LISTING PARTICULARS

27050518

MORGAN STANLEY DEAN WITTER & CO.

$2,500,000,000 5.80% Notes due 2007
€1,500,000,000 5.75% Notes due 2009
$2,500,000,000 6.60% Notes due 2012
$1,000,000,000 7.25% Notes due 2032

This document (which includes the Annexes hereto) constitutes Listing Particulars with regard to the issue of each Series of Notes (as defined below) prepared in compliance with the rules of the Financial Services Authority (the "**UK Listing Authority**"), in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the "**FSMA**"). A copy of this document has been delivered for registration to the Registrar of Companies in England and Wales as required by Section 83 of such Act.

Morgan Stanley Dean Witter & Co. ("**MSDW**" or the "**Issuer**") accepts responsibility for the information contained in these Listing Particulars. To the best of the knowledge and belief of MSDW (which has taken all reasonable care to ensure that such is the case), the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information. Any reference in this document to Listing Particulars means this document excluding all information incorporated by reference. MSDW has confirmed that any information incorporated by reference, including any such information to which readers of this document are expressly referred, has not been and does not need to be included in the Listing Particulars to satisfy the requirements of the FSMA or the listing rules of the UK Listing Authority. MSDW believes that none of the information incorporated therein by reference conflicts in any material respect with the information included in the Listing Particulars.

Application has been made for the $2,500,000,000 5.80% Notes due 2007, the €500,000,000 5.75% Notes due 2009, the $2,500,000,000 6.60% Notes due 2012 and the $1,000,000,000 7.25% Notes due 2032 (collectively the "**Notes**" and each a "**Series of Notes**") to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc (the "**London Stock Exchange**").

Morgan Stanley

Except as disclosed in MSDW's Quarterly Report on Form 10-Q for the quarter ended 28 February 2002 (the "**Form 10-Q**") or in MSDW's Annual Report on Form 10-K for the year ended 30 November 2001 (the "**Form 10-K**"), there has been no significant change in the financial or trading position of MSDW and its consolidated subsidiaries since 28 February 2002, the date of the latest published unaudited financial statements of MSDW, and no material adverse change in the financial position or prospects of MSDW and its consolidated subsidiaries since 30 November 2001, the date of the latest published audited financial statements of MSDW. A copy of Form 10-Q (excluding the Exhibits therein) is annexed hereto in Annex 3 and a copy of Form 10-K is annexed hereto in Annex 4. Both such annexures are comprised in this document.

Except for the legal proceedings referred to under Part I. Item 3. Legal Proceedings in Form 10-K and under Part II. Item 1. Legal Proceedings in Form 10-Q, as of the date of this document, there are no, nor have there been any, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which MSDW is aware, involving MSDW or any of its consolidated subsidiaries which may have or have had during the previous 12 months a significant effect on MSDW's consolidated financial position.

Additional information with respect to MSDW and the Notes is contained in the Prospectus Supplement dated March 27, 2002 annexed hereto in Annex 1 and the Extract from the Prospectus dated January 24, 2001 annexed hereto in Annex 2.

MusD has designated JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), London Branch, as a transfer and paying agent for the Notes and as its principal paying agent for the Notes outside the United States. MSDW may at any time appoint additional transfer agents for any Series of Notes and may appoint additional paying agents outside the United States for any Series of Notes. As long as any Series of Notes is admitted to the Official List of the UK Listing Authority and the UK Listing Authority so requires, MSDW will maintain a transfer ~~agent and a~~ paying agent in London in respect of such Series of Notes.

Pages S-12 to S-15 in Annex 1, the Prospectus Supplement, summarise certain United States federal income and estate tax consequences of ownership and disposition of the Notes. In the event that MSDW is required to make any deduction or withholding for or on account of federal or other taxes in the United States from any payment in respect of the Notes, MSDW will not be obliged to make any further or additional payment to holders of the relevant Notes with respect to such deduction or withholding.

The Annexes hereto comprise the following:

Annex 1	-	Prospectus Supplement dated March 27, 2002 relating to the Notes
Annex 2	-	Extract from Prospectus dated January 24, 2001 relating to the Notes
Annex 3	-	MSDW's Form 10-Q (excluding the Exhibits)
Annex 4	-	MSDW's Form 10-K

Copies of the following documents will be available for inspection during business hours at the offices of Morgan Stanley & Co. International Limited specified in this document:

a) MSDW's Certificate of Incorporation and Amended and Restated Bylaws;

b) the Amended and Restated Senior Indenture dated as of May 1, 1999 referred to in the Prospectus contained in Annex 2;

c) the Underwriting Agreement dated as of March 27, 2002 referred to in the Prospectus Supplement contained in Annex 1;

d) MSDW's Annual Report for the Fiscal Year ended November 30, 2001 on Form 10-K, which contains its audited consolidated financial statements for its fiscal year ended November 30, 2000 and November 30, 2001 respectively; and

e) MSDW's Quarterly Report for the quarter ended February 28, 2002 on Form 10-Q which contains its unaudited consolidated financial statements for its fiscal quarter ended February 28, 2002.

BOARD OF DIRECTORS

The current directors of MSDW, their offices, if any, within MSDW, and their principal outside activity, if any, are listed below.

Name	Function within the Bank	Principal Outside Activity
Philip J. Purcell	Chairman of the Board and Chief Executive Officer	
Robert G. Scott	President, Chief Operating Officer and Director	
Robert P. Bauman	Director	Non-executive director of Invensys plc.
Edward A. Brennan	Director	Director of AMR Corporation, Minnesota Minng and Manufacturing Company, The Allstate Corporation and Exelon Corporation.
John E. Jacob	Director	Executive Vice President and Chief Communications Officer of Anheuser-Busch Companies, Inc. Director of Anheuser-Busch Companies, Inc. and Coca-Cola Enterprises Inc.
C. Robert Kidder	Director	Chairman of the Board and Chief Executive Officer of Borden, Inc. Director of Borden, Inc. and Electronic Data Systems Corporation.
Charles F. Knight	Director	Director of Anheuser-Busch Companies, Inc., Emerson Electric Co., International Business Machines Corporation, SBS Communications Inc. and ~~BP p.l.c.~~
John W. Madigan	Director	Director of AT&T Wireless Services, Inc. and Tribune Company.
Miles L. Marsh	Director	Director of GATX Corporation and Whirlpool Corporation.
Michael A. Miles	Director	Special limited partner of Forstmann Little & Co. Director of Sears, Roebuck and Co., The Allstate Corporation, AOL Time Warner Inc., Dell Computer Corporation, AMR Corporation, Exult, Inc. and Community Health Systems, Inc.
Laura D'Andrea Tyson	Director	Dean of the London Business School. Director of Eastman Kodak Company, Fox Entertainment Group, Inc., SBC Communications Inc. and Human Genome Sciences, Inc.

CAPITALIZATION

The following table sets forth the unaudited consolidated capitalization and indebtedness of MSDW as of February 28, 2002 based on MSDW's unaudited condensed consolidated financial statements for the quarter ended February 28, 2002.

The following information should be read in conjunction with MSDW audited consolidated financial statements for its 2001, 2000 and 1999 fiscal years, the related notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations, all as contained in Form 10-K and Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in Form 10-Q.

		28 February 2002 (In millions, except share data)
Commercial paper and other short-term borrowings (1)	U.S.$	40,258
Current portion of long-term borrowings		8,324
Total (3)(4)	U.S.$	48,582
Long-term borrowings (2)(3)(4)	U.S.$	38,874
Capital Units		66
Preferred Securities Issued by Subsidiaries		1,210
Shareholder's equity:		
Common stock, U.S.$0.01 par value; authorized 3,500,000,000 shares; issued and fully paid up 1,211,685,904 shares; outstanding 1,101.194,353 shares		12
Paid-in capital		3,675
Retained earnings		23,865
Employee stock trust		3,054
Accumulated other comprehensive income (loss)		(263)
Subtotal		30,343
Note receivable related to ESOP		(29)
Common stock held in treasury, at cost 110,491,551 shares		(6,368)
Common stock issued to employee trust		(3,054)
Total shareholders' equity		20,892
Total capitalization (4)	U.S.$	61,042
Total capitalization and Total short-term indebtedness	U.S.$	109,624

---

(1) Other short-term borrowings include bank loans, Federal Funds and bank notes.

(2) Subsequent to November 30, 2001 and through April 18, 2002, additional senior notes in an aggregate principal amount of U.S.$9,797 million were issued. MSDW currently has effective registration statements pursuant to which it may issue up to an aggregate principal amount of U.S.$1,917 million of debt securities, warrants, preferred stock, depository shares, purchase contracts, units and capital securities.

(3) As of February 28, 2002, MSDW guaranteed U.S.$2 billion of indebtedness of its subsidiaries. As of the date of this prospectus supplement, all of MSDW's indebtedness is unsecured and not guaranteed by any third party.
In accordance with U.S. GAAP, MSDW's contingent liabilities where a liability is less than probable or cannot be reasonably estimated are discussed in Note 8 to MSDW's Consolidated Financial Statements in the Form 10-K and in Note 10 to MSDW's Condensed Consolidated Financial Statements in the Form 10-Q.

(4) As of the date of this document, there has been no material change in the capitalization, indebtedness and contingent liabilities of MSDW or in the amount of indebtedness guaranteed by MSDW since February 28, 2002.

PRINCIPAL EXECUTIVE OFFICES
OF THE ISSUER

1585 Broadway
New York, New York 10036
U.S.A.

REGISTERED OFFICE OF THE ISSUER IN DELAWARE

The Corporation Trust Center
1209 Orange Street
Wilmington, Delaware 19801
U.S.A.

TRUSTEES

The Chase Manhattan Bank
450 West 33rd Street
New York, New York 10001
U.S.A.

PRINCIPAL PAYING AGENT, EXCHANGE AGENT AND TRANSFER AGENT FOR BEARER NOTES AND REGISTERED NOTES

The Chase Manhattan Bank
Trinity Tower
9 Thomas More Street
London E1W 1YT
U.K.

AUTHORISED ADVISOR

Morgan Stanley & Co. International Limited
25 Cabot Square
Canary Wharf
London E14 4QA
U.K.

LEGAL ADVISORS TO THE ISSUER

as to New York law

Brown & Wood LLP
One World Trade Center
New York, New York 10048
U.S.A.

as to English law

Clifford Chance Limited
Liability Partnership
200 Aldersgate Street
London EC1A 4JJ
U.K.

LEGAL ADVISORS TO THE AGENTS

Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017
U.S.A.

AUDITORS OF THE ISSUER

Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281
U.S.A.

Annex 1

Prospectus Supplement dated March 27, 2002 relating to the Notes

PROSPECTUS SUPPLEMENT
(To Prospectus dated January 24, 2001)

Morgan Stanley Dean Witter & Co.

$2,500,000,000 5.80% NOTES DUE 2007
€1,500,000,000 5.75% NOTES DUE 2009
$2,500,000,000 6.60% NOTES DUE 2012
$1,000,000,000 7.25% NOTES DUE 2032

Interest on the notes due 2007, the notes due 2012 and the notes due 2032, which we collectively refer to as the "U.S. dollar notes," will be payable on each April 1 and October 1, beginning on October 1, 2002. Interest on the notes due 2009, which we refer to as the "euro notes," will be payable on each April 1, beginning on April 1, 2003. We may redeem some or all of the U.S. dollar notes at any time. We describe the redemption prices for the U.S. dollar notes under the heading "Description of Notes — Optional Redemption of the U.S. Dollar Notes" beginning on page S-8 of this prospectus supplement. The euro notes will not be redeemed prior to their maturity date.

We will apply for the notes to be admitted to the Official List of the Financial Services Authority (in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the "UK Listing Authority")) and to trading on the London Stock Exchange plc.

NOTES DUE 2007 — PRICE 99.710% AND ACCRUED INTEREST, IF ANY
NOTES DUE 2009 — PRICE 99.256% AND ACCRUED INTEREST, IF ANY
NOTES DUE 2012 — PRICE 99.496% AND ACCRUED INTEREST, IF ANY
NOTES DUE 2032 — PRICE 99.903% AND ACCRUED INTEREST, IF ANY

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Company
Per Note Due 2007	*99.710%*	*.350%*	*99.360%*
Total	*$2,492,750,000*	*$8,750,000*	*$2,484,000,000*
Per Note Due 2009	*99.256%*	*.400%*	*98.856%*
Total	*€1,488,840,000*	*€6,000,000*	*€1,482,840,000*
Per Note Due 2012	*99.496%*	*.450%*	*99.046%*
Total	*$2,487,400,000*	*$11,250,000*	*$2,476,150,000*
Per Note Due 2032	*99.903%*	*.875%*	*99.028%*
Total	*$999,030,000*	*$8,750,000*	*$990,280,000*

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated and Morgan Stanley & Co. International Limited expect to deliver the notes to purchasers, in registered book-entry form only, through The Depository Trust Company, Clearstream, Luxembourg or Euroclear, as the case may be, on April 3, 2002.

MORGAN STANLEY

ABN AMRO INCORPORATED	***BANC ONE CAPITAL MARKETS, INC.***
BARCLAYS CAPITAL	***BLAYLOCK & PARTNERS, L.P.***
CABOTO INTESABCI	***COMMERZBANK SECURITIES***
CRÉDIT LYONNAIS	***DANSKE BANK***
FLEET SECURITIES, INC.	***ING***
KBC INTERNATIONAL GROUP	***MIZUHO INTERNATIONAL PLC***
RBC CAPITAL MARKETS	***THE ROYAL BANK OF SCOTLAND***
SANTANDER CENTRAL HISPANO	***TOKYO-MITSUBISHI INTERNATIONAL PLC***
UFJ INTERNATIONAL PLC	***UTENDAHL CAPITAL PARTNERS, L.P.***
WESTDEUTSCHE LANDESBANK GIROZENTRALE	***THE WILLIAMS CAPITAL GROUP, L.P.***

March 27, 2002

TABLE OF CONTENTS

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus dated January 24, 2001. We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We are offering to sell, and seeking offers to buy, only the notes described in this prospectus supplement and the accompanying prospectus, and we are offering to sell, and seeking offers to buy, these notes only in jurisdictions where offers and sales are permitted. In this prospectus supplement, the "Company," "we," "us," "MSDW" and "our" refer to Morgan Stanley Dean Witter & Co.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus supplement and the accompanying prospectus must inform themselves about and observe any restrictions relating to the offering of the notes and the distribution of this prospectus supplement and the accompanying prospectus outside the United States.

References herein to "$" and "dollars" are to United States dollars. References herein to "€" and "euro" are to the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

SUMMARY OF THE OFFERINGS

The following summary describes the $2,500,000,000 5.80% notes due 2007, €1,500,000,000 5.75% notes due 2009, $2,500,000,000 6.60% notes due 2012 and $1,000,000,000 7.25% notes due 2032 we are offering to you in general terms only. You should read the summary together with the more detailed information that is contained in the rest of this prospectus supplement and in the accompanying prospectus.

Issuer	Morgan Stanley Dean Witter & Co.
Aggregate Principal Amount	$2,500,000,000 5.80% notes due 2007, €1,500,000,000 5.75% notes due 2009, $2,500,000,000 6.60% notes due 2012 and $1,000,000,000 7.25% notes due 2032, collectively referred to as the "notes"
Maturity Date	April 1, 2007 for the notes due 2007, April 1, 2009 for the notes due 2009, April 1, 2012 for the notes due 2012 and April 1, 2032 for the notes due 2032
Issue Date for the Notes	April 3, 2002
Issue Price	99.710% for the notes due 2007, 99.256% for the notes due 2009, 99.496% for the notes due 2012 and 99.903% for the notes due 2032
Interest Payment Dates	Each April 1 and October 1, commencing October 1, 2002, for the notes due 2007, the notes due 2012 and the notes due 2032, collectively referred to as the "U.S. dollar notes" Each April 1, commencing April 1, 2003, for the notes due 2009, referred to as the "euro notes"
Optional Redemption	We may redeem the U.S. dollar notes at any time at the redemption price described in the section entitled "Description of Notes — Optional Redemption of the U.S. Dollar Notes." We may not redeem the euro notes prior to maturity.
Form	Fully registered global notes in book-entry form
Minimum Denominations	$1,000 and multiples thereof for the U.S. dollar notes €1,000 and multiples thereof for the euro notes
CUSIP	617446HB8 for the notes due 2007, 617446HE2 for the notes due 2009, 617446HC6 for the notes due 2012 and 617446HD4 for the notes due 2032
Common Code	014595732 for the notes due 2007, 014596399 for the notes due 2009, 014595775 for the notes due 2012 and 014595813 for the notes due 2032

ISIN	US617446HB86 for the notes due 2007, US617446HE26 for the notes due 2009, US617446HC69 for the notes due 2012 and US617446HD43 for the notes due 2032
Trustee for the Notes	JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank)
Delivery and Clearance	We will deposit the global notes for each of the U.S. dollar notes and the euro notes with The Depository Trust Company in New York. You may hold an interest in the global notes through The Depository Trust Company, Clearstream, Luxembourg or Euroclear Bank, as operator of the Euroclear System, directly as a participant of any such system or indirectly through organizations that are participants in such systems.
Listing	We will apply for the notes to be admitted to the Official List of the Financial Services Authority (in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the "UK Listing Authority")) and to trading on the London Stock Exchange plc.
How to Reach Us	Our principal executive offices are located at 1585 Broadway, New York, New York 10036, telephone number (212) 761-4000.

CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratio of earnings to fixed charges for the periods indicated.

	Fiscal Year				
	2001	**2000**	**1999**	**1998**	**1997**
Ratio of earnings to fixed charges	1.3	1.5	1.6	1.4	1.4

For purposes of calculating the ratio of earnings to fixed charges, earnings are the sum of:

- pre-tax income;
- fixed charges; and
- amortization of capitalized interest;

less:

- capitalized interest.

Fixed charges are the sum of:

- interest expensed and capitalized;
- amortized premiums, discounts and capitalized expenses related to indebtedness; and
- our estimate of the interest component of rental expenses.

FOREIGN CURRENCY RISKS

You should consult your financial and legal advisors as to any specific risks entailed by an investment in notes that are denominated or payable in a currency other than the currency of the country in which you are resident or in which you conduct your business, which we refer to as your "home currency." Such notes are not appropriate investments for investors who are not sophisticated in foreign currency transactions. We disclaim any responsibility to advise prospective purchasers who are residents of countries other than the United States of any matters arising under non-U.S. law that may affect the purchase of or holding of, or the receipt of payments on, the notes. These persons should consult their own legal and financial advisors concerning these matters.

Exchange Rates and Exchange Controls May Affect Notes' Value or Return

General Exchange Rate and Exchange Control Risks. An investment in a note that is denominated or payable in a currency other than your home currency entails significant risks. These risks include the possibility of significant changes in rates of exchange between your home currency and the relevant foreign currencies and the possibility of the imposition or modification of exchange controls by the relevant governmental entities. These risks generally depend on economic and political events over which we have no control.

Exchange Rates Will Affect Your Investment. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative of fluctuations that may occur during the term of any note. Depreciation against your home currency of the currency in which a note is payable would result in a decrease in the effective yield of the note below its coupon rate and could result in an overall loss to you on a home currency basis.

We Have No Control Over Exchange Rates. From time to time, governments may use a variety of techniques, such as intervention by a country's central bank, the imposition of regulatory controls or taxes or changes in interest rates to influence the exchange rates of their currencies. Governments may also issue a new currency to replace an existing currency or alter the exchange rate or relative exchange characteristics by a devaluation or revaluation of a currency. These governmental actions could change or interfere with currency valuations and currency fluctuations that would otherwise occur in response to economic forces, as well as in response to the movement of currencies across borders. As a consequence, these government actions could adversely affect yields or payouts in your home currency for the notes.

We will not make any adjustment or change in the terms of the notes in the event that exchange rates should become fixed, or in the event of any devaluation or revaluation or imposition of exchange or other regulatory controls or taxes, or in the event of other developments affecting your home currency or any applicable foreign currency. You will bear those risks.

Exchange Rates May Affect the Value of a New York Judgment Involving Euro Notes

The notes will be governed by and construed in accordance with the laws of the State of New York. Unlike many courts in the United States outside the State of New York, the courts in the State of New York may enter judgments or decrees for money damages in the foreign currency in which notes are denominated. These amounts would then be converted into U.S. dollars at the rate of exchange in effect on the date the judgment or decree is entered. You would bear the relevant currency risk during litigation.

DESCRIPTION OF NOTES

The following description of the particular terms of the 5.80% notes due 2007, which we refer to as the "notes due 2007," the 5.75% notes due 2009, which we refer to as the "notes due 2009" or as the "euro notes," the 6.60% notes due 2012, which we refer to as the "notes due 2012," and the 7.25% notes due 2032, which we refer to as the "notes due 2032" and collectively, with the notes due 2007, the notes due 2009 and the notes due 2012, as the "notes," offered hereby supplements the description of the general terms and provisions of the debt securities set forth in the prospectus, to which description reference is hereby made. The notes are referred to in the prospectus as the "debt securities." The following summary of the notes is qualified in its entirety by reference to the senior indenture referred to in the prospectus.

General

The notes due 2007 will initially be limited to $2,500,000,000 in aggregate principal amount and will mature on April 1, 2007. The notes due 2009 will initially be limited to €1,500,000,000 in aggregate principal amount and will mature on April 1, 2009. The notes due 2012 will initially be limited to $2,500,000,000 in aggregate principal amount and will mature on April 1, 2012. The notes due 2032 will initially be limited to $1,000,000,000 in aggregate principal amount and will mature on April 1, 2032. The notes will constitute senior debt and will rank on parity with all other senior indebtedness of MSDW and with all other unsecured and unsubordinated indebtedness of MSDW, subject to certain statutory exceptions in the event of liquidation upon insolvency. The notes due 2007, the notes due 2012 and the notes due 2032, collectively, the "U.S. dollar notes," will be issued in fully registered form only, in denominations of $1,000 and multiples thereof. The euro notes will be issued in fully registered form only, in denominations of €1,000 and multiples thereof. Principal of and interest on the notes will be payable, and the transfer of notes will be registrable, through the depositary as described below. We may create and issue additional notes due 2007, notes due 2009, notes due 2012 or notes due 2032 with the same terms as the notes due 2007, notes due 2009, notes due 2012 or notes due 2032 offered hereby, as applicable, so that the additional notes will form a single series with the respective series of notes offered hereby.

The U.S. dollar notes are subject to redemption at any time as described below under "—Optional Redemption of the U.S. Dollar Notes." The euro notes will not be redeemed prior to the maturity date. The senior indenture permits the defeasance of the notes upon the satisfaction of the conditions described under "Description of Debt Securities—Discharge, Defeasance and Covenant Defeasance" in the prospectus. The notes are subject to these defeasance provisions.

Each of the notes will bear interest from April 3, 2002 at the respective applicable annual rate set forth on the cover page of this prospectus supplement. Interest on the U.S. dollar notes will be payable semiannually on April 1 and October 1 of each year (each an "interest payment date"), commencing October 1, 2002, to the person in whose name such notes are registered at the close of business on the preceding March 15 or September 15, as applicable. Interest on the euro notes will be payable annually on April 1 of each year, commencing April 1, 2003, to the person in whose name such notes are registered at the close of business on the preceding March 15. Interest on all of the notes will be computed on the basis of a 360-day year of twelve 30-day months.

If any interest payment date falls on a day that is not a business day, the interest payment shall be postponed to the next day that is a business day, and no interest on such payment shall accrue for the period from and after such interest payment date. If the maturity date of the notes falls on a day that is not a business day, the payment of interest and principal will be made on the next succeeding business day, and no interest on such payment shall accrue for the period from and after the maturity date.

As used herein, "business day" means any day, other than a Saturday or Sunday, that is (a) neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York and (b) for the euro notes, a day that is also a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer System is open.

Interest payments for the notes will include accrued interest from and including the date of issue or from and including the last date in respect of which interest has been paid, as the case may be, to but excluding the interest payment date or maturity date, as the case may be.

Optional Redemption of the U.S. Dollar Notes

The U.S. dollar notes may be redeemed in whole at any time or in part from time to time, at our option, at a redemption price equal to the greater of:

- 100% of the principal amount of the U.S. dollar notes to be redeemed, and

- the sum of the present values of the remaining scheduled payments of principal and interest on the U.S. dollar notes to be redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable treasury rate, plus 15 basis points for the notes due 2007, 20 basis points for the notes due 2012 or 25 basis points for the notes due 2032, as calculated by the calculation agent;

  plus, in each case,

- accrued and unpaid interest on the principal amount being redeemed to the redemption date.

"treasury rate" means, with respect to any redemption date:

- the yield, under the heading that represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the comparable treasury issue (if no maturity is within three months before or after the remaining life (as defined below), yields for the two published maturities most closely corresponding to the comparable treasury issue will be determined and the treasury rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month); or

- if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semiannual equivalent yield to maturity of the comparable treasury issue, calculated using a price for the comparable treasury issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for such redemption date.

The treasury rate will be calculated on the third business day preceding the redemption date.

"calculation agent" means Morgan Stanley & Co. Incorporated, or if that firm is unwilling or unable to select the comparable treasury issue, an investment banking institution of national standing appointed by the trustee after consultation with us.

"comparable treasury issue" means the U.S. Treasury security selected by the calculation agent as having a maturity comparable to the remaining term ("remaining life") of the series of U.S. dollar notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

"comparable treasury price" means (1) the average of five reference treasury dealer quotations for such redemption date, after excluding the highest and lowest reference treasury dealer quotations, or (2) if the calculation agent obtains fewer than five such reference treasury dealer quotations, the average of all such quotations.

"reference treasury dealer" means (1) Morgan Stanley & Co. Incorporated and its successors, provided, however, that if the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a "primary treasury dealer") we will substitute therefor another primary treasury dealer and (2) any other primary treasury dealer selected by the calculation agent after consultation with us.

"reference treasury dealer quotations" means, with respect to each reference treasury dealer and any redemption date, the average, as determined by the calculation agent, of the bid and asked prices for the comparable treasury issue (expressed in each case as a percentage of its principal amount) quoted in writing to the calculation agent at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

We will mail a notice of redemption to each holder of U.S. dollar notes to be redeemed by first-class mail at least 30 and not more than 60 days prior to the date fixed for redemption. Unless we default on payment of the redemption price, interest will cease to accrue on the U.S. dollar notes or portions thereof called for redemption on the applicable redemption date. If fewer than all of the U.S. dollar notes of a particular maturity are to be redeemed, the trustee will select, not more than 60 days prior to the redemption date, the particular U.S. dollar notes or portions thereof for redemption from the outstanding U.S. dollar notes not previously called by such method as the trustee deems fair and appropriate.

Because Morgan Stanley & Co. Incorporated is our affiliate, the economic interests of Morgan Stanley & Co. Incorporated may be adverse to your interests as an owner of any of the notes, including with respect to certain determinations and judgments that it must make as calculation agent in the event we redeem the U.S. dollar notes before their maturity. Morgan Stanley & Co. Incorporated is obligated to carry out its duties and functions as calculation agent in good faith and using its reasonable judgment.

Book-Entry, Delivery and Form

The notes will be issued in the form of one or more fully registered global notes, the "global notes," which will be deposited with, or on behalf of, The Depository Trust Company, New York, New York, the "depositary" or "DTC," and registered in the name of Cede & Co., the depositary's nominee. Beneficial interests in the global notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in the depositary. Investors may elect to hold interests in the global notes held by the depositary through Clearstream Banking, *société anonyme,* "Clearstream, Luxembourg," or Euroclear Bank S.A./N.V. as operator of the Euroclear System, the "Euroclear operator," if they are participants of such systems, or indirectly through organizations that are participants in such systems. Clearstream, Luxembourg and the Euroclear operator will hold interests on behalf of their participants through customers' securities accounts in Clearstream, Luxembourg's and the Euroclear operator's names on the books of their respective depositaries, which in turn will hold such interests in customers' securities accounts in the depositaries' names on the books of the depositary. Citibank, N.A. will act as depositary for Clearstream, Luxembourg and JPMorgan Chase Bank will act as depositary for the Euroclear operator, in such capacities, the "U.S. depositaries." Because holders will acquire, hold and transfer security entitlements with respect to the notes through accounts with DTC and its participants, including Clearstream, Luxembourg, the Euroclear operator and their participants, a beneficial holder's rights with respect to the notes will be subject to the laws (including Article 8 of the Uniform Commercial Code) and contractual provisions governing a holder's relationship with its securities intermediary and the relationship between its securities intermediary and each other securities intermediary between it and MSDW, as the issuer. Except as set forth below, the global notes may be transferred, in whole and not in part, only to another nominee of the depositary or to a successor of the depositary or its nominee.

The depositary has advised MSDW as follows: the depositary is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. The depositary holds securities deposited with it by its participants and facilitates the settlement of transactions among its participants in those securities through electronic computerized book-entry changes in participant's accounts, eliminating the need for physical movement of securities certificates. The depositary's participants include securities brokers and dealers (including underwriters), banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own the depositary. Access to the depositary's book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

According to the depositary, the foregoing information relating to the depositary has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Clearstream, Luxembourg advises that it is incorporated under the laws of Luxembourg as a bank. Clearstream, Luxembourg holds securities for its customers, "Clearstream, Luxembourg customers," and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry transfers between their accounts, thereby eliminating the need for physical movement of securities. Clearstream, Luxembourg provides to Clearstream, Luxembourg customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic securities markets in over 30 countries through established depository and custodial relationships. As a bank, Clearstream, Luxembourg is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (*Commission de Surveillance du Secteur Financier*). Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream, Luxembourg's U.S. customers are limited to securities brokers and dealers and banks. Indirect access to Clearstream, Luxembourg is also available to other institutions such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream, Luxembourg customer. Clearstream, Luxembourg has established an electronic bridge with the Euroclear operator to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear operator.

Distributions with respect to the notes held through Clearstream, Luxembourg will be credited to cash accounts of Clearstream, Luxembourg customers in accordance with its rules and procedures, to the extent received by the U.S. depositary for Clearstream, Luxembourg.

The Euroclear operator advises that the Euroclear System was created in 1968 to hold securities for its participants, "Euroclear participants," and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System is owned by Euroclear Clearance System Public Limited Company and operated through a license agreement by the Euroclear operator, a bank incorporated under the laws of the Kingdom of Belgium. The Euroclear operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium.

The Euroclear operator holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear participants and between Euroclear participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries.

The Euroclear operator provides Euroclear participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services.

Non-participants of Euroclear may acquire, hold and transfer book-entry interests in securities through accounts with a direct participant of Euroclear or any other securities intermediary that holds a book-entry interest in the securities through one or more securities intermediaries standing between such other securities intermediary and the Euroclear operator.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law, collectively, the "terms and conditions." The terms and conditions govern transfers of securities and cash within the Euroclear System, withdrawals of securities and cash from the Euroclear System, and receipts of payments with respect to securities in the Euroclear System. All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to the notes held beneficially through the Euroclear System will be credited to the cash accounts of Euroclear participants in accordance with the terms and conditions, to the extent received by the U.S. depositary for the Euroclear operator.

Although the Euroclear operator has agreed to the procedures provided below in order to facilitate transfers of notes among Euroclear participants and between Euroclear participants and participants of other intermediaries, it is under no obligation to perform or continue to perform in accordance with such procedures, and such procedures may be modified or discontinued at any time.

Investors electing to acquire notes through an account with the Euroclear operator or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities. Investors electing to acquire, hold or transfer notes through an account with the Euroclear operator or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions of securities.

Investors who are Euroclear participants may acquire, hold or transfer interests in notes by book-entry to accounts with the Euroclear operator. Investors who are not Euroclear participants may acquire, hold or transfer interests in securities by book-entry to accounts with a securities intermediary who holds a book-entry interest in these securities through accounts with Euroclear.

The Euroclear operator further advises that investors that acquire, hold and transfer interests in the notes by book-entry through accounts with the Euroclear operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between their intermediary and each other intermediary, if any, standing between themselves and the global notes.

The Euroclear operator further advises that, under Belgian law, investors that are credited with securities on the records of the Euroclear operator have a co-property right in the fungible pool of interests in securities on deposit with the Euroclear operator in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of the Euroclear operator, Euroclear participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with the Euroclear operator. If the Euroclear operator does not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all participants credited with interests in securities of that type on the Euroclear operator's records, all participants having an amount of interests in securities of that type credited to their accounts with the Euroclear operator will have the right under Belgian law to the return of their *pro rata* share of the amount of interests in securities actually on deposit.

Under Belgian law, the Euroclear operator is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with those interests in securities on its records.

Individual certificates in respect of the notes will not be issued in exchange for the registered global notes, except in very limited circumstances. If the depositary notifies MSDW that it is unwilling or unable to continue as a clearing system in connection with the registered global notes or ceases to be a clearing agency registered under the Securities Exchange Act, and a successor clearing system is not appointed by MSDW within 90 days after receiving that notice from the depositary or upon becoming aware that the depositary is no longer so registered, we will issue or cause to be issued individual certificates in registered form on registration of transfer of, or in exchange for, book-entry interests in the notes represented by the registered global notes upon delivery of the registered global notes for cancellation.

Title to book-entry interests in the notes will pass by book-entry registration of the transfer within the records of Clearstream, Luxembourg, the Euroclear operator or the depositary, as the case may be, in accordance with their respective procedures. Book-entry interests in the notes may be transferred within Clearstream, Luxembourg and within the Euroclear System and between Clearstream, Luxembourg and the Euroclear System in accordance with procedures established for these purposes by Clearstream, Luxembourg and the Euroclear operator. Book-entry interests in the notes may be transferred within the depositary in accordance with procedures established for this purpose by the depositary. Transfers of book-entry interests in the notes among Clearstream, Luxembourg and the Euroclear operator and the depositary may be effected in accordance with procedures established for this purpose by Clearstream, Luxembourg, the Euroclear operator and the depositary.

A further description of the depositary's procedures with respect to the global notes is set forth in the prospectus under "Forms of Securities—Global Securities." The depositary has confirmed to MSDW, the underwriters and the trustee that it intends to follow such procedures.

Global Clearance and Settlement Procedures

Initial settlement for the registered global notes will be made in immediately available funds. Secondary market trading between the depositary's participants will occur in the ordinary way in accordance with the depositary's rules and will be settled in immediately available funds using the depositary's Same-Day Funds Settlement System. Secondary market trading between Clearstream, Luxembourg customers and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream, Luxembourg and the Euroclear System and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through the depositary on the one hand, and directly or indirectly through Clearstream, Luxembourg customers or Euroclear participants, on the other, will be effected through the depositary in accordance with the depositary's rules on behalf of the relevant European international clearing system by its U.S. depositary; however, these cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the clearing system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depositary to take action to effect final settlement on its behalf by delivering interests in the notes to or receiving interests in the notes from the depositary, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to the depositary. Clearstream, Luxembourg customers and Euroclear participants may not deliver instructions directly to their respective U.S. depositaries.

Because of time-zone differences, credits of interests in the notes received in Clearstream, Luxembourg or the Euroclear system as a result of a transaction with a depositary participant will be made during subsequent securities settlement processing and dated the business day following the depositary settlement date. Credits of interests or any transactions involving interests in the notes received in Clearstream, Luxembourg or the Euroclear System as a result of a transaction with a depositary participant and settled during subsequent securities settlement processing will be reported to the relevant Clearstream, Luxembourg customers or Euroclear participants on the business day following the depositary settlement date. Cash received in Clearstream, Luxembourg or the Euroclear System as a result of sales of interests in the notes by or through a Clearstream, Luxembourg customer or a Euroclear participant to a depositary participant will be received with value on the depositary settlement date but will be available in the relevant Clearstream, Luxembourg or Euroclear cash account only as of the business day following settlement in the depositary.

Although the depositary, Clearstream, Luxembourg and the Euroclear operator have agreed to the foregoing procedures in order to facilitate transfers of interests in the notes among participants of the depositary, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform the foregoing procedures and these procedures may be changed or discontinued at any time.

Notices

Notices to holders of the notes will be given by mailing such notices to each holder by first class mail, postage prepaid, at the respective address of each holder as that address appears upon the books of MSDW. Notices given to the depositary, as holder of the global notes, will be passed on to the beneficial owners of the notes in accordance with the standard rules and procedures of the depositary and its direct and indirect participants, including Clearstream, Luxembourg and the Euroclear operator.

UNITED STATES FEDERAL TAXATION

The following summary describes certain United States federal income and estate tax consequences of ownership and disposition of the notes based on the Internal Revenue Code of 1986, as amended to the date hereof, the "Code," existing administrative pronouncements and judicial decisions, existing and proposed Treasury Regulations currently in effect, and interpretations of the foregoing, changes to any of which subsequent to the date of this prospectus supplement may affect the tax consequences described herein, possibly with retroactive effect. This summary provides general information only and deals with original beneficial owners purchasing notes at the "issue price," that is, the first price to the public at which a substantial amount of the notes in an issue is sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). This summary discusses only notes held as capital assets within the meaning of Section 1221 of the Code. This summary does not discuss all of the tax consequences that may be relevant to a beneficial owner in light of his particular circumstances or to beneficial owners subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers in securities or currencies;
- persons holding notes in connection with a hedging transaction, "straddle," conversion transaction or other integrated transaction;
- United States Holders (as defined below) whose functional currency is not the U.S. dollar;
- persons subject to the alternative minimum tax;
- persons who have ceased to be United States citizens or to be taxed as resident aliens; or
- Non-United States Holders (as defined below) who are engaged in a trade or business in the United States.

If you are considering the purchase of notes, you should consult your tax advisor with regard to the application of the United States federal income and estate tax laws to your particular situation as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

Tax Consequences to United States Persons

As used herein, the term "United States Holder" means a beneficial owner of a note that is for United States federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, to the extent provided in Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons under the Code and applicable Treasury regulations thereunder prior to such date, that elect to continue to be treated as United States persons under the Code or applicable Treasury regulations thereunder also will be United States Holders.

Payments of Interest. Interest on a note will generally be taxable to a United States Holder as ordinary interest income at the time it is accrued or is received in accordance with the United States Holder's method of accounting for tax purposes. If the issue price is computed by excluding the amount of pre-issuance accrued interest, the first interest payment will be included in income only to the extend it exceeds such amount.

Sale, Exchange or Retirement of the Notes. Upon the sale, exchange or retirement of a note, a United States Holder will generally recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the United States Holder's adjusted tax basis in the note (other than amounts representing accrued and unpaid interest). Such gain or loss generally will be long term capital gain or loss if the note had been held for more than one year at the time of disposition.

Capital gains may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates, and the deductibility of capital losses may be subject to limitations. You should consult your tax advisor regarding the treatment applicable to you.

Euro Notes. The following discussion summarizes the principal United States federal income tax consequences to a United States holder of the ownership and disposition of notes that are denominated in euro and the payments of interest or principal on which are payable in euro as well, which we refer to as "euro notes." The rules applicable to the taxation of euro notes are complex and United States Holders are urged to consult their own tax advisors regarding the United States federal income tax consequences of the ownership and disposition of euro notes.

A United States Holder who uses the cash method of accounting and who receives an interest payment in euro (or who receives proceeds from a sale, exchange or other disposition attributable to accrued interest) with respect to a euro note will be required to include in income the United States dollar value of the euro payment (determined based on a spot rate on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at that time, and this U.S. dollar value will be the United States Holder's tax basis in euro.

A United States Holder who is an accrual method taxpayer will be required to include in income the U.S. dollar value of the amount of interest income that has accrued and is otherwise required to be taken into account with respect to a euro note during an accrual period. The U.S. dollar value of the accrued interest income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The United States Holder will recognize exchange income or loss with respect to accrued interest income on the date the interest payment or proceeds from the sale, exchange or other disposition attributable to accrued interest is actually received. The amount of such income or loss recognized will equal the difference between the U.S. dollar value of the euro payment received (determined based on a spot rate on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). A United States Holder may elect to translate interest income into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A United States Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the Internal Revenue Service.

A United States Holder's tax basis in a euro note will be the U.S. dollar value of the euro amount paid for such euro note determined on the date of the purchase. A United States Holder who purchases a euro note with previously owned euro will recognize ordinary income or loss in an amount equal to the difference, if any, between such United States Holder's tax basis in the euro and the U.S. dollar fair market value of the euro note on the date of purchase.

Gain or loss realized upon the sale, exchange or retirement of a euro note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the U.S. dollar value of the euro principal amount of the note, determined on the date the payment is received or the note is disposed of, and (ii) the U.S. dollar value of the euro principal amount of the note, determined on the date the United States Holder acquired the note. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on euro notes described above. The exchange gain or loss will be recognized only to the extent of the total gain or loss realized by a United States Holder on the sale, exchange or retirement of the euro note.

A United States Holder will have a tax basis in any euro received on the sale, exchange or retirement of a euro note equal to the U.S. dollar value of the euro, determined at the time of sale, exchange or retirement. A cash method taxpayer who buys or sells a euro note is required to translate units of euro paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement of the purchase or sale. An accrual method taxpayer may elect the same treatment for all purchases and sales of foreign currency obligations. This election cannot be changed without the consent of the Internal Revenue Service. Any gain or loss realized by a United States Holder on a sale or other disposition of euro (including its exchange for U.S. dollars or its use to purchase euro notes) will be ordinary income or loss.

Backup Withholding and Information Reporting. Information returns will be filed with the Internal Revenue Service in connection with payments on the notes and the proceeds from a sale or other disposition of the notes. A United States Holder will be subject to United States backup withholding tax on these payments if the United States Holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a United States Holder will be allowed as a credit against the United States Holder's United States federal income tax liability and may entitle the United States Holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

Tax Consequences to Non-United States Persons

As used herein, the term "Non-United States Holder" means a beneficial owner of a note that is, for United States federal income tax purposes:

- an individual who is classified as a nonresident for United States federal income tax purposes;
- a foreign corporation; or
- a nonresident alien fiduciary of a foreign estate or trust.

Income and Withholding Tax. Subject to the discussion below concerning backup withholding, payments of principal and interest on the notes by the Company or any paying agent to any Non-United States Holder will not be subject to United States federal withholding tax, provided that, in the case of interest, the Holder does not own, actually or constructively, 10 percent or more of the total combined voting power of all classes of stock of the Company entitled to vote, is not a controlled foreign corporation related, directly or indirectly, to the Company through stock ownership, and is not a bank receiving interest described in Section 881(c)(3)(A) of the Code, provided, however, that, as discussed below, the certification requirement has been fulfilled with respect to the beneficial owner.

Sale, Exchange or Retirement of the Notes. Generally, a Non-United States Holder will not be subject to federal income taxes on any amount which constitutes capital gain upon retirement or disposition of a note, unless such Non-United States Holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and such gain is derived from sources within the United States. Certain other exceptions may be applicable, and a Non-United States Holder should consult its tax advisor in this regard.

Certification Requirement. Interest payments will not be exempt from withholding tax unless the beneficial owner of the note certifies to a Withholding Agent, as defined below, on Internal Revenue Service Form W-8BEN, under penalties of perjury, that it is not a United States person. A "Withholding Agent" is the last United States payor (or a non-United States payor who is a qualified intermediary, United States branch of a foreign person, or withholding foreign partnership) in the chain of payment prior to payment to a Non-United States Holder (which itself is not a Withholding Agent). Generally, this statement is made on an IRS Form W-8BEN ("W-8BEN"), which is effective for the remainder of the year of signature plus three full calendar years unless a change in circumstances makes any information on the form incorrect. Notwithstanding the preceding sentence, a W-8BEN with a United States taxpayer identification number will remain effective until a change in circumstances makes any information on the form incorrect, provided that the Withholding Agent reports at least annually to the beneficial owner on IRS Form 1042-S. The beneficial owner must inform the Withholding Agent within 30 days of such change and furnish a new W-8BEN. A noteholder who is not an individual or corporation (or an entity treated as a corporation for federal income tax purposes) holding the notes on its own behalf may have substantially increased reporting requirements. In particular, in the case of notes held by a foreign partnership (or foreign trust), the partners (or beneficiaries) rather than the partnership (or trust) will be required to provide the certification discussed above, and the partnership (or trust) will be required to provide certain additional information.

Certain securities clearing organizations, and other entities that are not beneficial owners, may be able to provide a signed statement to the Withholding Agent. However, in such a case, the signed statement may require a copy of the beneficial owner's W-8BEN (or the substitute form).

Estate Tax. A note or coupon held by an individual may be subject to United States federal estate tax as a result of the individual's death if the individual (i) was a United States Holder, or, (ii) owned, actually or constructively, 10% or more of the total combined voting power of all classes of stock of the Company entitled to vote and, at the time of the individual's death, payments on the note would have been effectively connected to the conduct by the holder of a trade or business in the United States.

Backup Withholding and Information Reporting. Information returns will be filed with the United States Internal Revenue Service in connection with payments on the notes and the proceeds from a sale or other disposition of the notes. The certification procedures required to claim the exemption from withholding tax on interest described above will satisfy the certification requirements necessary to avoid the backup withholding tax as well.

ERISA

Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, we and certain of our subsidiaries and affiliates, including Morgan Stanley & Co. Incorporated, Morgan Stanley & Co. International Limited and Morgan Stanley DW Inc. (formerly Dean Witter Reynolds Inc.) ("MSDWI"), may each be considered a "party in interest" within the meaning of ERISA, or a "disqualified person" within the meaning of the Code with respect to many Plans. Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the notes are acquired by or with the assets of a Plan with respect to which Morgan Stanley & Co. Incorporated, MSDWI or any of their affiliates is a service provider, unless the notes are acquired pursuant to an exemption from the "prohibited transaction" rules. A violation of these "prohibited transaction" rules may result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

The U.S. Department of Labor has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the notes. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified asset managers).

Because we may be considered a party in interest with respect to many Plans, the notes may not be purchased or held by any Plan, any entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity (a "Plan Asset Entity") or any person investing "plan assets" of any Plan, *unless* such purchaser or holder is eligible for exemptive relief, including relief available under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or such purchase and holding is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, or holder of the notes will be deemed to have represented, in its corporate and fiduciary capacity, by its purchase and holding thereof that it either (a) is not a Plan or a Plan Asset Entity and is not purchasing such securities on behalf of or with "plan assets" of any Plan or (b) is eligible for exemptive relief or such purchase or holding is not prohibited by ERISA or Section 4975 of the Code.

Under ERISA, assets of a Plan may include assets held in the general account of an insurance company which has issued an insurance policy to such plan or assets of an entity in which the Plan has invested. Accordingly, insurance company general accounts that include assets of a Plan must ensure that one of the foregoing exemptions is available. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the notes on behalf of or with "plan assets" of any Plan consult with their counsel regarding the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14.

Purchasers of the notes have exclusive responsibility for ensuring that their purchase and holding of the notes do not violate the prohibited transaction rules of ERISA or the Code.

UNDERWRITERS

Under the terms and subject to the conditions contained in an underwriting agreement dated as of the date hereof (the "U.S. dollar notes underwriting agreement"), the underwriters named below, for whom Morgan Stanley & Co. Incorporated is acting as global representative (the "U.S. dollar notes underwriters"), have severally agreed to purchase, and we have agreed to sell to them, severally, the respective principal amount of the notes due 2007, notes due 2012 and the notes due 2032 set forth opposite their names below:

Name	Principal amount of notes due 2007	Principal amount of notes due 2012	Principal amount of notes due 2032
Morgan Stanley & Co. Incorporated	$ 2,022,000,000	$ 2,022,000,000	$ 807,000,000
ABN AMRO Incorporated	25,000,000	25,000,000	10,000,000
Banc One Capital Markets, Inc.	25,000,000	25,000,000	10,000,000
Barclays Capital Inc.	25,000,000	25,000,000	10,000,000
Blaylock & Partners, L.P.	25,000,000	25,000,000	10,000,000
Caboto IntesaBci-SIM S.p.A.	25,000,000	25,000,000	10,000,000
Commerzbank Capital Markets Corp.	25,000,000	25,000,000	10,000,000
Crédit Lyonnais Securities (USA) Inc.	25,000,000	25,000,000	10,000,000
Danske Bank A/S	25,000,000	25,000,000	10,000,000
Fleet Securities, Inc.	25,000,000	25,000,000	10,000,000
ING Barings Corp.	25,000,000	25,000,000	10,000,000
KBC Bank NV	25,000,000	25,000,000	10,000,000
Mizuho International plc	25,000,000	25,000,000	10,000,000
RBC Dominion Securities Corporation	25,000,000	25,000,000	10,000,000
The Royal Bank of Scotland plc	25,000,000	25,000,000	10,000,000
Santander Central Hispano Investment Securities Inc.	25,000,000	25,000,000	10,000,000
Tokyo-Mitsubishi International plc	25,000,000	25,000,000	10,000,000
UFJ INTERNATIONAL plc	25,000,000	25,000,000	10,000,000
Utendahl Capital Partners, L.P.	3,000,000	3,000,000	3,000,000
Westdeutsche Landesbank Girozentrale	25,000,000	25,000,000	10,000,000
The Williams Capital Group, L.P.	25,000,000	25,000,000	10,000,000
Totals	$ 2,500,000,000	$ 2,500,000,000	$ 1,000,000,000

The U.S. dollar notes underwriting agreement provides that the obligations of the U.S. dollar notes underwriters to pay for and accept delivery of the U.S. dollar notes are subject to the approval of certain legal matters by their counsel and to certain other conditions. The U.S. dollar notes underwriters are obligated to take and pay for all of the U.S. dollar notes if any U.S. dollar notes are taken.

The U.S. dollar notes underwriters initially propose to offer part of the notes due 2007 directly to the public at the public offering price set forth on the cover page hereof and part to certain dealers at a price that represents a concession not in excess of .20% of the principal amount of the notes due 2007. The U.S. dollar notes underwriters may allow, and those dealers may reallow, a concession not in excess of .10% of the principal amount of the notes due 2007 to certain other dealers. After the initial offering of the notes due 2007, the offering price and other selling terms may from time to time be varied by the U.S. dollar notes underwriters.

The U.S. dollar notes underwriters initially propose to offer part of the notes due 2012 directly to the public at the public offering price set forth on the cover page hereof and part to certain dealers at a price that represents a concession not in excess of .30% of the principal amount of the notes due 2012. The U.S. dollar notes underwriters may allow, and those dealers may reallow, a concession not in excess of .20% of the principal amount of the notes due 2012 to certain other dealers. After the initial offering of the notes due 2012, the offering price and other selling terms may from time to time be varied by the U.S. dollar notes underwriters.

The U.S. dollar notes underwriters initially propose to offer part of the notes due 2032 directly to the public at the public offering price set forth on the cover page hereof and part to certain dealers at a price that represents a concession not in excess of .50% of the principal amount of the notes due 2032. The U.S. dollar notes underwriters may allow, and those dealers may reallow, a concession not in excess of .25% of the principal amount of the notes due 2032 to certain other dealers. After the initial offering of the notes due 2032, the offering price and other selling terms may from time to time be varied by the U.S. dollar notes underwriters.

Under the terms and subject to the conditions contained in an underwriting agreement dated as of the date hereof (the "euro notes underwriting agreement"), the underwriters named below, for whom Morgan Stanley & Co. International Limited is acting as global representative (the "euro notes underwriters," and together with the U.S. dollar notes underwriters, the "underwriters"), have severally agreed to purchase, and we have agreed to sell to them, severally, the respective principal amount of the notes due 2009 set forth opposite their names below:

Name	Principal amount of notes due 2009
Morgan Stanley & Co. International Limited	€ 1,275,000,000
ABN AMRO Bank N.V.	15,000,000
Banco Santander Central Hispano S.A.	15,000,000
Banque Bruxelles Lambert S.A.	15,000,000
Barclays Bank PLC	15,000,000
Caboto IntesaBci-SIM S.p.A.	15,000,000
Commerzbank Aktiengesellschaft	15,000,000
Crédit Lyonnais	15,000,000
Danske Bank A/S	15,000,000
KBC Bank NV	15,000,000
Mizuho International plc	15,000,000
Royal Bank of Canada Limited	15,000,000
The Royal Bank of Scotland plc	15,000,000
Tokyo-Mitsubishi International plc	15,000,000
UFJ INTERNATIONAL plc	15,000,000
Westdeutsche Landesbank Girozentrale	15,000,000
Total	€ 1,500,000,000

The euro notes underwriting agreement provides that the obligations of the euro notes underwriters to pay for and accept delivery of the euro notes are subject to the approval of certain legal matters by their counsel and to certain other conditions. The euro notes underwriters are obligated to take and pay for all of the euro notes if any euro notes are taken.

The euro notes underwriters initially propose to offer part of the notes due 2009 directly to the public at the public offering price set forth on the cover page hereof. After the initial offering of the notes due 2009, the offering price and other selling terms may from time to time be varied by the euro notes underwriters.

The aggregate proceeds to MSDW are set forth on the cover page hereof before deducting our expenses in offering the notes. We estimate that we will spend approximately $2,750,000 for printing, rating agency, listing, trustee's and legal fees and other expenses allocable to the offering.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make in respect thereof.

We will apply for the notes to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc.

The notes are offered for sale in those jurisdictions in the United States, Europe and Asia where it is legal to make such offers.

Each underwriter has represented and agreed that it will comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the notes or possesses or distributes this prospectus supplement or the accompanying prospectus and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and MSDW shall not have responsibility therefor.

With respect to notes to be offered or sold in the United Kingdom, each underwriter and any dealer participating in the distribution of such notes has represented and agreed with us that:

(1) it has not offered or sold and will not offer or sell any of those notes to persons in the United Kingdom prior to admission of those notes to listing in accordance with Part VI of the Financial Services and Markets Act 2000 (the "FSMA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSMA;

(2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

The notes have not been, and will not be, registered under the Securities and Exchange Law of Japan. Accordingly, the notes may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan including any corporation or other entity organized under the laws of Japan) or to others for the reoffering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and other relevant laws and regulations of Japan.

Purchasers of the notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price set forth on the cover page hereof.

This prospectus supplement and the accompanying prospectus may be used by Morgan Stanley & Co. Incorporated, Morgan Stanley & Co. International Limited and other affiliates of ours in connection with offers and sales of the notes in market-making transactions at negotiated prices related to prevailing market prices at the time of sale or otherwise. Morgan Stanley & Co. Incorporated, Morgan Stanley & Co. International Limited and such other affiliates of ours may act as principal or agent in such transactions.

Each of Morgan Stanley & Co. Incorporated and Morgan Stanley & Co. International Limited is a wholly-owned subsidiary of ours. Morgan Stanley & Co. Incorporated's participation in the offering of the notes will be conducted in compliance with Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc.

The underwriters do not intend to confirm sales to accounts over which they exercise discretionary authority.

In order to facilitate the offering of the notes, the stabilizing manager may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the stabilizing manager may sell more notes than it is obligated to purchase in connection with the offering of the notes, creating a naked short position for its own account. The stabilizing manager must close out any naked short position by purchasing notes in the open market. A naked short position is more likely to be created if the stabilizing manager is concerned that there may be downward pressure on the price of the notes in the open market after pricing that could adversely affect investors who purchase notes in the offering. As an additional means of facilitating the offering of notes, the stabilizing manager may bid for, and purchase, these notes in the open market to stabilize the price of these notes. Finally, the stabilizing manager may also reclaim on behalf of the underwriting syndicate selling concessions allowed to an underwriter or a dealer for distributing these notes in the offering, if the stabilizing manager repurchases previously distributed notes to cover short positions or to stabilize the price of these notes. Any of these activities may raise or maintain the market price of these notes above independent market levels or prevent or retard a decline in the market price of these notes. The stabilizing manager is not required to engage in these activities, and may end any of these activities at any time. Morgan Stanley & Co. Incorporated, and its agents, will act as the stabilizing manager with respect to the U.S. dollar notes, and Morgan Stanley & Co. International Limited, and its agents, will act as the stabilizing manager with respect to the euro notes.

LEGAL MATTERS

The validity of the notes will be passed upon for MSDW by Sidley Austin Brown & Wood LLP. Davis Polk & Wardwell will pass upon some legal matters relating to these notes for the underwriters. Davis Polk & Wardwell has in the past represented MSDW and continues to represent MSDW on a regular basis and in a variety of matters, including in connection with its private equity and leveraged capital activities.

PROSPECTUS

$25,285,339,482

Morgan Stanley Dean Witter & Co.

DEBT SECURITIES
UNITS
WARRANTS
PURCHASE CONTRACTS
PREFERRED STOCK

We, Morgan Stanley Dean Witter & Co., may offer from time to time debt securities, units, warrants, purchase contracts and preferred stock. This prospectus describes the general terms of these securities and the general manner in which we will offer the securities. The specific terms of any securities we offer will be included in a supplement to this prospectus. The prospectus supplement will also describe the specific manner in which we will offer the securities.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

MORGAN STANLEY DEAN WITTER

January 24, 2001

Annex 2

Extract from Prospectus dated January 24, 2001 relating to the Notes

SUMMARY

We, Morgan Stanley Dean Witter & Co., may offer any of the following securities: debt securities, units, warrants, purchase contracts and preferred stock. The following summary describes these securities in general terms only. You should read the summary together with the more detailed information contained in the rest of this prospectus and the applicable prospectus supplement.

Debt Securities .... Our debt securities may be senior or subordinated in priority of payment. We will provide a prospectus supplement that describes the ranking, whether senior or subordinated, the specific designation, the aggregate principal amount, the purchase price, the maturity, the redemption terms, the interest rate or manner of calculating the interest rate, the time of payment of interest, if any, the terms for any conversion or exchange, including the terms relating to the adjustment of any conversion or exchange mechanism, the listing, if any, on a securities exchange and any other specific terms of the debt securities.

The senior and subordinated debt securities will be issued under separate indentures between us and a U.S. banking institution as trustee. Neither of the indentures that govern our debt securities limits the amount of additional indebtedness that we or any of our subsidiaries may incur. We have summarized the general features of the indentures under the heading "Description of Debt Securities." We encourage you to read the indentures, which are exhibits to our registration statement No. 333-47576.

Units .... We may sell any combination of our debt securities, warrants and purchase contracts together as units. In a prospectus supplement, we will describe the particular combination of purchase contracts, warrants and debt securities constituting any units and any other specific terms of the units.

Warrants .... We may sell two types of warrants:

- warrants to purchase our debt securities, or
- universal warrants to purchase or sell (1) securities of an entity not affiliated with us, a basket of these securities, an index or indices of these securities or any combination of the above, (2) currencies or (3) commodities.

In a prospectus supplement, we will specify the type of warrant and inform you of the exercise price and other specific terms of the warrants, including whether our or your obligations, if any, under any universal warrants may be

	satisfied by delivering or purchasing the underlying securities, currencies or commodities, or their cash value.
Purchase Contracts	We may sell purchase contracts requiring the holders to purchase or sell (1) securities of an entity not affiliated with us, a basket of these securities, an index or indices of these securities or any combination of the above, (2) currencies or (3) commodities. In a prospectus supplement, we will describe the specific terms of the purchase contracts, including whether we will satisfy our obligations, if any, or you will satisfy your obligations, if any, under any purchase contracts by delivering the underlying securities, currencies or commodities or their cash value.
Form	We may issue debt securities, units, warrants and purchase contracts in fully registered form or in bearer form and, in each case, in definitive form or global form.
Preferred Stock	We may sell our preferred stock, par value $0.01 per share, in one or more series. In a prospectus supplement, we will describe the specific designation, the aggregate number of shares offered, the dividend rate or manner of calculating the dividend rate, the dividend periods or manner of calculating the dividend periods, the stated value of the shares of the series, the voting rights of the shares of the series, whether or not and on what terms the shares of the series will be convertible or exchangeable, whether and on what terms we can redeem the shares of the series, whether we will offer depositary shares representing shares of the series and if so, the fraction or multiple of a share of preferred stock represented by each depositary share, whether we will list the preferred stock or depositary shares on a securities exchange and any other specific terms of the series of preferred stock.
Terms Specified in Prospectus Supplements	When we decide to sell particular securities, we will prepare a prospectus supplement describing the securities offering and the specific terms of the securities. You should carefully read this prospectus and the applicable prospectus supplement. We will offer our debt securities, warrants, purchase contracts, units and preferred stock to investors on terms determined by market and other conditions. Our securities may be sold for U.S. dollars or foreign currency. Principal of and any premium or interest on debt securities and cash amounts payable under warrants or purchase contracts may be payable in U.S. dollars or foreign currency, as we specifically designate in the related prospectus supplement. In any prospectus supplement we prepare, we will provide the name of and compensation to each dealer, underwriter or agent, if any, involved in the sale of the securities being

offered and the managing underwriters for any securities sold to or through underwriters. Any underwriters, including managing underwriters, dealers or agents in the United States will include Morgan Stanley & Co. Incorporated and/or Dean Witter Reynolds Inc. and any outside the United States will include Morgan Stanley & Co. International Limited or other affiliates of ours.

Structural Subordination; Our Receipt of Cash from Our Subsidiaries May Be Restricted ....

The securities are unsecured senior or subordinated obligations of ours, but our assets consist primarily of equity in our subsidiaries. As a result, our ability to make payments on our debt securities and/or pay dividends on our preferred stock depends upon our receipt of dividends, loan payments and other funds from our subsidiaries. In addition, if any of our subsidiaries becomes insolvent, the direct creditors of that subsidiary will have a prior claim on its assets, and our rights and the rights of our creditors, including your rights as an owner of our debt securities, units, warrants, purchase contracts or preferred stock, will be subject to that prior claim, unless we are also a direct creditor of that subsidiary. This subordination of creditors of a parent company to prior claims of creditors of its subsidiaries is commonly referred to as structural subordination.

In addition, various statutes and regulations restrict some of our subsidiaries from paying dividends or making loans or advances to us. These restrictions could prevent those subsidiaries from paying the cash to us that we need in order to pay you. These restrictions include:

- the net capital requirements under the Securities Exchange Act of 1934, and the rules of some exchanges and other regulatory bodies, which apply to some of our principal subsidiaries, such as Morgan Stanley & Co. Incorporated, Morgan Stanley & Co. International Limited and Dean Witter Reynolds Inc., and

- banking regulations, which apply to Discover Bank (formerly Greenwood Trust Company), a Delaware chartered bank, and other bank subsidiaries of ours.

Market-making by Our Affiliates ....

Following the initial distribution of an offering of securities, Morgan Stanley & Co. Incorporated, Morgan Stanley & Co. International Limited, Dean Witter Reynolds Inc. and other affiliates of ours may offer and sell those securities in the course of their businesses as broker-dealers, subject, in the case of preferred stock and depositary shares, to obtaining any necessary approval of the New York Stock Exchange, Inc. for any of these offers and sales our United States affiliates may make. Morgan Stanley & Co. Incorporated, Morgan Stanley & Co. International Limited, Dean Witter Reynolds Inc. and other affiliates of ours may act as a principal or agent in these transactions. This prospectus and the applicable prospectus supplement will also be used in connection with those transactions. Sales in any of those transactions will be made at varying prices related to prevailing market prices and other circumstances at the time of sale.

WHERE YOU CAN FIND MORE INFORMATION

We file annual reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 or at its Regional Offices located at Suite 1400, Citicorp Center, 500 West Madison Street, Chicago, Illinois 60661 and at Seven World Trade Center, 13th Floor, New York, New York 10048. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, the SEC maintains a Website that contains reports, proxy statements and other information that we electronically file. The address of the SEC's Website is http://www.sec.gov.

This prospectus is part of a registration statement we filed with the SEC. This prospectus omits some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information and exhibits in the registration statement for further information on us and our consolidated subsidiaries and the securities we are offering. Statements in this prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

Our common stock, par value $0.01 per share, is listed on the New York Stock Exchange, Inc. and the Pacific Exchange, Inc. under the symbol "MWD." You may inspect reports, proxy statements and other information concerning us and our consolidated subsidiaries at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, and the Pacific Exchange, Inc., 301 Pine Street, San Francisco, California 94104 or 233 South Beaudry Avenue, Los Angeles, California 90012.

The SEC allows us to incorporate by reference much of the information we file with them, which means that we can disclose important information to you by referring you to those publicly available documents. The information that we incorporate by reference in this prospectus is considered to be part of this prospectus. Because we are incorporating by reference future filings with the SEC, this prospectus is continually updated and those future filings may modify or supersede some of the information included or incorporated in this prospectus. This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus or in any document previously incorporated by reference have been modified or superseded. This prospectus incorporates by reference the documents listed below and any future filings we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until we complete our offering of the securities to be issued under the registration statement or, if later, the date on which any of our affiliates cease offering and selling these securities:

(a) Annual Report on Form 10-K for the fiscal year ended November 30, 1999;

(b) Quarterly Reports on Forms 10-Q for the quarters ended February 29, 2000, May 31, 2000 and August 31, 2000; and

(c) Current Reports on Form 8-K dated December 20, 1999 (3 reports), March 23, 2000, June 6, 2000, June 22, 2000, September 21, 2000, October 11, 2000, December 19, 2000 and January 24, 2001.

You can request a copy of these documents, excluding exhibits, at no cost, by writing or telephoning us at the following address:

Morgan Stanley Dean Witter & Co.
1585 Broadway
New York, New York 10036
Attention: Investor Relations
(212) 762-8131

CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table sets forth our consolidated ratios of earnings to fixed charges and earnings to fixed charges and preferred stock dividends for the periods indicated. The fiscal year information for 1996 and 1995 combines the historical financial information of Dean Witter, Discover & Co. for the years ended December 31, 1996 and 1995 with the historical financial information of Morgan Stanley Group Inc. for the fiscal years ended November 30, 1996 and 1995. Subsequent to the merger between Dean Witter, Discover & Co. and Morgan Stanley Group Inc. in May 1997, we adopted a fiscal year end of November 30. The fiscal year information for 1997 and subsequent periods reflects the change in fiscal year end.

	(Unaudited) Nine Months Ended		Fiscal Year				
	August 31, 2000	August 31, 1999	1999	1998	1997	1996	1995
Ratio of earnings to fixed charges	1.5	1.5	1.6	1.4	1.4	1.3	1.3
Ratio of earnings to fixed charges and preferred stock dividends	1.5	1.5	1.6	1.4	1.4	1.3	1.3

For purposes of calculating the ratio of earnings to fixed charges and the ratio of earnings to fixed charges and preferred stock dividends, earnings are the sum of:

- pre-tax income;
- fixed charges; and
- amortization of capitalized interest;

less:

- capitalized interest.

