MORGAN STANLEY & CO.
Incorporated

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

May 31, 2001
Unaudited

May 31, 2001
(in thousands of dollars)
(Unaudited)

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Incorporated

Consolidated Statement of Financial Condition

Assets

Cash and cash equivalents	$ 2,899,911
Cash and securities deposited with clearing organizations or segregated under federal and other regulations (securities at fair value of $35,626,962)	39,601,485
Financial instruments owned:	
U.S. government, federal agency and foreign sovereign obligations	21,172,465
Corporate and other debt	14,581,884
Equities	6,403,655
Derivative contracts	2,154,885
Securities purchased under agreements to resell	34,555,401
Receivables for securities provided as collateral	16,748,659
Securities borrowed	144,117,765
Receivables:	
Customers	2,867,586
Brokers, dealers and clearing organizations	12,144,030
Interest and dividends	913,631
Fees and other	663,474
Property, equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of $73,700	39,441
Other assets	138,768
Total assets	$299,003,040

Liabilities and Stockholder's Equity

Short-term borrowings:	
Affiliates	$ 20,189,007
Other	198,421
Financial instruments sold, not yet purchased:	
U.S. government, federal agency and foreign sovereign obligations	11,893,963
Corporate and other debt	2,272,661
Equities	3,507,237
Derivative contracts	2,152,901
Securities sold under agreements to repurchase	94,041,322
Obligation to return securities received as collateral	18,081,469
Securities loaned	60,528,763
Payables:	
Customers	68,476,200
Brokers, dealers and clearing organizations	5,231,595
Interest and dividends	1,026,518
Accrued compensation and benefits	1,640,103
Other liabilities and accrued expenses	2,034,830
	291,274,990
Subordinated liabilities	3,302,250
Stockholder's equity:	
Common stock ($25 par value, 1,000 shares authorized, issued and outstanding)	25
Paid-in capital	260,922
Retained earnings	4,164,853
Total stockholder's equity	4,425,800
Total liabilities and stockholder's equity	$299,003,040

See Notes to Consolidated Statement of Financial Condition.

Notes to Consolidated Statement of Financial Condition

Note 1 – Introduction and Basis of Presentation

The Company

The consolidated statement of financial condition includes the accounts of Morgan Stanley & Co. Incorporated ("MS&Co.") and its wholly owned subsidiaries (collectively the "Company"). MS&Co. and certain of its subsidiaries are registered with the Securities and Exchange Commission ("SEC") as broker-dealers. MS&Co. is also registered as a futures commission merchant with the Commodity Futures Trading Commission ("CFTC"). The Company is a wholly owned subsidiary of Morgan Stanley Dean Witter & Co. ("MSDW").

The Company provides a wide range of financial and securities services. Its businesses include securities underwriting, distribution and trading; merger, acquisition, restructuring, real estate, project finance and other corporate finance advisory activities; brokerage and research services; the trading of foreign exchange as well as derivatives; and securities lending. The Company's services are provided to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals.

Basis of Financial Information

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 certain trading 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.

Related Party Transactions

The Company has transactions with MSDW and its affiliates, including leasing arrangements, the performance of administrative services and the execution of securities transactions with and on behalf of affiliates. At May 31, 2001, balances with affiliates included securities borrowed, securities purchased under agreements to resell (reverse repurchase agreements), receivables from customers and receivables from brokers, dealers and clearing organizations of $35,804,190, $32,977,351, $3,053,250 and $323,441, respectively, and securities loaned, securities sold under agreements to repurchase (repurchase agreements), payables to customers and payables to brokers, dealers and clearing organizations of $37,005,322, $23,079,446, $655,562 and $3,756,627, respectively, and short-term borrowings. In addition, fees and other receivables and interest and dividends payable include $60,332 and $455,726, respectively, of related party amounts.

