As you know, each year I draft my own version of an annual report — I initiated this process in 1992. It's important for me, and for you, to have a sense of what I've done well, and what I've done poorly and what's going right, and what's going wrong. This year the report is a long one, but there seems to be some confusion about what I do, so I hope that this document enlightens... As usual, I've categorized areas of focus (see bold) and ranked them according to impact (highest first).

First, General Thoughts -- As expected, the impact of the Internet on business has been and will continue to be unprecedented. Put simply, traditional businesses are losing incremental sales to Internet startups. In addition, the Internet has changed the banking and research businesses - we are, in effect, more like venture capitalists - in fact, we have been the source/lead for the top venture firm on the planet for two of its most successful 1999 IPOs. Net, I believe that we are financing the leading companies of the next century (as ATT, General Motors, etc. were important to Morgan Stanley's past, America Online, Amazon.com, etc. are important to MSDW's future...and it's key for us to adapt to the business styles of these companies - like moving our business to the Internet). In this environment my role is very different than it was 5-10 years ago.

My number one focus is to ensure that we take the best Internet companies public and help build the leading Internet companies of the future – this has been a challenge owing, in part, to our post-1996 lack of Internet focused banking resources. While this changed in January, 1998 with the hiring of Andre deBaubigny, he was not given the appropriate support to succeed. Directionally this changed in April, 1999 when Ruth Porat moved from tech ECMS to "head of Internet IBD," that done/said, it's been difficult to ramp up, hire and retain people that have the appropriate skill sets, in part owing to compensation/lifestyle issues – our 'brain drain" especially in Internet IBD has been severe (Golding, deBaubigny, Lynch, Hein, Miller...).

I believe that the hiring of Paul Inouye (Internet IBD, Menlo Park) in October, 1999, is a significant positive step and Ruth is doing a tremendous job with fixing a very difficult situation, and Joe Perella and Terry Meguid have been especially supportive. Over the past four years I have devoted a huge, huge amount of time, on an ad hoc, deal-by-deal basis to Internet boot camp 101 issues and it has been terribly frustrating and I have also devoted an even more significant amount of time to investment banking activities (though many aspects of this have been especially rewarding). For years, I have been arguing for vertical focus for tech IBD and I'm gratified that our early focused effort in B2B (Ruth Porat, Clark Spurrier and Dana Weinstein in IBD and Dave Edwards, Mary Meeker and Chuck Phillips in research) has demonstrated that this is absolutely the way to run our business. That said, IMO, tech IBD needs more vertical focus – it's notable that Quattrone and team have begun to aggressively market the vertical focus of their bankers – watch that team...

In research, it's been my opinion that in most cases, it's best to match me (plus someone on my team) with one of our traditional analysts to win IPO mandates and bring the traditional analyst up to Internet speed throughout the IPO process – in almost all cases (see "Internet Analyst Ramp" section) this has worked extremely well, the one exception has been in FIG.com with Ken Posner. Post IPO, the objective is to let the traditional analyst run point with the research coverage – and if our analyst does a great job, I can scale back in time...and not be needed for the subsequent IPO pitches in the analyst's sector.

Regarding our salesforce, bottom line, given the unprecedented ramp in new company creation in the Internet space, we are in the IPO business (there were 146 domestic Internet IPOs priced in the first three quarters of 1999 and as of 9/30/99, there were 67 Internet IPOs on file...) and the way we train our salesforce is by winning the best IPO mandates and providing our salesforce with the ability to get "up close and personal" with the management teams and to be first and best with understanding these new stories/companies. One key thing to understand, is that given my Internet industry experience, it's not unusual for Internet companies that are not directly in my coverage universe to demand my research participation in order for us to garner acceptable deal terms – TMP Worldwide, Covad, RealNames, Akamai and Inktomi come to mind as especially prickly situations.

Bottom line, my highest and best use is to help MSDW win the best Internet IPO mandates (and to ensure that we have the appropriate analysts and bankers to serve the companies well) and then to let them work their way through our powerful research and distribution system. Take priceline.com (the most successful Internet IPO of 1999) as an example – I read about the company in a trade journal. Andre called the company...Andre, Jim Liang and I met with the company...then five Morgan Stanley employees pitched the IPO (including Ruth Porat and Dick Fisher)...we won the mandate...now every MSDW employee knows the story...every institutional salesperson has met the management team...the market capitalization of the company is \$10B and our New York PWM team manages a chunk of the wealth. This is how our business works.