For purposes of calculating both ratios, fixed charges are the sum of:

- interest expensed and capitalized;
- amortized premiums, discounts and capitalized expenses related to indebtedness; and
- our estimate of the interest within rental expenses.

Additionally, for purposes of calculating the ratio of earnings to fixed charges and preferred stock dividends, preferred stock dividends are included in the denominator of the ratio on a pre-tax basis.

MORGAN STANLEY DEAN WITTER

Morgan Stanley Dean Witter & Co. is a global financial services firm that maintains leading market positions in each of its three business segments—securities, asset management and credit services. MSDW combines global strength in investment banking and institutional sales and trading with strength in providing full service and online brokerage services, investment and global asset management services and, primarily through its Discover® Card brand, quality consumer credit products. MSDW provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals.

As of November 30, 1999, MSDW had the second largest financial advisor sales organization in the United States, with 12,674 professional financial advisors and 475 securities branch offices. MSDW also had one of the largest global asset management operations of any full-service securities firm, with total assets under management or supervision of $425 billion. In addition, based on its approximately 38.5 million general purpose credit card accounts as of November 30, 1999, MSDW was one of the nation's largest credit card issuers, with the largest proprietary merchant and cash access network in the United States.

MSDW's securities business includes securities underwriting, distribution and trading; merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities; full-service and online brokerage services; research services; the trading of foreign exchange and commodities, as well as derivatives on a broad range of asset categories, rates and indices; securities lending and private equity activities. MSDW's asset management business includes providing global asset management advice and services to investors through a variety of product lines and brand names, including Morgan Stanley Dean Witter Advisors, Van Kampen Investments, Morgan Stanley Dean Witter Investment Management and Miller Anderson & Sherrerd. MSDW's credit services business includes the issuance of the Discover® Card and the Morgan Stanley Dean Witter℠ Card and the operation of Discover Business Services (formerly the Discover/NOVUS® Network), a proprietary network of merchant and cash access locations.

MSDW believes that technological advancements on the Internet and the growth of electronic commerce will continue to present both challenges and opportunities to MSDW and could lead to significant changes and innovations. MSDW's initiatives in this area have included Web-enabling existing businesses and enhancing client communication and access to information and services. For example, ClientLink℠, the focal point of MSDW's institutional client connectivity strategy, provides clients with a private, secure Internet platform that delivers browser-based information, products and services across many of MSDW's business units. MSDW has also been making investments or otherwise participating in alternative trading systems, electronic communication networks and related businesses or technologies.

MSDW conducts its business from its headquarters in New York City, its regional offices and branches throughout the United States, and its principal offices in London, Tokyo, Hong Kong and other financial centers throughout the world. At November 30, 1999, MSDW had 55,288 employees. MSDW is a combination of Dean Witter, Discover & Co. and Morgan Stanley Group Inc. and was formed in a merger of equals that was effected on May 31, 1997. MSDW was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924.

MSDW's principal executive offices are at 1585 Broadway, New York, New York 10036, and its telephone number is (212) 761-4000. Under this heading and "Use of Proceeds" below, the term "MSDW" includes Morgan Stanley Dean Witter & Co. and its consolidated subsidiaries.

USE OF PROCEEDS

MSDW will use the net proceeds from the sale of the securities we offer by this prospectus for general corporate purposes or for any other purposes described in the applicable prospectus supplement. General corporate purposes may include additions to working capital, the redemption of outstanding preferred stock, the repurchase of outstanding common stock and the repayment of indebtedness. MSDW anticipates that it will raise additional funds from time to time through equity or debt financing, including borrowings under revolving credit agreements, to finance its businesses worldwide.

DESCRIPTION OF DEBT SECURITIES

Debt May Be Senior or Subordinated

We may issue senior or subordinated debt securities. The senior debt securities and, in the case of debt securities in bearer form, any coupons to these securities, will constitute part of our senior debt, will be issued under our Senior Debt Indenture, as defined below, and will rank on a parity with all of our other unsecured and unsubordinated debt. The subordinated debt securities and any coupons will constitute part of our subordinated debt, will be issued under our Subordinated Debt Indenture, as defined below, and will be subordinate and junior in right of payment, as set forth in the Subordinated Debt Indenture, to all of our "senior indebtedness," which is defined in our Subordinated Debt Indenture. If this prospectus is being delivered in connection with a series of subordinated debt securities, the accompanying prospectus supplement or the information we incorporate in this prospectus by reference will indicate the approximate amount of senior indebtedness outstanding as of the end of the most recent fiscal quarter. We refer to our Senior Debt Indenture and our Subordinated Debt Indenture individually as an "indenture" and collectively as the "indentures."

We have summarized below the material provisions of the indentures and the debt securities, or indicated which material provisions will be described in the related prospectus supplement. These descriptions are only summaries, and each investor should refer to the applicable indenture, which describes completely the terms and definitions summarized below and contains additional information regarding the debt securities. Where appropriate, we use parentheses to refer you to the particular sections of the applicable indenture. Any reference to particular sections or defined terms of the applicable indenture in any statement under this heading qualifies the entire statement and incorporates by reference the applicable section or definition into that statement. The indentures are substantially identical, except for the provisions relating to MSDW's negative pledge, which is included in the Senior Debt Indenture only, and to subordination.

Payments

We may issue debt securities from time to time in one or more series. The provisions of each indenture allow us to "reopen" a previous issue of a series of debt securities and issue additional debt securities of that issue. The debt securities may be denominated and payable in U.S. dollars or foreign currencies. We may also issue debt securities, from time to time, with the principal amount or interest payable on any relevant payment date to be determined by reference to one or more currency exchange rates, securities or baskets of securities, commodity prices or indices. Holders of these types of debt securities will receive payments of principal or interest that depend upon the value of the applicable currency, security or basket of securities, commodity or index on the relevant payment dates.

Debt securities may bear interest at a fixed rate, which may be zero, or a floating rate, or at a rate which varies during the lifetime of the debt security. Debt securities bearing no interest or interest at a rate that at the time of issuance is below the prevailing market rate may be sold at a discount below their stated principal amount.

Terms Specified in Prospectus Supplement

The prospectus supplement will contain, where applicable, the following terms of and other information relating to any offered debt securities:

- classification as senior or subordinated debt securities and the specific designation;
- aggregate principal amount, purchase price and denomination;
- currency in which the debt securities are denominated and/or in which principal, and premium, if any, and/or interest, if any, is payable;
- date of maturity;

- the interest rate or rates or the method by which the calculation agent will determine the interest rate or rates, if any;
- the interest payment dates, if any;
- the place or places for payment of the principal of and any premium and/or interest on the debt securities;
- any repayment, redemption, prepayment or sinking fund provisions, including any redemption notice provisions;
- whether we will issue the debt securities in registered form or bearer form or both and, if we are offering debt securities in bearer form, any restrictions applicable to the exchange of one form for another and to the offer, sale and delivery of those debt securities in bearer form;
- whether we will issue the debt securities in definitive form and under what terms and conditions;
- the terms on which holders of the debt securities may convert or exchange these securities into or for stock or other securities of an entity unaffiliated with us, any specific terms relating to the adjustment of the conversion or exchange feature and the period during which the holders may make the conversion or exchange;
- information as to the methods for determining the amount of principal or interest payable on any date and/or the currencies, securities or baskets of securities, commodities or indices to which the amount payable on that date is linked;
- any agents for the debt securities, including trustees, depositories, authenticating or paying agents, transfer agents or registrars;
- any applicable United States federal income tax consequences, including, but not limited to:
    - whether and under what circumstances we will pay additional amounts on debt securities held by a person who is not a U.S. person for any tax, assessment or governmental charge withheld or deducted and, if so, whether we will have the option to redeem those debt securities rather than pay the additional amounts;
    - tax considerations applicable to any discounted debt securities or to debt securities issued at par that are treated as having been issued at a discount for United States federal income tax purposes; and
    - tax considerations applicable to any debt securities denominated and payable in foreign currencies; and

any other specific terms of the debt securities, including any additional events of default or covenants, and any terms required by or advisable under applicable laws or regulations.

Registration and Transfer of Debt Securities

Holders may present debt securities for exchange, and holders of registered debt securities may present these securities for transfer, in the manner, at the places and subject to the restrictions stated in the debt securities and described in the applicable prospectus supplement. We will provide these services without charge except for any tax or other governmental charge payable in connection with these services and subject to any limitations provided in the applicable indenture.

Holders may transfer debt securities in bearer form and the related coupons, if any, by delivery to the transferee. If any of the securities are held in global form, the procedures for transfer of interests in those securities will depend upon the procedures of the depositary for those global securities. See "Forms of Securities."

Indentures

Debt securities that will be senior debt will be issued under an Amended and Restated Senior Indenture dated as of May 1, 1999 between MSDW and The Chase Manhattan Bank, as trustee. We call that indenture, as it may be supplemented from time to time, the Senior Debt Indenture. Debt securities that will be subordinated debt will be issued under an Amended and Restated Subordinated Indenture dated as of May 1, 1999 between MSDW and Bank One Trust Company, N.A., as successor to The First National Bank of Chicago, as trustee. We call that indenture, as it may be supplemented from time to time, the Subordinated Debt Indenture. We refer to The Chase Manhattan Bank and Bank One Trust Company, N.A., individually as a "trustee" and collectively as the "trustees."

Subordination Provisions

Holders of subordinated debt securities should recognize that contractual provisions in the Subordinated Debt Indenture may prohibit us from making payments on these securities. Subordinated debt securities are subordinate and junior in right of payment, to the extent and in the manner stated in the Subordinated Debt Indenture, to all of our senior indebtedness. The Subordinated Debt Indenture defines senior indebtedness as obligations of, or guaranteed or assumed by, MSDW for borrowed money or evidenced by bonds, debentures, notes or other similar instruments, and amendments, renewals, extensions, modifications and refundings of any of that indebtedness or of those obligations. Nonrecourse obligations, the subordinated debt securities and any other obligations specifically designated as being subordinate in right of payment to senior indebtedness are not senior indebtedness as defined under the Subordinated Debt Indenture. (Subordinated Debt Indenture, Section 1.01).

The Subordinated Debt Indenture provides that, unless all principal of and any premium or interest on the senior indebtedness has been paid in full, or provision has been made to make these payments in full, no payment of principal of, or any premium or interest on, any subordinated debt securities may be made in the event:

- of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings involving us or a substantial part of our property;

- that (a) a default has occurred in the payment of principal, any premium, interest or other monetary amounts due and payable on any senior indebtedness or (b) there has occurred any other event of default concerning senior indebtedness, that permits the holder or holders of the senior indebtedness to accelerate the maturity of the senior indebtedness, with notice or passage of time, or both, and that event of default has continued beyond the applicable grace period, if any, and that default or event of default has not been cured or waived or has not ceased to exist; or

- that the principal of and accrued interest on any subordinated debt securities have been declared due and payable upon an event of default as defined under the Subordinated Debt Indenture and that declaration has not been rescinded and annulled as provided under the Subordinated Debt Indenture. (Subordinated Debt Indenture, Section 13.01)

Covenants Restricting Pledges, Mergers and Other Significant Corporate Actions

Negative Pledge. Because we are a holding company, our assets consist primarily of the securities of our subsidiaries. The negative pledge provisions of the Senior Debt Indenture limit our ability to pledge some of these securities. The Senior Debt Indenture provides that we will not, and will not permit any subsidiary to, create, assume, incur or guarantee any indebtedness for borrowed money that is secured by a pledge, lien or other encumbrance except for liens specifically permitted by the Senior Debt Indenture on:

(1) the voting securities of Morgan Stanley & Co. Incorporated, Morgan Stanley & Co. International Limited, Dean Witter Reynolds Inc., Discover Bank (formerly Greenwood Trust Company) or any subsidiary succeeding to any substantial part of the business now conducted by any of those corporations, which we refer to collectively as the "principal subsidiaries," or

(2) the voting securities of a subsidiary that owns, directly or indirectly, the voting securities of any of the principal subsidiaries, other than directors' qualifying shares,

without making effective provisions so that the debt securities issued under the Senior Debt Indenture will be secured equally and ratably with indebtedness so secured.

For these purposes, "subsidiary" means any corporation, partnership or other entity of which at the time of determination we own or control directly or indirectly more than 50% of the shares of the voting stock or equivalent interest, and "voting securities" means stock of any class or classes having general voting power under ordinary circumstances to elect a majority of the board of directors, managers or trustees of the relevant subsidiary, other than stock that carries only the conditional right to vote upon the happening of an event, whether or not that event has happened. (Senior Debt Indenture, Section 3.06)

The Subordinated Debt Indenture does not include negative pledge provisions.

Merger, Consolidation, Sale, Lease or Conveyance. Each indenture provides that we will not merge or consolidate with any other person and will not sell, lease or convey all or substantially all of our assets to any other person, unless:

- we will be the continuing corporation; or
- the successor corporation or person that acquires all or substantially all of our assets:
  - will be a corporation organized under the laws of the United States, a state of the United States or the District of Columbia; and
  - will expressly assume all of our obligations under the indenture and the debt securities issued under the indenture; and
- immediately after the merger, consolidation, sale, lease or conveyance, we, that person or that successor corporation will not be in default in the performance of the covenants and conditions of the indenture applicable to us. (Indentures, Section 9.01)

Absence of Protections against All Potential Actions of MSDW. There are no covenants or other provisions in the indentures that would afford holders of debt securities additional protection in the event of a recapitalization transaction, a change of control of MSDW or a highly leveraged transaction. The merger covenant described above would only apply if the recapitalization transaction, change of control or highly leveraged transaction were structured to include a merger or consolidation of MSDW or a sale, lease or conveyance of all or substantially all of our assets. However, we may provide specific protections, such as a put right or increased interest, for particular debt securities, which we would describe in the applicable prospectus supplement.

Events of Default

The indentures provide holders of debt securities with remedies if we fail to perform specific obligations, such as making payments on the debt securities or other indebtedness, or if we become bankrupt. Holders should review these provisions and understand which of our actions trigger an event of default and which actions do not. Each indenture permits the issuance of debt securities in one or more series, and, in many cases, whether an event of default has occurred is determined on a series by series basis.

An event of default is defined under each indenture, with respect to any series of debt securities issued under that indenture, as being:

- default in payment of any principal of the debt securities of that series, either at maturity or upon any redemption, by declaration or otherwise;

- default for 30 days in payment of any interest on any debt securities of that series;

- default for 60 days after written notice in the observance or performance of any other covenant or agreement in the debt securities of that series or the related indenture, other than a covenant included in that indenture solely for the benefit of a different series of debt securities;

- events of bankruptcy, insolvency or reorganization;

- failure to make any payment at maturity, including any applicable grace period, on other indebtedness in an amount in excess of $10,000,000 and continuance of that failure for a period of 30 days after written notice of the failure to us by the applicable trustee, or to us and the applicable trustee by the holders of not less than 25% in principal amount of the outstanding debt securities, treated as one class, issued under the indenture;

- default with respect to any other indebtedness, which default results in the acceleration of indebtedness in an amount in excess of $10,000,000 without the indebtedness having been discharged or the acceleration having been cured, waived, rescinded or annulled for a period of 30 days after written notice of the acceleration to us by the applicable trustee, or to us and the applicable trustee by the holders of not less than 25% in principal amount of the outstanding debt securities, treated as one class, issued under the indenture; or

- any other event of default provided in the supplemental indenture under which that series of debt securities is issued.

For purposes of the fifth and sixth clauses above, indebtedness means obligations of, or guaranteed or assumed by, MSDW for borrowed money or evidenced by bonds, debentures, notes or other similar instruments, but does not include non-recourse obligations. In addition, if a failure, default or acceleration referred to in the fifth and sixth clauses above ceases or is cured, waived, rescinded or annulled, then the event of default under the applicable indenture caused by that failure, default or acceleration will also be considered cured. (Indentures, Section 5.01)

Acceleration of Debt Securities Upon an Event of Default. Each indenture provides that:

- if an event of default due to the default in payment of principal of, or any premium or interest on, any series of debt securities issued under that indenture, or due to the default in the performance or breach of any other covenant or warranty of MSDW applicable to the debt securities of that series but not applicable to all outstanding debt securities issued under that indenture occurs and is continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of each affected series, voting as one class, by notice in writing to MSDW, may declare the principal of all debt securities of each affected series and interest accrued thereon to be due and payable immediately; and

- if an event of default due to a default in the performance of any other of the covenants or agreements in that indenture applicable to all outstanding debt securities issued under that indenture or due to specified events of bankruptcy, insolvency or reorganization of MSDW, occurs and is continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of all outstanding debt securities issued under that indenture, voting as one class, by notice in writing to MSDW may declare the principal of all those debt securities and interest accrued thereon to be due and payable immediately. (Indentures, Section 5.01)

Annulment of Acceleration and Waiver of Defaults. In some circumstances, if any and all events of default under the indenture, other than the non-payment of the principal of the securities that has become due as a result of an acceleration, have been cured, waived or otherwise remedied, then the holders of a majority in aggregate principal amount of all series of outstanding debt securities affected, voting as one class, may annul past declarations of acceleration of or waive past defaults of the debt securities. (Indentures, Sections 5.01 and 5.10)

Indemnification of Trustee for Actions Taken on Your Behalf. Each indenture contains a provision entitling the trustee, subject to the duty of the trustee during a default to act with the required standard of care, to be indemnified by the holders of debt securities issued under that indenture before proceeding to exercise any right or power at the request of holders. (Indentures, Section 6.02) Subject to these provisions and some other limitations, the holders of a majority in aggregate principal amount of each series of outstanding debt securities of each affected series, voting as one class, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee. (Indentures, Section 5.09)

Limitation on Actions by You as an Individual Holder. Each indenture provides that no individual holder of debt securities may institute any action against us under that indenture, except actions for payment of overdue principal and interest, unless the following actions have occurred:

- the holder must have previously given written notice to the trustee of the continuing default;
- the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of each affected series, treated as one class, must have (1) requested the trustee to institute that action and (2) offered the trustee reasonable indemnity;
- the trustee must have failed to institute that action within 60 days after receipt of the request referred to above; and
- the holders of a majority in principal amount of the outstanding debt securities of each affected series, voting as one class, must not have given directions to the trustee inconsistent with those of the holders referred to above. (Indentures, Sections 5.06 and 5.09)

Each indenture contains a covenant that we will file annually with the trustee a certificate of no default or a certificate specifying any default that exists. (Indentures, Section 3.05)

Discharge, Defeasance and Covenant Defeasance

We have the ability to eliminate most or all of our obligations on any series of debt securities prior to maturity if we comply with the following provisions. (Indentures, Section 10.01)

Discharge of Indenture. We may discharge all of our obligations, other than as to transfers and exchanges, under the relevant indenture after we have:

- paid or caused to be paid the principal of and interest on all of the outstanding debt securities in accordance with their terms;
- delivered to the applicable trustee for cancellation all of the outstanding debt securities; or
- irrevocably deposited with the applicable trustee cash or, in the case of a series of debt securities payable only in U.S. dollars, U.S. government obligations in trust for the benefit of the holders of any series of debt securities issued under the Indenture that have either become due and payable, or are by their terms due and payable, or are scheduled for redemption, within one year, in an amount certified to be sufficient to pay on each date that they become due and payable, the principal of and interest on, and any mandatory sinking fund payments for, those debt securities, except that the deposit of cash or U.S. government obligations for the benefit of holders of a series of debt securities that are due and payable, or are scheduled for redemption, within one year will discharge obligations under the relevant indenture relating only to that series of debt securities.

Defeasance of a Series of Securities at Any Time. We may also discharge all of our obligations, other than as to transfers and exchanges, under any series of debt securities at any time, which we refer to as defeasance.

We may be released with respect to any outstanding series of debt securities from the obligations imposed by Sections 3.06 (in the case of the Senior Debt Indenture) and 9.01, which sections contain the covenants described above limiting liens and consolidations, mergers, asset sales and leases, and elect not to comply with those sections without creating an event of default. Discharge under those procedures is called "covenant defeasance."

Defeasance or covenant defeasance may be effected only if, among other things:

- we irrevocably deposit with the relevant trustee cash or, in the case of debt securities payable only in U.S. dollars, U.S. government obligations, as trust funds in an amount certified to be sufficient to pay on each date that they become due and payable, the principal of and interest on, and any mandatory sinking fund payments for, all outstanding debt securities of the series being defeased;

- we deliver to the relevant trustee an opinion of counsel to the effect that:

    - the holders of the series of debt securities being defeased will not recognize income, gain or loss for United States federal income tax purposes as a result of the defeasance or covenant defeasance; and

    - the defeasance or covenant defeasance will not otherwise alter those holders' United States federal income tax treatment of principal and interest payments on the series of debt securities being defeased; in the case of a defeasance, this opinion must be based on a ruling of the Internal Revenue Service or a change in United States federal income tax law occurring after the date of this prospectus, since that result would not occur under current tax law; and

- in the case of the Subordinated Debt Indenture:

    - no event or condition will exist that, under the provisions described under "—Subordination Provisions" above, would prevent us from making payments of principal or interest on the subordinated debt securities at the date of the irrevocable deposit referred to above or at any time during the period ending on the 91st day after that deposit date; and

    - we deliver to the trustee for the Subordinated Debt Indenture an opinion of counsel to the effect that (i) the trust funds will not be subject to any rights of holders of senior indebtedness and (ii) after the 91st day following the deposit, the trust funds will not be subject to any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, except that if a court were to rule under any of those laws in any case or proceeding that the trust funds remained our property, then the relevant trustee and the holders of the subordinated debt securities would be entitled to some enumerated rights as secured creditors in the trust funds. (Subordinated Debt Indenture, Section 10.01)

Modification of the Indentures

Modification Without Consent of Holders. We and the relevant trustee may enter into supplemental indentures without the consent of the holders of debt securities issued under a particular indenture to:

- secure any debt securities;

- evidence the assumption by a successor corporation of our obligations;

- add covenants for the protection of the holders of debt securities;

- cure any ambiguity or correct any inconsistency;

- establish the forms or terms of debt securities of any series; or

- evidence the acceptance of appointment by a successor trustee. (Indentures, Section 8.01)

Modification With Consent of Holders. We and the trustee, with the consent of the holders of not less than a majority in aggregate principal amount of each affected series of outstanding debt securities, voting as one class, may add any provisions to, or change in any manner or eliminate any of the provisions of, the indenture or modify in any manner the rights of the holders of those debt securities. However, we and the trustee may not make any of the following changes to any outstanding debt security without the consent of each holder that would be affected by such change:

- extend the final maturity of the principal;
- reduce the principal amount;
- reduce the rate or extend the time of payment of interest;
- reduce any amount payable on redemption;
- change the currency in which the principal, including any amount of original issue discount, premium, or interest thereon is payable;
- modify or amend the provisions for conversion of any currency into another currency;
- reduce the amount of any original issue discount security payable upon acceleration or provable in bankruptcy;
- alter the terms on which holders of the debt securities may convert or exchange debt securities for stock or other securities of MSDW or of other entities or for other property or the cash value of the property, other than in accordance with the antidilution provisions or other similar adjustment provisions included in the terms of the debt securities;
- impair the right of any holder to institute suit for the enforcement of any payment on any debt security when due; or
- reduce the percentage of debt securities the consent of whose holders is required for modification of the indentures.

Modification of Subordination Provisions. We may not amend the Subordinated Debt Indenture to alter the subordination of any outstanding subordinated debt securities without the written consent of each potentially adversely affected holder of senior indebtedness then outstanding. (Subordinated Debt Indenture, Section 8.06)

Concerning Our Relationship with the Trustees

We and our subsidiaries maintain ordinary banking relationships and credit facilities with The Chase Manhattan Bank and affiliates of Bank One Trust Company, N.A.

DESCRIPTION OF UNITS

Units will consist of one or more debt securities, universal warrants and purchase contracts or any combination of them. The applicable prospectus supplement will also describe:

- the designation and the terms of the units and of any combination of debt securities, universal warrants and purchase contracts constituting the units, including whether and under what circumstances the debt securities, universal warrants or purchase contracts may be traded separately;
- any additional terms of the governing Unit Agreement;

- any additional provisions for the issuance, payment, settlement, transfer or exchange of the units or of the debt securities, universal warrants or purchase contracts constituting the units; and

- any applicable United States federal income tax consequences.

The terms and conditions described under "Description of Debt Securities," "Description of Warrants" and "Description of Purchase Contracts" and those described below under "—Significant Provisions of the Unit Agreement" and "—Significant Provisions of the Unit Agreement Without Holders' Obligations" will apply to each unit and to any debt security, universal warrant or purchase contract included in each unit, respectively, unless otherwise specified in the applicable prospectus supplement.

We will issue the units under one or more Unit Agreements, each referred to as a Unit Agreement, to be entered into between us and a bank or trust company, as unit agent. We may issue units in one or more series, which will be described in the applicable prospectus supplement. Units that include purchase contracts that are all pre-paid purchase contracts, as defined below under "Description of Purchase Contracts," will be governed by one or more Unit Agreements designed for units where the holders do not have any further obligations under the purchase contracts, which we refer to as Unit Agreements Without Holders' Obligations. We have filed the form of Unit Agreement and Unit Agreement Without Holders' Obligations as exhibits to the registration statement. Although we have described below the material provisions of the Unit Agreement, the Unit Agreement Without Holders' Obligations and the units, these descriptions are not complete, and you should review the detailed provisions of the Unit Agreement and Unit Agreement Without Holders' Obligations for a full description, including the definition of some of the terms used in this prospectus and for other information regarding the units.

Significant Provisions of the Unit Agreement

Obligations of Unit Holder. Under the terms of the Unit Agreement, each owner of a unit:

- consents to and agrees to be bound by the terms of the Unit Agreement,

- appoints the unit agent as its authorized agent to execute, deliver and perform any purchase contract included in the unit in which that owner has an interest, except in the case of pre-paid purchase contracts which require no further performance by the owner, and

- irrevocably agrees to be a party to and be bound by the terms of any purchase contract, other than a pre-paid purchase contract, included in the ~~unit in which~~ that owner has an interest.

Assumption of Obligations by Transferee. Upon the registration of transfer of a unit, the transferee will assume the obligations, if any, of the transferor under any purchase contract included in the unit and under any other security constituting that unit, and the transferor will be released from those obligations. Under the Unit Agreement, we consent to the transfer of these obligations to the transferee, to the assumption of these obligations by the transferee and to the release of the transferor, if the transfer is made in accordance with the provisions of the Unit Agreement.

Remedies. Upon the acceleration of the debt securities constituting any units, our obligations and those of the owners under any purchase contracts constituting a part of the units may also be accelerated upon the request of the owners of not less than 25% of the affected purchase contracts, on behalf of all the owners.

Limitation on Actions by You as an Individual Holder. No owner of any unit will have any right under the Unit Agreement to institute any action or proceeding at law or in equity or in bankruptcy or otherwise regarding the Unit Agreement, or for the appointment of a trustee, receiver, liquidator, custodian or other similar official, unless the owner will have given written notice to the unit agent and to us of the occurrence and continuance of a default thereunder and:

- in the case of an event of default under the debt securities or the relevant indenture, unless the procedures, including notice to us and the trustee, described in the indenture have been complied with; and

- in the case of a failure by MSDW to observe or perform any of its obligations under the Unit Agreement relating to any purchase contracts, other than pre-paid purchase contracts, included in the unit, unless:
  - owners of not less than 25% of the affected purchase contracts have (a) requested the unit agent to institute that action or proceeding in its own name as unit agent under the Unit Agreement and (b) offered the unit agent reasonable indemnity;
  - the unit agent has failed to institute that action or proceeding within 60 days of that request by the owners referred to above; and
  - the owners of a majority of the outstanding affected units have not given directions to the unit agent inconsistent with those of the owners referred to above.

If these conditions have been satisfied, any owner of an affected unit may then, but only then, institute an action or proceeding. Notwithstanding the above, the owner of any unit or purchase contract will have the unconditional right to purchase or sell, as the case may be, purchase contract property under the purchase contract and to institute suit for the enforcement of that right. Purchase contract property is defined under "Description of Purchase Contracts" below.

Negative Pledge. Because we are a holding company, our assets consist primarily of the securities of our subsidiaries. The negative pledge provisions of the Unit Agreement limit our ability to pledge some of these securities. The Unit Agreement provides that we will not, and will not permit any subsidiary to, create, assume, incur or guarantee any indebtedness for borrowed money that is secured by a pledge, lien or other encumbrance except for liens specifically permitted by the Unit Agreement on:

(1) the voting securities of Morgan Stanley & Co. Incorporated, Morgan Stanley & Co. International Limited, Dean Witter Reynolds Inc., Discover Bank (formerly Greenwood Trust Company), or any subsidiary succeeding to any substantial part of the business now conducted by any of those corporations, which we refer to collectively as the "principal subsidiaries," or

(2) the voting securities of a subsidiary that owns, directly or indirectly, the voting securities of any of the principal subsidiaries, other than directors' qualifying shares,

without making effective provisions so that the units and the securities constituting the units under the Unit Agreement will be secured equally and ratably with indebtedness so secured.

For these purposes, "subsidiary" means any corporation, partnership or other entity of which at the time of determination we own or control directly or indirectly more than 50% of the shares of the voting stock or equivalent interest, and "voting securities" means stock of any class or classes having general voting power under ordinary circumstances to elect a majority of the board of directors, managers or trustees of the relevant subsidiary, other than stock that carries only the conditional right to vote upon the happening of an event, whether or not that event has happened.

Absence of Protections Against All Potential Actions of MSDW. There are no covenants or other provisions in the Unit Agreement providing for a put right or increased interest or otherwise that would afford holders of units additional protection in the event of a recapitalization transaction, a change of control of MSDW or a highly leveraged transaction.

Modification Without Consent of Holders. We and the unit agent may amend the Unit Agreement and the terms of the purchase contracts and the purchase contract certificates without the consent of the holders to:

- cure any ambiguity;
- correct or supplement any defective or inconsistent provision; or
- amend the terms in any other manner which we may deem necessary or desirable and which will not adversely affect the interests of the affected holders in any material respect.

Modification With Consent of Holders. We and the unit agent, with the consent of the holders of not less than a majority of all series of outstanding units affected, voting as one class, may modify the rights of the holders of the units of each series so affected or the terms of any purchase contracts included in any of those series of units and the terms of the Unit Agreement relating to the purchase contracts of each series so affected. However, we and the unit agent may not make any of the following modifications without the consent of the holder of each outstanding unit affected by the modification:

- impair the right to institute suit for the enforcement of any purchase contract;
- materially adversely affect the holders' rights under any purchase contract;
- reduce the percentage of purchase contracts constituting part of outstanding units the consent of whose owners is required for the modification of the provisions of the Unit Agreement relating to those purchase contracts or for the waiver of any defaults under the Unit Agreement relating to those purchase contracts;
- materially adversely affect the holders' units or the terms of the Unit Agreement (other than terms related to the first three clauses above); or
- reduce the percentage of outstanding units the consent of whose owners is required for the modification of the provisions of the Unit Agreement (other than terms related to the first three clauses above).

Modifications of any debt securities or pre-paid purchase contracts included in units may only be made in accordance with the applicable indenture, as described under "Description of Debt Securities—Modification of the Indentures." Modifications of any universal warrants included in units may only be made in accordance with the terms of the universal warrant agreement as described under "Description of Warrants—Significant Provisions of the Warrant Agreement."

Merger, Consolidation, Sale, Lease or Conveyance. The Unit Agreement provides that we will not merge or consolidate with any other person and will not sell, lease or convey all or substantially all of our assets to any person unless:

- we will be the continuing corporation; or
- the successor corporation or person that acquires all or substantially all of our assets:
  - will be a corporation organized under the laws of the United States, a state of the United States or the District of Columbia; and
  - will expressly assume all of our obligations under the Unit Agreement; and
- immediately after the merger, consolidation, sale, lease or conveyance, we, that person or that successor corporation will not be in default in the performance of the covenants and conditions of the Unit Agreement applicable to us.

Replacement of Unit Certificates or Purchase Contract Certificates. We will replace any mutilated certificate evidencing a definitive unit or purchase contract at the expense of the holder upon surrender of that certificate to the unit agent. We will replace certificates that have been destroyed, lost or stolen at the expense of the holder upon delivery to us and the unit agent of evidence satisfactory to us and the unit agent of the destruction, loss or theft of the certificates. In the case of a destroyed, lost or stolen certificate, an indemnity satisfactory to the unit agent and to us may be required at the expense of the holder of the units or purchase contracts evidenced by that certificate before a replacement will be issued.

The Unit Agreement provides that, notwithstanding the foregoing, no replacement certificate need be delivered:

- during the period beginning 15 days before the day of mailing of a notice of redemption or of any other exercise of any right held by MSDW with respect to the unit or any security constituting the unit evidenced by the mutilated, destroyed, lost or stolen certificate and ending on the day of the giving of that notice;

- if the mutilated, destroyed, lost or stolen certificate evidences any security selected or called for redemption or other exercise of a right held by MSDW; or

- at any time on or after the date of settlement or redemption for any purchase contract included in the unit, or at any time on or after the last exercise date for any universal warrant included in the unit, evidenced by the mutilated, destroyed, lost or stolen certificate, except with respect to any units that remain or will remain outstanding following the date of settlement or redemption or the last exercise date.

Unit Agreement Not Qualified Under Trust Indenture Act. The Unit Agreement will not be qualified as an indenture under, and the unit agent will not be required to qualify as a trustee under, the Trust Indenture Act. Accordingly, the holders of units and purchase contracts, other than pre-paid purchase contracts, will not have the benefits of the protections of the Trust Indenture Act. However, any debt securities or pre-paid purchase contracts issued as part of a unit will be issued under an indenture qualified under the Trust Indenture Act, and the trustee under that indenture will be qualified as a trustee under the Trust Indenture Act.

Title. We, the unit agent, the trustee, the warrant agent and any of their agents will treat the registered owner of any unit as its owner, notwithstanding any notice to the contrary, for all purposes.

New York Law to Govern. The Unit Agreement, the units and the purchase contracts constituting part of the units will be governed by, and construed in accordance with, the laws of the State of New York.

Significant Provisions of the Unit Agreement Without Holders' Obligations

Remedies. The unit agent will act solely as our agent in connection with the units governed by the Unit Agreement Without Holders' Obligations and will not assume any obligation or relationship of agency or trust for or with any holders of units or interests in those units. Any holder of units or interests in those units may, without the consent of the unit agent or any other holder or beneficial owner of units, enforce by appropriate legal action, on its own behalf, its rights under the Unit Agreement Without Holders' Obligations. However, the holders of units or interests in those units may only enforce their rights under the purchase contracts and any debt securities or under any universal warrants issued as parts of those units in accordance with the terms of the applicable indenture and the warrant agreement.

Modification. We and the unit agent may amend the Unit Agreement Without Holders' Obligations without the consent of the holders to:

- cure any ambiguity;

- cure, correct or supplement any defective or inconsistent provision in the agreement; or

- amend the terms in any other manner which we may deem necessary or desirable and which will not adversely affect the interest of the affected holders of units in any material respect.

We and the unit agent, with the consent of the holders of not less than a majority of units at the time outstanding, may modify or amend the rights of the affected holders of the affected units and the terms of the Unit Agreement Without Holders' Obligations. However, we and the unit agent may not, without the consent of each affected holder of units, make any modifications or amendments that would:

- materially and adversely affect the exercise rights of the affected holders, or

- reduce the percentage of outstanding units the consent of whose owners is required to consent to a modification or amendment of the Unit Agreement Without Holders' Obligations.

Pre-paid purchase contracts and any debt securities issued as part of units governed by the Unit Agreement Without Holders' Obligations may be modified only in accordance with the applicable indenture, as described above under "Description of Debt Securities—Modification of the Indentures." Any universal warrants issued as part of units may be modified only in accordance with the terms of the warrant agreement as described in "Description of Warrants—Significant Provisions of the Warrant Agreement."

Merger, Consolidation, Sale, Lease or Conveyance. The Unit Agreement Without Holders' Obligations provides that we will not merge or consolidate with any other person and will not sell, lease or convey all or substantially all of our assets to any person unless:

- we will be the continuing corporation; or
- the successor corporation or person that acquires all or substantially all of our assets:
  - will be a corporation organized under the laws of the United States, a state of the United States or the District of Columbia; and
  - will expressly assume all of our obligations under the Unit Agreement Without Holders' Obligations; and
- immediately after the merger, consolidation, sale, lease or conveyance, we, that person or that successor corporation will not be in default in the performance of the covenants and conditions of the Unit Agreement Without Holders' Obligations applicable to us.

Replacement of Unit Certificates. We will replace any mutilated certificate evidencing a definitive unit at the expense of the holder upon surrender of that certificate to the unit agent. We will replace certificates that have been destroyed, lost or stolen at the expense of the holder upon delivery to us and the unit agent of evidence satisfactory to us and the unit agent of the destruction, loss or theft of the certificates. In the case of a destroyed, lost or stolen certificate, an indemnity satisfactory to the unit agent and to us may be required at the expense of the holder of the units or prepaid purchase contracts evidenced by that certificate before a replacement will be issued.

Title. We, the unit agent, the trustee, the warrant agent and any of their agents will treat the registered owner of any unit as its owner, notwithstanding any notice to the contrary, for all purposes.

New York Law to Govern. The Unit Agreement Without Holders' Obligations, the units and the pre-paid purchase contracts constituting part of the units will be governed by, and construed in accordance with, the laws of the State of New York.

DESCRIPTION OF WARRANTS

Offered Warrants

We may issue warrants that are debt warrants or universal warrants. We may offer warrants separately or together with one or more additional warrants, purchase contracts or debt securities or any combination of those securities in the form of units, as described in the applicable prospectus supplement. If we issue warrants as part of a unit, the accompanying prospectus supplement will specify whether those warrants may be separated from the other securities in the unit prior to the warrants' expiration date. Universal warrants issued in the United States may not be so separated prior to the 91st day after the issuance of the unit, unless otherwise specified in the applicable prospectus supplement.

Debt Warrants. We may issue, together with debt securities or separately, warrants for the purchase of debt securities on terms to be determined at the time of sale. We refer to this type of warrant as a debt warrant.

Universal Warrants. We may also issue warrants to purchase or sell, on terms to be determined at the time of sale:

- securities of an entity not affiliated with us, a basket of those securities, an index or indices of those securities or any combination of the above;
- currencies; or
- commodities.

We refer to the property in the above clauses as "warrant property." We refer to this type of warrant as a "universal warrant." We may satisfy our obligations, if any, with respect to any universal warrants by delivering the warrant property or, in the case of warrants to purchase or sell securities or commodities, the cash value of the securities or commodities, as described in the applicable prospectus supplement.

Further Information in Prospectus Supplement

General Terms of Warrants. The applicable prospectus supplement will contain, where applicable, the following terms of and other information relating to the warrants:

- the specific designation and aggregate number of, and the price at which we will issue, the warrants;
- the currency with which the warrants may be purchased;
- the date on which the right to exercise the warrants will begin and the date on which that right will expire or, if you may not continuously exercise the warrants throughout that period, the specific date or dates on which you may exercise the warrants;
- whether the warrants will be issued in fully registered form or bearer form, in definitive or global form or in any combination of these forms, although, in any case, the form of a warrant included in a unit will correspond to the form of the unit and of any debt security or purchase contract included in that unit;
- any applicable United States federal income tax consequences;
- the identity of the warrant agent for the warrants and of any other depositaries, execution or paying agents, transfer agents, registrars, determination, or other agents;
- the proposed listing, if any, of the warrants or any securities purchasable upon exercise of the warrants on any securities exchange;
- whether the warrants are to be sold separately or with other securities as part of units; and

- any other terms of the warrants.

Additional Terms of Debt Warrants. The prospectus supplement will contain, where applicable, the following terms of and other information relating to any debt warrants:

- the designation, aggregate principal amount, currency and terms of the debt securities that may be purchased upon exercise of the debt warrants;

- if applicable, the designation and terms of the debt securities with which the debt warrants are issued and the number of the debt warrants issued with each of the debt securities;

- if applicable, the date on and after which the debt warrants and the related debt securities will be separately transferable; and

- the principal amount of debt securities purchasable upon exercise of each debt warrant, the price at which and the currency in which the debt securities may be purchased and the method of exercise.

Additional Terms of Universal Warrants. The applicable prospectus supplement will contain, where applicable, the following terms of and other information relating to any universal warrants:

- whether the universal warrants are put warrants or call warrants and whether you or we will be entitled to exercise the warrants;

- the specific warrant property, and the amount or the method for determining the amount of the warrant property, purchasable or saleable upon exercise of each universal warrant;

- the price at which and the currency with which the underlying securities, currencies or commodities may be purchased or sold upon the exercise of each universal warrant, or the method of determining that price;

- whether the exercise price may be paid in cash, by the exchange of any other security offered with the universal warrants or both and the method of exercising the universal warrants; and

- whether the exercise of the universal warrants is to be settled in cash or by delivery of the underlying securities, commodities, or both.

Significant Provisions of the Warrant Agreements

We will issue the warrants under one or more warrant agreements to be entered into between us and a bank or trust company, as warrant agent, in one or more series, which will be described in the prospectus supplement for the warrants. The forms of warrant agreements are filed as exhibits to the registration statement. The following summaries of significant provisions of the warrant agreements and the warrants are not intended to be comprehensive and holders of warrants should review the detailed provisions of the relevant warrant agreement for a full description and for other information regarding the warrants.

Modifications Without Consent of Warrantholders. We and the warrant agent may amend the terms of the warrants and the warrant certificates without the consent of the holders to:

- cure any ambiguity,

- cure, correct or supplement any defective or inconsistent provision, or

- amend the terms in any other manner which we may deem necessary or desirable and which will not adversely affect the interests of the affected holders in any material respect.

Modifications With Consent of Warrantholders. We and the warrant agent, with the consent of the holders of not less than a majority in number of the then outstanding unexercised warrants affected, may modify or amend the warrant agreement. However, we and the warrant agent may not make any of the following modifications or amendments without the consent of each affected warrantholder:

- change the exercise price of the warrants;
- reduce the amount receivable upon exercise, cancellation or expiration of the warrants other than in accordance with the antidilution provisions or other similar adjustment provisions included in the terms of the warrants;
- shorten the period of time during which the warrants may be exercised;
- materially and adversely affect the rights of the owners of the warrants; or
- reduce the percentage of outstanding warrants the consent of whose owners is required for the modification of the applicable warrant agreement.

Merger, Consolidation, Sale or Other Disposition. If at any time there will be a merger or consolidation of MSDW or a transfer of substantially all of our assets, the successor corporation will succeed to and assume all of our obligations under each warrant agreement and the warrant certificates. We will then be relieved of any further obligation under each of those warrant agreements and the warrants issued under those warrant agreements. See "Description of Debt Securities—Covenants Restricting Pledges, Mergers and other Significant Corporate Actions."

Enforceability of Rights of Warrantholders. The warrant agents will act solely as our agents in connection with the warrant certificates and will not assume any obligation or relationship of agency or trust for or with any holders of warrant certificates or beneficial owners of warrants. Any holder of warrant certificates and any beneficial owner of warrants may, without the consent of any other person, enforce by appropriate legal action, on its own behalf, its right to exercise the warrants evidenced by the warrant certificates in the manner provided for in that series of warrants or pursuant to the applicable warrant agreement. No holder of any warrant certificate or beneficial owner of any warrants will be entitled to any of the rights of a holder of the debt securities or any other warrant property purchasable upon exercise of the warrants, including, without limitation, the right to receive the payments on those debt securities or other warrant property or to enforce any of the covenants or rights in the relevant indenture or any other similar agreement.

Registration and Transfer of Warrants. Subject to the terms of the applicable warrant agreement, warrants in registered, definitive form may be presented for exchange and for registration of transfer, at the corporate trust office of the warrant agent for that series of warrants, or at any other office indicated in the prospectus supplement relating to that series of warrants, without service charge. However, the holder will be required to pay any taxes and other governmental charges as described in the warrant agreement. The transfer or exchange will be effected only if the warrant agent for the series of warrants is satisfied with the documents of title and identity of the person making the request.

New York Law to Govern. The warrants and each warrant agreement will be governed by, and construed in accordance with, the laws of the State of New York.

DESCRIPTION OF PURCHASE CONTRACTS

We may issue purchase contracts, including purchase contracts issued as part of a unit with one or more debt securities or universal warrants, for the purchase or sale of:

- securities of an entity not affiliated with MSDW, a basket of those securities, an index or indices of those securities or any combination of the above;

- currencies; or
- commodities.

We refer to this property in the above clauses as "purchase contract property."

Each purchase contract will obligate the holder to purchase or sell, and obligate MSDW to sell or purchase, on specified dates, the purchase contract property at a specified price or prices, all as described in the applicable prospectus supplement. The applicable prospectus supplement will also specify the methods by which the holders may purchase or sell the purchase contract property and any acceleration, cancellation or termination provisions or other provisions relating to the settlement of a purchase contract.

Pre-paid Purchase Contracts

Purchase contracts may require holders to satisfy their obligations under the purchase contracts at the time they are issued. We refer to these purchase contracts as "pre-paid purchase contracts." MSDW's obligation to settle pre-paid purchase contracts on the relevant settlement date will constitute senior indebtedness or subordinated indebtedness of MSDW. Accordingly, pre-paid purchase contracts will be issued under the Senior Debt Indenture or the Subordinated Debt Indenture, as specified in the applicable prospectus supplement.

Purchase Contracts Issued as Part of Units

Purchase contracts issued as part of a unit will be governed by the terms and provisions of a Unit Agreement or, in the case of pre-paid purchase contracts issued as part of a unit that contains no other purchase contracts, a Unit Agreement Without Holders' Obligations. See "Description of Units—Significant Provisions of the Unit Agreement" and "—Significant Provisions of the Unit Agreement Without Holders' Obligations." The applicable prospectus supplement will specify the following:

- whether the purchase contract obligates the holder to purchase or sell the purchase contract property;
- whether a purchase contract issued as part of a unit may be separated from the other securities constituting part of that unit prior to the purchase contract's settlement date, *except* that purchase contracts issued in the United States may not be so separated prior to the 91st day after the issuance of a unit;
- the methods by which the holders may purchase or sell the purchase contract property;
- any acceleration, cancellation or termination provisions or other provisions relating to the settlement of a purchase contract; and
- whether the purchase contracts will be issued in fully registered or bearer form, in definitive or global form or in any combination of these forms, although, in any case, the form of a purchase contract included in a unit will correspond to the form of the unit and of any debt security or universal warrant included in that unit.

Settlement of Purchase Contracts. Where purchase contracts issued together with debt securities as part of a unit require the holders to buy purchase contract property, the unit agent may apply principal payments from the debt securities in satisfaction of the holders' obligations under the related purchase contract as specified in the prospectus supplement. The unit agent will not so apply the principal payments if the holder has delivered cash to meet its obligations under the purchase contract. To settle the purchase contract and receive the purchase contract property, the holder must present and surrender the unit certificates at the office of the unit agent. If a holder settles its obligations under a purchase contract that is part of a unit in cash rather than by delivering the debt security that is part of the unit, that debt security will remain outstanding if the maturity extends beyond the relevant settlement date and, as more fully described in the applicable prospectus supplement, the holder will receive that debt security or an interest in the relevant global debt security.

Pledge by Purchase Contract Holders to Secure Performance. To secure the obligations of the purchase contract holders contained in the Unit Agreement and in the purchase contracts, the holders, acting through the unit agent, as their attorney-in-fact, will grant, sell, convey, assign, transfer and pledge the items in the following sentence, which we refer to as the "pledge," to The Chase Manhattan Bank, in its capacity as collateral agent, for our benefit. The pledge is a security interest in and to, and a lien upon and right of set-off against, all of the holders' right, title and interest in and to:

- any debt securities that are part of units that include the purchase contracts, or other property as may be specified in the applicable prospectus supplement, which we refer to as the "pledged items";
- all additions to and substitutions for the pledged items as may be permissible, if so specified in the applicable prospectus supplement;
- all income, proceeds and collections received or to be received, or derived or to be derived, at any time from or in connection with the pledged items described in the two clauses above; and
- all powers and rights owned or thereafter acquired under or with respect to the pledged items.

The pledge constitutes collateral security for the performance when due by each holder of its obligations under the Unit Agreement and the applicable purchase contract. The collateral agent will forward all payments from the pledged items to us, unless the payments have been released from the pledge in accordance with the Unit Agreement. We will use the payments received from the pledged items to satisfy the obligations of the holder of the Unit under the related purchase contract.

Property Held in Trust by Unit Agent. If a holder fails to settle in cash its obligations under a purchase contract that is part of a unit and fails to present and surrender its unit certificate to the unit agent when required, that holder will not receive the purchase contract property. Instead, the unit agent will hold that holder's purchase contract property, together with any distributions, as the registered owner in trust for the benefit of the holder until the holder presents and surrenders the certificate or provides satisfactory evidence that the certificate has been destroyed, lost or stolen. The unit agent or MSDW may require an indemnity from the holder for liabilities related to any destroyed, lost or stolen certificate. If the holder does not present the unit certificate, or provide the necessary evidence of destruction or loss and indemnity, on or before the second anniversary of the settlement date of the related purchase contract, the unit agent will pay to us the amounts it received in trust for that holder. Thereafter, the holder may recover those amounts only from us and not the unit agent. The unit agent will have no obligation to invest or to pay interest on any amounts it holds in trust pending distribution.

DESCRIPTION OF CAPITAL STOCK

As of the date of this prospectus, MSDW's authorized capital stock consists of 3,500,000,000 shares of common stock, par value $0.01 per share, and 30,000,000 shares of preferred stock, par value $0.01 per share.

The rights of holders of preferred stock offered by this prospectus will be subject to, and may be adversely affected by, issuances of preferred stock in the future. Under some circumstances, alone or in combination with other provisions of our certificate of incorporation, described under "—Additional Provisions of MSDW's Certificate of Incorporation and By-laws" below, our issuances of preferred stock may discourage or make more difficult an acquisition of MSDW that the Board of Directors deems undesirable.

The Board of Directors of MSDW has the power, without further action by the stockholders, unless action is required by applicable laws or regulations or by the terms of outstanding preferred stock, to issue preferred stock in one or more series and to fix the voting rights, designations, preferences and other terms applicable to the preferred stock to be issued. The Board of Directors may issue preferred stock to obtain additional financing, in connection with acquisitions, to officers, directors or employees of MSDW and its subsidiaries in accordance with benefit plans or otherwise and for other proper corporate purposes.

Outstanding Capital Stock

Outstanding Common Stock. As of August 31, 2000, there were approximately 1,121,597,725 shares of our common stock outstanding.

Outstanding Preferred Stock. On August 31, 2000, MSDW also had outstanding the following series of preferred stock:

- 1,000,000 shares of 7-$^3/_4$% Cumulative Preferred Stock, with a stated value of $200.00 per share, which we refer to as the 7-$^3/_4$% Preferred Stock; and
- 1,725,000 shares of Series A Fixed/Adjustable Rate Cumulative Preferred Stock, with a stated value of $200.00 per share, which we refer to as the Series A Fixed/Adjustable Rate Preferred Stock.

We refer to the 7-$^3/_4$% Preferred Stock and the Series A Fixed/Adjustable Rate Preferred Stock as the Existing Cumulative Preferred Stock.

Cumulative Preferred Stock Issuable under the Capital Units. In addition, we and our wholly-owned subsidiary Morgan Stanley Finance plc have outstanding Capital Units. Each Capital Unit consists of a subordinated debenture issued by Morgan Stanley Finance plc, which we guaranteed on a subordinated basis, and a related purchase contract we issued that requires the holder to purchase one depositary share representing ownership of a fraction or multiple of a share of our preferred stock. The Capital Units may result in the issuance at any time of up to 348,300 shares of our 8.03% Cumulative Preferred Stock, with a stated value of $200.00 per share, which we refer to as the Capital Units Cumulative Preferred Stock.

Series A Junior Participating Preferred Stock Issuable under Rights Plan. In addition, we have authorized for issuance up to 450,000 shares of Series A Junior Participating Preferred Stock, par value $0.01 per share, which may be issued upon the exercise of rights issued to the holders of our common stock under our Rights Plan. See "—The Rights Plan."

The preceding summary and the following summary of the terms of the offered preferred stock do not purport to be complete and are qualified by our certificate of incorporation and by the Certificates of Designation of Preferences and Rights for each series of Existing Cumulative Preferred Stock, the Capital Units Cumulative Preferred Stock and the Series A Junior Participating Preferred Stock.

Offered Preferred Stock

Our Board of Directors has authorized the issuance in series of additional shares of preferred stock and has authorized a committee of the Board of Directors to establish and designate series and to fix the number of shares and the relative rights, preferences and limitations of the respective series of the preferred stock offered by this prospectus and the applicable prospectus supplement. The shares of offered preferred stock, when issued and sold, will be fully paid and nonassessable.

Terms Specified in Prospectus Supplement. The following description sets forth some general terms and provisions of the offered preferred stock. The number of shares and all of the relative rights, preferences and limitations of the respective series of offered preferred stock that the Board of Directors or the committee establishes will be described in the applicable prospectus supplement. The terms of particular series of offered preferred stock may differ, among other things, in:

- designation;
- number of shares that constitute the series;
- dividend rate, or the method of calculating the dividend rate;

- dividend periods, or the method of calculating the dividend periods;
- redemption provisions, including whether or not, on what terms and at what prices the shares will be subject to redemption at our option;
- voting rights;
- preferences and rights upon liquidation or winding-up;
- whether or not and on what terms the shares will be convertible into or exchangeable for shares of any other class, series or security of MSDW or any other corporation or any other property;
- whether depositary shares representing the offered preferred stock will be offered and, if so, the fraction or multiple of a share that each depositary share will represent; and
- the other rights and privileges and any qualifications, limitations or restrictions of those rights or privileges.

We have summarized below the material provisions of a certificate of designation authorizing the issuance of any series of offered preferred stock. These summaries are not complete and each investor should refer to the form of certificate of designation which has been filed as an exhibit to the registration statement and to our certificate of incorporation for a complete description of the terms and definitions. The Board of Directors or a duly authorized committee of the Board of Directors will adopt the resolutions to be included in the certificate of designation prior to the issuance of a series of offered preferred stock, and the certificate of designation will be filed with the Secretary of State of the State of Delaware as soon thereafter as reasonably practicable.

Rank. Each series of offered preferred stock will rank, with respect to voting powers, preferences or relative, participating, optional and other special rights, including with respect to the payment of dividends and the distribution of assets, whether upon liquidation or otherwise:

- junior to any series of capital stock of MSDW expressly stated to be senior to that series of offered preferred stock;
- senior to the common stock of MSDW and any class of capital stock of MSDW expressly stated to be junior to that series of offered preferred stock; and
- on a parity with each other series of offered preferred stock and all other classes of capital stock of MSDW.

The offered preferred stock will rank, as to payment of dividends and amounts payable on liquidation, on a parity with each series of the Existing Cumulative Preferred Stock and, if issued, the Capital Units Cumulative Preferred Stock.

Dividends. If described in the applicable prospectus supplement, we will pay cumulative cash dividends to the holders of offered preferred stock, when and as declared by the Board of Directors or the committee out of funds legally available for payment. The prospectus supplement will detail the annual rate of dividends or the method or formula for determining or calculating them, and the payment dates and payment periods for dividends. The Board of Directors or the committee will fix a record date for the payment of dividends not more than 60 or less than 10 days preceding the dividend payment date. We will pay dividends on the offered preferred stock to the holders of record on that record date. Dividends will be cumulative from the date of original issue of the series. A series of offered preferred stock will be junior as to payment of dividends to any series of preferred stock that may be issued in the future that is expressly stated to be senior as to payment of dividends to that series. If at any time we have failed to pay accrued dividends on any of those senior shares when payable, we may not pay any dividend on that series of offered preferred stock or redeem or otherwise repurchase any shares of that series until we have paid or set aside for payment the full amount of the accumulated but unpaid dividends on the senior shares.

We will not declare, pay or set aside for payment any dividends on any preferred stock ranking on a parity as to payment of dividends with the offered preferred stock unless we declare, pay or set aside for payment, dividends on all the outstanding shares of offered preferred stock for all dividend payment periods ending on or before the dividend payment date for any parity stock. We must declare, pay or set aside for payment any amounts on the offered preferred stock ratably in proportion to the respective amounts of dividends (1) accumulated and unpaid or payable on that parity stock, on the one hand, and (2) accumulated and unpaid or payable through the dividend payment period or periods of the offered preferred stock next preceding the dividend payment date, on the other hand.

Except as described above, unless we have paid the full cumulative dividends on the outstanding shares of offered preferred stock, we may not take any of the following actions with respect to our common stock or any other preferred stock of MSDW ranking junior or on parity with the offered preferred stock as to dividend payments:

- declare, pay or set aside for payment any dividends, other than dividends payable in our common stock,
- make other distributions,
- redeem, purchase or otherwise acquire our common stock or junior preferred stock for any consideration, or
- make any payment to or available for a sinking fund for the redemption of our common stock or junior preferred stock.

Preferred stock on a parity with offered preferred stock currently includes the Existing Cumulative Preferred Stock and, if issued, would include the Capital Units Cumulative Preferred Stock.

The provisions of the immediately preceding paragraph will not apply to any monies we deposit in any sinking fund with respect to any preferred stock in compliance with the provisions of the sinking fund. We may apply monies so deposited to the purchase or redemption of the preferred stock in accordance with the terms of the sinking fund, regardless of whether at the time of application we have paid or declared and set aside for payment full cumulative dividends upon shares of the offered preferred stock outstanding on the last dividend payment date for any series of offered preferred stock. The provisions of the immediately preceding paragraph also do not restrict the ability of a holder of any junior or parity preferred stock or common stock to convert those securities into or exchange those securities for MSDW capital stock ranking junior to the offered preferred stock as to dividend payments.

We will compute the amount of dividends payable for the initial dividend period or any period shorter than a full dividend period on the basis of a 360-day year of twelve 30-day months, unless otherwise indicated in the prospectus supplement. Accrued but unpaid dividends will not bear interest.

Redemption. The prospectus supplement will indicate whether, and on what terms, shares of any series of offered preferred stock will be subject to mandatory redemption or sinking fund provision. The prospectus supplement will also indicate whether, and on what terms, including the date on or after which redemption may occur, we may redeem shares of a series of the offered preferred stock. We will effect any optional redemption upon not less than 30 days' notice at a redemption price of not less than the stated value per share of the applicable series of offered preferred stock plus accrued and accumulated but unpaid dividends to but excluding the date fixed for redemption. If we have not paid full cumulative dividends on all outstanding shares of offered preferred stock we may not redeem any shares of offered preferred stock in part and we may not purchase or acquire any shares of offered preferred stock, otherwise than by a purchase or exchange offer made on the same terms to all holders of the offered preferred stock. If fewer than all the outstanding shares of a series of offered preferred stock are to be redeemed, we will select those to be redeemed by lot or a substantially equivalent method.

Liquidation Rights. In the event of any liquidation, dissolution or winding up of MSDW, the holders of shares of offered preferred stock will be entitled to receive, out of the assets of MSDW available for distribution to stockholders, liquidating distributions in an amount equal to the stated value per share of offered preferred stock, as described in the applicable prospectus supplement, plus accrued and accumulated but unpaid dividends to the date of final distribution, before any distribution is made to holders of

- any other shares of preferred stock ranking junior to the offered preferred stock as to rights upon liquidation, dissolution or winding up, or

- our common stock.

However, holders of the shares of offered preferred stock will not be entitled to receive the liquidation price of their shares until we have paid or set aside an amount sufficient to pay in full the liquidation preference of any other shares of MSDW's capital stock ranking senior as to rights upon liquidation, dissolution or winding up. Neither a consolidation or merger of MSDW with or into another corporation nor a merger of another corporation with or into MSDW nor a sale or transfer of all or part of MSDW's assets for cash or securities will be considered a liquidation, dissolution or winding up of MSDW.

If upon any liquidation, dissolution or winding up of MSDW, we have not paid the amounts payable with respect to the offered preferred stock and any other preferred stock ranking on parity with the offered preferred stock as to rights upon liquidation, dissolution or winding up, the holders of the offered preferred stock and of that other preferred stock will share ratably in any distribution in proportion to the full respective preferential amounts to which they are entitled. After we have paid the full amount of the liquidating distribution to which they are entitled, the holders of the offered preferred stock will not be entitled to any further participation in any distribution of assets by MSDW.

Voting Rights. Unless otherwise determined by our Board of Directors and indicated in the prospectus supplement, holders of the offered preferred stock will not have any voting rights except as described below or as otherwise from time to time required by law. Whenever dividends on any shares of offered preferred stock or any other class or series of stock ranking on a parity with the offered preferred stock with respect to the payment of dividends are in arrears for dividend periods, whether or not consecutive, containing in the aggregate a number of days equivalent to six calendar quarters, the holders of shares of offered preferred stock, voting separately as a class with all other series of preferred stock, including the Existing Cumulative Preferred Stock, having similar voting rights that are exercisable, will be entitled to vote for the election of two of the authorized number of directors of MSDW at the next annual meeting of stockholders and at each subsequent meeting until we have paid or set apart for payment all dividends accumulated on the offered preferred stock. The term of office of all directors elected by the holders of preferred stock will terminate immediately upon the termination of the right of the holders of preferred stock to vote for directors. Each holder of shares of the offered preferred stock will have one vote for each share of offered preferred stock held.

So long as any shares of the offered preferred stock remain outstanding, we will not, without the consent of the holders of at least two-thirds of the shares of offered preferred stock outstanding at the time

- issue or increase the authorized amount of any class or series of stock ranking prior to the outstanding offered preferred stock as to dividends or upon liquidation, or

- amend, alter or repeal the provisions of our certificate of incorporation or of the resolutions contained in the certificate of designation, whether by merger, consolidation or otherwise, so as to materially and adversely affect any power, preference or special right of the outstanding offered preferred stock or their holders.

Holders of the offered preferred stock will vote separately as a class with all other series of preferred stock, including the Existing Cumulative Preferred Stock and any issued Capital Units Cumulative Preferred Stock, having similar voting rights have been conferred that are exercisable. For purposes of the preceding sentence, any increase in the amount of the authorized common stock or authorized preferred stock or the creation and issuance of other series of common stock or preferred stock ranking on a parity with or junior to the offered preferred stock as to dividends and upon liquidation will not be considered to materially and adversely affect those powers, preferences or special rights.

Agents and Registrar for Offered Preferred Stock. The transfer agent, dividend disbursing agent and registrar for each series of offered preferred stock will be The Bank of New York.

Depositary Shares

We may, at our option, elect to offer fractional shares or some multiple of shares of offered preferred stock, rather than individual shares of offered preferred stock. If we choose to do so, we will issue depositary receipts for depositary shares, each of which will represent a fraction or a multiple of a share of a particular series of offered preferred stock as described below.

The following statements concerning depositary shares, depositary receipts, and the deposit agreement are not intended to be comprehensive and are qualified in their entirety by reference to the forms of these documents, which we have filed as exhibits to the registration statement. Each investor should refer to the detailed provisions of those documents, as we have explained under the heading "Where You Can Find More Information" in the Summary.

The shares of any series of offered preferred stock represented by depositary shares will be deposited under a deposit agreement among MSDW, The Bank of New York, as depositary, which we refer to as the Preferred Stock Depositary, and the holders from time to time of depositary receipts issued under the agreement. Subject to the terms of the deposit agreement, each holder of a depositary share will be entitled, in proportion to the fraction or multiple of a share of offered preferred stock represented by that depositary share, to all the rights and preferences of the offered preferred stock represented by that depositary share, including dividend, voting and liquidation rights.

The depositary shares will be evidenced by depositary receipts issued under the deposit agreement. Depositary receipts will be distributed to those persons purchasing the fractional or multiple shares of the related series of offered preferred stock. Immediately following the issuance of shares of a series of offered preferred stock, we will deposit those shares with the Preferred Stock Depositary, which will then issue and deliver the depositary receipts to the purchasers. Depositary receipts will only be issued evidencing whole depositary shares. A depositary receipt may evidence any number of whole depositary shares.

Dividends and Other Distributions. The Preferred Stock Depositary will distribute all cash dividends or other cash distributions received on the related series of offered preferred stock to the record holders of depositary shares relating to those series in proportion to the number of the depositary shares those holders own.

If we make a distribution other than in cash, the Preferred Stock Depositary will distribute the property it receives to the record holders of depositary shares in proportion to the number of depositary shares those holders own, unless the Preferred Stock Depositary determines that the distribution cannot be made proportionately among those holders or that it is not feasible to make the distribution. In that event, the Preferred Stock Depositary may, with our approval, sell the property and distribute the net proceeds to the holders in proportion to the number of depositary shares they own.

The amount distributed to holders of depositary shares will be reduced by any amounts required to be withheld by MSDW or the Preferred Stock Depositary on account of taxes or other governmental charges.

Withdrawal of Stock. Upon surrender of the depositary receipts at the corporate trust office of the Preferred Stock Depositary and upon payment of the taxes, charges and fees provided for in the deposit agreement and compliance with any other requirement of the deposit agreement, the holder of the depositary shares evidenced by those depositary receipts is entitled to delivery of the number of whole shares of the related series of offered preferred stock and any money or other property, if any, represented by those shares. Holders of depositary shares will be entitled to receive whole shares of the related series of offered preferred stock, but holders of whole shares of offered preferred stock will not thereafter be entitled to deposit their shares of offered preferred stock with the Preferred Stock Depositary or to receive depositary shares therefor. If the depositary receipts delivered by the holder evidence a number of depositary shares in excess of the number representing whole shares of the related series of offered preferred stock to be withdrawn, the Preferred Stock Depositary will deliver to the holder, or upon his or her order, at the same time a new depositary receipt evidencing the excess number of depositary shares.

Voting the Offered Preferred Stock. Upon receiving notice of any meeting at which the holders of any series of the offered preferred stock are entitled to vote, the Preferred Stock Depositary will mail the information contained in the notice to the record holders of the depositary shares relating to that series of offered preferred stock. Each record holder of the depositary shares on the record date, which will be the same date as the record date for the related series of offered preferred stock, may instruct the Preferred Stock Depositary how to exercise his or her voting rights. The Preferred Stock Depositary will endeavor, insofar as practicable, to vote or cause to be voted the number of shares of the offered preferred stock represented by those depositary shares in accordance with those instructions, if the Preferred Stock Depositary receives the instructions sufficiently in advance of the meeting, and we will agree to take all reasonable action that may be deemed necessary by the Preferred Stock Depositary in order to enable the Preferred Stock Depositary to do so. The Preferred Stock Depositary will abstain from voting any shares of the offered preferred stock if it does not receive specific instructions from the holder of the depositary shares representing them.

