
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, 2002

Commission File Number 1-11758

Morgan Stanley

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

36-3145972

(I.R.S. Employer
Identification No.)

1585 Broadway

New York, NY 10036

(Address of principal executive offices, including zip code)

(212) 761-4000

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of exchange on which registered</u>
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 Pacific Exchange
7.10% Capital Securities of MSDW Capital Trust I (and Registrant's guaranty with respect thereto)	New York Stock Exchange Pacific Exchange
7 1/4% Capital Securities of Morgan Stanley Capital Trust II (and Registrant's guaranty with respect thereto)	New York Stock Exchange Pacific Exchange
8% Reset PERQS® due February 28, 2003	New York Stock Exchange New York Stock Exchange
8% SPARQS™ due April 15, 2003; 8% SPARQS due June 1, 2003; 8% SPARQS due June 30, 2003; 12% SPARQS due June 30, 2003; 6.3% SPARQS due June 30, 2003; 10% SPARQS due August 30, 2003; 8% SPARQS due September 15, 2003; 10% SPARQS due November 30, 2003; 7.125% SPARQS due February 15, 2004; 8% SPARQS due March 30, 2004	New York Stock Exchange New York Stock Exchange New York Stock Exchange American Stock Exchange
Exchangeable Notes due June 5, 2006	American Stock Exchange New York Stock Exchange
Exchangeable Notes due December 13, 2004; Exchangeable Notes due March 30, 2007; Exchangeable Notes due November 30, 2007; Exchangeable Notes due March 30, 2008; Exchangeable Notes due May 30, 2008; Exchangeable Notes due December 30, 2008 (2 issuances)	American Stock Exchange New York Stock Exchange
PERKS™ due March 30, 2004	American Stock Exchange
Nikkei 225 Protection Step-Up Exchangeable Notes due July 31, 2003	American Stock Exchange New York Stock Exchange
Callable Index-Linked Notes due December 30, 2008	American Stock Exchange
BRIDGES™ due December 31, 2003; BRIDGES due April 30, 2004; BRIDGES due July 30, 2004; Redeemable BRIDGES due May 30, 2005	New York Stock Exchange
BRIDGES due August 30, 2008; BRIDGES due December 30, 2008 (2 issuances); BRIDGES due February 28, 2009; BRIDGES due March 30, 2009; BRIDGES due June 30, 2009; BRIDGES due July 30, 2009; BRIDGES due October 30, 2009	American Stock Exchange New York Stock Exchange
5-5/8% Notes due January 20, 2004; 7.25% Notes due June 17, 2029	American Stock Exchange
3% TRIGGERS™ due August 30, 2003	American Stock Exchange
MPSS™ due December 30, 2008; MPS due December 30, 2009	American Stock Exchange
BOXES® due October 30, 2031; BOXES due January 30, 2032	American Stock Exchange Philadelphia Stock Exchange
PLUS™ due December 30, 2004	Nasdaq National Market
MPS due March 30, 2009	Nasdaq National Market

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

PLUS™ due December 30, 2004

MPS due March 30, 2009

Indicate by check mark whether 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 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.

Indicate by check mark whether Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES NO

The aggregate market value of the voting stock held by non-affiliates of Registrant as of May 31, 2002 was approximately \$49,288,318,708. This calculation does not reflect a determination that persons are affiliates for any other purposes.

Number of shares outstanding of Registrant's common stock, \$.01 par value, as of December 31, 2002: 1,089,617,433.

Documents Incorporated By Reference: Portions of Registrant's definitive proxy statement for its annual stockholders' meeting to be held on April 11, 2003 are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12 and 13.

Morgan Stanley

Annual Report on Form 10-K

For the fiscal year ended November 30, 2002

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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" 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, whether as a result of new information, future events or otherwise.

Part I

Item 1. Business.

Overview. Morgan Stanley* is a global financial services firm that maintains leading market positions in each of its business segments—Institutional Securities, Individual Investor Group, Investment Management and Credit Services.

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

- *Investment banking*, including securities underwriting and distribution and financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance.
- *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.
- *Other activities*, such as principal investing and aircraft financing.

Morgan Stanley's individual investor group business segment ("IIG") includes:

- *Comprehensive financial planning and investment advisory services* designed to accommodate individual investment goals and risk profiles.

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: a proprietary channel consisting of 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.
- *Private equity activities*.

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

- *Discover Financial Services* ("DFS"), which offers Discover®-branded cards and other consumer finance products and services.
- *Discover Business Services*, a network of merchant and cash access locations primarily in the U.S.

Morgan Stanley provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. 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, 2002, Morgan Stanley had 55,726 employees worldwide. Morgan Stanley was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924. In June 2002, Morgan Stanley changed its name from "Morgan Stanley Dean Witter & Co." to "Morgan Stanley". Financial information concerning Morgan Stanley for each of the fiscal years ended November 30, 2002, November 30, 2001 and November 30, 2000 is included in the consolidated financial statements and the notes thereto in "Financial Statements and Supplementary Data" in Part II, Item 8.

Available Information. Morgan Stanley files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file at the SEC's public reference room at Room 1024, 450 Fifth Street, NW, Washington, D.C. 20549. Please

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

call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers (including Morgan Stanley) file electronically with the SEC. The SEC's website is <http://www.sec.gov>.