Note 2 - Summary of Significant Accounting Policies

New 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," which deferred the effective date of SFAS No. 133 for one year to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133". The Company adopted SFAS No. 133, as amended by SFAS No. 138, effective December 1, 2000. The adoption of SFAS No. 133 was 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, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," it provides new guidelines for reporting financial assets transferred as collateral and new guidelines for the derecognition of financial assets, in particular, transactions involving the use of special purpose entities. SFAS No. 140 also prescribes additional disclosures for collateral transactions and for securitization transactions accounted for as sales. The new guidelines for collateral transactions are effective for fiscal years ending December 15, 2000, while the new guidelines for the derecognition of financial assets are effective for transfers made after March 31, 2001. The additional disclosure requirements for collateral and securitization transactions were effective for the second quarter of fiscal 2001 and are reflected in the Notes to the consolidated statement of financial condition. The adoption of SFAS No. 140 for financial assets transferred after March 31, 2001 did not have a material impact on the Company's consolidated statement of financial condition. The Company is in the process of evaluating the impact of the collateral guidelines of SFAS No. 140 on its consolidated financial statements for the fiscal year ending November 30, 2001.

Financial Instruments Used for Trading

Financial instruments, including derivatives (futures, forwards and options), 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. Fair values for certain derivative contracts are derived from pricing models which consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions. Purchases and sales of financial instruments are recorded in the accounts on trade date. Unrealized gains and losses arising from the Company's dealings in over-the-counter ("OTC") financial instruments, including derivative contracts related to financial instruments and commodities, are presented in the accompanying consolidated statement of financial condition on a net-by-counterparty basis, when appropriate.

Securities Transactions

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

Collateral received under securities financing transactions, such as reverse repurchase agreements, is recognized, together with a corresponding obligation to return the collateral, if the collateral provider does not have the contractual right to substitute collateral or redeem collateral on short notice. Collateral transferred under securities financing transactions, such as repurchase agreements, is reclassified from financial instruments owned to securities provided as collateral if the Company does not have the contractual right to substitute collateral or redeem collateral on short notice. Additionally, as a result of the Company's adoption of SFAS No. 140, effective April 1, 2001, the Company was required to recognize securities received as collateral (as opposed to cash) in certain securities lending transactions in the consolidated statement of financial condition as of May 31, 2001 (see "New Accounting Pronouncements"). At May 31, 2001, the Company recorded obligations to return securities received as collateral of $18,081,469. The related assets received as collateral were recorded among several captions included in the Company's consolidated statement of financial condition.

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 clients' needs. The Company also engages in securities transactions for clients through margin lending. Under these transactions, the Company either receives or provides collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. The Company receives 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 cover short positions. At May 31, 2001, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was $299,713,965, and the fair value of the portion that has been sold or repledged was $286,764,115.

The Company pledges its financial instruments owned to collateralize repurchase agreements and other securities financings. The carrying value and classification of securities owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge the collateral were as follows:

	At May 31, 2001
Financial instruments owned category:	
U.S. government and agency securities	$18,528,492
Corporate and other debt	2,197,106
Corporate equities	2,300,000
Total	$23,025,598

Investment Banking

Underwriting revenues and fees for mergers and acquisitions and advisory assignments are recorded when services for the transaction are substantially completed. Transaction-related expenses are deferred and later expensed to match revenue recognition.

Property, Equipment and Leasehold Improvements

Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, while leasehold improvements are amortized on a straight-line basis over the lesser of the economic useful life of the asset or, where applicable, the remaining term of the lease.

Certain costs incurred in connection with internal-use software projects are capitalized in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use".

Income Taxes

Income tax expense is 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.

Translation of Foreign Currencies

Non-U.S. dollar denominated assets and liabilities are translated at year-end rates of exchange.

Note 3 - Short-Term Borrowings

Borrowings from affiliates are unsecured, bear interest at prevailing market rates and are payable on demand. Other short-term borrowings consist of loans which are unsecured, generally bear interest at rates based upon the federal funds rate and are payable on demand.