Redemption of Depositary Shares. Depositary shares will be redeemed from any proceeds received by the Preferred Stock Depositary resulting from the redemption, in whole or in part, of the series of the offered preferred stock represented by those depositary shares. The redemption price per depositary share will equal the applicable fraction or multiple of the redemption price per share payable with respect to the series of the offered preferred stock. If we redeem shares of a series of offered preferred stock held by the Preferred Stock Depositary, the Preferred Stock Depositary will redeem as of the same redemption date the number of depositary shares representing the shares of offered preferred stock that we redeem. If less than all the depositary shares will be redeemed, the depositary shares to be redeemed will be selected by lot or substantially equivalent method determined by the Preferred Stock Depositary.

After the date fixed for redemption, the depositary shares called for redemption will no longer be deemed to be outstanding, and all rights of the holders of the depositary shares will cease, except the right to receive the monies payable upon the redemption and any other property to which the holders were entitled upon the redemption upon surrender to the Preferred Stock Depositary of the depositary receipts evidencing the depositary shares. Any funds deposited by us with the Preferred Stock Depositary for any depositary shares that the holders fail to redeem will be returned to us after a period of two years from the date the funds are deposited.

Amendment and Termination of the Deposit Agreement. We may amend the form of depositary receipt evidencing the depositary shares and any provision of the deposit agreement at any time and from time to time by agreement with the Preferred Stock Depositary. However, any amendment that materially and adversely alters the rights of the holders of depositary shares will not be effective unless it has been approved by the holders of at least a majority of the depositary shares then outstanding, and no amendment may impair the right of any holder of any depositary shares, described above under "—Withdrawal of Stock," to receive shares of the related series of offered preferred stock and any money or other property represented by those depositary shares, except in order to comply with mandatory provisions of applicable law. We may terminate the deposit agreement at any time with at least 60 days' prior written notice to the Preferred Stock Depositary. Within 30 days of that date, the Preferred Stock Depositary will deliver or make available for delivery to holders of depositary shares, upon surrender of the depositary receipts evidencing the depositary shares, the number of whole or fractional shares of the related series of offered preferred stock as are represented by the depositary shares. The deposit agreement will automatically terminate after there has been a final distribution on the related series of offered preferred stock in connection with any liquidation, dissolution or winding up of MSDW and that distribution has been made to the holders of depositary shares.

Charges of Preferred Stock Depositary. We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will pay charges of the Preferred Stock Depositary, including charges in connection with the initial deposit of the related series of offered preferred stock, the initial issuance of the depositary shares and all withdrawals of shares of the related series of offered preferred stock. However, holders of depositary shares will pay other transfer and other taxes and governmental charges and the other charges expressly provided in the deposit agreement to be for their accounts.

Limitation on Liability of Company and Preferred Stock Depositary. Neither the Preferred Stock Depositary nor MSDW will be liable if it is prevented or delayed by law or any circumstance beyond its control from performing its obligations under the deposit agreement. The obligations of MSDW and the Preferred Stock Depositary under the deposit agreement will be limited to performance with best judgment and in good faith of their duties thereunder, except that they will be liable for willful misconduct in the performance of their duties thereunder, and they will not be obligated to appear in, prosecute or defend any legal proceeding related to any depositary receipts, depositary shares or series of offered preferred stock unless satisfactory indemnity is furnished.

Corporate Trust Office of Preferred Stock Depositary. The Preferred Stock Depositary's corporate trust office is currently located at 101 Barclay Street, New York, New York 10286. The Preferred Stock Depositary will act as transfer agent and registrar for depositary receipts and if shares of a series of offered preferred stock are redeemable, the Preferred Stock Depositary will act as redemption agent for the corresponding depositary receipts.

Resignation and Removal of Preferred Stock Depositary. The Preferred Stock Depositary may resign at any time by delivering to us written notice of its election to do so, and we may at any time remove the Preferred Stock Depositary. Any resignation or removal will take effect upon the appointment of a successor Preferred Stock Depositary. A successor must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company having its principal office in the United States and a combined capital and surplus of at least $50,000,000.

Reports to Holders. We will deliver all required reports and communications to holders of the offered preferred stock to the Preferred Stock Depositary, and it will forward those reports and communications to the holders of depositary shares.

Existing Common Stock

Each holder of our common stock has one vote per share on all matters voted on generally by the stockholders, including the election of directors. Except as otherwise required by law or as provided with respect to any series of preferred stock, the holders of our common stock will possess all voting power. The Board of Directors is divided into three classes of directors with the term of one class expiring at each annual meeting of stockholders. Because our certificate of incorporation does not provide for cumulative voting rights, the holders of a plurality of the voting power of the then outstanding shares of capital stock entitled to be voted generally in the election of directors, which we refer to as the "voting stock," represented at a meeting will be able to elect all the directors standing for election at the meeting.

The holders of our common stock are entitled to share equally in dividends as may be declared by the Board of Directors out of funds legally available therefor, but only after payment of dividends required to be paid on outstanding shares of offered preferred stock, Existing Cumulative Preferred Stock and any other class or series of stock having preference over the common stock as to dividends, including, if issued, the Capital Units Cumulative Preferred Stock.

Upon voluntary or involuntary liquidation, dissolution or winding up of MSDW, the holders of the common stock will share *pro rata* in the assets remaining after payments to creditors and holders of any offered preferred stock, Existing Cumulative Preferred Stock and any other class or series of stock having preference over the common stock upon liquidation, dissolution or winding up that may be then outstanding, including, if issued, the Capital Units Cumulative Preferred Stock. There are no preemptive or other subscription rights, conversion rights or redemption or sinking fund provisions with respect to shares of our common stock.

All of the outstanding shares of our common stock are fully paid and nonassessable.

The transfer agent and registrar for the common stock is Morgan Stanley Dean Witter Trust FSB.

Existing Cumulative Preferred Stock and Capital Units Cumulative Preferred Stock

Unless otherwise indicated, the terms and provisions described below relate to each of the 7-$^3/_4$% Preferred Stock, the Series A Fixed/Adjustable Rate Preferred Stock and the Capital Units Cumulative Preferred Stock. Other than as described below, the terms of the 7-$^3/_4$% Preferred Stock, the Series A Fixed/Adjustable Rate Preferred Stock and, if issued, the Capital Units Cumulative Preferred Stock are identical, and the discussion below relating to the Existing Cumulative Preferred Stock also applies to the Capital Units Cumulative Preferred Stock.

Rank. Each series of the Existing Cumulative Preferred Stock and, if issued, the Capital Units Cumulative Preferred Stock ranks on a parity with each other and with the offered preferred stock, and ranks prior to the common stock as to payment of dividends and amounts payable on liquidation. The shares of Existing Cumulative Preferred Stock are fully paid and nonassessable, are not convertible into common stock of MSDW and have no preemptive rights.

Dividends. Holders of the corresponding shares of Existing Cumulative Preferred Stock, except for the Series A Fixed/Adjustable Rate Preferred Stock, are entitled to receive, when and as declared by the Board of Directors out of legally available funds, cumulative cash dividends payable quarterly at the rate of:

- 7-$^{3}/_{4}$% per year (for the 7-$^{3}/_{4}$% Preferred Stock), and
- 8.03% per year (if the Capital Units Cumulative Preferred Stock is issued).

Holders of the shares of Series A Fixed/Adjustable Rate Preferred Stock are entitled to receive, when and as declared by the Board of Directors out of legally available funds, cumulative cash dividends payable quarterly at a rate of 5.91% per annum through November 30, 2001 and thereafter at a rate of .37% plus the highest of the Treasury Bill Rate, the Ten-Year Constant Maturity Rate and the Thirty-Year Constant Maturity Rate, each as defined in the applicable certificate of designation. However, the dividends payable on the Series A Fixed/Adjustable Rate Preferred Stock will not be less than 6.41% nor greater than 12.41% per year.

The amount of dividends payable on the 7-$^{3}/_{4}$% Preferred Stock and the Series A Fixed/Adjustable Rate Preferred Stock will be adjusted in the event of specified amendments to the Internal Revenue Code of 1986 relating to the "dividends received deduction."

The Existing Cumulative Preferred Stock will be junior as to dividends to any preferred stock that may be issued in the future that is expressly senior as to dividends to the Existing Cumulative Preferred Stock. If at any time we have failed to pay accrued dividends on any of those senior shares at the time they are payable, we may not pay any dividend on the Existing Cumulative Preferred Stock or redeem or otherwise repurchase any shares of Existing Cumulative Preferred Stock until we have paid in full, or set aside dividends for payment, the accumulated but unpaid dividends on those senior shares.

We will not declare or pay or set aside for payment dividends on any preferred stock ranking on a parity as to payment of dividends with the Existing Cumulative Preferred Stock unless we also declare or pay or set aside for payment dividends on the outstanding shares of Existing Cumulative Preferred Stock for all dividend payment periods ending on or before the dividend payment date of any parity stock. We must declare, pay or set aside for payment any amounts on the Existing Cumulative Preferred Stock ratably in proportion to the respective amounts of dividends (1) accumulated and unpaid or payable on that parity stock, on the one hand, and (2) accumulated and unpaid or payable through the dividend payment period or periods of each series of the Existing Cumulative Preferred Stock next preceding the dividend payment date, on the other hand.

Except as described above, unless we have paid the full cumulative dividends on the outstanding shares of Existing Cumulative Preferred Stock, we may not with respect to our common stock or any other preferred stock of MSDW ranking junior to or on a parity with the Existing Cumulative Preferred Stock as to dividend payments:

- declare, pay or set aside for payment any dividends, other than dividends payable in our common stock,
- make other distributions,
- redeem, purchase or otherwise acquire our common stock or junior preferred stock for any consideration, or
- make any payment to or available for a sinking fund for redemption of our common stock or junior preferred stock.

The provisions of the immediately preceding paragraph do not apply to any monies we deposit in any sinking fund with respect to any preferred stock in compliance with the provisions of that sinking fund. We may apply monies so deposited to the purchase or redemption of the preferred stock in accordance with the terms of the sinking fund, regardless of whether at the time of application we have paid or declared or set aside for payment full cumulative dividends upon shares of any series of Existing Cumulative Preferred Stock. The provisions of the immediately preceding paragraph also do not restrict the ability of the holder of any junior or parity preferred stock or common stock to convert their securities into or exchange those securities for MSDW capital stock ranking junior to the Existing Cumulative Preferred Stock as to dividend payments.

Redemption. The Existing Cumulative Preferred Stock is not and will not be subject to any mandatory redemption or sinking fund provision and is redeemable as follows:

- the 7-$^{3}/_{4}$% Preferred Stock is not redeemable prior to August 30, 2001, except that under some circumstances it may be redeemed prior to that date at specified prices;

- the Series A Fixed/Adjustable Rate Preferred Stock is not redeemable prior to November 30, 2001, except that under some circumstances it may be redeemed prior to that date at specified prices; and

- if issued, the Capital Units Cumulative Preferred Stock will not be redeemable prior to February 28, 2007, except that under some circumstances it may be redeemed prior to that date at specified prices.

On or after these dates, the applicable series of Existing Cumulative Preferred Stock will be redeemable at our option, in whole or in part, upon not less than 30 days' notice, in each case at a redemption price equal to $200.00 per share (except that the Capital Units Cumulative Preferred Stock is redeemable at specified prices during specified periods following the indicated date) plus accrued and accumulated but unpaid dividends to but excluding the date fixed for redemption.

Liquidation Rights. In the event of any liquidation, dissolution or winding up of MSDW, the holders of shares of Existing Cumulative Preferred Stock and will be entitled to receive liquidating distributions in the amount of $200.00 per share plus accrued and accumulated but unpaid dividends to the date of final distribution before any distribution is made to holders of

- any other shares of preferred stock ranking junior to the Existing Cumulative Preferred Stock, as to rights upon liquidation, dissolution or winding up, and

- common stock.

However, the holders of the shares of Existing Cumulative Preferred Stock will not be entitled to receive the liquidation price of these shares until the liquidation preference of any other shares of MSDW's capital stock ranking senior as to rights upon liquidation, dissolution or winding up will have been paid in full or a sum set aside therefor sufficient to provide for payment in full.

If upon any liquidation, dissolution or winding up of MSDW, the amounts payable with respect to the Existing Cumulative Preferred Stock and any other preferred stock ranking on parity as to rights upon liquidation, dissolution or winding up are not paid in full, the holders of the Existing Cumulative Preferred Stock and of that other preferred stock will share ratably in any distribution in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of Existing Cumulative Preferred Stock will not be entitled to any further participation in any distribution of assets by MSDW.

Voting Rights. Holders of Existing Cumulative Preferred Stock do not have any voting rights except as described below or as otherwise from time to time required by law. Whenever dividends on any series of Existing Cumulative Preferred Stock or any other class or series of stock ranking on a parity with that series of Existing Cumulative Preferred Stock with respect to the payment of dividends are in arrears for dividend periods, whether or not consecutive, containing in the aggregate a number of days equivalent to six calendar quarters, the holders of shares of Existing Cumulative Preferred Stock, voting separately as a class with all other series of preferred stock having similar voting rights that are exercisable, will be entitled to vote for the election of two of the authorized number of directors of MSDW at the next annual meeting of stockholders and at each subsequent meeting until we have paid or set apart for payment all dividends accumulated on the Existing Cumulative Preferred Stock.

The term of office of all directors elected by the holders of preferred stock will terminate immediately upon the termination of the right of the holders of preferred stock to vote for directors. Each holder of shares of Existing Cumulative Preferred Stock will have one vote for each share of Existing Cumulative Preferred Stock held.

So long as any shares of Existing Cumulative Preferred Stock remain outstanding, we will not, without the consent of the holders of at least two-thirds of the shares of Existing Cumulative Preferred Stock outstanding at the time, voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable

- issue or increase the authorized amount of any class or series of stock ranking prior to the Existing Cumulative Preferred Stock as to dividends or upon liquidation, or

- amend, alter or repeal the provisions of our certificate of incorporation or of the resolutions contained in the certificate of designation relating to that series of Existing Cumulative Preferred Stock, whether by merger, consolidation or otherwise, so as to materially and adversely affect any power, preference or special right of that series of Existing Cumulative Preferred Stock or of its holders.

For purposes of the preceding sentence any increase in the authorized amount of common stock or preferred stock or the creation and issuance of other series of common stock or preferred stock ranking on a parity with or junior to the Existing Cumulative Preferred Stock as to dividends and upon liquidation will not be deemed to materially and adversely affect those powers, preferences or special rights.

Transfer Agent for Existing Cumulative Preferred Stock. The transfer agent and registrar for each series of Existing Cumulative Preferred Stock is The Bank of New York.

Additional Provisions of MSDW's Certificate of Incorporation and By-laws

Size of the Board of Directors, Removal of Directors and Filling Vacancies on the Board of Directors. Our Board of Directors currently consists of 11 directors. The Board of Directors is divided into three classes. At each annual meeting of stockholders, a class of directors is elected for a term expiring at the third succeeding annual meeting of stockholders after its election, to succeed that class of directors whose term then expires. Under our amended and restated by-laws, a majority vote of the Board of Directors may increase or decrease the number of directors, except that a three-quarters vote of the Board of Directors is required to change the number of directors from an even number to an odd number. However, the by-laws provide that the Board shall consist of not less than three nor more than fifteen members. Our certificate of incorporation also provides that directors may be removed only for cause and with the approval of the holders of at least 80% of the voting power of the voting stock, voting together as a single class. Any vacancy on the Board of Directors or newly created directorship will be filled by a majority vote of the remaining directors then in office though less than a quorum, and those newly elected directors will serve for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires.

Limitations on Actions by Stockholders; Calling Special Meetings of Stockholders. Our certificate of incorporation provides that, subject to the rights of holders of any series of preferred stock or any other series of capital stock set forth in the certificate of incorporation, any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing in lieu of a meeting. Our by-laws provide that special meetings of the stockholders may be called at any time only by the Secretary of MSDW at the direction of and pursuant to a resolution of the Board of Directors.

Amendment of Governing Documents. Our certificate of incorporation provides that, generally, it can be amended in accordance with the provisions of the laws of the State of Delaware. Under Section 242 of the Delaware General Corporation Law, the Board of Directors may propose, and the stockholders may adopt by a majority vote of the voting stock, an amendment to our certificate of incorporation. However, our certificate of incorporation also provides that the approval of 80% of the voting power of the voting stock, voting together as a single class, is required in order to amend, repeal or adopt any provision inconsistent with the provisions in the certificate of incorporation relating to amendment of the by-laws, actions of stockholders and the Board of Directors and to change the provisions establishing this 80% vote requirement.

Our certificate of incorporation provides that our by-laws may be altered, amended or repealed or new provisions may be adopted by a majority of the Board of Directors or with the approval of at least 80% of the voting power of the voting stock of MSDW, voting together as a single class. Furthermore, the by-laws provide that they may be altered, amended or repealed or new provisions may be adopted by a majority of the Board of Directors or with the approval of at least 80% of the voting power of the voting stock of MSDW. However, a three-quarters vote of the Board of Directors is required for the Board of Directors to amend, alter, repeal or adopt new by-laws in conflict with the provisions of the by-laws relating to the removal of or any modification of the roles, duties or authority of the Chairman or President of MSDW as of May 31, 1997.

Limitation of Directors' Liability. Section 102 of the Delaware General Corporation Law allows a corporation to eliminate the personal liability of directors of a corporation to the corporation or to any of its stockholders for monetary damages for a breach of fiduciary duty as a director, except in the case where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase or redemption in violation of the Delaware General Corporation Law or obtained an improper personal benefit. Under our certificate of incorporation, a director of MSDW will not be liable to MSDW or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent the exemption from liability or limitation of liability is not permitted under the Delaware General Corporation Law as in effect or as that law may be amended.

The Rights Plan

Under a rights agreement, which we refer to as the Rights Plan, dated as of April 25, 1995 and amended as of February 4, 1997 and June 15, 1999, with The Chase Manhattan Bank, as rights agent, holders of shares of our common stock have the right, each referred to as a Right, to purchase from us a unit consisting of one one-thousandth of a share of Series A Junior Participating Preferred Stock at a purchase price of $175 per unit subject to adjustment under the specific circumstances described below. At present, each share of common stock is entitled to one-quarter of one Right. These rights are sometimes referred to as a poison pill.

The Rights will become exercisable upon the earlier of

- 10 days following a public announcement that a person or group of affiliated or associated persons, each referred to as an "acquiring person," has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of our common stock, which we refer to as the "stock acquisition date," and
- 10 business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of the outstanding shares of our common stock.

After the Rights become exercisable, the Rights, other than rights held by an acquiring person, will entitle the holders to purchase, under some circumstances, either our common stock or common stock of the potential acquirer at a substantially reduced price. We are generally entitled to redeem all but not less than all the Rights at a price of $0.01 per Right at any time until ten days following the stock acquisition date. The holder of a Right will have no rights as a stockholder of MSDW, including, without limitation, the right to vote or to receive dividends, until the Right is exercised. Unless earlier redeemed, the Rights will expire at the close of business on April 21, 2005.

The foregoing description of the Rights is qualified in its entirety by reference to the description of the Rights Plan contained in MSDW's Registration Statement on Form 8-A dated April 26, 1995, as amended by a Form 8-A/A dated May 4, 1995, as further amended by Current Reports on Form 8-K dated February 14, 1997 and June 15, 1999.

FORMS OF SECURITIES

Each debt security, warrant, purchase contract and unit will be represented either by a certificate issued in definitive form to a particular investor or by one or more global securities representing the entire issuance of securities. Both certificated securities in definitive form and global securities may be issued either (1) in registered form, where our obligation runs to the holder of the security named on the face of the security or (2) subject to the limitations explained below under "—Limitations on Issuance of Bearer Securities and Bearer Debt Warrants," in bearer form, where our obligation runs to the bearer of the security. Definitive securities name you or your nominee as the owner of the security (other than definitive bearer securities, which name the bearer as owner), and in order to transfer or exchange these securities or to receive payments other than interest or other interim payments, you or your nominee must physically deliver the securities to the trustee, registrar, paying agent or other agent, as applicable. Global securities name a depositary or its nominee as the owner of the debt securities, warrants, purchase contracts or units represented by these global securities (other than global bearer securities, which name the bearer as owner). The depositary maintains a computerized system that will reflect each investor's beneficial ownership of the securities through an account maintained by the investor with its broker/dealer, bank, trust company or other representative, as we explain more fully below.

Global Securities

Registered Global Securities. We may issue the registered debt securities, warrants, purchase contracts and units in the form of one or more fully registered global securities that will be deposited with a depositary or its nominee identified in the applicable prospectus supplement and registered in the name of that depositary or nominee. In those cases, one or more registered global securities will be issued in a denomination or aggregate denominations equal to the portion of the aggregate principal or face amount of the securities to be represented by registered global securities. Unless and until it is exchanged in whole for securities in definitive registered form, a registered global security may not be transferred except as a whole by and among the depositary for the registered global security, the nominees of the depositary or any successors of the depositary or those nominees.

If not described below, any specific terms of the depositary arrangement with respect to any securities to be represented by a registered global security will be described in the prospectus supplement relating to those securities. We anticipate that the following provisions will apply to all depositary arrangements.

Ownership of beneficial interests in a registered global security will be limited to persons, called participants, that have accounts with the depositary or persons that may hold interests through participants. Upon the issuance of a registered global security, the depositary will credit, on its book-entry registration and transfer system, the participants' accounts with the respective principal or face amounts of the securities beneficially owned by the participants. Any dealers, underwriters or agents participating in the distribution of the securities will designate the accounts to be credited. Ownership of beneficial interests in a registered global security will be shown on, and the transfer of ownership interests will be effected only through, records maintained by the depositary, with respect to interests of participants, and on the records of participants, with respect to interests of persons holding through participants. The laws of some states may require that some purchasers of securities take physical delivery of these securities in definitive form. These laws may impair your ability to own, transfer or pledge beneficial interests in registered global securities.

So long as the depositary, or its nominee, is the registered owner of a registered global security, that depositary or its nominee, as the case may be, will be considered the sole owner or holder of the securities represented by the registered global security for all purposes under the applicable indenture, warrant agreement, purchase contract or unit agreement. Except as described below, owners of beneficial interests in a registered global security will not be entitled to have the securities represented by the registered global security registered in their names, will not receive or be entitled to receive physical delivery of the securities in definitive form and will not be considered the owners or holders of the securities under the applicable indenture, warrant agreement, purchase contract or unit agreement. Accordingly, each person owning a beneficial interest in a registered global security must rely on the procedures of the depositary for that registered global security and, if that person is not a participant, on the procedures of the participant through which the person owns its interest, to exercise any rights of a holder under the applicable indenture, warrant agreement, purchase contract or unit agreement. We understand that under existing industry practices, if we request any action of holders or if an owner of a beneficial interest in a registered global security desires to give or take any action that a holder is entitled to give or take under the applicable indenture, warrant agreement, purchase contract or unit agreement, the depositary for the registered global security would authorize the participants holding the relevant beneficial interests to give or take that action, and the participants would authorize beneficial owners owning through them to give or take that action or would otherwise act upon the instructions of beneficial owners holding through them.

Principal, premium, if any, and interest payments on debt securities, and any payments to holders with respect to warrants, purchase contracts or units, represented by a registered global security registered in the name of a depositary or its nominee will be made to the depositary or its nominee, as the case may be, as the registered owner of the registered global security. None of MSDW, the trustees, the warrant agents, the unit agents or any other agent of MSDW, agent of the trustees or agent of the warrant agents or unit agents will have any responsibility or liability for any aspect of the records relating to payments made on account of beneficial ownership interests in the registered global security or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

We expect that the depositary for any of the securities represented by a registered global security, upon receipt of any payment of principal, premium, interest or other distribution of underlying securities or other property to holders on that registered global security, will immediately credit participants' accounts in amounts proportionate to their respective beneficial interests in that registered global security as shown on the records of the depositary. We also expect that payments by participants to owners of beneficial interests in a registered global security held through participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of those participants.

If the depositary for any of these securities represented by a registered global security is at any time unwilling or unable to continue as depositary or ceases to be a clearing agency registered under the Securities Exchange Act of 1934, and a successor depositary registered as a clearing agency under the Securities Exchange Act of 1934 is not appointed by us within 90 days, we will issue securities in definitive form in exchange for the registered global security that had been held by the depositary. In addition, we may at any time and in our sole discretion decide not to have any of the securities represented by one or more registered global securities. If we make that decision, we will issue securities in definitive form in exchange for all of the registered global security or securities representing those securities. Any securities issued in definitive form in exchange for a registered global security will be registered in the name or names that the depositary gives to the relevant trustee, warrant agent, unit agent or other relevant agent of ours or theirs. It is expected that the depositary's instructions will be based upon directions received by the depositary from participants with respect to ownership of beneficial interests in the registered global security that had been held by the depositary.

Bearer Global Securities. The securities may also be issued in the form of one or more bearer global securities that will be deposited with a common depositary for the Euroclear System and Clearstream Banking, société anonyme, or with a nominee for the depositary identified in the prospectus supplement relating to those securities. The specific terms and procedures, including the specific terms of the depositary arrangement, with respect to any securities to be represented by a bearer global security will be described in the prospectus supplement relating to those securities.

Limitations on Issuance of Bearer Securities and Bearer Debt Warrants

In compliance with United States federal income tax laws and regulations, bearer securities, including bearer securities in global form, and bearer debt warrants will not be offered, sold or delivered, directly or indirectly, in the United States or its possessions or to United States persons, as defined below, except as otherwise permitted by United States Treasury Regulations Section 1.163-5(c)(2)(i)(D). Any underwriters, agents or dealers participating in the offerings of bearer securities or bearer debt warrants, directly or indirectly, must agree that:

- they will not, in connection with the original issuance of any bearer securities or during the restricted period with respect to such bearer notes (as defined in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)), which we refer to as the "restricted period," offer, sell or deliver, directly or indirectly, any bearer securities in the United States or its possessions or to United States persons, other than as permitted by the applicable Treasury Regulations described above, and

- they will not, at any time, offer, sell or deliver, directly or indirectly, any bearer debt warrants in the United States or its possessions or to United States persons, other than as permitted by the applicable Treasury Regulations described above.

In addition, any underwriters, agents or dealers must have procedures reasonably designed to ensure that their employees or agents who are directly engaged in selling bearer securities or bearer debt warrants are aware of the above restrictions on the offering, sale or delivery of bearer securities or bearer debt warrants.

Bearer securities, other than temporary global debt securities and bearer securities that satisfy the requirements of United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(3)(iii), and any coupons or talons appertaining thereto will not be delivered in definitive form, and no interest will be paid thereon, unless MSDW has received a signed certificate in writing, or an electronic certificate described in United States Treasury Regulations Section 1.163-5(c)(2)(i)(D)(3)(ii), stating that on the date of that certificate the bearer security:

- is owned by a person that is not a United States person;

- is owned by a United States person that (a) is a foreign branch of a United States financial institution, as defined in applicable United States Treasury Regulations, which we refer to as a "financial institution," purchasing for its own account or for resale, or (b) is acquiring the bearer security through a foreign branch of a United States financial institution and who holds the bearer security through that financial institution through that date, and in either case (a) or (b) above, each of those United States financial institutions agrees, on its own behalf or through its agent, that MSDW may be advised that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986 and the regulations thereunder; or

- is owned by a United States or foreign financial institution for the purposes of resale during the restricted period and, in addition, if the owner of the bearer security is a United States or foreign financial institution described in this clause, whether or not also described in the first or second clause above, the financial institution certifies that it has not acquired the bearer security for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

We will not issue bearer debt warrants in definitive form.

We will make payments on bearer securities and bearer debt warrants only outside the United States and its possessions except as permitted by the above regulations.

Bearer securities, other than temporary global securities, and any coupons issued with bearer securities will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in this legend provide that, with exceptions, a United States person will not be permitted to deduct any loss, and will not be eligible for capital gain treatment with respect to any gain, realized on the sale, exchange or redemption of that bearer security or coupon.

As used in the preceding three paragraphs, the term bearer securities includes bearer securities that are part of units and the term bearer debt warrants includes bearer debt warrants that are part of units. As used herein, "United States person" means a citizen or resident of the United States for United States federal income tax purposes, a corporation or partnership, including an entity treated as a corporation or partnership for United States federal income tax purposes, created or organized in or under the laws of the United States, or any state of the United States or the District of Columbia, an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary supervision of the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. In addition, some trusts treated as United States persons before August 20, 1996 may elect to continue to be so treated to the extent provided in the Treasury Regulations.

Form of Securities Included in Units

The form of the universal warrant or purchase contract included in a unit will correspond to the form of the unit and of any other security included in that unit.

PLAN OF DISTRIBUTION

We may sell the securities being offered by this prospectus in three ways: (1) through agents, (2) through underwriters and (3) through dealers. Any of these agents, underwriters or dealers in the United States will include Morgan Stanley & Co. Incorporated, which we refer to as MS & Co., and/or Dean Witter Reynolds Inc., which we refer to as DWR, or other affiliates of ours, and any of these agents, underwriters, or dealers outside the United States will include Morgan Stanley & Co. International Limited, which we refer to as MSIL, or other affiliates of ours.

We may designate agents from time to time to solicit offers to purchase these securities. We will name any such agent, who may be deemed to be an underwriter as that term is defined in the Securities Act, and state any commissions we are to pay to that agent in the applicable prospectus supplement. That agent will be acting on a reasonable efforts basis for the period of its appointment or, if indicated in the applicable prospectus supplement, on a firm commitment basis.

If we use any underwriters to offer and sell these securities, we will enter into an underwriting agreement with those underwriters when we and they determine the offering price of the securities, and we will include the names of the underwriters and the terms of the transaction in the applicable prospectus supplement.

If we use a dealer to offer and sell these securities, we will sell the securities to the dealer, as principal, and will name the dealer in the applicable prospectus supplement. The dealer may then resell the securities to the public at varying prices to be determined by that dealer at the time of resale.

Our net proceeds will be the purchase price in the case of sales to a dealer, the public offering price less discount in the case of sales to an underwriter or the purchase price less commission in the case of sales through an agent — in each case, less other expenses attributable to issuance and distribution.

In order to facilitate the offering of these securities, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of these securities or any other securities the prices of which may be used to determine payments on these securities. Specifically, the underwriters may sell more securities than they are obligated to purchase in connection with the offering, creating a short position for their own accounts. A short sale is covered if the short position is no greater than the number or amount of securities available for purchase by the underwriters under any overallotment option. The underwriters can close out a covered short sale by exercising the overallotment option or purchasing these securities in the open market. In determining the source of securities to close out a covered short sale, the underwriters will consider, among other things, the open market price of these securities compared to the price available under the overallotment option. The underwriters may also sell these securities or any other securities in excess of the overallotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing securities in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of these securities in the open market after pricing that could adversely affect investors who purchase in the offering. As an additional means of facilitating the offering, the underwriters may bid for, and purchase, these securities or any other securities in the open market to stabilize the price of these securities or of any other securities. Finally, in any offering of the securities through a syndicate of underwriters, the underwriting syndicate may also reclaim selling concessions allowed to an underwriter or a dealer for distributing these securities in the offering, if the syndicate repurchases previously distributed securities to cover syndicate short positions or to stabilize the price of these securities. Any of these activities may raise or maintain the market price of these securities above independent market levels or prevent or retard a decline in the market price of these securities. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

If so indicated in the applicable prospectus supplement, one or more firms, including MS & Co., MSIL and DWR, which we refer to as "remarketing firms," acting as principals for their own accounts or as agents for us, may offer and sell these securities as part of a remarketing upon their purchase, in accordance with their terms. We will identify any remarketing firm, the terms of its agreement, if any, with us and its compensation in the applicable prospectus supplement.

Remarketing firms, agents, underwriters and dealers may be entitled under agreements with us to indemnification by us against some civil liabilities, including liabilities under the Securities Act, and may be customers of, engage in transactions with or perform services for us in the ordinary course of business.

If so indicated in the prospectus supplement, we will authorize agents, underwriters or dealers to solicit offers by some purchasers to purchase debt securities or warrants, purchase contracts or units, as the case may be, from us at the public offering price stated in the prospectus supplement under delayed delivery contracts providing for payment and delivery on a specified date in the future. These contracts will be subject to only those conditions described in the prospectus supplement, and the prospectus supplement will state the commission payable for solicitation of these offers.

Any underwriter, agent or dealer utilized in the initial offering of securities will not confirm sales to accounts over which it exercises discretionary authority without the prior specific written approval of its customer.

MS & Co., MSIL and DWR are wholly-owned subsidiaries of MSDW. Each initial offering of securities will be conducted in compliance with the requirements of Rule 2720 of the National Association of Securities Dealers, Inc., which is commonly referred to as the NASD, regarding a NASD member firm's distributing the securities of an affiliate. Following the initial distribution of any of these securities, MS & Co., MSIL, DWR and other affiliates of MSDW may offer and sell these securities in the course of their business as broker-dealers, subject, in the case of preferred stock and depositary shares, to obtaining any necessary approval of the New York Stock Exchange, Inc. for any of these offers and sales MS & Co. and DWR may make. MS & Co., MSIL, DWR and other affiliates may act as principals or agents in these transactions and may make any sales at varying prices related to prevailing market prices at the time of sale or otherwise. MS & Co., MSIL, DWR and other affiliates may use this prospectus in connection with these transactions. None of MS & Co., MSIL, DWR or any other affiliate is obligated to make a market in any of these securities and may discontinue any market-making activities at any time without notice.

LEGAL MATTERS

The validity of these securities will be passed upon ~~for MSDW by~~ Brown & Wood LLP, or other counsel who is satisfactory to MS & Co., MSIL or DWR, as the case may be, and who may be an officer of MSDW. Davis Polk & Wardwell will pass upon some legal matters relating to these securities for the underwriters. Davis Polk & Wardwell has in the past represented MSDW and continues to represent MSDW on a regular basis and in a variety of matters, including in connection with its private equity and leveraged capital activities.

EXPERTS

The consolidated financial statements and financial statement schedules of MSDW and its subsidiaries, at November 30, 1999 and 1998 and for each of the three fiscal years in the period ended November 30, 1999, included in and incorporated by reference in MSDW's Annual Report on Form 10-K for the fiscal year ended November 30, 1999, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports thereon and incorporated herein by reference (these reports express an unqualified opinion; the report on the consolidated financial statements includes an explanatory paragraph regarding a change which occurred in fiscal year 1998 in the method of accounting for certain offering costs of closed-end funds). These consolidated financial statements have been incorporated by reference in reliance upon the respective reports given upon the authority of Deloitte & Touche LLP, as experts in accounting and auditing.

With respect to unaudited interim financial information for the periods included in any of the Quarterly Reports on Form 10-Q which may be incorporated herein by reference, Deloitte & Touche LLP have applied limited procedures in accordance with professional standards for a review of such information. However, as stated in their report included in any such Quarterly Report on Form 10-Q and incorporated by reference herein, they did not audit and they do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte & Touche LLP are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the unaudited interim financial information because those reports are not "reports" or a "part" of the registration statement prepared or certified by an accountant within the meaning of Section 7 and 11 of the Securities Act of 1933.

ERISA MATTERS FOR PENSION PLANS AND INSURANCE COMPANIES

Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which we refer to as a "plan", should consider the fiduciary standards of ERISA in the context of the plan's particular circumstances before authorizing an investment in these securities. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan.

In addition, we and certain of our subsidiaries and affiliates, including MS & Co. and DWR, are each to be considered a "party in interest" within the meaning of ERISA or a "disqualified person" within the meaning of the Code with respect to many plans. Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if these securities are acquired by or with the assets of a plan with respect to which MS & Co., DWR or any of their affiliates is a service provider, unless the securities are acquired pursuant to an exemption from the "prohibited transaction" rules. A violation of these "prohibited transaction" rules may result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

The U.S. Department of Labor has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of these securities. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified asset managers).

Because we are considered a party in interest with respect to many plans, these securities may not be purchased or held by any plan, any entity whose underlying assets include "plan assets" by reason of any plan's investment in the entity (a "Plan Asset Entity") or any person investing "plan assets" of any plan, *unless* such purchaser or holder is eligible for exemptive relief, including relief available under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or such purchase and holding is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a plan, or holder of these securities will be deemed to have represented, in its corporate and fiduciary capacity, by its purchase and holding thereof that it either (a) is not a plan or a Plan Asset Entity and is not purchasing such securities on behalf of or with "plan assets" of any plan or (b) is eligible for exemptive relief or such purchase or holding is not prohibited by ERISA or Section 4975 of the Code.

Under ERISA, assets of a plan may include assets held in the general account of an insurance company which has issued an insurance policy to such plan or assets of an entity in which the plan has invested. Accordingly, insurance company general accounts that include assets of a plan must ensure that one of the foregoing exemptions is available. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing these securities on behalf of or with "plan assets" of any plan consult with their counsel regarding the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14.

Purchasers of these securities have exclusive responsibility for ensuring that their purchase and holding of the Notes do not violate the prohibited transaction rules of ERISA or the Code.

MORGAN STANLEY DEAN WITTER & CO.

Annex 3

MSDW's Form 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended February 28, 2002

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-11758

Morgan Stanley Dean Witter & Co.

(Exact Name of Registrant as Specified in its Charter)

Delaware **(State of Incorporation)**	**36-3145972** **(I.R.S. Employer Identification No.)**
1585 Broadway **New York, NY** **(Address of Principal Executive Offices)**	**10036** **(Zip Code)**

Registrant's telephone number, including area code: (212) 761-4000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

As of March 31, 2002 there were 1,099,965,702 shares of the Registrant's Common Stock, par value $.01 per share, outstanding.

MORGAN STANLEY DEAN WITTER & CO.

INDEX TO QUARTERLY REPORT ON FORM 10-Q
Quarter Ended February 28, 2002

Item 1.

MORGAN STANLEY DEAN WITTER & CO.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in millions, except share data)

	February 28, 2002	November 30, 2001
	(unaudited)	
ASSETS		
Cash and cash equivalents	$ 25,475	$ 26,596
Cash and securities deposited with clearing organizations or segregated under federal and other regulations (including securities at fair value of $40,529 at February 28, 2002 and $36,146 at November 30, 2001)	48,823	46,326
Financial instruments owned (approximately $78 billion at February 28, 2002 and $74 billion at November 30, 2001 were pledged to various parties):		
U.S. government and agency securities	42,840	25,696
Other sovereign government obligations	19,499	22,039
Corporate and other debt	47,535	47,607
Corporate equities	16,748	23,143
Derivative contracts	31,814	32,078
Physical commodities	410	285
Securities purchased under agreements to resell	58,879	54,618
Securities provided as collateral	12,350	13,163
Securities borrowed	122,993	120,758
Receivables:		
Consumer loans (net of allowances of $873 at February 28, 2002 and $847 at November 30, 2001)	20,753	20,108
Customers, net	18,119	22,188
Brokers, dealers and clearing organizations	4,226	6,462
Fees, interest and other	4,787	5,283
Office facilities, at cost (less accumulated depreciation and amortization of $2,215 at February 28, 2002 and $2,124 at November 30, 2001)	2,521	2,579
Aircraft under operating leases (less accumulated depreciation of $552 at February 28, 2002 and $479 at November 30, 2001)	4,977	4,753
Goodwill	1,433	1,438
Other assets	7,469	7,508
Total assets	$491,651	$482,628
LIABILITIES AND SHAREHOLDERS' EQUITY		
Commercial paper and other short-term borrowings	$ 40,258	$ 32,842
Deposits	12,540	12,276
Financial instruments sold, not yet purchased:		
U.S. government and agency securities	19,463	17,203
Other sovereign government obligations	12,746	10,906
Corporate and other debt	7,364	9,125
Corporate equities	10,579	13,046
Derivative contracts	26,994	27,286
Physical commodities	2,038	2,044
Securities sold under agreements to repurchase	129,535	122,695
Obligation to return securities received as collateral	12,350	13,163
Securities loaned	35,021	36,776
Payables:		
Customers	97,737	93,719
Brokers, dealers and clearing organizations	2,369	4,331
Interest and dividends	2,377	2,761
Other liabilities and accrued expenses	10,914	12,795
Long-term borrowings	47,198	49,668
	469,483	460,636
Capital Units	66	66
Preferred Securities Issued by Subsidiaries	1,210	1,210
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	—	345
Common stock ($0.01 par value, 3,500,000,000 shares authorized, 1,211,685,904 and 1,211,685,904 shares issued, 1,101,194,353 and 1,093,006,744 shares outstanding at February 28, 2002 and November 30, 2001, respectively)	12	12
Paid-in capital	3,675	3,745
Retained earnings	23,865	23,270
Employee stock trust	3,054	3,086
Accumulated other comprehensive income (loss)	(263)	(262)
Subtotal	30,343	30,196
Note receivable related to ESOP	(29)	(31)
Common stock held in treasury, at cost ($0.01 par value, 110,491,551 and 118,679,160 shares at February 28, 2002 and November 30, 2001, respectively)	(6,368)	(6,935)
Common stock issued to employee trust	(3,054)	(2,514)
Total shareholders' equity	20,892	20,716
Total liabilities and shareholders' equity	$491,651	$482,628

See Notes to Condensed Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except share and per share data)

	Three Months Ended February 28, 2002	2001
	(unaudited)	
Revenues:		
Investment banking	$ 684	$ 981
Principal transactions:		
Trading	1,122	1,685
Investments	33	(46)
Commissions	777	851
Fees:		
Asset management, distribution and administration	1,016	1,109
Merchant and cardmember	341	313
Servicing	541	427
Interest and dividends	3,832	7,236
Other	194	125
Total revenues	8,540	12,681
Interest expense	2,936	6,172
Provision for consumer loan losses	345	213
Net revenues	5,259	6,296
Non-interest expenses:		
Compensation and benefits	2,488	2,839
Occupancy and equipment	200	218
Brokerage, clearing and exchange fees	179	167
Information processing and communications	320	352
Marketing and business development	251	366
Professional services	225	334
Other	249	320
Total non-interest expenses	3,912	4,596
Income before income taxes, dividends on preferred securities issued by subsidiaries and cumulative effect of accounting change	1,347	1,700
Provision for income taxes	477	618
Dividends on preferred securities issued by subsidiaries	22	7
Income before cumulative effect of accounting change	848	1,075
Cumulative effect of accounting change	—	(59)
Net income	$ 848	$ 1,016
Preferred stock dividend requirements	—	$ 9
Earnings applicable to common shares	$ 848	$ 1,007
Earnings per common share:		
Basic before cumulative effect of accounting change	$ 0.78	$ 0.98
Cumulative effect of accounting change	—	(0.05)
Basic	$ 0.78	$ 0.93
Diluted before cumulative effect of accounting change	$ 0.76	$ 0.94
Cumulative effect of accounting change	—	(0.05)
Diluted	$ 0.76	$ 0.89
Average common shares outstanding:		
Basic	1,082,380,245	1,089,270,364
Diluted	1,112,959,092	1,134,150,225

See Notes to Condensed Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in millions)

	Three Months Ended February 28,	
	2002	2001
	(unaudited)	
Net income	$848	$1,016
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(8)	(18)
Cumulative effect of accounting change	—	(13)
Net change in cash flow hedges	7	(60)
Comprehensive income	$847	$ 925

See Notes to Condensed Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

	Three Months Ended February 28, 2002	2001
	(unaudited)	
Cash flows from operating activities		
Net income	$ 848	$ 1,016
Adjustments to reconcile net income to net cash used for operating activities:		
Non-cash charges included in net income:		
Gain on sale of building	73	—
Cumulative effect of accounting change	—	59
Other non-cash charges included in net income	567	509
Changes in assets and liabilities:		
Cash and securities deposited with clearing organizations or segregated under federal and other regulations	(2,497)	4,853
Financial instruments owned, net of financial instruments sold, not yet purchased	(8,241)	(12,564)
Securities borrowed, net of securities loaned	(3,990)	4,106
Receivables and other assets	6,284	(3,146)
Payables and other liabilities	(283)	(2,224)
Net cash used for operating activities	(7,239)	(7,391)
Cash flows from investing activities		
Net (payments for) proceeds from:		
Office facilities and aircraft under operating leases	(358)	(524)
Net principal disbursed on consumer loans	(2,039)	(4,705)
Sales of consumer loans	1,052	4,686
Net cash used for investing activities	(1,345)	(543)
Cash flows from financing activities		
Net proceeds from short-term borrowings	7,416	9,853
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	2,579	956
Net proceeds from:		
Deposits	264	599
Issuance of common stock	92	83
Issuance of put options	—	5
Issuance of long-term borrowings	239	3,043
Payments for:		
Repurchases of common stock	(205)	(524)
Repayments of long-term borrowings	(2,326)	(2,959)
Redemption of cumulative preferred stock	(345)	—
Cash dividends	(251)	(263)
Net cash provided by financing activities	7,463	10,793
Net (decrease) increase in cash and cash equivalents	(1,121)	2,859
Cash and cash equivalents, at beginning of period	26,596	18,819
Cash and cash equivalents, at end of period	$25,475	$ 21,678

See Notes to Condensed Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Introduction and Basis of Presentation.

The Company

Morgan Stanley Dean Witter & Co. (the "Company") is a global financial services firm that maintains leading market positions in each of its three business segments—Securities, Investment Management and Credit Services. The Company's Securities business includes securities underwriting and distribution; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; full-service brokerage services; sales, trading, financing and market-making activities in equity securities and related products and fixed income securities and related products, including foreign exchange and commodities; principal investing, including private equity activities; and aircraft financing activities. The Company's Investment Management business provides global asset management products and services for individual and institutional investors through three principal distribution channels: a proprietary channel consisting of the Company's financial advisors and investment representatives; a non-proprietary channel consisting of third-party broker-dealers, banks, financial planners and other intermediaries; and the Company's institutional channel. The Company's Credit Services business includes the issuance of the Discover® Classic Card, the Discover Gold Card, the Discover Platinum Card, the Morgan Stanley Card℠ and other proprietary general purpose credit cards; and the operation of Discover Business Services, a proprietary network of merchant and cash access locations in the U.S.

The condensed consolidated financial statements include the accounts of the Company and its U.S. and international subsidiaries, including Morgan Stanley & Co. Incorporated ("MS&Co."), Morgan Stanley & Co. International Limited ("MSIL"), Morgan Stanley Japan Limited ("MSJL"), Morgan Stanley DW Inc. ("MSDWI"), Morgan Stanley Investment Advisors Inc. and NOVUS Credit Services Inc.

Basis of Financial Information

The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., which require the Company to make estimates and assumptions regarding the valuations of certain financial instruments, consumer loan loss levels, the potential outcome of litigation and other matters that affect the condensed consolidated financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of the condensed consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates.

Certain reclassifications have been made to prior year amounts to conform to the current presentation. All material intercompany balances and transactions have been eliminated.

The condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2001 (the "Form 10-K"). The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for the fair statement of the results for the interim period. The results of operations for interim periods are not necessarily indicative of results for the entire year.

Financial instruments, including derivatives, used in the Company's trading activities are recorded at fair value, and unrealized gains and losses are reflected in principal trading revenues. Interest and dividend revenue and interest expense arising from financial instruments used in trading activities are reflected in the condensed consolidated statements of income as interest and dividend revenue or interest expense. The fair values of trading positions generally are based on listed market prices. If listed market prices are not available or if the liquidation of the Company's positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations for similar instruments traded in different markets, including markets located in different geographic areas. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions. To the extent financial instruments have extended maturity dates, the Company's estimates of fair value may involve greater subjectivity due to the lack of transparent market data available upon which to base modeling assumptions. Purchases and sales of financial instruments, as well as commission revenues and related expenses, are recorded in the accounts on trade date. Unrealized gains and losses arising from the Company's dealings in over-the-counter ("OTC") financial instruments, including derivative contracts related to financial instruments and commodities, are presented in the accompanying condensed consolidated statements of financial condition on a net-by-counterparty basis, when appropriate.

Equity securities purchased in connection with private equity and other principal investment activities initially are carried in the condensed consolidated financial statements at their original costs. The carrying value of such equity securities is adjusted when changes in the underlying fair values are readily ascertainable, generally as evidenced by listed market prices or transactions that directly affect the value of such equity securities. Downward adjustments relating to such equity securities are made in the event that the Company determines that the eventual realizable value is less than the carrying value. The carrying value of investments made in connection with principal real estate activities that do not involve equity securities is adjusted periodically based on independent appraisals, estimates prepared by the Company of discounted future cash flows of the underlying real estate assets or other indicators of fair value.

The Company enters into various derivative financial instruments for non-trading purposes. These instruments include interest rate swaps, foreign currency swaps, equity swaps and foreign exchange forwards. The Company uses interest rate and currency swaps and equity derivatives to manage interest rate, currency and equity price risk arising from certain borrowings. The Company also utilizes interest rate swaps to match the repricing characteristics of consumer loans with those of the borrowings that fund these loans. Certain of these derivative financial instruments are designated and qualify as fair value hedges and cash flow hedges in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The Company's designated fair value hedges consist primarily of hedges of fixed rate borrowings, and its designated cash flow hedges consist primarily of hedges of floating rate borrowings. For qualifying fair value hedges, the changes in the fair value of the derivative and the gain or loss on the hedged asset or liability relating to the risk being hedged are recorded currently in earnings. These amounts are recorded in interest expense and provide offset of one another. For qualifying cash flow hedges, the changes in the fair value of the derivative are recorded in accumulated other comprehensive income, net of tax effects, and amounts in accumulated other comprehensive income are reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Ineffectiveness relating to fair value and cash flow hedges, if any, is recorded within interest expense. The impact of hedge ineffectiveness on the Company's condensed consolidated statements of income was not material for all periods presented.

The Company also utilizes foreign exchange forward contracts to manage the currency exposure relating to its net monetary investments in non-U.S. dollar functional currency operations. The gain or loss from revaluing these contracts is deferred and reported within accumulated other comprehensive income in shareholders' equity, net of tax effects, with the related unrealized amounts due from or to counterparties included in receivables from or payables to brokers, dealers and clearing organizations. The interest elements (forward points) on these foreign exchange forward contracts are recorded in earnings.

The Company engages in securitization activities related to commercial and residential mortgage loans, corporate bonds and loans, credit card loans and other types of financial assets. The Company may retain interests in the securitized financial assets as one or more tranches of the securitization, an undivided seller's interest, cash collateral accounts, servicing rights, and rights to any excess cash flows remaining after payments to investors in the securitization trusts of their contractual rate of return and reimbursement of credit losses. The exposure to credit losses from securitized loans is limited to the Company's retained contingent risk, which represents the Company's retained interest in securitized loans, including any credit enhancement provided. The gain or loss on the sale of financial assets depends in part on the previous carrying amount of the assets involved in the transfer, and each subsequent transfer in revolving structures, allocated between the assets sold and the retained interests based upon their respective fair values at the date of sale. To obtain fair values, quoted market prices are used if available. However, quoted market prices are generally not available for retained interests, so the Company estimates fair value based on the present value of expected future cash flows using its best estimates of the key assumptions, including forecasted credit losses, payment rates, forward yield curves and discount rates commensurate with the risks involved. The present value of future net servicing revenues that the Company estimates it will receive over the term of the securitized loans is recognized in income as the loans are securitized. A corresponding asset also is recorded and then amortized as a charge to income over the term of the securitized loans, with actual net servicing revenues continuing to be recognized in income as they are earned. Retained interests in securitized financial assets associated with the Company's Securities business was approximately $89 million at February 28, 2002. Retained interests in credit card asset securitizations associated with the Company's Credit Services business was approximately $7.0 billion at February 28, 2002 (see Note 5). These retained interests are included in the condensed consolidated statements of financial condition at fair value. Any changes in the fair value of such retained interests are recognized in the condensed consolidated statements of income. For the three months ended February 28, 2002, the aggregate cash proceeds from securitizations were approximately $6 billion.

2. Cumulative Effect of Accounting Change.

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133," which deferred the effective date of SFAS No. 133 for one year to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133." The Company adopted SFAS No. 133, as amended by SFAS No. 138, effective December 1, 2000. The Company recorded an after-tax charge to net income from the cumulative effect of the adoption of SFAS No. 133, as amended, of $59 million and an after-tax decrease to accumulated other comprehensive income of $13 million. The Company's adoption of SFAS No. 133, as amended, affects the accounting for, among other things, the Company's hedging strategies, including those associated with certain financing activities.

3. Goodwill.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment. Intangible assets that do not have indefinite lives will continue to be amortized over their useful lives and reviewed for impairment. The Company has early adopted the provisions of SFAS No. 142, and accordingly discontinued the amortization of goodwill effective December 1, 2001. During the quarter ending May 31, 2002, the Company will complete the initial transitional goodwill impairment test as required. The Company currently expects that the results of its impairment test will not have a material effect on its financial condition or results of operations.

The following table presents a reconciliation of reported net income and earnings per share to the amounts adjusted for the exclusion of goodwill amortization, net of the related income tax effect:

	Three Months Ended February 28, 2002	Three Months Ended February 28, 2001
	(dollars in millions, except per share amounts)	
Net Income		
Income before cumulative effect of accounting change	$ 848	$1,075
Add: Goodwill amortization, net of tax	—	17
	848	1,092
Cumulative effect of accounting change	—	(59)
Adjusted	$ 848	$1,033
Basic earnings per common share		
Basic before cumulative effect of accounting change	$0.78	$ 0.98
Add: Goodwill amortization, net of tax	—	0.02
	0.78	1.00
Cumulative effect of accounting change	—	(0.05)
Adjusted	$0.78	$ 0.95
Diluted earnings per common share		
Diluted before cumulative effect of accounting change	$0.76	$ 0.94
Add: Goodwill amortization, net of tax	—	0.01
	0.76	0.95
Cumulative effect of accounting change	—	(0.05)
Adjusted	$0.76	$ 0.90

Changes in the carrying amount of the Company's goodwill for the quarter ended February 28, 2002, were as follows:

	Securities	Investment Management	Total
	(dollars in millions)		
Balance as of November 30, 2001	$470	$968	$1,438
Translation adjustments	(5)	—	(5)
Balance as of February 28, 2002	$465	$968	$1,433

4. Securities Financing Transactions.

Securities purchased under agreements to resell ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements"), principally government and agency securities, are treated as financing transactions and are carried at the amounts at which the securities subsequently will be resold or reacquired as specified in the respective agreements; such amounts include accrued interest. Reverse repurchase agreements and repurchase agreements are presented on a net-by-counterparty basis, when appropriate. It is the Company's policy to take possession of securities purchased under agreements to resell. Securities borrowed and securities loaned also are treated as financing transactions and are carried at the amounts of cash collateral advanced and received in connection with the transactions.

The Company pledges its financial instruments owned to collateralize repurchase agreements and other securities financings. Pledged securities that can be sold or repledged by the secured party are identified as financial instruments owned (pledged to various parties) on the condensed consolidated statements of financial condition. The carrying value and classification of securities owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge the collateral were as follows:

	At February 28, 2002	At November 30, 2001
	(dollars in millions)	
Financial instruments owned:		
U.S. government and agency securities	$12,244	$ 9,310
Corporate and other debt	4,045	3,350
Corporate equities	2,637	2,850
Total	$18,926	$15,510

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions to, among other things, finance the Company's inventory positions, acquire securities to cover short positions and settle other securities obligations and to accommodate customers' needs. The Company also engages in securities financing transactions for customers through margin lending. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed transactions and customer margin loans. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter into securities lending transactions or for delivery to counterparties to cover short positions. At February 28, 2002, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was $346 billion, and the fair value of the portion that has been sold or repledged was $315 billion.

The Company manages credit exposure arising from reverse repurchase agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Company, in the event of a customer default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations. The Company also monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral to ensure such transactions are adequately collateralized. Where deemed appropriate, the Company's agreements with third parties specify its rights to request additional collateral. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. For these transactions, the Company's collateral policies significantly limit the Company's credit exposure in the event of customer default. The Company may request additional margin collateral from customers, if appropriate, and if necessary may sell securities that have not been paid for or purchase securities sold but not delivered from customers.

5. Consumer Loans.

Consumer loans were as follows:

	February 28, 2002	November 30, 2001
	(dollars in millions)	
General purpose credit card, mortgage and consumer installment	$21,626	$20,955
Less:		
Allowance for consumer loan losses	873	847
Consumer loans, net	$20,753	$20,108

Activity in the allowance for consumer loan losses was as follows:

	Three Months Ended February 28,	
	2002	2001
	(dollars in millions)	
Balance beginning of period	$847	$783
Additions:		
Provision for consumer loan losses	345	213
Deductions:		
Charge-offs	342	237
Recoveries	(23)	(27)
Net charge-offs	319	210
Balance end of period	$873	$786

Interest accrued on general purpose credit card loans subsequently charged off, recorded as a reduction of interest revenue, was $57 million in the quarter ended February 28, 2002, and $40 million in the quarter ended February 28, 2001.

At February 28, 2002, the Company had commitments to extend credit for consumer loans in the amount of approximately $300 billion. Commitments to extend credit arise from agreements with customers for unused lines of credit on certain credit cards, provided there is no violation of conditions established in the related agreement. These commitments, substantially all of which the Company can terminate at any time and which do not necessarily represent future cash requirements, are periodically reviewed based on account usage and customer creditworthiness.

The Company received net proceeds from consumer loan asset securitizations of $1,052 million in the quarter ended February 28, 2002 and $4,686 million in the quarter ended February 28, 2001.

The Company's retained interests in credit card asset securitizations include an undivided seller's interest, cash collateral accounts, servicing rights and rights to any excess cash flows ("Residual Interests") remaining after payments to investors in the securitization trust of their contractual rate of return and reimbursement of credit losses. The Company receives annual servicing fees of 2% of the investor principal balance outstanding. At February 28, 2002, the Company had $7.0 billion of retained interests, including $4.7 billion of undivided seller's interest, in credit card asset securitizations. The Company's undivided seller's interest ranks *pari passu* with investors' interests in the securitization trust, and the remaining retained interests are subordinate to investors' interests. The retained interests are subject to credit, payment and interest rate risks on the transferred credit card assets. The investors and the securitization trust have no recourse to the Company's other assets for failure of cardmembers to pay when due.

For the quarter ended February 28, 2002, the Company completed credit card asset securitizations of $1.1 billion and recognized net securitization gains of $8 million as servicing fees in the Company's condensed consolidated statements of income. The uncollected balances of general purpose credit card loans sold through asset securitizations were $29,015 million at February 28, 2002 and $29,247 million at November 30, 2001.

Key economic assumptions used in measuring the Residual Interests at the date of securitization resulting from credit card asset securitizations completed during the fiscal quarter ended February 28, 2002 were as follows:

Weighted average life (in months)	6.1
Payment rate (rate per month)	16.88%
Credit losses (rate per annum)	6.95%
Discount rate (rate per annum)	16.50%

Key economic assumptions and the sensitivity of the current fair value of the Residual Interests to immediate 10% and 20% adverse changes in those assumptions were as follows (dollars in millions):

	At February 28, 2002
Residual Interests (carrying amount/fair value)	$ 219
Weighted average life (in months)	6.1
Payment rate (rate per month)	16.88%
Impact on fair value of 10% adverse change	$ (15)
Impact on fair value of 20% adverse change	$ (28)
Credit losses (rate per annum)	6.95%
Impact on fair value of 10% adverse change	$ (71)
Impact on fair value of 20% adverse change	$ (141)
Discount rate (rate per annum)	16.50%
Impact on fair value of 10% adverse change	$ (3)
Impact on fair value of 20% adverse change	$ (6)

The sensitivity analysis in the table above is hypothetical and should be used with caution. Changes in fair value based on a 10% or 20% variation in an assumption generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the Residual Interests is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower payments and increased credit losses), which might magnify or counteract the sensitivities. In addition, the sensitivity analysis does not consider any corrective action that the Company may take to mitigate the impact of any adverse changes in the key assumptions.

The table below summarizes certain cash flows received from the securitization master trust (dollars in billions):

	Three Months Ended February 28, 2002
Proceeds from new credit card asset securitizations	$ 1.1
Proceeds from collections reinvested in previous credit card asset securitizations	$13.7
Contractual servicing fees received	$ 0.1
Cash flows received from retained interests	$ 0.5

The table below presents quantitative information about delinquencies, net credit losses and components of managed general purpose credit card loans, including securitized loans:

	At February 28, 2002		Three Months Ended February 28, 2002	
	Loans Outstanding	Loans Delinquent	Average Loans	Net Credit Losses
	(dollars in billions)			
Managed general purpose credit card loans	$49.6	$3.3	$50.4	$0.8
Less: Securitized general purpose credit card loans	29.0			
Owned general purpose credit card loans	$20.6			

6. Long-Term Borrowings.

Long-term borrowings at February 28, 2002 scheduled to mature within one year aggregated $8,324 million.

During the quarter ended February 28, 2002, the Company issued senior notes aggregating $241 million, including non-U.S. dollar currency notes aggregating $46 million. The Company has entered into certain transactions to obtain floating interest rates based primarily on short-term LIBOR trading levels. Maturities in the aggregate of these notes by fiscal year are as follows: 2003, $162 million; 2004, $1 million; 2005, $3 million and thereafter, $75 million. In the quarter ended February 28, 2002, $2,326 million of senior notes were repaid.

In April 2002, the Company completed the sale of a $7.3 billion global bond offering, the largest bond sale in the Company's history.

The weighted average maturity of the Company's long-term borrowings, based upon stated maturity dates, was approximately 4 years at February 28, 2002.

7. Preferred Stock, Capital Units and Preferred Securities Issued by Subsidiaries.

Preferred stock of the Company was composed of the following issue:

	Shares Outstanding at		Balance at	
	February 28, 2002	November 30, 2001	February 28, 2002	November 30, 2001
			(dollars in millions)	
Series A Fixed/Adjustable Rate Cumulative Preferred Stock, stated value $200 per share	—	1,725,000	$ —	$345

On December 3, 2001, the Company redeemed all 1,725,000 outstanding shares of its Series A Fixed/Adjustable Rate Cumulative Preferred Stock at a redemption price of $200 per share. The Company also simultaneously redeemed all corresponding Depositary Shares at a redemption price of $50 per Depositary Share. Each Depositary Share represented ¼ of a share of the Company's Series A Fixed/Adjustable Rate Cumulative Preferred Stock.

The Company has Capital Units outstanding that were issued by the Company and Morgan Stanley Finance plc ("MSF"), a U.K. subsidiary. A Capital Unit consists of (a) a Subordinated Debenture of MSF guaranteed by the Company and maturing in 2017 and (b) a related Purchase Contract issued by the Company, which may be accelerated by the Company, requiring the holder to purchase one Depositary Share representing shares (or fractional shares) of the Company's Cumulative Preferred Stock. The aggregate amount of Capital Units outstanding was $66 million at both February 28, 2002 and November 30, 2001.

MSDW Capital Trust I, a consolidated Delaware statutory business trust (the "Capital Trust I"), all of the common securities of which are owned by the Company, has $400 million of 7.10% Capital Securities (the "Capital Securities I") outstanding that are guaranteed by the Company. The Capital Trust I issued the Capital Securities I and invested the proceeds in 7.10% Junior Subordinated Deferrable Interest Debentures issued by the Company, which are due February 28, 2038.

Morgan Stanley Capital Trust II, a consolidated Delaware statutory business trust (the "Capital Trust II"), all of the common securities of which are owned by the Company, has $810 million of 7-¼% Capital Securities (the "Capital Securities II") outstanding that are guaranteed by the Company. The Capital Trust II issued the Capital Securities II and invested the proceeds in 7-¼% Junior Subordinated Deferrable Interest Debentures issued by the Company, which are due July 31, 2031.

8. Common Stock and Shareholders' Equity.

MS&Co. and MSDWI are registered broker-dealers and registered futures commission merchants and, accordingly, are subject to the minimum net capital requirements of the Securities and Exchange Commission, the New York Stock Exchange and the Commodity Futures Trading Commission. MS&Co. and MSDWI have consistently operated in excess of these requirements. MS&Co.'s net capital totaled $5,242 million at February 28, 2002, which exceeded the amount required by $4,583 million. MSDWI's net capital totaled $1,418 million at February 28, 2002, which exceeded the amount required by $1,293 million. MSIL, a London-based broker-dealer subsidiary, is subject to the capital requirements of the Financial Services Authority, and MSJL, a Tokyo-based broker-dealer, is subject to the capital requirements of the Financial Services Agency. MSIL and MSJL have consistently operated in excess of their respective regulatory capital requirements.

Under regulatory capital requirements adopted by the Federal Deposit Insurance Corporation ("FDIC") and other bank regulatory agencies, FDIC-insured financial institutions must maintain (a) 3% to 5% of Tier 1 capital, as defined, to average assets ("leverage ratio"), (b) 4% of Tier 1 capital, as defined, to risk-weighted assets ("Tier 1 risk-weighted capital ratio") and (c) 8% of total capital, as defined, to risk-weighted assets ("total risk-weighted capital ratio"). At February 28, 2002, the leverage ratio, Tier 1 risk-weighted capital ratio and total risk-weighted capital ratio of each of the Company's FDIC-insured financial institutions exceeded these regulatory minimums.

Certain other U.S. and non-U.S. subsidiaries are subject to various securities, commodities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These subsidiaries have consistently operated in excess of their local capital adequacy requirements. Morgan Stanley Derivative Products Inc., the Company's triple-A rated derivative products subsidiary, maintains certain operating restrictions that have been reviewed by various rating agencies.

The Company repurchased approximately 4 million and 7 million shares of its common stock during the quarters ended February 28, 2002 and 2001, respectively.