Note that I constantly assess and prioritize "how, by thinking about the Jong-term, I can use my skills and Internet industry and Wall Street presence to thoughtfully maximize revenue to MSDW." And when one looks at the success of our tech franchise since I joined in 1991 – from #[5] ranked tech research team to #1 and \$[8MM] in annual tech IBD revenue to [\$505MM] YTD

revenue, we must be doing something right. Also note that tech-related PWM assets under management have exploded as has trading volume.

Increasingly, it is critical for us to identify companies at early stages of development. Traditionally, relative to the tech boutique investment banks, this has not been our power alley, in part due to a post-Quattrone IBD focus on "big elephants" vs. "acorns" – because of this we have allowed Goldman Sachs and now, CSFB, to dramatically narrow the competitive margin between us and them – this is unfortunate. Now, with improving Internet IBD vertical focus, and expanding research coverage, improved tech focused MSDW venture efforts (Pete Chung in Menlo Park and Dave Edwards, my former research associate, in NY), and improved PWM focus on new company sourcing, we are in a better position to be well positioned with early stage companies. That said, in this unusual period of Internet "public venture capital" the decisions to determine which companies to support are very difficult... and we need to continue to improve our decision making process/judgement – it is critical to move toward an Internet commitment committee (partnership-like) approach. And, IMO it's important for Internet IBD/research to share in the partially tied to the after-market performance of his/her deals.

On another point, the Internet is changing MSDW's core business. And if we don't move quickly to position ourselves to be number one, two or three in online retail distribution, we are hosed. And, given our current approach, I don't see how we get there...and, at the margin, these trends burt employee morale.

For perspective, note the changes in Silicon Valley banking since Quattrone and team left MSDW – the big banks have acquired and destroyed the Silicon Valley boutiques (Bankers Trust/Deutsche Bank:Alex.Brown; Nations Bank:Montgomery; BankAmerica/BankBoston:Robertson Stephens; and next, Chase will destroy Hambrecht & Quist ["Chase West" says it all]). Already, the Internet co-managers of choice are CSFB (one year old aggregation of Quattrone and team) and Tom Weisel Partners (one year old aggregation of Montgomery team)...the point here, I'll bet big money that within 3-12 months an online-only investment bank (which serves far more customers than Discover Direct) will be added to the "co-manager of choice" list and will demand and warrant 20%+ of the economics on IPOs...and their distribution vehicle? Research by email and Web site postings and online roadshows.

You don't want to know how many Silicon Valley CEOs and venture capitalists have begun to rebel at the two-week IPO roadshow process — "I was able to raise \$50MM in a private round in one week by making a dozen phone calls, now WHY is it that I need to go through all these machinations to raise \$50MM in the public markets and go to 60 meetings when only 20% of the people I meet have a clue about what my company does?"

And, a last point, it is critical for MSDW to compensate its Internet research/IBD team appropriately and provide them with appropriate resources. When folks in the MSDW tech group depart there are typically four reasons: 1) I was burned out and saw no end in sight; 2) I resented the fact that I was working at a significant compensation discount relative to competing offers and I had no clarity on the drivers of my compensation: 3) I was sick of asking for resources that I couldn't get (my own office, a first class seat, a second assistant, my own fax machine, a faster printer, more storage space, or more space in general); or 4)

Folks who have been especially valuable to the Internet group who should be in the "special treatment" category:

Internet Investment Banking, a Record Year with \$205MM+ YTD Revenue, [20+] Pending Financings, Co-Coverage (Leverage) in 85% of Cases, 6 of Top 6 Tech IBD Revenue Generating Clients, Internet Category was #1 Revenue Generator in Tech IBD (\$505MM YTD Tech Revenue) – First, I'd like to cite three IBD folks for their unique contributions to MSDW's Internet-related revenue – Ruth Porat, Rex Golding and Andre deBaubigny. For me, it's been wonderful to have someone with Ruth's drive and broad corporate finance knowledge in this spot – she's the best banker I've worked with since Quattrone, and while Frank has the tech relationship edge, Ruth has the creativity edge – it's been fantastic for me to be able to say to folks that I've known for years, "Trust me, Ruth's the best" – and after one meeting with her, they usually agree.

OK, the numbers (see attachment A): Forty investment banking transactions (\$143MM in fees) ranging from Amazon.com convertible (\$22MM fee); Netscape/America Online merger (\$16MM fee); eBay follow-on offering (\$14MM fee); broadcast.com/Yahoo merger (\$12MM fee) to CNET/Snap/NBC merger (\$750K). Three share repurchase programs (\$63MM in fees) including Microsoft (\$63MM fee); America Online (\$296K) and Electronic Arts (\$7K).