Morgan Stanley's website is <http://www.morganstanley.com>. Morgan Stanley makes available free of charge through its internet site, via a link to the SEC's website at <http://www.sec.gov>, its annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; Forms 3, 4 and 5 filed on behalf of directors and executive officers; and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

Morgan Stanley makes available on <http://www.morganstanley.com> its most recent annual report on Form 10-K, its quarterly reports on Form 10-Q for the current fiscal year, its most recent proxy statement and its most recent summary annual report to shareholders, although in some cases these documents are not available on our site as soon as they are available on the SEC's site. You will need to have on your computer the Adobe Acrobat Reader software to view these documents, which are in PDF format. If you do not have Adobe Acrobat, a link to Adobe's Internet site, from which you can download the software, is provided. The information on Morgan Stanley's website is not incorporated by reference into this report.

Institutional 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 wholly-owned subsidiaries, including 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.

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 Depository Receipts ("ADRs"). Morgan Stanley is a leading underwriter of fixed income securities, including investment grade debt, non-investment grade instruments, 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 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 and provides advisory services in connection with the purchase, sale, leasing and financing of real estate.

Corporate Lending. Morgan Stanley provides loans or lending commitments (which may be senior or subordinated), on a selective basis, to corporate clients, including bridge financing. The borrowers may be rated investment grade or non-investment grade (as determined by Morgan Stanley's Credit Department using methodologies generally consistent with those employed by external rating agencies). These lending activities are conducted through certain subsidiaries, including Morgan Stanley Bank.

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

Morgan Stanley conducts its sales, trading and market-making activities on exchanges and in over-the-counter (“OTC”) markets around the world.

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, futures, options and other structured products. Morgan Stanley issues equity-linked products to institutional and individual investors, including BRIDGESSM, Stock Participation Accreting Redemption Quarterly-pay Securities (“SPARQSSM”) and Market Participation Securities with Minimum Protection (“MPSSSM”). Morgan Stanley advises clients and executes transactions globally in connection with, among other things, 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 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 investment grade corporate debt, non-investment grade instruments, bank loans, U.S. and non-U.S. government securities, municipal securities, preferred stock and commercial paper, money market and other short-term securities. Morgan Stanley 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 for commercial, residential 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 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. Morgan Stanley trades and makes markets in fixed income futures. Through its triple-A rated subsidiary, Morgan Stanley Derivative Products Inc., Morgan Stanley enters into swaps and related derivative transactions with counterparties seeking a triple-A rated counterparty.

Morgan Stanley advises clients globally on investment and liability strategies and assists corporations in their debt repurchases. Morgan Stanley structures debt securities and derivatives with risk/return factors designed to suit client 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 provides financing to customers for commercial, residential and real estate loan products.

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 trades currency futures at the International Monetary Market division of the Chicago Mercantile Exchange.

* 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 Note 11 in “Notes to Consolidated Financial Statements” in Part II, Item 8.

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 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.

Other Activities.

Aircraft Financing Activities. Morgan Stanley engages in aircraft financing activities. Morgan Stanley also 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. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Less Liquid Assets" in Part II, Item 7.

MSCI. Morgan Stanley's majority-owned subsidiary, Morgan Stanley Capital International Inc. ("MSCI"), markets and distributes in the aggregate over 30,000 country, industry and regional equity and fixed income benchmark indices (including the MSCI World, EAFE® and Emerging Market Free Indices) covering over 50 countries, and has a 34-year historical database that includes fundamental and valuation data on thousands of equity securities in developed and emerging market countries. In July 2002, MSCI introduced a line of hedge-fund indices and currently offers over 160 such indices. Investment professionals around the world use MSCI data for many purposes, including performance measurement.

Principal Investing. Morgan Stanley invests for its own account. These investments may, among other things, be in connection with the investments made by the private equity and real estate funds for which Morgan Stanley generally acts as general partner 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. See also "Investment Management—Private Equity Fund Activities."

Research. Morgan Stanley's global research departments ("Research"), comprised of economists, strategists, and industry analysts 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 2,600 individual companies, approximately half of which are located outside of the U.S. Research provides analyses and forecasts relating to economic and monetary developments affecting matters such as interest rates, foreign currencies, securities and economic trends. Research provides analytical support and publishes reports on mortgage-related securities and the markets in which such securities are traded and does original research on valuation techniques. Research's information and data are disseminated to investors through third-party distributors, proprietary Internet sites such as Client Link, and Morgan Stanley's sales forces.

Individual Investor Group.

IIG is committed to delivering advice to its individual clients with a focus on affluent and high net worth investors. IIG's network of financial advisors and investment representatives provides its clients with financial planning and investment advisory services through a flexible platform designed to accommodate individual investment goals and risk profiles. IIG offers securities and investment products supported by Morgan Stanley's investment banking, research, investment management, execution and operational resources. IIG had \$517 billion in client assets at November 30, 2002.

Investor Advisory Services. Investor Advisory Services (“IAS”) is Morgan Stanley’s retail securities business in the U.S. IAS offers its individual clients financial advice through its network of over 12,000 financial advisors located in nearly 500 branches across the U.S., primarily through Morgan Stanley DW Inc. (“MSDWI”). IAS financial advisors work with clients to understand their financial needs and objectives through comprehensive financial planning, including education, retirement and estate planning. IAS provides a wide range of products and services to execute financial plans and position clients to attain their financial goals, including mutual funds, stocks, bonds and professional money management. In fiscal 2002, IAS launched a proprietary diagnostic tool designed to assist IAS financial advisors in understanding their clients’ investment objectives and making appropriate recommendations for individual clients’ needs.