9. Earnings per Share.

Basic EPS reflects no dilution from common stock equivalents. Diluted EPS reflects dilution from common stock equivalents and other dilutive securities based on the average price per share of the Company's common stock during the period. The following table presents the calculation of basic and diluted EPS (in millions, except for per share data):

	Three Months Ended February 28, 2002	Three Months Ended February 28, 2001
Basic EPS:		
Income before cumulative effect of accounting change	$ 848	$1,075
Cumulative effect of accounting change	—	(59)
Preferred stock dividend requirements	—	(9)
Net income applicable to common shareholders	$ 848	$1,007
Weighted average common shares outstanding	1,082	1,089
Basic EPS before cumulative effect of accounting change	$ 0.78	$ 0.98
Cumulative effect of accounting change	—	(0.05)
Basic EPS	$ 0.78	$ 0.93
Diluted EPS:		
Income before cumulative effect of accounting change	$ 848	$1,075
Cumulative effect of accounting change	—	(59)
Preferred stock dividend requirements	—	(9)
Net income applicable to common shareholders	$ 848	$1,007
Weighted average common shares outstanding	1,082	1,089
Effect of dilutive securities:		
Stock options	30	45
Convertible debt	1	—
Weighted average common shares outstanding and common stock equivalents	1,113	1,134
Diluted EPS before cumulative effect of accounting change	$ 0.76	$ 0.94
Cumulative effect of accounting change	—	(0.05)
Diluted EPS	$ 0.76	$ 0.89

At February 28, 2002, there were approximately 64 million stock options outstanding that were excluded from the computation of diluted EPS, as the exercise price of such options exceeded the average price per share of the Company's common stock for the three months ended February 28, 2002.

10. Commitments and Contingencies.

At February 28, 2002 and November 30, 2001, the Company had approximately $5.2 billion and $4.5 billion, respectively, of letters of credit outstanding to satisfy various collateral requirements.

The Company has commitments to fund certain fixed assets and other less liquid investments, including at February 28, 2002, approximately $760 million in connection with its private equity and other principal investment activities. Additionally, the Company has provided and will continue to provide financing, including margin lending and other extensions of credit to clients (including subordinated loans on an interim basis to companies associated with its investment banking and its private equity and other principal investment activities), that may subject the Company to increased credit and liquidity risks.

In connection with its aircraft financing business, the Company has entered into agreements to purchase aircraft and related equipment. As of February 28, 2002, the aggregate amount of such purchase commitments was $261 million. All of the aircraft to be acquired under these purchase obligations are subject to contractual lease arrangements.

In connection with certain of its business activities, the Company provides, on a selective basis, through certain of its subsidiaries (including Morgan Stanley Bank) financing or financing commitments to companies in the form of senior and subordinated debt, including bridge financing. The borrowers may be rated investment grade or non-investment grade. These loans and funding commitments typically are secured against the borrower's assets (in the case of senior loans), have varying maturity dates and are generally contingent upon certain representations, warranties and contractual conditions applicable to the borrower. As part of these activities, the Company may syndicate and trade certain of these loans. At February 28, 2002, the Company provided commitments associated with these activities to investment grade issuers aggregating $4.4 billion and commitments to non-investment grade issuers aggregating $0.9 billion. Since these commitments may expire unused, the total commitment amount does not necessarily reflect the actual future cash funding requirements.

Financial instruments sold, not yet purchased represent obligations of the Company to deliver specified financial instruments at contracted prices, thereby creating commitments to purchase the financial instruments in the market at prevailing prices. Consequently, the Company's ultimate obligation to satisfy the sale of financial instruments sold, not yet purchased, may exceed the amounts recognized in the condensed consolidated statements of financial condition.

In the normal course of business, the Company has been named as a defendant in various legal actions, including arbitrations, arising in connection with its activities as a global diversified financial services institution. Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. The Company is also involved, from time to time, in investigations and proceedings by governmental and self-regulatory agencies. Some of these legal actions, investigations and proceedings may result in adverse judgments, penalties or fines. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, the Company cannot predict with certainty what the eventual loss or range of loss related to such matters will be. The Company believes, based on current knowledge and after consultation with counsel, that the outcome of such matters will not have a material adverse effect on the condensed consolidated financial condition of the Company, although the outcome could be material to the Company's operating results for a particular period, depending, upon other things, on the level of the Company's income for such period.

11. Derivative Contracts.

In the normal course of business, the Company enters into a variety of derivative contracts related to financial instruments and commodities. The Company uses swap agreements and other derivatives in managing its interest rate exposure. The Company also uses forward and option contracts, futures and swaps in its trading activities; these derivative instruments also are used to hedge the U.S. dollar cost of certain foreign currency exposures. In addition, financial futures and forward contracts are actively traded by the Company and are used to hedge proprietary inventory. The Company also enters into delayed delivery, when-issued, and warrant and option contracts involving securities. These instruments generally represent future commitments to swap interest payment streams, exchange currencies or purchase or sell other financial instruments on specific terms at specified future dates. Many of these products have maturities that do not extend beyond one year, although swaps and options and warrants on equities typically have longer maturities. For further discussion of these matters, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments" and Note 10 to the consolidated financial statements for the fiscal year ended November 30, 2001, included in the Form 10-K.

These derivative instruments involve varying degrees of market risk. Future changes in interest rates, foreign currency exchange rates or the fair values of the financial instruments, commodities or indices underlying these contracts ultimately may result in cash settlements less than or exceeding fair value amounts recognized in the condensed consolidated statements of financial condition, which, as described in Note 1, are recorded at fair value, representing the cost of replacing those instruments.

The Company's exposure to credit risk with respect to these derivative instruments at any point in time is represented by the fair value of the contracts reported as assets. These amounts are presented on a net-by-counterparty basis (when appropriate), but are not reported net of collateral, which the Company obtains with respect to certain of these transactions to reduce its exposure to credit losses.

The credit quality of the Company's trading-related derivatives at February 28, 2002 and November 30, 2001 is summarized in the tables below, showing the fair value of the related assets by counterparty credit rating. The actual credit ratings are determined by external rating agencies or by equivalent ratings used by the Company's Credit Department:

	AAA	AA	A	BBB	Collateralized Non-Investment Grade	Other Non-Investment Grade	Total
				(dollars in millions)			
At February 28, 2002							
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$4,699	$ 7,172	$4,971	$2,050	$421	$ 377	$19,690
Foreign exchange forward contracts and options	83	894	1,404	397	—	161	2,939
Equity securities contracts (including equity swaps, warrants and options)	1,426	1,084	750	181	19	165	3,625
Commodity forwards, options and swaps	342	1,026	2,023	1,090	138	941	5,560
Total	$6,550	$10,176	$9,148	$3,718	$578	$1,644	$31,814
Percent of total	20%	32%	29%	12%	2%	5%	100%
At November 30, 2001							
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$4,465	$ 5,910	$6,144	$1,482	$488	$ 631	$19,120
Foreign exchange forward contracts and options	76	1,051	1,090	212	—	269	2,698
Equity securities contracts (including equity swaps, warrants and options)	1,879	1,392	662	40	85	283	4,341
Commodity forwards, options and swaps	367	941	1,690	1,195	173	1,553	5,919
Total	$6,787	$ 9,294	$9,586	$2,929	$746	$2,736	$32,078
Percent of total	21%	29%	30%	9%	2%	9%	100%

A substantial portion of the Company's securities and commodities transactions are collateralized and are executed with and on behalf of commercial banks and other institutional investors, including other brokers and dealers. Positions taken and commitments made by the Company, including positions taken and underwriting and financing commitments made in connection with its private equity and other principal investment activities, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment grade issuers. The Company seeks to limit concentration risk created in its businesses through a variety of separate but complementary financial, position and credit exposure reporting systems, including the use of trading limits based in part upon the Company's review of the financial condition and credit ratings of its counterparties.

See also "Risk Management" in the Form 10-K for discussions of the Company's risk management policies and procedures for its Securities businesses.

12. Segment Information.

The Company structures its segments primarily based upon the nature of the financial products and services provided to customers and the Company's management organization. The Company operates in three business segments: Securities, Investment Management and Credit Services, through which it provides a wide range of financial products and services to its customers.

The Company's Securities business includes securities underwriting and distribution; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; full-service brokerage services; sales, trading, financing and market-making activities in equity securities and related products and fixed income securities and related products, including foreign exchange and commodities; principal investing, including private equity activities; and aircraft financing activities. The Company's Investment Management business provides global asset management products and services for individual and institutional investors through three principal distribution channels: a proprietary channel consisting of the Company's financial advisors and investment representatives; a non-proprietary channel consisting of third-party broker-dealers, banks, financial planners and other intermediaries; and the Company's institutional channel. The Company's Credit Services business includes the issuance of the Discover Classic Card, the Discover Gold Card, the Discover Platinum Card, the Morgan Stanley Card and other proprietary general purpose credit cards; and the operation of Discover Business Services, a proprietary network of merchant and cash access locations in the U.S.

Revenues and expenses directly associated with each respective segment are included in determining their operating results. Other revenues and expenses that are not directly attributable to a particular segment are allocated based upon the Company's allocation methodologies, generally based on each segment's respective revenues or other relevant measures. Selected financial information for the Company's segments is presented in the table below:

Three Months Ended February 28, 2002	Securities	Investment Management	Credit Services	Total
		(dollars in millions)		
All other net revenues	$3,226	$598	$539	$4,363
Net interest	605	7	284	896
Net revenues	$3,831	$605	$823	$5,259
Income before taxes and dividends on preferred securities issued by subsidiaries	$ 858	$234	$255	$1,347
Provision for income taxes	297	92	88	477
Dividends on preferred securities issued by subsidiaries	22	—	—	22
Net income	$ 539	$142	$167	$ 848

Three Months Ended February 28, 2001(1)	Securities	Investment Management	Credit Services	Total
		(dollars in millions)		
All other net revenues	$ 4,039	$ 666	$ 527	$ 5,232
Net interest	709	22	333	1,064
Net revenues	$ 4,748	$ 688	$ 860	$ 6,296
Income before taxes, dividends on preferred securities issued by subsidiaries and cumulative effect of accounting change	$ 1,214	$ 255	$ 231	$ 1,700
Provision for income taxes	427	102	89	618
Dividends on preferred securities issued by subsidiaries	7	—	—	7
Income before cumulative effect of accounting change	780	153	142	1,075
Cumulative effect of accounting change	(46)	—	(13)	(59)
Net income	$ 734	$ 153	$ 129	$ 1,016

Total Assets(2)	Securities	Investment Management	Credit Services	Total
		(dollars in millions)		
February 28, 2002	$461,063	$ 5,003	$25,585	$491,651
November 30, 2001	$452,421	$ 5,076	$25,131	$482,628

(1) Certain reclassifications have been made to prior period amounts to conform to the current presentation.
(2) Corporate assets have been fully allocated to the Company's business segments.

13. Terrorist Attacks.

On September 11, 2001, the U.S. experienced terrorist attacks targeted against New York City and Washington, D.C. The attacks in New York City destroyed the World Trade Center complex, where approximately 3,700 of the Company's employees were located. Through the implementation of its business recovery plans, the Company relocated its displaced employees to other facilities.

The Company has recognized costs related to the terrorist attacks, which have been offset by an expected insurance recovery. These costs and the related expected insurance recovery pertain to write-offs of leasehold improvements and destroyed technology and telecommunications equipment in the World Trade Center complex, employee relocation and certain other employee-related expenditures, and other business recovery costs. Such costs amounted to $47 million for the quarter ended February 28, 2002 and $56 million for the fiscal year ended November 30, 2001.

14. Gain on Sale of Building.

During the quarter ended February 28, 2002, the Company recorded a gain of $73 million related to the sale of a 1 million square-foot office tower in New York City that had been under construction since 1999. The gain is included within other revenues in the Company's condensed consolidated statements of income. The Company allocated $60 million of the gain to its Securities segment and $13 million of the gain to its Investment Management segment. The allocation was based upon occupancy levels originally planned for the building.

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders of
Morgan Stanley Dean Witter & Co.:

We have reviewed the accompanying condensed consolidated statement of financial condition of Morgan Stanley Dean Witter & Co. and subsidiaries as of February 28, 2002, and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three month periods ended February 28, 2002 and 2001. These condensed consolidated financial statements are the responsibility of the management of Morgan Stanley Dean Witter & Co.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of financial condition of Morgan Stanley Dean Witter & Co. and subsidiaries as of November 30, 2001, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for the fiscal year then ended (not presented herein) included in Morgan Stanley Dean Witter & Co.'s Annual Report on Form 10-K for the fiscal year ended November 30, 2001; and, in our report dated January 11, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of November 30, 2001 is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

New York, New York
April 10, 2002

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Morgan Stanley Dean Witter & Co. (the "Company") is a global financial services firm that maintains leading market positions in each of its three business segments—Securities, Investment Management and Credit Services. The Company's Securities business includes securities underwriting and distribution; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; full-service brokerage services; sales, trading, financing and market-making activities in equity securities and related products and fixed income securities and related products, including foreign exchange and commodities; principal investing, including private equity activities; and aircraft financing activities. The Company's Investment Management business provides global asset management products and services for individual and institutional investors through three principal distribution channels: a proprietary channel consisting of the Company's financial advisors and investment representatives; a non-proprietary channel consisting of third-party broker-dealers, banks, financial planners and other intermediaries; and the Company's institutional channel. The Company's Credit Services business includes the issuance of the Discover® Classic Card, the Discover Gold Card, the Discover Platinum Card, the Morgan Stanley Card℠ and other proprietary general purpose credit cards; and the operation of Discover Business Services, a proprietary network of merchant and cash access locations in the U.S.

Results of Operations*

Certain Factors Affecting Results of Operations

The Company's results of operations may be materially affected by market fluctuations and by economic factors. In addition, results of operations in the past have been, and in the future may continue to be, materially affected by many factors of a global nature, including economic and market conditions; the availability and cost of capital; the level and volatility of equity prices, commodity prices and interest rates; currency values and other market indices; technological changes and events (such as the use of the Internet to conduct electronic commerce and the use of electronic communications trading networks); the availability and cost of credit; inflation; investor sentiment; and legislative, legal and regulatory developments. Such factors also may have an impact on the Company's ability to achieve its strategic objectives on a global basis, including (without limitation) increased market share in its securities activities, growth in assets under management and the expansion of its Credit Services business.

The Company's Securities business, particularly its involvement in primary and secondary markets for all types of financial products, including derivatives, is subject to substantial positive and negative fluctuations due to a variety of factors that cannot be predicted with great certainty, including variations in the fair value of securities and other financial products and the volatility and liquidity of global trading markets. Fluctuations also occur due to the level of global market activity, which, among other things, affects the size, number and timing of investment banking client assignments and transactions and the realization of returns from the Company's private equity and other principal investments. The level of global market activity also could impact the flow of investment capital into or from assets under management and supervision and the way in which such capital is allocated among money market, equity, fixed income or other investment alternatives, which could cause fluctuations to occur in the Company's Investment Management business. In the Company's Credit Services business, changes in economic variables, such as the number and size of personal bankruptcy filings, the rate of unemployment and the level of consumer confidence and consumer debt, may substantially affect consumer loan levels and credit quality, which, in turn, could impact the results of Credit Services.

* This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements as well as a discussion of some of the risks and uncertainties involved in the Company's businesses that could affect the matters referred to in such statements.

The Company's results of operations also may be materially affected by competitive factors. Included among the principal competitive factors affecting the Securities business are the quality of its professionals and other personnel, its products and services, relative pricing and innovation. Competition in the Company's Investment Management business is affected by a number of factors, including investment objectives and performance; advertising and sales promotion efforts; and the level of fees, distribution channels and types and quality of services offered. In the Credit Services business, competition centers on merchant acceptance of credit cards, credit cardmember acquisition and customer utilization of credit cards, all of which are impacted by the type of fees, interest rates and other features offered.

In addition to competition from firms traditionally engaged in the financial services business, there has been increased competition in recent years from other sources, such as commercial banks, insurance companies, online financial service providers, sponsors of mutual funds and other companies offering financial services both in the U.S. and globally and through the Internet. The financial services industry also has continued to experience consolidation and convergence, as financial institutions involved in a broad range of financial services industries have merged. This convergence trend may continue and could result in the Company's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. In addition, the Company has experienced competition for qualified employees. The Company's ability to sustain or improve its competitive position will substantially depend on its ability to continue to attract and retain qualified employees while managing compensation costs.

For a detailed discussion of the competitive factors in the Company's Securities, Investment Management and Credit Services businesses, see the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2001 (the "Form 10-K").

As a result of the above economic and competitive factors, net income and revenues in any particular period may not be representative of full-year results and may vary significantly from year to year and from quarter to quarter. The Company intends to manage its business for the long term and to mitigate the potential effects of market downturns by strengthening its competitive position in the global financial services industry through diversification of its revenue sources, enhancement of its global franchise and management of costs and its capital structure. The Company's overall financial results will continue to be affected by its ability and success in maintaining high levels of profitable business activities, emphasizing fee-based assets that are designed to generate a continuing stream of revenues, evaluating credit product pricing, and managing risks, costs and its capital position. In addition, the complementary trends in the financial services industry of consolidation and globalization present, among other things, technological, risk management and other infrastructure challenges that will require effective resource allocation in order for the Company to remain competitive.

Global Market and Economic Conditions in the Quarter Ended February 28, 2002

Although the global economy demonstrated some initial signs of recovery, conditions in the global financial markets remained difficult in the first quarter of fiscal 2002. Such conditions contributed to the decline in the Company's net revenues and net income as compared to the quarter ended February 28, 2001.

In the U.S., the first quarter of fiscal 2002 began amid continuing concerns about the depressed level of economic activity that existed during much of fiscal 2001. As a result, in December 2001 the Federal Reserve Board (the "Fed") continued its aggressive policy of easing interest rates by lowering both the discount rate and the overnight lending rate by 0.25%. This followed the Fed's interest rate actions in fiscal 2001, during which it lowered both the discount rate and the overnight lending rate by an aggregate of 4.5%. During the latter half of the quarter, there were certain indications of increased economic activity, including a decline in the unemployment rate, improved consumer confidence and an increase in manufacturing activity. However, conditions in the financial markets remained difficult, reflecting investors' reaction to several significant corporate bankruptcies and increased concerns about the quality of corporate earnings.

In Europe, there were also preliminary indications that economic performance was beginning to improve, as certain business survey data within the region was generally positive. There were also indications that industrial production was beginning to recover from the declines experienced during much of fiscal 2001. As a result of these developments, as well as indications of increased economic activity in the U.S., the European Central Bank left the benchmark interest rate within the region unchanged during the quarter. In the U.K., there were increased expectations of recovery in the level of consumer spending and business activity, and the Bank of England left the benchmark interest rate unchanged during the quarter.

Economic and market conditions continued to be difficult in the Far East during the quarter ended February 28, 2002. In Japan, financial markets continued to be adversely impacted by the worsening condition of the nation's economy. The deceleration of global economic growth continued to negatively impact the level of Japan's exports, industrial production, corporate earnings and investment. Concerns over the banking sector, including the continued increase in the level of non-performing bank loans, the slow pace of structural reforms and deflationary pressures, also negatively affected Japan's economy. In addition, consumer spending remained sluggish, reflecting an increased unemployment rate and a decline in consumer confidence. Certain nations elsewhere in the Far East, such as Taiwan and Korea, experienced a recovery in the level of exports and manufacturing output, primarily reflecting improved conditions within the global communications and technology sectors.

Results of the Company for the Quarter ended February 28, 2002

The Company's net income in the quarter ended February 28, 2002 was $848 million, a decrease of 17% from the comparable period of fiscal 2001. The Company's net income for the quarter ended February 28, 2001 included a charge of $59 million for the cumulative effect of an accounting change associated with the Company's adoption, on December 1, 2000, of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Excluding the cumulative effect of the accounting change, the Company's net income for the quarter ended February 28, 2002 was 21% below the comparable period of fiscal 2001.

Diluted earnings per common share were $0.76 in the quarter ended February 28, 2002 as compared to $0.89 in the quarter ended February 28, 2001. Excluding the cumulative effect of the accounting change in the quarter ended February 28, 2001, the Company's diluted earnings per share were $0.94. The Company's annualized return on common equity for the quarter ended February 28, 2002 was 16.4% as compared to 22.5% (excluding the cumulative effect of the accounting change) in the comparable period of fiscal 2001.

The decrease in net income in the quarter ended February 28, 2002 as compared to the prior year period was primarily attributable to the Company's Securities business, which recorded lower investment banking and principal trading revenues, partially offset by lower non-interest expenses.

At February 28, 2002, the Company had approximately 60,000 employees worldwide, a decrease of 6% from February 28, 2001. The reduction in staffing levels reflected the Company's efforts to manage costs in light of the weakened global economy and reduced business activity.

Business Segments

The remainder of Results of Operations is presented on a business segment basis. Substantially all of the operating revenues and operating expenses of the Company can be directly attributed to its three business segments: Securities, Investment Management and Credit Services. Certain revenues and expenses have been allocated to each business segment, generally in proportion to their respective revenues or other relevant measures. Certain reclassifications have been made to prior-period amounts to conform to the current year's presentation.

Critical Accounting Policies

For a discussion of the Company's accounting policies that may involve a higher degree of judgment and complexity, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" included in the Form 10-K.

Securities

Statements of Income (dollars in millions)

	Three Months Ended February 28, 2002	2001
	(unaudited)	
Revenues:		
Investment banking	$ 675	$ 962
Principal transactions:		
Trading	1,122	1,685
Investments	32	(47)
Commissions	766	839
Asset management, distribution and administration fees	457	486
Interest and dividends	3,271	6,540
Other	174	114
Total revenues	6,497	10,579
Interest expense	2,666	5,831
Net revenues	3,831	4,748
Non-interest expenses:		
Compensation and benefits	2,121	2,442
Occupancy and equipment	167	177
Brokerage, clearing and exchange fees	126	117
Information processing and communications	219	242
Marketing and business development	103	149
Professional services	126	223
Other	111	184
Total non-interest expenses	2,973	3,534
Income before income taxes, dividends on preferred securities issued by subsidiaries and cumulative effect of accounting change	858	1,214
Provision for income taxes	297	427
Dividends on preferred securities issued by subsidiaries	22	7
Income before cumulative effect of accounting change	539	780
Cumulative effect of accounting change	—	(46)
Net income	$ 539	$ 734

Securities net revenues were $3,831 million in the quarter ended February 28, 2002, a decrease of 19% from the comparable period of fiscal 2001. Securities net income for the quarter ended February 28, 2002 was $539 million, a decrease of 27% from the comparable period of fiscal 2001. Securities net income in the quarter ended February 28, 2001 included a charge of $46 million from the cumulative effect of an accounting change associated with the Company's adoption of SFAS No. 133 on December 1, 2000. Excluding the cumulative effect of the accounting change, Securities net income decreased 31% from the comparable period of fiscal 2001. The decreases in net revenues and net income were primarily attributable to lower revenues from the Company's investment banking and sales and trading activities, as well as lower revenues from the Company's individual securities business. These decreases were partially offset by higher revenues from principal investing activities, a gain on the sale of a building, and lower levels of non-interest expenses, including lower incentive-based compensation costs.

Investment Banking

Investment banking revenues are derived from the underwriting of securities offerings and fees from advisory services. Investment banking revenues in the quarter ended February 28, 2002 decreased 30% from the comparable period of fiscal 2001, primarily due to lower revenues from merger, acquisition and restructuring activities and fixed income underwriting transactions.

Revenues from merger, acquisition and restructuring activities decreased 35% to $292 million in the quarter ended February 28, 2002 from the comparable period of fiscal 2001. The sharp decline in the volume of merger and acquisition transaction activity that characterized fiscal 2001 continued in the first quarter of fiscal 2002. The global market for such transactions was negatively affected by the difficult global economic conditions and uncertainty in the global financial markets. In addition to the decline in transaction volume, the average transaction size also decreased during the quarter. Given current market and economic conditions, it is uncertain at what pace merger, acquisition and restructuring transactions will occur in future periods.

Underwriting revenues declined 25% to $383 million in the quarter ended February 28, 2002 from the comparable period of fiscal 2001.

Equity underwriting revenues in the quarter ended February 28, 2002 increased modestly, primarily reflecting a higher volume of convertible equity offerings. However, given current economic and market conditions, it is uncertain at what pace transactions will occur in future periods.

Fixed income underwriting revenues in the quarter ended February 28, 2002 declined as compared to those recorded during the quarter ended February 28, 2001. The volume of fixed income underwriting transactions declined primarily due to increased volatility in corporate credit spreads, triggered by corporate bankruptcy filings and concerns over the quality of corporate earnings.

Principal Transactions

Principal transactions include revenues from customers' purchases and sales of securities in which the Company acts as principal and gains and losses on the Company's securities positions. Decisions relating to principal transactions in securities are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes an assessment of the potential gain or loss associated with a trade, including any associated commissions, and the interest income or expense associated with financing or hedging the Company's positions. The Company also engages in proprietary trading activities for its own account. Principal transaction trading revenues decreased 33% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001. The decrease reflected lower levels of equity and commodity trading revenues, partially offset by higher fixed income trading revenues.

Equity trading revenues decreased during the quarter ended February 28, 2002, primarily reflecting lower revenues from trading cash and derivative equity products, as well as lower revenues from certain proprietary trading activities. Conditions in the equity markets were less favorable than in the first quarter of fiscal 2001, particularly in the U.S. and in Europe, as trading volume and market volatility both declined. The decline in equity trading revenues also reflected a decline in trading activity and opportunities related to lower new issue volume. Equity trading revenues were also affected by the Company's new pricing structure for executing transactions on the NASDAQ (see "Commissions" herein).

Fixed income trading revenues increased in the quarter ended February 28, 2002 from the comparable period of fiscal 2001, reflecting higher revenues from trading interest rate derivative products and global high-yield fixed income securities, partially offset by lower revenues from trading government and investment grade fixed income securities. Trading revenues from interest rate derivative products were positively impacted by higher transaction volume. The increase in global high-yield trading revenues was primarily due to more favorable market conditions in the first quarter of fiscal 2002 as compared to the prior year period. The decrease in government trading revenues was primarily due to less favorable market conditions, including lower volatility and reduced liquidity in the U.S. government market. The decrease in investment grade fixed income revenues also reflected a less favorable trading environment, as corporate credit spreads widened due to concerns over the quality of corporate earnings. Commodity trading revenues decreased as compared to the then-record revenues recorded during the quarter ended February 28, 2001. The decline was primarily attributable to lower revenues from electricity trading, reflecting a decline in the level and volatility of electricity prices as compared to the prior year. Lower revenues from natural gas trading also contributed to the decrease. Foreign exchange trading revenues decreased modestly in the quarter ended February 28, 2002 as compared to the prior year period. The decrease in foreign exchange trading revenues was primarily due to lower customer volumes and volatility.

Principal transaction net investment gains aggregating $32 million were recorded in the quarter ended February 28, 2002, as compared to net losses of $47 million in the quarter ended February 28, 2001. Fiscal 2002's results primarily include unrealized gains in certain of the Company's real estate investments. Fiscal 2001's results include unrealized losses in certain of the Company's private equity investments, primarily reflecting difficult market conditions in the technology and telecommunications sectors.

Commissions

Commission revenues primarily arise from agency transactions in listed and over-the-counter equity securities, and sales of mutual funds, futures, insurance products and options. Commission revenues decreased 9% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001. The decline was primarily related to lower commission revenues resulting from lower levels of retail investor participation in the equity markets, as well as lower institutional commission revenues from markets in Europe and Japan. This decline was partially offset by higher institutional commission revenues in the U.S. and the impact of a new commission-based pricing structure for executing transactions on the NASDAQ.

In January 2002, the Company began implementing a commission-based pricing structure for executing transactions on the NASDAQ. Prior to January 2002, the Company operated its NASDAQ equity business through market-making activities, which were primarily based on earning a spread between the bid and ask prices. In prior periods, such market-making activities were reported in principal transaction trading revenues. As a result of the new pricing structure, certain revenues earned from NASDAQ equity trading activities are now included in commission revenues.

Net Interest

Interest and dividend revenues and interest expense are a function of the level and mix of total assets and liabilities, including financial instruments owned, reverse repurchase and repurchase agreements, trading strategies associated with the Company's institutional securities business, customer margin loans, and the prevailing level, term structure and volatility of interest rates. Interest and dividend revenues and interest expense are integral components of trading activities. In assessing the profitability of trading activities, the Company views net interest, commissions and principal trading revenues in the aggregate. In addition, decisions relating to principal transactions in securities are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes an assessment of the potential gain or loss associated with a trade, including any associated commissions, and the interest income or expense associated with financing or hedging the Company's positions. Reverse repurchase and repurchase agreements and securities borrowed and securities loaned transactions may be entered into with different customers using the same underlying securities, thereby generating a spread between the interest revenue on the reverse repurchase agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions. Net interest revenues decreased 15% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001, partially reflecting the level and mix of interest earning assets and interest bearing liabilities during the respective periods as well as certain trading strategies utilized in the Company's institutional securities business. The decrease also reflected lower net revenues from brokerage services provided to institutional and individual customers, including a decrease in the level of customer margin loans.

Asset Management, Distribution and Administration Fees

Asset management, distribution and administration fees include revenues from asset management services, including fees for promoting and distributing mutual funds ("12b-1 fees") and fees for investment management services provided to segregated customer accounts pursuant to various contractual arrangements in connection with the Company's Investment Consulting Services ("ICS") business. The Company receives 12b-1 fees for services it provides in promoting and distributing certain open-ended mutual funds. These fees are based on either the average daily fund net asset balances or average daily aggregate net fund sales and are affected by changes in the overall level and mix of assets under management or supervision. Asset management, distribution and administration fees also include revenues from individual investors electing a fee-based pricing arrangement under the Company's Morgan Stanley Choice service and technology platform.

Asset management, distribution and administration revenues decreased 6% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001. The decrease was primarily attributable to lower 12b-1 fees from promoting and distributing mutual funds, reflecting a decrease in individual investors' mutual fund asset levels.

Other

Other revenues primarily consist of net rental and other revenues associated with the Company's aircraft financing business, as well as account fees and other miscellaneous service fees associated with the Company's individual securities activities. Other revenues increased 53% during the quarter ended February 28, 2002 from the comparable period of fiscal 2001. The increase primarily reflects the inclusion of a $73 million gain (of which $60 million was allocated to the Securities segment) related to the Company's sale of a 1 million-square-foot office tower in New York City that was under construction since 1999. In addition, increased customer account fees from the Company's individual securities activities were offset by a modest decline in revenues from the Company's aircraft financing business, reflecting lower lease rates and a higher number of unleased aircraft.

The terrorist attacks on the U.S. that occurred in September 2001 have had an adverse impact on the global aviation industry and on the results of the Company's aircraft financing business. While there is much uncertainty regarding the potential long-term impact of the terrorist attacks, the Company currently believes that the conditions caused by the attacks could continue to have an adverse impact on the results of its aircraft financing business.

Non-Interest Expenses

Total non-interest expenses decreased 16% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001. Compensation and benefits expense decreased 13%, principally reflecting lower incentive-based compensation due to lower levels of revenues and earnings. Excluding compensation and benefits expense, non-interest expenses decreased 22%. Occupancy and equipment expense decreased 6%, primarily due to lower rent expense resulting from the utilization of business interruption facilities after the loss of the World Trade Center complex in the fourth quarter of fiscal 2001, partially offset by the costs of additional office space in London. Brokerage, clearing and exchange fees increased 8%, primarily reflecting higher brokerage costs associated with global securities trading volume, particularly in North America and Europe. Information processing and communications expense decreased 10%, primarily due to lower data processing costs associated with the individual securities business and lower telecommunication costs. Marketing and business development expense decreased 31%, primarily reflecting lower travel and entertainment costs and lower advertising costs in the individual securities business. Professional services expense decreased 43%, primarily reflecting lower consulting costs. The decrease also reflected lower legal and temporary staffing costs. Other expenses decreased 40%, primarily due to lower consumption taxes and other operating expenses. In addition, goodwill amortization declined $7 million due to the Company's adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," on December 1, 2001.

Investment Management

Statements of Income (dollars in millions)

	Three Months Ended February 28, 2002	Three Months Ended February 28, 2001
	(unaudited)	
Revenues:		
Investment banking	$ 9	$ 19
Principal transactions:		
Investments	1	1
Commissions	11	12
Asset management, distribution and administration fees	559	623
Interest and dividends	8	24
Other	18	11
Total revenues	606	690
Interest expense	1	2
Net revenues	605	688
Non-interest expenses:		
Compensation and benefits	179	209
Occupancy and equipment	19	25
Brokerage, clearing and exchange fees	53	50
Information processing and communications	22	24
Marketing and business development	29	35
Professional services	50	55
Other	19	35
Total non-interest expenses	371	433
Income before income taxes	234	255
Provision for income taxes	92	102
Net income	$142	$153

Investment Management net revenues were $605 million in the quarter ended February 28, 2002, a decrease of 12% from the comparable period of fiscal 2001. Investment Management's net income for the quarter ended February 28, 2002 was $142 million, a decrease of 7% from the comparable period of fiscal 2001. The decrease in net income primarily reflected lower asset management, distribution and administration fees and net interest revenues, partially offset by lower non-interest expenses and a gain of $13 million (included within other revenues) related to the Company's sale of an office tower.

Investment Banking

Investment Management primarily generates investment banking revenues from the underwriting of Unit Investment Trust products. Investment banking revenues decreased 53% in the quarter ended February 28, 2002 from the comparable prior year period, primarily reflecting a lower volume of Unit Investment Trust sales. Due to the emergence of alternate investment products, the Company does not expect Unit Investment Trust sales volumes and associated investment banking revenues to return to the levels achieved in fiscal 2000.

Principal Transactions.

Investment Management's principal transaction revenues are primarily generated from net gains and losses on capital investments in certain of the Company's funds and other investments.

The Company recorded net principal investment gains of $1 million in both the quarter ended February 28, 2002 and February 28, 2001.

Commissions

Investment Management primarily generates commission revenues from dealer and distribution concessions on sales of certain funds as well as certain allocated commission revenues. Commission revenues decreased marginally in the quarter ended February 28, 2002 from the comparable period of fiscal 2001, primarily reflecting a lower level of sales volume of certain Van Kampen products.

Net Interest

Investment Management generates net interest revenues from certain investment positions as well as from certain allocated interest revenues and expenses. Net interest revenues declined 68% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001, primarily reflecting lower allocated net interest revenues.

Asset Management, Distribution and Administration Fees

Asset management, distribution and administration fees primarily include revenues from the management and administration of assets. These fees arise from investment management services the Company provides to investment vehicles pursuant to various contractual arrangements. Generally, the Company receives fees primarily based upon mutual fund average net assets or quarterly assets for other vehicles.

The Company's customer assets under management or supervision were as follows:

	At February 28, 2002	At February 28, 2001
	(dollars in billions)	
Products offered primarily to individuals:		
Mutual funds:		
Equity	$ 81	$ 96
Fixed income	36	46
Money markets	64	63
Total mutual funds	181	205
ICS assets	30	31
Separate accounts, unit trust and other arrangements	62	73
Total individual	273	309
Products offered primarily to institutional clients:		
Mutual funds	37	36
Separate accounts, pooled vehicle and other arrangements	142	147
Total institutional	179	183
Total assets under management or supervision(1)	$452	$492

(1) Revenues and expenses associated with certain assets are included in the Company's Securities segment.

In the quarter ended February 28, 2002, asset management, distribution and administration fees decreased 10% from the comparable period of fiscal 2001. The decrease in revenues primarily reflects lower fund management fees and other revenues resulting from a decline in the level of average assets under management or supervision. The decrease also reflects a less favorable asset mix due to a shift of customer assets from equity products to fixed income and money market products, which typically generate lower management fees.

As of February 28, 2002, customer assets under management or supervision decreased $40 billion from February 28, 2001. The decrease was attributable to market depreciation, reflecting the declines in many global financial markets that occurred during fiscal 2001, coupled with net outflows of customer assets, as redemptions exceeded new sales during the period from March 1, 2001 to February 28, 2002.

Non-Interest Expenses

Investment Management's non-interest expenses decreased 14% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001, partially reflecting the favorable impact of synergies resulting from integration initiatives within Investment Management's operating platforms. Compensation and benefits expense decreased 14%, reflecting lower incentive-based compensation costs due to Investment Management's lower levels of revenues and earnings, as well as lower employment levels. Excluding compensation and benefits expense, non-interest expenses decreased 14%. Occupancy and equipment expense decreased 24%, reflecting a reduction in rental expense due to the utilization of business interruption facilities after the loss of the World Trade Center complex in the fourth quarter of fiscal 2001. Brokerage, clearing and exchange fees increased 6%, primarily reflecting higher distribution fees and a higher level of deferred commission amortization associated with the sales of certain funds. Information processing and communications expense decreased 8%, primarily reflecting lower costs incurred for market data and data processing services. Marketing and business development expense decreased 17%, primarily related to lower marketing and travel and entertainment costs. Professional services expense decreased 9%, primarily reflecting lower sub-advisory fees and consulting costs. Other expenses decreased 46%, primarily reflecting a decline in goodwill amortization of $15 million as a result of the Company's adoption of SFAS No. 142 on December 1, 2001.

Credit Services

Statements of Income (dollars in millions)

	Three Months Ended February 28,	
	2002	2001
	(unaudited)	
Fees:		
Merchant and cardmember	$341	$313
Servicing	541	427
Other	2	—
Total non-interest revenues	884	740
Interest revenue	553	672
Interest expense	269	339
Net interest income	284	333
Provision for consumer loan losses	345	213
Net credit income	(61)	120
Net revenues	823	860
Non-interest expenses:		
Compensation and benefits	188	188
Occupancy and equipment	14	16
Information processing and communications	79	86
Marketing and business development	119	182
Professional services	49	56
Other	119	101
Total non-interest expenses	568	629
Income before income taxes and cumulative effect of accounting change	255	231
Provision for income taxes	88	89
Income before cumulative effect of accounting change	167	142
Cumulative effect of accounting change	—	(13)
Net income	$167	$129

Credit Services net revenues were $823 million in the quarter ended February 28, 2002, a decrease of 4% from the comparable period of fiscal 2001. Credit Services net income of $167 million in the quarter ended February 28, 2002 increased 29% from the comparable period of fiscal 2001. Fiscal 2001's first quarter net income included a charge of $13 million from the cumulative effect of an accounting change associated with the Company's adoption of SFAS No. 133 on December 1, 2000. Excluding the cumulative effect of the accounting change, fiscal 2002's first quarter net income increased 18% from the comparable period of fiscal 2001. The increase in net income was primarily attributable to higher servicing fees and merchant and cardmember fees and lower non-interest expenses, partially offset by a higher provision for consumer loan losses and lower net interest income. However, the continued weak economic conditions in the U.S. and an increased focus on portfolio credit quality have slowed the growth of transaction volume and consumer loans. In addition, the less favorable economic conditions have affected the credit quality of the consumer loan portfolio, resulting in a higher provision for consumer loan losses.

Non-Interest Revenues

Total non-interest revenues increased 19% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001.

Merchant and cardmember fees include revenues from fees charged to merchants on credit card sales, as well as charges to cardmembers for late payment fees, overlimit fees, insurance fees and cash advance fees, net of cardmember rewards. Cardmember rewards include the Cashback Bonus® award program, pursuant to which the Company pays Discover Classic Card, Discover Platinum Card and Morgan Stanley Card cardmembers electing this feature a percentage of their purchase amounts ranging up to 1% based upon a cardmember's level and type of purchases. Merchant and cardmember fees increased 9% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001. The increase was primarily due to higher merchant discount revenue and higher late payment fees. The increase in merchant discount revenue was due to a slightly higher level of sales volume coupled with an increase in the average merchant discount rate. The increase in late payment fees resulted from higher delinquency occurrences.

Servicing fees are revenues derived from consumer loans which have been sold to investors through asset securitizations. Cash flows from the interest yield and cardmember fees generated by securitized loans are used to pay investors in these loans a predetermined fixed or floating rate of return on their investment, to reimburse investors for losses of principal resulting from charged-off loans and to pay the Company a fee for servicing the loans. Any excess cash flows remaining are paid to the Company. The servicing fees and excess net cash flows paid to the Company are reported as servicing fees in the condensed consolidated statements of income. The sale of consumer loans through asset securitizations, therefore, has the effect of converting portions of net credit income and fee income to servicing fees. The Company completed a credit card asset securitization of $1.1 billion in the quarter ended February 28, 2002. During the comparable period of fiscal 2001, the Company completed credit card asset securitizations of $4.4 billion. The credit card asset securitization transaction completed in the quarter ended February 28, 2002 has an expected maturity of approximately three years from the date of issuance.

The table below presents the components of servicing fees:

	Three Months Ended February 28,	
	2002	2001
	(dollars in millions)	
Merchant and cardmember fees	$ 200	$ 183
Interest revenue	1,058	1,075
Interest expense	(230)	(459)
Provision for consumer loan losses	(487)	(372)
Servicing fees	$ 541	$ 427

Servicing fees are affected by the level of securitized loans, the spread between the interest yield on the securitized loans and the yield paid to the investors, the rate of credit losses on securitized loans and the level of cardmember fees earned from securitized loans. Servicing fees increased 27% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001. The increase was due to higher levels of net interest cash flows as a result of a lower cost of funding, as well as a higher level of average securitized consumer loans. These increases were partially offset by higher credit losses associated with a higher rate of charge-offs related to the securitized portfolio. Net securitization gains on general purpose credit card loans, included in servicing fees, were $8 million in the quarter ended February 28, 2002, a decrease of 68% from the comparable period of fiscal 2001. The decrease primarily reflects lower levels of asset securitization transactions partially offset by modifications to certain assumptions in the gain calculations made during fiscal 2001. Such modifications included a decline in anticipated funding costs, reflecting a lower interest rate environment due to the Fed's interest rate actions during fiscal 2001, as well as lower projected interest yields on securitized loans and higher projected charge-off rates.

Net Interest Income

Net interest income represents the difference between interest revenue derived from Credit Services consumer loans and short-term investment assets and interest expense incurred to finance those loans and assets. Credit Services assets, consisting primarily of consumer loans, currently earn interest revenue at both fixed rates and market-indexed variable rates. The Company incurs interest expense at fixed and floating rates. Interest expense also includes the effects of any interest rate contracts entered into by the Company as part of its interest rate risk management program. This program is designed to reduce the volatility of earnings resulting from changes in interest rates by having a financing portfolio that reflects the existing repricing schedules of consumer loans as well as the Company's right, with notice to cardmembers, to reprice certain fixed rate consumer loans to a new interest rate in the future.

Net interest income decreased 15% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001. The decrease was primarily due to lower levels of average general purpose credit card loans and a lower yield on these loans, partially offset by a decline in interest expense. The decrease in the level of average general purpose credit card loans was due to a higher level of securitized general purpose credit card loans and increased payments of credit card balances. The lower yield on general purpose credit card loans during the quarter ended February 28, 2002 was primarily due to lower interest rates offered to new cardmembers and certain existing cardmembers, as well as higher charge-offs. The decrease in interest expense was primarily due to a lower level of interest bearing liabilities, coupled with a decrease in the Company's average cost of borrowings, which was 5.4% for the quarter ended February 28, 2002 as compared to 6.6% for the quarter ended February 28, 2001. The decline in the average cost of borrowings reflects the Fed's aggressive easing of interest rates during fiscal 2001.

The following tables present analyses of Credit Services average balance sheets and interest rates for the quarters ended February 28, 2002 and 2001 and changes in net interest income during those periods:

Average Balance Sheet Analysis

	Three Months Ended February 28,					
	2002			2001(3)		
	Average Balance	Rate	Interest	Average Balance	Rate	Interest
	(dollars in millions)					
ASSETS						
Interest earning assets:						
General purpose credit card loans	$20,972	10.07%	$521	$21,555	11.32%	$601
Other consumer loans	1,068	6.23	16	730	8.86	16
Investment securities	61	1.80	—	804	6.23	12
Other	2,587	2.45	16	2,365	7.37	43
Total interest earning assets	24,688	9.09	553	25,454	10.70	672
Allowance for loan losses	(851)			(787)		
Non-interest earning assets	2,314			2,117		
Total assets	$26,151			$26,784		
LIABILITIES AND SHAREHOLDER'S EQUITY						
Interest bearing liabilities:						
Interest bearing deposits						
Savings	$ 1,135	1.65%	$ 5	$ 1,774	5.73%	$ 25
Brokered	8,820	6.36	138	8,805	6.72	146
Other time	2,851	5.45	38	3,012	6.28	47
Total interest bearing deposits	12,806	5.74	181	13,591	6.49	218
Other borrowings	7,342	4.82	88	7,227	6.82	121
Total interest bearing liabilities	20,148	5.41	269	20,818	6.61	339
Shareholder's equity/other liabilities	6,003			5,966		
Total liabilities and shareholder's equity	$26,151			$26,784		
Net interest income			$284			$333
Net interest margin(1)			4.68%			5.30%
Interest rate spread(2)		3.68%			4.09%	

(1) Net interest margin represents net interest income as a percentage of total interest earning assets.

(2) Interest rate spread represents the difference between the rate on total interest earning assets and the rate on total interest bearing liabilities.

(3) Certain prior-year information has been reclassified to conform to the current year's presentation.

Rate/Volume Analysis

	Three Months Ended February 28, 2002 vs. 2001		
	Increase/(Decrease) due to Changes in:		
	Volume	Rate	Total
	(dollars in millions)		
INTEREST REVENUE			
General purpose credit card loans	$(16)	$(64)	$ (80)
Other consumer loans	7	(7)	—
Investment securities	(11)	(1)	(12)
Other	4	(31)	(27)
Total interest revenue	(20)	(99)	(119)
INTEREST EXPENSE			
Interest bearing deposits			
Savings	(9)	(11)	(20)
Brokered	—	(8)	(8)
Other time	(3)	(6)	(9)
Total interest bearing deposits	(13)	(24)	(37)
Other borrowings	2	(35)	(33)
Total interest expense	(11)	(59)	(70)
Net interest income	$ (9)	$(40)	$ (49)

The supplemental table below provides average managed loan balance sheet and rate information, which takes into account both owned and securitized loans:

Supplemental Average Managed Loan Balance Sheet Information

	Three Months Ended February 28,					
	2002			2001(1)		
	Avg. Bal.	Rate	Interest	Avg. Bal.	Rate	Interest
	(dollars in millions)					
General purpose credit card loans	$50,396	12.63%	$1,569	$49,273	13.66%	$1,660
Total interest earning assets	54,756	11.93	1,611	53,909	13.14	1,747
Total interest bearing liabilities	50,217	4.02	499	49,273	6.57	798
General purpose credit card interest rate spread		8.61			7.09	
Interest rate spread		7.91			6.57	
Net interest margin		8.24			7.14	

(1) Certain prior-year information has been reclassified to conform to the current year's presentation.

Provision for Consumer Loan Losses

The provision for consumer loan losses is the amount necessary to establish the allowance for loan losses at a level that the Company believes is adequate to absorb estimated losses in its consumer loan portfolio at the balance sheet date. The Company's allowance for loan losses is regularly evaluated by management for adequacy and was $873 million at February 28, 2002 and $847 million at November 30, 2001.

The provision for consumer loan losses, which is affected by net charge-offs, loan volume and changes in the amount of consumer loans estimated to be uncollectable, increased 62% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001. The increase was due to higher net charge-off rates, partially offset by lower levels of average general purpose credit card loans. In addition, during the quarter ended February 28, 2002 the Company increased the provision for consumer loan losses and the allowance for loan losses in excess of net charge-offs to reflect the impact of the difficult economic environment on the Company's credit card portfolio.

General purpose credit card loans are considered delinquent when interest or principal payments become 30 days past due. General purpose credit card loans are charged off at the end of the month during which an account becomes 180 days past due, except in the case of bankruptcies and fraudulent transactions, where loans are charged off earlier. Loan delinquencies and charge-offs are primarily affected by changes in economic conditions and may vary throughout the year due to seasonal consumer spending and payment behaviors.

During the quarter ended February 28, 2002, net charge-offs in both the owned and managed portfolios increased as compared with fiscal 2001. In the U.S., weak economic conditions, coupled with the seasoning of the Company's general purpose credit card loan portfolio and a higher level of bankruptcy filings, contributed to the higher net charge-off rate. In addition, the Company's delinquency rates in both the greater than 30-day and 90-day categories increased during the quarter ended February 28, 2002 from the comparable fiscal 2001 period. If these conditions continue to persist, the rate of net charge-offs may be higher in future periods.

The Company's future charge-off rates and credit quality are subject to uncertainties that could cause actual results to differ materially from what has been discussed above. Factors that influence the provision for consumer loan losses include the level and direction of general purpose credit card loan delinquencies and charge-offs, changes in consumer spending and payment behaviors, bankruptcy trends, the seasoning of the Company's general purpose credit card loan portfolio, interest rate movements and their impact on consumer behavior, and the rate and magnitude of changes in the Company's general purpose credit card loan portfolio, including the overall mix of accounts, products and loan balances within the portfolio.

The following table presents owned and managed general purpose credit card loans, delinquency and net charge-off rates:

Asset Quality

	February 28, 2002		February 28, 2001		November 30, 2001	
	Owned	Managed	Owned	Managed	Owned	Managed
			(dollars in millions)			
General purpose credit card loans at period-end	$20,554	$49,569	$21,739	$49,493	$20,085	$49,332
General purpose credit card loans contractually past due as a percentage of period-end general purpose credit card loans:						
30 to 89 days	3.19%	3.63%	3.01%	3.60%	3.43%	3.83%
90 to 179 days	2.80%	3.12%	2.23%	2.74%	2.74%	3.02%
Net charge-offs as a percentage of average general purpose credit card loans (year-to-date)	6.17%	6.49%	3.95%	4.79%	4.76%	5.36%

Non-Interest Expenses

Non-interest expenses decreased 10% in the quarter ended February 28, 2002 from the comparable period of fiscal 2001. Compensation and benefits expense was unchanged as compared to the prior year. Higher costs associated with higher employment levels, resulting from increased collection activities, were offset by lower levels of incentive-based compensation costs. Occupancy and equipment expense decreased 13%, primarily due to lower rent expense. Information processing and communications expense decreased 8%, primarily reflecting a decrease in external data processing costs and telecommunications expense. Marketing and business development expense decreased 35%, primarily due to lower advertising costs. Professional services expense decreased 13%, primarily due to lower consulting costs, partially offset by increased costs associated with account collections. Other expense increased 18%, primarily reflecting an increase in certain collection costs.

Liquidity and Capital Resources

The Company's total assets increased to $491.7 billion at February 28, 2002 from $482.6 billion at November 30, 2001, primarily attributable to increases in financial instruments owned, including U.S. government and agency securities. A substantial portion of the Company's total assets consists of highly liquid marketable securities and short-term receivables arising principally from securities transactions. The highly liquid nature of these assets provides the Company with flexibility in financing and managing its business.

Balance sheet leverage ratios are one indicator of capital adequacy when viewed in the context of a company's overall liquidity and capital policies. The Company views the adjusted leverage ratio as a more relevant measure of financial risk when comparing financial services firms and evaluating leverage trends. This ratio is adjusted to reflect the low risk nature of assets attributable to matched resale agreements, certain securities borrowed transactions and segregated customer cash balances. In addition, the adjusted leverage ratio reflects the deduction from shareholders' equity of the amount of equity used to support goodwill, as the Company does not view this amount of equity as available to support its risk capital needs. The following table sets forth the Company's total assets, adjusted assets, leverage ratios and book value per share:

	Balance at	
	February 28, 2002	November 30, 2001
	(dollars in millions, except per share data)	
Total assets	$491,651	$482,628
Adjusted assets(1)	$341,782	$338,957
Leverage ratio(2)	23.8x	23.6x
Adjusted leverage ratio(3)	16.5x	16.5x
Book value per share(4)	$ 18.97	$ 18.64

(1) Adjusted assets represent total assets less the sum of (i) assets that were recorded under certain provisions of SFAS No. 140, (ii) the lesser of securities purchased under agreements to resell or securities sold under agreements to repurchase, (iii) certain securities borrowed transactions, (iv) segregated customer cash balances and (v) goodwill.

(2) Leverage ratio equals total assets divided by tangible shareholders' equity ($20,669 million at February 28, 2002 and $20,488 million at November 30, 2001). For purposes of this calculation, tangible shareholders' equity includes preferred and common equity and Preferred Securities Issued by Subsidiaries, less goodwill.

(3) Adjusted leverage ratio equals adjusted assets divided by tangible shareholders' equity.

(4) Book value per share equals common shareholders' equity divided by common shares outstanding of 1,101 million at February 28, 2002 and 1,093 million at November 30, 2001.

The Company's senior management establishes the overall funding and capital policies of the Company, reviews the Company's performance relative to these policies, monitors the availability of sources of financing, reviews the foreign exchange risk of the Company and oversees the liquidity and interest rate sensitivity of the Company's asset and liability position. The primary goal of the Company's funding and liquidity activities is to ensure adequate financing over a wide range of potential credit ratings and market environments. For a description of the Company's funding and capital policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" included in the Form 10-K. The Company also has a liquidity reserve policy that is designed to cover volatility in funding needs. The liquidity reserve is held in the form of cash and cash equivalents and a target reserve is periodically assessed and determined based on funding volatility and capacity.

The Company views return on equity to be an important measure of its performance, in the context of both the particular business environment in which the Company is operating and its peer group's results. In this regard, the Company actively manages its consolidated capital position based upon, among other things, business opportunities, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses. The Company returns internally generated equity capital that is in excess of the needs of its businesses to its shareholders through common stock repurchases and dividends.

The Company funds its balance sheet on a global basis. The Company raises funding for its Securities and Investment Management businesses through diverse sources. These sources include the Company's capital, including equity and long-term debt; repurchase agreements; U.S., Canadian, Euro, Japanese and Australian commercial paper; letters of credit; unsecured bond borrowings; securities lending; buy/sell agreements; municipal reinvestments; master notes; and committed and uncommitted lines of credit. Repurchase agreement transactions, securities lending and a portion of the Company's bank borrowings are made on a collateralized basis and, therefore, provide a more stable source of funding than short-term unsecured borrowings.

The funding sources utilized for the Company's Credit Services business include the Company's capital, including equity and long-term debt; asset-backed securitizations; deposits; Federal Funds; and short-term bank notes. The Company sells consumer loans through asset securitizations using several transaction structures, including an extendible asset-backed certificate program.

The asset securitization market is a significant source of funding for the Company's Credit Services business. By utilizing this market, the Company further diversifies its funding sources, realizes cost-effective funding and reduces reliance on the Company's other funding sources, including unsecured debt. The securitization transaction structures utilized for the Credit Services business are accounted for as sales, i.e., off-balance sheet transactions in accordance with U.S. generally accepted accounting principles (see Note 5 to the condensed consolidated financial statements). In connection with its Discover Card securitization program, the Company transfers credit card receivables, on a revolving basis, to the Discover Card Master Trust I (the "Trust"), which issues asset-backed securities registered with the Securities and Exchange Commission. This structure includes certain features designed to protect the investors that could result in earlier-than-expected amortization of the transactions, potentially resulting in the need for the Company to obtain alternative funding arrangements. The primary such feature relates to the availability and adequacy of cash flows in the securitized pool of receivables to meet contractual requirements ("economic early amortization").

Economic early amortization risk reflects the possibility of negative net securitization cash flows and is driven primarily by the Trust's credit card receivables performance (in particular, receivables yield, cardmember fees and credit losses incurred) as well as the contractual rate of return of the asset-based securities. In the event of an economic early amortization, receivables that would otherwise have been subsequently purchased by the Trust from the Company would instead continue to be recognized on the Company's condensed consolidated statements of financial condition since the cash flows generated in the Trust would instead be used to repay investors in the asset-based securities. These recognized receivables would require the Company to obtain alternative funding. Although the Company believes that the combination of factors that would result in an economic early amortization event is remote, the Company also believes its access to alternative funding sources would mitigate this potential liquidity risk.

The Company's bank subsidiaries solicit deposits from consumers, purchase Federal Funds and issue short-term bank notes. Interest bearing deposits are classified by type as savings, brokered and other time deposits. Savings deposits consist primarily of money market deposit accounts sold directly to cardmembers and savings deposits from individual securities clients. Brokered deposits consist primarily of certificates of deposit issued by the Company's bank subsidiaries. Other time deposits include individual and institutional certificates of deposit.

The Company's reliance on external sources to finance a significant portion of its day-to-day operations makes access to global sources of financing important. The cost and availability of unsecured financing generally are dependent on the Company's short-term and long-term credit ratings. Factors that are significant to the determination of the Company's credit ratings or otherwise affect the ability of the Company to raise short-term and long-term financing include its: level and volatility of earnings, relative positions in the markets in which it operates, global and product diversification, risk management policies, cash liquidity and capital structure. In addition, the agencies that rate the Company's debt have focused on certain recent changes in the market that may require financial services firms to assume more credit risk in connection with their corporate lending activities. A deterioration in any of the previously mentioned factors or combination of these factors may lead rating agencies to downgrade the credit ratings of the Company, thereby increasing the cost to the Company in obtaining unsecured financings. In addition, the Company's debt ratings can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical, such as over-the-counter derivative transactions, including credit derivatives and interest rate swaps.

As of March 31, 2002, the Company's credit ratings were as follows:

	Commercial Paper	Senior Debt
Dominion Bond Rating Service Limited	R-1 (middle)	AA (low)
Fitch Ratings(1)	F1+	AA
Moody's Investors Service	P-1	Aa3
Rating and Investment Information, Inc	a-1+	AA
Standard & Poor's(2)	A-1+	AA-

(1) In January 2002, Fitch, Inc. rebranded its name from Fitch to Fitch Ratings. In October 2001, Fitch Ratings placed the Company's senior debt credit ratings on negative outlook.

(2) In July 2001, Standard & Poor's placed the Company's senior debt credit ratings on negative outlook.

As the Company continues to expand globally and derives revenues in various currencies, foreign currency management is a key element of the Company's financial policies. The Company benefits from operating in several different currencies because weakness in any particular currency often is offset by strength in another currency. The Company closely monitors its exposure to fluctuations in currencies and, where cost-justified, adopts strategies to reduce the impact of these fluctuations on the Company's financial performance. These strategies include engaging in various hedging activities to manage income and cash flows denominated in foreign currencies and using foreign currency borrowings, when appropriate, to finance investments outside the U.S.

During the quarter ended February 28, 2002, the Company issued senior notes aggregating $241 million, including non-U.S. dollar currency notes aggregating $46 million. The Company has entered into certain transactions to obtain floating interest rates based primarily on short-term London Interbank Offered Rates ("LIBOR") trading levels. At February 28, 2002 the aggregate outstanding principal amount of the Company's Senior Indebtedness (as defined in the Company's public debt shelf registration statements) was approximately $82.6 billion (including Senior Indebtedness consisting of guaranteed obligations of the indebtedness of subsidiaries). Between February 28, 2002 and March 31, 2002, the Company's long-term borrowings, net of repayments and repurchases, increased by approximately $1.5 billion. In April 2002, the Company completed the sale of a $7.3 billion global bond offering, the largest bond sale in the Company's history.

During the quarter ended February 28, 2002, the Company purchased $205 million of its common stock. Subsequent to February 28, 2002 and through March 31, 2002, the Company purchased an additional $77 million of its common stock.

The Company maintains borrowing relationships with a broad range of banks, financial institutions, counterparties and others from which it draws funds in a variety of currencies.

The Company maintains a senior revolving credit agreement with a group of banks to support general liquidity needs, including the issuance of commercial paper (the "MSDW Facility"). Under the terms of the MSDW Facility, the banks are committed to provide up to $5.5 billion. The MSDW Facility contains restrictive covenants which require, among other things, that the Company maintain specified levels of shareholders' equity. At February 28, 2002, the Company maintained an $8.4 billion surplus shareholders' equity as compared with the MSDW Facility's restrictive covenant requirement. The Company believes that the covenant restrictions will not impair its ability to obtain funding under the MSDW Facility nor impair its ability to pay its current level of dividends. At February 28, 2002, no borrowings were outstanding under the MSDW Facility.

The Company maintains a master collateral facility that enables Morgan Stanley & Co. Incorporated ("MS&Co."), one of the Company's U.S. broker-dealer subsidiaries, to pledge certain collateral to secure loan arrangements, letters of credit and other financial accommodations (the "MS&Co. Facility"). As part of the MS&Co. Facility, MS&Co. also maintains a secured committed credit agreement with a group of banks that are parties to the master collateral facility under which such banks are committed to provide up to $1.875 billion. The credit agreement contains restrictive covenants which require, among other things, that MS&Co. maintain specified levels of consolidated stockholder's equity and Net Capital, each as defined in the MS&Co. Facility. At February 28, 2002, MS&Co. maintained a $2.4 billion surplus consolidated stockholder's equity and a $3.3 billion surplus Net Capital. The Company believes that the restrictive covenants will not impair its ability to secure loan arrangements, letters of credit and other financial accommodations under the MS&Co. Facility. At February 28, 2002, no borrowings were outstanding under the MS&Co. Facility.

The Company also maintains a revolving credit facility that enables Morgan Stanley & Co. International Limited ("MSIL"), the Company's London-based broker-dealer subsidiary, to obtain committed funding from a syndicate of banks (the "MSIL Facility") by providing a broad range of collateral under repurchase agreements for a secured repo facility and a Company guarantee for an unsecured facility. The syndicate of banks is committed to provide up to an aggregate of $1.95 billion, available in six major currencies. The facility agreement contains restrictive covenants which require, among other things, that MSIL maintain specified levels of Shareholder's Equity and Financial Resources, each as defined in the MSIL Facility. At February 28, 2002, MSIL maintained a $1.5 billion surplus Shareholder's Equity and a $1.9 billion surplus Financial Resources. The MSDW Facility's restrictive covenants described above apply to the Company as guarantor. The Company believes that the restrictive covenants will not impair its ability to obtain funding under the MSIL Facility. At February 28, 2002, no borrowings were outstanding under the MSIL Facility.

Morgan Stanley Japan Limited ("MSJL"), the Company's Tokyo-based broker-dealer subsidiary, maintains a committed revolving credit facility, guaranteed by the Company, that provides funding to support general liquidity needs, including support of MSJL's unsecured borrowings (the "MSJL Facility"). The MSDW Facility's restrictive covenants described above apply to the Company as guarantor. Under the terms of the MSJL Facility, a syndicate of banks is committed to provide up to 70 billion Japanese yen. The Company believes that the restrictive covenants will not impair its ability to obtain funding under the MSJL Facility. At February 28, 2002, no borrowings were outstanding under the MSJL Facility.

Neither the MSDW Facility, the MS&Co. Facility, the MSIL Facility nor the MSJL Facility require the Company to maintain specific credit ratings. The Company anticipates that it will utilize any of these facilities for short-term funding from time to time.

In December 2001, the Company redeemed all 1,725,000 outstanding shares of its Series A Fixed/Adjustable Rate Cumulative Preferred Stock at a redemption price of $200 per share. The Company also simultaneously redeemed all corresponding Depositary Shares at a redemption price of $50 per Depositary Share. Each Depositary Share represented ¼ of a share of the Company's Series A Fixed/Adjustable Rate Cumulative Preferred Stock.

Commitments and Less Liquid Assets

The Company's commitments associated with outstanding letters of credit, private equity and other principal investment activities, and financing commitments as of February 28, 2002 are summarized below by period of expiration. Since commitments associated with letters of credit and financing arrangements may expire unused, the amounts shown do not necessarily reflect actual future cash funding requirements:

	Remaining Fiscal 2002	Fiscal 2003-2004	Fiscal 2005-2006	Thereafter	Total
		(dollars in millions)			
Letters of credit(1)	$4,984	$ 187	$ —	$ —	$ 5,171
Private equity and other principal investments(1)	112	225	122	301	760
Financing commitments to investment grade counterparties(1)	1,269	1,569	534	1,041	4,413
Financing commitments to non-investment grade counterparties(1)	245	168	181	280	874
Total	$6,610	$2,149	$837	$1,622	$11,218

(1) See Note 10 to the condensed consolidated financial statements.

The table above does not include commitments to extend credit for consumer loans in the amount of approximately $300 billion. Such commitments arise from agreements with customers for unused lines of credit on certain credit cards, provided there is no violation of conditions established in the related agreement. These commitments, substantially all of which the Company can terminate at any time and which do not necessarily represent future cash requirements, are periodically reviewed based on account usage and customer creditworthiness. In addition, in the ordinary course of business, the Company guarantees the unsecured debt and/or certain trading obligations (including obligations associated with derivatives, foreign exchange contracts and the settlement of physical commodities) of certain subsidiaries. These guarantees generally are entity or product specific and are required by investors or trading counterparties. The activities of the subsidiaries covered by these guarantees (including any related unsecured debt or trading obligations) are included in the Company's condensed consolidated financial statements.

At February 28, 2002 certain assets of the Company, such as real property, equipment and leasehold improvements of $2.5 billion, aircraft assets of $5.0 billion and goodwill of $1.4 billion, were illiquid. Certain equity investments made in connection with the Company's private equity and other principal investment activities, certain high-yield debt securities, certain collateralized mortgage obligations and mortgage-related loan products, bridge financings, and certain senior secured loans and positions also are not highly liquid.

At February 28, 2002, the Company had aggregate principal investments associated with its private equity and other principal investment activities (including direct investments and partnership interests) with a carrying value of approximately $900 million, of which approximately $300 million represented the Company's investments in its real estate funds.

In connection with the Company's fixed income securities activities, the Company underwrites, trades, invests and makes markets in non-investment grade instruments ("high-yield instruments"). For purposes of this discussion, high-yield instruments are defined as fixed income, emerging market, preferred equity securities and distressed debt rated BB+ or lower (or equivalent ratings by recognized credit rating agencies) as well as non-rated securities which, in the opinion of the Company, contain credit risks associated with non-investment grade instruments. For purposes of this discussion, positions associated with the Company's credit derivatives business are not included because reporting gross market value exposures would not accurately reflect the risks associated with these positions due to the manner in which they are risk-managed. High-yield instruments generally involve greater risk than investment grade securities due to the lower credit ratings of the issuers, which typically have relatively high levels of indebtedness and, therefore, are more sensitive to adverse economic conditions. In addition, the market for high-yield instruments is, and may continue to be, characterized by periods of volatility and illiquidity. The Company has credit and other risk policies and procedures to monitor total inventory positions and risk concentrations for high-yield instruments that are administered in a manner consistent with the Company's overall risk management policies and control structure. The Company records high-yield instruments at fair value. Unrealized gains and losses are recognized currently in the Company's consolidated statements of income. At February 28, 2002 and November 30, 2001, the Company had high-yield instruments owned with a market value of approximately $1.6 billion and $1.3 billion, respectively, and had high-yield instruments sold, not yet purchased, with a market value of $0.5 billion and $0.5 billion, respectively.

