is

Cheap…," HSBC opined that "the U.S. government is clearly interested in getting Bear Stearns merged into America's new favorite bank, JPMorgan Chase. And now, a freshly amended merger agreement that provides a more palatable price for shareholders, a bear hug provision giving the acquirer a 39.5% head start and a remarkably fast April 8 targeted closing date have driven deal risk to extremely low levels." Fox-Pitt summed up analysts' consensus that the amended agreement "will substantially end the drama at Bear Stearns with virtually no chance of independence or another bidder snatching the company away."

Decision Process/Background

The sale was negotiated over the weekend of March 15-16, 2008 after a Fed-backed secured lending facility, announced on the morning of Friday March 14 to enable the company to survive an escalating liquidity crisis, was withdrawn after the close of business that evening.

Rumors of liquidity problems began with the downgrade on Monday, March 10, 2008 of certain of the company's securities by Moody's Investor Services. Despite clarifications from Moody's that none of the company's corporate bonds were included in the downgrade, an announcement by the New York Fed on Tuesday that it would expand its securities lending program to primary dealers such as the company, and an appearance on CNBC Wednesday by President and CEO A. Schwartz which described the company's liquidity position as "relatively unchanged since the beginning of the year," the volume of customers requesting withdrawal of their funds and the reluctance of counterparties to maintain their ordinary credit exposure to the company continued to escalate.

By the evening of Thursday, March 13, 2008 the company's liquidity position had sharply deteriorated. The company notified the Fed and the SEC, and negotiated through the night to secure through JPMorgan a Fed-backed secured lending facility for an initial term of up to 28 days. Concurrently the company's financial advisor, Lazard Frères & Co. LLC, began contacting other parties to determine their potential interest in providing financing or taking other actions to stabilize the company, including the sale of part or all of the company. One private equity firm expressed interest. On the morning of Friday, March 14 the company announced the secured lending facility; later that day it announced it had retained Lazard to investigate strategic alternatives. Customers continued to withdraw funds at an escalating pace throughout the day. Shares closed down 47%.

After the close of the financial markets that Friday, the company and JPMorgan were informed by the New York Fed that the secured lending facility with a term of up to 28 days would no longer be available after the weekend. A senior Treasury official reiterated to Schwartz that the company would need to accomplish a stabilizing transaction by the end of the weekend.

Beginning the morning of Saturday, March 15, 2008 the company simultaneously pursued a strategic transaction with JPMorgan and the private equity party which had expressed an interest, and prepared a bankruptcy filing in the event no agreement could be reached prior to the open of Asian markets late Sunday evening New York time. The board met numerous times to discuss developments, including a preliminary proposal from the private equity firm Saturday afternoon to provide a $3.0 billion cash infusion in exchange for a 90% equity stake and a sale of the entire company to JPMorgan in an all-stock transaction valued at $8.00 to $12.00 per share, with options to purchase 19.9% of the company's shares, the company's prime brokerage business unit, and the company's headquarters building.

On Sunday morning the private equity bidder was still attempting to line up financing support for its proposed transaction. JPMorgan indicated it would not be in a position to complete its proposed transaction without financial support from the New York Fed. The private equity bidder was ultimately unable to secure funding from the Fed or other sources; later in the day, however, the Fed agreed to provide JPMorgan up to $30.0 billion in non-recourse funding, collateralized by a pool of largely mortgage-related securities, assets and hedges, to effect a transaction. JPMorgan informed Lazard it would work toward an all-stock transaction with a valuation of approximately $4.00 per share. That valuation was quickly dropped to approximately $2.00 per share, however, after consultation with officials of the Fed and the Treasury. The board asked JPMorgan to consider raising the valuation; after some additional consultation with the officials of the Fed and the Treasury, JPMorgan reiterated its offer of approximately $2.00 per share. The board approved the merger agreement Sunday evening, in advance of the open of the Asian markets.

The announcement did little to stem the continuing liquidity crisis as the company's customers and counterparties, evidencing concern that the transaction had significant closure risk, continued to withdraw funds and declined to make secured funding available on customary terms. The company's shares fell considerably on the news, but continued to trade at a significant premium to the value of the merger consideration. On the evening of Friday, March 21, JPMorgan proposed certain amendments to the merger agreement "to provide the stability to Bear Stearns [and the] certainty to JPMorgan Chase necessary for JPMorgan Chase to continue its exposure to Bear Stearns." The company, having already analyzed its alternatives should JPMorgan cease to provide funding, again entered a weekend of negotiations with JPMorgan and simultaneously began preparing for a bankruptcy filing in the event negotiations were unsuccessful.