IAS offers various account options for individual clients. For clients who prefer to pay commissions for each transaction, IAS offers a basic brokerage account. For clients who prefer fee-based pricing, IAS offers the Morgan Stanley ChoiceSM account, which charges a percentage of assets rather than a per-transaction fee. Clients have the option of consolidating their financial assets into one account with the Morgan Stanley Active Assets Account[®] (“AAA”). With AAA, clients’ uninvested cash is consolidated into various money market options or a FDIC-insured account at Morgan Stanley Bank. AAA clients can access their cash balances through checks and debit cards.

To meet the insurance and annuity needs of individual clients, IAS (through its wholly-owned insurance agency subsidiaries) acts as a national general agency for leading insurance carriers. IAS offers trust and fiduciary services to individual and corporate clients, including trustee services for personal trusts and tax-qualified retirement plans. IAS offers financial solutions to businesses through BusinesScapeSM, a program that offers qualified business clients similar services and features offered to individual clients through AAA, including enhanced check writing privileges, cash management and a commercial line of credit. IAS provides defined contribution plan services for businesses of all sizes, including 401(k) plans and stock plan administration.

IAS executes and clears its transactions (delivery of securities sold, receipt of securities purchased and transfer of related funds) through its own facilities, unaffiliated third-party service providers and memberships in various clearing corporations. Systems at computer centers operated by an unaffiliated services provider also support IAS’s operations.

Private Wealth Management. Morgan Stanley Private Wealth Management (“PWM”) provides individuals, families and foundations controlling significant pools of wealth tailored financial solutions and access to Morgan Stanley’s products and services, including its trading capabilities, analytical products and investment opportunities. Dedicated teams of PWM investment representatives draw upon Morgan Stanley’s resources and those of leading third-party providers to establish investment portfolios and global asset allocation strategies that address clients’ varied needs. PWM offers these solutions and other financial advisory services worldwide through 18 office locations throughout the Americas, Europe and Asia.

PWM also includes the activities of Morgan Stanley Quilter, a U.K.-based private client investment management business that provides segregated account management and advisory services to individuals, pension funds and trusts in the U.K., and Morgan Stanley, S.V., S.A., which provides asset management and brokerage services to individual investors in Spain and Portugal.

Investment Management.

Morgan Stanley has one of the largest global asset management organizations of any full-service securities firm, with \$420 billion of assets under management or supervision at November 30, 2002*. Morgan Stanley’s investment management activities are principally conducted under the Morgan Stanley brand. Portfolio managers located in the U.S., Europe, Japan, Singapore, and India manage investment products, ranging from money

* Revenues and expenses associated with certain assets are included in Institutional Securities and IIG.

market funds to equity, taxable and tax-exempt fixed income funds and alternative investments in developed and emerging markets. Through service companies, distribution subsidiaries and investment advisors, principally, Morgan Stanley Investment Management Limited, Morgan Stanley Investment Advisors Inc., 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, such as value, growth, core, fixed income and asset allocation; domestic and international investments; active and passive management; and diversified and concentrated portfolios.

Individual Investors. Morgan Stanley provides investment products and services to individual investors including proprietary open- and closed-end mutual funds and separately managed accounts. Morgan Stanley also provides investment products 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 offers Van Kampen-branded products through a large and diversified network of unaffiliated broker-dealers, commercial banks and thrifts, insurance companies and financial planners (“retail distributors”). This non-proprietary network, which includes over 250,000 financial advisors, has 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 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 pension plans, corporations, private funds, non-profit organizations, foundations, endowments, governmental agencies, insurance companies and banks. Products are available to institutional investors primarily through separate accounts, U.S. and non-U.S. mutual funds and other pooled vehicles. Morgan Stanley sub-advises funds for various financial institutions and intermediaries. A global proprietary sales force and a team dedicated to covering the investment consultant industry serve institutional investors. Morgan Stanley offers clients alternative investment opportunities primarily through Alternative Investment Partners, a joint venture that utilizes a fund-of-funds strategy to invest in private funds.

Private Equity Activities. Morgan Stanley’s private equity funds invest in companies in a range of industries worldwide. Morgan Stanley generally acts as general partner of its private equity funds and typically commits to invest a minority of the capital of such funds with subscribing limited partners contributing the remainder.

Credit Services.*

Based on its approximately 46.5 million general purpose credit card accounts at November 30, 2002, 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’ general purpose credit card business; its Discover Business Services, Morgan Stanley’s merchant and cash access network; and consumer finance products and services.

Credit Cards and Services. DFS offers several general purpose credit cards designed to appeal to different market segments of consumers for use through Discover Business Services, including the Discover Classic Card, the Discover Platinum Card, the Discover Gold Card, the Discover Titanium Card, the Morgan Stanley CardSM (offered in the U.K. on the MasterCard network), as well as affinity cards. DFS offers other consumer finance products and services, such as personal and home loans and credit protection products. DFS offers cardmembers certificates of deposit and money market accounts and the ability to transfer balances from other accounts or credit sources.

* See also “Risk Management” in Part II, Item 7A for a description of Morgan Stanley’s interest rate and credit risk management structure, policies and procedures.

