WASHINGTON MUTUAL, INC
Form DEF 14A
May 22, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

WASHINGTON MUTUAL, INC.
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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1301 Second Avenue
Seattle, Washington 98101
May 22, 2008

Dear Shareholder:

You are cordially invited to attend a special meeting of shareholders of Washington Mutual, Inc. that will be held on Tuesday, June 24, 2008, at 3:00 p.m., local time, at Washington Mutual Leadership Center at Cedarbrook, 18525 36th Avenue South, SeaTac, Washington 98188.

On April 8, 2008, we announced that we had entered into definitive agreements to raise an aggregate of approximately $7 billion through the direct sale of equity securities to affiliates of TPG Capital and to other institutional investors. With the proceeds of this offering, our capital ratios are expected to remain well above our targeted levels during the period of elevated credit costs in our loan portfolios in 2008 and 2009. At the same time, we believe this strengthened capital base will permit us to continue growing our leading national banking franchise.

In the offering, we sold approximately 176 million shares of our common stock and 56,570 shares of contingently convertible, perpetual non-cumulative preferred stock with a liquidation preference of $100,000 per share, and we issued warrants to purchase shares of our common stock. Upon approval by our shareholders as well as satisfaction of other regulatory conditions to the extent applicable, the preferred stock will automatically convert into approximately 647 million shares of our common stock and the warrants will become exercisable for approximately 68 million shares of our common stock.

At the special meeting, holders of our shares of common stock will be asked to consider and vote on proposals to approve the conversion of the preferred stock into common stock and exercise of the warrants to purchase common stock and to increase the number of authorized shares of our common stock to permit the conversion and exercise of these securities and provide available shares for other corporate purposes. Our board has unanimously approved these proposals and recommends that our shareholders vote for these proposals.

Please read the attached proxy statement carefully for information about the matters you are being asked to consider and vote upon. Your vote is important. Whether or not you attend the meeting in person, I urge you to promptly vote your proxy as soon as possible via the Internet, by telephone or by mail using the enclosed postage-paid reply envelope. If you decide to attend the meeting and vote in person, you will, of course, have that opportunity.

Thank you for your continued support of Washington Mutual.

Sincerely,

Kerry Killinger
Chairman and Chief Executive Officer

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WASHINGTON MUTUAL, INC.
1301 Second Avenue
Seattle, Washington 98101

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To Be Held June 24, 2008

Meeting Date: Tuesday, June 24, 2008

Meeting Time: 3:00 p.m. (local time)

Record Date: April 15, 2008

Location: Washington Mutual Leadership Center
at Cedarbrook
18525 36th Avenue South
SeaTac, Washington 98188

Purpose of the Meeting:

1. To approve an amendment to the Company s Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock from 1,600,000,000 to 3,000,000,000 (and, correspondingly, increase the total number of authorized shares of capital stock from 1,610,000,000 to 3,010,000,000); and

2. To approve the conversion of our Series S and Series T Contingent Convertible Perpetual Non-Cumulative Preferred Stock into common stock and the exercise of our Warrants to purchase common stock, in each case issued to the investors pursuant to our recent equity investment transaction referred to in the attached proxy statement.

These items of business are more fully described in the proxy statement accompanying this Notice. Submission of these proposals to our shareholders is required under the terms of the Investment Agreement and certain of the Securities Purchase Agreements, each dated as of April 7, 2008, between Washington Mutual, Inc. and the investors in our recent equity investment transaction.

The Board of Directors recommends shareholders vote FOR Proposals 1 and 2.

Shareholders of record of our common stock at the close of business on the record date will be entitled to vote at the Special Meeting and any adjournments or postponements thereof. ***Under Securities and Exchange Commission rules, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. This proxy statement is available at our web site at http:/www.wamu.com/ir.***

By order of the Board of Directors,

Susan R. Taylor
Secretary

Seattle, Washington
May 22, 2008

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IMPORTANT

If you are a common shareholder, whether or not you expect to attend the Special Meeting in person, we urge you to vote your proxy at your earliest convenience via the Internet, by telephone or by mail using the enclosed postage-paid reply envelope. This will ensure the presence of a quorum at the Special Meeting and will save us the expense of additional solicitation. Sending in your proxy will not prevent you from voting your shares in person at the Special Meeting if you desire to do so. Your proxy is revocable at your option in the manner described in the Proxy Statement.

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WASHINGTON MUTUAL, INC.
1301 Second Avenue
Seattle, Washington 98101

PROXY STATEMENT

For the Special Meeting of Shareholders
To Be Held On Tuesday, June 24, 2008

Our Board of Directors is soliciting proxies to be voted at the Special Meeting of Shareholders on June 24, 2008, at 3:00 p.m., and at any adjournments or postponements thereof, for the purposes set forth in the attached Notice of Special Meeting of Shareholders. The notice, this proxy statement and the form of proxy enclosed are first being sent to shareholders on or about May 23, 2008. As used in this proxy statement, the terms Company, we, us and our refer to Washington Mutual, Inc.

