

May 12, 2005

To the Shareholders of Morgan Stanley:

We are today releasing detailed materials outlining a proposal to spin off the Institutional Securities Business (available on [www.futureofms.com](http://www.futureofms.com)). As has been reported, this proposal was reviewed in preliminary form with three non-executive directors of the Morgan Stanley Board on April 22, 2005. Since that meeting we have received no direct response from the Board. We have subsequently discussed a spin-off with institutional shareholders and expanded the initial proposal to reflect their input.

The proposed spin-off is motivated by a belief that the Board of Morgan Stanley faces an immediate crisis and that the Firm has been badly served by its present management and leadership. The recent improvements in corporate governance announced by the Board in reaction to pressure from shareholders are overdue, but they fail to address the leadership and structural issues that, if left alone, will continue to damage the Firm and erode shareholder value. The crisis continues and will likely deepen.

Central to any successful resolution of the current crisis is the separation of Philip Purcell from authority over Morgan Stanley's Institutional Securities Business and the installation of a new management team, which can stem the tide of departures and attract key leaders, who have recently departed, back to the Firm. If Morgan Stanley's optimum strategy is to build a fully integrated securities business \_ an outcome that Mr. Purcell has failed to accomplish in the eight years since the merger with Dean Witter Discover \_ the strategy requires the immediate replacement of the current leadership team.

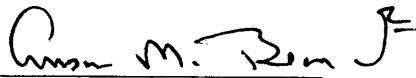
Alternatively, a spin-off of the Institutional Securities Business would acknowledge the failure of the integration effort, allow the Institutional Securities Business to regain its stature and reputation and significantly improve its performance. **This could be accomplished under the leadership of the five widely respected senior executives who were forced to depart, but who we are *highly confident* would return to lead the Institutional Securities Business in a spin-off.**

The business strategy presented by Mr. Purcell, Ms. Cruz and Mr. Crawford at the UBS Global Financial Services Conference on Tuesday, May 10, 2005, while acknowledging the Company's underperformance, the departure of key managers from the Firm and the high likelihood of more departures in the future, offered no credible

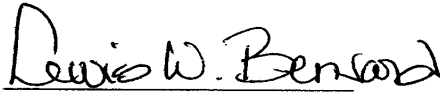
solution to the present crisis. In the eight years since the merger, Mr. Purcell has failed to successfully execute the integrated securities business model senior management promoted at the conference. Staying the course under the present leadership is not an acceptable solution. Shareholders deserve better. We strongly believe that new leadership is critical to the success of the Firm and to the creation of shareholder value. We invite you to study the spin-off proposal carefully, before the crisis worsens.

If you believe that a spin-off of the Institutional Securities Business and the return of recently departed and highly respected leaders would be beneficial to shareholders, we urge you to let us know by e-mail on our website ([www.futureofms.com](http://www.futureofms.com)) or by contacting us at (212) 372-4005. We also encourage you to make your views known to the Morgan Stanley Board by contacting them directly.

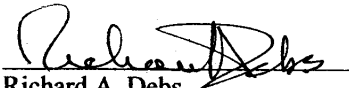
Respectfully,

  
Anson M. Beard, Jr.

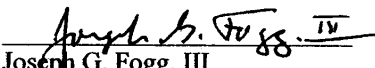
  
S. Parker Gilbert

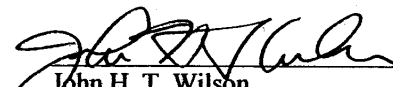
  
Lewis W. Bernard

  
Robert G. Scott

  
Richard A. Debs

  
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Joseph G. Fogg, III

  
John H. T. Wilson