DFS offers cardmembers numerous customer services, including many available online. Cardmembers may register their accounts 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 view detailed account information online, such as recent transactions and account payments. Cardmembers may pay their Discover Card bills online via the SmartCheckSM payment option at no cost and receive exclusive discounts and special Cashback Bonus® awards by shopping online at the Internet ShopCenterSM. 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. At November 30, 2002, DFS had over 8 million cardmembers registered on the Discover Card Account Center.

Merchants. Only merchants that are members of the Discover Business Services network accept DFS's general purpose credit cards (exclusive of the Morgan Stanley Card). Since its establishment in 1986, the Discover Business Services network has become the largest credit card network in the U.S., with over 4 million merchant and cash access locations accepting credit cards carrying the Discover logo.

DFS operates the issuing, network and acquiring businesses primarily in the U.S., provides customized programs to its merchants in such areas as processing and the exchange of business surplus online and otherwise tailors program terms to meet specific merchant needs. DFS utilizes its own national sales and support force, independent sales agents and telemarketing force to maintain and increase its merchant base.

Marketing. DFS promotes its general purpose credit cards using 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 Platinum Card cardmembers up to 1% of their purchase amounts based upon their level and type of purchases.

Operations. DFS performs the functions required to service and operate its 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.

All of Morgan Stanley's businesses are highly competitive. Morgan Stanley competes in the U.S. and globally for clients, market share and human talent in all of its business segments.

Institutional Securities and IIG. Morgan Stanley competes directly in the U.S. and globally with other securities and financial services firms. Morgan Stanley's competitive position depends on its reputation, the quality of its professionals and other personnel, its products, services and advice, capital commitments, relative pricing and innovation. Morgan Stanley's ability to sustain or improve its competitive position also depends substantially on its ability to continue to attract and retain qualified employees while managing compensation costs.

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. Corporate clients have increasingly requested that Morgan Stanley provide loans or lending commitments in connection with certain investment banking activities. This activity will continue and may grow in the future.

Besides competition from firms traditionally engaged in the financial services business, Morgan Stanley competes with commercial banks, insurance companies, sponsors of mutual funds and other companies offering financial services in the U.S., globally and through the Internet. The financial services industry has experienced consolidation and convergence, as financial institutions involved in a broad range of financial services industries have merged. Such convergence 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. 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.

Investment Management. Competition in the asset management industry is affected by several factors, including investment objectives, relative performance of investment products, 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 the funds of other asset management firms and other investment alternatives.

Credit Services. DFS competes directly with other bank-issued credit cards (the vast majority of which bear the MasterCard or Visa servicemark) and charge cards and credit cards issued by travel and entertainment companies. Competition centers on merchant acceptance of credit cards, 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 competitive and appealing credit card 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, account acquisitions and pricing competition in interest rates, annual fees, reward programs and low-priced balance transfer programs to compete effectively and grow.

Regulation.

Most aspects of Morgan Stanley's business are subject to stringent regulation by U.S. Federal and state regulatory agencies and securities exchanges and by non-U.S. government agencies or regulatory bodies and securities exchanges. New laws or regulations or changes to existing laws and regulations (including changes in interpretation or enforcement) could materially adversely affect the financial condition or results of operations of Morgan Stanley.

Institutional Securities and IIG. MS&Co. and MSDWI are registered as broker-dealers with the SEC and in all 50 states, the District of Columbia and Puerto Rico, and are members of self-regulatory organizations, including the National Association of Securities Dealers, Inc. (the "NASD") and securities exchanges, including the New York Stock Exchange, Inc. (the "NYSE"). Broker-dealers are subject to regulations covering all aspects of the securities business, including sales and trading practices, public offerings, publication of research reports, use of customers' funds and securities, capital structure, record-keeping and the conduct of directors, officers and employees. Broker-dealers are also regulated by securities administrators in those states where they do business. Violations of the regulations governing a broker-dealer's actions 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 its officers or employees, or other similar consequences.

Margin lending by certain broker-dealer subsidiaries is regulated by the Federal Reserve Board's restrictions on lending in connection with customer purchases and short sales 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 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 registered futures association, of which MS&Co. and MSDWI are members.

Morgan Stanley conducts some of its government securities activities through Morgan Stanley Market Products Inc., a NASD member registered as a government securities broker-dealer with the SEC and in certain states. The Department of 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 businesses are also regulated extensively by 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. For instance, the Financial Services Authority, the London Stock Exchange and Euronext.liffe regulate its activities in the U.K.; the Deutsche Borse AG and the Bundesanstalt für Finanzdienstleistungsaufsicht (the Federal Financial Supervisory Authority) regulate its activities in the Federal Republic of Germany; the Financial Services Agency, the Bank of Japan, 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 its activities in Japan; the Hong Kong Securities and Futures Commission, the Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited regulate its operations in Hong Kong; and the Monetary Authority of Singapore and the Singapore Exchange Securities Trading Limited regulate its business in Singapore.

As registered broker-dealers, 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 requirements restrict Morgan Stanley's ability to withdraw capital from its subsidiaries, which in turn may limit its ability to pay dividends, repay debt or redeem or purchase shares of its own outstanding stock. Any 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.

Morgan Stanley Bank, through which Morgan Stanley conducts certain financing and lending activities, is an industrial loan company chartered under the laws of the State of Utah. It has deposits insured by the Federal Deposit Insurance Corporation ("FDIC"), pays FDIC assessments and is subject to comprehensive regulation and periodic examination by the Utah Department of Financial Institutions and the FDIC. See also "Credit Services" below.

