

BEAR STEARNS DISTRIBUTION FUND **STATEMENT TO ELIGIBLE INVESTORS**

INTRODUCTION

If you are an eligible investor, you have received a distribution payment from a Fair Fund established by the U.S. Securities and Exchange Commission ("SEC"). This statement provides information to help you determine the U.S. federal income tax consequences of the distribution payment if you are a citizen or resident of the U.S. for U.S. federal income tax purposes.

YOU SHOULD NOT RELY ON THIS STATEMENT AS TAX ADVICE. CONSULT YOUR TAX ADVISOR WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF THE DISTRIBUTION PAYMENT, INCLUDING THE EFFECTS OF U.S. FEDERAL, STATE, LOCAL, AND NON-U.S. TAX RULES AND THE EFFECT OF POSSIBLE CHANGES IN LAWS.

In 2006, in the proceedings *In the Matter of Bear, Stearns & Co, Inc. and Bear, Stearns Securities Corp.*, SEC Admin. Proc. File No. 3-12238, the SEC issued an order instituting and simultaneously settling public administrative and cease-and-desist proceedings against the respondents (the "Order"). In the Order, the SEC authorized and established a Fair Fund (the "Bear Stearns Distribution Fund") of \$250,000,000 in disgorgement and penalties to be paid by Bear, Stearns & Co, Inc. and Bear, Stearns Securities Corp. ("BS&Co" and "BSSC," respectively; or collectively, "Respondents"). In accordance with the Order, the Bear Stearns Distribution Fund is to be distributed to investors injured by the market timing and late trading conduct described in the Order (the "Conduct identified in the Order"). The distribution payment is intended by the SEC to compensate you for harm to your investment caused by Conduct identified in the Order. This distribution is being conducted pursuant to a distribution plan ("Distribution Plan") developed by an Independent Distribution Consultant ("IDC"), Francis E. McGovern, Esq.

On February 4, 2009, the SEC approved the Distribution Plan, which provides for distribution to the asset bases of Eligible Mutual Funds their share of disgorgement and penalties paid by Respondents. The Distribution Plan further provides that, in some instances, where practicable and feasible, the IDC may use an existing Fund Family IDC (*i.e.*, an IDC retained in connection with another proceeding to effectuate a distribution from a market timing settlement fund) or a Fund Administrator to distribute monies directly to Contemporaneous Accountholders ("Eligible Investors") of Eligible Mutual Funds. See section IV.A.19 of the Bear Stearns Plan of Distribution. Pursuant to the aforementioned provision of the Bear Stearns Plan of Distribution, some distributions will be made directly to Eligible Investors via other Fair Fund distributions or directly through a Fund Administrator.¹

¹ This Statement to Eligible Investors ("Statement") is intended only to address distributions to Eligible Investors.

The Distribution Plan compensates Eligible Investors for harm they suffered as a result of the Conduct identified in the Order, during the period spanning January 4, 1999 through October 29, 2003 (the "Relevant Period"). Prior to any distribution, the Bear Stearns Distribution Fund held a total of \$250,000,000 plus accumulated interest.

The Bear Stearns Distribution Fund is a Qualified Settlement Fund ("QSF") under the Internal Revenue Code. Damasco & Associates LLP was appointed as the Tax Administrator for the QSF. Damasco & Associates LLP has participated in the preparation of this statement, but is not providing services or advice to you or any other Eligible Investor receiving a distribution payment.

Some Eligible Investors may be subject to special tax rules, including, without limitation, if you are a non-U.S. investor. This statement does not address the tax consequences under any state, local or non-U.S. tax laws, or the alternative minimum tax provisions of the Internal Revenue Code.

THE DISTRIBUTION PAYMENT

The Order provides that the IDC shall "develop a Distribution Plan for the distribution for the \$250 million in disgorgement and penalty, and any interest or earnings thereon, according to a methodology developed in consultation with Respondents and acceptable to the staff of the Commission." Accordingly, a Distribution Plan has been developed that provides for distribution to Eligible Investors of their share of disgorgement and civil penalties paid by Respondents in connection with the Order.