In connection with certain of its business activities, the Company provides, on a selective basis, through certain of its subsidiaries (including Morgan Stanley Bank) financing or financing commitments to companies in the form of senior and subordinated debt, including bridge financing. The borrowers may be rated investment grade or non-investment grade. These loans and funding commitments typically are secured against the borrower's assets (in the case of senior loans), have varying maturity dates, and are generally contingent upon certain representations, warranties and contractual conditions applicable to the borrower. As part of these activities, the Company may syndicate and trade certain of these loans. At February 28, 2002 and November 30, 2001, the aggregate value of investment grade loans and positions was $3.2 billion and $1.5 billion, respectively, and the aggregate value of non-investment grade loans and positions was $1.7 billion and $1.4 billion, respectively. In connection with these business activities (loans and positions and financing commitments), the Company had hedges with a notional amount of $1.3 billion at February 28, 2002 and $1.4 billion at November 30, 2001. The Company expects that requests to provide financing or financing commitments in connection with certain investment banking activities will continue and may grow in the future.

In March 2002, the Company purchased an office facility with 725,000 square feet of space in Westchester County, New York.

At February 28, 2002, financial instruments owned by the Company included derivative products (generally in the form of futures, forwards, options, swaps, including credit default swaps, caps, collars, floors, swap options and similar instruments that derive their value from underlying interest rates, foreign exchange rates, commodities, equity instruments, equity indices, reference credits or other assets) that had an aggregate fair value of $31.8 billion. The fair value of all derivative products in a gain position represents the Company's maximum exposure to derivatives related credit risk. Derivative products may have both on- and off-balance sheet risk implications, depending on the nature of the contract. However, in many cases derivatives serve to reduce, rather than increase, the Company's exposure to losses from market, credit and other risks. The risks associated with the Company's derivative activities, including market and credit risks, are managed on an integrated basis with associated cash instruments in a manner consistent with the Company's overall risk management policies and procedures. The Company manages its credit exposure to derivative products through various means, which include reviewing counterparty financial soundness periodically; entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances; and limiting the duration of exposure.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk.

As of February 28, 2002, Aggregate Value-at-Risk ("VaR") for the Company's trading and related activities, measured at a 99% confidence level with a one-day time horizon, was $41 million. Aggregate VaR decreased slightly from $42 million at November 30, 2001, as a decline in equity price VaR was partially offset by an increase in commodity price VaR and a lower diversification benefit. For a more representative summary of the Company's trading and related market risk profile during the course of the quarter ended February 28, 2002, see the average VaR for each of the Company's primary risk categories in the table below.

The Company uses VaR as one of a range of risk management tools and notes that VaR values should be interpreted in light of the method's strengths and limitations. For a further discussion of the Company's risk management policies and control structure, refer to the "Risk Management" section of the Form 10-K.

The table below presents the Company's VaR for each of the Company's primary risk exposures and on an aggregate basis at February 28, 2002 and November 30, 2001, incorporating substantially all financial instruments generating market risk that are managed by the Company's institutional trading businesses. This measure of VaR incorporates most of the Company's trading-related market risks. Aggregate VaR also incorporates certain non-trading positions, including (a) the funding liabilities related to institutional trading positions and (b) public-company equity positions recorded as principal investments by the Company. The incremental impact on VaR of these non-trading positions was not material as of February 28, 2002 and November 30, 2001, and, therefore, the table below does not separately report trading and non-trading VaRs.

Primary Market Risk Category	99%/One-Day VaR	
	At February 28, 2002	At November 30, 2001
	(dollars in millions, pre-tax)	
Interest rate	$29	$30
Equity price	17	23
Foreign exchange rate	6	6
Commodity price	27	24
Subtotal	79	83
Less diversification benefit(1)	38	41
Aggregate VaR	$41	$42

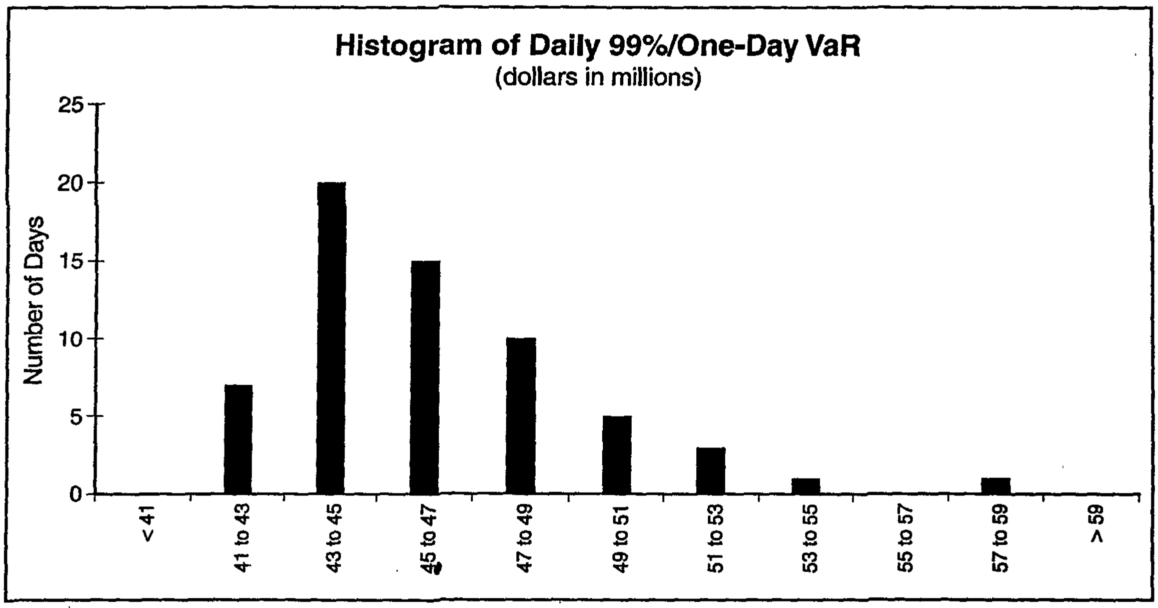
(1) Equals the difference between Aggregate VaR and the sum of the VaRs for the four risk categories. This benefit arises because the simulated 99%/one-day losses for each of the four primary market risk categories occur on different days; similar diversification benefits also are taken into account within each such category.

In order to facilitate comparisons with other global financial services firms, the Company notes that its Aggregate 95%/one-day VaR at February 28, 2002 was $28 million.

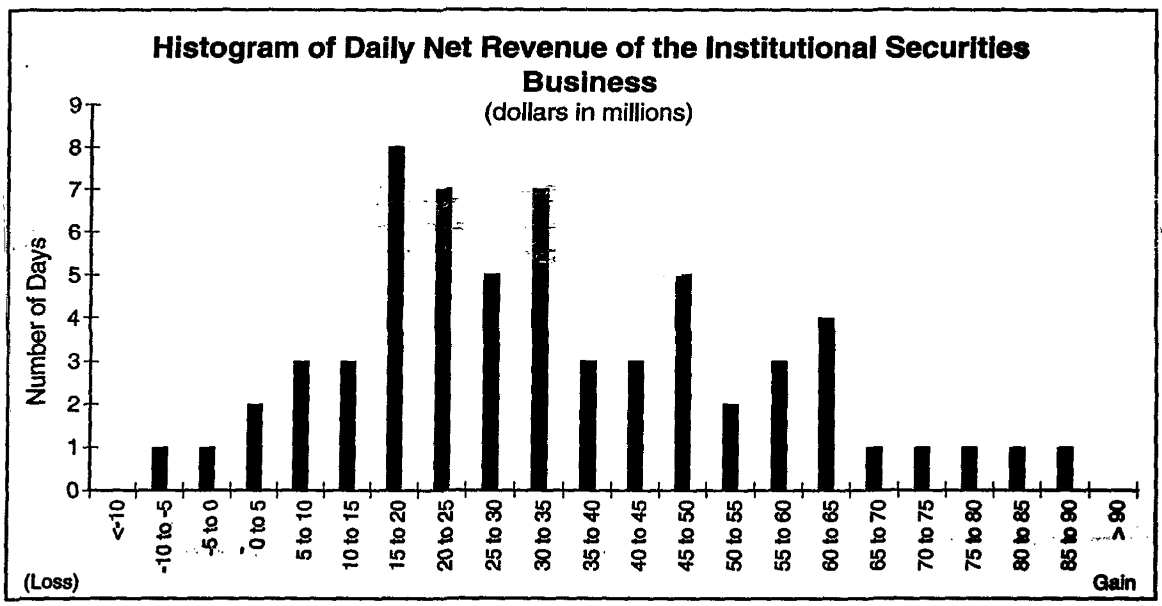
The table below presents the high, low and average 99%/one-day Aggregate trading VaR over the course of the quarter ended February 28, 2002 for substantially all of the Company's institutional trading activities. Certain market risks included in the quarter-end Aggregate VaR discussed above are excluded from this measure (*e.g.*, equity price risk in public-company equity positions recorded as principal investments by the Company and certain funding liabilities related to institutional trading positions).

Primary Market Risk Category	Daily 99%/One-Day VaR for the Quarter Ended February 28, 2002		
	High	Low	Average
	(dollars in millions, pre-tax)		
Interest rate	$39	$25	$30
Equity price	32	16	23
Foreign exchange rate	16	5	9
Commodity price	32	23	29
Aggregate trading VaR	58	42	46

The histogram below presents the Company's daily 99%/one-day VaR for its institutional trading activities during the quarter ended February 28, 2002:



The histogram below presents the distribution of daily net revenues during the quarter ended February 28, 2002 for the Company's institutional trading businesses (net of interest expense and including commissions and primary revenue credited to the trading businesses):



As of February 28, 2002, the level of interest rate risk exposure associated with the Company's consumer lending activities, as measured by the reduction in pre-tax income resulting from a hypothetical, immediate 100-basis-point increase in interest rates, had not changed significantly from November 30, 2001.

Derivatives.

With respect to certain derivative transactions, the Company requires collateral from its counterparties, principally cash and U.S. government and agency securities, to reduce default risk. The following table presents a summary of counterparty credit ratings for the replacement cost of over-the-counter derivatives in a gain position by maturity at February 28, 2002. In addition, collateral received by the Company is presented by the credit rating of the counterparties providing the collateral. The following table includes credit exposure only from over-the-counter derivative transactions and does not include other credit exposures, such as the Company's senior lending activities:

Credit Rating[1]	Years To Maturity				Cross-Maturity Netting[2]	Net-Exposure Pre-Collateral	Net-Exposure Post-Collateral
	Less than 1	1-3	3-5	Over 5			
	(dollars in millions)						
AAA	$ 715	$ 971	$1,407	$ 3,429	$(1,438)	$ 5,084	$ 3,343
AA	3,151	2,534	1,997	5,857	(3,363)	10,176	6,025
A	3,869	3,608	1,395	2,817	(2,541)	9,148	7,270
BBB	1,621	822	490	1,374	(589)	3,718	2,907
Non-investment grade	1,347	505	292	442	(364)	2,222	1,644
Total	$10,703	$8,440	$5,581	$13,919	$(8,295)	$30,348	$21,189

(1) Credit ratings are determined by external rating agencies or by equivalent ratings used by the Company's Credit Risk Department.

(2) Represents netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are net within such maturity category.

Part II OTHER INFORMATION

Item 1. Legal Proceedings

(a) The following matters have been commenced against the Company.

Electricity Trading Matters. Morgan Stanley Capital Group Inc., a subsidiary of the Company ("MSCG"), is involved in several proceedings arising out of its activities as a wholesale power marketer in connection with events in the Western energy markets that occurred during and after the summer of 2000.

These proceedings include purported class actions, now consolidated in the California Superior Court for San Diego County, brought on behalf of electricity consumers in the State of California against several power marketers and generators, including MSCG, a power marketer. These complaints, allege that during the summer of 2000, the defendants fixed the prices for electricity in violation of California's unfair competition statutes. The actions seek reimbursement of alleged overcharges and punitive damages.

In addition, various complaints against MSCG and other power marketers have been filed with the Federal Energy Regulatory Commission ("FERC") seeking to rescind or modify long-term power contracts entered into during and after the summer of 2000 as allegedly unjust and unreasonable. On April 10, 2002, the FERC ordered the parties to engage in contractual mediation and set a deadline of May 31, 2003 to rule on the matter.

On February 13, 2002, FERC announced that it would conduct an investigation to determine whether abuses of market power or market manipulation occurred in the trading of wholesale electricity in California and the Western United States during 2000. MSCG is cooperating with this investigation.

On March 19, 2002, the California Attorney General filed a complaint with FERC against all sellers in the California power markets, including MSCG, seeking refunds of alleged overcharges in long-term and short-term wholesale power transactions during 2000 and 2001 and to revoke the authority of some or all sellers to participate in the wholesale power markets. MSCG has answered and moved to dismiss this complaint.

(b) The following developments have occurred with respect to certain matters previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended November 31, 2001.

IPO Allocation Matters. On April 1, 2002, the United States Court of Appeals for the Second Circuit denied the writ of mandamus on the motion to recuse the judge in the purported class action securities suits.

On or about April 2, 2002, a purported class action complaint, captioned *Breakaway Solutions, Inc. v. Morgan Stanley & Co. Incorporated, et al.*, was filed in the Delaware Court of Chancery against the Company and two other underwriters. The complaint was brought on behalf of a class of issuers who, during the period January 1, 1998 to October 31, 2000, issued IPO securities pursuant to underwriting agreements with defendants, which securities increased in value by 15 percent or more within 30 days following the IPO. The complaint alleges that defendants allocated underpriced stock to certain of defendants' favored clients and, directly or indirectly, shared in portions of the profits of such favored clients pursuant to side agreements or understandings, with the alleged effect of depriving issuers of millions of dollars in IPO proceeds. The complaint seeks indemnification and contribution for the costs of defending securities class action lawsuits brought by shareholders relating to issuers' IPOs and any judgments that may be entered in connection therewith. Plaintiff filed for bankruptcy court protection on September 5, 2001.

Research Matters. In connection with its review of the independence of research departments, the New York State Attorney General's office has issued subpoenas to several financial services firms, including the Company. The Company is cooperating with this investigation.

Nelson, et al. v. Aim Advisors, Inc., et al. On March 8, 2002, the court granted defendants' motions to sever plaintiffs' claims and transfer venue. The court ordered the claims against Morgan Stanley Investment Advisors Inc. and Morgan Stanley Distributors Inc. transferred to the United States District Court for the Southern District of New York and those against Van Kampen Asset Management Inc. and Van Kampen Funds Inc. to the United States District Court for the Northern District of Illinois. On March 29, 2002, the United States District Court for the Southern District of Illinois entered an order dismissing the case without prejudice, upon stipulation of the parties.

Item 4. Submission of Matters to a Vote of Security Holders

The annual meeting of stockholders of the Company was held on March 19, 2002.

The stockholders voted on proposals to (1) elect one class of directors for a three-year term, (2) ratify the appointment of Deloitte & Touche LLP as independent auditors and (3) approve an amendment to the Directors' Equity Capital Accumulation Plan ("DECAP"). The stockholders also voted on a stockholder proposal recommending that the Board of Directors take action to institute the annual election of all directors, instead of the stagger system.

The stockholders' vote ratified the appointment of the independent auditors and approved the amendment to the DECAP. All nominees for election to the board were elected to the terms of office set forth in the Proxy Statement dated February 15, 2002. In addition, Robert P. Bauman, Edward A. Brennan, C. Robert Kidder, John W. Madigan, Michael A. Miles, Philip J. Purcell and Robert G. Scott will continue to serve on the board. The stockholder proposal was approved. The number of votes cast for, against or withheld, and the number of abstentions with respect to each proposal, is set forth below.

	For	Against/Withheld	Abstain	Broker Non-vote
Election of Directors:				
Nominee:				
John E. Jacob	911,035,356	20,512,607	*	*
Charles F. Knight	915,704,528	15,843,435	*	*
Miles L. Marsh	909,101,135	22,446,828	*	*
Laura D'Andrea Tyson	906,691,450	24,856,513	*	*
Ratification of Independent Auditors:	898,393,301	25,264,187	7,888,873	*
Approval of the Amendment to the Directors' Equity Capital Accumulation Plan:	562,767,271	355,096,170	13,149,606	*
Stockholder Proposal:	485,009,101	257,857,881	30,276,117	158,403,262

* Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

An exhibit index has been filed as part of this Report on Page E-1.

(b) Reports on Form 8-K

A Current Report on Form 8-K dated December 19, 2001 reporting Item 5 and Item 7 in connection with the announcement of the Company's financial results for the fourth fiscal quarter and the fiscal year ended November 30, 2001.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MORGAN STANLEY DEAN WITTER & CO.
(Registrant)

By: /s/ JOANNE PACE
Joanne Pace, Controller and
Principal Accounting Officer

Date: April 15, 2002

Annex 4

MSDW's Form 10-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2001

Commission File Number 1-11758

Morgan Stanley Dean Witter & Co.

(Exact name of Registrant as specified in its charter)

Delaware	**36-3145972**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1585 Broadway New York, N.Y.	**10036**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 761-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange Pacific Exchange
Rights to Purchase Series A Junior Participating Preferred Stock	New York Stock Exchange Pacific Exchange
8.03% Capital Units	New York Stock Exchange
8% Reset PERQS® Due April 30, 2002; 15% Reset PERQS Due April 30, 2002; 12% Reset PERQS Due May 30, 2002; 6% Reset PERQS Due May 30, 2002; 10% Reset PERQS Due June 28, 2002; 8% Reset PERQS Due October 30, 2002; 9% Reset PERQS Due December 30, 2002; 8% Reset PERQS Due February 28, 2003	American Stock Exchange
8% SPARQS℠ Due April 15, 2003; 8% SPARQS Due June 1, 2003; 8% SPARQS Due June 15, 2003; 10% SPARQS Due June 15, 2003; 8% SPARQS Due June 30, 2003; 12% SPARQS Due June 30, 2003; 6.3% SPARQS Due June 30, 2003; 8% SPARQS Due July 1, 2003	American Stock Exchange
Exchangeable Notes Due July 31, 2003; Exchangeable Notes Due December 13, 2004; Exchangeable Notes Due March 2, 2006 (2 issuances); Exchangeable Notes Due May 30, 2006; Exchangeable Notes Due June 5, 2006; Exchangeable Notes Due July 7, 2006; Exchangeable Notes Due August 6, 2006; Exchangeable Notes Due August 15, 2006; Exchangeable Notes Due October 19, 2006; Exchangeable Notes Due March 30, 2007	New York Stock Exchange
Exchangeable Notes Due July 29, 2005 (2 issuances); Exchangeable Notes Due April 15, 2005; Exchangeable Notes Due August 17, 2005; Exchangeable Notes Due November 30, 2007 (2 issuances); Exchangeable Notes Due January 30, 2008; Exchangeable Notes Due March 30, 2008; Exchangeable Notes Due May 30, 2008 (2 issuances); Exchangeable Notes Due December 30, 2008 (2 issuances)	American Stock Exchange
PERKS℠ Due March 30, 2004	American Stock Exchange
Nikkei 225 Protection Step-Up Exchangeable Notes Due July 31, 2003	New York Stock Exchange
Callable Index-Linked Notes Due December 30, 2008	American Stock Exchange
Dow Jones Industrial Average BRIDGES℠ Due April 30, 2004; Standard & Poor's 500 BRIDGES Due December 31, 2003; Dow Jones Euro Stoxx 50 BRIDGES Due July 30, 2004; Redeemable BRIDGES Due May 30, 2005 (based on Morgan Stanley Technology Index)	New York Stock Exchange
5 5/8% Notes Due January 20, 2004; 7.25% Notes Due June 17, 2029	New York Stock Exchange
BOXES℠ Due October 30, 2031; BOXES Due January 30, 2032	American Stock Exchange Philadelphia Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

PLUS℠ Due December 30, 2004	Nasdaq National Market

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☒.

Aggregate market value of the voting stock held by non-affiliates of the Registrant at January 4, 2002 was approximately $64,931,883,322. This calculation does not reflect a determination that persons are affiliates for any other purposes.

Number of shares outstanding of the Registrant's common stock, $.01 par value, as of January 28, 2002: 1,101,617,649.

Documents Incorporated By Reference: Portions of the Registrant's definitive proxy statement for its annual stockholders' meeting to be held on March 19, 2002 are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12 and 13.

Morgan Stanley Dean Witter & Co.
Annual Report on Form 10-K
For the fiscal year ended November 30, 2001

Table of Contents

* * *

Forward-Looking Statements

Certain statements in this Report, including (without limitation) those under "Legal Proceedings" in Part I, Item 3, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 ("MD&A"), and "Quantitative and Qualitative Disclosures about Market Risk" in Part II, Item 7A, may constitute forward-looking statements. These forward-looking statements are not historical facts and represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond our control. The risks and uncertainties involved in our businesses could affect the matters referred to in such statements, including (without limitation) the effect of economic and market conditions, the level and volatility of interest rates and currency values and equity and commodity prices, the actions of current and potential competitors, the impact of current, pending or future legislation and regulation in the U.S. and throughout the world, the potential effects of technological changes and other risks and uncertainties detailed under "Certain Factors Affecting Results of Operations" in MD&A and in "Competition and Regulation" under each of "Securities," "Investment Management" and "Credit Services" in Part I, Item 1. Accordingly, you are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

Part I

Item 1. Business.

Overview. Morgan Stanley Dean Witter & Co. ("Morgan Stanley"*) is a global financial services firm that maintains leading market positions in each of its three business segments—Securities, Investment Management and Credit Services.

Morgan Stanley's securities business segment ("Securities") includes:

- *Investment banking*, including securities underwriting and distribution; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; and financing and investing.
- *Sales, trading, financing and market-making activities to facilitate client orders and on a proprietary basis,* in such products as equity securities and related products; and fixed income securities and related products, including foreign exchange and commodities.
- *Principal investing*, including private equity activities.
- *Securities services to meet individual investor needs,* including full-service brokerage services for investors seeking financial advice; online execution capabilities for self-directed investors desiring to invest with limited professional assistance; and financial advisory services for high net worth clients.
- *Other businesses,* including aircraft financing activities.

Morgan Stanley's investment management business segment ("Investment Management") includes:

- *Global asset management products and services for individual and institutional investors,* through three principal distribution channels: Morgan Stanley's financial advisors and investment representatives; a non-proprietary channel consisting of third-party broker-dealers, banks, financial planners and other intermediaries; and Morgan Stanley's institutional channel.

Morgan Stanley's credit services business segment ("Credit Services") includes:

- *Discover Financial Services* ("DFS"), which offers the Discover® Classic Card, the Discover Gold Card, the Discover Platinum Card, the Morgan Stanley Card℠ and other proprietary general purpose credit cards as well as related consumer finance products and services.
- *Discover Business Services,* a proprietary network of merchant and cash access locations in the U.S.

Morgan Stanley combines global strength in investment banking and institutional sales and trading with strength in providing full-service brokerage services, global asset management services and, primarily through its Discover Card brand, quality consumer credit products. Morgan Stanley provides these products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals.

At November 30, 2001, Morgan Stanley had the second largest financial advisor sales organization in the U.S. and had 13,690 professional financial advisors and approximately 550 securities branch offices globally. Morgan Stanley also had one of the largest global asset management operations of any full-service securities firm, with total assets under management or supervision of $459 billion. Based on its approximately 45.7 million general purpose credit card accounts as of November 30, 2001, Morgan Stanley was one of the largest credit card issuers in the U.S., with the largest proprietary merchant and cash access network. Financial information concerning

* Unless the context otherwise requires, the terms "Morgan Stanley", the "Company", "we" and "our" mean Morgan Stanley Dean Witter & Co. and its consolidated subsidiaries.

Morgan Stanley for each of the fiscal years ended November 30, 2001, November 30, 2000 and November 30, 1999 is included in the consolidated financial statements and the notes thereto in "Financial Statements and Supplementary Data" in Part II, Item 8.

Morgan Stanley conducts its business from its headquarters in New York City, its regional offices and branches throughout the U.S. and its principal offices in London, Tokyo, Hong Kong and other world financial centers. At November 30, 2001, Morgan Stanley had 61,319 employees worldwide, with 51,728 employees in the U.S. and 9,591 employees internationally. Morgan Stanley is a combination of Dean Witter, Discover & Co. ("Dean Witter Discover") and Morgan Stanley Group Inc. ("Morgan Stanley Group") and was formed pursuant to a merger of equals effected on May 31, 1997 (the "Merger"). Morgan Stanley was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924.

Technology and E-Commerce. Morgan Stanley trades securities through several electronic trading systems and has invested in several electronic trading systems and related businesses and technologies. Morgan Stanley's web-based tools provide its clients with numerous online applications, including access to portfolio information and Morgan Stanley's proprietary research, and the ability to engage in electronic transactions across a growing number of platforms. For example, Client Link provides institutional clients with a private, secure Internet platform that delivers browser-based information, products and services across many of Morgan Stanley's business units; Client Serv® provides individual investors online trading capabilities, access to real-time account activity, business news and research; and Discovercard.com enables cardmembers to access financial management services online and generate single-use card numbers for enhanced security for online purchases.

Securities

Morgan Stanley provides worldwide financial advisory and capital-raising services to a diverse group of domestic and international corporate and other institutional clients, primarily through Morgan Stanley & Co. Incorporated ("MS&Co."), Morgan Stanley & Co. International Limited, Morgan Stanley Japan Limited and Morgan Stanley Dean Witter Asia Limited. These subsidiaries also conduct sales and trading activities worldwide, as principal and agent, and provide related financing services, on behalf of institutional investors and on a proprietary basis. Morgan Stanley also conducts various activities broadly described as principal investing. In addition, Morgan Stanley provides individual investors with a range of securities and savings products and services, primarily through Morgan Stanley DW Inc. ("MSDWI") (formerly Dean Witter Reynolds Inc.).

Investment Banking.

Underwriting. Morgan Stanley manages and participates in public offerings and private placements of debt, equity and other securities worldwide. Morgan Stanley is a leading underwriter of common stock, preferred stock and other equity-related securities, including convertible securities and American Depositary Receipts ("ADRs"). Morgan Stanley is also a leading underwriter of fixed income securities, including investment grade debt, high-yield securities (debt issued by non-investment grade issuers), mortgage-related and other asset-backed securities, tax-exempt securities and commercial paper and other short-term securities.

Financial Advisory Services. Morgan Stanley provides domestic and international corporate and other institutional clients with advisory services on key strategic matters, such as mergers and acquisitions, divestitures, corporate defense strategies, joint ventures, privatizations, spin-offs, restructurings, proxy and consent solicitations, tender offers, exchange offers and leveraged buyouts. Morgan Stanley also provides advice concerning recapitalizations, rights offerings, dividend policy, valuations, foreign exchange exposure, financial risk management strategies and long-range financial planning. Morgan Stanley furnishes advice and services regarding project financings, including infrastructure, electric power and natural resource projects. In addition, Morgan Stanley provides advisory services in connection with the purchase, sale, leasing and financing of real estate.

Financing and Investing. Morgan Stanley provides financing or financing commitments, on a selective basis, to companies in the form of senior or subordinated debt, including bridge financing. The borrowers may be rated investment grade or non-investment grade. These financing and lending activities are conducted through certain subsidiaries, including Morgan Stanley Bank. Morgan Stanley also engages in a variety of principal investing activities. See "Principal Investing" below.

Sales, Trading, Financing and Market-Making Activities.*

Equity Securities and Related Products. Morgan Stanley's equity sales, trading and market-making activities cover domestic and foreign equity and equity-related products, including common stock, ADRs, restricted/control stock, convertible securities, preferred securities and exchange traded funds and warrants, equity index products, equity swaps, options and other structured products. Morgan Stanley issues equity-linked products to institutional and individual investors, including Performance Equity-linked Redemption Quarterly-pay Securities ("PERQS®"), Stock Participation Accreting Redemption Quarterly-pay Securities ("SPARQS℠") and Basket Opportunity eXchangeablE Securities ("BOXES℠"). Morgan Stanley also advises clients and executes transactions globally in connection with index arbitrage, equity repurchase strategies, program trading and block trades. Morgan Stanley engages in proprietary trading and arbitrage activities in equity securities and equity-related products. Morgan Stanley conducts its equity sales, trading and market-making activities on stock exchanges and in over-the-counter ("OTC") markets. Morgan Stanley is a member of the major stock exchanges around the world, including the New York, London, Frankfurt, Tokyo and Hong Kong stock exchanges.

Morgan Stanley also provides equity financing services, including prime brokerage, which offers consolidated clearance and settlement of securities trades, custody, financing and portfolio reporting services. In addition, Morgan Stanley acts as principal and agent in stock borrowing and stock loan transactions in support of its domestic and international trading and brokerage, investment management and clearing activities and as an intermediary between broker-dealers.

Fixed Income Securities and Related Products. Morgan Stanley trades and makes markets in domestic and international fixed income securities and related products, including preferred stock, investment grade corporate debt, high-yield securities, senior loans, U.S. and non-U.S. government securities, municipal securities, and commercial paper, money market and other short-term securities. Morgan Stanley also makes markets in, and acts as principal with respect to, mortgage-related and other asset-backed securities and real estate loan products. Morgan Stanley is a primary dealer of U.S. government securities and a member of the selling groups that distribute various U.S. agency and other debt securities. In Europe, Morgan Stanley is a primary dealer of government securities in Austria, Belgium, France, Greece, Italy, the Netherlands, Spain and the U.K. Morgan Stanley is also a member of the syndicates that underwrite German and Japanese government bonds. Morgan Stanley is a dealer in interest rate and currency swaps and other related derivative products, credit derivatives (including credit default swaps), OTC options on U.S. and non-U.S. government bonds and mortgage-backed forward agreements, options and swaps. Through its triple-A rated subsidiary, Morgan Stanley Derivative Products Inc., Morgan Stanley also enters into swaps and related derivative transactions with counterparties seeking a triple-A rated counterparty.

Morgan Stanley advises institutional accounts and other clients globally on investment and liability strategies and assists corporations in their debt repurchases. Morgan Stanley also structures debt securities and derivatives with risk/return factors designed to suit investor objectives, including using repackaged asset vehicles through which investors can restructure asset portfolios to provide liquidity or recharacterize risk profiles. Morgan Stanley borrows and lends fixed income securities and acts as an intermediary between borrowers and lenders of short-term funds utilizing repurchase and reverse repurchase agreements. Morgan Stanley also provides financing to customers for commercial, residential and real estate loan products.

* See also "Risk Management" in Part II, Item 7A for a description of Morgan Stanley's trading risk management structure, policies and procedures. For a detailed discussion of Morgan Stanley's use of derivatives, see "Derivative Financial Instruments" in Part II, Item 7 and Notes 7 and 10 in "Notes to Consolidated Financial Statements" in Part II, Item 8.

Morgan Stanley is a market-maker in foreign currencies. The majority of Morgan Stanley's foreign exchange business relates to major foreign currencies such as yen, euro, sterling, Swiss francs and Canadian dollars. Morgan Stanley actively trades on a principal basis with clients and for its own account in the spot, forward and currency option markets and also takes proprietary positions in currencies. Morgan Stanley is a leading participant in currency futures trading at the International Monetary Market division of the Chicago Mercantile Exchange.

Morgan Stanley trades as principal and maintains proprietary trading positions in the spot, forward and futures markets in several commodities, including precious metals, base metals, crude oil, oil products, natural gas, electric power and related energy products. Morgan Stanley is a market-maker in exchange-traded and OTC options and swaps on commodities, such as metals, crude oil, oil products, natural gas and electricity, and offers clients various hedging programs relating to production, consumption and reserve/inventory management. Morgan Stanley trades many of these products through the IntercontinentalExchange, Inc., an electronic trading system in which Morgan Stanley maintains an interest. Morgan Stanley is an electricity power marketer in the U.S. and owns equity interests in three exempt wholesale generators (as defined in the Public Utility Holding Company Act of 1935) from which Morgan Stanley (solely or acting with a joint venture partner) is the exclusive purchaser of electric power.

MSCI. Morgan Stanley's majority-owned subsidiary, Morgan Stanley Capital International Inc. ("MSCI"), markets and distributes over 30,000 country, industry and regional equity and fixed income benchmark indices (including the MSCI World, EAFE® and Emerging Market Free Indices) covering 51 countries, and has a 32-year historical database that includes fundamental and valuation data on thousands of securities in developed and emerging market countries. Investment professionals around the world use MSCI data for many purposes, including performance measurement.

Principal Investing.

Morgan Stanley's principal investing activities include making commitments to purchase, and making negotiated investments in, equity and debt securities, either as principal or for the accounts of private equity funds that Morgan Stanley manages. These activities may be in connection with merger, acquisition, restructuring, private investment and leveraged capital transactions and may include real estate, venture capital and strategic investments.

Morgan Stanley generally acts as general partner of the private equity funds through which it conducts certain of its principal investing activities and typically contributes a minority of the capital of such funds. Morgan Stanley conducts a substantial portion of its private equity business through two groups of investment funds, Morgan Stanley Capital Partners and Morgan Stanley Venture Partners, making private equity and venture capital investments in a range of industries throughout the world. Morgan Stanley conducts its real estate principal investing business primarily through the Morgan Stanley Real Estate Funds and Morgan Stanley Real Estate Special Situations Funds, entities that invest in U.S. and international real estate assets and companies. Morgan Stanley also makes equity and equity-related investments that arise out of its worldwide investment banking activities through Princes Gate Investors, a fund that invests in special situation and venture capital opportunities. From time to time, Morgan Stanley expects to sponsor additional funds and commit to invest in such funds.

Morgan Stanley also invests for its own account. These investments may, among other things, be in connection with the investments made by the private equity funds described above or in connection with Morgan Stanley's investment banking and sales and trading activities. Such investments may include purchases of equity or debt securities of companies that may have strategic value for Morgan Stanley, such as alternative trading systems, electronic trading systems and other strategic businesses and technologies.

Individual Investor Group.

The Individual Investor Group provides its clients with comprehensive financial planning and investment advisory services through a flexible platform designed to accommodate individual investment goals and risk profiles. The Individual Investor Group offers numerous securities and investment products supported by Morgan Stanley's investment banking, research, investment management, execution and operational resources. Morgan Stanley provided securities and investment services to approximately 5.6 million client accounts in the U.S. and had client assets of $595 billion at November 30, 2001.

Morgan Stanley's Choice℠ service platform for individual investors combines the products and services offered by the Individual Investor Group with the technological capabilities of online execution. Morgan Stanley provides its clients the flexibility to select the financial service relationship that best suits their needs, including a traditional full-service brokerage relationship through a financial advisor, self-directed investing online or some combination of both. Morgan Stanley also provides financial advisory and wealth management services for high net worth clients. Morgan Stanley provides various pricing options, including fee-based pricing.

Investor Advisory Services. Morgan Stanley provides execution, trading and research services to its individual clients for listed equity securities, OTC equity securities, options and ADRs. Morgan Stanley also provides execution, trading and research services to individual clients for fixed income securities, including U.S. government obligations, mortgage and other asset-backed securities, corporate bonds, preferred stocks, municipal securities and certificates of deposit. Morgan Stanley's financial advisors work together with the institutional fixed income platform to provide mid-sized institutions with access to Morgan Stanley's products and research capabilities.

Morgan Stanley provides its clients with several investment and credit products and services, including mutual funds, unit investment trusts ("UITs"), insurance products, financial planning, retirement planning, personal trust and estate planning, tax planning, credit management and account services. Morgan Stanley's Active Assets Account® program permits clients to consolidate their financial assets into a single account, invest in a variety of investment products and automatically invest funds daily in a variety of money market options or in a designated account at Morgan Stanley Bank insured by the Federal Deposit Insurance Corporation ("FDIC"). The program also offers a debit card and a checking account. BusinesScape℠, a related program, offers qualified business clients similar services and features, including enhanced check writing privileges and a commercial line of credit.

Morgan Stanley offers clients investment choices for individual retirement planning and provides individual annuities and complete defined contribution plan services for businesses, including 401(k) plans. Morgan Stanley's investment consulting services business assists clients in analyzing their investment objectives and in selecting investment advisory services that affiliated and unaffiliated investment advisers offer. Through its wholly-owned insurance agency subsidiaries, Morgan Stanley acts as a national general agency for leading insurance carriers to meet the insurance and annuity needs of individual investors. Morgan Stanley also offers trust and fiduciary services to individual and corporate clients, including trustee services for personal trusts and tax-qualified retirement plans.

Clients can establish a self-directed relationship through Morgan Stanley's online capabilities, including Morgan Stanley Online, which permit clients to invest and trade through the Internet, automated telephone trading, wireless trading or a registered representative. Morgan Stanley provides investment options online, including detailed account information, real-time securities price quotes, graphs and portfolio performance information and trade execution. Clients can also subscribe to proprietary equity research reports and analysts' ratings. Morgan Stanley also offers clients extended trading hours through MarketXT™, the ability to trade U.S. treasury securities and certain municipal securities online every weekday, 24 hours per day and, to qualified clients, access to initial public offerings and other issues Morgan Stanley underwrites. In addition, Morgan Stanley's Networth℠ service aggregates, summarizes and delivers individual clients' personal banking and investment account information in one convenient and secure online location.

Global Private Wealth Management. Morgan Stanley Private Wealth Management ("PWM") provides financial solutions to individuals, families and foundations controlling significant pools of wealth from over 70 offices worldwide. PWM provides access to Morgan Stanley's trading capabilities, research and analytical products and its securities underwritings. PWM investment representatives manage specific financial asset classes and provide tailored global asset allocation strategies for its clients. PWM also offers certain private investors the opportunity to co-invest with Morgan Stanley in its principal investing activities and specialized funds. Globally, Morgan Stanley provides these activities and other financial advisory services through Morgan Stanley's Swiss bank subsidiary, Bank Morgan Stanley AG; Morgan Stanley's Sociétés d'investissement à capital variable (SICAV) mutual funds based in Luxembourg; and Morgan Stanley Quilter, a U.K.-based investment management business providing segregated account management and advisory services to private individuals, pension funds and trusts. Morgan Stanley also provides asset management and brokerage services for individual investors through Morgan Stanley, S.V., S.A. and its network of financial advisors in Spain, Portugal and Germany.

Research. Morgan Stanley's global research departments ("Research"), comprised of economists, industry analysts and strategists, engage in research activities in the equity, fixed income and high-yield areas. Research produces reports and studies on the economy, financial markets, portfolio strategy, technical market analyses, individual companies and industry developments. It analyzes worldwide trends covering numerous industries and approximately 2,200 individual companies, approximately half of which are located outside of the U.S. Research also provides analyses and forecasts relating to economic and monetary developments affecting matters such as interest rates, foreign currencies, securities and economic trends. Research provides support for the sales and trading of equity and fixed income securities in the form of quantitative, qualitative and credit analyses and the development of research products and publications such as *Macroscope*SM and *The Competitive Edge*SM. Research provides analytical support and publishes reports on mortgage-related securities and the markets in which they are traded and does original research on valuation techniques. Research's information and data are disseminated to investors through various third-party distributors, proprietary Internet sites such as Client Link, and through Morgan Stanley's sales forces.

Other. Morgan Stanley also engages in other businesses, including aircraft financing activities. Morgan Stanley owns Ansett Worldwide Aviation Services, one of the world's leading aircraft leasing groups, leasing new and used commercial jet aircraft to airlines around the world.

Competition and Regulation.

Competition. Morgan Stanley encounters intense competition in its Securities business and competes directly in the U.S. and globally with other securities and financial services firms. The principal competitive factors affecting Morgan Stanley's Securities business include Morgan Stanley's reputation, the quality of its professionals and other personnel, its products and services, relative pricing and innovation. Morgan Stanley experiences competition for qualified employees from the financial services, insurance and management consulting industries and from private equity funds. Morgan Stanley's ability to sustain or improve its competitive position will substantially depend on its ability to continue to attract and retain qualified employees. Morgan Stanley's ability to access capital at competitive rates (which is generally dependent on Morgan Stanley's credit ratings) and to commit capital efficiently, particularly in its capital-intensive investment banking and sales, trading, financing and market-making activities, also affects its competitive position. Morgan Stanley has increasingly been requested to provide financing or financing commitments in connection with certain investment banking activities. This activity is expected to continue and may grow in the future.

Besides competition from firms traditionally engaged in the financial services business, Morgan Stanley has experienced increasing competition in recent years from other sources, such as commercial banks, insurance companies, online financial services providers, sponsors of mutual funds and other companies offering financial services in the U.S. and globally and through the Internet. The financial services industry has continued to experience consolidation and convergence, as institutions involved in a range of financial services industries have merged. This convergence trend is expected to continue and could result in Morgan Stanley's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. The complementary trends in the financial services industry of consolidation and globalization present, among other things, technological, risk management and other infrastructure challenges that require effective resource allocation in order for Morgan Stanley to remain competitive.

Regulation. Morgan Stanley's Securities business is, and the securities, commodities and financial services industries generally are, regulated extensively in the U.S. at the federal and state levels and internationally. Morgan Stanley is regulated by the various regulatory bodies charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets.

MS&Co. and MSDWI are registered as broker-dealers with the Securities and Exchange Commission (the "SEC") and in all 50 states, the District of Columbia and Puerto Rico, and are members of various self-regulatory organizations, including the National Association of Securities Dealers, Inc. (the "NASD"), and various securities exchanges, including the New York Stock Exchange, Inc. (the "NYSE"). Broker-dealers are regulated by securities administrators in those states in which they conduct business. Broker-dealers are also subject to regulations that cover all aspects of the securities business, including sales and trading practices, use and safekeeping of customers' funds and securities, capital structure, record-keeping and the conduct of directors, officers and employees. The SEC, other governmental regulatory authorities, including state securities commissions, and self-regulatory organizations may institute administrative proceedings against broker-dealers or members, which could result in censure, fine, the issuance of cease-and-desist orders, the suspension or expulsion from the securities industry of such broker-dealer or member or its officers or employees, or other similar consequences.

Margin lending by certain subsidiaries is regulated by the Federal Reserve Board's restrictions on lending in connection with customer purchases of securities, and such subsidiaries are also required by NASD and NYSE rules to impose maintenance requirements on the value of securities contained in margin accounts. In many cases, Morgan Stanley's margin policies are more stringent than these rules.

As futures commission merchants, MS&Co. and MSDWI's activities in the futures and options-on-futures markets are regulated by the Commodity Futures Trading Commission (the "CFTC") and various domestic boards of trade and other commodity exchanges. Certain subsidiaries of Morgan Stanley are registered with the CFTC as commodity trading advisers and/or commodity pool operators. Morgan Stanley's futures and options-on-futures business is also regulated by the National Futures Association, a not-for-profit membership corporation that the CFTC has designated as a registered futures association, and of which MS&Co. and MSDWI are members.

Morgan Stanley conducts some of its government securities activities through Morgan Stanley Market Products Inc., a member of the NASD registered as a government securities broker-dealer with the SEC and in certain states. The Department of the Treasury has promulgated regulations concerning, among other things, capital adequacy, custody and use of government securities and transfers and control of government securities subject to repurchase transactions. The rules of the Municipal Securities Rulemaking Board, which are enforced by the NASD, govern the municipal securities activities of Morgan Stanley.

Morgan Stanley's Securities business is also regulated extensively by various non-U.S. governments, securities exchanges, self-regulatory organizations, central banks and regulatory bodies, especially in those jurisdictions in which Morgan Stanley maintains an office. The Financial Services Authority, the London Stock Exchange, the London International Financial Futures and Options Exchange and other regulatory bodies and exchanges regulate Morgan Stanley's Securities business in the U.K.; the Deutsche Borse AG, the Bundesaufsichtsamt für das Kreditwesen (the Federal Banking Supervisory Authority) and Bundesaufsichtsamt für den Wertpapierhandel (the Federal Securities Trading Supervisory Authority), among others, regulate Morgan Stanley's Securities activities in the Federal Republic of Germany; the Financial Services Agency, the Japanese Ministry of Finance, the Bank of Japan and the Japanese Securities Dealers Association and several Japanese securities and futures exchanges, including the Tokyo Stock Exchange, the Osaka Securities Exchange and the Tokyo International Financial Futures Exchange, regulate Morgan Stanley's Securities business in Japan; the Hong Kong Securities and Futures Commission, The Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited regulate Morgan Stanley's Securities operations in Hong Kong; and the Monetary Authority of Singapore and the Singapore Exchange Securities Trading Limited regulate Morgan Stanley's Securities business in Singapore.

As registered broker-dealers and member firms of the NYSE, certain subsidiaries of Morgan Stanley, including MS&Co. and MSDWI, are subject to the SEC's net capital rule, and, as futures commission merchants, MS&Co. and MSDWI are subject to the net capital requirements of the CFTC and various commodity exchanges. Many non-U.S. securities exchanges and regulatory authorities also either have imposed or are imposing rules relating to capital requirements applicable to Morgan Stanley's subsidiaries. These rules, which specify minimum capital requirements, are designed to measure general financial integrity and liquidity and require that at least a minimum amount of assets be kept in relatively liquid form.

Compliance with the capital requirements may limit Morgan Stanley's operations requiring the intensive use of capital, such as underwriting, principal investing, trading activities, lending and the financing of customer account balances. Such requirements also restrict Morgan Stanley's ability to withdraw capital from its subsidiaries, which in turn may limit Morgan Stanley's ability to pay dividends, repay debt or redeem or purchase shares of its outstanding capital stock. A change in such rules or the imposition of new rules affecting the scope, coverage, calculation or amount of capital requirements, or a significant operating loss or any unusually large charge against capital, could adversely affect Morgan Stanley's ability to pay dividends or to expand or maintain present business levels.

Occasionally, Morgan Stanley's subsidiaries have been subject to investigations, other proceedings, fines and sanctions relating to infractions of various regulations relating to their Securities activities. None of these regulatory actions has had a material adverse effect on Morgan Stanley or its business as a whole to date, but may be material to Morgan Stanley's operating results for a particular future period, depending, upon other things, on the level of Morgan Stanley's income for such period.

New legislation or regulations, including any legislation or regulations relating to the activities of broker-dealers and their affiliates (such as the USA Patriot Act of 2001 and other money laundering legislation); changes in rules promulgated by the SEC or other U.S. or international governmental, regulatory or self-regulatory authorities (such as changes to the U.S. Internal Revenue Code and related regulations or rules promulgated by the Financial Accounting Standards Board); or changes in the interpretation or enforcement of existing laws and regulations, may materially adversely affect the financial condition or results of operation of Morgan Stanley.

Morgan Stanley Bank is an industrial loan company chartered under the laws of the State of Utah. Morgan Stanley Bank has its deposits insured by the FDIC, pays FDIC assessments and is subject to comprehensive regulation and periodic examination by the Utah state banking commission and the FDIC. See also "Credit Services – Competition and Regulation – Regulation."

Investment Management

Morgan Stanley has one of the largest global asset management organizations of any full-service securities firm, with $459 billion of assets under management or supervision (which includes certain assets reported in Securities) at November 30, 2001. Morgan Stanley has portfolio managers located in the U.S., Europe, Japan, Singapore, and India who manage a variety of investment advisory products, ranging from money market funds to equity, taxable and tax-exempt fixed income funds and alternative investments in developed and emerging markets. Through various service companies, distribution subsidiaries and investment advisors, principally, Morgan Stanley Investment Advisors Inc. ("Morgan Stanley Investment Advisors"), Van Kampen Asset Management Inc., Van Kampen Investment Advisory Corp., Morgan Stanley Investments LP and Morgan Stanley Investment

Management Inc., Morgan Stanley offers clients various investment styles, including value, growth, and blended; active and passive management; and diversified and concentrated portfolios. During fiscal 2001, Morgan Stanley integrated its investment management activities (which are principally conducted under the Morgan Stanley Investment Management brand) and aligned Investment Management's and the Individual Investor Group's marketing, sales and product development support groups for greater client synergy.

Individual Investors. Morgan Stanley provides a variety of investment products and services to individual investors including proprietary open- and closed-end mutual funds, separately managed accounts and UITs. Additionally, investment products are available through intermediary platforms, such as 401(k) plans and variable annuities. Morgan Stanley serves individual investors through its proprietary network of financial advisors who offer, among other things, Morgan Stanley- and Van Kampen-branded products. Morgan Stanley also offers Van Kampen-branded products through a large and diversified network of unaffiliated national and regional broker-dealers, commercial banks and thrifts, insurance companies and their affiliated broker-dealers and financial planners ("retail distributors"). The non-proprietary network encompasses over 250,000 financial advisors, and includes preferred distribution relationships with several retail distributors. A small number of retail distributors account for a substantial portion of Van Kampen sales in that network. Morgan Stanley also distributes investment products to individuals outside the U.S. through international non-proprietary distributors.

Institutional Investors. Morgan Stanley provides investment products and services to institutional investors worldwide, including corporations, non-profit organizations, governmental agencies, insurance companies and banks. Products are available to institutional investors through separately managed accounts, U.S. and non-U.S. mutual funds, variable annuities, life products and other pooled vehicles. Morgan Stanley also sub-advises funds for various financial institutions and intermediaries. A global proprietary sales force and a group covering the investment consultant industry serve institutional investors.

Competition and Regulation.

Competition. Morgan Stanley's Investment Management business competes in the highly competitive asset management industry. Several factors affect competition in the sale of these investment products, including investment objectives and performance, advertising and sales promotion efforts, fee levels, distribution channels and types and quality of services offered. Besides fund products offered by other broker-dealers, the funds Morgan Stanley offers compete with funds asset management firms and other providers sell directly (including through the Internet), as well as with other investment alternatives.

Regulation. Certain subsidiaries, including MS&Co., MSDWI and those related to Morgan Stanley Investment Advisors, Van Kampen Asset Management Inc. and Morgan Stanley Investment Management Inc., are registered as investment advisors with the SEC and in certain states. Many aspects of Morgan Stanley's investment advisory business are subject to federal and state laws and regulations primarily intended to benefit the investment product holder. These laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict Morgan Stanley from carrying on its investment advisory business in the event that it fails to comply with such laws and regulations. Sanctions that may be imposed for such failure include the suspension of individual employees, limitations on Morgan Stanley's engaging in the investment advisory business for specified periods of time, the revocation of registrations, other censures and fines.

Morgan Stanley's Investment Management business is also regulated outside the U.S. For example, the Financial Services Authority regulates Morgan Stanley's Investment Management business in the U.K.; the Japanese Ministry of Finance and the Japan Securities Investment Advisors Association regulates Morgan Stanley's Investment Management business in Japan; the Securities and Exchange Board of India regulates Morgan Stanley's Investment Management business in India; and the Monetary Authority of Singapore regulates Morgan Stanley's Investment Management business in Singapore.

Morgan Stanley Trust, a wholly-owned subsidiary of Morgan Stanley, is a federally chartered savings bank subject to comprehensive regulation and periodic examination by the federal Office of Thrift Supervision ("OTS") and by the FDIC. Morgan Stanley Trust is also a registered transfer agent and shareholder servicing agent subject to regulation and examination in such capacity by the SEC. As a result of its ownership of Morgan Stanley Trust, Morgan Stanley is registered with the OTS as a unitary savings and loan holding company ("SLHC") and subject to regulation and examination by the OTS as a SLHC.

Credit Services

Based on its approximately 45.7 million general purpose credit card accounts as of November 30, 2001, Morgan Stanley, through its Credit Services business, is one of the largest single issuers of general purpose credit cards in the U.S. Morgan Stanley's Credit Services business includes DFS, which operates Credit Services' proprietary general purpose credit card business; its Discover Business Services, Morgan Stanley's proprietary merchant and cash access network; and related consumer finance products and services.

Credit Cards and Services. DFS offers general purpose credit cards designed to appeal to different market segments of consumers for use through Discover Business Services. DFS offers several brands of proprietary cards, including the Discover Classic Card, the Discover Gold Card, the Discover Platinum Card, the Morgan Stanley Card (offered in the U.K. on the Europay/MasterCard network), as well as affinity cards. DFS offers cardmembers various products and financial services, including home loans, personal loans, credit insurance coverage and auto insurance products. DFS also offers cardmembers certificates of deposit and money market accounts and the ability to transfer balances from other credit sources.

DFS also offers cardmembers numerous customer services, including many available online. Cardmembers may register their account online with the Discover Card Account Center, which offers Discover *Inter@ctive*®, a menu of free e-mail notifications that inform cardmembers about the status of their accounts, including reminders that a cardmember's credit limit is approaching or that a minimum payment is due. Cardmembers may also view detailed account information online, such as recent transactions and account payments. Cardmembers may pay their Discover Card bills online via the SmartCheck℠ payment option at no cost and receive exclusive discounts and special Cashback Bonus® awards by shopping online at the Internet ShopCenter℠. In addition, the Discover deskshop® 3.0 virtual credit card enables cardmembers to use a single use credit card number (a unique credit card number used for purchases at a single web site) for online purchases so that the cardmembers never have to reveal their actual card number online. As of November 30, 2001, DFS had over 7 million cardmembers registered on the Discover Card Account Center.

Merchants. Only merchants that are members of the Discover Business Services network accept the Discover Classic Card, the Discover Gold Card, the Discover Platinum Card and DFS's other proprietary general purpose credit cards (exclusive of the Morgan Stanley Card). Since its establishment in 1986, the Discover Business Services network has expanded and is the largest independent credit card network in the U.S., consisting of approximately 4 million merchant and cash access locations accepting credit cards carrying the Discover logo.

DFS operates the issuing and acquiring businesses in the U.S. and accordingly retains the entire merchant fee paid for transactions effected through the Discover Business Services network. Because of its independence from the bankcard associations, DFS can provide customized programs to its merchants in such areas as processing and the exchange of business surplus online and to otherwise tailor program terms to meet specific merchant needs. DFS utilizes its own national sales and support force as well as independent sales agents to increase and maintain its merchant base. In addition, DFS conducts telemarketing operations to acquire merchant business.

Marketing. DFS is distinguishable from credit card issuers that are members of bankcard associations because it directly controls the brand image, features, service level and pricing of the Discover Classic Card and its other U.S. proprietary general purpose credit cards to cardmembers and merchants. In contrast, bankcard association credit card issuers compete directly with other issuers using the same brands and sharing common processes. Because DFS manages all aspects of cardmember and merchant relationships with respect to its proprietary credit card programs, it can determine and promote its advertising campaign on a consistent, nationwide basis and control the campaign's content, timing and promotional features.

DFS promotes its proprietary general purpose credit cards through the use of different and distinctive features that are designed to appeal to different consumer bases. For instance, pursuant to the Cashback Bonus award program, DFS pays Discover Classic Card, Discover Platinum Card and Morgan Stanley Card cardmembers electing this feature up to 1% of their purchase amounts based upon their annual level and type of purchases. The Cashback Bonus award may be remitted to cardmembers in the form of a check, a credit to their accounts, an exchange of the Cashback Bonus award for certain products or services or a donation to supported charities.

Credit. DFS conducts credit reviews to establish that cardmembers meet standards of ability and willingness to pay. Applications that are not pre-selected are evaluated by using a credit scoring system (a statistical evaluation model) based on information provided by applicants and by credit bureaus. Applications screened under the credit scoring system may be selectively reviewed and approved or not approved by DFS's credit analysts.

All applicants receiving pre-selected solicitations satisfy DFS's specified criteria and have been pre-screened through credit bureaus utilizing industry and customized models. Pre-screening involves independent credit reporting agencies that identify individuals satisfying creditworthiness criteria supplied by DFS (in the form of a point scoring model or other screening factors) that are intended to provide a general indication, based on available information, of such person's ability and willingness to pay their financial obligations. Recipients responding to DFS's pre-selected solicitations are post-screened prior to enrollment to confirm continued satisfaction of DFS's criteria.

Cardmembers' credit lines are reviewed at least annually and may be reviewed more frequently if the cardmember requests or if DFS deems more frequent review appropriate. Such reviews include scoring the cardmember's payment behavior on the account and reviewing the cardmember's credit bureau record. Based on the review, the cardmember's credit line may be raised or lowered or the account may be closed. In addition, DFS, on a portfolio basis, performs periodic monitoring and review of consumer behavior and risk profiles.

Operations. DFS performs the functions required to service and operate its proprietary card accounts either by itself or through agreements with third parties. These functions include new account solicitation, application processing, new account fulfillment, transaction authorization and processing, cardmember billing, payment processing, fraud prevention and investigation, cardmember services and collection of delinquent accounts. DFS maintains several operations centers throughout the U.S. and one in Scotland. Systems at computer centers operated by an unaffiliated communication services provider also support DFS's operations.

Competition and Regulation.

Competition. Morgan Stanley's Credit Services business competes in the competitive credit card industry. The credit card market includes other bank-issued credit cards (the vast majority of which bear the MasterCard and/or Visa servicemark) and charge cards and credit cards issued by travel and entertainment companies. Competition centers on merchant acceptance, account acquisition and customer utilization. Merchant acceptance is based on competitive transaction pricing and the volume and usage of credit cards in circulation. Account acquisition and customer utilization are driven by the offering of credit cards with competitive and appealing features, such as no annual fees, low introductory interest rates and other customized features targeting specific consumer groups. The credit card industry has increasingly used advertising, targeted marketing and pricing competition in interest rates, annual fees and reward programs in order to compete effectively and grow. Issuers also seek to attract balances from competing sources of credit via low-priced balance transfer programs.

Regulation. Morgan Stanley conducts substantial portions of its Credit Services business in the U.S. through Discover Bank, a wholly-owned indirect subsidiary. Discover Bank is a state bank chartered under the laws of the State of Delaware. Discover Bank has its deposits insured by the FDIC, pays FDIC assessments and is subject to comprehensive regulation and periodic examination by the Delaware state banking commissioner and by the FDIC.

Generally, a company that controls a "bank," as defined in the Bank Holding Company Act of 1956 (the "BHCA"), is required to register as a bank holding company and is regulated as a bank holding company by the Board of Governors of the Federal Reserve System. However, pursuant to the BHCA (as amended by the Competitive Equality Banking Act of 1987 (the "CEBA") and more recently by the Gramm Leach Bliley Act of 1999 (the "GLBA")), Discover Bank may only engage in either commercial lending or taking demand deposits (but not both) for Morgan Stanley to maintain its non-bank holding company status under the grandfather provisions of the CEBA and GLBA amendments to the BHCA. Morgan Stanley is also permitted to own Morgan Stanley Bank without registering as a bank holding company because Morgan Stanley Bank is not considered a "bank" under the BHCA (as amended by the GLBA). See also "Securities—Competition and Regulation—Regulation."

Federal and state consumer protection laws and regulations regulate extensively the relationships among cardholders and credit card issuers. Under federal law, Discover Bank may charge interest at the rate allowed by Delaware law, the state in which it is located, and export such interest rate to all other states. Delaware law does not limit the amount of interest that may be charged on loans of the types offered by Discover Bank. Federal and state bankruptcy and debtor relief laws affect Morgan Stanley to the extent such laws result in any loans being charged off as uncollectible.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the federal bank regulatory agencies are required to take "prompt corrective action" in respect of banks that do not meet minimum capital requirements, and certain restrictions are imposed upon banks that meet certain capital requirements but are not "well capitalized" for purposes of FDICIA. A bank that is not well capitalized, as defined for purposes of FDICIA, is, among other consequences, generally prohibited from accepting brokered deposits and offering interest rates on any deposits significantly higher than the prevailing rate in its normal market area or nationally (depending upon where the deposits are solicited). Discover Bank currently uses brokered deposits as a funding source and, if it were not able to do so, its funding costs could increase.

Certain acquisitions of Morgan Stanley's common stock may be subject to regulatory approval and notice under federal and state banking law. In addition, Discover Bank would no longer qualify for grandfather rights under the CEBA (as amended by the GLBA) if direct or indirect control of Discover Bank were transferred to an unaffiliated third party. In that event, the third party would have to operate in a manner permissible for a bank holding company under the BHCA (as amended by the GLBA).

Morgan Stanley Dean Witter Bank Limited ("Morgan Stanley Bank Limited"), Morgan Stanley's chartered bank in the U.K., is governed primarily by the U.K.'s Financial Services and Markets Act 2000. Morgan Stanley Bank Limited is subject to regulation related to capital adequacy, consumer protection and deposit protection. Morgan Stanley Bank Limited's activities are supervised by the Financial Services Authority, which conducts periodic examinations of its operations and records, and by the Office of Fair Trading in relation to consumer credit activities.

Executive Officers of Morgan Stanley

The executive officers of Morgan Stanley (all of whom are members of Morgan Stanley's Management Committee) as of February 14, 2002 are set forth below.

Philip J. Purcell (58). Chairman of the Board of Directors and Chief Executive Officer of Morgan Stanley (since the Merger). Chairman of the Board of Directors and Chief Executive Officer of Dean Witter Discover (1986 to the Merger). Director or trustee of approximately 100 registered investment companies for which Morgan Stanley Investment Advisors serves as investment manager or investment adviser. Director of AMR Corporation.

Robert G. Scott (56). President and Chief Operating Officer and Director of Morgan Stanley (since March 2001). Executive Vice President and Chief Financial Officer of Morgan Stanley (the Merger to March 2001). Head of Morgan Stanley Group's Investment Banking Division (1994 to 1996). Managing Director of MS&Co. (since 1979).

Tarek F. Abdel-Meguid (46). Head of Morgan Stanley's Investment Banking Division (since September 2000). Deputy head of Morgan Stanley's Investment Banking Division (1997 to September 2000). Deputy head and then head of Morgan Stanley Group's Corporate Finance Department (June 1995 to the Merger). Managing Director of MS&Co. (since 1991).

Stephen S. Crawford (37). Executive Vice President and Chief Financial Officer of Morgan Stanley (since March 2001). Executive Vice President and Chief Strategic and Administrative Officer of Morgan Stanley (June 2000 to March 2001). Managing Director of MS&Co. (since 1998) and Executive Director of MS&Co. (1995 to 1998).

Zoe Cruz (47). Head of Morgan Stanley's Fixed Income Division (since September 2000). Head of Morgan Stanley's Foreign Exchange Department (August 1993 to September 2000). Managing Director of MS&Co. (since 1990).

John P. Havens (45). Head of Morgan Stanley's Institutional Equity Division (since September 2000). Managing Director of MS&Co. (since 1990).

Roger C. Hochschild (37). Chief Strategic and Administrative Officer of Morgan Stanley (since March 2001). Executive Vice President of DFS (November 1998 to February 2001). Senior executive at MBNA America Bank (1994 to 1998) where his last position was Senior Executive Vice President.

Donald G. Kempf, Jr. (64). Executive Vice President, Chief Legal Officer and Secretary of Morgan Stanley (since December 1999). Partner at the law firm of Kirkland & Ellis (1971 to December 1999) and a member of its management committee (1981 to 1998).

Mitchell M. Merin (48). President and Chief Operating Officer of Morgan Stanley's Investment Management business (since December 1998). President and Director of Morgan Stanley Investment Advisors (since April 1997) and its Chief Executive Officer (since June 1998). Executive Vice President and Chief Administrative Officer of Dean Witter Discover (1994 to the Merger). President of approximately 100 registered investment companies for which Morgan Stanley Investment Advisors serves as investment manager or investment adviser. Director or trustee of approximately 25 registered investment companies for which Van Kampen Advisors Inc. (or a subsidiary thereof) serves as investment manager or investment adviser.

David W. Nelms (40). President and Chief Operating Officer of DFS and Chairman of Discover Bank (since September 1998). Senior executive at MBNA America Bank (1992 to 1998) where his last position was Vice Chairman.

Stephan F. Newhouse (54). Co-President and Chief Operating Officer of Morgan Stanley's Institutional Securities Group (since September 2000) and Chairman of the Board of Morgan Stanley & Co. International Limited (since December 2000). Deputy head of Morgan Stanley's Institutional Securities Group (December 1997 to September 2000). Director and Vice Chairman of MS&Co. (since December 1997) and Managing Director of MS&Co. (since 1988).

Vikram S. Pandit (45). Co-President and Chief Operating Officer of Morgan Stanley's Institutional Securities Group (since September 2000). Head of Morgan Stanley's Institutional Equity Division (the Merger to September 2000). Head of Morgan Stanley Group's Equity Division (January 1997 to the Merger). Managing Director of MS&Co. (since January 1990). Director of Nasdaq Stock Market, Inc.

Joseph R. Perella (60). Chairman of Morgan Stanley's Institutional Securities Group (since September 2000). Head of Morgan Stanley's Investment Banking Division (the Merger to September 2000). Head of Morgan Stanley Group's Investment Banking Division (January 1997 to the Merger). Head of Morgan Stanley Group's Corporate Finance Department (May 1995 to December 1996). Managing Director of MS&Co. (since November 1993).

John H. Schaefer (49). President and Chief Operating Officer of Morgan Stanley's Individual Investor Group (since June 2000). Executive Vice President and Chief Strategic and Administrative Officer of Morgan Stanley (June 1998 to June 2000). Head of Corporate and Strategic Planning for Morgan Stanley (the Merger to June 1998). Executive Vice President and Director of Corporate Finance for Dean Witter Discover (1991 to the Merger).

Item 2. Properties.* Morgan Stanley owns its executive offices, located at 1585 Broadway, New York, New York, where it occupies approximately 958,000 square feet as its New York headquarters. Morgan Stanley also owns a 600,000 square foot building in Riverwoods, Illinois that houses Credit Services' executive offices and an adjacent 45 acre parcel where an additional 500,000 square feet of office space is currently under construction. Morgan Stanley occupies approximately 2,000,000 square feet at various locations in Manhattan under leases expiring between 2002 and 2013. In addition, Morgan Stanley leases approximately 419,000 square feet in Brooklyn, New York under a lease expiring in 2013. In January 2002, Morgan Stanley preliminarily agreed to purchase a 725,000 square feet office building on 107 acres in Westchester County, New York.

Morgan Stanley's London headquarters are located at 25 Cabot Square, Canary Wharf where the firm occupies approximately 451,000 square feet and owns the ground lease obligation and freehold interest in the land and the building. Morgan Stanley also leases approximately 400,000 square feet at 20 Cabot Square and at other locations in Canary Wharf, under lease arrangements expiring between 2002 and 2020. Morgan Stanley is committed to leasing for 25 years an aggregate of approximately 676,000 square feet in two buildings under construction at Canary Wharf. One lease commenced in 2001 and the other is expected to commence in 2003.