It's notable that 96% of the \$205MM in revenue was derived from clients new to the firm since 1995! Exceptions were America Online. Compaq, Hearst and Sotheby's. And, I have been very involved in this business...

My simple philosophy for our Internet banking efforts follows:

- 1) when all is said and done, 30% of Internet IPOs (to be defined as "the leaders") will likely trade above issue price, 70% will trade below issue, so we need to be very selective with our lead-managed Internet IPO choices and we need to source these companies at start-up stage;
- 2) we should have at least 50% lead-managed market share of the leaders;
- 3) we should adjust our risk profile so 1-2 of our 10 Internet IPOs are "flyers" so when all is said and done, 80-90% of our Internet IPOs are trading above issue;
- 4) when we miss a winning IPO, we should work like crazy (with tons of ideas) to secure a spot as M&A advisor (USWeb/CKS) or book running manager on follow-on offerings (eBay); 5) we should have an intense focus on Internet M&A and endeavor to have higher market share in M&A than we have in equity financing in this speculative environment for Internet companies, M&A is easier, safer and more lucrative than equity financing...The good news here? When measured by this philosophy, MSDW does quite well and given improved IBD focus, we will get better...

Equity Funding Effort, In First Year, As of 10/25/99, \$12MM Invested, as of 10/25/99, Returned Unrecognized Investment Profit of \$112MM - To say that Ruth Porat and I had to brute force this effort (which finally launched after six months of effort and resistance in 6/8/98 with a \$2.5MM investment in Scient at \$6.35 - last trade was \$97) is an understatement. The catalyst was that MSDW was falling behind in developing early stage IBD relationships with Internet companies and this was an effort to ensure that we had "skin in the game" and a call option on IPO business. But, hey, we are an investment bank...and putting principal to work can be a very good thing... Dave Powers in the Princes Gate group has been especially helpful with these efforts.

All in, as of 10/25/99, \$42MM has been invested in 17 companies; five Internet companies have gone public accounting for \$12MM in MSDW capital including: Scient (\$39MM return on \$2.5MM investment); Healtheon (\$23MM return on \$5MM); Vignette (\$28MM return on \$1.5MM); HomeStore.com (\$15MM return on \$2.0MM); and Starmedia (\$6MM return on \$1MM). See attachment B for details.

YTD Stock Picks, as of 10/8/99, up 172% with Full IPO Gains, up 69% YTD from Coverage Initiation, Compares with 9% Return in S&P500. MSDW Seven Year Average Annual Return of 115% with Full IPO Gains, or 79% Annual Return from Coverage Initiation. Career Wealth Creation from Stock Picks Surpassed \$700B - Simply, all stocks performed well...indicating that, more often than not, devoting lots of cycles to being early at picking the best-of-the best can consistently provide investors with superior returns. See attachment C for specifics.

Impact of Stock Calls has Been Daunting - YTD, Internet stocks have been especially volatile. As indicated in attachment D there have been five inflection points in Internet stocks YTD and the fact is that we have made a major call on the day of four of the five inflection points: 1/8/99 (MSDW Software, Networking & Internet Conference) preceded an 89% rise to 4/13/99 ("The New Yorker" article published indicated that we believed that a 50% decline in Internet stocks was possible) preceded a 41% decline to 6/15/99 (when we indicated that "the worst is over") which preceded a 51% rise to 7/16/99 (when we did nothing) followed by a 34% decline to 8/10/99 (when we conducted our "AOL outlook is strong" conference call for 600 investors) which preceded a 37% rise in the Internet basket.

Clearly this kind of market power is unique and daunting, especially for such an illiquid, yet popular, group of stocks. It forces me to be especially thoughtful about picking my times to comment about stocks and the market (when I speak, inevitably a media event occurs). Because of my market impact and the responsibilities associated with our expansive Dean Witter network of retail brokers, I have, much to my chagrin, been forced to dramatically reduce my level of verbal output. Bottom line, valuations ARE an issue here. Note that our written output is still quite strong.

Internet/Technology Research Group Maintained Leadership – Per Greenwich (4/12/99) data for 1999, MSDW ranked as the #1 tech team with an average client penetration of 67% for analysts in the twelve key categories (PC/Multimedia Software, Enterprise Hardware, Semiconductor Capital Equipment, Internet, Computer Services, Telecom Equipment/Data Networking, Semiconductors, PC Hardware & Peripherals, Telecom Equipment/Wirelias: Technical Software and Telecom Equipment/Wirelias: Technical Software that in 1998 We ranked #2 with 51% penetration, while Goldman Sachs was #1 with 56% penetration and Merrill Lynch was #3 with 40% penetration.

