AFSCME Employees Pension Plan Recommends Board Reform at Morgan Stanley

For Immediate Release
Wednesday, June 29, 2005
For More Information, Contact:
Cheryl Kelly, 202-429-1145

WASHINGTON — The American Federation of State, County and Municipal Employees (AFSCME) Pension Plan today submitted a shareholder proposal for the Morgan Stanley (NYSE:MWD) 2006 annual meeting urging the board to require that directors receive a majority vote by shareholders in order to serve.

"The current board is a creature of Purcell's reign," said Gerald W. McEntee, AFSCME Pension Plan chairman. "In addition to needing a new CEO who can rebuild shareholder confidence, the company needs a board that no longer carries the baggage of a failed leader."

"As long-term institutional shareholders, we recommend that Purcell-affiliated directors resign from the board before the next annual meeting so that new directors can stand for election," said McEntee. "It is our hope that the nominating committee will reach out to shareholders to build a new board capable of making independent strategic decisions about the future of the company." According to the AFSCME Plan, six of the 12 members of the board have ties to Purcell through Sears, Dean Witter, AMR or McKinsey Consulting. Two of those directors were elevated to the board as part of Purcell's power consolidation in response to the dissident group.

"The situation at Morgan Stanley is another example of why shareholders need the ability to remove and replace failed directors," said McEntee.

This year more than a dozen shareholder proposals on majority votes have been supported by shareholders.

AFSCME's 1.4 million members participate as beneficiaries in public pension plans that in aggregate own approximately 4 percent of the company.

RESOLVED that the stockholders of Morgan Stanley urge the Board of Directors to take all necessary actions to require that a director be elected by a favorable majority of (a) votes cast for the nominee plus (b) votes withheld from the nominee, unless (x) the number of nominees exceeds the number of directors to be elected and (y) proxies are solicited by or on behalf of a person other than Morgan Stanley. In conjunction with specifying a majority vote threshold, the Board should address the status of incumbent directors who do not receive the required number of votes and who would be considered "holdover" directors under the law of Delaware, where Morgan Stanley is incorporated, and the procedure for filling any vacancy that arises as a result of an incumbent director's failure to obtain the required vote.

SUPPORTING STATEMENT

Currently, Morgan Stanley uses a plurality voting standard for director elections, which means that the nominee who receives the most votes will be elected. Nearly all corporate director elections, including the last five at Morgan Stanley, are uncontested; in other words, there is only one candidate for each open seat. (Harvard Law School Professor Lucian Bebchuk has estimated that there were only about 80 contested elections at public companies from 1996 through 2002.)

In uncontested situations, a plurality voting standard ensures that a nominee will be elected even if holders of a majority of shares voting exercise their right to withhold support from the nominee on the proxy card. Indeed, under plurality voting, a single share could elect a nominee. Section 216 of the Delaware General Corporation Law allows a corporation to deviate from the plurality default standard by establishing a different standard in its charter or bylaws. This proposal, if implemented by the Board, would do that by requiring directors to be elected by a majority of shares voting for a nominee or withholding their votes from the nominee at a meeting. The plurality standard would be retained for contested elections.

We believe that a majority vote standard for director election would foster a more robust system of board accountability. Under the case law of Delaware, the power of stockholders over director election is supposed to be a safety valve that justifies giving the board substantial discretion to manage the corporation's business and affairs. Requiring a nominee to garner majority support among stockholders — thus giving stockholders' withheld votes real meaning — would help restore this safety valve.

Restoring accountability is particularly important now at Morgan Stanley. We believe that the board has been excessively loyal to outgoing CEO Phillip Purcell and that directors lack financial services experience. We are also concerned about the close relationships among current directors, including reported ties to Purcell through Sears, Dean Witter, AMR and McKinsey Consulting. Shareholder value has suffered as Morgan Stanley's stock closed under $49 in June 2005, down from $110 in September 2000.
We urge stockholders to vote FOR this proposal.

# # #

American Federation of State, County
and Municipal Employees, AFL-CIO
1625 L Street, N.W., Washington, D.C. 20036-5687
Telephone (202) 429-1145
Fax (202) 429-1120