The Distribution Plan allocates monies based upon an analysis that reflects an estimate of the proportionate dilution in value of each of the Eligible Mutual Funds during the Relevant Period. Accordingly, your payment is composed entirely of an amount that represents how the Conduct identified in the Order impaired the value of your investment and your payment is intended by the SEC to compensate you for harm to the value of your investment caused by such Conduct identified in the Order. This harm has been measured by the IDC based on the dilution in share price attributable to the Conduct identified in the Order.

Your payment is not income to you to the extent of your basis in your shares;² however, you must adjust your basis downward by the amount of the payment (generally, your basis is the amount you paid for your shares). If the amount of this payment exceeds your tax basis in your investment, then the excess is includable in your income as capital gain. Any such capital gain is

² References to "shares" means shares you owned in the Eligible Mutual Fund to which your distribution payment relates during the Relevant Period.

long-term capital gain, unless you disposed of your investment before holding it for longer than one year.

Example 1: You have a basis of \$100 in your shares and your distribution is \$10. You do not have gross income as a result of the distribution *BUT* your basis is reduced to \$90 for purposes of determining gain or loss in the future (\$100 basis less \$10 distribution = \$90).³

Example 2: You have a basis of \$400 in your shares and your distribution is \$1,000. You apply \$400 of the distribution to reduce your basis to zero for purposes of determining gain or loss in the future *AND* you include the remaining \$600 in income as taxable gain on your investment.

Example 3: You have sold all of your shares in the Eligible Mutual Fund(s) to which the distribution relates and your distribution is \$1,000. Generally, you will include the \$1,000 in income as additional taxable gain from your shares. If you have sold only a portion of your shares in the Eligible Mutual Fund, you should make a reasonable allocation of the distribution between the shares you have sold and the shares you retain. The portion allocated to the sold shares is treated as described in this Example 3 and the portion allocated to the retained shares is treated as described in Examples 1 and 2.

If you do not have reasonable access to records indicating the tax basis of your investment, then you should assume that your tax basis is zero and that the entire losses component of your payment is includable in your income as capital gain. Any such capital gain is long-term capital gain, unless you disposed of your investment before holding it for longer than one year.

The QSF will not issue a Form 1099 to you with respect to the distribution. The QSF is not required to report the distribution payment.⁴

³ If you use the specific identification method of determining basis when shares are sold (as opposed to the dollar cost averaging method), your basis must be allocated among the shares in a reasonable manner.

⁴ This conclusion is consistent with guidance from the Internal Revenue Service ("IRS") with respect to capital recovery payments to injured investors from Fair Funds established by the SEC. For example, see the following IRS Private Letter Rulings ("PLRs") obtained by the Tax Administrator in other proceedings: 200645008, 200645017, 200646010, 200701001, 200702006, 200702008, 200702009, 200702010, 200702011, 200702012, 200702048, 200703008, 200703009, 200703010, 200703034, 200712004, 200712005, 200722004 and 200722025. You may obtain copies of these PLRs from the IRS Web Site, www.irs.gov. Although the QSF does not have a Form 1099 reporting obligation, such determination does not affect nor imply the tax consequence of a distribution payment *in the hands of an Eligible Investor*. The payments may, in whole or in part, constitute income, as discussed in Examples 2 and 3, even though no 1099s will be issued to Eligible Investors.

Nevertheless, you should consult with your tax advisor as to how to report any portion of your distribution that is taxable to you as described in Example 2 or 3.

