Morgan Stanley DW Inc.

Consolidated Statement of Financial Condition

(Unaudited)

May 31, 2002

Morgan Stanley

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May 31, 2002 (Unaudited)
(In thousands of dollars)

ASSETS	
Cash and cash equivalents	$ 214,023
Cash and securities deposited with clearing organizations or segregated under federal and other regulations (securities at fair value of $1,312,970)	1,333,792
Financial instruments owned (including $29,909 pledged to counterparties):	
U.S. government & federal agency obligations	713,857
Corporate and other debt	1,107,877
Equities	119,459
Securities purchased under agreements to resell	3,259,295
Securities borrowed	322,320
Receivables:	
Customers, net of allowances	5,734,104
Brokers, dealers and clearing organizations	62,542
Office facilities, at cost, net of accumulated depreciation and amortization of $409,977	265,928
Other assets	962,578
Total assets	$ 14,095,775
LIABILITIES AND STOCKHOLDER'S EQUITY	
Short-term borrowings – Affiliates	$ 1,171,347
Financial instruments sold, not yet purchased:	
U.S. government & federal agency obligations	787,294
Corporate and other debt	177,344
Equities	11,320
Securities sold under agreements to repurchase	3,421,868
Securities loaned	1,152,011
Payables:	
Customers	2,770,853
Brokers, dealers and clearing organizations	73,426
Other liabilities and accrued expenses	1,492,907
Accrued compensation and benefits	395,007
	11,453,377
Subordinated liabilities	1,175,485
Stockholder's equity	1,466,913
Total liabilities and stockholder's equity	$ 14,095,775

See Notes to Consolidated Statement of Financial Condition.

Notes to Consolidated Statement of Financial Condition

As of May 31, 2002 (Unaudited)
(In thousands of dollars)

Note 1 – Introduction and Basis of Presentation

The consolidated statement of financial condition includes the accounts of Morgan Stanley DW Inc., a broker-dealer registered with the Securities and Exchange Commission ("SEC"), and its wholly-owned subsidiaries (the "Company"). The Company serves the investment needs of its customers by providing a wide range of investment products and advice through its sales organization located throughout the United States. The Company is a wholly-owned subsidiary of Morgan Stanley ("MS"), formerly Morgan Stanley Dean Witter & Co. The Company is also registered as a futures commission merchant with the Commodity Futures Trading Commission ("CFTC").

All material intercompany accounts and transactions have been eliminated in consolidation.

The consolidated statement of financial condition is prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions regarding inventory valuations, the potential outcome of litigation and other matters that affect the financial statement and related disclosures. Management believes that the estimates utilized in the preparation of the consolidated financial statement are prudent and reasonable. Actual results could differ materially from these estimates.

Note 2 – Summary of Significant Accounting Policies

Cash and cash equivalents consist of cash and highly liquid investments not held for resale with maturities, when purchased, of three months or less.

Financial instruments used in the Company's trading activities are recorded at fair value. The fair values of trading positions are generally based on listed market prices. If listed market prices are not available, or if liquidating 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. Purchases and sales of financial instruments are recorded on trade date.

Customers' securities transactions are recorded on a settlement date basis with related commission revenues and expenses recorded on trade date.

Office facilities consist of fixed assets, capitalized software and leasehold improvements. Fixed assets are generally depreciated utilizing accelerated methods over useful lives of two to nine years. Leasehold improvements are amortized utilizing either accelerated or straight-line methods over the lesser of the lease term or useful life.

Income taxes are provided 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.

Accounting Pronouncements

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 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 Company completed the initial transitional goodwill impairment test, which did not indicate any goodwill impairment and therefore did not have an effect on the Company's consolidated statement of financial condition.

Note 3 – Securities Financing Transactions

Reverse repurchase agreements and repurchase agreements, principally U.S. government and federal agency securities, are treated as financing transactions and are carried at the amounts at which the securities will subsequently be resold or reacquired as specified in the respective agreements; such amounts include accrued interest. Reverse repurchase 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 are also treated as financing transactions and are carried at the amounts of cash collateral advanced and received in connection with the transactions.