Morgan Stanley's Tokyo headquarters are located in Sapporo's Yebisu Garden Place, Ebisu, Shibuya-ku, where the firm occupies approximately 297,000 square feet under a lease expiring in 2002, but renewable at Morgan Stanley's option in two-year increments.

Morgan Stanley's subsidiaries have offices, operations and processing centers and warehouse facilities located throughout the U.S., and certain subsidiaries maintain offices and other facilities in international locations. Morgan Stanley's properties that are not owned are leased on terms and for durations that are reflective of commercial standards in the communities where these properties are located. Facilities owned or occupied by Morgan Stanley and its subsidiaries are believed to be adequate for the purposes for which they are currently used and are well maintained.

Item 3. Legal Proceedings. Morgan Stanley is involved in the following legal proceedings:

I. ***Term Trust Matters.*** A putative class action, *Thomas D. Keeley, et al. v. Morgan Stanley DW Inc., et al.* (the "Keeley Action"), was commenced in the California Superior Court, Orange County, on October 27, 1994 and later consolidated with three similar class actions. Defendants are Morgan Stanley, MSDWI, Morgan Stanley Distributors Inc., Morgan Stanley Investment Advisors, Morgan Stanley Services Company Inc., TCW Management Co., Trust Company of the West, TCW Asset Management Co., Inc., TCW Funds Management, Inc. and eight individuals, including two MSDWI employees. Plaintiffs allege breach of fiduciary duty, unjust enrichment, fraud, deceit and violation of the California Corporation Code in the marketing and selling of the TCW/DW Term Trusts 2000, 2002 and 2003. Plaintiffs seek unspecified compensatory and punitive damages.

* The indicated total aggregate square footage leased is as of January 31, 2002 and does not include space occupied by Morgan Stanley securities branch offices.

The settlement of the Keeley Action was approved on December 7, 2001. On October 13, 1998, three separate state court actions were filed in New Jersey, New York and Florida. The defendants' motions to dismiss the New Jersey and New York actions were granted on February 2, 2000 and May 3, 2000, respectively, and the dismissals were not appealed. The Florida action was removed to the U.S. District Court for the Middle District of Florida on November 10, 1998 and was remanded to state court by order dated October 2, 2000.

On November 20, 2000 the Department of Enforcement of the National Association of Securities Dealers Regulation, Inc. ("NASDR") issued a complaint against MSDWI and two individual respondents alleging violations of certain NASDR Conduct Rules, including misrepresentation and omissions, in connection with the internal marketing relating to the sale of three TCW/DW Term Trusts in 1992 and 1993. The complaint generally requests sanctions, disgorgement and costs that are not specified in detail. All three respondents filed motions to dismiss on the grounds of timeliness that were granted by a hearing panel on December 14, 2001. The matter has been called for review before the National Adjudicatory Council of the NASDR.

II. ***In re Merrill Lynch, et al. Securities Litigation.*** On January 19, 1995, a putative class action was filed in the U.S. District Court for the District of New Jersey on behalf of all persons who placed market orders to purchase or sell securities listed on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") with MSDWI between November 4, 1992 and November 4, 1994. The complaint, consolidated with another action against other brokerage firms, seeks unspecified damages and alleges that MSDWI failed to provide best execution of customer market orders for NASDAQ securities. The complaint asserts claims for violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Securities Exchange Act") and Rule 10b-5 promulgated thereunder and state law claims for breach of fiduciary duty and unjust enrichment. On November 8, 1999, the district court denied plaintiffs' motion for class certification. On August 6, 2001, the district court decision denying plaintiffs' motion for class certification was affirmed by a three-judge panel of the U.S. Court of Appeals for the Third Circuit. On November 18, 2001, plaintiffs' petition for re-hearing with suggestion of a re-hearing *en banc* was denied.

III. ***Penalty Bid Litigation.*** On or about August 21, 1998, a purported class action complaint, *Friedman, et al. v. Salomon Smith Barney, et al.*, was filed in the U.S. District Court for the Southern District of New York (the "SDNY") against Morgan Stanley and nine other underwriters of securities. An amended complaint, dated February 15, 1999, was filed against Morgan Stanley and sixteen other underwriters of securities. The amended plaintiff class purports to consist of all retail brokerage customers who purchased securities in public offerings from defendants and their alleged co-conspirators at artificially inflated prices. The amended complaint alleges that defendants and their co-conspirators engaged in anticompetitive activity with respect to the distribution of securities in public offerings by agreeing (i) to discourage retail customers from "flipping" or selling shares purchased in public offerings prior to the expiration of a purported "retail restricted period" (a period alleged to have been arbitrarily set by the syndicate manager during which restraints on retail accounts are imposed), and/or (ii) to penalize retail customers who "flipped," and/or (iii) otherwise to prevent retail customers from "flipping." The amended complaint also alleges that similar restraints were not imposed on institutional purchasers of shares in public offerings. The amended complaint alleges violations of Section 1 of the Sherman Act and breach of fiduciary duty, and seeks compensatory, treble and punitive damages in unspecified amounts, injunctive relief, costs and expenses, including attorneys', accountants' and experts' fees. On December 7, 2000, defendants' motion to dismiss was granted with prejudice. On January 22, 2001, plaintiffs' motion for reconsideration was denied. On February 20, 2001, plaintiffs filed a notice of appeal of the dismissal.

IV. ***IPO Fee Litigation.*** On March 15, 1999, a consolidated amended complaint (consolidating three purported class action complaints filed in November and December of 1998 in the SDNY), captioned ***In re Public Offering Fee Antitrust Litigation***, was filed in the SDNY against Morgan Stanley and 24 other underwriters. The consolidated amended complaint alleges that defendants conspired to fix the "fee" paid by purported class members to buy and sell initial public offering ("IPO") securities of U.S. companies by invariably setting the underwriters' spread at 7%, particularly in issuances of $20 to $80 million, in violation of Section 1 of the Sherman Act. The consolidated amended complaint seeks treble damages and injunctive relief, as well as costs, including reasonable attorneys' fees. Two additional purported class actions were filed by issuer plaintiffs against Morgan Stanley and other underwriters, captioned *CHS Electronics, Inc. v. Credit Suisse First Boston Corporation, et al.*, (U.S. District Court for the Southern District of Florida on or about August 3, 2000) and *Weinman v. Salomon Smith Barney Inc., et al.* (SDNY on or about October 13, 2000), respectively. By court order, both actions were consolidated with *In re Public Offering Fee Antitrust Litigation* on January 12, 2001.

On February 9, 2001, the court in *In re Public Offering Fee Antitrust Litigation* dismissed the consolidated amended complaint with prejudice and also denied plantiffs' motion to further amend the complaint to add an issuer plaintiff. The *CHS Electronics* and *Weinman* actions were not affected by this decision. On March 26, 2001, plaintiffs filed a motion to vacate or in the alternative a motion for reconsideration in *In re Public Offering Fee Antitrust Litigation.* On April 11, 2001, the court entered an order denying plaintiffs' motion to vacate or in the alternative for reconsideration in *In re Public Offering Fee Antitrust Litigation.* On May 10, 2001, plaintiffs filed a notice of appeal.

On May 23, 2001, the court consolidated the issuer plaintiff actions, including *CHS Electronics* and *Weinman,* under a new caption entitled *In re Issuer Plaintiff Initial Public Offering Fee Antitrust Litigation.* On July 6, 2001, plaintiffs filed a consolidated class action complaint. On September 28, 2001, defendants filed a motion to dismiss the consolidated class action complaint.

V. ***IPO Allocation Matters.*** On or about March 9, 2001, a purported class action complaint, captioned *Billing v. Credit Suisse First Boston Corp., et al.,* was filed in the SDNY against Morgan Stanley and six other underwriters of various IPOs. The complaint alleges that defendants and their co-conspirators conspired to increase underwriters' compensation and the prices at which securities traded after the IPOs in violation of the federal antitrust laws, particularly Section 1 of the Sherman Act. The complaint alleges that defendants required customers who wanted large allocations of IPO securities to pay undisclosed and excessive underwriters' compensation in the form of increased brokerage commissions; required customers to agree to buy shares of securities offered in the IPOs after the IPOs were completed at prices higher than the IPO price ("tie-in purchases"); and required that such tie-in purchases be made at specified escalating price levels designed to increase and inflate the price of the securities in the secondary market. During fiscal 2001, numerous other purported class action complaints making similar factual allegations and alleging violations of federal and/or state antitrust laws were filed against Morgan Stanley and numerous other underwriters in the SDNY. The several purported class action antitrust complaints, purportedly brought on behalf of purchasers of stock in the IPOs or the aftermarket, have been consolidated before one judge in the SDNY.

In addition, during fiscal 2001, numerous purported class actions were filed in the SDNY against certain issuers of IPO securities, certain individual officers of those issuers, Morgan Stanley and other underwriters of those IPOs. purportedly on behalf of purchasers of stock in the IPOs or the aftermarket. Many of these complaints make factual allegations similar to the *Billing* complaint, but claim violations of the federal securities laws, including Sections 11 and 12(a)(2) of the Securities Act of 1933 (the "Securities Act") and Section 10(b) of the Securities Exchange Act. Some of the complaints also allege that continuous "buy" recommendations by the defendants' research analysts improperly increased or sustained the prices at which the securities traded after the IPOs. These various purported class action securities complaints have been coordinated for pre-trial purposes before one judge in the SDNY (different from the judge handling the antitrust complaints). A motion to recuse this judge filed by certain co-defendants has been denied, and a writ of mandamus before the U.S. Court of Appeals for the Second Circuit is pending.

During fiscal 2001, various governmental agencies issued subpoenas to Morgan Stanley (as well as certain other underwriters of IPOs) in connection with their investigations of the IPO allocation process. Morgan Stanley is cooperating with the investigations.

VI. ***Research Matters.*** During fiscal 2001, several purported class action complaints were filed against Morgan Stanley, and in certain cases other financial services firms, in various jurisdictions, including the SDNY and the

Supreme Court of the State of New York. These cases generally allege that analysts' research was improperly influenced in order to obtain investment banking business in violation of federal securities law or state law. Eight of the nine complaints originally filed in the SDNY have been dismissed with prejudice. The New York state court complaints have been removed to federal court; three of the four complaints have been voluntarily dismissed without prejudice, and the fourth is subject to pending motions to dismiss and to remand back to state court.

VII. ***Nelson, et al. v. Aim Advisors, Inc., et al.*** Effective October 16, 2001, plaintiffs filed a second amended complaint in the United States District Court for the Southern District of Illinois against Morgan Stanley Investment Advisors, Morgan Stanley Distributors Inc., Van Kampen Asset Management Inc., Van Kampen Funds Inc. and approximately two dozen other mutual fund companies. This purported nationwide class action alleges that the distribution and advisor fees paid by the various mutual funds from May 1, 1991 to the present were unlawful and excessive, that each fund complex exercised a controlling influence over statutorily independent directors of each fund and that these fees were thus not properly approved. The complaint alleges that the defendants' actions violated the Investment Company Act of 1940, as well as common law fiduciary duties, and seeks, among other things, actual and punitive damages and declaratory relief. Defendants have moved to sever plaintiffs' claims and transfer venue, and these motions are pending.

VIII. ***Mutual Fund Valuation Matters.*** On September 28, 2001, a purported class action, *Abrams v. Van Kampen Funds Inc., et al.*, was commenced in the United States District Court for the Northern District of Illinois against Van Kampen Funds Inc., Van Kampen Investment Advisory Corp., Van Kampen Prime Rate Income Trust ("Van Kampen Trust") and certain of Van Kampen Trust's officers and trustees. The complaint alleges that during the period between September 30, 1998 and March 26, 2001, defendants violated certain provisions of the Securities Act and common law fiduciary duties by misstating Van Kampen Trust's net asset value in its prospectus, registration statement and financial reports. The complaint seeks rescissionary damages, unspecified damages, interest, fees and costs. An additional purported class action complaint, *Callis v. Van Kampen Funds Inc., et al.*, was filed in the same court and was consolidated with the Abrams action by court order on December 5, 2001. On January 22, 2002, defendants moved to dismiss the consolidated complaint in its entirety.

An additional purported class action, *Hicks v. Morgan Stanley & Co., et al.*, was filed on November 14, 2001 in the SDNY against Morgan Stanley & Co., Morgan Stanley Dean Witter Services Company Inc., Morgan Stanley Investment Advisors, Morgan Stanley Dean Witter Prime Income Trust ("Morgan Stanley Trust") and certain of Morgan Stanley Trust's officers and trustees. The complaint alleges that during the period between November 1, 1998 and April 26, 2001, defendants violated certain provisions of the Securities Act and common law fiduciary duties by misstating Morgan Stanley Trust's net asset value in its prospectus, registration statement and financial reports. The complaint seeks rescissionary damages, unspecified damages, interest, fees and costs. On December 18, 2001, an additional purported class action complaint, *Holzer v. Morgan Stanley & Co., et al.*, was filed against defendants in the SDNY making factual allegations similar to the Hicks complaint.

IX. ***Japanese Short Selling Matter.*** On February 1, 2002, the Financial Services Agency of Japan ("FSA") announced sanctions against Morgan Stanley Japan Limited ("MSJL"), Morgan Stanley's Tokyo-based broker-dealer subsidiary, for short sale violations and creating an artificial market relating to Japanese equities trades executed on December 4, 2001. MSJL notified the Securities and Exchange Surveillance Commission ("SESC") of this incident, fully cooperated with the SESC's investigation and provided the full details of all relevant trading activity. Based on the SESC's recommendations, the FSA suspended MSJL from trading equities for its proprietary accounts for five weeks between February 4 and March 8, 2002 and ordered Morgan Stanley to submit a business improvement plan. On February 1, 2002, the Japanese Ministry of Finance announced that it had also suspended MSJL from underwriting Japanese government bonds and participating in bond auctions from February 4 to March 8, 2002.

X. *Other.* In addition to the matters described above, Morgan Stanley, including MS&Co. and MSDWI, has been named from time to time as a defendant in various legal actions, including arbitrations, arising in connection with its activities as a global diversified financial services institution, certain of which legal actions include large claims for punitive damages. Morgan Stanley, including MS&Co. and MSDWI, is also involved, from time to time, in investigations and proceedings by governmental and self-regulatory agencies. Some of these legal actions, investigations and proceedings may result in adverse judgments, penalties or fines. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases such as some of those described above in which substantial damages are sought, Morgan Stanley cannot state what the eventual outcome of pending matters will be. Morgan Stanley is contesting the allegations made in each pending matter and believes, based on current knowledge and after consultation with counsel, that the outcome of such matters will not have a material adverse effect on the consolidated financial condition of Morgan Stanley, but may be material to Morgan Stanley's operating results for a particular period, depending, upon other things, on the level of Morgan Stanley's income for such period.

Item 4. Submission of Matters to a Vote of Security Holders. None.

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Morgan Stanley's common stock trades on the NYSE and The Pacific Exchange. Morgan Stanley had approximately 146,000 holders of record at November 30, 2001; however, the number of beneficial owners of common stock is believed to exceed this number.

Set forth below is the low and high sales prices per share of Morgan Stanley's common stock for each full quarterly period within the two most recent fiscal periods and the frequency and amount of any cash dividends declared per share of Morgan Stanley's common stock for the last eight fiscal quarters.

	Low Sale Price	High Sale Price	Dividends
Fiscal 2001:			
Fourth Quarter	$35.75	$ 59.60	$0.23
Third Quarter	$50.10	$ 66.40	$0.23
Second Quarter	$44.10	$ 75.23	$0.23
First Quarter	$61.63	$ 90.49	$0.23
Fiscal 2000:			
Fourth Quarter	$60.63	$110.00	$0.20
Third Quarter	$70.13	$108.50	$0.20
Second Quarter	$62.38	$ 97.38	$0.20
First Quarter	$58.63	$ 71.44	$0.20

Item 6. Selected Financial Data.

MORGAN STANLEY DEAN WITTER & CO.
SELECTED FINANCIAL DATA
(dollars in millions, except share and per share data)

	Fiscal Year(1)				
	2001	2000	1999	1998	1997
Income Statement Data:					
Revenues:					
Investment banking	$3,415	$5,008	$4,523	$3,339	$2,694
Principal transactions:					
Trading	5,501	7,361	5,796	3,159	3,191
Investments	(316)	193	725	89	463
Commissions	3,153	3,645	2,774	2,208	2,066
Fees:					
Asset management, distribution and administration	4,078	4,286	3,377	3,041	2,554
Merchant and cardmember	1,345	1,323	1,074	1,236	1,351
Servicing	1,904	1,450	1,194	928	762
Interest and dividends	24,127	21,234	14,880	16,385	13,583
Other	520	485	244	284	144
Total revenues	43,727	44,985	34,587	30,669	26,808
Interest expense	20,779	18,176	12,515	13,463	10,806
Provision for consumer loan losses	1,052	810	526	1,174	1,493
Net revenues	21,896	25,999	21,546	16,032	14,509
Non-interest expenses:					
Compensation and benefits	9,397	10,936	8,398	6,636	6,019
Other	6,815	6,572	5,420	4,696	4,142
Merger-related expenses	—	—	—	—	74
Total non-interest expenses	16,212	17,508	13,818	11,332	10,235
Gain on sale of businesses	—	35	—	685	—
Income before income taxes, extraordinary item and cumulative effect of accounting change	5,684	8,526	7,728	5,385	4,274
Provision for income taxes	2,074	3,070	2,937	1,992	1,688
Income before extraordinary item and cumulative effect of accounting change	3,610	5,456	4,791	3,393	2,586
Extraordinary item	(30)	—	—	—	—
Cumulative effect of accounting change	(59)	—	—	(117)	—
Net income	$3,521	$5,456	$4,791	$3,276	$2,586
Earnings applicable to common shares(2)	$3,489	$5,420	$4,747	$3,221	$2,520
Per Share Data:					
Earnings per common share:					
Basic before extraordinary item and cumulative effect of accounting change	$3.29	$4.95	$4.33	$2.90	$2.19
Extraordinary item	(0.03)	—	—	—	—
Cumulative effect of accounting change	(0.05)	—	—	(0.10)	—
Basic	$3.21	$4.95	$4.33	$2.80	$2.19
Diluted before extraordinary item and cumulative effect of accounting change	$3.19	$4.73	$4.10	$2.76	$2.08
Extraordinary item	(0.03)	—	—	—	—
Cumulative effect of accounting change	(0.05)	—	—	(0.09)	—
Diluted	$3.11	$4.73	$4.10	$2.67	$2.08

	Fiscal Year(1)				
	2001	2000	1999	1998	1997
Book value per common share	$ 18.64	$ 16.91	$ 14.85	$ 11.94	$ 11.06
Dividends per common share	$ 0.92	$ 0.80	$ 0.48	$ 0.40	$ 0.28
Balance Sheet and Other Operating Data:					
Total assets	$482,628	$421,279	$366,967	$317,590	$302,287
Consumer loans, net	20,108	21,743	20,963	16,412	21,347
Total capital(3)	61,633	49,637	39,699	37,922	33,577
Long-term borrowings(3)	*40,917*	*30,366*	*22,685*	*23,803*	*19,621*
Shareholders' equity	20,716	19,271	17,014	14,119	13,956
Return on average common shareholders' equity	18.5%	30.9%	32.6%	24.5%	22.0%
Average common and equivalent shares(2)	1,086,121,508	1,095,858,438	1,096,789,720	1,151,645,450	1,149,636,466

(1) Certain prior-period information has been reclassified to conform to the current year's presentation.

(2) Amounts shown are used to calculate basic earnings per common share.

(3) These amounts exclude the current portion of long-term borrowings and include Capital Units and Preferred Securities Issued by Subsidiaries.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introduction.

Morgan Stanley Dean Witter & Co. (the "Company") is a global financial services firm that maintains leading market positions in each of its three business segments—Securities, Investment Management and Credit Services. The Company's Securities business includes securities underwriting and distribution; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; full-service brokerage services; sales, trading, financing and market-making activities in equity securities and related products and fixed income securities and related products, including foreign exchange and commodities; principal investing, including private equity activities; and aircraft financing activities. The Company's Investment Management business provides global asset management products and services for individual and institutional investors through three principal distribution channels: the Company's financial advisors and investment representatives; a non-proprietary channel consisting of third-party broker-dealers, banks, financial planners and other intermediaries; and the Company's institutional channel. The Company's Credit Services business includes the issuance of the Discover® Classic Card, the Discover Gold Card, the Discover Platinum Card, the Morgan Stanley Card℠ and other proprietary general purpose credit cards; and the operation of Discover Business Services, a proprietary network of merchant and cash access locations in the U.S.

The Company's results of operations for the 12 months ended November 30, 2001 ("fiscal 2001"), November 30, 2000 ("fiscal 2000") and November 30, 1999 ("fiscal 1999") are discussed below.

Results of Operations.

Certain Factors Affecting Results of Operations.

The Company's results of operations may be materially affected by market fluctuations and by economic factors. In addition, results of operations in the past have been, and in the future may continue to be, materially affected by many factors of a global nature, including economic and market conditions; the availability and cost of capital; the level and volatility of equity prices, commodity prices and interest rates; currency values and other market indices; technological changes and events (such as the use of the Internet to conduct electronic commerce and the use of electronic communications trading networks); the availability and cost of credit; inflation; investor sentiment; and legislative, legal and regulatory developments (see also "Terrorist Attacks" herein). Such factors also may have an impact on the Company's ability to achieve its strategic objectives on a global basis, including (without limitation) increased market share in its securities activities, growth in assets under management and the expansion of its Credit Services business.

The Company's Securities business, particularly its involvement in primary and secondary markets for all types of financial products, including derivatives, is subject to substantial positive and negative fluctuations due to a variety of factors that cannot be predicted with great certainty, including variations in the fair value of securities and other financial products and the volatility and liquidity of global trading markets. Fluctuations also occur due to the level of global market activity, which, among other things, affects the size, number and timing of investment banking client assignments and transactions and the realization of returns from the Company's private equity and other principal investments. The level of global market activity also could impact the flow of investment capital into or from assets under management and supervision and the way in which such capital is allocated among money market, equity, fixed income or other investment alternatives, which could cause fluctuations to occur in the Company's Investment Management business. In the Company's Credit Services business, changes in economic variables, such as the number and size of personal bankruptcy filings, the rate of unemployment, and the level of consumer confidence and consumer debt, may substantially affect consumer loan levels and credit quality, which, in turn, could impact the results of Credit Services.

The Company's results of operations also may be materially affected by competitive factors. Included among the principal competitive factors affecting the Securities business are the quality of its professionals and other personnel, its products and services, relative pricing and innovation. Competition in the Company's Investment Management business is affected by a number of factors, including investment objectives and performance; advertising and sales promotion efforts; and the level of fees, distribution channels, and types and quality of services offered. In the Credit Services business, competition centers on merchant acceptance of credit cards, credit cardmember acquisition and customer utilization of credit cards, all of which are impacted by the types of fees, interest rates and other features offered.

In addition to competition from firms traditionally engaged in the financial services business, there has been increased competition in recent years from other sources, such as commercial banks, insurance companies, online financial service providers, sponsors of mutual funds and other companies offering financial services both in the U.S. and globally and through the Internet. The financial services industry also has continued to experience consolidation and convergence, as financial institutions involved in a broad range of financial services industries have merged. This convergence trend is expected to continue and could result in the Company's competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. In addition, the Company has experienced competition for qualified employees. The Company's ability to sustain or improve its competitive position will substantially depend on its ability to continue to attract and retain qualified employees while managing compensation costs.

As a result of the above economic and competitive factors, net income and revenues in any particular period may not be representative of full-year results and may vary significantly from year to year and from quarter to quarter. The Company intends to manage its business for the long term and to mitigate the potential effects of market downturns by strengthening its competitive position in the global financial services industry through diversification of its revenue sources, enhancement of its global franchise and management of costs. The Company's overall financial results will continue to be affected by its ability and success in maintaining high levels of profitable business activities, emphasizing fee-based products that are designed to generate a continuing stream of revenues, evaluating credit product pricing, and managing risks and costs. In addition, the complementary trends in the financial services industry of consolidation and globalization present, among other things, technological, risk management and other infrastructure challenges that will require effective resource allocation in order for the Company to remain competitive.

Global Market and Economic Conditions in Fiscal 2001

Global market and economic conditions during fiscal 2001 were significantly less favorable compared with those experienced during the prior fiscal year. The level of global economic activity declined throughout fiscal 2001, as the world's major economies, including the U.S., Japan and the European region, all experienced difficulties. These conditions contributed to sharp declines in the global equity markets, as well as lower levels of investment banking activity and retail investor participation in the financial markets. Such conditions were exacerbated by the terrorist attacks on the U.S. that occurred on September 11, 2001 (see "Terrorist Attacks" herein). It currently is not clear when these market and economic conditions will improve.

These conditions adversely affected the Company's fiscal 2001 results of operations, as the net income of each of its three business segments (Securities, Investment Management and Credit Services) declined from the record levels achieved in fiscal 2000. The Company's Securities business recorded lower revenues from its investment banking, institutional sales and trading, and individual securities activities in fiscal 2001 as compared with fiscal 2000. The decline in revenues in the Company's Investment Management business reflected a decrease in customer assets under management or supervision, while the Company's Credit Services business recorded lower net credit income due to higher charge-offs (see "Business Segments" herein).

In the U.S., market and economic conditions were difficult during fiscal 2001. Although the level of consumer spending remained steady for most of fiscal 2001, the rate of U.S. economic growth declined significantly, primarily reflecting lower levels of corporate investment and production. The reduced economic activity, coupled with lower corporate earnings and uncertainty about future business prospects, led to higher levels of unemployment and decreased consumer confidence. These conditions, as well as the reduction in the level of overall global economic activity, contributed to the declines experienced by U.S. equity markets. The terrorist attacks of September 11, 2001 placed additional pressure on the U.S. economy and financial markets in the fourth quarter of fiscal 2001 (see "Terrorist Attacks" herein). In response to these conditions, during fiscal 2001 the Federal Reserve Board (the "Fed") aggressively eased interest rates in order to stimulate economic activity and to avoid a recession. In 10 separate actions, the Fed lowered both the overnight lending rate and the discount rate by an aggregate of 4.5%. Subsequent to fiscal year-end, in December 2001 the Fed lowered both the overnight lending rate and the discount rate by an additional 0.25%.

Economic and market conditions also were difficult in Europe during fiscal 2001. The European region experienced lower levels of employment and industrial production, which was partially attributable to the slowdown in U.S. economic growth and the weakened global economy. As a result, the majority of equity market indices within the region declined during fiscal 2001. In response to these conditions, as well as increased indications of slowing economic growth within the European Union, particularly in Germany, the European Central Bank (the "ECB") lowered the benchmark interest rate within the European Union by an aggregate of 1.5% in four separate actions during fiscal 2001. The U.K. also was adversely affected by the difficult conditions in the global economy during fiscal 2001, which contributed to the decline in the nation's equity markets. Indications of weakened domestic demand, business activity and investment growth prompted the Bank of England to lower the benchmark interest rate by an aggregate of 2.0% in seven separate actions during fiscal 2001.

Economic and market conditions also were weak in the Far East during fiscal 2001. In Japan, financial markets continued to be adversely impacted by the worsening condition of the nation's economy. Throughout the year, the deceleration of global economic growth negatively impacted the level of Japan's exports, industrial production, corporate earnings and investment. In addition, consumer spending was sluggish, reflecting an increased unemployment rate and a decline in consumer confidence. In an effort to mitigate these conditions, the Bank of Japan lowered the official discount rate by an aggregate of 0.4% in three separate actions during fiscal 2001. Conditions elsewhere in the Far East also were difficult during fiscal 2001, as the region's export and production levels continued to be adversely impacted by the difficult conditions in Japan and by the overall global economic slowdown.

The decline in the worldwide market for mergers and acquisitions that began in mid-2000 steepened considerably during fiscal 2001, as economic growth slowed in both the U.S. and Europe and the level of corporate earnings declined. Activity continued to be diverse in terms of regional and industry breadth, reflecting the continuing need for consolidation and globalization in a variety of industries, including the financial services, the natural resources and the technology, media and telecommunications sectors. However, the number of transactions and the average transaction size fell significantly during fiscal 2001 as compared with fiscal 2000, as many companies responded to the difficult market and economic conditions by changing their focus from expansion to cost reduction.

The worldwide market for equity underwriting transactions was adversely affected by the significant uncertainty in the global financial markets, which contributed to a significant decline in transaction volume as compared with the prior year. In contrast, the market for fixed income underwritings was generally strong during fiscal 2001. The higher transaction volume primarily was attributable to the favorable global interest rate environment, as the major central banks reduced interest rates throughout fiscal 2001. As a result, many issuers took advantage of lower borrowing costs.

U.S. consumer demand and spending were resilient for much of fiscal 2001. However, toward the end of the year consumer confidence declined following the reduction in personal wealth, rising unemployment and general economic concerns. Consumer confidence was further weakened following the terrorist attacks of September 11, 2001 (see "Terrorist Attacks" herein), which significantly depressed consumer spending in the fourth quarter of fiscal 2001. There also was a rise in personal bankruptcy filings during fiscal 2001.

Fiscal 2001 and Fiscal 2000 Results of the Company.

The Company recorded net income of $3,521 million in fiscal 2001, a 35% decrease from fiscal 2000. In fiscal 2000, the Company's net income was $5,456 million, an increase of 14% from fiscal 1999. Fiscal 2001's net income included an extraordinary loss of $30 million associated with the early extinguishment of certain long-term borrowings. Fiscal 2001's net income also included a charge of $59 million for the cumulative effect of an accounting change associated with the Company's adoption, on December 1, 2000, of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Excluding the extraordinary item and the cumulative effect of the accounting change, the Company's net income for fiscal 2001 was $3,610 million, a decrease of 34% from fiscal 2000.

The Company's income tax rate was 36.5%, 36% and 38% in fiscal 2001, fiscal 2000 and fiscal 1999, respectively. The tax rate in fiscal 2001 was relatively unchanged from the prior year. The decrease in fiscal 2000 primarily reflected reduced U.S. state and local taxes.

Basic earnings per common share decreased 35% to $3.21 in fiscal 2001 and increased 14% to $4.95 in fiscal 2000. Excluding the extraordinary loss and the impact of the cumulative effect of an accounting change noted above, fiscal 2001's basic earnings per common share were $3.29. Diluted earnings per common share decreased 34% to $3.11 in fiscal 2001 and increased 15% to $4.73 in fiscal 2000. Excluding the extraordinary loss and the impact of the cumulative effect of an accounting change, fiscal 2001's diluted earnings per common share were $3.19.

The Company's return on average common shareholders' equity (excluding the extraordinary loss and the cumulative effect of the accounting change for fiscal 2001) was 19%, 31% and 33% in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

At November 30, 2001, the Company had approximately 61,000 employees worldwide, a decrease of 2% from November 30, 2000. The reduction in staffing levels reflected the Company's efforts to manage costs in light of the weakened global economy and reduced business activity.

Business Acquisitions and Disposition.

In fiscal 2001, the Company acquired Quilter Holdings Limited ("Quilter"). Quilter is a well-established U.K.-based investment management business providing segregated account management and advisory services to private individuals, pension funds and trusts. The Company's fiscal 2001 results include the operations of Quilter since March 13, 2001, the date of acquisition.

In fiscal 2000, the Company acquired Ansett Worldwide Aviation Services ("Ansett Worldwide"). Ansett Worldwide is one of the world's leading aircraft leasing groups, leasing new and used commercial jet aircraft to airlines around the world. The Company's fiscal 2000 results include the operations of Ansett Worldwide since April 27, 2000, the date of acquisition.

In the fourth quarter of fiscal 1998, the Company sold its Global Custody business to The Chase Manhattan Corporation ("Chase"). At that time, the Company recorded a pre-tax gain of $323 million from the sale. Such gain included estimates for certain payments and purchase price adjustments which, under certain circumstances pursuant to the sales agreement, were payable by the Company to Chase. As a result of the resolution of these payments and purchase price adjustments during fiscal 2000, the Company recorded an additional pre-tax gain of $35 million related to the sale of its Global Custody business.

In fiscal 1999, the Company acquired Morgan Stanley, S.V., S.A. (formerly AB Asesores), the largest independent financial services firm in Spain. The Company's fiscal 1999 results include the operations of Morgan Stanley, S.V., S.A. since March 25, 1999, the date of acquisition.

Terrorist Attacks.

On September 11, 2001, the U.S. experienced terrorist attacks targeted against New York City and Washington, D.C. The attacks in New York resulted in the destruction of the World Trade Center complex, where approximately 3,700 of the Company's employees were located, and the temporary closing of the debt and equity financial markets in the U.S. Through the implementation of its business recovery plans, the Company relocated its displaced employees to other facilities.

The terrorist attacks had an immediate adverse impact on global economies, financial markets and certain industries, including the global aviation industry. These conditions had an adverse impact on the Company's results of operations in the fourth quarter of fiscal 2001, including an asset impairment charge and higher expenses associated with its aircraft financing activities. In addition to the immediate impact, there is much uncertainty regarding the potential long-term impact of these attacks. In the future, fears of global recession, war and additional acts of terrorism in the aftermath of the September 11, 2001 attacks may continue to impact global economies and financial markets.

During the fourth quarter of fiscal 2001, the Company recorded costs related to the terrorist attacks, which were offset by an expected insurance recovery. These costs and the related expected insurance recovery pertain to write-offs of leasehold improvements and destroyed technology and telecommunications equipment in the World Trade Center complex, employee relocation and certain employee-related expenditures, and other business recovery costs.

Business Segments.

The remainder of "Results of Operations" is presented on a business segment basis. Substantially all of the operating revenues and operating expenses of the Company can be directly attributed to its three business segments: Securities, Investment Management and Credit Services. Certain revenues and expenses have been allocated to each business segment, generally in proportion to their respective revenues or other relevant measures.

The accompanying Credit Services business segment information includes the operating results of Morgan Stanley Dean Witter Credit Corporation ("MSDWCC"), the Company's provider of mortgage and other consumer lending services. Prior to fiscal 2001, the Company included MSDWCC's results within its Securities business segment. In addition, the operating results of the Investment Management business segment includes certain revenues and expenses associated with the Company's Investment Consulting Services ("ICS") business. Prior to fiscal 2001, such revenues and expenses were included within the Company's Securities business segment. The segment data for all periods presented have been restated to reflect these changes. Certain reclassifications have been made to prior-period amounts to conform to the current year's presentation.

Critical Accounting Policies.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., which require the Company to make estimates and assumptions (see Note 1 to the consolidated financial statements). The Company believes that of its significant accounting policies (see Note 2 to the consolidated financial statements), the following may involve a higher degree of judgment and complexity.

Fair Value. Financial instruments, including derivatives, used in the Company's trading activities are recorded at fair value, and unrealized gains and losses are reflected in principal trading revenues. Fair values are based on listed market prices, where possible. If listed market prices are not available or if the liquidation of the Company's positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations for similar instruments traded in different markets, including markets located in different geographic areas. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions.

Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. Changes in the fixed income, equity, foreign exchange and commodity markets will impact the Company's estimates of fair value in the future, potentially affecting principal trading revenues. To the extent financial contracts have extended maturity dates, the Company's estimates of fair value may involve greater subjectivity due to the lack of transparent market data available upon which to base modeling assumptions. The illiquid nature of certain securities or debt instruments (such as certain high-yield debt securities, certain collateralized mortgage obligations and mortgage-related loan products, bridge financings, and certain senior secured loans and positions) also requires a high degree of judgment in determining fair value due to the lack of listed market prices and the potential impact of the liquidation of the Company's position on market prices, among other factors.

Transfers of Financial Assets. The Company engages in securitization activities in connection with certain of its businesses. Gains and losses from securitizations are recognized in the consolidated statements of income when the Company relinquishes control of the transferred financial assets in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125" and other related pronouncements. The gain or loss on the sale of financial assets depends in part on the previous carrying amount of the assets involved in the transfer, allocated between the assets sold and the retained interests based upon their respective fair values at the date of sale.

In connection with its Securities business, the Company engages in securitization transactions to facilitate client needs and as a means of selling financial assets. The Company recognizes any interests in the transferred assets and any liabilities incurred in securitization transactions on its consolidated statements of financial condition at fair value. Subsequently, changes in the fair value of such interests are recognized in the consolidated statements of income. The use of different pricing models or assumptions could produce different financial results.

In connection with its Credit Services business, the Company periodically sells consumer loans through asset securitizations and continues to service these loans. The present value of the future net servicing revenues that the Company estimates it will receive over the term of the securitized loans is recognized in income as the loans are securitized. A corresponding asset also is recorded and then amortized as a charge to income over the term of the securitized loans. The securitization gain or loss involves the Company's best estimates of key assumptions, including forecasted credit losses, payment rates, forward yield curves and appropriate discount rates. The use of different estimates or assumptions could produce different financial results.

Allowance for Consumer Loan Losses. The allowance for consumer loan losses in the Company's Credit Services business is established through a charge to the provision for consumer loan losses. Provisions are made to reserve for estimated losses in outstanding loan balances. The allowance for consumer loan losses is a significant estimate and is regularly evaluated by the Company for adequacy by taking into consideration factors such as changes in the nature and volume of the loan portfolio; trends in actual and forecasted portfolio credit quality, including delinquency, charge-off and bankruptcy rates; and current economic conditions that may affect a borrower's ability to pay. The use of different estimates or assumptions could produce different provisions for consumer loan losses.

SECURITIES

STATEMENTS OF INCOME
(dollars in millions)

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Revenues:			
Investment banking	$ 3,362	$ 4,881	$ 4,430
Principal transactions:			
Trading	5,501	7,361	5,796
Investments	(311)	133	712
Commissions	3,116	3,605	2,751
Asset management, distribution and administration fees	1,830	1,898	1,302
Interest and dividends	21,464	18,256	12,506
Other	483	457	221
Total revenues	35,445	36,591	27,718
Interest expense	19,531	16,784	11,590
Net revenues	15,914	19,807	16,128
Non-interest expenses:			
Compensation and benefits	7,927	9,464	7,153
Occupancy and equipment	716	609	483
Brokerage, clearing and exchange fees	496	425	378
Information processing and communications	1,026	958	731
Marketing and business development	507	678	488
Professional services	837	815	583
Other	775	611	488
Total non-interest expenses	12,284	13,560	10,304
Income before income taxes, extraordinary item and cumulative effect of accounting change	3,630	6,247	5,824
Provision for income taxes	1,267	2,193	2,167
Income before extraordinary item and cumulative effect of accounting change	2,363	4,054	3,657
Extraordinary item	(30)	—	—
Cumulative effect of accounting change	(46)	—	—
Net income	$ 2,287	$ 4,054	$ 3,657

Securities provides a wide range of financial products, services and investment advice to individual and institutional investors. Securities business activities are conducted in the U.S. and throughout the world and include investment banking, institutional sales and trading, full-service brokerage services, private equity and other principal investing activities, and aircraft financing activities. At November 30, 2001, the Company's financial advisors provided securities and investment services to approximately 5.6 million client accounts in the U.S. and had client assets of $595 billion. The Company had the second largest financial advisor sales organization in the U.S. On a global basis, the Company had 13,690 professional financial advisors at November 30, 2001.

Securities achieved net revenues of $15,914 million and net income of $2,287 million in fiscal 2001, decreases of 20% and 44%, respectively, from fiscal 2000. Securities net income for fiscal 2001 included an extraordinary loss of $30 million associated with the early extinguishment of certain long-term borrowings. Securities net income for fiscal 2001 also included a charge of $46 million from the cumulative effect of an accounting change associated with the Company's adoption of SFAS No. 133 on December 1, 2000. Excluding the extraordinary loss and the cumulative effect of the accounting change, Securities net income for fiscal 2001 was $2,363 million, a decrease of 42% from fiscal 2000. The decreases in net revenues and net income in fiscal 2001 were primarily attributable to lower revenues from the Company's investment banking, institutional sales and trading, and individual securities activities, partially offset by lower levels of incentive-based compensation expense. The decrease in net revenues and net income also reflected principal investment losses in fiscal 2001 as compared with principal investment gains in fiscal 2000, as well as a higher level of expenses associated with the Company's aircraft financing business. In fiscal 2000, Securities had record net revenues and net income, which increased 23% and 11%, respectively, from fiscal 1999. In fiscal 2000, the levels of net revenues and net income in the Company's Securities business reflected a strong global market for mergers and acquisitions and securities underwritings, higher principal trading and commission revenues, higher customer trading volume, and an increased level of client accounts and asset balances. Fiscal 2000's results reflected increased costs for incentive-based compensation, as well as increased non-compensation expenses associated with a higher level of global business activities and employees. Fiscal 2000's results also were negatively affected by more difficult economic and market conditions during the latter half of the year, which reduced the volume of merger and acquisition and underwriting transactions and contributed to a more difficult trading environment. In fiscal 2000, declines in certain equity markets also resulted in unrealized losses in the Company's private equity business.

Investment Banking. Investment banking revenues are derived from the underwriting of securities offerings and fees from advisory services. Investment banking revenues were as follows:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions)		
Advisory fees from merger, acquisition and restructuring transactions	$1,420	$2,141	$1,895
Equity underwriting revenues	847	1,739	1,267
Fixed income underwriting revenues	1,095	1,001	1,268
Total investment banking revenues	$3,362	$4,881	$4,430

Investment banking revenues decreased 31% in fiscal 2001 from the record level attained in fiscal 2000. Revenues in fiscal 2001 reflected lower revenues from equity underwriting transactions and merger, acquisition and restructuring activities, partially offset by higher fixed income underwriting revenues. In fiscal 2000, the 10% increase in investment banking revenues reflected higher advisory fees from merger, acquisition and restructuring transactions and increased revenues from underwriting equity securities, partially offset by lower revenues from underwriting fixed income securities.

Conditions in the worldwide merger and acquisition markets were generally unfavorable in fiscal 2001. There was $1.7 trillion of transaction activity announced during calendar year 2001 (according to Thomson Financial), a decrease of 51% from calendar year 2000's record volume. During calendar year 2001, the Company's volume of announced merger and acquisition transactions was approximately $461 billion, as compared with approximately $1,100 billion in the prior year. The decline primarily reflected the difficult global market and economic conditions that existed during fiscal 2001. In addition, the declines in the global equity markets reduced the purchasing power of potential acquirers. Sharp declines in the volume of merger and acquisition transaction activity were experienced across many industries and geographic locations and had a negative impact on advisory fees, which decreased 34% in fiscal 2001. Given current market and economic conditions, it is uncertain at what pace merger, acquisition and restructuring transactions will occur in future periods. The 13% increase in advisory fees in fiscal 2000 reflected high transaction volumes resulting from the strong global market for merger, acquisition and restructuring activities primarily in the technology, media and telecommunications sectors.

Equity underwriting revenues decreased 51% in fiscal 2001, primarily reflecting a significantly lower volume of equity offerings in the global equity markets, principally in the U.S. and Europe. The decline in new issue volume in fiscal 2001 primarily reflected the difficult conditions in the global equity markets, particularly in the technology, media and telecommunications sectors. The decrease was partially offset by a record level of revenues from underwriting convertible securities. However, given current economic and market conditions, it is uncertain at what pace equity underwriting transactions will occur in future periods. Equity underwriting revenues increased 37% in fiscal 2000, reflecting the Company's strong global market share. In fiscal 2000, equity underwriting revenues also benefited from a high volume of equity issuances, particularly in the technology, telecommunications and energy sectors. However, new issue volume declined toward the end of fiscal 2000 due to difficult conditions in the global financial markets, including reduced investor confidence.

Fixed income underwriting revenues increased 9% in fiscal 2001. The volume of fixed income underwriting transactions reflected a lower interest rate environment in both the U.S. and Europe, resulting in issuers taking advantage of historically low yields rendered by the Fed's and the ECB's interest rate actions. The volume of fixed income underwriting transactions was generally strong throughout fiscal 2001, particularly in investment grade products and structured credit transactions. Revenues from fixed income underwriting decreased 21% in fiscal 2000, as the volume of fixed income underwriting transactions was adversely affected by a higher interest rate environment in both the U.S. and Europe, resulting in higher borrowing costs. In fiscal 2000, revenues from underwriting global high-yield fixed income securities declined significantly, reflecting difficult conditions in this market sector. In addition, investor demand for these securities declined due to heightened concerns over credit quality. Revenues from underwriting derivative fixed income products also declined. These decreases were partially offset by higher revenues from securitized debt issuances, resulting from an increased volume of asset-backed transactions.

Principal Transactions. Principal transactions include revenues from customers' purchases and sales of securities in which the Company acts as principal and gains and losses on the Company's securities positions. Decisions relating to principal transactions in securities are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes an assessment of the potential gain or loss associated with a trade, including any associated commissions, and the interest income or expense associated with financing or hedging the Company's positions. The Company also engages in proprietary trading activities for its own account.

Principal transaction trading revenues were as follows:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions)		
Equities	$3,110	$4,705	$3,065
Fixed income	1,319	1,728	1,903
Foreign exchange	373	349	[illegible]
Commodities	699	579	431
Total principal transaction trading revenues	$5,501	$7,361	$5,796

Principal transaction trading revenues decreased 25% in fiscal 2001, primarily reflecting lower equity and fixed income trading revenues, partially offset by higher commodity and foreign exchange trading revenues. Principal transaction trading revenues increased 27% in fiscal 2000, primarily reflecting higher equity and commodity trading revenues, partially offset by a decline in fixed income and foreign exchange trading revenues.

Equity trading revenues decreased 34% in fiscal 2001, primarily reflecting lower revenues from trading cash and derivative equity products. Despite higher customer trading volumes in both listed and over-the-counter securities, conditions in the equity markets were generally less favorable in comparison with fiscal 2000, primarily in the U.S. and Europe. In particular, the level of market volatility was significantly lower in fiscal 2001 as compared with fiscal 2000, especially in the technology sector. The decline in equity trading revenues also reflected lower new issue volume, lower levels of cash flows into equity mutual funds, increased margin pressure resulting from the decimalization of the quoted price of certain U.S. equity securities and lower revenues from certain proprietary trading activities. In fiscal 2000, equity trading revenues increased 54% to a record level, reflecting higher revenues from both cash and derivative equity products. Higher revenues from trading in equity cash products were primarily driven by significantly increased levels of customer trading volumes and volatility in both over-the-counter and listed securities, particularly in the U.S. and Europe. Revenues from equity derivative products benefited from these conditions as well. Higher revenues from certain proprietary trading activities also contributed significantly to the increase in equity trading revenues.

Fixed income trading revenues decreased 24% in fiscal 2001. The decrease primarily reflected lower revenues from trading global high-yield fixed income products, including both debt and loan instruments. The difficult market and economic conditions that existed during fiscal 2001 adversely affected certain high-yield issuers, which resulted in markdowns of certain positions. Lower revenues from swaps trading also contributed to the decrease. These declines were partially offset by higher revenues from trading investment grade and structured fixed income products. In fiscal 2000, fixed income trading revenues decreased 9%, primarily reflecting lower revenues from global high-yield and investment grade fixed income securities. Trading revenues from global high-yield fixed income securities decreased significantly due to lighter trading activity and decreased market liquidity, which resulted in markdowns of certain high-yield positions. During fiscal 2000, several high-yield issuers experienced financial difficulties, triggering an increased number of credit downgrades and defaults, particularly in the telecommunications sector. Revenues from investment grade fixed income securities also declined, reflecting more difficult market conditions, which resulted in reduced liquidity and widening credit spreads. These decreases were partially offset by higher revenues from trading derivative and government agency products.

Foreign exchange revenues increased 7% in fiscal 2001, reflecting higher levels of customer trading volumes and volatility in the foreign exchange markets in both the U.S. and Europe. The higher level of volatility in the foreign exchange markets primarily reflected the Fed's interest rate actions during fiscal 2001 and the euro's rally relative to the U.S. dollar during the first half of fiscal 2001. In fiscal 2000, foreign exchange revenues decreased 12%, reflecting lower levels of trading volumes and volatility in the global foreign exchange markets. Trading volumes were negatively affected by the exit of certain hedge funds from the foreign exchange market and by reduced liquidity in the Japanese yen and euro markets.

Commodity trading revenues increased 21% to a record level in fiscal 2001. The increase was primarily driven by higher revenues from electricity and natural gas trading, which benefited from periods of heightened price volatility. The volatility in electricity and natural gas prices primarily resulted from periodic regional energy shortages, as well as fluctuations in the level of demand due to changing weather conditions. Higher revenues from metals trading also contributed to the increase, as these markets rallied after September 11, 2001. Commodity trading revenues rose 34% in fiscal 2000, primarily driven by higher revenues from certain energy-related products, including electricity, natural gas and crude oil. Trading revenues from energy-related products benefited from periods of rising prices and increased volatility across the entire energy sector. Such conditions were primarily attributable to low inventory levels, strong demand and concerns regarding the adequacy of production levels.

Principal transaction investment losses aggregating $311 million were recognized in fiscal 2001 as compared with gains of $133 million in fiscal 2000. Fiscal 2001's results included unrealized losses in the Company's private equity portfolio and certain other principal investments, primarily reflecting difficult market conditions in the technology and telecommunications sectors. Fiscal 2000's revenues included realized gains from certain of the Company's private equity investments, including Commerce One, Inc. and Equant N.V., as well as gains from the Company's other principal investment activities. These gains were partially offset by unrealized losses in the private equity business, reflecting difficult market conditions in the technology, telecommunications and Internet sectors in the latter half of the fiscal year.

Securities purchased in principal investment transactions generally are held for appreciation and are not readily marketable. It is not possible to determine when the Company will realize the value of such investments since, among other factors, such investments are generally subject to sales restrictions. Moreover, estimates of the eventual realizable value of the investments involve significant judgment and may fluctuate significantly over time in light of business, market, economic and financial conditions generally or in relation to specific transactions.

Commissions. Commission revenues primarily arise from agency transactions in listed and over-the-counter equity securities and sales of mutual funds, futures, insurance products and options. Commission revenues decreased 14% in fiscal 2001, primarily due to lower commission revenues in the U.S., reflecting a significant decline in the level of retail investor participation in the equity markets as compared with the prior year. Lower institutional commissions from markets in Japan and elsewhere in the Far East also contributed to the decrease. The decline in fiscal 2001 was partially offset by higher institutional commissions from European markets, benefiting from higher trading volumes, and higher revenues associated with exchange traded funds. Commission revenues increased 31% in fiscal 2000, primarily reflecting higher revenues from equity cash products from markets in Europe, the U.S. and the Far East. Revenues from European markets benefited from a significant increase in market volumes, particularly in the technology and telecommunications sectors. In the U.S., trading volumes on the New York Stock Exchange and the NASDAQ increased to record levels. Commission revenues from markets in Japan and elsewhere in the Far East increased as improved economic prospects within the region during the first half of fiscal 2000 increased investor interest and led to higher transaction volumes. In fiscal 2000, commission revenues also benefited from higher sales of mutual funds and growth in the number of the Company's financial advisors.

Through Morgan Stanley Choice^{SM}, a service and technology platform available to individual investors, the Company provides its individual investor clients with the choice of self-directed investing online; a traditional full-service brokerage relationship through a financial advisor; or some combination of both. Morgan Stanley Choice provides a range of pricing options, including fee-based pricing. As a result, revenues recorded within the "Commissions" and "Asset management, distribution and administration fees" income statement categories are affected by the number of the Company's clients electing a fee-based pricing arrangement.

Net Interest. Interest and dividend revenues and interest expense are a function of the level and mix of total assets and liabilities, including financial instruments owned, reverse repurchase and repurchase agreements, trading strategies associated with the Company's institutional securities business, customer margin loans and the prevailing level, term structure and volatility of interest rates. Interest and dividend revenues and interest expense are integral components of trading activities. In assessing the profitability of trading activities, the Company views net interest, commissions and principal trading revenues in the aggregate. In addition, decisions relating to principal transactions in securities are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes an assessment of the potential gain or loss associated with a trade, including any associated commissions, and the interest income or expense associated with financing or hedging the Company's positions. Reverse repurchase and repurchase agreements and securities borrowed and securities loaned transactions may be entered into with different customers using the same underlying securities, thereby generating a spread between the interest revenue on the reverse repurchase agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions. Net interest revenues increased 31% in fiscal 2001 and 61% in fiscal 2000, primarily reflecting the level and mix of interest earning assets and interest bearing liabilities (including liabilities associated with the Company's aircraft financing activities) during the respective periods as well as certain trading strategies utilized in the Company's institutional securities business. The increase in fiscal 2001 was primarily due to certain trading strategies utilized in the Company's institutional securities business, including higher net interest revenues from the Company's repurchase financing activities, which reflected a favorable interest rate environment. Higher average inventory balances of U.S. government and agency securities also contributed to the increase in net interest revenues. The increase was partially offset by a decrease in net interest revenues from brokerage services provided to both institutional and individual customers, including a decrease in the level of customer margin loans. In fiscal 2000, higher net interest revenues from brokerage services provided to institutional and individual customers, including an increase in the level of customer margin loans, had a positive impact on net interest revenues.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees include revenues from asset management services, including fees for promoting and distributing mutual funds ("12b-1 fees") and fees for investment management services provided to segregated customer accounts pursuant to various contractual arrangements in connection with the Company's ICS business. The Company receives 12b-1 fees for services it provides in promoting and distributing certain open-ended mutual funds. These fees are based on either the average daily fund net asset balances or average daily aggregate net fund sales and are affected by changes in the overall level and mix of assets under management or supervision. Asset management, distribution and administration fees also include revenues from individual investors electing a fee-based pricing arrangement under the Morgan Stanley Choice service and technology platform.

Asset management, distribution and administration fees decreased 4% in fiscal 2001 and increased 46% in fiscal 2000. In fiscal 2001, the decrease was primarily attributable to lower 12b-1 fees from promoting and distributing mutual funds to individual investors and lower fee revenue from Morgan Stanley Choice accounts. Both decreases reflected lower levels of assets under management and lower client balances subject to Morgan Stanley Choice fees. In fiscal 2001, client asset balances declined to $595 billion at November 30, 2001 from $662 billion at November 30, 2000. The increase in asset management, distribution and administration fees in fiscal 2000 was primarily attributable to higher 12b-1 fees from promoting and distributing mutual funds to individual investors through the Company's financial advisors. In fiscal 2000, higher revenues from investment management services associated with the ICS business and higher client asset balances, which rose to $662 billion at November 30, 2000 from $595 billion at November 30, 1999, also contributed to the increase.

Other. Other revenues primarily consist of net rental and other revenues associated with the Company's aircraft financing business, as well as account fees and other miscellaneous service fees associated with the Company's individual securities activities.

Other revenues increased 6% in fiscal 2001. The increase was primarily attributable to higher revenues from the Company's aircraft financing business, as fiscal 2001 included a full year of revenues related to Ansett Worldwide, which was acquired in fiscal 2000. The increase was partially offset by lower miscellaneous fee revenues in the individual securities business. Other revenues increased 107% in fiscal 2000. The increase primarily related to higher net rental and other revenues associated with Ansett Worldwide, which the Company acquired in April 2000.

The terrorist attacks of September 11, 2001 had an adverse impact on the global aviation industry. As a result, the Company's aircraft financing business experienced a decline in revenues and an increase in non-interest expenses in the fourth quarter of fiscal 2001. While there is much uncertainty regarding the potential long-term impact of the terrorist attacks, the Company currently believes that the conditions caused by the attacks could continue to have an adverse impact on the results of its aircraft financing business (see "Terrorist Attacks" and "Non-Interest Expenses" herein).

Non-Interest Expenses. Fiscal 2001's total non-interest expenses decreased 9% to $12,284 million. Compensation and benefits expense decreased 16%, principally reflecting lower incentive-based compensation due to lower levels of revenues and earnings. Fiscal 2001's compensation and benefits expense included severance and other related costs associated with reduced employment levels attributable to the Company's focus on managing costs. Excluding compensation and benefits expense, non-interest expenses increased 6% to $4,357 million. Occupancy and equipment expense increased 18%, primarily due to increased office space and rental costs in New York City and London, partially offset by lower rent expense as a result of the loss of the World Trade Center complex on September 11, 2001 (see "Terrorist Attacks" herein). Brokerage, clearing and exchange fees increased 17%, primarily reflecting higher brokerage and clearing costs due to increased institutional global securities trading volume, particularly in Europe and the U.S. Information processing and communications expense increased 7%, primarily due to increased costs associated with the Company's information technology infrastructure, including data processing and market data services. Marketing and business development expense decreased 25%, primarily reflecting lower advertising expenses in both the institutional and individual securities businesses. A lower level of travel and entertainment costs, which reflected the overall decline in business activity in the global financial markets, also contributed to the decrease. Professional services expense increased 3%, as higher consulting costs in the individual securities business were partially offset by a decrease in consulting costs in the institutional securities business. Other expense increased 27%, primarily reflecting significantly higher costs associated with the Company's aircraft financing business. Such costs include a charge of $87 million for the impairment of certain aircraft assets, as well as higher repossession, maintenance and other aircraft-related costs. Many of these increased costs were associated with the difficult conditions existing in the aviation industry in the aftermath of the terrorist attacks on September 11, 2001 (see "Terrorist Attacks" herein). The amortization of goodwill associated with the Company's acquisition of Quilter and costs associated with the closure of certain branch locations, including those associated with the Japanese retail business, also contributed to the increase. These increases were partially offset by lower costs for certain consumption taxes.

Fiscal 2000's total non-interest expenses increased 32% to $13,560 million. Compensation and benefits expense increased 32%, reflecting increased incentive compensation based on record fiscal 2000 revenues and earnings, incremental costs related to the Company's focus on increasing the number of its financial advisors and increased competitive pressures in certain institutional businesses. Excluding compensation and benefits expense, non-interest expenses increased 30% to $4,096 million. Occupancy and equipment expense increased 26%, primarily due to additional rent associated with new U.S. branch locations and increased office space in New York City and certain other locations. Brokerage, clearing and exchange fees increased 12%, primarily due to higher brokerage costs related to increased global trading volume, particularly in the U.S. and Europe. Brokerage costs associated with the business activities of Morgan Stanley, S.V., S.A., which was acquired by the Company in March 1999, also contributed to the increase. Information processing and communications expense increased 31%, primarily due to increased costs associated with the Company's information technology infrastructure, including data processing, market data services and telecommunications costs for network equipment associated with increased business activity and higher employment levels. These increases were partially offset by the exclusion of certain Year 2000 costs from fiscal 2000's results. Marketing and business development expense increased 39%, primarily due to increased travel and entertainment costs associated with a high level of business activity in the global financial markets, new advertising campaigns and additional promotional expenses in the individual securities business. Professional services expense increased 40%, primarily reflecting higher consulting costs associated with certain strategic initiatives, including e-commerce. The increase also reflected higher costs for employment fees and temporary staffing due to increased global business activity. Other expense increased 25%, reflecting a higher level of business activity on various operating expenses. Higher costs associated with the Company's aircraft financing business (including Ansett Worldwide, which the Company acquired in April 2000) and amortization of goodwill associated with the Company's acquisition of Morgan Stanley, S.V., S.A. also contributed to the increase.

INVESTMENT MANAGEMENT

STATEMENTS OF INCOME
(dollars in millions)

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Revenues:			
Investment banking	$ 53	$ 127	$ 93
Principal transactions:			
Investments	(5)	60	13
Commissions	37	40	23
Asset management, distribution and administration fees	2,248	2,388	2,075
Interest and dividends	70	83	65
Other	32	28	23
Total revenues	2,435	2,726	2,292
Interest expense	12	14	10
Net revenues	2,423	2,712	2,282
Non-interest expenses:			
Compensation and benefits	743	814	694
Occupancy and equipment	103	97	102
Brokerage, clearing and exchange fees	168	161	160
Information processing and communications	106	90	101
Marketing and business development	138	178	141
Professional services	112	113	143
Other	126	159	157
Total non-interest expenses	1,496	1,612	1,498
Gain on sale of business	—	35	—
Income before income taxes	927	1,135	784
Provision for income taxes	382	458	326
Net income	$ 545	$ 677	$ 458

Investment Management ranks among the top global active asset managers and provides a wide range of investment advisory products through numerous distribution channels. The Company offers a wide variety of investment products to individual, institutional and intermediary clients. The investment products range from money market funds to equity, taxable and tax-exempt fixed income funds and alternative investments in developed and emerging markets. Through various service companies, distribution subsidiaries and investment advisors, the Company offers clients various investment styles, including value, growth and blended; active and passive management; and diversified and concentrated portfolios. In fiscal 2001, Investment Management's assets under management or supervision decreased $41 billion to $459 billion at November 30, 2001, reflecting market value declines, the sale of $6 billion in customer assets and lower Unit Investment Trust sales.

Investment Management's net revenues for fiscal 2001 were $2,423 million, a decrease of 11% from fiscal 2000. Investment Management's net income for fiscal 2001 was $545 million, a decrease of 19% from fiscal 2000. Net income for fiscal 2000 included a net gain of $21 million from the sale of the Company's Global Custody business (see "Business Acquisitions and Disposition" herein). Excluding fiscal 2000's net gain on the sale of business, net income decreased 17% in fiscal 2001. The decrease in net revenues and net income in fiscal 2001 primarily reflected lower fee-based revenues due to a less favorable asset mix and lower average assets under management or supervision. Investment banking revenues also decreased, resulting from lower Unit Investment Trust sales. These revenue declines were partially offset by the favorable impact of expense management initiatives, including lower incentive-based compensation expense. In fiscal 2000, Investment Management achieved record net revenues of $2,712 million, an increase of 19% from fiscal 1999. Investment Management's net income for fiscal 2000 was a record $677 million, an increase of 48% from fiscal 1999. Net income for fiscal 2000 included the $21 million net gain on the sale of business noted above. Excluding the net gain on the sale of business, net income increased 43% from fiscal 1999. The increase in net income in fiscal 2000 primarily reflected higher asset management, distribution and administration fees resulting from the accumulation and management of customer assets and a more favorable asset mix, partially offset by higher incentive-based compensation expense.

Investment Banking. Investment Management primarily generates investment banking revenues from the underwriting of Unit Investment Trust products. In fiscal 2001, investment banking revenues decreased 58% to $53 million. The decrease primarily relates to a lower volume of Unit Investment Trust sales. Unit Investment Trust sales volume declined 58% to $6.9 billion in fiscal 2001. In fiscal 2000, investment banking revenues increased 37% to $127 million, primarily associated with higher levels of Unit Investment Trust sales volumes, which rose 35% to a record $16.6 billion. The increase was driven by demand for Internet and telecommunications investment trusts. The Company does not expect Unit Investment Trust sales volumes and associated investment banking revenues to return to the levels achieved in fiscal 2000 and fiscal 1999.

Principal Transactions. Investment Management's principal transaction revenues are primarily generated from net gains and losses on capital investments in certain of the Company's funds and other investments.

Principal transaction investment losses aggregating $5 million were recognized in fiscal 2001 as compared with revenues aggregating $60 million in fiscal 2000. The decline in revenues reflected the difficult market conditions that existed during fiscal 2001. In addition, during fiscal 2001 the Company had a lower level of capital investments in certain of its funds as compared with the prior year.

Commissions. Investment Management primarily generates commission revenues from dealer and distribution concessions on sales of certain funds as well as certain allocated commission revenues.

Commission revenues of $37 million decreased 8% in fiscal 2001 and increased 74% to $40 million in fiscal 2000. In both periods, the fluctuations were associated with changes in the level of sales volume of certain Van Kampen products and allocated commission revenues.

Net Interest. Investment Management generates net interest revenues from certain investment positions and from allocated interest revenues and expenses.

Net interest revenue decreased 16% to $58 million in fiscal 2001, primarily due to a lower level of allocated net interest revenues. In fiscal 2000, net interest revenue increased 25% to $69 million, reflecting higher net revenues from certain investment positions, as well as higher allocated net interest revenues.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees primarily include revenues from the management and administration of assets. These fees arise from investment management services the Company provides to investment vehicles pursuant to various contractual arrangements. Generally, the Company receives fees primarily based upon mutual fund average net assets or quarterly assets for other vehicles.

The Company's customer assets under management or supervision at fiscal year-end were as follows:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in billions)		
Products offered primarily to individuals:			
Mutual funds:			
Equity	$ 83	$103	$ 94
Fixed income	36	46	53
Money markets	66	57	47
Total mutual funds	185	206	194
ICS assets	30	31	23
Separate accounts, unit trust and other arrangements	65	78	68
Total individual	280	315	285
Products offered primarily to institutional clients:			
Mutual funds	38	35	33
Separate accounts, pooled vehicle and other arrangements	141	150	152
Total institutional	179	185	185
Total assets under management or supervision(1)	$459	$500	$470

(1) Revenues and expenses associated with certain assets are included in the Company's Securities segment.

Asset management, distribution and administration fees decreased 6% in fiscal 2001 and increased 15% in fiscal 2000. In fiscal 2001, the decrease primarily reflected a less favorable asset mix, primarily due to a shift from equity products to money market products, which typically generate lower management fees. The decrease also reflected a lower level of customer assets under management or supervision as compared with fiscal 2000. In fiscal 2000, the increase in revenues primarily reflected higher levels of management fees as well as other revenues resulting from a higher level of assets under management or supervision. The increase in fiscal 2000 also reflected a more favorable asset mix, primarily due to a shift in asset mix to a greater percentage of equity products, which typically generate higher management fees.

As of November 30, 2001, customer assets under management or supervision decreased $41 billion from fiscal year-end 2000. The decrease largely reflected a decline in the market value of equity assets, as well as the sale of $6 billion of assets. The decline also was attributable to lower net flows of customer assets, as redemptions were marginally higher than new sales in fiscal 2001. As of November 30, 2000, assets under management or supervision increased $30 billion from fiscal year-end 1999. In fiscal 2000, virtually all of the increase in assets under management or supervision was attributable to net inflows of customer assets. The increases in assets under management or supervision due to market appreciation in the first three quarters of fiscal 2000 were offset by market depreciation during the fourth quarter of fiscal 2000. This market depreciation reflected the declines in many global financial markets that occurred during that period.