Investment Management. Certain subsidiaries, including MS&Co., MSDWI and those related to Morgan Stanley's investment management activities, are registered as investment advisers with the SEC, and, in certain states, some employees or representatives of subsidiaries are registered as investment adviser representatives. Many aspects of Morgan Stanley's investment management activities 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 management activities 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 engaging in the investment management activities 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 business in the U.K.; the Financial Services Agency regulates Morgan Stanley's business in Japan; the Securities and Exchange Board of India regulates Morgan Stanley's business in India; and the Monetary Authority of Singapore regulates Morgan Stanley's 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. 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. Certain subsidiaries of Morgan Stanley, including Morgan Stanley Trust, are also registered transfer agents subject to regulation and examination by the SEC.

Credit Services. 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 and has its deposits insured by the FDIC, pays FDIC assessments and is subject to comprehensive regulation and periodic examination by the Delaware bank 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 by the Gramm Leach Bliley Act of 1999 (the "GLBA")), Discover Bank may only engage in either commercial lending or taking demand deposits 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 may 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).

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).

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 and Morgan Stanley Bank currently use brokered deposits as a funding source and, if they were not able to do so, their funding costs could increase.

Morgan Stanley Dean Witter Bank Limited (“Morgan Stanley Bank Limited”), Morgan Stanley’s chartered bank in the U.K., is subject to regulation related to capital adequacy, consumer protection and deposit protection. Morgan Stanley Bank Limited is governed primarily by the U.K.’s Financial Services and Markets Act 2000 and its activities are supervised by the Financial Services Authority and by the Office of Fair Trading in relation to its 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 19, 2003 are set forth below. Business experience for the past five years is provided in accordance with SEC rules.

Philip J. Purcell (59). Chairman of the Board of Directors and Chief Executive Officer (since May 1997). Director or trustee of approximately 95 registered investment companies for which Morgan Stanley Investment Advisors Inc. serves as investment manager or investment adviser. Director of AMR Corporation.

Robert G. Scott (57). President and Chief Operating Officer and Director (since March 2001). Executive Vice President and Chief Financial Officer (May 1997 to March 2001).

Tarek F. Abdel-Meguid (47). Head of Investment Banking Division (since September 2000). Deputy head of Investment Banking Division (May 1997 to September 2000).

Stephen S. Crawford (38). Executive Vice President and Chief Financial Officer (since March 2001). Executive Vice President and Chief Strategic and Administrative Officer (June 2000 to March 2001). Managing Director of MS&Co. (since 1998) and Executive Director of MS&Co. (1995 to 1998).

Zoe Cruz (48). Head of Fixed Income Division (since September 2000). Head of Foreign Exchange Department (August 1993 to September 2000).

John P. Havens (46). Head of Institutional Equity Division (since September 2000). Managing Director of MS&Co. (since 1990).

Roger C. Hochschild (38). Executive Vice President and Chief Strategic and Administrative Officer (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. (65). Executive Vice President, Chief Legal Officer and Secretary (since December 1999). Partner at the law firm of Kirkland & Ellis (1971 to January 2000) and a member of its management committee (1981 to 1998).

Mitchell M. Merin (49). President and Chief Operating Officer of Investment Management (since December 1998). President and Director of Morgan Stanley Investment Advisors Inc. (since April 1997) and its Chief Executive Officer (since June 1998). President (since May 1999) and Chief Executive Officer (since September 2002) of approximately 95 registered investment companies for which Morgan Stanley Investment Advisors Inc. serves as investment manager or investment adviser. Director or trustee (since December 1999), President and Chief Executive Officer (since October 2002) of approximately 25 registered investment companies for which Van Kampen Investment Advisory Corp. and Van Kampen Asset Management Inc. (or a subsidiary thereof) serve as investment manager or investment adviser. Director of Van Kampen Investments Inc. (since February 1999).

David W. Nelms (42). President and Chief Operating Officer of DFS (since September 1998). Senior executive at MBNA America Bank (1992 to 1998) where his last position was Vice Chairman.

Stephan F. Newhouse (55). Co-President and Chief Operating Officer of Institutional Securities (since September 2000). Deputy head of Institutional Securities (December 1997 to September 2000) and Chairman of Morgan Stanley & Co. International Limited (since December 2000).

Vikram S. Pandit (46). Co-President and Chief Operating Officer of Institutional Securities (since September 2000). Head of Institutional Equity Division (May 1997 to September 2000). Director of Nasdaq Stock Market, Inc.

Joseph R. Perella (61). Chairman of Institutional Securities (since September 2000). Head of Investment Banking Division (May 1997 to September 2000).

John H. Schaefer (51). President and Chief Operating Officer of IIG (since June 2000). Executive Vice President and Chief Strategic and Administrative Officer (June 1998 to June 2000). Head of Corporate and Strategic Planning (May 1997 to June 1998).

Item 2. Properties.* Morgan Stanley owns its executive offices, located at 1585 Broadway, New York, New York, where it occupies approximately 960,000 square feet as its New York headquarters. Morgan Stanley also owns a 600,000 square foot building in Riverwoods, Illinois where it occupies approximately 600,000 square feet as DFS's executive offices and an adjacent 45 acre parcel where additional office space is under construction. In March 2002, Morgan Stanley purchased a 725,000 square foot office building on 107 acres in Westchester County, New York.

