

Subject: Re: Real Estate Capital Markets Shop

Date: 8/9/2003, 1:59 PM

From: [Erik Klingenberg <erikk@optonline.net>](mailto:erikk@optonline.net)

To: SpencerCYoung@aol.com

Spencer, thank you for sending the summary proposal. been swamped at work but gave it a read the other day. sounds very interesting and exciting. had all kinds of ideas as i read it. i'm going to Seattle with my family on vacation this week. i'm bringing it along and will spend more time thinking about it and discussing it with my wife while we're away. i really appreciate your thinking of me to participate in this exciting project. i will contact you after we return from Seattle. Erik

----- Original Message -----

From: SpencerCYoung@aol.com

To: erikk@optonline.net

Sent: Wednesday, July 30, 2003 12:51 PM

Subject: Real Estate Capital Markets Shop

Erik --

Following up on our Monday conversation, this following summarizes the initiative to create an integrated real estate finance and capital markets shop at a well capitalized firm (a very well-known global financial services firm with a capital base that is 1,000 + times the capital base of the largest law firms), who is committed to establishing a significant commercial real estate capital markets presence in 2004 (the "Firm"). Here's the situation and the way the areas will be structured:

- 1) Small loans (< \$4mm) -- whole loan position funded by Firm capital;
- 2) Conduit loans (\$4mm - \$25mm) -- position funded solely by Firm capital
- 3) Large Loans (\$25mm +) -- position funded by Firm capital
- 4) Mezzanine Financing / B-Notes -- separate Firm investment, although there could be an opportunity to assimilate third party money in a joint venture format, as well as optional investment by those in our group. This funding is to be offered on all of our originated large loan deals and some of the larger conduit loans, and third party deals, perhaps through a quality firm with whom we would have other strategic ties. Will be set up as a separate investment vehicle. Yield target = 10% +
- 5) Real Estate Opportunity Fund - this also will be Firm invested capital (through an off-balance sheet vehicle separate from the Mezz / B-Note fund) and a TBD portion (say 35%) of everyone's annual bonus, with a rolling 5 year investment horizon. This Fund will take down the b-pieces from all of our securitizations and invest in domestic "special situation" U.S. real estate equity plays on a JV basis that are under the radar of the big real estate opportunity funds, - will also establish a strategic alliance with a highly rated special servicer - exit strategy would include re-remics and CDOs (in which case the investment horizon would shorten) -- fund would target net IRRs of 15%+. This Fund may also retain the IOs on our deals as a natural hedge to the b-pieces, and could provide flexibility in deal structuring (e.g., call provisions) that others would have a tough time replicating. This Fund may also take down subordinate positions on selected high quality third party deals in collaboration with our "special servicing partner".
- 6) Contract Finance - will manage all legal matters pertaining to real estate closings and securitization, coordinating the use of outside law firms, as well as close involvement in both "buy-side" and "sell-side" deal structuring.
- 7) Securitization / Deal Manager - will work with the rating agencies and manage transaction execution for all of our securitizations. Will be chiefly responsible to establish strategic distribution alliance with third party broker-dealer(s). Will coordinate with Trader all exits including joint deals and whole loan sales.
- 8) Trading & Structuring - Will run primary CMBS / CDO issuance / distribution and be actively involved in the establishment of joint distribution arrangements with other Wall Street firms in collaboration with Deal Manager; will head up "sell side" deal structuring and hedging of positions; will also carry out secondary trading of CMBS and whole loans, subject to pre-agreed position/risk limits.

Myself included, there will be nine senior managers ("Principal Owners" or "Principals") who will be formulaically allocated bonus pools based on the direct earnings of our group, and their respective areas. As the Head of Contract Finance, you would receive a bonus pool comprised of two components: (1) Direct Bonus; and (2) Group Bonus. The Direct Bonus will be calculated as 15% of the "captive" underwriting fee on all of our securitizations and 2% of the arbitrage on our deals, after netting direct overhead costs that you control (i.e., base comp, benefits, T&E of those on your hand-picked team). The Group Bonus component will be 35% of the Group earnings, net of Direct Bonuses paid, of which you get an additional 10% slice of that pie.

Based on the contemplated team's current production (adjusted down by 25% to be conservative), your Direct bonus pool would be approximately \$1.6mm, and the 10% Group Bonus would be roughly \$2.0. Therefore, you would have a total bonus pool of \$3.6mm and you would solely determine how to pay this out for your team, retaining the residual, as an "owner". You would also be able to cut deals with other group heads for additional compensation, if you brought in other transaction opportunities.

With the competitive advantages we will possess as an integrated shop, each of the group heads should be positioned to eventually well-exceed these numbers. We would have competitive leverage with ready access to funds for mezz, post-closing b-notes, preferred and pari-passu equity funding. In addition, we will not face the risk of capricious kick outs, and have access to highly competitive all-in cost of funding -- all with aligned interests.

Each Principal will be responsible for establishing and operating their respective functional / line areas, and it is my responsibility to pull this together, and make it all work. I will also be playing a significant "rainmaker" role across all business lines.

Please give this some thought in the context of fulfilling the role of Group Head of Contract Finance, and feel free to call me

whenever it would be most convenient for you (my CV is attached with contact information). Each of the Principals will formulate a business plan (two are completed and four others are earnestly in process) for their respective areas. If interested, your business plan should address the following:

Marketing (What role(s) you would want to play in marketing our deals)

Volume (What business opportunities you think your group could surface, that would be incremental to our business, and the areas that you feel your team could cross-over and be successful at)

Resources (staffing needs, along with their roles and qualifications, office space, technology, etc.)

Overhead (All projected expenses, except bonuses - note that the benefits package for you and your staff will likely be the same, so figure similar costs)

Bonus Expectations (This will be a function of the originations of the other areas, which then becomes the basis for the revenue generated by your group. Given this, you might want to articulate a minimum for you and your team, and then let's discuss.)

Biggest Challenges / Risks (to making your business operation a success in the context of the overall business plan initiative)

Anything Else (any questions you may have or other considerations germane to your area)

I am certain you will be most comfortable working with this group -- some of which you know. If you would like to be your own boss with an entrepreneur's compensation structure in collaboration with other "Principal Owners" with aligned incentives, then please take this opportunity seriously. Once I've got each of the 8 slots committed, as evidenced by receipt of a sound business plan from each, I will arrange for their mutual identification with the utmost of discretion, along with communicating who the Firm is. I expect to have all business plans received and vetted in August; team & capital source identification in September, and all contracts finalized in October / November. Fully operational in Q1 of 2004.

If you would like to pursue investigation of this opportunity further, please email me an updated resume and bio that you've perhaps used for business pitches or speaking engagements. I would then look for a business plan along the lines outlined above.

Six of the nine slots are committed to this initiative, and you would be an invaluable part of the "Ownership team" -- note that discussions are in process with four people on the two other remaining Principal Owner positions. As you know, I have created or substantially grew three highly successful businesses on Wall Street (The JPMorgan conduit, the Morgan Stanley conduit and the IQ® brand of CMBS), but got politically squeezed out of the lucre due me (as I mentioned to you, my statement of claim against Warren Friend and Morgan Stanley is pending with the NASD Arbitration panel). It is my intent to overshadow these successes and make the concomitant compensation structure airtight for all Principal Owners, so that we will all be justly rewarded for the prodigious value we will be creating.

All the best,

Spencer