Questions and Answers about these Proxy Materials and the Special Meeting:

Question: ***Why am I receiving these materials?***

Answer: Our Board of Directors is providing these proxy materials to you in connection with a Special Meeting of Shareholders of Washington Mutual, to be held on June 24, 2008. As a shareholder of record of our common stock, you are invited to attend the Special Meeting, and are entitled to and requested to vote on the proposals described in this proxy statement.

Holders of our preferred stock are also being provided with this proxy statement and the attached notice of meeting as required by the Washington Business Corporation Act. However, holders of our preferred stock are not entitled to vote on any matters being considered at the special meeting. Unless otherwise indicated, references to you are to common shareholders.

Question: ***Who is soliciting my vote pursuant to this proxy statement?***

Answer: Our Board of Directors is soliciting your vote at the Special Meeting. In addition, certain of our officers and employees may solicit, or be deemed to be soliciting, your vote. We have also retained MacKenzie Partners, Inc. and Georgeson Inc. to assist in the solicitation

Question: ***Who is entitled to vote?***

Answer: Only shareholders of record of our common stock at the close of business on April 15, 2008 will be entitled to vote at the Special Meeting.

Question: ***How many shares are eligible to be voted?***

Answer: As of the record date of April 15, 2008, we had 1,058,838,563 shares of common stock outstanding (including 6,000,000 shares of common stock held in escrow). Each outstanding share of our common stock will entitle its holder to one vote on each matter to be voted on at the Special Meeting.

Question: ***What am I voting on?***

Answer: You are voting on the following matters:

Approval of an amendment to the Company s Amended and Restated Articles of Incorporation (the Articles) to increase the number of authorized shares of common stock from 1,600,000,000 to 3,000,000,000 (and, correspondingly, to increase the total number of authorized shares of capital stock from 1,610,000,000 to 3,010,000,000); and

Approval of the conversion of our Series S and Series T Preferred Stock into common stock and exercise of our warrants to purchase shares of common stock, in each case issued to the investors in our recent equity investment transaction.

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Question: ***What securities did the Company issue in the equity investment transaction?***

Answer: On April 7, 2008, the Company entered into (i) an Investment Agreement (the Investment Agreement) with affiliates of TPG Capital (the TPG Investors) and (ii) Securities Purchase Agreements (the Securities Purchase Agreements) with a number of institutional investors (the Institutional Investors and, together with the TPG Investors, the Investors) including certain of our largest shareholders.

Pursuant to the Investment Agreement, the TPG Investors acquired 822,857 shares of common stock, no par value, 19,928 shares of Series T Contingent Convertible Perpetual Non-Cumulative Preferred Stock (Series T Preferred Stock) and warrants to acquire 57,142,857 additional shares of common stock. Pursuant to the Securities Purchase Agreements, the Institutional Investors acquired a total of 175,514,285 shares of common stock, 36,642 shares of Series S Contingent Convertible Perpetual Non-Cumulative Preferred Stock (Series S Preferred Stock and, together with the Series T Preferred Stock, Preferred Stock) and warrants to acquire 11,159,998 shares of common stock. In this proxy statement, we refer to the warrants issued to the TPG Investors as A Warrants and the warrants issued to the Institutional Investors as B Warrants and to the two forms of warrants, collectively, as Warrants , and we refer to the transactions contemplated by the Investment Agreement and the Securities Purchase Agreements as the Equity Investment Transaction.

The shares of Preferred Stock acquired by the Investors are mandatorily convertible into common stock on the final day of the calendar quarter in which certain conditions precedent are satisfied. The conditions to conversion of the Series T Preferred Stock are (i) the affirmative vote of our existing common shareholders (A) approving the amendment of the Company s Articles to increase the number of authorized shares of common stock to at least such number as shall be sufficient to permit full conversion of the Series T Preferred Stock into common stock and (B) approving the conversion of the Series T Preferred Stock into common stock for purposes of Section 312.03 of the NYSE Listed Company Manual (described below and under Proposal 2)(the conditions in (A) and (B), together with the equivalent approvals with respect to the Series S Preferred Stock and the Warrants referred to below, are collectively referred to as Shareholder Approvals) and (ii) the receipt of approvals and authorizations of, or expiration or termination of any applicable waiting period under, the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR) or the competition or merger control laws of other jurisdictions (Regulatory Approval). Early termination of the waiting period under the HSR Act with respect to the transactions contemplated by the Investment Agreement was received on May 8, 2008.

The only condition precedent to the mandatory conversion of the Series S Preferred Stock into common stock is the receipt of the Shareholder Approvals. The exercise of the Warrants is also subject to the receipt of the Shareholder Approvals and Regulatory Approval to the extent applicable. In the absence of such approvals, the A Warrants are exchangeable for shares of Series T Preferred Stock and the B Warrants are exchangeable for shares of Series S Preferred Stock as further described under Description of the Warrants Exchange for Preferred Stock.

