Item 8. Financial Statements and Supplementary Data.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial condition of Morgan Stanley Dean Witter & Co. and subsidiaries (the "Company") as of fiscal years ended November 30, 2001 and 2000, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three fiscal years in the period ended November 30, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Morgan Stanley Dean Witter & Co. and subsidiaries at fiscal years ended November 30, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended November 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

New York, New York
January 11, 2002

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Financial Condition
(dollars in millions, except share data)

	November 30, 2001	November 30, 2000
Assets		
Cash and cash equivalents	$ 26,596	$ 18,819
Cash and securities deposited with clearing organizations or segregated under federal and other regulations (including securities at fair value of $36,146 at November 30, 2001 and $41,312 at November 30, 2000)	46,326	48,637
Financial instruments owned (approximately $74 billion were pledged to various parties at November 30, 2001):		
U.S. government and agency securities	25,696	27,326
Other sovereign government obligations	22,039	20,119
Corporate and other debt	47,607	33,419
Corporate equities	23,143	16,889
Derivative contracts	32,078	27,333
Physical commodities	285	217
Securities purchased under agreements to resell	54,618	50,992
Securities provided as collateral	13,163	3,563
Securities borrowed	120,758	105,231
Receivables:		
Consumer loans (net of allowances of $847 at November 30, 2001 and $783 at November 30, 2000)	20,108	21,743
Customers, net	22,188	26,015
Brokers, dealers and clearing organizations	6,462	1,257
Fees, interest and other	5,283	5,445
Office facilities, at cost (less accumulated depreciation of $2,124 at November 30, 2001 and $1,934 at November 30, 2000)	2,579	2,685
Aircraft under operating leases (less accumulated depreciation of $479 at November 30, 2001 and $257 at November 30, 2000)	4,753	3,927
Other assets	8,946	7,662
Total assets	$482,628	$421,279

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Financial Condition—(Continued)
(dollars in millions, except share data)

	November 30, 2001	November 30, 2000
Liabilities and Shareholders' Equity		
Commercial paper and other short-term borrowings	$ 32,842	$ 27,754
Deposits	12,276	11,930
Financial instruments sold, not yet purchased:		
U.S. government and agency securities	17,203	13,578
Other sovereign government obligations	10,906	9,797
Corporate and other debt	9,125	6,772
Corporate equities	13,046	15,091
Derivative contracts	27,286	27,547
Physical commodities	2,044	1,462
Securities sold under agreements to repurchase	122,695	97,230
Obligation to return securities received as collateral	13,163	—
Securities loaned	36,776	35,211
Payables:		
Customers	93,719	94,546
Brokers, dealers and clearing organizations	4,331	3,072
Interest and dividends	2,761	2,766
Other liabilities and accrued expenses	12,795	12,731
Long-term borrowings	49,668	42,051
	460,636	401,538
Capital Units	66	70
Preferred Securities Issued by Subsidiaries	1,210	400
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	345	545
Common stock ($0.01 par value, 3,500,000,000 shares authorized, 1,211,685,904 and 1,211,685,904 shares issued, 1,093,006,744 and 1,107,270,331 shares outstanding at November 30, 2001 and November 30, 2000, respectively)	12	12
Paid-in capital	3,745	3,377
Retained earnings	23,270	20,802
Employee stock trust	3,086	3,042
Accumulated other comprehensive income (loss)	(262)	(91)
Subtotal	30,196	27,687
Note receivable related to ESOP	(31)	(44)
Common stock held in treasury, at cost ($0.01 par value, 118,679,160 and 104,415,573 shares at November 30, 2001 and November 30, 2000, respectively)	(6,935)	(6,024)
Common stock issued to employee trust	(2,514)	(2,348)
Total shareholders' equity	20,716	19,271
Total liabilities and shareholders' equity	$482,628	$421,279

See Notes to Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Income
(dollars in millions, except share and per share data)