**SPECIAL ISSUES FOR INVESTMENTS HELD IN
IRAS OR TAX-QUALIFIED RETIREMENT PLANS**

A. Distributions to IRA Accounts

Please follow the applicable instructions below if you received a check that is associated with an IRA.⁵

1. For Checks Payable to the Custodian but Mailed to the Investor

a. If you held some or all of your mutual fund shares through an IRA, in most cases the distribution check will have been made payable to your IRA custodian but mailed directly to you. You may choose to forward the check to your custodian with a letter of instruction or, to review your options, contact the Administrator of the Bear Stearns Distribution Fund (“Fair Fund Administrator”) at 888-356-0259. You should deposit the check in your IRA account. Caution: If the check is cashed or deposited in any account other than an account eligible to receive the check, it may be subject to a 10% penalty and taxed as ordinary income in the year of receipt.

b. If your IRA custodian has changed, you may be able to transfer the payment to another custodian, or roll the payment over to another IRA or eligible account. Please contact the Fair Fund Administrator at 888-356-0259 to review your options. Caution: Please consult with your tax advisor because the rules related to transfers and rollovers are complicated and failure to comply with those rules could subject the payment to income tax and a 10% penalty.

c. If you no longer hold your IRA, please contact the Fair Fund Administrator at 888-356-0259 to review your options.

2. For Checks Payable to the Investor and Mailed to the Investor

If the distribution check was made payable to you (as opposed to the custodian of your IRA) because of the way your account was registered in the records obtained for the distribution, please contact the Fair Fund Administrator immediately at 888-356-0259 to receive instructions to get a replacement distribution check made payable to

⁵ As a general rule, distribution payments from the Bear Stearns Distribution Fund received as a result of the investment held by your IRA do not constitute a “contribution” to your IRA for purposes of determining your maximum yearly contribution to your IRA.

the custodian of your IRA. Caution: If you cash the check, or deposit it in any account other than an account eligible to receive the check, it may be subject to a 10% penalty and taxed as ordinary income in the year of receipt.

Additional information on this topic is available on the IRS web site, www.irs.gov, Tax Topic 451 and Publication Number 590.

B. Distributions to Tax-Qualified Retirement Plans

Please follow the applicable instructions below if you received a check that is associated with a tax-qualified retirement plan.⁶

1. Checks Mailed to Your Retirement Plan

If you held some or all of your mutual fund shares through a tax-qualified retirement plan, in most cases the distribution check was made payable and mailed to your tax-qualified retirement plan.⁷ Plan fiduciaries are responsible for allocating these funds. Please contact your plan fiduciary if you have questions.

2. Checks Mailed to You

In limited instances, the distribution check was mailed to you and made payable to either (i) your retirement plan or (ii) you because of the way your account was registered in the records obtained for the distribution.

a. For A Check Payable to Your Retirement Plan but Mailed to You

In some instances the check payable to your tax-qualified retirement plan was mailed to you because your address was the address of record. If *you* received a check made payable to your tax-qualified retirement plan, please follow the directions in i. or ii., below.

i. If you are still a participant in the tax-qualified retirement plan, contact your retirement plan trustee/administrator to coordinate the deposit of the check to your retirement plan.

⁶ Many types of plans are eligible to accept rollover contributions (and the recently enacted Pension Protection Act of 2006 expanded the list of permissible recipient plans). More information on the Pension Protection Act of 2006 can be found at the IRS web site, www.irs.gov. Contact your tax advisor to determine the types of plans to which you may make a rollover contribution.

⁷ As a general rule, distribution payments from the Bear Stearns Distribution Fund received as a result of the investment held by your tax-qualified retirement plan do not constitute a "contribution" to your plan for purposes of determining your maximum yearly contribution to your plan or for purposes of determining your employer's contributions to your plan.

ii. If you are no longer a participant in the tax-qualified retirement plan to which the distribution is directed, please contact the trustee/administrator of your former tax-qualified retirement plan to determine the appropriate course of action. If you have difficulty making contact with your former plan trustee/administrator, consult your tax advisor or contact the Fair Fund Administrator at 888-356-0259.

b. For a Check Payable to You and Mailed to You

Distributions with respect to investments held by a tax qualified plan should not be payable to individual investors. If you received such a check, this is an error likely due to the data available for the distribution. If you received a distribution check made payable to you in connection with an investment held by your tax-qualified retirement plan, please contact the Fair Fund Administrator immediately at 888-356-0259.

Additional information on this topic is available on the IRS web site, www.irs.gov, Tax Topic 558.