Question: ***Why is the Company seeking shareholder approval for the authorization of additional common stock?***

Answer: The Company currently does not have a sufficient number of authorized shares of common stock to effect the conversion of all of the Preferred Stock into common stock and to issue common stock upon exercise of the Warrants by the Investors, and therefore is seeking to increase the amount of common stock authorized by the Articles in order to be able to deliver shares of common stock upon the conversion of the Preferred Stock and the exercise of the Warrants to purchase shares of common stock, as well as to have enough authorized common stock available for issuance to meet general corporate needs from time to time, including capital raising transactions, employee benefit plans, acquisitions and other uses. Amendment of the Articles requires approval of the holders of our common stock pursuant to the Washington Business Corporation Act.

Question: ***Why is the Company seeking shareholder approval for the conversion of the Series S and Series T Preferred Stock and exercise of the Warrants to purchase shares of common stock?***

Answer: Because our common stock is listed on the New York Stock Exchange (the NYSE), we are subject to NYSE rules and regulations. Section 312.03 of the NYSE Listed Company Manual requires

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shareholder approval prior to any issuance or sale of common stock, or securities convertible into or exercisable for common stock, in any transaction or series of transactions (i) if the common stock to be issued has, or will have upon issuance, voting power equal to 20% or more of the voting power outstanding before the issuance, or (ii) if the number of shares of common stock to be issued is, or will be upon issuance, equal to 20% or more of the number of shares of common stock outstanding before the issuance.

Our proposed conversion of the Preferred Stock and exercise of the Warrants to purchase shares of common stock falls under this rule because the common stock issued at the closing of the Equity Investment Transaction, together with the common stock issuable upon conversion of the Preferred Stock and exercise of the Warrants, will exceed 20% of both the voting power and number of shares of our common stock outstanding before the issuance, and none of the exceptions to this NYSE rule was applicable to these transactions.

Question: ***How will the conversion of the Preferred Stock occur?***

Answer: Upon receipt of the Shareholder Approvals, and subject to Regulatory Approval in the case of the Series T Preferred Stock, each share of Preferred Stock will be automatically converted into shares of common stock on the final day of the calendar quarter in which such approvals are obtained. Each outstanding share of Preferred Stock will automatically be converted into such number of shares of common stock determined by dividing (i) $100,000 (the purchase price per share of the Preferred Stock) by (ii) the conversion price of the Preferred Stock then in effect, subject to certain adjustments. The initial conversion price of the Preferred Stock is $8.75 per share, which results in an initial conversion rate of approximately 11,429 shares of common stock for each share of Preferred Stock.

Question: ***How does our Board of Directors recommend that I vote?***

Answer: Our Board of Directors unanimously recommends that you vote FOR the approval of the amendment to the Company s Articles to increase the number of authorized shares of capital stock and of common stock, and FOR the approval of the conversion of the Preferred Stock into common stock and the exercisability of the Warrants for common stock.

Question: ***Why is our Board of Directors recommending approval of the proposals?***

Answer: During the first quarter of this year our management and Board of Directors determined that it would be prudent to seek significant additional common equity in order to maintain our capital ratios at well above target levels, in light of the deteriorating conditions in the U.S. housing and credit markets and resulting elevated credit costs in our loan portfolio, which we expect to continue through 2008 and into 2009. The Board of Directors also concluded that in light of a variety of factors, including capital markets volatility, rating agency actions and general economic uncertainties, it was important that any process to raise additional common equity be executed promptly and with a high degree of certainty of completion. After exploring and considering a broad range of potential financing and other alternatives, our Board of Directors determined that the Equity Investment Transaction was the most effective means to address our capital needs on a timely basis and was in the best interests of our shareholders. Because of the NYSE rule described above as well as the limited number of remaining authorized but unreserved and unissued shares of common stock we have available, it was necessary to structure the Equity Investment Transaction predominantly in the form of convertible preferred stock until we could obtain the necessary Shareholder Approvals to issue common stock in its place.

Accordingly, our Board of Directors recommends that shareholders vote FOR the proposals so that the Preferred Stock will convert automatically into shares of common stock, thereby strengthening our common equity base as planned. In addition, as described below, if the Shareholder Approvals are not received by June 30, 2008, the dividend rate on the Preferred Stock will increase substantially and the price at which the Preferred Stock is convertible into,

and the Warrants are exercisable for, common stock will decrease significantly. These adjustments would be disadvantageous to the Company and our existing shareholders.

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Question: ***What happens if the Shareholder Approvals are received?***

Answer: If the increase in our authorized number of shares of common stock and the conversion of the Preferred Stock into common stock and the exercise of the Warrants for shares of common stock are approved at the Special Meeting, we will issue to the TPG Investors (assuming receipt of Regulatory Approval) a total of 227,748,571 shares of common stock and to the Institutional Investors a total of 418,765,714 shares of common stock upon conversion of the Preferred Stock which will represent, in the aggregate, approximately 36% of the total number of shares of common stock outstanding immediately after giving effect to the conversion of the Preferred Stock (but before giving effect to the exercise of any Warrants). Upon completion of the conversion, all rights with respect to the Preferred Stock will terminate, all shares of Preferred Stock will be cancelled and no further dividends will accrue thereon.