The Company maintains a master collateral facility that enables it to pledge certain collateral to secure loan arrangements, letters of credit and other financial accommodations. As part of this facility, the Company also maintains a secured committed credit agreement with a group of banks that are parties to the master collateral facility under which such banks are committed to provide up to $1,875,000 for up to 364 days. The credit agreement contains restrictive covenants which require, among other things, that the Company maintain specified levels of consolidated stockholder's equity and Net Capital, as defined. This facility was renewed on May 24, 2001. At May 31, 2001, no borrowings were outstanding under the agreement.

Note 4 - Subordinated Liabilities

Subordinated liabilities consist of a Cash Subordination Agreement and a Subordinated Revolving Credit Agreement with MSDW and a Subordinated Indenture ("Indenture") with Bank One Trust Company, as trustee, dated September 12, 1994, and modified as of November 28, 1995 and April 24, 1997.

The Cash Subordination Agreement is for $2,500,000, bears interest at 6.75% per annum and has a maturity date of April 30, 2007. No borrowings were payable under the Company's $5,000,000 Subordinated Revolving Credit Agreement which has a commitment termination date and maturity date of April 30, 2006 and April 30, 2007, respectively. Interest on this borrowing is payable at rates based upon the federal funds rate or the London Interbank Offered Rate.

The Indenture is comprised of the following:

Subordinated Notes	Maturity Date	Interest Rate	Amount
Series A	March 1, 2002	8.22%	$357,000
Series B	March 1, 2005	8.51%	243,000
Series D	June 1, 2003	7.03%	95,750
Series E	June 1, 2006	7.28%	81,500
Series F	June 1, 2016	7.82%	25,000
Total			$802,250

The estimated fair value of the Company's subordinated notes under the Indenture, based on rates available to the Company at May 31, 2001 for debt with similar terms and maturities, was approximately $837,525.

The Indenture contains restrictive covenants which require, among other things, that the Company maintain specified levels of Consolidated Tangible Net Worth and Net Capital, each as defined. As of May 31, 2001, the Company was in compliance with all restrictive covenants.

Note 5 - Commitments and Contingencies

Leases and Related Commitments

The Company has non-cancelable operating leases covering office space and equipment. At May 31, 2001, future minimum rental commitments under such leases were as follows:

Fiscal Year	Amount
2001	$ 65,788
2002	112,545
2003	82,227
2004	58,922
2005	52,994
Thereafter	468,782
Total	$841,258

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

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 of 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.

The Company had approximately $942,936 of letters of credit outstanding at May 31, 2001 to satisfy various collateral requirements.

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

The Company has entered into reverse repurchase and repurchase agreements which begin subsequent to May 31, 2001 with principal amounts of approximately $6,550,000 and $3,076,553, respectively.

Note 6 - Trading Activities

Trading Revenues

The Company's trading activities include providing securities brokerage, derivatives dealing, and underwriting services to clients. While trading activities are generated by client order flow, the Company also takes proprietary positions based on expectations of future market movements and conditions. The Company's trading strategies rely on the integrated management of its client-driven and proprietary transactions, along with the hedging and financing of these positions.

The Company manages its trading businesses by product groupings and therefore has established distinct trading divisions having responsibility for equity, fixed income and foreign exchange products. Because of the integrated nature of the markets for such products, each product area trades cash instruments as well as related derivative products (i.e., options, futures and forwards with respect to such underlying instruments).

The Company's trading portfolios are managed with a view toward the risk and profitability of the portfolios to the Company. The nature of the equities, fixed income and foreign exchange activities conducted by the Company, including the use of derivative products in these businesses, and the market, credit and concentration risk management policies and procedures covering these activities are discussed below.

Equities

The Company makes markets and trades in the global secondary markets for equities and convertible debt and is a dealer in exchange traded and OTC equity options and index futures. The Company's activities as a dealer primarily are client-driven, with the objective of meeting clients' needs while earning a spread between the premiums paid or received on its contracts with clients and the cost of hedging such transactions in the cash or forward market or with other derivative transactions. The Company limits its market risk related to these contracts, which stems primarily from underlying equity/index price and volatility movements, by employing a variety of hedging strategies. The Company also takes proprietary positions in the global equity markets by using derivatives, most commonly futures and options, in addition to cash positions, intending to profit from market price and volatility movements in the underlying equities or indices positioned.