Morgan Stanley occupies approximately 2,000,000 square feet at various locations in Manhattan under leases expiring between 2003 and 2013. Morgan Stanley also leases approximately 420,000 square feet in Brooklyn, New York under a lease expiring in 2013 and approximately 450,000 square feet in Jersey City, New Jersey under leases expiring between 2005 and 2012.

Morgan Stanley's London headquarters are located at 25 Cabot Square, Canary Wharf where it occupies approximately 455,000 square feet (inclusive of common areas) and owns the ground lease obligation and freehold interest in the land and the building. Morgan Stanley also leases approximately 600,000 square feet at locations in Canary Wharf and London Docklands, under lease arrangements expiring between 2004 and 2028. Morgan Stanley is committed to leasing for 25 years, commencing in mid-2003, a building of approximately 530,000 square feet under construction at Canary Wharf.

Morgan Stanley's Tokyo headquarters are located in Sapporo's Yebisu Garden Place, Ebisu, Shibuya-ku, where it occupies approximately 280,000 square feet under a lease expiring in 2006, but renewable at Morgan Stanley's option in two-year increments.

Morgan Stanley has 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. Morgan Stanley believes the facilities it owns or occupies are 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. Penalty Bid Litigation. In August 1998, a purported class action, captioned *Friedman, et al., v. Salomon Smith Barney, et al.*, alleging violations of Section 1 of the Sherman Act and breach of fiduciary duty, was

* The indicated total aggregate square footage leased is at January 31, 2003 and does not include space occupied by Morgan Stanley securities branch offices.

initiated in the U.S. District Court for the Southern District of New York (the “SDNY”) against Morgan Stanley and 16 other underwriters of securities. 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 to discourage, penalize and/or otherwise prevent retail customers from “flipping” or selling shares purchased in public offerings. The amended complaint seeks compensatory, treble and punitive damages in unspecified amounts, injunctive relief, and costs and expenses. On December 7, 2000, defendants’ motion to dismiss was granted with prejudice. On December 20, 2002, the U.S. Circuit Court of Appeals for the Second Circuit (the “Second Circuit”) affirmed dismissal of the amended complaint. On January 3, 2003, plaintiffs filed a petition for rehearing *en banc*.

II. IPO Fee Litigation. In November and December 1998, purported class actions later consolidated into *In re Public Offering Fee Antitrust Litigation*, were initiated in the SDNY against Morgan Stanley and 24 other underwriters. The consolidated amended complaint, filed on behalf of purchasers of certain IPO shares, alleges that defendants conspired to fix the underwriters’ spread in initial public offerings (“IPOs”) of U.S. companies 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. On February 9, 2001, the court dismissed this action with prejudice and denied plaintiffs’ motion to amend the complaint to include an issuer plaintiff, but stated that any class actions brought on behalf of issuer plaintiffs were not affected by this decision. On December 13, 2002, the Second Circuit reversed the district court’s dismissal and remanded the case to the trial court.

Other purported class actions were filed by issuer plaintiffs making similar antitrust allegations with respect to the 7% underwriters’ spread and on May 23, 2001, the court consolidated these actions 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 30, 2002, the court denied defendants’ motion to dismiss the complaint. On October 15, 2002, defendants filed a motion to certify the order for interlocutory appeal.

III. IPO Allocation Matters. In March 2001, a purported class action, now captioned *In re Initial Public Offering Antitrust Litigation*, was initiated in the SDNY against Morgan Stanley and numerous other underwriters of various IPOs. The consolidated amended complaint alleges that defendants required customers who wanted allocations of “hot” IPO securities to pay undisclosed and excessive underwriters’ compensation in the form of increased brokerage commissions and to buy shares of securities offered in the IPOs after the IPOs were completed (“tie-in purchases”) at escalating price levels higher than the IPO price (a practice plaintiffs refer to as “laddering”). The complaint alleges violations of federal and/or state antitrust laws, including Section 1 of the Sherman Act. On May 24, 2002, defendants filed their joint motion to dismiss the purported class action antitrust suits.

Also beginning in March 2001, numerous purported class actions, now captioned *In re Initial Public Offering Securities Litigation*, 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. These complaints make factual allegations similar to the complaint in the antitrust action described above, 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 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. On July 1, 2002, the underwriter defendants filed their joint motion to dismiss.

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 Morgan Stanley and two other underwriters. The complaint was brought on behalf of a class of issuers that both issued IPO securities from January 1, 1998 to October 31, 2000 pursuant to underwriting agreements with defendants and saw those securities increase 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 unspecified damages for allegedly underpricing the IPOs, as well as indemnification and contribution for the costs of defending securities class action lawsuits brought by shareholders relating to issuers' IPOs. On May 28, 2002, defendants filed a notice of motion to dismiss.

On May 2, 2002, a purported derivative action, captioned *Brenner, derivatively on behalf of Ask Jeeves v. Strauch, et al.*, was filed on behalf of Ask Jeeves, Inc. in California state court, against Morgan Stanley, Robertson Stephens, Inc., and various officers and directors of Ask Jeeves. The complaint alleges that the underwriters underpriced the IPO securities of Ask Jeeves and had a kickback agreement with institutional clients that received allocations of Ask Jeeves IPO securities. The complaint alleges that defendants breached their fiduciary and agency duties to Ask Jeeves and were unjustly enriched. The complaint seeks consequential damages resulting from the alleged underpricing of the IPO. On May 21, 2002, Morgan Stanley answered the complaint in state court and then removed the case to United States District Court for the Northern District of California. On July 24, 2002, plaintiffs filed a motion to transfer the case to the SDNY for coordination with the class action securities suits captioned *In re Initial Public Offering Securities Litigation*. On October 31, 2002, the court dismissed the case with prejudice. On December 2, 2002, plaintiff filed an appeal.