Additionally, if the approvals described above are received at the Special Meeting, the Investors will be entitled to exercise the Warrants held by each Investor to acquire common stock (assuming, in the case of any Investor the receipt of any required Regulatory Approval), up to a total of 68,302,855 shares in the aggregate. In the event that the Shareholder Approvals are received at the Special Meeting but the Regulatory Approval has not been received by such date, only the Series S Preferred Stock will mandatorily convert into common stock upon receipt of the Shareholder Approvals and the Warrants will only become exercisable for common stock to the extent no Regulatory Approval is required by the applicable holder.

Question: ***What happens if the Shareholder Approvals, or one of them, are not received?***

Answer: Unless both the Shareholder Approvals are received at the Special Meeting or unless our shareholders approve similar proposals at a subsequent meeting prior to July 1, 2008, the Preferred Stock will remain outstanding in accordance with its terms. The Company has agreed, pursuant to the Investment Agreement and certain of the Securities Purchase Agreements, to seek to obtain the Shareholder Approvals no less than once in each subsequent six-month period beginning on July 1, 2008 until the Shareholder Approvals are obtained. If the Preferred Stock remains outstanding after June 30, 2008, it will accrue non-cumulative dividends commencing with the quarterly dividend period ending on September 15, 2008 at an annual rate of 14% of the liquidation preference of the Preferred Stock and this rate will further increase to 15.5% of the liquidation preference commencing with the dividend period ending on March 15, 2009 and to 17% of the liquidation preference commencing with the dividend period ending on September 15, 2009. In addition, the conversion price of the Preferred Stock and the exercise price of the Warrants will be reduced by $0.50 per share of common stock on each six-month anniversary of the date of issuance, if the Shareholder Approvals have not been received by such anniversary, up to a maximum reduction of $2.00. Further, in the absence of such approvals, the A Warrants are exchangeable for shares of Series T Preferred Stock and the B Warrants are exchangeable for shares of Series S Preferred Stock.

In the event that our shareholders approve the conversion of the Preferred Stock and the exercise of the Warrants to purchase shares of common stock but do not approve the increase in the number of authorized common stock, we are required by the Investment Agreement to negotiate in good faith with the TPG Investors to promptly provide them with the option of exchanging their Series T Preferred Stock for (and to exchange their A Warrants for securities exercisable for) depositary receipts for a junior participating preferred stock with rights as to voting, liquidation and dividends identical to those of common stock, all on such terms and conditions as we and the TPG Investors may mutually agree.

Question: ***How many votes are required to hold the Special Meeting and what are the voting procedures?***

Answer: Quorum Requirement: Washington law and our articles of incorporation provide that any shareholder action at a meeting requires that a quorum exist with respect to that action. A quorum for the actions to be taken at the

Special Meeting will consist of a majority of all of our outstanding shares of common stock that are entitled to vote at the Special Meeting. Therefore, at the Special Meeting, the presence, in person or by proxy, of the holders of at least 529,419,282 shares of common stock will be required to establish a quorum. Shareholders of record who are present at the Special Meeting in person or by proxy and who abstain are considered shareholders who are present and entitled to vote, and will count towards the

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establishment of a quorum. This will include brokers holding customers shares of record who cause abstentions to be recorded at the Special Meeting.

Required Votes: Each outstanding share of our common stock is entitled to one vote on each proposal at the Special Meeting. Approval of the proposal to amend the Company s Articles requires the affirmative vote of a majority of the outstanding shares of common stock. Accordingly, failure to vote or an abstention will have the same effect as a vote against this proposal. Broker non-votes will also have the same effect as a vote against this proposal.

Approval of the proposal to authorize the conversion of the Preferred Stock and exercise of the Warrants to purchase shares of common stock requires the affirmative vote of a majority of the shares of common stock present at the meeting and eligible to vote. Accordingly, failure to vote and broker non-votes will not affect whether this proposal is approved, but an abstention will have the same effect as a vote against such proposal.

Question: ***How may I cast my vote?***

Answer: If you are the shareholder of record: You may vote by one of the following four methods (as instructed on the enclosed proxy card):

in person at the Special Meeting,

via the Internet,

by telephone, or

by mail.

Whichever method you use, the proxies identified on the proxy card will vote the shares of which you are the shareholder of record in accordance with your instructions. If you submit a proxy card without giving specific voting instructions, the proxies will vote the shares as recommended by our Board of Directors.

If you own your shares in street name, that is, through a brokerage account or in another nominee form: You must provide instructions to the broker or nominee as to how your shares should be voted. Brokers do not have the discretion to vote on the proposals and will only vote at the direction of the underlying beneficial owners of the shares of common stock. Accordingly, if you do not instruct your broker to vote your shares, your broker will not have the discretion to vote your shares. Your broker or nominee will usually provide you with the appropriate instruction forms at the time you receive this proxy statement. If you own your shares in this manner, you cannot vote in person at the Special Meeting unless you receive a proxy to do so from the broker or the nominee, and you bring the proxy to the Special Meeting.

If you are a participant in the WaMu Savings Plan, our 401(k) Plan: You have the right to direct Fidelity Management Trust Company, as trustee of the plan, regarding how to vote the shares of Company common stock attributable to your individual account under the plan. The enclosed proxy card can be used as a direction form to provide voting directions to Fidelity. Fidelity will vote common stock attributable to participant accounts as directed by such participants. Fidelity will not vote common stock attributable to participant accounts for which it does not receive participant direction by June 19, 2008.