The counterparties to the Company's equity transactions include commercial banks, investment banks, broker-dealers, investment funds and industrial companies.

Fixed Income

The Company is a market-maker for U.S. government securities, corporate bonds, money-market instruments, medium-term notes, high-yield securities, mortgage- and other asset-backed securities, preferred stock and tax-exempt securities. In addition, the Company is a dealer in listed options on U.S. government bonds. The Company also takes positions in futures and options

The Company also is an underwriter of and a market-maker in mortgage-backed securities and asset-backed securities. The Company also uses mortgage-backed forward agreements ("TBAs") in its role as a dealer in mortgage-backed securities and facilitates customer trades by taking positions in the TBA market. Typically, these positions are hedged by offsetting TBA contracts or underlying cash positions.

The counterparties to the Company's fixed income transactions include investment advisors, commercial banks, insurance companies, broker-dealers, investment funds and industrial companies.

Foreign Exchange

The Company is a market-maker in a number of foreign currencies. In this business, it actively trades currencies in the spot and forward markets earning a dealer spread. The Company seeks to manage its market risk by entering into offsetting positions. The Company also takes proprietary positions in currencies to profit from market price and volatility movements in the currencies positioned.

The majority of the Company's foreign exchange business relates to major foreign currencies such as yen, euro, pound sterling, Swiss francs and Canadian dollars. The balance of the business covers a broad range of other currencies.

The counterparties to the Company's foreign exchange transactions include commercial banks, investment banks, broker-dealers, investment funds and industrial companies.

Risk Management

The Company's risk management policies and related procedures are integrated with those of MSDW and its other consolidated

subsidiaries. These policies and related procedures are administered on a coordinated global basis with consideration given to each subsidiary's, including the Company's, specific capital and regulatory requirements. For the discussion which follows, the term "Company" includes MSDW and its subsidiaries.

Risk management at the Company is a multi-faceted process with independent oversight that requires constant communication, judgment and knowledge of specialized products and markets. The Company's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. In recognition of the increasingly varied and complex nature of the financial services business, the Company's risk management policies and procedures are evolutionary in nature and are subject to ongoing review and modification. Many of the Company's risk management and control practices are subject to periodic review by the Company's internal auditors as well as to interactions with various regulatory authorities.

The Management Committee, composed of the Company's most senior officers, establishes the overall risk management policies for the Company and reviews the Company's performance relative to these policies. The Management Committee has created several Risk Committees to assist it in monitoring and reviewing the Company's risk management practices. These Risk Committees, as well as other committees established to monitor specific risks, review the risk monitoring and risk management policies and procedures relating to the Company's market and credit risk profile, sales practices, legal enforceability, and operational and systems risks. The Controllers, Treasury, Law, Compliance and Firm Risk Management Departments, which are all independent of the Company's business units, assist senior management and the Risk Committees in monitoring and controlling the Company's risk profile. In addition, the Internal Audit Department, which also reports to senior management, periodically examines and evaluates the Company's operations and control environment. The Company continues to be committed to employing qualified personnel with appropriate expertise in each of its various administrative and business areas to implement effectively the Company's risk management and monitoring systems and processes.

Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other factors, such as liquidity, will result in losses for a specified position or portfolio.

The Company manages the market risk associated with its trading activities on a Company-wide basis, on a trading division level and on an individual product basis. Market risk limits have been approved for the Company and each major trading division. Additional market risk limits are assigned to trading desks and, as appropriate, products. Trading division risk managers, desk risk managers and the Firm Risk Management Department monitor market risk measures against limits and report excessions to senior management as appropriate.