During fiscal 2001, the SEC and NASD issued subpoenas to Morgan Stanley (and certain other underwriters of IPOs) in connection with their investigations of IPO allocation practices. During fiscal 2002, the SEC and NASD issued additional requests, and Morgan Stanley continues to cooperate in the investigations. Also, on October 9, 2002, the SEC (which is conducting a joint inquiry with the NYSE and the NASD) initiated an inquiry into past IPO allocations to executives of companies for which Morgan Stanley provided investment banking services.

IV. 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. All eight complaints originally filed in the SDNY were dismissed with prejudice. On January 6, 2003, a separate complaint filed in the U.S. District Court for the Western District of Washington was dismissed with leave to replead. All four complaints originally filed in New York state court were removed to federal court; three complaints were later voluntarily dismissed without prejudice and the fourth is subject to pending motions to dismiss and to remand to state court.

On May 8, 2002, another purported class action was filed against Morgan Stanley in the Supreme Court of the State of New York alleging that research was biased. The complaint makes a claim for breach of contract only. This case has been removed to the SDNY and is subject to pending motions to dismiss and remand to state court.

Beginning on August 30, 2002, purchasers of common stock of three companies filed purported class action complaints against Morgan Stanley, other financial services firms, and individual research analysts, including one Morgan Stanley analyst, in the SDNY. The actions allege that the purported classes were defrauded by defendants' failure to disclose that defendants issued positive stock recommendations to obtain investment banking business and by their concealment of conflicts of interest. They also allege violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and seek compensatory damages. On December 26, 2002, defendants moved to dismiss certain of the complaints.

Beginning on July 31, 2002, several purported class action complaints also were filed in the SDNY against Morgan Stanley, the Morgan Stanley Technology Fund (the "Technology Fund"), the Morgan Stanley Information Fund (the "Information Fund"), Morgan Stanley Investment Management, Inc. and certain other subsidiaries of Morgan Stanley, alleging securities fraud violations in connection with the underwriting and

management of the Technology Fund and the Information Fund and seeking unspecified damages for losses on investments in these funds. Plaintiffs allege that Morgan Stanley analysts issued overly optimistic stock recommendations to obtain investment banking business and that the desire to obtain investment banking business influenced investment decisions made by the fund managers.

On December 19, 2002, Morgan Stanley (and other financial services firms) reached an agreement in principle with the SEC, the New York State Attorney General's Office, the NYSE, the NASD and the North American Securities Administrators Association (on behalf of state securities regulators) to resolve their investigations relating to alleged research analyst conflicts of interest. The agreement resolved the investigations as to Morgan Stanley and the other firms but not as to individuals within the firms. Pursuant to the agreement in principle, Morgan Stanley, without admitting or denying the allegations, agreed (i) to pay \$50 million in retrospective relief and (ii) to adopt internal structural and operational practices that will further enhance the steps it already has taken to help ensure research analyst integrity and promote investor confidence. In addition, Morgan Stanley agreed to provide independent third-party research to clients and to pay \$75 million over five years to fund such research. Terms of the settlement have not been finalized and are subject to approval by the SEC and state regulatory authorities.

V. 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 making similar allegations and seeking similar relief, *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. By decisions dated May 16 and May 29, 2002, the court granted in part and denied in part defendants' motion to dismiss and by order dated August 26, 2002, granted the lead plaintiff's motion for class certification.

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 Inc., 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 and seeking relief similar to the Hicks complaint. On April 15, 2002, defendants filed a motion to dismiss the Hicks action. On November 13, 2002, the motion to dismiss was denied, but on December 20, 2002 the court dismissed the state law claims.

VI. Electricity Trading Matters. Morgan Stanley, including its subsidiaries, is involved in several proceedings arising out of its activities as a wholesale power marketer in the Western energy markets during and after the summer of 2000.

These proceedings include purported class actions filed in California state court on behalf of electricity consumers in California against several power marketers and generators, including Morgan Stanley. The complaints allege that, during the summer of 2000, defendants fixed the prices for electricity in violation of California's unfair competition statutes. The actions seek reimbursement of alleged overcharges and punitive damages. An additional class action complaint containing similar allegations was later filed in California state

court and removed to federal court, seeking to rescind various long-term power contracts entered into between the State and defendants, including Morgan Stanley.

Various complaints against Morgan Stanley and other power marketers have also been filed with the Federal Energy Regulatory Commission (the “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 set the cases for hearing and set a deadline of May 31, 2003 for a final ruling. The parties concluded evidentiary hearings with respect to all of the complaints, and on December 19, 2002, the administrative law judge handling several of the complaints, including two against Morgan Stanley, issued a decision recommending dismissal of the complaints.

On February 13, 2002, the FERC announced it would investigate possible abuses of market power or market manipulation in the trading of wholesale electricity in California and the Western United States during 2000. Morgan Stanley has responded to requests for information in connection with the investigation.

