Consolidated Statement of Financial Condition

NOVEMBER 30, 2000

DEAN WITTER REYNOLDS INC.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
November 30, 2000

(In thousands of dollars)

ASSETS	
Cash and cash equivalents	$ 226,691
Cash and securities deposited with clearing organizations or segregated under federal and other regulations (securities at fair value of $941,482)	1,281,634
Financial instruments owned:	
U.S. government and federal agency obligations	843,645
Corporate and other debt	797,000
Equities	192,115
Securities purchased under agreements to resell	2,904,300
Securities borrowed	2,047,654
Receivables:	
Customers, net of allowances	10,275,519
Brokers, dealers and clearing organizations	75,112
Office facilities, at cost, net of accumulated depreciation and amortization of $420,171	250,195
Other assets	996,214
Total assets	$ 19,890,079
LIABILITIES AND STOCKHOLDER'S EQUITY	
Short-term borrowings – Affiliates	$ 907,662
Financial instruments sold, not yet purchased:	
U.S. government and federal agency obligations	329,508
Corporate and other debt	158,583
Equities	19,185
Securities sold under agreements to repurchase	3,259,736
Securities loaned	7,565,395
Payables:	
Customers	2,828,472
Brokers, dealers and clearing organizations	405,615
Other liabilities and accrued expenses	1,314,955
Accrued compensation and benefits	536,372
	17,325,483
Subordinated liabilities	767,153
Stockholder's equity	1,797,443
Total liabilities and stockholder's equity	$ 19,890,079

See Notes to Consolidated Statement of Financial Condition.

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
For the year ended November 30, 2000

(In thousands of dollars)

Note 1 – Introduction and Basis of Presentation

The consolidated statement of financial condition includes the accounts of Dean Witter Reynolds Inc. ("DWR"), 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 wholly-owned by Morgan Stanley Dean Witter & Co. ("MSDW"). DWR is also registered as a futures commission merchant with the Commodities Futures Trading Commission ("CFTC").

On November 1, 2000, MSDW Electronic Financial Services Inc. ("EFS") a wholly-owned subsidiary of MSDW was merged into DWR. In conjunction with the merger, DWR assumed the assets and liabilities of Morgan Stanley Dean Witter Online Inc., a wholly-owned SEC registered broker-dealer subsidiary of EFS. The impact of this merger was an increase in assets and liabilities of $849,518 and $678,804, respectively. The consolidated statement of financial condition gives retroactive effect to the merger as a combination of entities under common control in a transaction accounted for in a manner similar to a pooling of interests.

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 statement of financial condition 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. Securities purchased under agreements to resell ("reverse repurchase agreements") and securities sold under agreements to repurchase ("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. The Company monitors the fair value of the underlying securities as compared to the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral. Where deemed appropriate, the Company's agreements with third parties specify its rights to request additional collateral.

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received in connection with the transactions. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral in an amount generally in excess of the market value of securities loaned.

The Company continues to report assets it has pledged as collateral in secured borrowing and other arrangements when the secured party cannot sell or repledge the assets or the Company can substitute collateral or otherwise redeem it on short notice. The Company generally does not report assets received as collateral in secured lending and other arrangements because the debtor typically has the right to redeem the collateral on short notice.

Office facilities consist of fixed assets and leasehold improvements. Fixed assets are generally depreciated utilizing accelerated methods over useful lives of five to twelve years. Leasehold improvements are amortized on a straight line basis 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 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 137 deferred the effective date of SFAS No. 133 for one year to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133." The Company adopted SFAS No. 133, as amended by SFAS No. 138, effective December 1, 2000. The adoption of SFAS No. 133 is not material to the Company's consolidated financial condition.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125." While SFAS No. 140 carries over most of the provisions of SFAS No. 125, it provides new standards for reporting financial assets transferred as collateral, and new standards for the derecognition of financial assets, in particular transactions involving the use of special purpose entities. SFAS No. 140 also prescribes additional disclosures for collateral transactions and for securitization transactions accounted for as sales. The new collateral standards and disclosure requirements are effective for fiscal years ending after December 15, 2000, while the new standards for the derecognition of financial assets are effective for transfers made after March 31, 2001. The Company is in the process of evaluating the impact of adopting SFAS No. 140.

Note 3 – Related Party Transactions

At November 30, 2000, balances with affiliates included securities borrowed of $76,940 and securities loaned and repurchase agreements of $5,735,494 and $3,964 respectively. 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 4 – Subordinated Liabilities

DWR maintains a revolving note and cash subordination agreement with MSDW which entitles it to borrow up to $1,000,000 on or before June 30, 2002. The amount outstanding at November 30, 2000 was $600,000 bearing a variable interest rate of 7.56% and is due on June 30, 2003. At November 30, 2000, amounts subordinated under deferred compensation plans totaled $167,153 and mature on various dates through 2004.