	Fiscal Year 2001	Fiscal Year 2000	Fiscal Year 1999
Revenues:			
Investment banking	$ 3,415	$ 5,008	$ 4,523
Principal transactions:			
Trading	5,501	7,361	5,796
Investments	(316)	193	725
Commissions	3,153	3,645	2,774
Fees:			
Asset management, distribution and administration	4,078	4,286	3,377
Merchant and cardmember	1,345	1,323	1,074
Servicing	1,904	1,450	1,194
Interest and dividends	24,127	21,234	14,880
Other	520	485	244
Total revenues	43,727	44,985	34,587
Interest expense	20,779	18,176	12,515
Provision for consumer loan losses	1,052	810	526
Net revenues	21,896	25,999	21,546
Non-interest expenses:			
Compensation and benefits	9,397	10,936	8,398
Occupancy and equipment	895	772	643
Brokerage, clearing and exchange fees	664	586	538
Information processing and communications	1,622	1,486	1,250
Marketing and business development	1,258	1,560	1,221
Professional services	1,148	1,110	913
Other	1,228	1,058	855
Total non-interest expenses	16,212	17,508	13,818
Gain on sale of business	—	35	—
Income before income taxes, extraordinary item and cumulative effect of accounting change	5,684	8,526	7,728
Provision for income taxes	2,074	3,070	2,937
Income before extraordinary item and cumulative effect of accounting change	3,610	5,456	4,791
Extraordinary item	(30)	—	—
Cumulative effect of accounting change	(59)	—	—
Net income	$ 3,521	$ 5,456	$ 4,791
Preferred stock dividend requirements	$ 32	$ 36	$ 44
Earnings applicable to common shares(1)	$ 3,489	$ 5,420	$ 4,747
Earnings per common share:			
Basic before extraordinary item and cumulative effect of accounting change	$ 3.29	$ 4.95	$ 4.33
Extraordinary item	(0.03)	—	—
Cumulative effect of accounting change	(0.05)	—	—
Basic	$ 3.21	$ 4.95	$ 4.33
Diluted before extraordinary item and cumulative effect of accounting change	$ 3.19	$ 4.73	$ 4.10
Extraordinary item	(0.03)	—	—
Cumulative effect of accounting change	(0.05)	—	—
Diluted	$ 3.11	$ 4.73	$ 4.10
Average common shares outstanding:			
Basic	1,086,121,508	1,095,858,438	1,096,789,720
Diluted	1,121,764,086	1,145,011,515	1,159,500,670

(1) Amounts shown are used to calculate basic earnings per common share.

See Notes to Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Comprehensive Income
(dollars in millions)

	Fiscal Year		
	2001	**2000**	**1999**
Net income	$3,521	$5,456	$4,791
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	(59)	(64)	(15)
Cumulative effect of accounting change	(13)	—	—
Net change in cash flow hedges	(99)	—	—
Comprehensive income	$3,350	$5,392	$4,776

See Notes to Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Cash Flows
(dollars in millions)