JPMorgan proposed to purchase shares of the company's common stock,, giving it approximately two-thirds of the company's diluted shares, increase the merger consideration through a new security whose value would be contingent on the performance of the pool of mortgage-related assets previously pledged to the Fed, and enter into certain additional guarantees of the company's obligations. The board proposed the immediate sale of 19.9% of diluted shares to JPMorgan (thus complying with exchange rules requiring shareholder approval of issuances of 20% of shares) in exchange for an improved exchange ratio which would value the company at approximately $12.00 per share, which JPMorgan declined. On Sunday morning, having reviewed the potential scenarios under a bankruptcy filing, the board reopened negotiations with JPMorgan, eventually agreeing on an amendment which would:

- increase the exchange ratio to a valuation of approximately $10.00 per share,
- authorize a share exchange through which JPMorgan would gain control of approximately 39.5% of diluted shares,
- clarify or enhance the original agreement's guarantees and add additional JPMorgan guarantees of the company's obligations,

and

- make the option to purchase the company's headquarters building exercisable if shareholders voted against the merger agreement.

The amendment was approved and announced on the morning of Monday, March 24, 2008.

Share Exchange Agreement

In connection with the amendment to the merger agreement, JPMorgan and Bear Stearns entered into a share exchange agreement under which JPMorgan agreed to purchase 95.0 million newly-issued shares of Bear Stearns common stock, or 39.5% of the diluted shares, in exchange for the issuance of 20,665,350 shares of JPMorgan common stock to Bear Stearns (an exchange ratio of 0.21753), the approval of the amendment to the merger agreement by JPMorgan, the amended and restated operating guaranty, and the Fed guaranty. The share exchange was completed on April 8, 2008.

The company notes that, while the rules of the NYSE generally require shareholder approval prior to the issuance of more than 20% of the outstanding shares of a listed company, the NYSE's Shareholder Approval Policy provides an exception in cases where the delay involved in securing shareholder approval for the issuance would seriously jeopardize the financial viability of the listed company. In accordance with the NYSE rule providing that exception, the audit committee of Bear Stearns' board of directors expressly approved, and the full board of directors unanimously ratified, Bear Stearns' use of the exception. The company reports that the NYSE accepted Bear Stearns' application of the exception.

Operating and Fed Guaranty Agreements

In connection with the amendment to the merger agreement of March 24, 2008, JPMorgan entered into an agreement to guaranty certain operating liabilities of Bear Stearns and certain of its operating subsidiaries, including all liabilities and obligations under credit facilities, prime brokerage operations, and customary cash and securities custody arrangements. The guaranty period extends from March 16, 2008 to either 120 days following a stockholders meeting at which Bear Stearns' stockholders do not approve the merger agreement, 120 days following the closing of the merger, or the date of termination of the merger agreement for reasons other than for failure to obtain stockholder approval.

JPMorgan also entered into an agreement guaranteeing certain obligations of Bear Stearns and certain of its affiliates to the New York Fed, which will apply to transactions entered into prior to the merger agreement.

Termination Fees

The agreement does not provide for any cash payments if the transaction is terminated.

Under the terms of the agreement, however, the company has granted JPMorgan an irrevocable option to purchase Bear Stearns' headquarters building for $1.1 billion less any unpaid or unsatisfied indebtedness, encumbrance or liability, exercisable within 120 days following the shareholders meeting if the merger agreement is not approved by shareholders. The option also becomes exercisable under certain other specified circumstances, such as if Bear Stearns receives a superior proposal.

Financial Advisory Fees

The company has agreed to pay a fee of $20.0 million, representing approximately 1.7% of the estimated deal value, to Lazard Frères & Co. LLC in connection with its advisory services and fairness opinion.

Change-in-Control Related Payments

The proposed transaction will trigger the change-in-control provisions in the company's employment agreements and certain of its equity compensation plans. The potential payouts appear reasonable.

Severance Agreements:

The company estimates that the amounts that may become payable under severance agreements with five named officers could total $4.3 million, and range from $0.2 million to $1.3 million for CFO S. Molinaro. Several other named officers have accepted post-merger employment agreements with JPMorgan.

Equity Awards:

At the effective time of the merger, all outstanding options, shares of restricted stock, cap units and deferred equity units will be converted into JPMorgan options, shares of restricted stock, cap units and deferred equity units at the fixed exchange ratio. Bear Stearns and JPMorgan have agreed to provide holders of restricted stock units and cap units with the right to have outstanding awards distributed in cash rather than stock. The company estimates the maximum number of Bear Stearns common shares which could potentially be settled in cash under this arrangement would be approximately 26.9 million shares.

Litigation

As is typical in deals of this type and size, the company is the subject of numerous lawsuits related to the acquisition. As of the proxy filing on April 28, 2008, these included five class-action suits consolidated in the New York State Supreme Court, and several derivative stockholder actions against individual directors and officers in U.S. District Court in New York.

Comparison of Shareholders' Rights

As both companies are incorporated under Delaware law, any differences, in shareholder rights between JPMorgan and Bear Stearns arise solely from differences in their certificates of incorporation and by-laws. Key differences are:

- **Amendments to the JPMorgan certificate of incorporation** require approval of a majority, not an 80% supermajority, of common shares.
- **A special meeting of JPMorgan shareholders** may be called not just by the board, but by the chairman, vice chairman, CEO, President, or holders of one-third of the company's common shares.

Summary

We note that, largely as a consequence of the share exchange upon which the quintupling of the merger consideration was conditioned, JPMorgan directly controls approximately 49.4% of the voting power, and the approval of the merger agreement is virtually guaranteed.

