Date: December 1, 2002
To: Craig Phillips – Global Head of Securitized Products – Morgan Stanley
(via email and certified mail @ 1585 Broadway – 3rd Floor, New York, NY 11036)
From: Spencer Young

As you know, I was notified that my position had been terminated on November 20. I wanted to let you know that I valued the opportunity to work for you for the past six years and being part of a team that has been the number one global issuer of CMBS for three years running. I harbor no ill will, and I certainly will never forget how you went to bat for me two years ago, when you arranged my transfer to the "Finance" side of the Securitized Products Group ("SPG"). I very much enjoyed the dinners you hosted at your home, and playing scrambles golf with you at Turnberry. While I do not understand the business rationale of terminating a significant producer, I do not contest the decision. Instead, I am ready to move on with my life.

I've been asked to sign a Change of Employment Status and Release Agreement ("Agreement") in order to receive severance and benefits, and by signing this Agreement all matters will be resolved in all respects between Morgan Stanley and me.

Background

Before I can sign the Agreement, though, there are four matters that I believe require your attention, and direction:

1. **Bonus** – At the outset of fiscal year 2002, I was promised by Warren Friend that I would receive an "outsized bonus" if I were able to land the AXA Financial agribusiness disposition. I delivered with the $519mm disposition of roughly 1,000 farm loans. It was the largest transaction of its type, one of the largest fees received by SPG Finance this year; accordingly, it was frequently featured as one of the key transaction success stories. In addition, Warren promised me that the conversion of new clients would serve as a basis for an increased bonus "to the next level". Once again, I delivered by converting Aegon / Allmerica / AXA / MONY / Nationwide / State Farm / Union Central Life into SPG clients.

Whose handwriting is this?

MD

2. **Conflicting Signals** – In addition, I was also recently asked to head up an initiative to market the full range of SPG products to middle market banks, working with Francine Mozer, the SPG Finance Sector Heads and the middle markets sales force. This was to be rolled out in December, after I was to present this to Stefano Corsi for his feedback. I was also part of the $1.0 – $1.5 billion HQ transaction team (slated for late February 2003) with the possible addition of ABN-AMRO and Allmerica collateral totaling $400mm. My termination came as a total surprise and accordingly, I have had no time to prepare for the future, which will make finding a job that much more difficult.

3. **Promotion** – I was told by Warren Friend that creating a revenue platform of $25mm or more was the basis for being promoted to Managing Director. The IQ ("Institutional Quality") brand of CMBS is now positioned to generate $30mm + in underwriting fees and arbitrage gains, and yield $3 billion - $4 billion in league table credit annually. When tax-effecting this, and applying Morgan Stanley's current P/E ratio, it has an intrinsic value in excess of $250mm. As you know, I was the architect of the IQ brand and driving force behind its creation – I even spent much time having this serviced marked by the U.S. Patent & Trademark office – it will be officially registered in January 2003 after the public notice period runs its course.

4. **Fairness** – What has happened to me is fundamentally unfair and contrary to the meritocracy Morgan Stanley has long practiced. Paradoxically, I was terminated the day before launching the $1.0 billion IQ3 deal, and at a point when I was formulating the IQ4 transaction of similar size for March 2003. In addition, because the CMBS group had already exceeded it's fiscal 2002 budget, I was asked to manage client expectations so that the IQ3 deal would price during the first week of the new fiscal year – accordingly, my contribution to earnings next fiscal year, as well as the future benefits of the IQ brand are scheduled to go unrewarded.

Requests

I am prepared to move on, but in light of the facts and circumstances noted above, I must request the following clarifications and changes be made to the Agreement.

- Bonus equal to 150% of my highest previous bonus during my employment at Morgan Stanley
- Designation as Managing Director as of the last day of employment
- Severance typically offered to Managing Directors, and in no case less than 26 additional weeks of salary continuation and benefits
- Immediate vesting in all EICP for 1997 through 2001, with no restrictions, and make wholes for original EICP awards for 1998, 1999, 2000 and 2001
- Return of principal invested in the Morgan Stanley Dean Witter Venture Investors Fund IV, and KEPEF
- Pension, 401 (k) and savings plans continued for length of severance period with credits granted as applicable
- Confirmation of ability to stay on as investor in MSREF IV (Domestic), MSREF IV (International) and MSREF IV (Europe) funds
- Positive written statement about my accomplishments at Morgan Stanley and departure

Next Steps

Please understand that I don't reject the offer given, or the spirit in which it is offered, and it is not my intent to become adversarial, or to hire an attorney. I'm hoping we can find a way to accomplish an "honorable discharge" that is fair to all. For me, I'm looking to be fairly compensated for the unfulfilled promises that were made in the context of the value delivered.

Please let me know when we may be able to talk about this, or whom on your staff I should speak with. I can be reached at 516-365-2488 (home); 917-601-2824 (cell) and SpencerCYoung@aol.com (email).

Thank you.

Sincerely,

Spencer C. Young III