	Fiscal Year		
	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,521	$ 5,456	$ 4,791
Adjustments to reconcile net income to net cash used for operating activities:			
Non-cash charges (credits) included in net income:			
Cumulative effect of accounting change	59	—	—
Asset impairment charge	87	—	—
Gain on sale of business	—	(35)	—
Deferred income taxes	(427)	(219)	(160)
Compensation payable in common or preferred stock	653	908	735
Depreciation and amortization	729	727	541
Provision for consumer loan losses	1,052	810	526
Changes in assets and liabilities:			
Cash and securities deposited with clearing organizations or segregated under federal and other regulations	2,311	(38,924)	839
Financial instruments owned, net of financial instruments sold, not yet purchased	(16,288)	(10,524)	(22,081)
Securities borrowed, net of securities loaned	(13,962)	(15,036)	(8,798)
Receivables and other assets	(2,519)	2,078	(10,997)
Payables and other liabilities	693	52,376	5,659
Net cash used for operating activities	(24,091)	(2,383)	(28,945)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (payments for) proceeds from:			
Office facilities and aircraft under operating leases	(1,998)	(896)	(1,669)
Purchase of Quilter Holdings Limited, net of cash acquired	(183)	—	—
Purchase of Ansett Worldwide Aviation Services, net of cash acquired	—	(199)	—
Purchase of Morgan Stanley, S.V., S.A., net of cash acquired	—	—	(223)
Net principal disbursed on consumer loans	(7,053)	(11,885)	(8,371)
Sales of consumer loans	7,638	10,294	3,333
Sale of office building	709	—	—
Net cash used for investing activities	(887)	(2,686)	(6,930)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for) short-term borrowings	5,088	(10,563)	9,994
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	21,839	12,154	21,327
Net proceeds from:			
Deposits	346	1,533	2,200
Issuance of common stock	197	338	223
Issuance of put options	5	42	9
Issuance of long-term borrowings	18,498	22,475	7,552
Issuance of Preferred Securities Issued by Subsidiaries	810	—	—
Payments for:			
Repayments of long-term borrowings	(11,201)	(9,351)	(6,618)
Redemption of cumulative preferred stock	(200)	—	—
Redemption of Capital Units	(4)	(513)	(416)
Repurchases of common stock	(1,583)	(3,628)	(2,374)
Cash dividends	(1,040)	(924)	(575)
Net cash provided by financing activities	32,755	11,563	31,322
Net increase (decrease) in cash and cash equivalents	7,777	6,494	(4,553)
Cash and cash equivalents, at beginning of period	18,819	12,325	16,878
Cash and cash equivalents, at end of period	$ 26,596	$ 18,819	$ 12,325

See Notes to Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

Consolidated Statements of Changes in Shareholders' Equity
(dollars in millions)

	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Employee Stock Trust	Accumulated Other Comprehensive Income (Loss)	Note Receivable Related to ESOP	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	Total
BALANCE AT NOVEMBER 30, 1998	$ 674	$12	$3,740	$12,080	$1,913	$ (12)	$(60)	$(2,702)	$(1,526)	$14,119
Net income	—	—	—	4,791	—	—	—	—	—	4,791
Dividends	—	—	—	(586)	—	—	—	—	—	(586)
Conversion of ESOP Preferred Stock	(4)	—	(18)	—	—	—	—	22	—	—
Issuance of common stock	—	—	(223)	—	—	—	—	446	—	223
Repurchases of common stock	—	—	—	—	—	—	—	(2,374)	—	(2,374)
Compensation payable in common stock	—	—	312	—	513	—	—	205	(252)	778
ESOP shares allocated, at cost	—	—	—	—	—	—	5	—	—	5
Issuance of common stock in connection with Morgan Stanley, S.V., S.A. acquisition	—	—	16	—	—	—	—	48	—	64
Issuance of put options	—	—	9	—	—	—	—	—	—	9
Translation adjustments	—	—	—	—	—	(15)	—	—	—	(15)
BALANCE AT NOVEMBER 30, 1999	670	12	3,836	16,285	2,426	(27)	(55)	(4,355)	(1,778)	17,014
Net income	—	—	—	5,456	—	—	—	—	—	5,456
Dividends	—	—	—	(939)	—	—	—	—	—	(939)
Conversion of ESOP Preferred Stock	(125)	—	(817)	—	—	—	—	942	—	—
Issuance of common stock	—	—	(446)	—	—	—	—	784	—	338
Issuance of put options	—	—	42	—	—	—	—	—	—	42
Exercise of put options	—	—	(4)	—	—	—	—	4	—	—
Repurchases of common stock	—	—	—	—	—	—	—	(3,628)	—	(3,628)
Compensation payable in common stock	—	—	766	—	616	—	—	229	(570)	1,041
ESOP shares allocated, at cost	—	—	—	—	—	—	11	—	—	11
Translation adjustments	—	—	—	—	—	(64)	—	—	—	(64)
BALANCE AT NOVEMBER 30, 2000	545	12	3,377	20,802	3,042	(91)	(44)	(6,024)	(2,348)	19,271
Net income	—	—	—	3,521	—	—	—	—	—	3,521
Dividends	—	—	—	(1,053)	—	—	—	—	—	(1,053)
Redemption of 7-¾% Cumulative Preferred Stock	(200)	—	—	—	—	—	—	—	—	(200)
ESOP shares allocated, at cost	—	—	—	—	—	—	13	—	—	13
Issuance of common stock	—	—	(364)	—	—	—	—	561	—	197
Issuance of put options	—	—	5	—	—	—	—	—	—	5
Exercise of put options	—	—	(12)	—	—	—	—	12	—	—
Repurchases of common stock	—	—	—	—	—	—	—	(1,583)	—	(1,583)
Compensation payable in common stock	—	—	739	—	44	—	—	99	(166)	716
Cumulative effect of accounting change and net change in cash flow hedges	—	—	—	—	—	(112)	—	—	—	(112)
Translation adjustments	—	—	—	—	—	(59)	—	—	—	(59)
BALANCE AT NOVEMBER 30, 2001	$ 345	$12	$3,745	$23,270	$3,086	$(262)	$(31)	$(6,935)	$(2,514)	$20,716