Non-Interest Expenses. Fiscal 2001's total non-interest expenses decreased 7% to $1,496 million, partially reflecting the favorable impact of synergies resulting from integration initiatives within Investment Management's operating platforms. Compensation and benefits expense decreased 9%, reflecting lower incentive-based compensation costs due to Investment Management's lower level of revenues and earnings. Fiscal 2001's compensation and benefits expense included severance and other related costs associated with reduced employment levels attributable to the Company's focus on managing costs. Excluding compensation and benefits expense, non-interest expenses decreased 6% to $753 million. Occupancy and equipment expense increased 6%, primarily due to an increase in space and rental costs. Brokerage, clearing and exchange fees increased 4%, primarily due to a higher level of deferred commission amortization associated with the sale of

Aggregate VaR also incorporates (a) the funding liabilities related to institutional trading positions and (b) public-company equity positions recorded as principal investments by the Company. The incremental impact on VaR of these non-trading positions was not material as of November 30, 2001 and November 30, 2000, and, therefore, the table below does not separately report trading and non-trading VaRs.

Non-publicly traded principal investments made by the Company are not reflected in the VaR results reported below. As of November 30, 2001, the aggregate carrying value of such investments was approximately $500 million.

Since VaR statistics reported below are estimates based on historical position and market data, VaR should not be viewed as predictive of the Company's future financial performance or its ability to monitor and manage risk. There can be no assurance that the Company's actual losses on a particular day will not exceed the VaR amounts indicated below or that such losses will not occur more than once in 100 trading days:

Primary Market Risk Category	99%/One-Day VaR at November 30, 2001	2000
	(dollars in millions, pre-tax)	
Interest rate	$30	$28
Equity price	23	27
Foreign exchange rate	6	5
Commodity price	24	17
Subtotal	83	77
Less diversification benefit(1)	41	35
Aggregate VaR	$42	$42

(1) Diversification benefit equals the difference between Aggregate VaR and the sum of the VaRs for the four risk categories. This benefit arises because the simulated 99%/one-day losses for each of the four primary market risk categories occur on different days; similar diversification benefits also are taken into account within each such category.

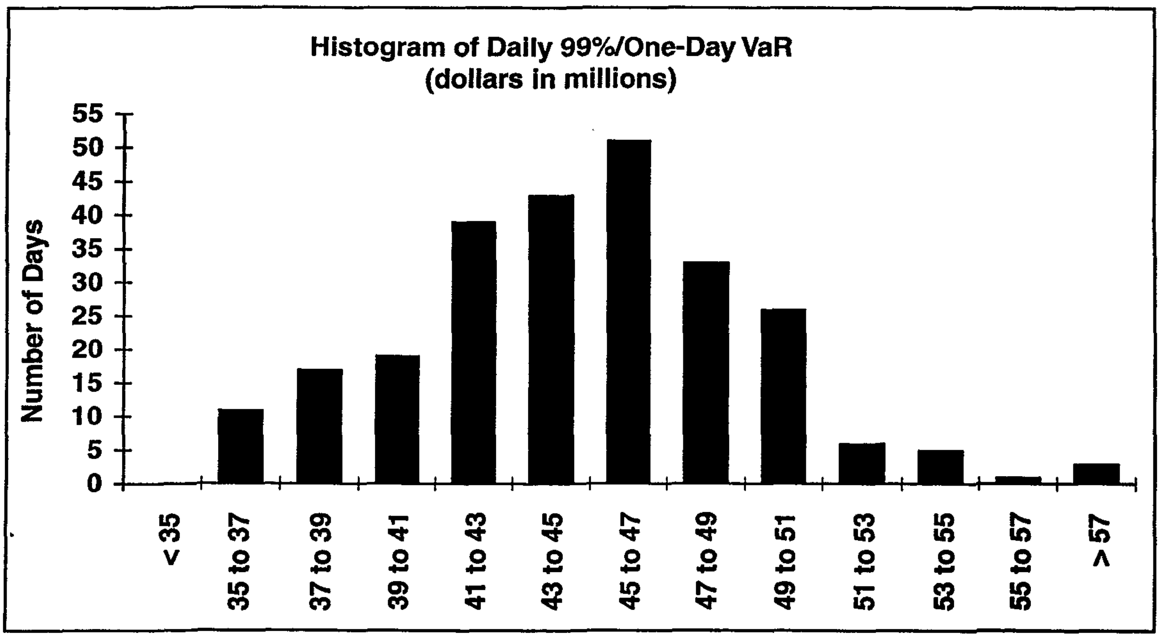
The Company's Aggregate VaR at November 30, 2001 was unchanged from the prior year, as an increase in commodity price VaR, which primarily reflected a model enhancement resulting in improved capture of geographic basis risk, was offset by a higher diversification benefit.

In order to facilitate comparisons with other global financial services firms, the Company's Aggregate VaR values at November 30, 2001 for other confidence levels and time horizons were as follows: $30 million for 95%/one-day VaR and $133 million for 99%/two-week VaR.

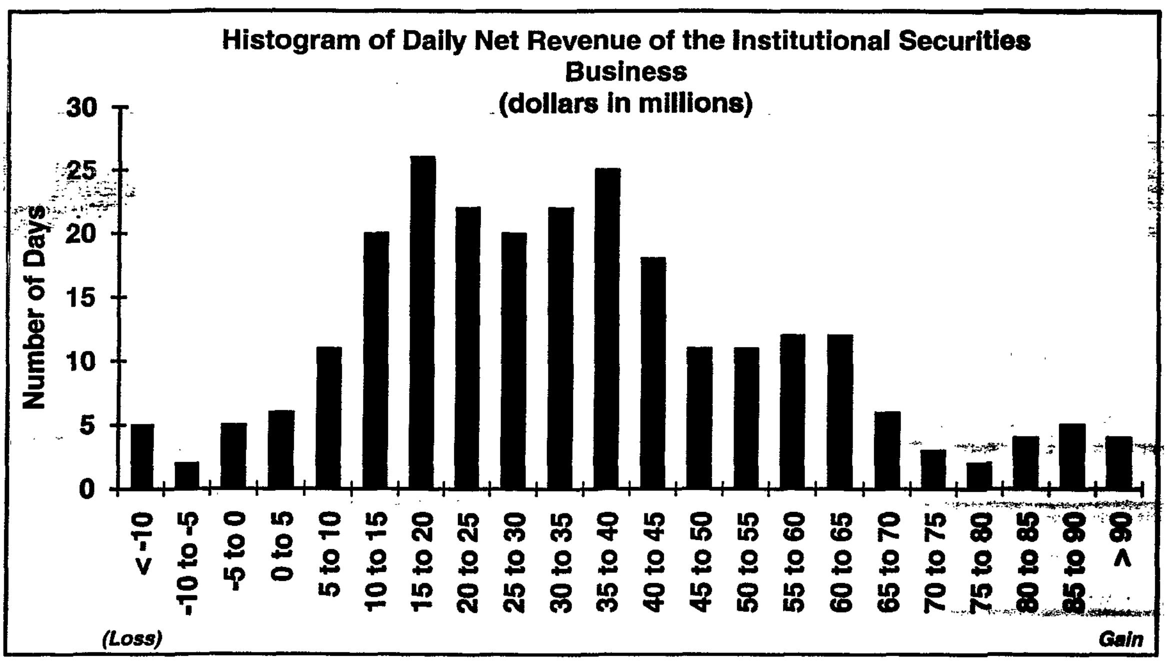
The table below presents the high, low and average 99%/one-day trading VaR over the course of fiscal 2001 for substantially all of the Company's institutional trading activities. Certain market risks included in the year-end VaR discussed above are excluded from this measure (e.g., equity price risk in public company equity positions recorded as principal investments by the Company and certain funding liabilities related to trading positions):

Primary Market Risk Category	Daily 99%/One-Day VaR for Fiscal 2001 High	Low	Average
	(dollars in millions, pre-tax)		
Interest rate	$46	$23	$31
Equity price	47	14	23
Foreign exchange rate	13	2	6
Commodity price	39	14	24
Trading VaR	$60	$35	$46

The histogram below presents the Company's daily 99%/one-day VaR for its institutional trading activities during fiscal 2001:



The histogram below shows the distribution of daily revenues during fiscal 2001 for the Company's institutional trading businesses (net of interest expense and including commissions and primary revenue credited to the trading businesses):



The Company evaluates the reasonableness of its VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results. There were no days during fiscal 2001 in which the Company incurred daily mark-to-market losses (trading revenue net of interest income and expense and excluding commissions and primary revenue credited to the trading businesses) in its institutional trading business in excess of the 99%/one-day VaR.

Consumer Lending and Related Activities.

Interest Rate Risk and Management. In its consumer lending activities, the Company is exposed to market risk primarily from changes in interest rates. Such changes in interest rates impact interest earning assets, principally credit card and other consumer loans and net excess servicing fees received in connection with consumer loans sold through asset securitizations, as well as the interest-sensitive liabilities that finance these assets, including asset-backed securitizations; long-term borrowings; deposits; Federal Funds; and short-term bank notes.

The Company's interest rate risk management policies are designed to reduce the potential volatility of earnings that may arise from changes in interest rates by having a financing portfolio that reflects the existing repricing schedules of consumer loans as well as the Company's right, with notice to cardmembers, to reprice certain fixed rate consumer loans to a new interest rate in the future. To the extent that asset and related financing repricing characteristics of a particular portfolio are not matched effectively, the Company utilizes interest rate derivative contracts, such as swap agreements, to achieve its objectives. Interest rate swap agreements effectively convert the underlying asset or financing from fixed to variable repricing or from variable to fixed repricing.

Sensitivity Analysis Methodology, Assumptions and Limitations. For its consumer lending activities, the Company uses a variety of techniques to assess its interest rate risk exposure, one of which is interest rate sensitivity simulation. For purposes of presenting the possible earnings effect of a hypothetical, adverse change in interest rates over the 12-month period from its fiscal year-end, the Company assumes that all interest rate sensitive assets and liabilities will be impacted by a hypothetical, immediate 100-basis-point increase in interest rates as of the beginning of the period.

Interest rate sensitive assets are assumed to be those for which the stated interest rate is not contractually fixed for the next 12-month period. In fiscal 2001, a portion of the Company's credit card receivables was repriced to a fixed interest rate, although the Company has the right, with notice to cardmembers, to subsequently reprice these receivables to a new interest rate. Therefore, the Company considers the receivables with a fixed interest rate to be interest rate sensitive. The Company measured the earnings sensitivity for these assets from the expected repricing date, which takes into consideration the required notice period and billing cycles. In addition, assets that have a market-based index, such as the prime rate, which will reset before the end of the 12-month period, or assets with rates that are fixed at fiscal year-end but which will mature, or otherwise contractually reset to a market-based indexed or other fixed rate prior to the end of the 12-month period, are rate-sensitive. The latter category includes certain credit card loans that may be offered at below-market rates for an introductory period, such as for balance transfers and special promotional programs, after which the loans will contractually reprice in accordance with the Company's normal market-based pricing structure. For purposes of measuring rate-sensitivity for such loans, only the effect of the hypothetical 100-basis-point change in the underlying market-based indexed or other fixed rate has been considered rather than the full change in the rate to which the loan would contractually reprice. For assets that have a fixed interest rate at fiscal year-end but which contractually will, or are assumed to, reset to a market-based indexed or other fixed rate during the next 12 months, earnings sensitivity is measured from the expected repricing date. In addition, for all interest rate sensitive assets, earnings sensitivity is calculated net of expected loan losses.

Interest rate sensitive liabilities are assumed to be those for which the stated interest rate is not contractually fixed for the next 12-month period. Thus, liabilities that have a market-based index, such as the prime, commercial paper or LIBOR rates, which will reset before the end of the 12-month period, or liabilities whose rates are fixed at fiscal year-end but which will mature and are assumed to be replaced with a market-based indexed rate prior to the end of the 12-month period, are rate-sensitive. For these fixed rate liabilities, earnings sensitivity is measured from the expected repricing date.

Assuming a hypothetical, immediate 100-basis-point increase in the interest rates affecting all interest rate sensitive assets and liabilities as of November 30, 2001, it is estimated that the pre-tax income of consumer lending and related activities over the following 12-month period would be reduced by approximately $71 million. The comparable reduction of pre-tax income for the 12-month period following November 30, 2000 was estimated to be approximately $62 million. The reduction in pre-tax income at November 30, 2001 was greater as compared with the prior year, primarily due to the Company's consumer loan portfolio comprising a greater proportion of receivables with a fixed interest rate at fiscal year-end 2001 and the related impact of the funding supporting the Company's consumer loans.

The hypothetical model assumes that the balances of interest rate sensitive assets and liabilities at fiscal year-end will remain constant over the next 12-month period. It does not assume any growth, strategic change in business focus, change in asset pricing philosophy or change in asset/liability funding mix. Thus, this model represents a static analysis that cannot adequately portray how the Company would respond to significant changes in market conditions. Furthermore, the analysis does not necessarily reflect the Company's expectations regarding the movement of interest rates in the near term, including the likelihood of an immediate 100-basis-point change in market interest rates, nor necessarily the actual effect on earnings if such rate changes were to occur.

Credit Risk.

The Company's exposure to credit risk arises from the possibility that a customer or counterparty to a transaction might fail to perform under its contractual commitment, which could result in the Company incurring losses. With respect to its institutional securities activities, the Company has credit guidelines that limit the Company's current and potential credit exposure to any one customer or counterparty and to aggregates of customers or counterparties by type of business activity. The Credit Risk Department administers limits, monitors credit exposure and periodically reviews the financial soundness of customers and counterparties on a worldwide basis. The Company manages the credit exposure relating to its trading activities in various ways, including entering into master netting agreements, collateral arrangements, and limiting the duration of exposure. Risk is mitigated in certain cases by closing out transactions, entering into risk-reducing transactions, assigning transactions to other parties or purchasing credit protection. With respect to corporate lending, the Capital Commitment Committee, which is composed of senior managers from various departments within the Company, reviews each loan request. The Company manages the credit exposure on corporate loans in various ways, including the structure (collateral and seniority) of the loan and covenants. Risk is mitigated in certain cases by selling participation interests in a loan to other lenders, selling loans or purchasing credit protection.

With respect to certain derivative transactions, the Company requires collateral from its counterparties, principally cash and U.S. government and agency securities, to reduce default risk. The following table presents a summary of counterparty credit ratings for the replacement cost of over-the-counter derivatives in a gain position by maturity at November 30, 2001. In addition, collateral received by the Company is presented by the credit rating of the counterparties providing the collateral. The following table includes credit exposure only from over-the-counter derivative transactions and does not include other credit exposures, such as the Company's senior lending activities:

Credit Rating(1)	Years to Maturity: Less than 1	1-3	3-5	Over 5	Cross-Maturity Netting(2)	Net Exposure Pre-Collateral	Net Exposure Post-Collateral
	(dollars in millions)						
AAA	$ 612	$ 882	$1,228	$ 3,626	$(1,518)	$ 4,830	$ 2,891
AA	3,288	3,576	1,990	4,730	(4,290)	9,294	6,469
A	3,486	2,587	1,216	4,139	(1,842)	9,586	6,636
BBB	1,288	737	503	896	(495)	2,929	2,200
Non-investment grade	1,693	851	763	734	(559)	3,482	2,736
Total	$10,367	$8,633	$5,700	$14,125	$(8,704)	$30,121	$20,932

(1) Credit ratings are determined by external rating agencies or by equivalent ratings used by the Company's Credit Risk Department.

(2) Represents netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are net within such maturity category.

With respect to its consumer lending activities, potential credit card holders undergo credit reviews by the Credit Department of Discover Financial Services to establish that they meet standards of ability and willingness to pay. Credit card applications are evaluated using scoring models (statistical evaluation models) based on information obtained from applicants and credit bureaus. The Company's credit scoring systems include both industry and customized models using the Company's criteria and historical data. Each cardmember's credit line is reviewed at least annually, and actions resulting from such review may include raising or lowering a cardmember's credit line or closing the account. In addition, the Company, on a portfolio basis, performs periodic monitoring and review of consumer behavior and risk profiles. The Company also reviews the creditworthiness of prospective Discover Business Services merchants and conducts annual reviews of merchants with the greatest scrutiny given to merchants with substantial sales volume.

Concentration Risk.

The Company is subject to concentration risk by holding large positions in certain types of securities or commitments to purchase securities of a single issuer, including sovereign governments and other entities, issuers located in a particular country or geographic area, public and private issuers involving developing countries or issuers engaged in a particular industry (see Note 10 to the consolidated financial statements). The Company seeks to limit concentration risk through the use of systems and procedures described in the preceding discussions of market and credit risk.

Operational Risk.

Operational risk refers generally to the risk of loss resulting from the Company's operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in the Company's operating systems and inadequacies or breaches in the Company's control processes. The Company operates different businesses in diverse markets and is reliant on the ability of its employees and systems to process high numbers of transactions. These transactions may cross multiple markets and involve different currencies. In the event of a breakdown or improper operation of systems or improper action by employees, the Company could suffer financial loss, regulatory sanctions and damage to its reputation.

In order to mitigate and control operational risk, the Company has developed and continues to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels. For example, the Company's securities business has procedures that require that all transactions are accurately recorded and properly reflected in the Company's books and records and are confirmed on a timely basis; that position valuations are subject to periodic independent review procedures; and that collateral and adequate documentation (e.g., master agreements) are obtained from counterparties in appropriate circumstances. With respect to its consumer lending activities, the Company manages operational risk through its system of internal controls that provides checks and balances to ensure that transactions and other account-related activity (e.g., new account solicitation, transaction authorization and processing, billing and collection of delinquent accounts) are properly approved, processed, recorded and reconciled. Disaster recovery plans are in place for critical systems on a Company-wide basis, and redundancies are built into the systems as deemed appropriate. The Company also uses periodic self-assessments and Internal Audit reviews as a further check on operational risk.

Legal Risk.

Legal risk includes the risk of non-compliance with applicable legal and regulatory requirements and the risk that a counterparty's performance obligations will be unenforceable. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business. The Company has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to ensure compliance with all applicable statutory and regulatory requirements. The Company, principally through the Law and Compliance Department, also has established procedures that are designed to ensure that senior management's policies relating to conduct, ethics and business practices are followed globally. In connection with its businesses, the Company has various procedures addressing issues, such as regulatory capital requirements, sales and trading practices, new products, use and safekeeping of customer funds and securities, credit granting, collection activities, money-laundering, privacy and recordkeeping. In addition, the Company has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies.

Item 8. Financial Statements and Supplementary Data.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Morgan Stanley Dean Witter & Co.:

We have audited the accompanying consolidated statements of financial condition of Morgan Stanley Dean Witter & Co. and subsidiaries (the "Company") as of fiscal years ended November 30, 2001 and 2000, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three fiscal years in the period ended November 30, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Morgan Stanley Dean Witter & Co. and subsidiaries at fiscal years ended November 30, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended November 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

New York, New York
January 11, 2002

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Financial Condition
(dollars in millions, except share data)

	November 30, 2001	November 30, 2000
Assets		
Cash and cash equivalents	$ 26,596	$ 18,819
Cash and securities deposited with clearing organizations or segregated under federal and other regulations (including securities at fair value of $36,146 at November 30, 2001 and $41,312 at November 30, 2000)	46,326	48,637
Financial instruments owned (approximately $74 billion were pledged to various parties at November 30, 2001):		
U.S. government and agency securities	25,696	27,326
Other sovereign government obligations	22,039	20,119
Corporate and other debt	47,607	33,419
Corporate equities	23,143	16,889
Derivative contracts	32,078	27,333
Physical commodities	285	217
Securities purchased under agreements to resell	54,618	50,992
Securities provided as collateral	13,163	3,563
Securities borrowed	120,758	105,231
Receivables:		
Consumer loans (net of allowances of $847 at November 30, 2001 and $783 at November 30, 2000)	20,108	21,743
Customers, net	22,188	26,015
Brokers, dealers and clearing organizations	6,462	1,257
Fees, interest and other	5,283	5,445
Office facilities, at cost (less accumulated depreciation of $2,124 at November 30, 2001 and $1,934 at November 30, 2000)	2,579	2,685
Aircraft under operating leases (less accumulated depreciation of $479 at November 30, 2001 and $257 at November 30, 2000)	4,753	3,927
Other assets	8,946	7,662
Total assets	$482,628	$421,279

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Financial Condition—(Continued)
(dollars in millions, except share data)

	November 30, 2001	November 30, 2000
Liabilities and Shareholders' Equity		
Commercial paper and other short-term borrowings	$ 32,842	$ 27,754
Deposits	12,276	11,930
Financial instruments sold, not yet purchased:		
U.S. government and agency securities	17,203	13,578
Other sovereign government obligations	10,906	9,797
Corporate and other debt	9,125	6,772
Corporate equities	13,046	15,091
Derivative contracts	27,286	27,547
Physical commodities	2,044	1,462
Securities sold under agreements to repurchase	122,695	97,230
Obligation to return securities received as collateral	13,163	—
Securities loaned	36,776	35,211
Payables:		
Customers	93,719	94,546
Brokers, dealers and clearing organizations	4,331	3,072
Interest and dividends	2,761	2,766
Other liabilities and accrued expenses	12,795	12,731
Long-term borrowings	49,668	42,051
	460,636	401,538
Capital Units	66	70
Preferred Securities Issued by Subsidiaries	1,210	400
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	345	545
Common stock ($0.01 par value, 3,500,000,000 shares authorized, 1,211,685,904 and 1,211,685,904 shares issued, 1,093,006,744 and 1,107,270,331 shares outstanding at November 30, 2001 and November 30, 2000, respectively)	12	12
Paid-in capital	3,745	3,377
Retained earnings	23,270	20,802
Employee stock trust	3,086	3,042
Accumulated other comprehensive income (loss)	(262)	(91)
Subtotal	30,196	27,687
Note receivable related to ESOP	(31)	(44)
Common stock held in treasury, at cost ($0.01 par value, 118,679,160 and 104,415,573 shares at November 30, 2001 and November 30, 2000, respectively)	(6,935)	(6,024)
Common stock issued to employee trust	(2,514)	(2,348)
Total shareholders' equity	20,716	19,271
Total liabilities and shareholders' equity	$482,628	$421,279

See Notes to Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Income
(dollars in millions, except share and per share data)

	Fiscal Year		
	2001	2000	1999
Revenues:			
Investment banking	$ 3,415	$ 5,008	$ 4,523
Principal transactions:			
Trading	5,501	7,361	5,796
Investments	(316)	193	725
Commissions	3,153	3,645	2,774
Fees:			
Asset management, distribution and administration	4,078	4,286	3,377
Merchant and cardmember	1,345	1,323	1,074
Servicing	1,904	1,450	1,194
Interest and dividends	24,127	21,234	14,880
Other	520	485	244
Total revenues	43,727	44,985	34,587
Interest expense	20,779	18,176	12,515
Provision for consumer loan losses	1,052	810	526
Net revenues	21,896	25,999	21,546
Non-interest expenses:			
Compensation and benefits	9,397	10,936	8,398
Occupancy and equipment	895	772	643
Brokerage, clearing and exchange fees	664	586	538
Information processing and communications	1,622	1,486	1,250
Marketing and business development	1,258	1,560	1,221
Professional services	1,148	1,110	913
Other	1,228	1,058	855
Total non-interest expenses	16,212	17,508	13,818
Gain on sale of business	—	35	—
Income before income taxes, extraordinary item and cumulative effect of accounting change	5,684	8,526	7,728
Provision for income taxes	2,074	3,070	2,937
Income before extraordinary item and cumulative effect of accounting change	3,610	5,456	4,791
Extraordinary item	(30)	—	—
Cumulative effect of accounting change	(59)	—	—
Net income	$ 3,521	$ 5,456	$ 4,791
Preferred stock dividend requirements	$ 32	$ 36	$ 44
Earnings applicable to common shares(1)	$ 3,489	$ 5,420	$ 4,747
Earnings per common share:			
Basic before extraordinary item and cumulative effect of accounting change	$ 3.29	$ 4.95	$ 4.33
Extraordinary item	(0.03)	—	—
Cumulative effect of accounting change	(0.05)	—	—
Basic	$ 3.21	$ 4.95	$ 4.33
Diluted before extraordinary item and cumulative effect of accounting change	$ 3.19	$ 4.73	$ 4.10
Extraordinary item	(0.03)	—	—
Cumulative effect of accounting change	(0.05)	—	—
Diluted	$ 3.11	$ 4.73	$ 4.10
Average common shares outstanding:			
Basic	1,086,121,508	1,095,858,438	1,096,789,720
Diluted	1,121,764,086	1,145,011,515	1,159,500,670

(1) Amounts shown are used to calculate basic earnings per common share.

See Notes to Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Comprehensive Income
(dollars in millions)

	Fiscal Year		
	2001	2000	1999
Net income	$3,521	$5,456	$4,791
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	(59)	(64)	(15)
Cumulative effect of accounting change	(13)	—	—
Net change in cash flow hedges	(99)	—	—
Comprehensive income	$3,350	$5,392	$4,776

See Notes to Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Cash Flows
(dollars in millions)

	Fiscal Year		
	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,521	$ 5,456	$ 4,791
Adjustments to reconcile net income to net cash used for operating activities:			
Non-cash charges (credits) included in net income:			
Cumulative effect of accounting change	59	—	—
Asset impairment charge	87	—	—
Gain on sale of business	—	(35)	—
Deferred income taxes	(427)	(219)	(160)
Compensation payable in common or preferred stock	653	908	735
Depreciation and amortization	729	727	541
Provision for consumer loan losses	1,052	810	526
Changes in assets and liabilities:			
Cash and securities deposited with clearing organizations or segregated under federal and other regulations	2,311	(38,924)	839
Financial instruments owned, net of financial instruments sold, not yet purchased	(16,288)	(10,524)	(22,081)
Securities borrowed, net of securities loaned	(13,962)	(15,036)	(8,798)
Receivables and other assets	(2,519)	2,078	(10,997)
Payables and other liabilities	693	52,376	5,659
Net cash used for operating activities	(24,091)	(2,383)	(28,945)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (payments for) proceeds from:			
Office facilities and aircraft under operating leases	(1,998)	(896)	(1,669)
Purchase of Quilter Holdings Limited, net of cash acquired	(183)	—	—
Purchase of Ansett Worldwide Aviation Services, net of cash acquired	—	(199)	—
Purchase of Morgan Stanley, S.V., S.A., net of cash acquired	—	—	(223)
Net principal disbursed on consumer loans	(7,053)	(11,885)	(8,371)
Sales of consumer loans	7,638	10,294	3,333
Sale of office building	709	—	—
Net cash used for investing activities	(887)	(2,686)	(6,930)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for) short-term borrowings	5,088	(10,563)	9,994
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	21,839	12,154	21,327
Net proceeds from:			
Deposits	346	1,533	2,200
Issuance of common stock	197	338	223
Issuance of put options	5	42	9
Issuance of long-term borrowings	18,498	22,475	7,552
Issuance of Preferred Securities Issued by Subsidiaries	810	—	—
Payments for:			
Repayments of long-term borrowings	(11,201)	(9,351)	(6,618)
Redemption of cumulative preferred stock	(200)	—	—
Redemption of Capital Units	(4)	(513)	(416)
Repurchases of common stock	(1,583)	(3,628)	(2,374)
Cash dividends	(1,040)	(924)	(575)
Net cash provided by financing activities	32,755	11,563	31,322
Net increase (decrease) in cash and cash equivalents	7,777	6,494	(4,553)
Cash and cash equivalents, at beginning of period	18,819	12,325	16,878
Cash and cash equivalents, at end of period	$ 26,596	$ 18,819	$ 12,325

See Notes to Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Changes in Shareholders' Equity
(dollars in millions)

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Employee Stock Trust	Accumulated Other Comprehensive Income (Loss)	Note Receivable Related to ESOP	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Total
BALANCE AT NOVEMBER 30, 1998	$ 674	$12	$3,740	$12,080	$1,913	$ (12)	$(60)	$(2,702)	$(1,526)	$14,119
Net income	—	—	—	4,791	—	—	—	—	—	4,791
Dividends	—	—	—	(586)	—	—	—	—	—	(586)
Conversion of ESOP Preferred Stock	(4)	—	(18)	—	—	—	—	22	—	—
Issuance of common stock	—	—	(223)	—	—	—	—	446	—	223
Repurchases of common stock	—	—	—	—	—	—	—	(2,374)	—	(2,374)
Compensation payable in common stock	—	—	312	—	513	—	—	205	(252)	778
ESOP shares allocated, at cost	—	—	—	—	—	—	5	—	—	5
Issuance of common stock in connection with Morgan Stanley, S.V., S.A. acquisition	—	—	16	—	—	—	—	48	—	64
Issuance of put options	—	—	9	—	—	—	—	—	—	9
Translation adjustments	—	—	—	—	—	(15)	—	—	—	(15)
BALANCE AT NOVEMBER 30, 1999	670	12	3,836	16,285	2,426	(27)	(55)	(4,355)	(1,778)	17,014
Net income	—	—	—	5,456	—	—	—	—	—	5,456
Dividends	—	—	—	(939)	—	—	—	—	—	(939)
Conversion of ESOP Preferred Stock	(125)	—	(817)	—	—	—	—	942	—	—
Issuance of common stock	—	—	(446)	—	—	—	—	784	—	338
Issuance of put options	—	—	42	—	—	—	—	—	—	42
Exercise of put options	—	—	(4)	—	—	—	—	4	—	—
Repurchases of common stock	—	—	—	—	—	—	—	(3,628)	—	(3,628)
Compensation payable in common stock	—	—	766	—	616	—	—	229	(570)	1,041
ESOP shares allocated, at cost	—	—	—	—	—	—	11	—	—	11
Translation adjustments	—	—	—	—	—	(64)	—	—	—	(64)
BALANCE AT NOVEMBER 30, 2000	545	12	3,377	20,802	3,042	(91)	(44)	(6,024)	(2,348)	19,271
Net income	—	—	—	3,521	—	—	—	—	—	3,521
Dividends	—	—	—	(1,053)	—	—	—	—	—	(1,053)
Redemption of 7-¾% Cumulative Preferred Stock	(200)	—	—	—	—	—	—	—	—	(200)
ESOP shares allocated, at cost	—	—	—	—	—	—	13	—	—	13
Issuance of common stock	—	—	(364)	—	—	—	—	561	—	197
Issuance of put options	—	—	5	—	—	—	—	—	—	5
Exercise of put options	—	—	(12)	—	—	—	—	12	—	—
Repurchases of common stock	—	—	—	—	—	—	—	(1,583)	—	(1,583)
Compensation payable in common stock	—	—	739	—	44	—	—	99	(166)	716
Cumulative effect of accounting change and net change in cash flow hedges	—	—	—	—	—	(112)	—	—	—	(112)
Translation adjustments	—	—	—	—	—	(59)	—	—	—	(59)
BALANCE AT NOVEMBER 30, 2001	$ 345	$12	$3,745	$23,270	$3,086	$(262)	$(31)	$(6,935)	$(2,514)	$20,716

See Notes to Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Introduction and Basis of Presentation.

The Company. Morgan Stanley Dean Witter & Co. (the "Company") is a global financial services firm that maintains leading market positions in each of its three business segments—Securities, Investment Management and Credit Services. The Company's Securities business includes securities underwriting and distribution; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; full-service brokerage services; sales, trading, financing and market-making activities in equity securities and related products and fixed income securities and related products, including foreign exchange and commodities; principal investing, including private equity activities; and aircraft financing activities. The Company's Investment Management business provides global asset management products and services for individual and institutional investors through three principal distribution channels: the Company's financial advisors and investment representatives; a non-proprietary channel consisting of third-party broker-dealers, banks, financial planners and other intermediaries; and the Company's institutional channel. The Company's Credit Services business includes the issuance of the Discover® Classic Card, the Discover Gold Card, the Discover Platinum Card, the Morgan Stanley Card℠ and other proprietary general purpose credit cards; and the operation of Discover Business Services, a proprietary network of merchant and cash access locations in the U.S.

The consolidated financial statements include the accounts of the Company and its U.S. and international subsidiaries, including Morgan Stanley & Co. Incorporated ("MS&Co."), Morgan Stanley & Co. International Limited ("MSIL"), Morgan Stanley Japan Limited ("MSJL"), Morgan Stanley DW Inc. (formerly Dean Witter Reynolds Inc.) ("MSDWI"), Morgan Stanley Investment Advisors Inc. (formerly Morgan Stanley Dean Witter Advisors Inc.) and NOVUS Credit Services Inc.

Basis of Financial Information. The consolidated financial statements for the 12 months ended November 30, 2001 ("fiscal 2001"), November 30, 2000 ("fiscal 2000") and November 30, 1999 ("fiscal 1999") are prepared in accordance with accounting principles generally accepted in the U.S., which requires the Company to make estimates and assumptions regarding the valuations of certain financial instruments, consumer loan loss levels, the potential outcome of litigation and other matters that affect the consolidated financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of the consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates.

Certain reclassifications have been made to prior-year amounts to conform to the current presentation. All material intercompany balances and transactions have been eliminated.

2. Summary of Significant Accounting Policies.

Consolidated Statements of Cash Flows. For purposes of these statements, cash and cash equivalents consist of cash and highly liquid investments not held for resale with maturities, when purchased, of three months or less.

In connection with the fiscal 2001 purchase of Quilter Holdings Limited, the Company issued approximately $37 million of notes payable, including approximately $13 million of notes that are convertible into common shares of the Company.

In connection with the fiscal 2000 purchase of Ansett Worldwide Aviation Services ("Ansett Worldwide"), the Company assumed $1,380 million of long-term borrowings.

In connection with the fiscal 1999 purchase of Morgan Stanley, S.V., S.A. (formerly AB Asesores), the Company issued 1.4 million shares of common stock having a fair value on the date of acquisition of $64 million.

Consumer Loans. Consumer loans, which consist primarily of general purpose credit card, mortgage and consumer installment loans, are reported at their principal amounts outstanding less applicable allowances. Interest on consumer loans is credited to income as earned.

Interest is accrued on credit card loans until the date of charge-off, which generally occurs at the end of the month during which an account becomes 180 days past due, except in the case of bankruptcies and fraudulent transactions, which are charged off earlier. The interest portion of charged-off credit card loans is written off against interest revenue. Origination costs related to the issuance of credit cards are charged to earnings over periods not exceeding 12 months.

Allowance for Consumer Loan Losses. The allowance for consumer loan losses is a significant estimate that is regularly evaluated for adequacy and is established through a charge to the provision for consumer loan losses. The evaluations take into consideration factors such as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect a borrower's ability to pay.

The Company uses the results of these evaluations to provide an allowance for consumer loan losses. The exposure for credit losses from owned loans is influenced by the performance of the portfolio and other factors discussed above, with the Company absorbing all related losses.

Financial Instruments Used for Trading and Investment. Financial instruments, including derivatives, used in the Company's trading activities are recorded at fair value, and unrealized gains and losses are reflected in principal trading revenues. Interest and dividend revenue and interest expense arising from financial instruments used in trading activities are reflected in the consolidated statements of income as interest and dividend revenue or interest expense. The fair values of the trading positions generally are based on listed market prices. If listed market prices are not available or if the liquidation of the Company's positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations for similar instruments traded in different markets, including markets located in different geographic areas. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions. To the extent financial contracts have extended maturity dates, the Company's estimates of fair value may involve greater subjectivity due to the lack of transparent market data available upon which to base modeling assumptions. Purchases and sales of financial instruments are recorded in the accounts on trade date. Unrealized gains and losses arising from the Company's dealings in over-the-counter ("OTC") financial instruments, including derivative contracts related to financial instruments and commodities, are presented in the accompanying consolidated statements of financial condition on a net-by-counterparty basis, when appropriate.

Equity securities purchased in connection with private equity and other principal investment activities initially are carried in the consolidated financial statements at their original costs. The carrying value of such equity securities is adjusted when changes in the underlying fair values are readily ascertainable, generally as evidenced by listed market prices or transactions that directly affect the value of such equity securities. Downward adjustments relating to such equity securities are made in the event that the Company determines that the eventual realizable value is less than the carrying value. The carrying value of investments made in connection with principal real estate activities that do not involve equity securities is adjusted periodically based on independent appraisals, estimates prepared by the Company of discounted future cash flows of the underlying real estate assets or other indicators of fair value.

Financial Instruments Used for Asset and Liability Management. The Company enters into various derivative financial instruments for non-trading purposes. These instruments include interest rate swaps, foreign currency swaps, equity swaps and foreign exchange forwards. The Company uses interest rate and currency swaps and equity derivatives to manage interest rate, currency and equity price risk arising from certain borrowings. The Company also utilizes interest rate swaps to match the repricing characteristics of consumer loans with those of the borrowings that fund these loans. Certain of these derivative financial instruments are designated and qualify as fair value hedges and cash flow hedges in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (see "New Accounting Pronouncements"). For qualifying fair value hedges, the changes in the fair value of the derivative and the gain or loss on the hedged asset or liability relating to the risk being hedged are recorded currently in earnings. These amounts are recorded in interest expense and provide offset of one another. For qualifying cash flow hedges, the changes in the fair value of the derivative are recorded in accumulated other comprehensive income, and amounts in accumulated other comprehensive income are reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Ineffectiveness relating to fair value and cash flow hedges, if any, is recorded within interest expense.

The Company also utilizes foreign exchange forward contracts to manage the currency exposure relating to its net monetary investments in non-U.S. dollar functional currency operations. The gain or loss from revaluing these contracts is deferred and reported within accumulated other comprehensive income in shareholders' equity, net of tax effects, with the related unrealized amounts due from or to counterparties included in receivables from or payables to brokers, dealers and clearing organizations. The interest elements (forward points) on these foreign exchange forward contracts are recorded in earnings.

Office Facilities. Office facilities are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of buildings, leasehold improvements, furniture, fixtures and equipment are provided principally by the straight-line method. Property and equipment are depreciated over the estimated useful lives of the related assets, while leasehold improvements are amortized over the lesser of the economic useful life of the asset or, where applicable, the remaining term of the lease.

Aircraft Under Operating Leases. Aircraft under operating leases are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the recognition of an impairment loss for an asset held for use is required when the estimate of undiscounted future cash flows (without interest charges) expected to be generated by the asset is less than its carrying amount. Measurement of impairment loss is based on the fair value of the asset. Fair value reflects the underlying economic value of the aircraft, including engines, in normal market conditions (where supply and demand are in reasonable equilibrium) and assumes adequate time for a sale and a willing buyer and seller. Short-term fluctuations in the marketplace are disregarded, and it is assumed that there is no necessity either to dispose of a significant number of aircraft simultaneously or to dispose of aircraft quickly. The fair value of the assets is based on independent valuations of the aircraft in the fleet. SFAS No. 121 also requires that certain long-lived assets to be disposed of be reported at the lower of the carrying amount or fair value less estimated disposal costs. In the fourth quarter of fiscal 2001, the Company recognized an impairment loss pursuant to SFAS No. 121 (see Note 19).

Investment Banking. Underwriting revenues and fees for mergers and acquisitions and advisory assignments are recorded when services for the transaction are substantially completed. Transaction-related expenses are deferred and later expensed to match revenue recognition.

Income Taxes. Income tax expense is provided for using the asset and liability method, under which deferred tax assets and liabilities are determined based upon the temporary differences between the financial statement and income tax bases of assets and liabilities, using currently enacted tax rates.

Earnings per Share. The Company calculates earnings per share ("EPS") in accordance with SFAS No. 128, "Earnings per Share." The calculations of earnings per share are based on the weighted average number of common shares and share equivalents outstanding and give effect to preferred stock dividend requirements.

"Basic EPS" reflects no dilution from common stock equivalents, and "diluted EPS" reflects dilution from common stock equivalents and other dilutive securities based on the average price per share of the Company's common stock during the period.

Cardmember Rewards. Cardmember rewards, primarily the Cashback Bonus® award, pursuant to which the Company pays Discover Classic Card, Discover Platinum Card and Morgan Stanley Card cardmembers electing this feature a percentage of their purchase amounts ranging up to 1%, are based upon a cardmember's annual level and type of purchases. The liability for cardmember rewards, included in other liabilities and accrued expenses, is accrued at the time that qualified cardmember transactions occur and is calculated on an individual cardmember basis.

In fiscal 2001, the Company adopted Emerging Issues Task Force ("EITF") Issue No. 00-22, "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." Prior to the adoption of EITF Issue No. 00-22, the Company recorded its Cashback Bonus award program as a marketing and business development expense. In accordance with EITF Issue No. 00-22, such incentives are to be considered a reduction in revenues and are recorded in merchant and cardmember fees. The Company's consolidated statements of income for all periods presented have been restated to reflect this change.

Stock-Based Compensation. SFAS No. 123, "Accounting for Stock-Based Compensation" encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company accounts for its stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of grant over the amount an employee must pay to acquire the stock.

Translation of Foreign Currencies. Assets and liabilities of operations having non-U.S. dollar functional currencies are translated at year-end rates of exchange, and income statement accounts are translated at weighted average rates of exchange for the year. In accordance with SFAS No. 52, "Foreign Currency Translation," gains or losses resulting from translating foreign currency financial statements, net of hedge gains or losses and related tax effects, are reflected in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions are included in net income.

Goodwill. Goodwill has been amortized on a straight-line basis over periods from five to 40 years, generally not exceeding 25 years. At November 30, 2001 and November 30, 2000, goodwill of approximately $1.4 billion and $1.3 billion, respectively, was included in the Company's consolidated statements of financial condition as a component of other assets (see "New Accounting Pronouncements)."

Deferred Compensation Arrangements. In accordance with EITF Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested," assets of rabbi trusts are to be consolidated with those of the employer, and the value of the employer's stock held in rabbi trusts should be classified in shareholders' equity and generally accounted for in a manner similar to treasury stock. The Company, therefore, has included its obligations under certain deferred compensation plans in employee stock trust. Shares that the Company has issued to its rabbi trusts are recorded in common stock issued to employee trust. Both employee stock trust and common stock issued to employee trust are components of shareholders' equity.

Software Costs. In accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," certain costs incurred in connection with an internal-use software project should be capitalized and amortized over the expected useful life. The Company adopted SOP 98-1 effective December 1, 1999.

Securitization Activities. The Company engages in securitization activities related to commercial and residential mortgage loans, corporate bonds and loans, credit card loans and other types of financial assets. The Company may retain interests in the securitized financial assets as one or more tranches of the securitization, an undivided seller's interest, cash collateral accounts, servicing rights, and rights to any excess cash flows remaining after payments to investors in the securitization trusts of their contractual rate of return and reimbursement of credit losses. The exposure to credit losses from securitized loans is limited to the Company's retained contingent risk, which represents the Company's retained interest in securitized loans, including any credit enhancement provided. The gain or loss on the sale of financial assets depends in part on the previous carrying amount of the assets involved in the transfer, and each subsequent transfer in revolving structures, allocated between the assets sold and the retained interests based upon their respective fair values at the date of sale. To obtain fair values, quoted market prices are used if available. However, quoted market prices are generally not available for retained interests, so the Company estimates fair value based on the present value of expected future cash flows using its best estimates of the key assumptions, including forecasted credit losses, payment rates, forward yield curves and discount rates commensurate with the risks involved. The present value of future net servicing revenues that the Company estimates it will receive over the term of the securitized loans is recognized in income as the loans are securitized. A corresponding asset also is recorded and then amortized as a charge to income over the term of the securitized loans, with actual net servicing revenues continuing to be recognized in income as they are earned. Retained interests in securitized financial assets associated with the Company's Securities business was approximately $100 million at November 30, 2001. These retained interests are included in the consolidated statements of financial condition at fair value. Any changes in the fair value of such retained interests are recognized in the consolidated statements of income. For the 12 months ended November 30, 2001, the aggregate cash proceeds from securitizations were approximately $27 billion.

New Accounting Pronouncements. In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133," which deferred the effective date of SFAS No. 133 for one year to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133." The Company adopted SFAS No. 133, as amended by SFAS No. 138, effective December 1, 2000. The Company recorded an after-tax charge to net income from the cumulative effect of the adoption of SFAS No. 133, as amended, of $59 million and an after-tax decrease to accumulated other comprehensive income of $13 million. The Company's adoption of SFAS No. 133, as amended, affects the accounting for, among other things, the Company's hedging strategies, including those associated with certain financing activities.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125." While SFAS No. 140 carries over most of the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," it provides new guidelines for reporting financial assets transferred as collateral and new guidelines for the derecognition of financial assets, in particular transactions involving the use of special purpose entities. Effective April 1, 2001, the Company was required to recognize securities received as collateral (as opposed to cash received as collateral) in certain securities lending transactions in the consolidated statements of financial condition as of November 30, 2001. SFAS No. 140 also prescribes additional disclosures for collateral transactions and for securitization transactions accounted for as sales. The new guidelines for collateral transactions were effective for fiscal years ending after December 15, 2000, while the new guidelines for the derecognition of financial assets were effective for transfers made after March 31, 2001. The additional disclosure requirements for collateral and securitization transactions were effective for the second quarter of fiscal 2001 and are reflected herein.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method no longer is permitted. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination that is completed after June 30, 2001. The Company adopted the provisions of SFAS No. 141 on July 1, 2001.

SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. Intangible assets that do not have indefinite lives will continue to be amortized over their useful lives and reviewed for impairment. The Company has early adopted the provisions of SFAS No. 142 as of the beginning of fiscal year 2002. The full impact of adoption is yet to be determined; however, annual amortization expense related to goodwill in fiscal 2001 approximated $100 million.

3. Securities Financing Transactions.

Securities purchased under agreements to resell ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements"), principally government and agency securities, are treated as financing transactions and are carried at the amounts at which the securities subsequently will be resold or reacquired as specified in the respective agreements; such amounts include accrued interest. Reverse repurchase agreements and repurchase agreements are presented on a net-by-counterparty basis, when appropriate. It is the Company's policy to take possession of securities purchased under agreements to resell. Securities borrowed and securities loaned also are treated as financing transactions and are carried at the amounts of cash collateral advanced and received in connection with the transactions.

The Company pledges its financial instruments owned to collateralize repurchase agreements and other securities financings. Pledged securities that can be sold or repledged by the secured party are identified as financial instruments owned (pledged to various parties) on the consolidated statements of financial condition. The carrying value and classification of securities owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge the collateral were as follows:

	At November 30, 2001 (dollars in millions)
Financial instruments owned:	
U.S. government and agency securities	$ 9,310
Corporate and other debt	3,350
Corporate equities	2,850
Total	$15,510

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions to, among other things, finance the Company's inventory positions, acquire securities to cover short positions and settle other securities obligations and to accommodate customers' needs. The Company also engages in securities financing transactions for customers through margin lending. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed transactions and customer margin loans. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter into securities lending transactions or for delivery to counterparties to cover short positions. At November 30, 2001, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was $355 billion, and the fair value of the portion that has been sold or repledged was $323 billion.

The Company manages credit exposure arising from reverse repurchase agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Company, in the event of a customer default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations. The Company also monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral to ensure such transactions are adequately collateralized. Where deemed appropriate, the Company's agreements with third parties specify its rights to request additional collateral. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. For these transactions, the Company's collateral policies significantly limit the Company's credit exposure in the event of customer default. The Company may request additional margin collateral from customers, if appropriate, and if necessary may sell securities that have not been paid for or purchase securities sold but not delivered from customers.

4. Consumer Loans.

Consumer loans were as follows:

	Nov. 30, 2001	Nov. 30, 2000
	(dollars in millions)	
General purpose credit card, mortgage and consumer installment	$20,955	$22,526
Less:		
Allowance for consumer loan losses	847	783
Consumer loans, net	$20,108	$21,743

Activity in the allowance for consumer loan losses was as follows:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions)		
Balance beginning of period	$ 783	$ 772	$ 797
Additions:			
Provision for consumer loan losses	1,052	810	526
Deductions:			
Charge-offs	1,086	907	898
Recoveries	(98)	(108)	(121)
Net charge-offs	988	799	777
Other(1)	—	—	226
Balance end of period	$ 847	$ 783	$ 772

(1) This amount primarily reflects transfers related to general purpose credit card asset securitizations.

Interest accrued on general purpose credit card loans subsequently charged off, recorded as a reduction of interest revenue, was $172 million, $127 million and $116 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

At November 30, 2001 and November 30, 2000, $5,037 million and $5,478 million, respectively, of the Company's consumer loans had minimum contractual maturities of less than one year. Because of the uncertainty regarding consumer loan repayment patterns, which historically have been higher than contractually required minimum payments, this amount may not necessarily be indicative of the Company's actual consumer loan repayments.

At November 30, 2001, the Company had commitments to extend credit for consumer loans in the amount of $304 billion. Commitments to extend credit arise from agreements with customers for unused lines of credit on certain credit cards, provided there is no violation of conditions established in the related agreement. These commitments, substantially all of which the Company can terminate at any time and which do not necessarily represent future cash requirements, are periodically reviewed based on account usage and customer creditworthiness.

The Company received net proceeds from consumer loan asset securitizations of $7,638 million, $10,294 million and $3,333 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

The estimated fair value of the Company's consumer loans approximated carrying value at November 30, 2001 and November 30, 2000. The Company's domestic consumer loan portfolio, including securitized loans, is geographically diverse, with a distribution approximating that of the population of the U.S.

The Company's retained interests in credit card asset securitizations include an undivided seller's interest, cash collateral accounts, servicing rights and rights to any excess cash flows ("Residual Interests") remaining after payments to investors in the securitization trust of their contractual rate of return and reimbursement of credit losses. The Company receives annual servicing fees of 2% of the investor principal balance outstanding. At November 30, 2001, the Company had $7.9 billion of retained interests, including $5.6 billion of undivided seller's interest, in credit card asset securitizations. The Company's undivided seller's interest ranks *pari passu* with investors' interests in the securitization trust, and the remaining retained interests are subordinate to investors' interests. The retained interests are subject to credit, payment and interest rate risks on the transferred credit card assets. The investors and the securitization trust have no recourse to the Company's other assets for failure of cardmembers to pay when due.

For fiscal 2001, the Company completed credit card asset securitizations of $7.3 billion and recognized net securitization gains of $70 million as servicing fees in the Company's consolidated statements of income. The uncollected balances of general purpose credit card loans sold through asset securitizations were $29,247 million and $25,257 million at November 30, 2001 and November 30, 2000, respectively.

Key economic assumptions used in measuring the Residual Interests at the date of securitization resulting from credit card asset securitizations completed during fiscal 2001 were as follows:

Weighted average life (in months)	6.1–6.4
Payment rate (rate per month)	16.88%–16.93%
Credit losses (rate per annum)	5.23%–6.95%
Discount rate (rate per annum)	16.50%–17.50%

Key economic assumptions and the sensitivity of the current fair value of the Residual Interests to immediate 10% and 20% adverse changes in those assumptions were as follows (dollars in millions):

	At Nov. 30, 2001
Residual Interests (carrying amount/fair value)	$ 213
Weighted average life (in months)	6.1
Payment rate (rate per month)	16.88%
Impact on fair value of 10% adverse change	$ (15)
Impact on fair value of 20% adverse change	$ (27)
Credit losses (rate per annum)	6.95%
Impact on fair value of 10% adverse change	$ (71)
Impact on fair value of 20% adverse change	$ (141)
Discount rate (rate per annum)	16.50%
Impact on fair value of 10% adverse change	$ (3)
Impact on fair value of 20% adverse change	$ (6)

The sensitivity analysis in the table above is hypothetical and should be used with caution. Changes in fair value based on a 10% or 20% variation in an assumption generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the Residual Interests is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower payments and increased credit losses), which might magnify or counteract the sensitivities. In addition, the sensitivity analysis does not consider any corrective action that the Company may take to mitigate the impact of any adverse changes in the key assumptions.

The table below summarizes certain cash flows received from the securitization master trust (dollars in billions):

	Fiscal 2001
Proceeds from new credit card asset securitizations	$ 7.3
Proceeds from collections reinvested in previous credit card asset securitizations	$50.7
Contractual servicing fees received	$ 0.6
Cash flows received from retained interests	$ 1.6

The table below presents quantitative information about delinquencies, net credit losses and components of managed general purpose credit card loans, including securitized loans (dollars in billions):

	At Nov. 30, 2001		Fiscal 2001	
	Loans Outstanding	Loans Delinquent	Average Loans	Net Credit Losses
Managed general purpose credit card loans	$49.3	$3.4	$49.4	$2.6
Less: Securitized general purpose credit card loans	29.2			
Owned general purpose credit card loans	$20.1			

5. Deposits.

Deposits were as follows:

	Nov. 30, 2001	Nov. 30, 2000
	(dollars in millions)	
Demand, passbook and money market accounts	$ 1,741	$ 1,589
Consumer certificate accounts	1,578	1,649
$100,000 minimum certificate accounts	8,957	8,692
Total	$12,276	$11,930

The weighted average interest rates of interest bearing deposits outstanding during fiscal 2001 and fiscal 2000 were 6.2% and 6.4%, respectively.

At November 30, 2001, certificate accounts maturing over the next five years were as follows:

Fiscal Year	(dollars in millions)
2002	$ 3,346
2003	1,833
2004	2,080
2005	2,046
2006	1,287

The estimated fair value of the Company's deposits, using current rates for deposits with similar maturities, approximated carrying value at November 30, 2001 and November 30, 2000.

6. Short-Term Borrowings.

At November 30, 2001 and November 30, 2000, commercial paper of $25,158 million and $18,352 million, with weighted average interest rates of 2.4% and 6.0%, respectively, was outstanding

At November 30, 2001 and November 30, 2000, other short-term borrowings of $7,684 million and $9,402 million, respectively, were outstanding. These borrowings included bank loans, Federal Funds and bank notes.

The Company maintains a senior revolving credit agreement with a group of banks to support general liquidity needs, including the issuance of commercial paper (the "MSDW Facility"). Under the terms of the MSDW Facility, the banks are committed to provide up to $5.5 billion. The MSDW Facility contains restrictive covenants which require, among other things, that the Company maintain specified levels of shareholders' equity. At November 30, 2001, the Company maintained an $8.2 billion surplus shareholders' equity as compared with the MSDW Facility's restrictive covenant requirement. The Company believes that the covenant restrictions will not impair its ability to obtain funding under the MSDW Facility nor impair its ability to pay its current level of dividends. At November 30, 2001, no borrowings were outstanding under the MSDW Facility.

The Company maintains a master collateral facility that enables MS&Co. to pledge certain collateral to secure loan arrangements, letters of credit and other financial accommodations (the "MS&Co. Facility"). As part of the MS&Co. Facility, MS&Co. also maintains a secured committed credit agreement with a group of banks that are parties to the master collateral facility under which such banks are committed to provide up to $1.875 billion. The credit agreement contains restrictive covenants which require, among other things, that MS&Co. maintain specified levels of consolidated stockholder's equity and Net Capital, each as defined in the MS&Co. Facility. At

November 30, 2001, MS&Co. maintained a $2.3 billion surplus consolidated stockholder's equity and a $3.0 billion surplus Net Capital. The Company believes that the restrictive covenants will not impair its ability to secure loan arrangements, letters of credit and other financial accommodations under the MS&Co. Facility. At November 30, 2001, no borrowings were outstanding under the MS&Co. Facility.

The Company also maintains a revolving credit facility that enables MSIL to obtain committed funding from a syndicate of banks (the "MSIL Facility") by providing a broad range of collateral under repurchase agreements for a secured repo facility and a Company guarantee for an unsecured facility. The syndicate of banks is committed to provide up to an aggregate of $1.95 billion, available in six major currencies. The facility agreement contains restrictive covenants which require, among other things, that MSIL maintain specified levels of Shareholder's Equity and Financial Resources, each as defined in the MSIL Facility. At November 30, 2001, MSIL maintained a $1.4 billion surplus Shareholder's Equity and a $1.0 billion surplus Financial Resources. The MSDW Facility's restrictive covenants described above apply to the Company as guarantor. The Company believes that the restrictive covenants will not impair its ability to obtain funding under the MSIL Facility. At November 30, 2001, no borrowings were outstanding under the MSIL Facility.

MSJL, the Company's Tokyo-based broker-dealer subsidiary, maintains a committed revolving credit facility, guaranteed by the Company, that provides funding to support general liquidity needs, including support of MSJL's unsecured borrowings (the "MSJL Facility"). The MSDW Facility's restrictive covenants described above apply to the Company as guarantor. Under the terms of the MSJL Facility, a syndicate of banks is committed to provide up to 70 billion Japanese yen. The Company believes that the restrictive covenants will not impair its ability to obtain funding under the MSJL Facility. At November 30, 2001, no borrowings were outstanding under the MSJL Facility.

The Company anticipates that it will utilize the MSDW Facility, the MS&Co. Facility, the MSIL Facility or the MSJL Facility for short-term funding from time to time.

7. Long-Term Borrowings.

Maturities and Terms. Long-term borrowings at fiscal year-end consisted of the following:

	U.S. Dollar			Non-U.S. Dollar(1)			At November 30,	
	Fixed Rate	Floating Rate(2)	Index/Equity Linked	Fixed Rate	Floating Rate(2)	Index/Equity Linked	2001 Total(3)	2000 Total
	(dollars in millions)							
Due in fiscal 2001	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$12,155
Due in fiscal 2002	1,359	6,203	817	418	1,148	82	10,027	6,277
Due in fiscal 2003	4,135	4,124	604	930	641	136	10,570	8,527
Due in fiscal 2004	2,482	2,907	184	666	1,029	4	7,272	3,071
Due in fiscal 2005	3,263	158	123	2,269	127	13	5,953	4,639
Due in fiscal 2006	4,057	385	18	2,202	72	57	6,791	616
Thereafter	7,343	97	70	633	745	167	9,055	6,766
Total	$22,639	$13,874	$1,816	$7,118	$3,762	$459	$49,668	$42,051
Weighted average coupon at fiscal year-end	6.8%	2.6%	n/a	4.6%	3.3%	n/a	4.9%	6.5%

(1) Weighted average coupon was calculated utilizing non-U.S. dollar interest rates.

(2) U.S. dollar contractual floating rate borrowings bear interest based on a variety of money market indices, including London Interbank Offered Rates ("LIBOR") and Federal Funds rates. Non-U.S. dollar contractual floating rate borrowings bear interest based on euro floating rates.

(3) Amounts include an increase of approximately $850 million to the carrying amount of certain of the Company's long-term borrowings associated with fair value hedges under SFAS No. 133.

Medium-Term Notes. Included in the table above are medium-term notes of $18,390 million and $20,163 million at November 30, 2001 and November 30, 2000, respectively. The weighted average interest rate on all medium-term notes was 3.3% in fiscal 2001 and 6.3% in fiscal 2000. Maturities of these notes range from fiscal 2002 through fiscal 2029.

Structured Borrowings. U.S. dollar index/equity linked borrowings include various structured instruments whose payments and redemption values are linked to the performance of a specific index (e.g., Standard & Poor's 500), a basket of stocks or a specific equity security. To minimize the exposure resulting from movements in the underlying equity position or index, the Company has entered into various equity swap contracts and purchased options that effectively convert the borrowing costs into floating rates based upon LIBOR. These instruments are included in the preceding table at their redemption values based on the performance of the underlying indices, baskets of stocks or specific equity securities at November 30, 2001 and November 30, 2000.

Other Borrowings. Included in the Company's long-term borrowings are subordinated notes (including the notes issued by MS&Co. discussed below) of $666 million and $1,332 million at November 30, 2001 and November 30, 2000, respectively. The weighted average interest rate on these subordinated notes was 7.4% in both fiscal 2001 and fiscal 2000. Maturities of the subordinated notes range from fiscal 2002 to fiscal 2016.

Certain of the Company's long-term borrowings are redeemable prior to maturity at the option of the holder. These notes contain certain provisions which effectively enable noteholders to put the notes back to the Company and, therefore, are scheduled in the foregoing table to mature in fiscal 2002 through fiscal 2009. The stated maturities of these notes, which aggregate $4,292 million, are from fiscal 2002 to fiscal 2031.

At November 30, 2001, MS&Co., a U.S. broker-dealer subsidiary of the Company, had outstanding $243 million of 8.51% fixed rate subordinated Series B notes, $96 million of 7.03% fixed rate subordinated Series D notes, $82 million of 7.28% fixed rate subordinated Series E notes and $25 million of 7.82% fixed rate subordinated Series F notes. These notes had maturities from fiscal 2003 to fiscal 2016. The terms of such notes contain restrictive covenants which require, among other things, that MS&Co. maintain specified levels of Consolidated Tangible Net Worth and Net Capital, each as defined. During fiscal 2001, MS&Co. redeemed all $357 million of its 8.22% fixed rate subordinated Series A notes and all $313 million of its 6.81% fixed rate subordinated Series C notes prior to their scheduled maturity.

Extinguishment of Long-Term Borrowings. During the third quarter of fiscal 2001, the Company recorded an extraordinary loss of $30 million, net of income taxes, resulting from the early extinguishment of certain long-term borrowings associated with the Company's aircraft financing activities.

Asset and Liability Management. A portion of the Company's fixed rate long-term borrowings is used to fund highly liquid marketable securities and short-term receivables arising from securities transactions. The Company uses interest rate swaps to more closely match the duration of these borrowings to the duration of the assets being funded and to manage interest rate risk. These swaps effectively convert certain of the Company's fixed rate borrowings into floating rate obligations. In addition, for non-U.S. dollar currency borrowings that are not used to fund assets in the same currency, the Company has entered into currency swaps that effectively convert the borrowings into U.S. dollar obligations. The Company's use of swaps for asset and liability management affected its effective average borrowing rate as follows:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Weighted average coupon of long-term borrowings at fiscal year-end(1)	4.9%	6.5%	5.9%
Effective average borrowing rate for long-term borrowings after swaps at fiscal year-end(1)	3.0%	6.7%	5.8%

(1) Included in the weighted average and effective average calculations are non-U.S. dollar interest rates.

The effective weighted average interest rate on the Company's index/equity linked notes, which is not included in the table above, was 2.3% and 6.8% in fiscal 2001 and fiscal 2000, respectively, after giving effect to the related hedges.

The estimated fair value of the Company's long-term borrowings approximated carrying value based on rates available to the Company at year-end for borrowings with similar terms and maturities.

Cash paid for interest for the Company's borrowings and deposits approximated interest expense in fiscal 2001, fiscal 2000 and fiscal 1999.

8. Commitments and Contingencies.

The Company has non-cancelable operating leases covering office space and equipment. At November 30, 2001, future minimum rental commitments under such leases (net of subleases, principally on office rentals) were as follows:

Fiscal Year	(dollars in millions)
2002	$ 457
2003	392
2004	348
2005	338
2006	309
Thereafter	2,594

Occupancy lease agreements, in addition to base rentals, generally provide for rent and operating expense escalations resulting from increased assessments for real estate taxes and other charges. Total rent expense, net of sublease rental income, was $423 million, $416 million and $296 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

The Company has an agreement with IBM Corporation, expiring in June 2005, under which the Company receives information processing, data networking and related services. Under the terms of the agreement, the Company has an aggregate minimum annual calendar year commitment of $120 million through 2004 and a $60 million calendar year commitment in 2005, subject to annual cost-of-living adjustments.

In fiscal 2001, the Company sold a 1 million-square-foot office tower in New York City that has been under construction since 1999. Under the terms of the sale agreement, the Company is obligated to complete the construction of the building, which is expected to occur in mid-2002.

At November 30, 2001 and November 30, 2000, the Company had approximately $4.5 billion and $6.1 billion, respectively, of letters of credit outstanding to satisfy various collateral requirements.

The Company has commitments to fund certain fixed assets and other less liquid investments, including at November 30, 2001 approximately $800 million in connection with its private equity and other principal investment activities. Additionally, the Company has provided and will continue to provide financing, including margin lending and other extensions of credit to clients (including subordinated loans on an interim basis to companies associated with its investment banking and its private equity and other principal investment activities), that may subject the Company to increased credit and liquidity risks.

In connection with its aircraft financing business, the Company has entered into agreements to purchase aircraft and related equipment. As of November 30, 2001, the aggregate amount of such purchase commitments was

$564 million. Approximately 80% of the aircraft to be acquired under these purchase obligations are subject to contractual lease arrangements.

At November 30, 2001, the Company had contracted to receive the following minimum rentals under operating leases in connection with its aircraft financing activities:

Fiscal Year	(dollars in millions)
2002	$ 505
2003	444
2004	348
2005	255
2006	174
Thereafter	1,012

In connection with certain of its business activities, the Company provides, on a selective basis, through certain of its subsidiaries (including Morgan Stanley Bank) financing or financing commitments to companies in the form of senior and subordinated debt, including bridge financing. The borrowers may be rated investment grade or non-investment grade. These loans and funding commitments typically are secured against the borrower's assets (in the case of senior loans), have varying maturity dates and are generally contingent upon certain representations, warranties and contractual conditions applicable to the borrower. As part of these activities, the Company may syndicate and trade certain of these loans. At November 30, 2001, the Company provided commitments associated with these activities to investment grade issuers aggregating $6.3 billion and commitments to non-investment grade issuers aggregating $0.8 billion. Since these commitments may expire unused, the total commitment amount does not necessarily reflect the actual future cash funding requirements.

Financial instruments sold, not yet purchased represent obligations of the Company to deliver specified financial instruments at contracted prices, thereby creating commitments to purchase the financial instruments in the market at prevailing prices. Consequently, the Company's ultimate obligation to satisfy the sale of financial instruments sold, not yet purchased may exceed the amounts recognized in the consolidated statements of financial condition

In the normal course of business, the Company has been named as a defendant in various lawsuits and has been involved in certain investigations and proceedings. Some of these matters involve claims for substantial amounts. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management, after consultation with counsel, that the resolution of such matters will not have a material adverse effect on the consolidated financial condition of the Company but may be material to the Company's operating results for any particular period, depending, upon other things, on the level of the Company's income for such period.