The Company may pledge its financial instruments owned to collateralize repurchase agreements and other securities financing. Pledged securities that can be resold or repledged by the secured party are identified as financial instruments owned pledged to counterparties on the consolidated statement of financial condition. The carrying value and classification of financial instruments owned by the Company that have been loaned or pledged to counterparties, who do not have the right to sell or repledge the collateral were as follows:

May 31, 2002

Financial instruments owned category:	
U.S. government and agency securities	$ 24,508
Corporate and other debt	2,999
Equities	2,402
Total	$ 29,909

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed 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 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, corporate and other debt, and equities. The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed transactions, customer margin loans, and certain derivative transactions. 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 the delivery to counterparties to cover short positions. At May 31, 2002, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was $12,316,513, and the fair value of the portion that has been sold or repledged was $6,851,727.

The Company manages credit exposure arising from reverse repurchase agreements, repurchase agreements, securities borrowed 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.

Note 4 – Related Party Transactions

At May 31, 2002, balances with affiliates included securities borrowed and reverse repurchase agreements of $301,489 and $10,309, respectively, and securities loaned of $1,126,908. In the normal course of its securities business, the Company enters into transactions with affiliates including securities underwriting, mutual fund distribution and research activities.

Short-term borrowings from affiliates are unsecured, bear interest at prevailing market rates and are payable on demand.

Note 5 – Subordinated Liabilities

The Company maintains a revolving note and cash subordination agreement with MS that entitles it to borrow up to $1,000,000 on or before June 30, 2002. The amount outstanding at May 31, 2002 was $1,000,000 bearing a variable interest rate of 1.96% and is due on June 30, 2003. At May 31, 2002, amounts subordinated under deferred compensation plans totaled $175,485 and mature on various dates through 2006.

Note 6 – Stockholder's Equity and Regulatory Requirements

At May 31, 2002, eleven thousand shares of one hundred dollar par value common stock were authorized and outstanding. One thousand shares of preferred stock were authorized. No shares of preferred stock have been issued.

Morgan Stanley DW Inc. is a registered broker-dealer and futures commission merchant and, accordingly, is subject to the Net Capital rules of the SEC, the CFTC and the New York Stock Exchange, Inc. ("NYSE"). Under these rules, Morgan Stanley DW Inc. is required to maintain minimum Net Capital of not less than the greater of 2% of aggregate debit items arising from customer transactions, as defined, plus excess margin collateral on securities purchased under agreements to resell or 4% of funds required to be segregated for customers' regulated commodity accounts, as defined. The NYSE may require a member firm to reduce its business if net capital is less than 4% of such aggregate debit items and may prohibit a firm from expanding its business if net capital is less than 5% of such aggregate debit items. At May 31, 2002, Morgan Stanley DW Inc.'s Net Capital was $1,275,217, which exceeded the minimum requirement by $1,151,367.

Advances to MS and its affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the Net Capital rules of the SEC.

During the year, the Company performed the computation for assets in the proprietary accounts of its introducing broker (commonly referred to as "PAIB") in accordance with the customer reserve computation set forth under SEC Rule 15c3-3 (the Customer Reserve Formula). The Company had no PAIB reserve requirement at May 31, 2002.

Note 7 – Income Taxes

The Company is included in the consolidated federal income tax return filed by MS. Federal, state and local income taxes have been provided on a separate entity basis. The Company is included in the combined state and local income tax returns with MS and certain other subsidiaries of MS.

In accordance with the terms of the Tax Allocation Agreement with MS, all current and deferred taxes are offset with all other intercompany balances with MS.

Deferred income taxes reflect the net effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are primarily attributable to various accruals, including deferred compensation.

Note 8 - Employee Benefit Plans

Pension Plans

Substantially all of the employees of the Company are covered by non-contributory defined benefit pension plans. 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. The Company's policy is to contribute at least the amounts sufficient to meet minimum funding requirements under applicable employee benefit and tax regulations. At November 30, 2001, the projected benefit obligation and the prepaid pension cost were $768,373 and $113,790 respectively.

Post retirement Benefits

The Company has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees, employees and dependents. At November 30, 2001, the Company's accrued postretirement benefit cost was $40,772.

Other Plans

Certain employees of the Company participate in several MS equity-based stock compensation plans. MS applies the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for stock options.

Employees of the Company are eligible to participate in the Company's 401(k) plan upon meeting certain eligibility requirements. The Company matches a portion of each participant's contribution based upon the Company's performance.