See Notes to Consolidated Financial Statements.

MORGAN STANLEY DEAN WITTER & CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Introduction and Basis of Presentation.

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

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

Basis of Financial Information. The consolidated financial statements for the 12 months ended November 30, 2001 ("fiscal 2001"), November 30, 2000 ("fiscal 2000") and November 30, 1999 ("fiscal 1999") are prepared in accordance with accounting principles generally accepted in the U.S., which requires the Company to make estimates and assumptions regarding the valuations of certain financial instruments, consumer loan loss levels, the potential outcome of litigation and other matters that affect the consolidated financial statements and related disclosures. The Company believes that the estimates utilized in the preparation of the consolidated financial statements are prudent and reasonable. Actual results could differ materially from these estimates.

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

2. Summary of Significant Accounting Policies.

Consolidated Statements of Cash Flows. For purposes of these statements, cash and cash equivalents consist of cash and highly liquid investments not held for resale with maturities, when purchased, of three months or less.

In connection with the fiscal 2001 purchase of Quilter Holdings Limited, the Company issued approximately $37 million of notes payable, including approximately $13 million of notes that are convertible into common shares of the Company.

In connection with the fiscal 2000 purchase of Ansett Worldwide Aviation Services ("Ansett Worldwide"), the Company assumed $1,380 million of long-term borrowings.

In connection with the fiscal 1999 purchase of Morgan Stanley, S.V., S.A. (formerly AB Asesores), the Company issued 1.4 million shares of common stock having a fair value on the date of acquisition of $64 million.

Consumer Loans. Consumer loans, which consist primarily of general purpose credit card, mortgage and consumer installment loans, are reported at their principal amounts outstanding less applicable allowances. Interest on consumer loans is credited to income as earned.

Interest is accrued on credit card loans until the date of charge-off, which generally occurs at the end of the month during which an account becomes 180 days past due, except in the case of bankruptcies and fraudulent transactions, which are charged off earlier. The interest portion of charged-off credit card loans is written off against interest revenue. Origination costs related to the issuance of credit cards are charged to earnings over periods not exceeding 12 months.

Allowance for Consumer Loan Losses. The allowance for consumer loan losses is a significant estimate that is regularly evaluated for adequacy and is established through a charge to the provision for consumer loan losses. The evaluations take into consideration factors such as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect a borrower's ability to pay.

The Company uses the results of these evaluations to provide an allowance for consumer loan losses. The exposure for credit losses from owned loans is influenced by the performance of the portfolio and other factors discussed above, with the Company absorbing all related losses.

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

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

Financial Instruments Used for Asset and Liability Management. The Company enters into various derivative financial instruments for non-trading purposes. These instruments include interest rate swaps, foreign currency swaps, equity swaps and foreign exchange forwards. The Company uses interest rate and currency swaps and equity derivatives to manage interest rate, currency and equity price risk arising from certain borrowings. The Company also utilizes interest rate swaps to match the repricing characteristics of consumer loans with those of the borrowings that fund these loans. Certain of these derivative financial instruments are designated and qualify as fair value hedges and cash flow hedges in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (see "New Accounting Pronouncements"). For qualifying fair value hedges, the changes in the fair value of the derivative and the gain or loss on the hedged asset or liability relating to the risk being hedged are recorded currently in earnings. These amounts are recorded in interest expense and provide offset of one another. For qualifying cash flow hedges, the changes in the fair value of the derivative are recorded in accumulated other comprehensive income, and amounts in accumulated other comprehensive income are reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Ineffectiveness relating to fair value and cash flow hedges, if any, is recorded within interest expense.