Per Institutional Investor (10/99), on a global basis, our tech team ranked #1 with total weighted votes of 40, compared with 25 for Goldman Sachs and 20 for CSFB and 19 for Merrill Lynch. Several highlights:

- 1) vs. 1998, we increased the total number of ranked technology analysts globally and in the US AND widened the vote margin vs. our competitors;
- 2) we had a rocking addition of new-comers and moving-uppers on the list Vinay Shan, Chris DePuy, Alkesh Shah, Tom Kraemer and Gillian Munson;
- 3) every tech analysts with an II category was ranked/mentioned while I'm not certain of this, it's my impression that this kind of hit rate has never happened before -- WOW! No doubt, the impressive groupware efforts put forth by Suzanne Rheault, Dave Joseph and Lawrence Herman, and our new tech sales efforts helped as all...

Weighted US Votës by Firm (1999 / 1998) -- MSDW (40 / 37); Goldman (25 / 26); CSFB (20 / 16); Merrill (19 / 24); and Salomon/SB (16 / 9). Weighted US votes are calculated by assigning a rating of 4 to a first-teamer, 3 to a second-teamer, 2 to a third-teamer, and 1 to a runner-up.

US Ranked Analysts by Category.— Ist team: Mark Edelstone (Semiconductors); Mary Meeker (Internet); Charles Phillips (Server & Enterprise Software); David Togut (Computer Services). 2nd team: Jay Deahna (Semiconductor Capital Equipment); Shelby Fleck (Electronics Manufacturing Services); Marie Rossi (Healthcare/Information Technology); Vinay Shab (Technical Software); 3rd team: Chris DePuy (Data Networking): Shelby Fleck (Electronics/Connectors); Mary Meeker (PC Software); Rebecca Runkie (Photography & Electronic Imaging); Alkesh Shah (Telecom Equipment-Wireline). Runners-up: Thomas Kraemer (Server & Enterprise Hardware); Alkesh Shah (Telecom Equipment-Wireless). Up and Comers: Gillian Munson (PC Hardware). See

Groupware Efforts Continue to Build Momentum — Latterneity successful mid-1999 transition from Suzanne Rheault and Lawrence Herman to David Joseph and Lawrence Herman — I give this team a boatload of credit for the rapid ramp of our younger analysts, high quality information dissemination and branding efforts. Efforts are in place to stay in sync with newly formed tech sales effort so we can indeed create the products that clients need. Product line-up includes: MSH Tech-35 Index (Herman); MSH Tech-35 Quarterly Report with press assist (Herman); forthcoming MSI Internet Index (Herman, Sjayton); Internet Company, MSH & Basket Stats with email distribution of [4,000] (Weekly — Trowbridge); Tech Week with distribution of [8,000] (Weekly — Herman); Tech Day with email distribution (plus research link) of [4,000] (Daily - Joseph); The Technology Primer (Bi-annual — Phillips); The Software, Networking & Internet Report (Annually - Herman); Software, Networking & Internet Conference, 1999 Models Report (Quarterly - Herman); Revenue and EPS Trend Reports (Quarterly - Herman); Quarterly Tech Group Earnings Conference Calls (Quarterly — Underwood/Herman) and Technology Sector/S&P500 Report (Quarterly — Herman/Joseph).

Rapid Ramp in Research Coverage with Twelve New Companies on Base of Eleven Companies, Nine of Twelve New Covered Companies are Co-Covered with Other McDw Teniysts = New LTM toverage includes A delegate hologous priceline.com. New LTM co-covered new companies include Ariba, Cnemdex, Covad, drigsfere.com, Fleatthéon, Marimba, Scient, USWeb/CKS, and Vignette. Base coverage list remained Amazon.com, America Online, CNET, eBay, Electronic Arts, Intuit, Microsoft, Yahoo!, Excite@Home (Bilotti), TMP Worldwide (Arthur is point), and VeriSign (DePuy is becoming point).