Question: ***How may I cast my vote over the Internet or by telephone?***

Answer: Voting over the Internet: If you are a shareholder of record, you may use the Internet to transmit your vote up until 11:59 P.M. Eastern Time, on June 23, 2008. Visit *www.proxyvote.com* and have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

Voting by Telephone: If you are a shareholder of record, you may call 1-800-690-6903 and use any touch-tone telephone to transmit your vote up until 11:59 P.M. Eastern Time on June 23, 2008. Have your proxy card in hand when you call and then follow the instructions.

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If you hold your shares in street name, that is through a broker, bank or other nominee, that institution will instruct you as to how your shares may be voted by proxy, including whether telephone or Internet voting options are available.

Question: ***How may I revoke or change my vote?***

Answer: If you are the record owner of your shares, you may revoke your proxy at any time before it is voted at the Special Meeting by:

- submitting a new proxy card,
- delivering written notice to our Secretary prior to June 23, 2008, stating that you are revoking your proxy, or
- attending the Special Meeting and voting your shares in person.

Please note that attendance at the Special Meeting will not, in itself, constitute revocation of your proxy.

Question: ***Who is paying for the costs of this proxy solicitation?***

Answer: Our Company will bear the cost of preparing, printing and mailing the materials in connection with this solicitation of proxies. In addition to mailing these materials, officers and regular employees of our Company may, without being additionally compensated, solicit proxies personally and by mail, telephone, facsimile or electronic communication. Our Company will reimburse banks and brokers for their reasonable out-of-pocket expenses related to forwarding proxy materials to beneficial owners of stock or otherwise in connection with this solicitation. We have retained MacKenzie Partners, Inc. and Georgeson Inc. to assist in the solicitation at a cost of approximately $25,000 and $25,000, respectively, plus in each case payment of reasonable out-of-pocket expenses and other customary costs.

Question: ***Who will count the votes?***

Answer: Broadridge Financial Solutions, Inc., will receive and tabulate the ballots and voting instruction forms.

Question: ***What happens if the Special Meeting is postponed or adjourned?***

Answer: Your proxy will still be effective and may be voted at the rescheduled meeting. You will still be able to change or revoke your proxy until it is voted.

Question: ***Who should I call if I have questions or need assistance voting my shares?***

Answer: Please call our proxy solicitors: MacKenzie Partners, Inc. at (800) 322-2885 or Georgeson Inc. at (866) 328-5442.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement contains or incorporates by reference forward-looking statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as expects, anticipates, intends, plans, believes, seeks, estimates, or words of similar meaning, or future or verbs such as will, would, should, could, or may.

Forward-looking statements provide management s current expectations or predictions of future conditions, events or results. They may include projections of our revenues, income, earnings per share, capital expenditures, dividends, capital structure or other financial items, descriptions of management s plans or objectives for future operations, products or services, or descriptions of assumptions underlying or relating to the foregoing. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. These statements speak only as of the date they were made. Management does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made except as required by federal securities law.

There are a number of significant factors which could cause actual conditions, events or results to differ materially from those describe in the forward-looking statements, many of which are beyond management s control or its ability to accurately forecast or predict. Factors that might cause our future performance to vary from that described in our forward-looking statements include market, credit, operational, regulatory, strategic, liquidity, capital and economic factors as described under Risk Factors in our periodic reports filed with the Securities and Exchange Commission, including, without limitation, a continued general decline in the U.S. housing prices and mortgage activity, continued increases in the delinquency rates of borrowers, and a continued reduction in the availability of secondary markets for our mortgage loan products. In addition, other factors could adversely affect our results and this list is not a complete set of all potential risks or uncertainties. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included or incorporated by reference in this proxy statement or in our other periodic filings with the Securities and Exchange Commission.

BACKGROUND TO THE PROPOSALS

During the first quarter of this year our management and Board of Directors determined that it would be prudent to seek significant additional common equity in order to maintain our capital ratios at well above target levels, in light of the deteriorating conditions in the U.S. housing and credit markets and resulting elevated credit costs in our loan portfolio, which we expect to continue through 2008 and into 2009. The Board of Directors also concluded that in light of a variety of factors, including capital markets volatility, rating agency actions and general economic uncertainties, it was important that any process to raise additional common equity be executed promptly and with a high degree of certainty of completion. At the direction of the Board of Directors, beginning during the week of March 3, 2008, the Company and its financial advisors made initial approaches to eight potential private equity investors (including TPG), eight sovereign wealth funds and two international banks regarding a potential equity investment in the Company and also made initial approaches to five U.S. and international banks regarding a potential sale of the Company. These investors and banks were selected by the Company after discussions with the Company s financial advisors, based on their financial ability and likely level of interest in completing a transaction with the Company in the near term. Confidentiality agreements were executed by six of the private equity firms and four of the potential strategic buyers, but none of the sovereign wealth funds or international banks indicated an interest in participating in the potential equity investment process within the specified time frame. After receiving presentations from management and limited written due diligence materials, four private equity investors submitted preliminary indications of interest and elected to proceed with on-site due diligence and, of the potential strategic buyers

approached by the Company and its financial advisors, one potential buyer elected to proceed immediately with on-site due diligence. Another potential strategic buyer began its due diligence review of the Company but indicated that it would not be in a position to submit a proposal in the near term.