The Firm Risk Management Department independently reviews the Company's trading portfolios on a regular basis from a market risk perspective utilizing Value-at-Risk and other quantitative and qualitative risk measurements and analyses. The Company's trading businesses also use, as appropriate, measures such as sensitivity to changes in rates, prices, volatilities and time decay to estimate market risk exposures. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors, for certain products is performed periodically and is reviewed by trading division risk managers, desk risk managers and the Firm Risk Management Department.

Credit Risk

The Company's exposure to credit risk arises from the possibility that a counterparty to a transaction might fail to perform under its contractual commitment, which could result in the Company incurring losses. The Company has credit guidelines which limit the Company's current and potential credit exposure to any one counterparty. Specific credit risk limits based on the credit guidelines also are in place for each type of counterparty (by rating category).

The Credit Department administers and monitors the credit risk limits among trading divisions. In addition to monitoring credit risk limits, the Company manages the credit exposure relating to its trading activities by reviewing counterparty financial soundness periodically, by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of exposure. In certain cases, the Company also may close out transactions or assign them to other counterparties to mitigate credit risk.

Concentration Risk

The Company is subject to concentration risk by holding large positions in certain types of securities or commitments to purchase securities of a single issuer, including sovereign governments and other entities, issuers located in a particular country or geographic area, public and private issuers involving developing countries or issuers engaged in a particular industry. Financial instruments owned by the Company include U.S. government and agency securities and securities issued by other sovereign governments, which, in the aggregate, represented approximately 7% of the Company's total assets at May 31, 2001. In addition, substantially all of the collateral held by the Company for reverse repurchase agreements or bonds borrowed, which together represent approximately 29% of the Company's total assets at May 31, 2001, consists of securities issued by the U.S. government, federal agencies or other sovereign government obligations. Positions taken and commitments made by the Company, including underwritings, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment grade issuers. The Company seeks to limit concentration risk through the use of the systems and procedures described in the preceding discussions of market and credit risk.

Customer Activities

The Company's customer activities involve the execution, settlement and financing of various securities and commodities transactions on behalf of customers. Customer securities activities are transacted on either a cash or margin basis. Customer commodities activities, which include the execution of customer transactions in commodity futures (including options on futures), are transacted on a margin basis.

The Company's customer activities may expose it to off-balance sheet credit risk. The Company may have to purchase or sell financial instruments at prevailing market prices in the event of the failure of a customer to settle a trade on its original terms or in the event cash and securities in customer margin accounts are not sufficient to fully cover customer losses. The Company seeks to control the risks associated with customer activities by requiring customers to maintain margin collateral in compliance with various regulations and Company policies.

Derivative Contracts

In the normal course of business, the Company enters into a variety of derivative contracts related to financial instruments. The Company uses forward and option contracts and futures in its trading activities. In addition, financial futures and forward contracts are actively traded by the Company and are used to hedge proprietary inventory. The Company also enters into delayed delivery, when-issued, and warrant and option contracts involving securities. These instruments generally represent future commitments to exchange currencies or purchase or sell other financial instruments on specific terms at specified future dates. Many of these products have maturities that do not extend beyond one year, although options and warrants on equities typically have longer maturities.

These derivative instruments involve varying degrees of off-balance sheet market risk. Future changes in interest rates, foreign currency exchange rates or the fair values of the financial instruments or indices underlying these contracts ultimately may result in cash settlements less than or exceeding fair value amounts recognized in the consolidated statement of financial condition, which, as described in Note 2, are recorded at fair value, representing the cost of replacing those instruments.

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

The credit quality of the Company's trading-related derivatives at May 31, 2001 is summarized in the table below, showing the fair value of the related assets by counterparty credit rating. The actual credit ratings are determined by external rating agencies or by equivalent ratings used by the Company's Credit Department:

(Dollars in millions)	AAA	AA (1)	A	BBB	Collateralized Non Investment Grade	Other Non Investment Grade	Totals
Fixed income securities contracts (including forward contracts and options)	$ 7	$ –	$ –	$ –	$ –	$ –	$ 7
Foreign exchange forward contracts	101	529	417	6	–	219	1,272
Equity securities contracts (including warrants and options)	629	235	5	–	6	1	876
Totals	$ 737	$ 764	$ 422	$ 6	$ 6	$220	$2,155
Percent of total	34%	36%	20%	0%	0%	10%	100%

(1) Includes approximately $235 of derivative transactions with affiliates. The Company also has obtained assets posted as collateral by affiliated investment grade counterparties amounting to $273.