Note 5 – Stockholder's Equity and Regulatory Requirements

At November 30, 2000, 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.

The Company 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, the Company 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 November 30, 2000, the Company's Net Capital was $1,330,639, which exceeded the minimum requirement by $1,118,688. At December 31, 2000 and January 31, 2001, DWR's Net Capital was $1,384,319 and $1,389,508 respectively, which exceeded the minimum requirement by $1,196,062 and $1,210,903, respectively (unaudited).

Advances to MSDW 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 the SEC No-Action Letter. The Company had no PAIB reserve requirement at November 30, 2000.

Note 6 – Income Taxes

The Company is included in the consolidated federal income tax return filed by MSDW. 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 MSDW and certain other subsidiaries of MSDW.

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

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 7 – 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.

The weighted average discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8% and 5%, respectively. The expected long-term rate of return on plan assets was 9%.

The following table sets forth the funded status of these plans as of November 30, 2000:

	Qualified Plans	Supplemental Plans
Reconciliation of benefit obligation:		
Benefit obligation at beginning of year	$ 681,548	$ 4,122
Service cost	35,761	—
Interest cost	49,221	289
Actuarial gain	(12,179)	(45)
Benefits paid	(58,862)	(481)
Benefit obligation at end of year	695,489	3,885
Reconciliation of the fair value of plan assets:		
Fair value of plan assets at beginning of year	717,631	—
Actual return on plan assets	99,217	—
Employer contributions	38,358	481
Benefits paid	(58,862)	(481)
Fair value of plan assets at end of year	796,344	—
Funded status:		
Funded status	100,855	(3,885)
Unrecognized net (gain) or loss	(68,614)	105
Unrecognized prior service cost	20,365	569
Adjustment to recognize additional minimum liability	—	(674)
Prepaid (accrued) benefit cost	$ 52,606	$ (3,885)

Postretirement Benefits

The Company has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees, employees and dependents. At November 30, 2000, the Company's accrued postretirement benefit cost was $40,171.

Other Plans

Certain employees of the Company participate in several MSDW equity-based stock compensation plans. MSDW 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 8 - Commitments and Contingencies

Leases

The Company has non-cancelable operating leases covering office space and equipment. At November 30, 2000, the future minimum rental commitments under such leases (net of subleases, principally on office rentals) were as follows:

2001	$ 202,809
2002	181,483
2003	160,605
2004	143,148
2005	127,190
Thereafter	235,957
Total	$ 1,051,192

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.

Borrow Versus Pledge

At November 30, 2000, securities with an approximate market value of $153,937 had been pledged against borrowed securities with approximately the same market value.

Other Commitments and Contingencies

The Company had approximately $75,500 of letters of credit outstanding at November 30, 2000 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 had entered into repurchase agreements which begin subsequent to November 30, 2000 with principal amounts of approximately $250,000.

Note 9 – Trading Activities

The Company's trading activities are primarily 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 November 30, 2000 totaled approximately $26,100. 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 November 30, 2000, the market value of customer securities pledged under these secured financing transactions approximated the amounts due.

Note 10 – 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.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Dean Witter Reynolds Inc.

We have audited the accompanying consolidated statement of financial condition of Dean Witter Reynolds Inc. and subsidiaries (the "Company") as of November 30, 2000. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated statement of financial condition presents fairly, in all material respects, the financial position of Dean Witter Reynolds Inc. and subsidiaries at November 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

New York, New York
January 12, 2001

The Company filed a copy of its November 30, 2000 consolidated statement of financial condition with the Securities and Exchange Commission pursuant to Rule 17a-5 of the Securities Exchange Act of 1934. Such report is available for examination at offices of the Securities and Exchange Commission in Washington, D.C. or New York and at the Company's offices at Two World Trade Center, New York, N.Y. 10048.

Securities and cash held in customer accounts at Dean Witter Reynolds Inc. are protected up to the total net equity balance in the accounts. This coverage includes $500,000 of protection (including up to $100,000 for cash) provided by the Securities Investor Protection Corporation (SIPC), created by an Act of Congress to protect clients of SIPC member firms. The additional coverage is provided by Asset Guaranty, a subsidiary of Enhance Financial. The Asset Guaranty coverage follows the conditions and limitations of SIPC. Neither the SIPC nor the Asset Guaranty coverage applies to shares in mutual funds or money market funds, which are custodied outside DWR accounts.