In light of the fact that none of the private equity firms proposed to commit the full amount of capital required by the Company, based on consultation with its financial advisors, the Company determined that, in

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the event a private equity investment were ultimately pursued, the Company should also explore additional investments from other major institutional investors that the Company and its financial advisors believed would have both the interest and the capacity to commit substantial capital to the Company in the time frame required by the Company.

Following on-site due diligence, two private equity investors (including TPG) submitted final proposals and a group of two additional private equity investors submitted a joint final proposal. One potential strategic buyer submitted a proposal.

Over multiple board meetings during the week of March 30, 2008, the Board of Directors, together with members of management and its legal and financial advisors, reviewed the proposals received from the private equity investors and the proposal submitted by the strategic buyer. The Board of Directors and the Company s financial advisers valued the proposal by the strategic buyer to acquire all of the Company s outstanding common stock at a price per share of common stock that was significantly less than the proposals received from the private equity investors to purchase a minority interest in the Company. A substantial portion of the value of the proposal from the strategic buyer was based on contingent payments related to the credit performance of certain loans in the Company s portfolio, and the Board believed that these contingent payments would only be partially realized, if at all. In addition, that proposal remained subject to further due diligence and was subject to other material conditions, including that the Company terminate its discussions with other investors and enter into exclusive negotiations with the strategic buyer. The Board of Directors concluded that, while the potential strategic buyer could continue its due diligence review of the Company and that the Company and its financial advisors should continue to discuss the proposal, it was in the best interest of the Company and its shareholders for management to work actively to seek to finalize the most favorable transaction terms from one or more of the private equity investors.

Members of management and the Company s financial advisors negotiated with each of the private equity firms during the week of March 30 in order to increase the price per share being offered, reduce the conditionality of each of the proposals, minimize the potential purchase price adjustments and improve the terms of the preferred stock each would acquire pending shareholder approval of the issuance of common stock. At the conclusion of these negotiations, the Board of Directors determined to proceed with the proposal negotiated with TPG because it represented, in the judgment of the Board of Directors, the greatest value and the most favorable terms, including less complexity and the ability to complete an equity investment in the time frame proposed by the Company. TPG s proposal represented a significantly higher price per share than the proposal presented by the potential strategic buyer and was either higher than or comparable to the other private equity proposals on a price per share basis. The Board of Directors made its determination to proceed with TPG over the other comparable private equity offer based on its conclusion that TPG s proposal provided for greater certainty of closing on the time frame proposed by the Company. In particular, the other comparable private equity proposal required additional conditions (including entering into one or more business transactions that were unrelated to the underlying capital investment) that, in the Board of Directors estimation, raised significant questions regarding the Company s ability to consummate the proposed transaction in the time frame required and had financial consequences to the Company which were difficult to assess. The joint private equity proposal contemplated a lower price per share, a commitment of capital less than that required by the Company and significant additional time to complete confirmatory due diligence and execute definitive agreements.

In connection with the Board of Directors determination to proceed with TPG, the Company s financial advisors approached a number of institutional investors, selected based on their financial resources and likely interest in making a significant equity investment in the Company, regarding a potential equity investment in the Company. After receiving commitments by institutional investors to invest equity in the Company in excess of $5 billion, our Board of Directors determined that the Equity Investment Transaction was the most effective means to address our capital needs on a timely basis and was in the best interests of our shareholders. Because of the NYSE rule described above as well as the limited number of remaining authorized but unreserved and unissued shares of common stock we

have available, it was necessary to structure the Equity Investment Transaction predominantly in the form of convertible preferred stock until we could obtain the necessary Shareholder Approvals to issue common stock in its place.

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On April 7, 2008, the Company entered into the Investment Agreement with affiliates of TPG Capital, a leading private equity firm. Pursuant to the Investment Agreement, we agreed to issue to the TPG Investors (i) 822,857 shares of common stock at $8.75 per share, (ii) 19,928 shares of Series T Preferred Stock at $100,000 per share and (iii) A Warrants to acquire 57,142,857 shares of common stock.

We entered into a series of Securities Purchase Agreements dated as of the same date as the Investment Agreement with a number of qualified institutional buyers and institutional accredited investors which included several of our largest institutional shareholders. Under the Securities Purchase Agreements, we agreed to issue to the Institutional Investors an aggregate of (i) 175,514,285 shares of common stock at $8.75 per share, (ii) 36,642 shares of Series S Preferred Stock at $100,000 per share and (iii) B Warrants to acquire 11,159,820 shares of common stock.

Closing for the issuance of the securities to the Investors occurred on April 14, 2008, other than the delayed delivery of approximately $2 billion of securities which occurred on April 21, 2008. The shares of common stock and Preferred Stock, and the Warrants, issued and sold to the Investors in the Equity Investment Transaction are being issued from our authorized share capital and shareholders are not being asked to vote upon the issuance and sale of those securities.