Note 7 - Employee Benefit and Compensation Plans

Employee Benefit Plans

The Company sponsors three pension plans for the majority of its employees and employees of its U.S. affiliates. The Company provides certain other postretirement benefits, primarily health care and life insurance, to eligible employees. The Company also provides certain benefits to former or inactive employees prior to retirement. The following summarizes these plans:

Pension Plans

Substantially all of the employees of the Company and its U.S. affiliates are covered by a non-contributory pension plan that is qualified under Section 401(a) of the Internal Revenue Code (the "Qualified Plan"). Unfunded supplemental plans (the "Supplemental Plans") cover certain executives. These pension plans generally provide pension benefits that are based on each employee's years of credited service and on compensation levels specified in the plans. For the Qualified Plan, the Company's policy is to fund at least the amounts sufficient to meet minimum funding requirements under applicable employee benefit and tax regulations. Liabilities for benefits payable under the Supplementary Plans are accrued by the Company and are funded when paid to the beneficiaries.

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

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

	Qualified Plan	Supplemental Plans
Reconciliation of benefit obligation:		
Benefit obligation at beginning of year	$229,213	$ 114,462
Service cost	19,328	5,898
Interest cost	17,010	8,645
Actuarial gain	(17,397)	(6,618)
Benefits paid	(4,619)	(2,724)
Benefit obligation at end of year	243,535	119,663
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	267,623	–
Actual return on plan assets	33,627	–
Employer contributions	–	2,724
Benefits paid	(4,619)	(2,724)
Fair value of plan assets at end of year	296,631	–
Funded status:		
Funded status	53,095	(119,663)
Unrecognized net transition obligation	–	1,558
Unrecognized prior service cost	(557)	3,011
Unrecognized (gain) loss	(62,831)	13,540
Amount contributed	–	475
Net amount recognized	$ (10,293)	$(101,079)

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 $47,717.

Employee Compensation Plans

Employees of the Company participate in compensation plans sponsored by MSDW. The following summarizes these plans:

Equity-Based Compensation 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 and no expense has been recognized with respect to the granting of these stock options to the participating employees of the Company.

In addition, certain employees of the Company participate in the MSDW Equity Incentive Compensation Plan whereby stock units representing employees' rights to receive unrestricted common shares of MSDW are awarded annually.

Profit Sharing

The Company sponsors a qualified non-contributory profit sharing plan covering substantially all U.S. employees. Contributions are made to eligible employees at the discretion of management based upon the financial performance of the Company.

Employee Stock Ownership Plan

The Company participates in the MSDW and Subsidiaries Employee Stock Ownership Plan ("ESOP") covering substantially all employees. Contributions to the ESOP by the Company and allocation of ESOP shares to employees are made annually at the discretion of MSDW's Board of Directors.

Note 8 - Income Taxes

The Company is included in the consolidated federal income tax return filed by MSDW. Federal 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. State and local income taxes have been provided on separate entity income at the effective tax rate of the Company's combined filing group.

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 tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. The Company's net deferred tax asset is $1,007,100

at November 30, 2000 and is primarily attributable to employee benefit plan payables.

Note 9 - Regulatory Requirements

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 ("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 May 31, 2001, the Company's Net Capital was $4,617,656, which exceeded the minimum requirement by $4,021,299 and included Net Capital of $438,650 and excess Net Capital of $438,400 of MS Securities Services Inc., a broker-dealer and a guaranteed subsidiary of MS&Co.

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 fiscal year, the Company performed the computations for the assets in the proprietary accounts of its introducing brokers (commonly referred to as "PAIB") in accordance with the customer reserve computation set forth under SEC Rule 15c3-3 (the Customer Reserve Formula).

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