Note 9 – Commitments and Contingencies

Leases

The Company has non-cancelable operating leases covering office space and equipment. At May 31, 2002, the future minimum rental commitments under such leases (net of subleases, principally on office rentals) were as follows:

May 2003	$ 190,096
May 2004	165,671
May 2005	144,289
May 2006	124,849
May 2007	100,395
Thereafter	218,776
Total	$ 944,076

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.

Other Commitments and Contingencies

The Company had approximately $38,410 of letters of credit outstanding at May 31, 2002 to satisfy various collateral requirements.

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.

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 statement of financial condition.

The Company has entered into repurchase and reverse repurchase agreements that begin subsequent to May 31, 2002 with principal amounts of approximately $200,000 and $300,000, respectively.

Note 10 – Trading Activities

The Company's trading activities are generated by customer order flow and such customer activities involve the execution, settlement and financing of various customer securities and commodities transactions. The Company also takes positions in forward mortgage-backed security agreements ("TBAs") to facilitate customer trades. The gross notional amount of TBAs at May 31, 2002 totaled approximately $51,000. The year-end and average fair values of these instruments were not material.

The Company's securities brokerage activities involve certain market and credit risks. Customer securities activities are transacted on either a cash or margin basis and customer commodity transactions are generally transacted on a margin basis subject to individual exchange regulations. These transactions include the purchase and sale of securities, the writing of options and the purchase and sale of commodity futures and forward contracts. These activities may expose the Company to off-balance sheet risk from customers that may fail to satisfy their obligations, requiring the Company to purchase or sell financial instruments at prevailing market prices.

The Company's exposure to credit risk associated with these transactions is measured on an individual basis, as well as by groups that share similar attributes. The Company services a diverse group of domestic and foreign corporations, governments, and institutional and individual investors. Credit risk may be impacted by trading market volatility. The Company seeks to control risks associated with its customers' activities by requiring customers to maintain collateral in compliance with internal and regulatory guidelines. The Company monitors required margin levels and established credit limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary.

The Company's customer financing and securities settlement activities may require the Company to pledge customer securities as collateral (1) in support of various secured financing sources such as bank loans, securities loaned and repurchase agreements and (2) to satisfy margin requirements on various exchanges. In the event the counterparty is unable to meet its contractual obligation to return the customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. Additionally, the Company establishes credit limits for such activities and monitors compliance on a daily basis. At May 31, 2002, the market value of customer securities pledged under these secured financing transactions approximated the amounts due.

Note 11 – Financial Instruments Fair Value Information

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required to develop estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

Substantially all financial instruments on the Company's consolidated statement of financial condition are carried at fair value or at amounts which approximate fair value.

Assets including cash and cash equivalents, cash and securities segregated under federal and other regulations and receivables are carried at cost which approximates fair value due to their short-term maturities.

Financial instruments owned and financial instruments sold, not yet purchased are carried at fair value using market quotes obtained from various sources, including the major securities exchanges and dealers.

Customer receivables, primarily consisting of floating rate loans collateralized by margin securities, are charged interest at rates similar to other such loans made throughout the industry.

Short-term borrowings, other liabilities and subordinated liabilities are carried at cost which, when estimated using current market rates, approximate the fair value.

Note 12 – September 11 Events

On September 11, 2001, the United States experienced terrorist attacks targeted against New York City and Washington, D.C. The attacks in New York 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 recorded costs related to the terrorist attacks, which were offset by an expected insurance recovery pertaining to write-offs of leasehold improvements and destroyed technology and telecommunications equipment in the World Trade Center complex.

Note 13 – Business Disposition

In May 2002, the Company agreed to sell its self-directed online brokerage accounts to Bank of Montreal's Harris*direct*. The transaction is expected to close during the third quarter of fiscal 2002.

Securities and cash held in Morgan Stanley DW Inc. accounts are protected up to their full net equity value by a combination of coverage provided by the Securities Investor Protection Corporation ("SIPC") a non-profit organization created by an Act of Congress and additional protection purchased from a private insurer by Morgan Stanley (the "Excess Coverage"). SIPC protects up to $500,000 of each customer's securities of which up to $100,000 may be univested cash. Excess Coverage provides additional protection up to the full net equity value of each account including unlimited coverage for univested cash. SIPC and Excess Coverage apply only to securities and cash in the exclusive possession and control of Morgan Stanley DW Inc. and do not protect against losses due to market fluctuations. If you would like more information, ask your Financial Advisor for a detailed brochure.