The Company received aggregate consideration of $7,199,949,993 in the Equity Investment Transaction. The Company has contributed $3.0 billion of the proceeds from the Equity Investment Transaction to Washington Mutual Bank, our principal bank subsidiary, as additional capital. The Company has retained the remaining net proceeds from the Equity Investment Transaction, which it intends to use, on a consolidated basis, to enhance the capital ratios of Washington Mutual Bank as well as for general corporate purposes.

In addition to the 176,337,142 shares of common stock that were issued to the Investors immediately upon the consummation of the transactions contemplated by the Investment Agreement and the Securities Purchase Agreements, subject to receipt of Shareholder Approvals and Regulatory Approval, we estimate that we will be required to issue an additional 646,514,286 shares of common stock upon the conversion of all the shares of Preferred Stock and up to an additional 68,302,677 shares of common stock if the Warrants are exercised in full.

PROPOSAL 1

APPROVAL OF AMENDMENT TO THE AMENDED AND RESTATED ARTICLES OF INCORPORATION TO INCREASE THE AUTHORIZED NUMBER OF SHARES OF CAPITAL STOCK AND OF COMMON STOCK

Our Board of Directors adopted a resolution declaring it advisable and in the best interests of the Company and its shareholders to amend the Company s Articles to increase the number of authorized shares of common stock from 1,600,000,000 to 3,000,000,000 shares (and correspondingly, increase the total number of authorized shares of capital stock from 1,610,000,000 to 3,010,000,000). The Board of Directors further directed that the proposed action be submitted for consideration by the Company s shareholders at a special meeting to be called for that purpose.

If the shareholders approve the amendment, the Company will amend Article II of the Articles to increase the number of authorized shares of capital stock and of common stock as described above. If adopted by the shareholders, the increase will become effective on the filing of the amendment to the Company s Articles with the Secretary of State of the State of Washington. The only changes in the Company s existing Articles would be those numeric changes required to reflect the increase of the number of authorized shares of capital stock and of common stock as proposed in this Proxy Statement. The portion of paragraph A of Article II of the Articles as it is proposed to be amended is set forth as Annex A to this proxy statement.

The primary purpose of Proposal 1 is to satisfy, in connection with the Company s sale and issuance of the Preferred Stock and Warrants, its obligations under the Investment Agreement and the Securities Purchase Agreements. As of the Record Date, the Company had 1,058,838,563 shares of common stock outstanding.

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The Company currently does not have a sufficient number of authorized common stock to effect the conversion of all the Preferred Stock into common stock and for the issuance of common stock upon the exercise of the Warrants. Accordingly, approval of Proposal 1 is required for the conversion of the Preferred Stock and exercise of the Warrants to purchase shares of common stock.

Approval of Proposal 1 is one of the conditions to the mandatory conversion of the Preferred Stock into common stock. If the conversion of Preferred Stock is not approved prior to June 30, 2008, the Preferred Stock will remain outstanding in accordance with its terms and will accrue non-cumulative dividends commencing with the dividend period ending on September 15, 2008 at an annual rate of 14% of the liquidation preference of the Preferred Stock and this rate will further increase to 15.5% of the liquidation preference commencing with the dividend period ending on March 15, 2009 and to 17% of the liquidation preference commencing with the dividend period ending on September 15, 2009. In addition, the conversion price of the Preferred Stock, and the exercise price of the Warrants, will each be reduced by $0.50 on each six-month anniversary of the date of issuance of the Preferred Stock or the Warrants, as applicable, if Proposal 1 and/or Proposal 2 have not been approved prior to such anniversary, up to a maximum reduction of $2.00.

If Proposal 1 and Proposal 2 are approved and the Preferred Stock is converted into common stock, there will be immediate and substantial dilution to the existing holders of common stock as a result of the mandatory conversion. Additional dilution would result upon the exercise of the Warrants to purchase common stock.

In the event that our shareholders approve Proposal 2 but do not approve Proposal 1, we are required by the Investment Agreement to negotiate in good faith with the TPG Investors to promptly provide them with the option of exchanging their Preferred Stock into (and to exchange their A Warrants for securities exercisable for) depositary receipts for a junior participating preferred stock with rights as to voting, liquidation and dividends identical to those of common stock, all on such terms and conditions as we and the TPG Investors mutually agree.

It is expected that upon the conversion of the Preferred Stock, 646,514,286 shares of common stock will be issued to the holders of the Preferred Stock. In addition, the total number of shares of common stock issuable upon the full exercise of the Warrants held by the holders is estimated to be 68,302,855.

In the event that either of Proposal 1 or Proposal 2, or both, are not approved by the shareholders at the Special Meeting, we have agreed to include such proposals (and our Board of Directors shall recommend approval of such proposals) at a meeting of our shareholders no less than once in each subsequent six-month period beginning on July 1, 2008 until such approvals are obtained or made.

The additional authorized shares of common stock not used for conversion of the Preferred Stock or reserved for issuance upon exercise of the Warrants will be available for general corporate purposes, including capital raising transactions, employee benefit plans, acquisitions and other uses. The Company currently has no specific plans or understandings with respect to the issuance of any common stock except as described in this proxy statement.