Internet Analyst Ramps and Collaboration Efforts were Impressive and Pipeline of [20+] IPOs ([85%] to be co-covered) is Unprecedented (Co-coverage / IBD client data listed after analyst name, in process IPOs in italics) - Mahaney (Meeker coverage assist); DePuy (Internet Infrastructure - VeriSign, Inktomi, Akamai, RealNames); Sherrick (Internet Consulting/Services and Soon B2B Exchanges - Scient, USWeb/CKS, FreeMarkets, Altra Energy, tradeout); Phillips (B2B Software - Ariba, Marimba, Vignette, WebMethods); Camp (Internet Data Services - Covad); Rossi (Internet Healthcare - Healthcon, Chemdex); Levin (Internet Drugstores/Supermarkets - drugstore.com, HomeGrocer); Bodenchak (Internet Media - broadcast.com, tickets.com, Internet/Publishing - TMP Worldwide, Martha Stewart); Russell (Internet Direct Marketing - ArtistDirect); Arthur (Internet/Insurance - ChannelPoint); Runkle (Internet Imaging - Getty, Adobe) and Steib/Winram (European Internet); Kaira

In addition, our team has spent time on Internet issues/companies with McVey (brokerage), Posner (mortgages, credit cards), Quilty/Girsky (autos), Higgins (energy - AltraEnergy); Best (steel), and McCaughey (office products).

MS 0083164 HIGHLY CONFIDENTIAL One thing I need to do here is give Mayree Clark thoughtful heads up voicemails when analysts are being especially helpful with Internet stuff, or not helpful, so she can leave a voicemail thanks or give a nudge as needed...

Consistent Internet Research Messaging – The framework for the evolution of the Internet that Chris DePuy, Sam McCuen and laid out in 1995 has played out in the way that we predicted: infrastructure then software/services then content/aggregation, later followed by commerce, then business reegineering (B2B). The reports that we have written: "The Internet Report – 1995;" "The Internet Advertising Report – 1996;" and "The Internet Retailing Report – 1997" in many respects are as valuable today as they were when they were published. This has lead to efficiency in our research messaging – 100% of our [25-plus] Internet IPOs are trading above issue price (no other firm can claim this, for example, Goldman Sachs already has a [30%] failure rate) – and our themes for our favorite stocks, in general, have remained unchanged. It's like consistently supporting Microsoft from a market capitalization of \$3B to \$450B – boring but effective!

Research Report Stats Continue to be Way Impressive – H1:99 Client Link Users = 1.326 = #1 in department in hits; H1:99 First Call hits = 4,125 = #2 in department [data should be updated and cross-checked...]

"MCI Faxes" tend to be regarded as "best in the business." That said, we need to improve our EBS to "buff and blue" and IP conversion rate a lot (it's a Mahaney mission). And we need to ramp of volume of basic reports — see goals/priorities list for more detail.

Internet-related report ramp increased dramstically. The reports are available at www.ms.com ([200K]+ copies in circulation) include: The Internet Data Services Report (9/99 - Camp); The Internet and Financial Services Report (9/99 - FIG); The Internet Company Handbook (6/99 - Meeker); The Global Telecommunications Report (6/99); The Technology Primer (5/99); The Technology IPO Yearbook (Spring/99 - Meeker); The Internet Mortgage Report (2/99 - Posner); The Internet Retailing Report (5/97 - Meeker/Pearson); The Internet Advertising Report (12/96 - Meeker); and The Internet Report (12/95 - Meeker/DePny/McCuen). See attachment I for itst of reports at www.ms.com.

Broad Research Coverage of Leading Internet Companies — There seems to be some perception that MSDW's Internet coverage isn't as broad as it slibuid be. Here are the facts:

- 1) We cover 25 of the top 50 most highly cardinated between plant companies and nave the highest "coverage hit rate" of all bulge-bracket firms (we are at 50%, Goldman@44%; CSFB/DLI@36%). And we are the bankers for 22 of the 25 companies;
- 2) we have reasonably solid along to pick ap toverage of eight more companies (Internet Capital Group Meaker/Sherrick/Mahaney; CMGi Mahaney/Meeker; Real Networks DePuy if he gets more support; e\*trade McVey needs to move on this; DoubleClick Russell; Network Solutions DePuy if he gets more support; Portal Koh; barnesandnoble.com Misset);
- 3) the remaining 16 companies are companies that IBD passed on (phone.com, mp3.com, net2phone, infospace), or companies we were conflicted on / or believe in another company (etoys, broadvision, goto.com, looksmart, infoseak, lyess, emeritrade; commerceone, ixl, standedia, freeserve), or companies research passed on (netzero). We should consider covering some of these companies when bandwidth expands, but we currently have a pipeline of [20+] IPOs:
- 4) also note the consensus view in the Internet group is that we cover the best companies (and our coverage hit rate declines as market capitalization declines) 50 less 16 equals 34 and we cover 26 of 34 with plans to pick up remaining eight. Lastly, remember that historically 40% of all tech IPOs end up trading below issue price we believe that in time, 70% of Internet IPOs will end up trading below issue price...

Direct Reports Ramping Well -

## Redacted