On October 1, 2002, Morgan Stanley received a subpoena from the CFTC regarding that agency’s ongoing investigation of certain trading by energy and power marketing firms. Morgan Stanley is cooperating in responding to the subpoena.

VII. *In re Turkcell Iletisim Hizmetleri, A.S. Securities Litigation.* In November 2000, a class action was filed in the SDNY against Turkcell Iletisim Hizmetleri, A.S., a Turkish telecommunications company (“Turkcell”), certain officers of Turkcell, and six underwriters of Turkcell’s July 11, 2000 IPO, including Morgan Stanley. Plaintiffs filed a consolidated and amended complaint on March 29, 2001, which purports to cover a class of purchasers of Turkcell American Depository Shares during the IPO and thereafter through September 21, 2000. The complaint alleges that the registration statement and prospectus contained materially false and misleading information concerning Turkcell’s business operations. The complaint asserts a claim under Section 11 of the Securities Act against all defendants and seeks unspecified compensatory damages, costs and attorneys’ fees. On November 1, 2001, the court granted defendants’ motion to dismiss in part and denied it in part. On August 22, 2002, the court granted plaintiffs’ motion for class certification.

VIII. *Official Committee of Unsecured Creditors of Sunbeam Corporation v. Morgan Stanley & Co. Inc., et al.* In July 2001, the Official Committee of Unsecured Creditors of Sunbeam filed an adversary proceeding on behalf of the estate of Sunbeam in the Bankruptcy Court of the SDNY against Morgan Stanley, one of its affiliates and two other financial institutions. An amended complaint was filed on September 6, 2001 alleging that Morgan Stanley acted with gross negligence and aided and abetted fraud and breach of fiduciary duty in connection with advice given to Sunbeam’s board of directors concerning Sunbeam’s acquisition of three companies in 1998 and the offering of subordinated debt to finance the acquisitions. The complaint also asserted causes of action for equitable subordination and fraudulent transfer against all the defendants and one for setoff against Morgan Stanley and its affiliate. The complaint sought compensatory and punitive damages. On September 6, 2002, Sunbeam filed the Debtor’s Second Amended Disclosure Statement and Plan of Reorganization, which called for the dismissal with prejudice of the adversary proceeding upon approval of the Plan by the court. On October 18, 2002, the court dismissed the complaint with prejudice, and on October 29, 2002, the court denied the plaintiff’s motion for an expedited appeal. The Plan was approved on November 27, 2002. Also on November 27, 2002, a member of the Creditor’s Committee moved to intervene in the appeal before the SDNY. On December 18, 2002, the Plan became effective and was consummated. On January 22, 2003, the SDNY denied the motion to intervene in the appeal.

IX. *EEOC Matter.* On September 10, 2001, the U.S. Equal Employment Opportunity Commission (“EEOC”) filed suit against Morgan Stanley in the SDNY alleging that, since 1995, Morgan Stanley has engaged in a pattern or practice of discrimination against Allison Schieffelin, a former employee, and other females who have held the positions of associate, vice president, executive director or managing director in Morgan Stanley’s Institutional Equity Division (“IED”) in pay, promotion and other terms, conditions and privileges of

employment. The complaint sought compensatory and punitive damages. The EEOC also alleges that Morgan Stanley retaliated against Schieffelin. Also on September 10, 2001, Schieffelin filed a motion to intervene in the EEOC action, along with an individual complaint alleging that she had been discriminated and retaliated against and seeking similar damages. On October 15, 2001, the court granted Schieffelin's motion to intervene. On September 5, 2002, the court permitted the EEOC to amend its complaint to expand the class to include all IED female exempt non-officers eligible to be promoted to vice president, including associates and professionals. On December 2, 2002, the court denied without prejudice Morgan Stanley's motion for partial summary judgment.

X. Other. In addition to the matters described above, in the normal course of business, Morgan Stanley has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions, and other litigation, arising in connection with its activities as a global diversified financial services institution, certain of which legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. Morgan Stanley is also involved, from time to time, in investigations and proceedings by governmental and self-regulatory agencies, certain of which may result in adverse judgments, fines or penalties. The number of these investigations and proceedings has increased in recent years with regard to many firms, including Morgan Stanley. This increase has been exacerbated by the general decline of securities prices that began in 2000 and continued through the end of fiscal 2002. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress.

In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Morgan Stanley cannot predict with certainty the eventual loss or range of loss related to such matters. Morgan Stanley is contesting liability and/or the amount of damages in each pending matter and believes, based on current knowledge and after consultation with counsel, that the outcome of each matter will not have a material adverse effect on the consolidated financial condition of Morgan Stanley, although the outcome could be material to Morgan Stanley's operating results for a particular future period, depending on, among other things, 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 141,000 holders of record at November 29, 2002; however, Morgan Stanley believes the number of beneficial owners of common stock exceeds this number.

Set forth below, for each of the last eight fiscal quarters, is the low and high sales prices per share of Morgan Stanley's common stock as reported by Bloomberg Financial Markets and the amount of any cash dividends declared per share of Morgan Stanley's common stock.

	<u>Low Sale Price</u>	<u>High Sale Price</u>	<u>Dividends</u>
Fiscal 2002:			
Fourth Quarter	\$28.80	\$46.83	\$0.23
Third Quarter	\$33.50	\$46.50	\$0.23
Second Quarter	\$43.92	\$58.27	\$0.23
First Quarter	\$45.90	\$60.02	\$0.23
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