9. Earnings per Share.

Earnings per share were calculated as follows (in millions, except for per share data):

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Basic EPS			
Income before extraordinary item and cumulative effect of accounting change	$3,610	$5,456	$4,791
Extraordinary item	(30)	—	—
Cumulative effect of accounting change	(59)	—	—
Preferred stock dividend requirements	(32)	(36)	(44)
Net income applicable to common shareholders	$3,489	$5,420	$4,747
Weighted average common shares outstanding	1,086	1,096	1,097
Basic EPS before extraordinary item and cumulative effect of accounting change	$ 3.29	$ 4.95	$ 4.33
Extraordinary item	(0.03)	—	—
Cumulative effect of accounting change	(0.05)	—	—
Basic EPS	$ 3.21	$ 4.95	$ 4.33

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Diluted EPS			
Income before extraordinary item and cumulative effect of accounting change	$3,610	$5,456	$4,791
Extraordinary item	(30)	—	—
Cumulative effect of accounting change	(59)	—	—
Preferred stock dividend requirements	(32)	(36)	(36)
Net income applicable to common shareholders	$3,489	$5,420	$4,755
Weighted average common shares outstanding	1,086	1,096	1,097
Effect of dilutive securities:			
Stock options	35	47	39
Convertible debt	1	—	—
ESOP convertible preferred stock	—	2	24
Weighted average common shares outstanding and common stock equivalents	1,122	1,145	1,160
Diluted EPS before extraordinary item and cumulative effect of accounting change	$ 3.19	$ 4.73	$ 4.10
Extraordinary item	(0.03)	—	—
Cumulative effect of accounting change	(0.05)	—	—
Diluted EPS	$ 3.11	$ 4.73	$ 4.10

10. Trading Activities.

Trading Revenues. The Company's trading activities are conducted through the integrated management of its client-driven and proprietary transactions, along with the hedging and financing of these positions. While trading activities are generated by client order flow, the Company also takes proprietary positions based on expectations of future market movements and conditions.

The Company manages its trading businesses by product groupings and, therefore, has established distinct, worldwide trading divisions having responsibility for equity, fixed income, foreign exchange and commodities products. Because of the integrated nature of the markets for such products, each product area trades cash instruments as well as related derivative products (e.g., options, swaps, futures, forwards and other contracts with respect to such underlying instruments or commodities). Principal transaction trading revenues are summarized below by trading division:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions)		
Equities	$3,110	$4,705	$3,065
Fixed income	1,319	1,728	1,903
Foreign exchange	373	349	397
Commodities	699	579	431
Total principal transaction trading revenues	$5,501	$7,361	$5,796

Interest and dividend revenue and interest expense and commissions are integral components of trading activities. In assessing the profitability of trading activities, the Company views net interest, commissions and principal trading revenues in the aggregate.

The Company's trading portfolios are managed with a view toward the risk and profitability of the portfolios to the Company. The nature of the equities, fixed income, foreign exchange and commodities activities conducted by the Company, including the use of derivative products in these businesses, and the market, credit and concentration risk management policies and procedures covering these activities are discussed below.

Equities. The Company makes markets and trades in the global secondary markets for equities and convertible debt and is a dealer in equity warrants, exchange traded and OTC equity options, index futures, equity swaps and other sophisticated equity derivatives. The Company's activities as a dealer primarily are client-driven, with the objective of meeting clients' needs while earning a spread between the premiums paid or received on its contracts with clients and the cost of hedging such transactions in the cash or forward market or with other derivative transactions. The Company limits its market risk related to these contracts, which stems primarily from underlying equity/index price and volatility movements, by employing a variety of hedging strategies. The Company also takes proprietary positions in the global equity markets by using derivatives, most commonly futures and options, in addition to cash positions, intending to profit from market price and volatility movements in the underlying equities or indices positioned.

The counterparties to the Company's equity transactions include commercial banks, investment banks, broker-dealers, investment funds and industrial companies.

Fixed Income. The Company trades and makes markets in domestic and international fixed income securities and related products, including preferred stock, investment grade corporate debt, high-yield securities, senior loans, U.S. and non-U.S. government securities, municipal securities, and commercial paper, money market and other short-term securities. The Company also makes markets in, and acts as principal with respect to, mortgage-related and other asset-backed securities and real estate loan products and provides financing to customers for commercial, residential and real estate loan products.

The Company is a dealer in interest rate and currency swaps and other related derivative products, credit derivatives (including credit default swaps), OTC options on U.S. and non-U.S. government bonds, and mortgage-backed forward agreements, options and swaps. The Company also acts as principal in aircraft finance transactions, under which the Company acquires aircraft outright or under leases.

The counterparties to the Company's fixed income transactions include investment advisors, commercial banks, insurance companies, broker-dealers, investment funds and industrial companies.

Foreign Exchange. The Company is a market-maker in a number of foreign currencies. It actively trades currencies with its customers on a principal basis in the spot, forward and currency option markets earning a dealer spread. In connection with its market-making activities, the Company seeks to manage its market risk by entering into offsetting positions. The Company also takes proprietary positions in currencies to profit from market price and volatility movements in the currencies positioned.

The majority of the Company's foreign exchange business relates to major foreign currencies such as yen, euros, pounds sterling, Swiss francs and Canadian dollars. The balance of the business covers a broad range of other currencies.

The counterparties to the Company's foreign exchange transactions include commercial banks, investment banks, broker-dealers, investment funds and industrial companies.

Commodities. The Company, as a major participant in the world commodities markets, trades in physical precious, base and platinum group metals, electricity, energy products (principally crude oil, refined oil products and natural gas) as well as a variety of derivatives related to these commodities such as futures, forwards, and exchange traded and OTC options and swaps. Through these activities, the Company provides clients with a ready market to satisfy end users' current raw material needs and facilitates their ability to hedge price fluctuations related to future inventory needs.

To facilitate hedging for its clients, the Company often is required to take positions in the commodity markets in the form of forward, option and swap contracts involving oil, natural gas, precious and base metals, and electricity. The Company also maintains proprietary trading positions in commodity derivatives, including futures, forwards and options in addition to physical commodities, to profit from price and volatility movements in the underlying commodities markets.

The counterparties to the Company's OTC commodity business include precious metals producers, refiners and consumers as well as shippers, central banks, and oil, gas and electricity producers.

The following discussions of risk management, market risk, credit risk, concentration risk and customer activities relate to the Company's trading activities.

Risk Management. Risk management at the Company is a multi-faceted process with independent oversight that requires constant communication, judgment and knowledge of specialized products and markets. The Company's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. In recognition of the increasingly varied and complex nature of the global financial services business, the Company's risk management policies, procedures and methodologies are evolutionary in nature and are subject to ongoing review and modification. Many of the Company's risk management and control practices are subject to periodic review by the Company's Internal Audit Department as well as to interactions with various regulatory authorities.

The Management Committee, composed of the Company's most senior officers, establishes the overall risk management policies for the Company and reviews the Company's performance relative to these policies. The

Management Committee has created several Risk Committees to assist it in monitoring and reviewing the Company's risk management practices. These Risk Committees, as well as other committees established to manage and monitor specific risks, review the risk monitoring and risk management policies and procedures relating to the Company's market and credit risk profile, sales practices, legal enforceability, and operational and systems risks. The Market Risk, Credit Risk, Controllers, Treasury, and Law and Compliance Departments, which are all independent of the Company's business units, assist senior management and the Risk Committees in monitoring and controlling the Company's risk profile. The Market Risk and Credit Risk Departments have operational responsibility for measuring and monitoring aggregate market risk and credit risk, respectively, with respect to the Company's institutional trading activities and are responsible for risk policy development, risk analysis and risk reporting to senior management and the Risk Committees. In addition, the Internal Audit Department, which also reports to senior management, periodically examines and evaluates the Company's operations and control environment. The Company is committed to employing qualified personnel with appropriate expertise in each of its various administrative and business areas to implement effectively the Company's risk management and monitoring systems and processes.

Market Risk. Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a position or portfolio.

The Company manages the market risk associated with its trading activities on a Company-wide basis, on a worldwide trading division level and on an individual product basis. Aggregate market risk limits have been approved for the Company and for each major trading division of the Company worldwide. Additional market risk limits are assigned to trading desks and, as appropriate, products and regions. Trading division risk managers, desk risk managers, traders and the Market Risk Department monitor market risk measures against limits in accordance with policies set by senior management.

The Market Risk Department independently reviews the Company's trading portfolios on a regular basis from a market risk perspective utilizing Value-at-Risk and other quantitative and qualitative risk measures and analyses. The Company's trading businesses and the Market Risk Department also use, as appropriate, measures such as sensitivity to changes in interest rates, prices, implied volatilities and time decay to monitor and report market risk exposures. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors for certain products, is performed periodically and is reviewed by trading division risk managers, desk risk managers and the Market Risk Department. Reports summarizing material risk exposures are produced by the Market Risk Department and are disseminated to senior management.

Credit Risk. The Company's exposure to credit risk arises from the possibility that a customer or counterparty to a transaction might fail to perform under its contractual commitment, which could result in the Company incurring losses. The Company has credit guidelines that limit the Company's current and potential credit exposure to any one customer or counterparty and to aggregates of customers or counterparties by type of business activity. Specific credit risk limits based on these credit guidelines also are in place for each type of customer or counterparty (by rating category).

The Credit Risk Department administers limits, monitors credit exposure and periodically reviews the financial soundness of customers and counterparties on a worldwide basis. The Company manages the credit exposure relating to its trading activities in various ways, including entering into master netting agreements, collateral arrangements, and limiting the duration of exposure. Risk is mitigated in certain cases by closing out transactions, entering into risk-reducing transactions, assigning transactions to other parties, or purchasing credit protection.

Concentration Risk. The Company is subject to concentration risk by holding large positions in certain types of securities or commitments to purchase securities of a single issuer, including sovereign governments and other entities, issuers located in a particular country or geographic area, public and private issuers involving developing countries or issuers engaged in a particular industry. Financial instruments owned by the Company include U.S. government and agency securities and securities issued by other sovereign governments (principally Germany, Japan, Italy and the United Kingdom), which, in the aggregate, represented approximately 10% of the Company's total assets at November 30, 2001. In addition, substantially all of the collateral held by the Company for resale agreements or bonds borrowed, which together represented approximately 23% of the Company's total assets at November 30, 2001, consist of securities issued by the U.S. government, federal agencies or other sovereign government obligations. Positions taken and commitments made by the Company, including positions taken and underwriting and financing commitments made in connection with its private equity and principal investment activities, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment grade issuers. The Company seeks to limit concentration risk through the use of the systems and procedures described in the preceding discussions of risk management, market risk and credit risk.

Customer Activities. The Company's customer activities involve the execution, settlement and financing of various securities and commodities transactions on behalf of customers. Customer securities activities are transacted on either a cash or margin basis. Customer commodities activities, which include the execution of customer transactions in commodity futures transactions (including options on futures), are transacted on a margin basis.

The Company's customer activities may expose it to off-balance sheet credit risk. The Company may have to purchase or sell financial instruments at prevailing market prices in the event of the failure of a customer to settle a trade on its original terms or in the event cash and securities in customer margin accounts are not sufficient to fully cover customer losses. The Company seeks to control the risks associated with customer activities by requiring customers to maintain margin collateral in compliance with various regulations and Company policies.

Fair Value of Derivatives. The fair value (carrying amount) of derivative instruments represents the cost of replacing these instruments and is further described in Note 2. Future changes in interest rates, foreign currency exchange rates or the fair values of the financial instruments, commodities or indices underlying these contracts ultimately may result in cash settlements exceeding fair value amounts recognized in the consolidated statements of financial condition. The amounts in the following table represent unrealized gains on purchased exchange-traded and OTC options and other contracts (including interest rate, foreign exchange, and other forward contracts and swaps), net of any unrealized losses owed to the counterparties on offsetting positions in situations where netting is appropriate. These amounts are not reported net of collateral, which the Company obtains with respect to certain of these transactions to reduce its exposure to credit losses.

Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk at any point in time is represented by the fair value of the contracts reported as assets. The Company monitors the creditworthiness of counterparties to these transactions on an ongoing basis and requests additional collateral when deemed necessary. The Company believes the ultimate settlement of the transactions outstanding at November 30, 2001 will not have a material effect on the Company's financial condition.

The credit quality of the Company's trading-related derivatives (both listed and over-the-counter) at November 30, 2001 and November 30, 2000 is summarized in the table below, showing the fair value of the related assets by counterparty credit rating. The actual credit ratings are determined by external rating agencies or by equivalent ratings used by the Company's Credit Risk Department:

	AAA	AA	A	BBB	Collateralized Non-Investment Grade	Other Non-Investment Grade	Total
				(dollars in millions)			
At November 30, 2001							
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$4,465	$5,910	$6,144	$1,482	$488	$ 631	$19,120
Foreign exchange forward contracts and options	76	1,051	1,090	212	—	269	2,698
Equity securities contracts (including equity swaps, warrants and options)	1,879	1,392	662	40	85	283	4,341
Commodity forwards, options and swaps	367	941	1,690	1,195	173	1,553	5,919
Total	$6,787	$9,294	$9,586	$2,929	$746	$2,736	$32,078
Percent of total	21%	29%	30%	9%	2%	9%	100%

	AAA	AA	A	BBB	Collateralized Non-Investment Grade	Other Non-Investment Grade	Total
				(dollars in millions)			
At November 30, 2000							
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$1,692	$4,012	$3,374	$1,128	$150	$ 399	$10,755
Foreign exchange forward contracts and options	112	909	1,144	111	—	195	2,471
Equity securities contracts (including equity swaps, warrants and options)	1,774	3,122	1,724	169	76	320	7,185
Commodity forwards, options and swaps	222	1,450	2,139	1,485	337	1,289	6,922
Total	$3,800	$9,493	$8,381	$2,893	$563	$2,203	$27,333
Percent of total	14%	35%	31%	10%	2%	8%	100%

11. Preferred Stock, Capital Units and Preferred Securities Issued by Subsidiaries.

Preferred stock of the Company was composed of the following issues:

	Shares Outstanding at November 30,		Balance at November 30,	
	2001	2000	2001	2000
			(dollars in millions)	
Series A Fixed/Adjustable Rate Cumulative Preferred Stock, stated value $200 per share	1,725,000	1,725,000	$345	$345
7-¾% Cumulative Preferred Stock, stated value $200 per share	—	1,000,000	—	200
Total			$345	$545

In fiscal 2001, the Company redeemed all 1,000,000 outstanding shares of its 7-¾% Cumulative Preferred Stock at a redemption price of $200 per share. The Company also simultaneously redeemed all corresponding Depositary Shares at a redemption price of $50 per Depositary Share. Each Depositary Share represented 1/4 of a share of the Company's 7-¾% Cumulative Preferred Stock.

Subsequent to November 30, 2001, on December 3, 2001, the Company redeemed all 1,725,000 outstanding shares of its Series A Fixed/Adjustable Rate Cumulative Preferred Stock at a redemption price of $200 per share. The Company also simultaneously redeemed all corresponding Depositary Shares at a redemption price of $50 per Depositary Share. Each Depositary Share represented 1/4 of a share of the Company's Series A Fixed/Adjustable Rate Cumulative Preferred Stock.

The Company has Capital Units outstanding that were issued by the Company and Morgan Stanley Finance plc ("MSF"), a U.K. subsidiary. A Capital Unit consists of (a) a Subordinated Debenture of MSF guaranteed by the Company and maturing in 2017 and (b) a related Purchase Contract issued by the Company, which may be accelerated by the Company, requiring the holder to purchase one Depositary Share representing shares (or fractional shares) of the Company's Cumulative Preferred Stock. The aggregate amount of Capital Units outstanding was $66 million and $70 million at November 30, 2001 and November 30, 2000, respectively.

MSDW Capital Trust I, a consolidated Delaware statutory business trust (the "Capital Trust I"), all of the common securities of which are owned by the Company, has $400 million of 7.10% Capital Securities (the "Capital Securities I") outstanding that are guaranteed by the Company. The Capital Trust I issued the Capital Securities I and invested the proceeds in 7.10% Junior Subordinated Deferrable Interest Debentures issued by the Company, which are due February 28, 2038.

In fiscal 2001, Morgan Stanley Capital Trust II, a consolidated Delaware statutory business trust (the "Capital Trust II"), all of the common securities of which are owned by the Company, issued $810 million of 7-¼% Capital Securities (the "Capital Securities II") that are guaranteed by the Company. The Capital Trust II issued the Capital Securities II and invested the proceeds in 7-¼% Junior Subordinated Deferrable Interest Debentures issued by the Company, which are due July 31, 2031.

12. Shareholders' Equity.

MS&Co. and MSDWI are registered broker-dealers and registered futures commission merchants and, accordingly, are subject to the minimum net capital requirements of the Securities and Exchange Commission, the New York Stock Exchange and the Commodity Futures Trading Commission. MS&Co. and MSDWI have consistently operated in excess of these requirements. MS&Co.'s net capital totaled $5,159 million at November 30, 2001, which exceeded the amount required by $4,454 million. MSDWI's net capital totaled

$1,495 million at November 30, 2001, which exceeded the amount required by $1,370 million. MSIL, a London-based broker-dealer subsidiary, is subject to the capital requirements of the Financial Services Authority, and MSJL, a Tokyo-based broker-dealer, is subject to the capital requirements of the Financial Services Agency. MSIL and MSJL have consistently operated in excess of their respective regulatory capital requirements.

Under regulatory capital requirements adopted by the Federal Deposit Insurance Corporation ("FDIC") and other bank regulatory agencies, FDIC-insured financial institutions must maintain (a) 3% to 5% of Tier 1 capital, as defined, to average assets ("leverage ratio"), (b) 4% of Tier 1 capital, as defined, to risk-weighted assets ("Tier 1 risk-weighted capital ratio") and (c) 8% of total capital, as defined, to risk-weighted assets ("total risk-weighted capital ratio"). At November 30, 2001, the leverage ratio, Tier 1 risk-weighted capital ratio and total risk-weighted capital ratio of each of the Company's FDIC-insured financial institutions exceeded these regulatory minimums.

Certain other U.S. and non-U.S. subsidiaries are subject to various securities, commodities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These subsidiaries have consistently operated in excess of their local capital adequacy requirements. Morgan Stanley Derivative Products Inc., the Company's triple-A rated derivative products subsidiary, maintains certain operating restrictions that have been reviewed by various rating agencies.

The regulatory capital requirements referred to above, and certain covenants contained in various agreements governing indebtedness of the Company, may restrict the Company's ability to withdraw capital from its subsidiaries. At November 30, 2001, approximately $6.5 billion of net assets of consolidated subsidiaries may be restricted as to the payment of cash dividends and advances to the Company.

Cumulative translation adjustments include gains or losses resulting from translating foreign currency financial statements from their respective functional currencies to U.S. dollars, net of hedge gains or losses and related tax effects. The Company uses foreign currency contracts and designates certain non-U.S. dollar currency debt as hedges to manage the currency exposure relating to its net monetary investments in non-U.S. dollar functional currency subsidiaries. Increases or decreases in the value of the Company's net foreign investments generally are tax deferred for U.S. purposes, but the related hedge gains and losses are taxable currently. The Company attempts to protect its net book value from the effects of fluctuations in currency exchange rates on its net monetary investments in non-U.S. dollar subsidiaries by selling the appropriate non-U.S. dollar currency in the forward market. However, under some circumstances, the Company may elect not to hedge its net monetary investments in certain foreign operations due to market conditions, including the availability of various currency contracts at acceptable costs. Information relating to the hedging of the Company's net monetary investments in non-U.S. dollar functional currency subsidiaries and their effects on cumulative translation adjustments is summarized below:

	At November 30, 2001	At November 30, 2000
	(dollars in millions)	
Net monetary investments in non-U.S. dollar functional currency subsidiaries	$2,354	$2,336
Cumulative translation adjustments resulting from net investments in subsidiaries with a non-U.S. dollar functional currency	$ (334)	$ (211)
Cumulative translation adjustments resulting from realized or unrealized gains on hedges, net of tax	184	120
Total cumulative translation adjustments	$ (150)	$ (91)

13. Employee Compensation Plans.

The Company has adopted a variety of compensation plans for certain of its employees. These plans are designed to facilitate a pay-for-performance policy, provide compensation commensurate with other leading financial services companies and provide for internal stock ownership in order to align the interests of employees with the long-term interests of the Company's shareholders. Certain of these plans are summarized below.

Equity-Based Compensation Plans. The Company is authorized to issue up to approximately 618 million shares of its common stock in connection with awards under its equity-based compensation plans. At November 30, 2001, approximately 243 million shares were available for future grant under these plans.

Stock Option Awards. Stock option awards have been granted pursuant to several equity-based compensation plans. Historically, these plans have generally provided for the granting of stock options having an exercise price not less than the fair value of the Company's common stock (as defined in the plans) on the date of grant. Such options generally become exercisable over a one- to five-year period and expire seven to 10 years from the date of grant.

The following table sets forth activity relating to the Company's stock option awards (share data in millions):

	Fiscal 2001		Fiscal 2000		Fiscal 1999	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	137.6	$34.87	131.3	$26.76	126.6	$20.04
Granted(1)	24.5	57.56	25.5	67.41	23.2	56.65
Exercised	(8.1)	21.85	(17.8)	21.26	(15.5)	17.12
Forfeited	(2.6)	56.14	(1.4)	40.10	(3.0)	23.88
Options outstanding at end of period	151.4	$38.88	137.6	$34.87	131.3	$26.76
Options exercisable at end of period	92.4	$27.71	88.3	$26.74	93.6	$25.21

(1) Amounts include stock options granted to employees subsequent to fiscal year-end but as part of year-end compensation for the fiscal

The following table presents information relating to the Company's stock options outstanding at November 30, 2001 (share data in millions):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Average Remaining Life (Years)	Number Exercisable	Weighted Average Exercise Price
$ 4.00 – $ 19.99	39.0	$ 9.76	2.9	36.6	$ 9.78
$20.00 – $ 29.99	25.9	26.56	5.4	23.4	26.55
$30.00 – $ 49.99	20.7	36.97	6.5	18.0	37.11
$50.00 – $ 59.99	25.6	56.55	9.8	1.7	52.95
$60.00 – $ 69.99	37.2	63.19	8.6	10.7	60.83
$70.00 – $107.99	3.0	84.78	7.4	2.0	87.11
Total	151.4		6.5	92.4	

Deferred Compensation Awards. The Company has made deferred compensation awards pursuant to several equity-based compensation plans. These plans provide for the deferral of a portion of certain key employees' compensation with payments made in the form of the Company's common stock or in the right to receive unrestricted shares (collectively, "Restricted Stock"). Compensation expense for all such awards (including those subject to forfeiture) amounted to $612 million, $855 million and $699 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively. Compensation expense for Restricted Stock awards was determined based on the fair value of the Company's common stock (as defined in the plans). The number of Restricted Stock shares outstanding was 96 million at November 30, 2001 and 115 million at both November 30, 2000 and November 30, 1999.

Restricted Stock awarded under these plans are subject to restrictions on sale, transfer or assignment until the end of a specified restriction period, generally five to 10 years from the date of grant. Holders of Restricted Stock generally may forfeit ownership of all or a portion of their award if employment is terminated before the end of the relevant restriction period. Holders of vested Restricted Stock generally will also forfeit ownership in certain limited situations, including termination for cause during the restriction period.

Profit Sharing Plans. The Company sponsors qualified profit sharing plans covering substantially all U.S. employees and also provides cash payment of profit sharing to employees of its international subsidiaries. Contributions are made to eligible employees at the discretion of the Board of Directors based upon the financial performance of the Company. Profit sharing expense for fiscal 2001, fiscal 2000 and fiscal 1999 was $149 million, $182 million and $153 million, respectively.

Employee Stock Ownership Plan. The Company has a $140 million leveraged employee stock ownership plan, funded through an independently managed trust. The Employee Stock Ownership Plan ("ESOP") was established to broaden internal ownership of the Company and to provide benefits to its employees in a cost-effective manner. In January 2000, each share of the ESOP Convertible Preferred Stock was converted into 6.6 common shares of the Company. The ESOP trust funded its stock purchase through a loan of $140 million from the Company. The ESOP trust note, due September 19, 2005 (extendible at the option of the ESOP trust to September 19, 2010), bears a 10-3/8% interest rate per annum with principal payable without penalty on or before the due date. The ESOP trust expects to make principal and interest payments on the note from funds provided by dividends on the shares of common stock and contributions from the Company, if required. The note receivable from the ESOP trust is reflected as a reduction in the Company's shareholders' equity. Shares allocated to employees generally may not be withdrawn until the employee's death, disability, retirement or termination. Contributions to the ESOP by the Company and allocation of ESOP shares to employees are made annually at the discretion of the Board of Directors based on the financial performance of the Company. The cost of shares allocated to participants' accounts amounted to $13 million in fiscal 2001, $11 million in fiscal 2000 and $5 million in fiscal 1999. The ESOP debt service costs for fiscal 2001 and fiscal 1999 were paid from dividends received on stock held by the ESOP trust and from Company contributions. The ESOP debt service costs for fiscal 2000 were paid from dividends received on stock held by the ESOP trust.

Pro Forma Effect of SFAS No. 123. Had the Company elected to recognize compensation cost pursuant to SFAS No. 123 for its stock option plans and its employee stock purchase plan, net income would have been reduced by $375 million, $488 million and $327 million for fiscal 2001, fiscal 2000 and fiscal 1999, respectively, resulting in pro forma net income and earnings per share as follows:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions, except per share data)		
Net income			
As reported	$3,521	$5,456	$4,791
Pro forma	3,146	4,968	4,464
Earnings per share			
As reported:			
Basic	$ 3.21	$ 4.95	$ 4.33
Diluted	3.11	4.73	4.10
Pro forma:			
Basic	$ 2.87	$ 4.50	$ 4.03
Diluted	2.76	4.29	3.80

The weighted average fair value at date of grant for stock options granted during fiscal 2001, fiscal 2000 and fiscal 1999 was $26.43, $30.48 and $23.58 per option, respectively. The fair value of stock options at date of grant was estimated using the Black-Scholes option pricing model utilizing the following weighted average assumptions:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Risk-free interest rate	4.7%	5.6%	5.9%
Expected option life in years	6.1	5.3	5.6
Expected stock price volatility	48.4%	43.4%	38.6%
Expected dividend yield	1.5%	1.1%	1.1%

14. Employee Benefit Plans.

The Company sponsors various pension plans for the majority of its worldwide employees. The Company provides certain other postretirement benefits, primarily health care and life insurance, to eligible employees. The Company also provides certain benefits to former employees or inactive employees prior to retirement. The following summarizes these plans:

Pension Plans. Substantially all of the U.S. employees of the Company and its U.S. affiliates are covered by non-contributory pension plans that are qualified under Section 401(a) of the Internal Revenue Code (the "Qualified Plans"). Unfunded supplementary plans (the "Supplemental Plans") cover certain executives. In addition to the Qualified Plans and the Supplemental Plans (collectively, the "U.S. Plans"), certain of the Company's international subsidiaries also have pension plans covering substantially all of their employees. These pension plans generally provide pension benefits that are based on each employee's years of credited service and on compensation levels specified in the plans. For the Qualified Plans and the other international plans, the Company's policy is to fund at least the amounts sufficient to meet minimum funding requirements under applicable employee benefit and tax regulations. Liabilities for benefits payable under the Supplemental Plans are accrued by the Company and are funded when paid to the beneficiaries.

The following tables present information for the Company's pension plans on an aggregate basis.

Pension expense included the following components:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions)		
U.S. Plans:			
Service cost, benefits earned during the period	$ 77	$ 74	$ 98
Interest cost on projected benefit obligation	96	88	80
Expected return on plan assets	(110)	(100)	(86)
Net amortization	1	6	8
Net settlements and curtailments	—	2	—
Total U.S. plans	64	70	100
Total international plans	4	4	16
Net pension expense	$ 68	$ 74	$116

The following table provides the assumptions used in determining the Company's benefit obligation for the U.S. Plans:

	Fiscal 2001	Fiscal 2000
Weighted average discount rate	7.55%	8.00%
Rate of increase in future compensation levels	5.00%	5.00%
Expected long-term rate of return on plan assets	9.00%	9.00%

The following table provides a reconciliation of the changes in the U.S. Plans' benefit obligation and fair value of plan assets for fiscal 2001 and fiscal 2000 as well as a summary of the U.S. Plans' funded status at November 30, 2001 and November 30, 2000:

	Fiscal 2001	Fiscal 2000
	(dollars in millions)	
Reconciliation of benefit obligation:		
Benefit obligation at beginning of year	$1,234	$1,214
Service cost	77	74
Interest cost	96	88
Actuarial loss or (gain)	136	(48)
Benefits paid	(86)	(84)
Settlements	—	(10)
Benefit obligation at end of year	$1,457	$1,234
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	$1,268	$1,154
Actual return on plan assets	(198)	158
Employer contributions	73	50
Benefits paid and settlements	(86)	(94)
Fair value of plan assets at end of year	$1,057	$1,268
Funded status:		
Funded status	$ (400)	$ 34
Amount contributed to plan after measurement date	20	—
Unrecognized transition obligation	2	2
Unrecognized prior-service cost	22	25
Unrecognized loss or (gain)	295	(153)
Net amount recognized	$ (61)	$ (92)
Amounts recognized in the consolidated statements of financial condition consist of:		
Prepaid benefit cost	$ 117	$ 53
Accrued benefit liability	(184)	(145)
Intangible asset	6	—
Net amount recognized	$ (61)	$ (92)

For the Supplemental Plans, the aggregate accumulated benefit obligation was $126 million and $91 million at November 30, 2001 and November 30, 2000, respectively.

The Company also maintains separate defined contribution pension plans that cover substantially all employees of certain non-U.S. subsidiaries. Under such plans, benefits are determined by the purchasing power of the accumulated value of contributions paid. In fiscal 2001, fiscal 2000 and fiscal 1999, the Company's expense related to these plans was $68 million, $46 million and $27 million, respectively.

Postretirement Benefits. The Company has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and dependents. At November 30, 2001 and November 30, 2000, the Company's accrued postretirement benefit liability was $112 million and $106 million, respectively.

Postemployment Benefits. Postemployment benefits include, but are not limited to, salary continuation, severance benefits, disability-related benefits, and continuation of health care and life insurance coverage provided to former employees or inactive employees after employment but before retirement. These benefits were not material to the Company's consolidated financial statements in fiscal 2001, fiscal 2000 and fiscal 1999.

15. Income Taxes.

The provision for income taxes consisted of:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions)		
Current:			
U.S. federal	$2,014	$2,299	$1,868
U.S. state and local	227	387	491
Non-U.S.	260	603	738
	2,501	3,289	3,097
Deferred:			
U.S. federal	(550)	(140)	37
U.S. state and local	(61)	(44)	(11)
Non-U.S.	184	(35)	(186)
	(427)	(219)	(160)
Provision for income taxes	$2,074	$3,070	$2,937

The following table reconciles the provision to the U.S. federal statutory income tax rate:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
U.S. state and local income taxes, net of U.S. federal income tax benefits	1.9	2.5	3.6
Lower tax rates applicable to non-U.S. earnings	(0.4)	(2.0)	(2.3)
Other	—	0.5	1.7
Effective income tax rate	36.5%	36.0%	38.0%

As of November 30, 2001, the Company had approximately $4.7 billion of earnings attributable to foreign subsidiaries for which no provisions have been recorded for income tax that could occur upon repatriation. Except to the extent such earnings can be repatriated tax efficiently, they are permanently invested abroad. It is not practicable to determine the amount of income taxes payable in the event all such foreign earnings are repatriated.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Significant components of the Company's deferred tax assets and liabilities at November 30, 2001 and November 30, 2000 were as follows:

	Nov. 30, 2001	Nov. 30, 2000
	(dollars in millions)	
Deferred tax assets:		
Employee compensation and benefit plans	$1,898	$2,078
Loan loss allowance	289	284
Other valuation and liability allowances	923	690
Deferred expenses	17	138
Other	378	270
Total deferred tax assets	3,505	3,460
Deferred tax liabilities:		
Prepaid commissions	137	360
Other	338	369
Total deferred tax liabilities	475	729
Net deferred tax assets	$3,030	$2,731

Cash paid for income taxes was $910 million, $3,401 million and $1,736 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

The Company recorded income tax benefits of $460 million, $467 million and $367 million related to employee stock compensation transactions in fiscal 2001, fiscal 2000 and fiscal 1999, respectively. Such benefits were credited to paid-in capital.

16. Segment and Geographic Information.

Pursuant to SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for disclosures that relate to business operating segments ("segments"), the Company structures its segments primarily based upon the nature of the financial products and services provided to customers and the Company's management organization. The Company operates in three business segments: Securities, Investment Management and Credit Services through which it provides a wide range of financial products and services to its customers.

The Company's Securities business includes securities underwriting and distribution; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; full-service brokerage services; sales, trading, financing and market-making activities in equity securities and related products and fixed income securities and related products, including foreign exchange and commodities; principal investing, including private equity activities; and aircraft financing activities. The Company's Investment Management business provides global asset management products and services for individual and institutional investors through three principal distribution channels: the Company's financial advisors and investment representatives; a non-proprietary channel consisting of third-party broker-dealers, banks, financial planners and other intermediaries; and the Company's institutional channel. The Company's Credit Services business includes the issuance of the Discover Classic Card, the Discover Gold Card, the Discover Platinum Card, the Morgan Stanley Card and other proprietary general purpose credit cards; and the operation of Discover Business Services, a proprietary network of merchant and cash access locations in the U.S.

Revenues and expenses directly associated with each respective segment are included in determining their operating results. Other revenues and expenses that are not directly attributable to a particular segment are allocated based upon the Company's allocation methodologies, generally based on each segment's respective revenues or other relevant measures. Selected financial information for the Company's segments is presented in the table below:

Fiscal 2001	Securities	Investment Management	Credit Services	Total
		(dollars in millions)		
All other net revenues	$ 13,981	$2,365	$ 2,202	$ 18,548
Net interest	1,933	58	1,357	3,348
Net revenues	$ 15,914	$2,423	$ 3,559	$ 21,896
Income before taxes, extraordinary item and cumulative effect of accounting change	$ 3,630	$ 927	$ 1,127	$ 5,684
Provision for income taxes	1,267	382	425	2,074
Income before extraordinary item and cumulative effect of accounting change	2,363	545	702	3,610
Extraordinary item	(30)	—	—	(30)
Cumulative effect of accounting change	(46)	—	(13)	(59)
Net income	$ 2,287	$ 545	$ 689	$ 3,521

Fiscal 2000(1)	Securities	Investment Management	Credit Services	Total
		(dollars in millions)		
All other net revenues	$ 18,335	$2,643	$ 1,963	$ 22,941
Net interest	1,472	69	1,517	3,058
Net revenues	$ 19,807	$2,712	$ 3,480	$ 25,999
Gain on sale of business	$ —	$ 35	$ —	$ 35
Income before taxes	$ 6,247	$1,135	$ 1,144	$ 8,526
Provision for income taxes	2,193	458	419	3,070
Net income	$ 4,054	$ 677	$ 725	$ 5,456

Fiscal 1999(1)	Securities	Investment Management	Credit Services	Total
		(dollars in millions)		
All other net revenues	$ 15,212	$2,227	$ 1,742	$ 19,181
Net interest	916	55	1,394	2,365
Net revenues	$ 16,128	$2,282	$ 3,136	$ 21,546
Income before taxes	$ 5,824	$ 784	$ 1,120	$ 7,728
Provision for income taxes	2,167	326	444	2,937
Net income	$ 3,657	$ 458	$ 676	$ 4,791

Total Assets(1)(2)	Securities	Investment Management	Credit Services	Total
		(dollars in millions)		
November 30, 2001	$452,421	$5,076	$25,131	$482,628
November 30, 2000	$389,511	$4,872	$26,896	$421,279
November 30, 1999	$336,909	$4,273	$25,785	$366,967

(1) Credit Services business segment information includes the operating results of Morgan Stanley Dean Witter Credit Corporation ("MSDWCC"). Prior to fiscal 2001, the Company had included MSDWCC's results within its Securities business segment. In addition, the operating results of the Investment Management business segment includes certain revenues and expenses associated with the Company's Investment Consulting Services business. Prior to fiscal 2001, such revenues and expenses were included within the Company's Securities business segment. The selected financial information for fiscal 2000 and fiscal 1999 have been restated to reflect these changes.

(2) Corporate assets have been fully allocated to the Company's business segments.

The Company operates in both U.S. and non-U.S. markets. The Company's non-U.S. business activities are principally conducted through European and Asian locations. The following table presents selected income statement information and the total assets of the Company's operations by geographic area. The principal methodologies used in preparing the geographic area data are as follows: commission revenues are recorded based on the location of the sales force; trading revenues are principally recorded based on location of the trader; investment banking revenues are based on location of the client; and asset management and portfolio service fees are recorded based on the location of the portfolio manager:

Fiscal 2001	U.S.	Europe	Asia	Other	Eliminations	Total
			(dollars in millions)			
Net revenues	$ 16,726	$ 3,986	$ 1,405	$ 177	$ (398)	$ 21,896
Income before taxes, extraordinary item and cumulative effect of accounting change	4,169	1,146	245	124	—	5,684
Total assets at November 30, 2001	538,915	231,489	31,047	16,114	(334,937)	482,628

Fiscal 2000	U.S.	Europe	Asia	Other	Eliminations	Total
			(dollars in millions)			
Net revenues	$ 19,421	$ 5,048	$ 1,684	$ 166	$ (320)	$ 25,999
Income before taxes	6,308	1,646	466	106	—	8,526
Total assets at November 30, 2000	466,587	209,894	24,912	15,577	(295,691)	421,279

Fiscal 1999	U.S.	Europe	Asia	Other	Eliminations	Total
			(dollars in millions)			
Net revenues	$ 16,701	$ 3,848	$ 1,192	$ 128	$ (323)	$ 21,546
Income before taxes	6,040	1,364	244	80	—	7,728
Total assets at November 30, 1999	367,524	164,974	37,610	14,478	(217,619)	366,967

17. Business Acquisitions and Disposition.

In fiscal 2001, the Company acquired Quilter Holdings Limited ("Quilter"). Quilter is a well-established U.K.-based investment management business providing segregated account management and advisory services to private individuals, pension funds and trusts. The Company's fiscal 2001 results include the operations of Quilter since March 13, 2001, the date of acquisition.

In fiscal 2000, the Company acquired Ansett Worldwide, one of the world's leading aircraft leasing groups, leasing new and used commercial jet aircraft to airlines around the world. The Company's fiscal 2000 results include the operations of Ansett Worldwide since April 27, 2000, the date of acquisition.

In the fourth quarter of fiscal 1998, the Company sold its Global Custody business to The Chase Manhattan Corporation ("Chase"). At that time, the Company recorded a pre-tax gain of $323 million from the sale. Such gain included estimates for certain payments and purchase price adjustments which, under certain circumstances pursuant to the sales agreement, were payable by the Company to Chase. As a result of the resolution of these payments and purchase price adjustments during fiscal 2000, the Company recorded an additional pre-tax gain of $35 million related to the sale of its Global Custody business.

In fiscal 1999, the Company acquired Morgan Stanley, S.V., S.A. (formerly AB Asesores), the largest independent financial services firm in Spain. The Company's fiscal 1999 results include the operations of Morgan Stanley, S.V., S.A. since March 25, 1999, the date of acquisition.

The pro forma impact of each of the above acquisitions was not material to the Company's consolidated financial statements.

18. Terrorist Attacks.

On September 11, 2001, the U.S. experienced terrorist attacks targeted against New York City and Washington, D.C. The attacks in New York resulted in the destruction of the World Trade Center complex, where approximately 3,700 of the Company's employees were located, and the temporary closing of the debt and equity financial markets in the U.S. Through the implementation of its business recovery plans, the Company relocated its displaced employees to other facilities.

The terrorist attacks had an immediate adverse impact on global economies, financial markets and certain industries, including the global aviation industry. These conditions had an adverse impact on the Company's results of operations in the fourth quarter of fiscal 2001, including an asset impairment charge and higher expenses associated with its aircraft financing activities. In addition to the immediate impact, there is much uncertainty regarding the potential long-term impact of these attacks. In the future, fears of global recession, war and additional acts of terrorism in the aftermath of the September 11, 2001 attacks may continue to impact global economies and financial markets.

During the fourth quarter of fiscal 2001, the Company recorded costs related to the terrorist attacks, which were offset by an expected insurance recovery. These costs and the related expected insurance recovery pertain to write-offs of leasehold improvements and destroyed technology and telecommunications equipment in the World Trade Center complex, employee relocation and certain employee-related expenditures, and other business recovery costs.

19. Asset Impairment.

The terrorist attacks of September 11, 2001 (see Note 18) had an adverse impact on the global aviation industry, including the Company's aircraft financing business. As a result of these conditions, and in accordance with SFAS No. 121, the Company incurred a non-cash pre-tax charge of $87 million in the fourth quarter of fiscal 2001 to reflect the impairment of certain aircraft. The fair values of the affected aircraft were obtained from independent appraisals. The impairment charge is reflected in "other expenses" in the Company's consolidated statements of income. The results of the aircraft financing business are included in the Company's "Securities" business segment (see Note 16).

20. Quarterly Results (unaudited).

	2001 Fiscal Quarter				2000 Fiscal Quarter(1)			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(dollars in millions, except share and per share data)							
Total revenues	$ 12,644	$ 12,569	$ 10,296	$ 8,218	$ 11,457	$ 11,594	$ 11,599	$ 10,335
Interest expense	6,179	6,413	4,883	3,304	3,932	4,420	5,242	4,582
Provision for consumer loan losses	213	231	277	331	223	204	175	208
Net revenues	6,252	5,925	5,136	4,583	7,302	6,970	6,182	5,545
Total non-interest expenses	4,559	4,460	3,978	3,215	4,870	4,675	4,307	3,656
Gain on sale of business	—	—	—	—	—	—	35	—
Income before income taxes, extraordinary item and cumulative effect of accounting change	1,693	1,465	1,158	1,368	2,432	2,295	1,910	1,889
Provision for income taxes	618	535	423	498	888	837	664	681
Income before extraordinary item and cumulative effect of accounting change	1,075	930	735	870	1,544	1,458	1,246	1,208
Extraordinary item	—	—	(30)	—	—	—	—	—
Cumulative effect of accounting change	(59)	—	—	—	—	—	—	—
Net income	$ 1,016	$ 930	$ 705	$ 870	$ 1,544	$ 1,458	$ 1,246	$ 1,208
Earnings per share(2):								
Basic before extraordinary item and cumulative effect of accounting change	$ 0.98	$ 0.85	$ 0.67	$ 0.80	$ 1.40	$ 1.32	$ 1.14	$ 1.10
Extraordinary item	—	—	(0.03)	—	—	—	—	—
Cumulative effect of accounting change	(0.05)	—	—	—	—	—	—	—
Basic	$ 0.93	$ 0.85	$ 0.64	$ 0.80	$ 1.40	$ 1.32	$ 1.14	$ 1.10
Diluted before extraordinary item and cumulative effect of accounting change	$ 0.94	$ 0.82	$ 0.65	$ 0.78	$ 1.34	$ 1.26	$ 1.09	$ 1.06
Extraordinary item	—	—	(0.03)	—	—	—	—	—
Cumulative effect of accounting change	(0.05)	—	—	—	—	—	—	—
Diluted	$ 0.89	$ 0.82	$ 0.62	$ 0.78	$ 1.34	$ 1.26	$ 1.09	$ 1.06
Dividends to common shareholders	$ 0.23	$ 0.23	$ 0.23	$ 0.23	$ 0.20	$ 0.20	$ 0.20	$ 0.20
Book value	$ 17.23	$ 17.54	$ 17.76	$ 18.64	$ 15.31	$ 15.66	$ 16.19	$ 16.91
Stock price range(3)	$62.38-89.80	$45.26-74.26	$51.20-66.10	$37.62-59.52	$59.97-71.38	$63.69-95.81	$75.25-107.58	$63.38-109.38

(1) Certain reclassifications have been made to previously reported fiscal 2000 quarterly amounts.

(2) Summation of the quarters' earnings per common share may not equal the annual amounts due to the averaging effect of the number of shares and share equivalents throughout the year.

(3) Amounts represent the range of closing prices per share on the New York Stock Exchange for the periods indicated. The number of shareholders of record at November 30, 2001 approximated 146,000. The number of beneficial owners of common stock is believed to exceed this number.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Part III

Item 10. Directors and Executive Officers of the Registrant. The information relating to directors and nominees of Morgan Stanley is set forth under the caption "Item 1—Election of Directors" in Morgan Stanley's proxy statement for its 2002 annual meeting of shareholders ("Morgan Stanley's Proxy Statement") and is incorporated by reference herein.

Item 11. Executive Compensation. The information relating to executive compensation is set forth under the captions "Summary compensation table," "Option grants in last fiscal year," "Aggregated option exercises in last fiscal year and fiscal year-end option values," "Pension plans" and "Director compensation" in Morgan Stanley's Proxy Statement and such information is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management. The information relating to security ownership of certain beneficial owners and management is set forth under the caption "Beneficial ownership of Company common stock" in Morgan Stanley's Proxy Statement and such information is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions. The information regarding certain relationships and related transactions is set forth under the caption "Certain transactions" in Morgan Stanley's Proxy Statement and such information is incorporated by reference herein.

Part IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Documents filed as part of this Report.

1. Financial Statements. The financial statements required to be filed hereunder are listed on page S-1.

2. Financial Statement Schedules. The financial statement schedules required to be filed hereunder are listed on page S-1.

3. Exhibits. An exhibit index has been filed as part of this Report beginning on page E-1 and is incorporated herein by reference.

(b) Reports on Form 8-K. A Current Report on Form 8-K, dated September 21, 2001, was filed with the SEC in connection with the announcement that John E. Jacob had been elected as a director and of Morgan Stanley's third quarter financial results.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 14, 2002.

MORGAN STANLEY DEAN WITTER & CO.
(REGISTRANT)

By: /S/ PHILIP J. PURCELL
(Philip J. Purcell)
Chairman of the Board and
Chief Executive Officer

Power of Attorney

We, the undersigned directors and executive officers of Morgan Stanley Dean Witter & Co., hereby severally constitute Donald G. Kempf, Jr., Stephen S. Crawford and Ronald T. Carman, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to the Annual Report on Form 10-K filed with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys to any and all amendments to said Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 14th day of February, 2002.

Signature	Title
/S/ PHILIP J. PURCELL (Philip J. Purcell)	Chairman of the Board and Chief Executive Officer
/S/ ROBERT G. SCOTT (Robert G. Scott)	President, Chief Operating Officer and Director
/S/ STEPHEN S. CRAWFORD (Stephen S. Crawford)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ JOANNE PACE (Joanne Pace)	Controller (Principal Accounting Officer)
/S/ ROBERT P. BAUMAN (Robert P. Bauman)	Director
/S/ EDWARD A. BRENNAN (Edward A. Brennan)	Director
/S/ JOHN E. JACOB (John E. Jacob)	Director

Signature	Title
/s/ C. ROBERT KIDDER (C. Robert Kidder)	Director
/s/ CHARLES F. KNIGHT (Charles F. Knight)	Director
/s/ JOHN W. MADIGAN (John W. Madigan)	Director
/s/ MILES L. MARSH (Miles L. Marsh)	Director
/s/ MICHAEL A. MILES (Michael A. Miles)	Director
/s/ LAURA D'ANDREA TYSON (Laura D'Andrea Tyson)	Director

MORGAN STANLEY DEAN WITTER & CO.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES ITEMS (14)(a)(1) AND (14)(a)(2)

SCHEDULE I

MORGAN STANLEY DEAN WITTER & CO.
(Parent Company Only)

Condensed Statements of Financial Condition
(dollars in millions, except share data)

	November 30, 2001	November 30, 2000
Assets:		
Cash and cash equivalents	$ 13,375	$ 2,604
Financial instruments owned	1,760	454
Advances to subsidiaries	78,927	72,912
Investment in subsidiaries, at equity	22,133	20,040
Other assets	2,621	2,987
Total assets	$118,816	$98,997
Liabilities and Shareholders' Equity:		
Short-term borrowings	$ 28,013	$20,720
Financial instruments sold, not yet purchased	93	58
Payables to subsidiaries	21,250	20,206
Other liabilities and accrued expenses	990	1,153
Long-term borrowings	47,754	37,589
	98,100	79,726
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	345	545
Common stock ($0.01 par value; 3,500,000,000 shares authorized, 1,211,685,904 and 1,211,685,904 shares issued, 1,093,006,744 and 1,107,270,331 shares outstanding at November 30, 2001 and November 30, 2000, respectively)	12	12
Paid-in capital	3,745	3,377
Retained earnings	23,270	20,802
Employee stock trust	3,086	3,042
Accumulated other comprehensive income (loss)	(262)	(91)
Subtotal	30,196	27,687
Note receivable related to ESOP	(31)	(44)
Common stock held in treasury, at cost ($0.01 par value, 118,679,160 and 104,415,573 shares at November 30, 2001 and November 30, 2000, respectively)	(6,935)	(6,024)
Common stock issued to employee trust	(2,514)	(2,348)
Total shareholders' equity	20,716	19,271
Total liabilities and shareholders' equity	$118,816	$98,997

See Notes to Condensed Financial Statements.

SCHEDULE I

MORGAN STANLEY DEAN WITTER & CO.
(Parent Company Only)

Condensed Statements of Income and Comprehensive Income
(dollars in millions)

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Revenues:			
Interest and dividends	$4,175	$4,076	$2,585
Principal transactions	(50)	48	55
Fiduciary fees	—	2	16
Other	3	4	2
Total revenues	4,128	4,130	2,658
Expenses:			
Interest expense	4,289	4,123	2,460
Non-interest expenses	34	3	29
Total expenses	4,323	4,126	2,489
Income (loss) before income tax (benefit) provision, cumulative effect of accounting change and equity in earnings of subsidiaries	(195)	4	169
Income tax (benefit) provision	(84)	(18)	63
Income (loss) before cumulative effect of accounting change and equity in earnings of subsidiaries	(111)	22	106
Cumulative effect of accounting change	(26)	—	—
Equity in earnings of subsidiaries, net of tax	3,658	5,434	4,685
Net income	$3,521	$5,456	$4,791
Other comprehensive income, net of tax:			
Foreign currency translation adjustment	(59)	(64)	(15)
Cumulative effect of accounting change	(13)	—	—
Net change in cash flow hedges	(99)	—	—
Comprehensive income	$3,350	$5,392	$4,776
Net income	$3,521	$5,456	$4,791
Preferred stock dividend requirements	$ 32	$ 36	$ 44
Earnings applicable to common shares	$3,489	$5,420	$4,747

See Notes to Condensed Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.
(Parent Company Only)

Condensed Statements of Cash Flows
(dollars in millions)

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Cash flows from operating activities:			
Net income	$ 3,521	$ 5,456	$ 4,791
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash charges (credits) included in net income:			
Compensation payable in common or preferred stock	653	908	735
Equity in subsidiaries' earnings, net of dividends	(11)	(2,414)	(1,119)
Change in assets and liabilities:			
Financial instruments owned, net of financial instruments sold, not yet purchased	(925)	1,786	(2,126)
Other assets	100	(1,654)	242
Other liabilities and accrued expenses	(121)	628	288
Net cash provided by operating activities	3,217	4,710	2,811
Cash flows from investing activities:			
Investments in and advances to subsidiaries	(7,054)	(9,127)	(8,193)
Net cash used for investing activities	(7,054)	(9,127)	(8,193)
Cash flows from financing activities:			
Net (payments for) proceeds from short-term borrowings	7,293	(4,640)	4,001
Net proceeds from:			
Issuance of common stock	197	338	223
Issuance of put options	5	42	9
Issuance of long-term borrowings	18,295	20,850	6,519
Payments for:			
Repurchases of common stock	(1,583)	(3,628)	(2,374)
Repayments of long-term borrowings	(8,359)	(6,931)	(6,159)
Redemption of cumulative preferred stock	(200)	—	—
Cash dividends	(1,040)	(924)	(575)
Net cash provided by financing activities	14,608	5,107	1,644
Net increase (decrease) in cash and cash equivalents	10,771	690	(3,738)
Cash and cash equivalents, at beginning of period	2,604	1,914	5,652
Cash and cash equivalents, at end of period	$13,375	$ 2,604	$ 1,914

See Notes to Condensed Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.
(Parent Company Only)

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Introduction and Basis of Presentation

Basis of Financial Information

The accompanying condensed financial statements (the "Parent Company Financial Statements"), including the notes thereto, should be read in conjunction with the consolidated financial statements of Morgan Stanley Dean Witter & Co. (the "Company") and the notes thereto found on pages 64 to 101 of the Company's Annual Report to Shareholders which is included in this Form 10-K.

The Parent Company Financial Statements for the 12 months ended November 30, 2001 ("fiscal 2001"), November 30, 2000 ("fiscal 2000") and November 30, 1999 ("fiscal 1999") are prepared in accordance with accounting principles generally accepted in the U.S., which require management to make estimates and assumptions regarding valuations of certain financial instruments, the potential outcome of litigation and other matters that affect the Parent Company Financial Statements and related disclosures. Management believes that the estimates utilized in the preparation of the Parent Company Financial Statements are prudent and reasonable. Actual results could differ materially from these estimates.

Certain reclassifications have been made to prior-year amounts to conform to the current presentation. All material intercompany balances and transactions have been eliminated.

Employee Stock Ownership Plan

The Company has a $140 million leveraged employee stock ownership plan, funded through an independently managed trust. The Employee Stock Ownership Plan ("ESOP") was established to broaden internal ownership of the Company and to provide benefits to its employees in a cost-effective manner.

In January 2000, each share of the ESOP Convertible Preferred Stock was converted into 6.6 common shares of the Company.

2. Transactions with Subsidiaries

The Company has transactions with its consolidated subsidiaries determined on an agreed-upon basis and has guaranteed certain unsecured lines of credit and contractual obligations of certain of its consolidated subsidiaries.

The Company received cash dividends from its consolidated subsidiaries totaling $3,647 million, $3,020 million and $3,566 million in fiscal 2001, 2000 and 1999, respectively.

3. Trust Preferred Securities Issued by Subsidiaries

The Company has two consolidated Delaware statutory business trusts (MSDW Capital Trust I and Morgan Stanley Capital Trust II) that have issued an aggregate $1.2 billion of Capital Securities (see Note 11 to the Company's Consolidated Financial Statements). These Capital Securities are guaranteed by the Company.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Morgan Stanley Dean Witter & Co.:

We have audited the consolidated financial statements of Morgan Stanley Dean Witter & Co. and subsidiaries (the "Company") as of fiscal years ended November 30, 2001 and 2000, and for each of the three fiscal years in the period ended November 30, 2001, and have issued our report thereon dated January 11, 2002; such consolidated financial statements and report are included in your 2001 Annual Report on Form 10-K. Our audits also included Schedule I listed in the Index to Financial Statements and Financial Statement Schedules. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, based on our audits, the condensed financial statement schedules of Morgan Stanley Dean Witter & Co. (Parent Company Only), when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth herein.

Deloitte & Touche LLP

New York, New York
January 11, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBITS

TO

FORM 10-K
For the fiscal year ended November 30, 2001

Commission File No. 1-11758

Morgan Stanley Dean Witter & Co.

Exhibit Index

Certain of the following exhibits, as indicated parenthetically, were previously filed as exhibits to registration statements filed by Morgan Stanley or its predecessor companies under the Securities Act of 1933, as amended, or to reports or registration statements filed by Morgan Stanley or its predecessor companies under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), respectively, and are hereby incorporated by reference to such statements or reports. Morgan Stanley's Exchange Act file number is 1-11758. Prior to the Merger, Morgan Stanley Group's Exchange Act file number was 1-9085.[1]

Exhibit No.	Description
3.1 *	Amended and Restated Certificate of Incorporation of Morgan Stanley, as amended to date.
3.2 *	By-Laws of Morgan Stanley, as amended to date.
4.1	Rights Agreement dated as of April 25, 1995 between Morgan Stanley and JPMorgan Chase Bank, as rights agent, which includes as Exhibit B thereto the Form of Rights Certificate (Exhibit 1 to Morgan Stanley's Registration Statement on Form 8-A dated April 25, 1995).
4.2	Amendment dated as of February 4, 1997 to the Rights Agreement between Morgan Stanley and JPMorgan Chase Bank, as rights agent (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated February 4, 1997).
4.3	Second Amendment dated as of June 15, 1999 to the Rights Agreement between Morgan Stanley and JPMorgan Chase Bank, as rights agent (Exhibit 4.1 to Morgan Stanley's Current Report on Form 8-K dated June 15, 1999).
4.4	Indenture dated as of February 24, 1993 between Morgan Stanley and Bank One Trust Company, N.A., as trustee (Exhibit 4 to Morgan Stanley's Registration Statement on Form S-3 (No. 33-57202)).
4.5	Amended and Restated Senior Indenture dated as of May 1, 1999 between Morgan Stanley and JPMorgan Chase Bank, as trustee (Exhibit 4-e to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-75289)).
4.6	First Supplemental Senior Indenture dated as of September 15, 2000 between Morgan Stanley and JPMorgan Chase Bank, as trustee (Exhibit 4-f to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-47576)).
4.7	Amended and Restated Subordinated Indenture dated as of May 1, 1999 between Morgan Stanley and Bank One Trust Company, N.A., as trustee (Exhibit 4-f to Morgan Stanley's Registration Statement on Form S-3/A (No. 333-75289)).
4.8	Amended and Restated Trust Agreement of MSDW Capital Trust I dated as of March 12, 1998 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee, and the administrators named therein (Exhibit 4.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 1998).
4.9	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust II dated as of July 19, 2001 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 10.4 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2001).
4.10	Junior Subordinated Indenture dated as of March 1, 1998 between Morgan Stanley and The Bank of New York, as trustee (Exhibit 4.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended February 28, 1998).
4.11	Instruments defining the Rights of Security Holders, Including Indentures—Except as set forth in Exhibits 4.1 through 4.10 above, the instruments defining the rights of holders of long-term debt securities of Morgan Stanley and its subsidiaries are omitted pursuant to Section (b)(4)(iii) of Item 601 of Regulation S-K. Morgan Stanley hereby agrees to furnish copies of these instruments to the SEC upon request.

(1) For purposes of this Exhibit Index, references to "JPMorgan Chase Bank" mean the entity formerly known as The Chase Manhattan Bank, in some instances as the successor to Chemical Bank; references to "Bank One Trust Company, N.A." mean as successor to The First National Bank of Chicago; and references to "Discover Bank" mean the entity formerly known as Greenwood Trust Company.

Exhibit No.	Description
10.1*	Services Agreement by and between Morgan Stanley and International Business Machines Corporation, amended and restated as of December 21, 2001 (confidential treatment has been requested for portions of this exhibit).
10.2	Pooling and Servicing Agreement dated as of October 1, 1993 between Discover Bank, as master servicer, servicer and seller, and U.S. Bank National Association, as trustee (Exhibit 4.1 to the Discover Card Master Trust I Registration Statement on Form S-1 (No. 33-71502)).
10.3	First Amendment to Pooling and Servicing Agreement dated as of August 15, 1994 between Discover Bank, as master servicer, servicer and seller, and U.S. Bank National Association, as trustee (Exhibit 4.4 to the Discover Card Master Trust I Current Report on Form 8-K dated August 1, 1995 (Exchange Act file number 0-23108)).
10.4	Second Amendment to Pooling and Servicing Agreement dated as of February 29, 1996 between Discover Bank, as master servicer, servicer and seller, and U.S. Bank National Association, as trustee (Exhibit 4.4 to the Discover Card Master Trust I Current Report on Form 8-K dated April 30, 1996 (Exchange Act file number 0-23108)).
10.5	Third Amendment to Pooling and Servicing Agreement dated as of March 30, 1998 between Discover Bank, as master servicer, servicer and seller, and U.S. Bank National Association, as trustee (Exhibit 4.1(d) to the Discover Card Master Trust I Registration Statement on Form 8-A dated April 9, 1998 (Exchange Act file number 0-23108)).
10.6	Fourth Amendment to Pooling and Servicing Agreement dated as of November 30, 1998 between Discover Bank, as master servicer, servicer and seller, and U.S. Bank National Association, as trustee (Exhibit 4.1 to the Discover Card Master Trust I Current Report on Form 8-K dated November 30, 1998 (Exchange Act file number 0-23108)).
10.7	Fifth Amendment to Pooling and Servicing Agreement dated as of March 30, 2001 between Discover Bank, as master servicer, servicer and seller, and U.S. Bank National Association, as trustee (Exhibit 4.1 to the Discover Card Master Trust I Current Report on Form 8-K dated March 30, 2001 (Exchange Act file number 0-23108)).
10.8	Form of Series Supplement between Discover Bank, as master servicer, servicer and seller, and U.S. Bank National Association, as trustee (Exhibit 4.7 to the Discover Bank and the Discover Card Master Trust I Amendment No. 1 to Registration Statement on Form S-3 (Registration No. 333-57556)).
10.9	Amended and Restated Trust Agreement dated November 30, 2000 between Morgan Stanley and State Street Bank and Trust Company (Exhibit T to Amendment No. 5 to the Schedule 13D dated November 30, 2000 filed by certain senior officers of Morgan Stanley and hereby incorporated by reference).
10.10*	Amendment No. 1 to Amended and Restated Trust Agreement dated November 30, 2000 between Morgan Stanley and State Street Bank and Trust Company, effective January 1, 2002.
10.11†	Dean Witter Reynolds Inc. Supplemental Pension Plan (formerly known as the Dean Witter Reynolds Financial Services Inc. Supplemental Pension Plan for Executives) (amended and restated) (Exhibit 10.32 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended December 31, 1993).
10.12†	Omnibus Equity Incentive Plan (Exhibit 4.1 to Morgan Stanley's Registration Statement on Form S-8 (No. 33-63024)).
10.13†	Employees Replacement Stock Plan (Exhibit 4.2 to Morgan Stanley's Registration Statement on Form S-8 (No. 33-63024)).
10.14†	Amendment to Employees Replacement Stock Plan (Exhibit 10.1 to Morgan Stanley's Current Report on Form 8-K dated November 18, 1993).
10.15†*	Dean Witter START Plan (Saving Today Affords Retirement Tomorrow) (amended and restated effective as of January 1, 2002).
10.16†	1993 Stock Plan for Non-Employee Directors (Exhibit 4.3 to Morgan Stanley's Registration Statement on Form S-8 (No. 33-63024)).

Exhibit No.	Description
10.17†	Amendment to 1993 Stock Plan for Non-Employee Directors (Exhibit 10.37 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended December 31, 1993).
10.18†	Transferred Executives Pension Supplement (amended and restated) (Exhibit 10 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995).
10.19†	1994 Omnibus Equity Plan (Exhibit 10.52 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended December 31, 1993).
10.20†	Tax Deferred Equity Participation Plan (amended and restated) (Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 1999).
10.21†*	Directors' Equity Capital Accumulation Plan (amended and restated effective January 1, 2002).
10.22†	Employees Equity Accumulation Plan (Exhibit 10.34 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended December 31, 1996).
10.23†	Employee Stock Purchase Plan, as amended September 21, 2001 (Exhibit 10.1 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2001).
10.24†	Form of Agreement under the Morgan Stanley & Co. Incorporated Owners' and Select Earners' Plan (Exhibit 10.1 to Morgan Stanley Group's Annual Report on Form 10-K for the fiscal year ended January 31, 1993).
10.25†	Form of Agreement under the Officers' and Select Earners' Plan (Exhibit 10.2 to Morgan Stanley Group's Annual Report on Form 10-K for the fiscal year ended January 31, 1993).
10.26†	Morgan Stanley & Co. Incorporated Excess Benefit Plan (Exhibit 10.31 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 1998).
10.27†	Amendment to Morgan Stanley & Co. Incorporated Incorporated Excess Benefit Plan (Exhibit 10.32 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2000).
10.28†	Morgan Stanley & Co. Incorporated Deferred Profit Sharing Plan (Exhibit 4.1 to Morgan Stanley's Registration Statement on Form S-8 (No. 333-55972)).
10.29†	Amendment to Morgan Stanley & Co. Incorporated Deferred Profit Sharing Plan (Exhibit 10.3 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2001).
10.30†	Supplemental Executive Retirement Plan (Exhibit 10.32 to Morgan Stanley's Annual Report on Form 0-K for the fiscal year ended November 30, 1998).
10.31†	Amendment to Supplemental Executive Retirement Plan (Exhibit 10.37 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 1999).
10.32†	Amendment to Supplemental Executive Retirement Plan (Exhibit 10.35 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2000).
10.33†	Performance Unit Plan (amended and restated) (Exhibit 10.8 to Morgan Stanley Group's Annual Report on Form 10-K for the fiscal year ended January 31, 1993).
10.34†	1988 Equity Incentive Compensation Plan, as amended (Exhibit 10.12 to Morgan Stanley Group's Annual Report on Form 10-K for the fiscal year ended January 31, 1993).
10.35†	1995 Equity Incentive Compensation Plan (Annex A to Morgan Stanley Group's Proxy Statement for its 1996 Annual Meeting of Stockholders).
10.36†	Amendment to 1995 Equity Incentive Compensation Plan (Exhibit 10.39 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2000).
10.37†	1988 Capital Accumulation Plan, as amended (Exhibit 10.13 to Morgan Stanley Group's Annual Report on Form 10-K for the fiscal year ended January 31, 1993).

Exhibit No.	Description
10.38†	Form of Deferred Compensation Agreement under the Pre-Tax Incentive Program (Exhibit 10.12 to Morgan Stanley Group's Annual Report on Form 10-K for the fiscal year ended January 31, 1994).
10.39†	Form of Deferred Compensation Agreement under the Pre-Tax Incentive Program 2 (Exhibit 10.12 to Morgan Stanley Group's Annual Report for the fiscal year ended November 30, 1996).
10.40†	Key Employee Private Equity Recognition Plan (Exhibit 10.43 to Morgan Stanley's Annual Report on Form 10-K for the fiscal year ended November 30, 2000).
10.41†*	MSDWI Branch Manager Compensation Plan, as amended December 11, 2001.
10.42†*	MSDWI Financial Advisor Productivity Compensation Plan, as amended December 11, 2001.
10.43†	Change in Employment Status Agreement by and between Morgan Stanley and Peter F. Karches effective as of September 1, 2000 (Exhibit 10 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended August 31, 2000) (confidential treatment has been granted for portions of this exhibit).
10.44†	Summary of Arrangement between Morgan Stanley and John J. Mack dated as of March 20, 2001 (Exhibit 10 to Morgan Stanley's Quarterly Report on Form 10-Q for the quarter ended May 31, 2001).
11	Statement Re: Computation of Earnings Per Common Share (The calculation of per share earnings is in Part II, Item 8, Note 9 to the Consolidated Financial Statements (Earnings per Share) and is omitted in accordance with Section (b)(11) of Item 601 of Regulation S-K).
12*	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Computation of Earnings to Fixed Charges and Preferred Stock Dividends.
21*	Subsidiaries of Morgan Stanley.
23*	Consent of Deloitte & Touche LLP.
24	Powers of Attorney (included on signature page).

* Filed herewith.

† Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c).