The increase in the authorized number of shares of common stock not used for the conversion of the Preferred Stock or reserved for issuance upon exercise of the Warrants could have possible anti-takeover effects. These authorized but unissued shares could (within the limits imposed by applicable law and NYSE rules) be issued in one or more transactions that could make a change of control of the Company more difficult, and therefore more unlikely. The additional authorized shares could be used to discourage persons from attempting to gain control of the Company by diluting the voting power of shares then outstanding or increasing the voting power of persons who would support the Board of Directors in a potential takeover situation, including by preventing or delaying a proposed business combination that is opposed by the Board of Directors although perceived to be desirable by some shareholders.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE PROPOSED AMENDMENT.

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PROPOSAL 2

APPROVAL OF THE CONVERSION OF THE PREFERRED STOCK INTO COMMON STOCK AND ISSUANCE OF COMMON STOCK UPON EXERCISE OF WARRANTS

On April 6, 2008, the Board of Directors adopted a resolution declaring it advisable and in the best interests of the Company and its shareholders to approve (i) the conversion of all shares of the Preferred Stock into shares of common stock and the automatic cancellation of the Preferred Stock upon such conversion and (ii) approve the exercise of the Warrants to purchase common stock.

The Board of Directors further directed that the proposed actions be submitted for consideration of the Company s shareholders at a special meeting to be called for that purpose.

Because our common stock is listed on the NYSE, we are subject to the NYSE rules and regulations. Section 312.03 of the NYSE Listed Company Manual requires shareholder approval prior to any issuance or sale of common stock, or securities convertible into or exercisable for common stock, in any transaction or series of transactions if the common stock has, or will have upon issuance, voting power equal to, or in excess of, 20% of the voting power outstanding before the issuance of such shares or of securities convertible into or exercisable for common stock, or if the number of shares of common stock to be issued is, or will be upon issuance, equal to or in excess of 20% of the number of shares of common stock outstanding before the issuance.

Our proposed issuance of common stock to the Investors upon conversion of the Preferred Stock and exercise of the Warrants falls under this rule because the common stock issued at the closing of the Equity Investment Transaction, together with the common stock issuable upon conversion of the Preferred Stock and exercise of the Warrants, will exceed 20% of the voting power and number of shares of common stock outstanding before the Equity Investment Transaction.

The purpose of Proposal 2 is to satisfy, in connection with the Company s sale and issuance of the Preferred Stock and Warrants, its obligations under the Investment Agreement and the Securities Purchase Agreements and to allow the conversion of Preferred Stock and the exercise of the Warrants to purchase shares of common stock in accordance with the NYSE rules described above.

In the event that our shareholders approve Proposal 1 but do not approve Proposal 2, the mandatory conversion of the Preferred Stock into common stock cannot be completed and the holders of the Warrants will not be able to exercise the Warrants to purchase shares of common stock. The holders would, however, retain the ability to exchange their Warrants for Preferred Stock as described below under Description of the Warrants Exchange for Preferred Stock.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE PROPOSED CONVERSION OF PREFERRED STOCK AND EXERCISE OF WARRANTS TO PURCHASE SHARES OF COMMON STOCK.

DESCRIPTION OF THE INVESTMENT AGREEMENT

Representations and Warranties

In the Investment Agreement, we made customary representations and warranties to the TPG Investors relating to us, our business and the issuance of the common stock, Series T Preferred Stock and the A Warrants and agreed to indemnify the TPG Investors for breaches of our representations and warranties in certain circumstances.

Covenants

Pursuant to the Investment Agreement we have agreed to call a special meeting of our shareholders, as promptly as practicable following the later of (1) the closing of the transactions contemplated by the Investment Agreement and (2) the 2008 annual meeting of our shareholders (which was held on April 15), to

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vote on proposals to (A) approve the conversion of the Series T Preferred Stock into, and exercise of the A Warrants for, common stock for purposes of Section 312.03 of the NYSE Listed Company Manual, and (B) amend the Company s Articles to, among other things, increase the number of authorized shares of common stock to at least such number as shall be sufficient to permit the full conversion of the Series T Preferred Stock into, and exercise of the A Warrants for, common stock. In the event that the approvals necessary to permit the Series T Preferred Stock and A Warrants to be converted into or exercised for common stock are not obtained at such special meeting of shareholders, we have agreed to include a proposal to approve (and our Board of Directors will recommend approval of) such issuance at a meeting of our shareholders no less than once in each subsequent six-month period beginning on July 1, 2008 until such approval is obtained.

In the event that our shareholders approve the conversion of the Preferred Stock into, and exercise of the Warrants for, common stock for purposes of Section 312.03 of the NYSE Listed Company Manual, but do not approve the increase in the authorized capital of the common stock of the Company, we are required to negotiate in good faith with the TPG Investors to promptly provide them with the option of exchanging their Series T Preferred Stock into (and to exchange their A Warrants for securities exercisable for) depositary receipts for a junior participating preferred stock with rights as to voting, liquidation and dividends identical to those of common stock, all on such terms and conditions as we and the TPG Investors may mutually agree.

Board Representation