As this vote will be shareholders' final but definitive opportunity to voice a judgment on the performance of their board and executive management team, and the role of regulators, in the destruction of 86% of market value over two weeks, we believe shareholders should be undeterred by the apparent inevitability of the sale itself. In particular we believe shareholder value was destroyed by:

- **Poor oversight of inherent business risks which left the company with few alternatives** as the liquidity crisis escalated, some of which could credibly be argued to have fueled the crisis itself. In nearly nine months since the subprime credit crisis began to unfold (an event largely identified in the public consciousness with the meltdown of two of the company's subprime funds), the company failed to substantially improve its capital position relative to peers, and despite the strategic alliance with China's CITIC Securities announced in October 2007 (but still not closed when the meltdown began five months later), apparently failed to develop sufficient and strong contingencies to support its capital position. While we do not necessarily believe that management could have foreseen this particular liquidity crisis, we do believe the risks to which the company succumbed in the last two weeks of March 2008 are recognizable, inherent risks of its business segment and its business model, and management's culpability in failing to plan for those risks is no less significant for their rarity.
- **A seat-of-the-pants Fed intervention** which ultimately extended rather than quelled the liquidity crisis, causing substantial and unnecessary damage to shareholders in the process. The primary role of the Fed was to prevent one bank's liquidity crisis from escalating into a broader market meltdown, which it initiated with the 28-day funding mechanism on Friday morning, stabilizing the company sufficiently to enable a rushed but credible sale process over the next 28 days. The question is not whether the Fed should have intervened with the loan in the first place - it did intervene - but whether, having made the initial loan, the Fed acted in the best interests of any of its constituents by summarily pulling that funding later the same day, forcing a frenzied weekend fire sale well below the valuations of even a spooked financial market, which in turn fueled the liquidity crisis for another week. That the Fed subsequently amended its policies - on Monday, March 17, within hours of the merger announcement - to lend directly to distressed financial firms in such instances only reinforces the point that while a sale of the company may have become necessary, the fire sale forced by the Fed's withdrawal of the initial funding mechanism late on March 14 was not.

As there are real economic consequences attached to the outcome of the vote, however, we believe shareholders are better served by voting not on the failures which drove events to this point, but on the relative strengths of the alternatives. In particular, we note that:

- **The sale process was successful, despite long odds, in salvaging meaningful value for shareholders.** Once the Fed funding mechanism was revoked the ensuing sale process was never truly a negotiation - as Treasury Undersecretary Robert Steel later affirmed to the New York Times, recalling Treasury Secretary Henry Paulson's directive during the negotiations that the price should be low because the deal was being supported by a taxpayer-funded Fed loan. Given the 48-hour timeframe in which to construct a deal, the absence of any real leverage short of a bankruptcy filing, and the near-certain loss of 100% of shareholder value in a bankruptcy (to say nothing of the much larger risks to shareholders from the economic tsunami such a filing could well have unleashed), the standard measures of a deal's fairness to shareholders - multiples of book value, revenues, etc - are largely irrelevant. What is relevant is that even the initial agreement was better than the next best alternative - bankruptcy; that it bought time for further due diligence and a second round of negotiations; and that the board successfully negotiated a substantial increase in valuation during that second round.
- **Shareholders will receive equity interest in a much stronger company with significant potential.** Lost in the post-mortem analysis is the contrast between the strategic responses of the target and the acquirer over the preceding eight months, as the crisis in the financial markets deepened: JPMorgan positioned itself to leverage the opportunities the crisis would produce, rather than become one of them. The transaction carries significant execution risk, but in a rational market the assets JPMorgan will acquire should be worth a multiple of the acquisition price, even net of litigation costs, writedowns, customer losses, etc.

Rationale/Conclusion:

We recognize the proposed transaction represents a significant loss of value versus such standard metrics as book value per share or share prices prior to the announcement. We also recognize, however, that events immediately prior to the sale of the company – including an escalating liquidity crisis and the sudden revocation of a Fed-backed funding arrangement – made a bankruptcy filing the only viable alternative. As the proposed transaction salvages meaningful value for shareholders, and enables participation in the future success of a stronger surviving entity with significant potential, we recommend shareholders vote to approve the transaction.

[back to top]

Management

2 Approve Adjournment of Meeting

PROXY *Governance* Vote Recommendation: FOR

Proposal:

To approve adjournment or postponement of the meeting to allow management to solicit additional proxies in favor of the proposal.

Management View:

The company's meeting may be adjourned or postponed for the purpose of soliciting additional proxies in the event that there are not sufficient votes at the time of the meeting to approve the proposal. Any adjournments may be made without notice, other than by announcement made at the meeting.

Analysis:

PROXY *Governance* will consider "adjourn meeting" proposals on a case-by-case basis depending on whether management's reasons for the extension are beneficial to shareholders. If the proposals being voted on are, in our view, advantageous to shareholders, there may be justification for additional solicitation time, especially if a proposal requires supermajority approval.

Rationale/Conclusion:

We support management's proposal at this meeting and therefore believe that management should, if necessary, have additional time to solicit proxies.

[back to top]