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

Office Facilities. Office facilities are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of buildings, leasehold improvements, furniture, fixtures and equipment are provided principally by the straight-line method. Property and equipment are depreciated over the estimated useful lives of the related assets, while leasehold improvements are amortized over the lesser of the economic useful life of the asset or, where applicable, the remaining term of the lease.

Aircraft Under Operating Leases. Aircraft under operating leases are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the recognition of an impairment loss for an asset held for use is required when the estimate of undiscounted future cash flows (without interest charges) expected to be generated by the asset is less than its carrying amount. Measurement of impairment loss is based on the fair value of the asset. Fair value reflects the underlying economic value of the aircraft, including engines, in normal market conditions (where supply and demand are in reasonable equilibrium) and assumes adequate time for a sale and a willing buyer and seller. Short-term fluctuations in the marketplace are disregarded, and it is assumed that there is no necessity either to dispose of a significant number of aircraft simultaneously or to dispose of aircraft quickly. The fair value of the assets is based on independent valuations of the aircraft in the fleet. SFAS No. 121 also requires that certain long-lived assets to be disposed of be reported at the lower of the carrying amount or fair value less estimated disposal costs. In the fourth quarter of fiscal 2001, the Company recognized an impairment loss pursuant to SFAS No. 121 (see Note 19).

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

Income Taxes. Income tax expense is provided for using the asset and liability method, under which deferred tax assets and liabilities are determined based upon the temporary differences between the financial statement and income tax bases of assets and liabilities, using currently enacted tax rates.

Earnings per Share. The Company calculates earnings per share ("EPS") in accordance with SFAS No. 128, "Earnings per Share." The calculations of earnings per share are based on the weighted average number of common shares and share equivalents outstanding and give effect to preferred stock dividend requirements.

"Basic EPS" reflects no dilution from common stock equivalents, and "diluted EPS" reflects dilution from common stock equivalents and other dilutive securities based on the average price per share of the Company's common stock during the period.

Cardmember Rewards. Cardmember rewards, primarily the Cashback Bonus® award, pursuant to which the Company pays Discover Classic Card, Discover Platinum Card and Morgan Stanley Card cardmembers electing this feature a percentage of their purchase amounts ranging up to 1%, are based upon a cardmember's annual level and type of purchases. The liability for cardmember rewards, included in other liabilities and accrued expenses, is accrued at the time that qualified cardmember transactions occur and is calculated on an individual cardmember basis.

In fiscal 2001, the Company adopted Emerging Issues Task Force ("EITF") Issue No. 00-22, "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." Prior to the adoption of EITF Issue No. 00-22, the Company recorded its Cashback Bonus award program as a marketing and business development expense. In accordance with EITF Issue No. 00-22, such incentives are to be considered a reduction in revenues and are recorded in merchant and cardmember fees. The Company's consolidated statements of income for all periods presented have been restated to reflect this change.

Stock-Based Compensation. SFAS No. 123, "Accounting for Stock-Based Compensation" encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company accounts for its stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under the provisions of APB No. 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of grant over the amount an employee must pay to acquire the stock.

Translation of Foreign Currencies. Assets and liabilities of operations having non-U.S. dollar functional currencies are translated at year-end rates of exchange, and income statement accounts are translated at weighted average rates of exchange for the year. In accordance with SFAS No. 52, "Foreign Currency Translation," gains or losses resulting from translating foreign currency financial statements, net of hedge gains or losses and related tax effects, are reflected in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions are included in net income.

Goodwill. Goodwill has been amortized on a straight-line basis over periods from five to 40 years, generally not exceeding 25 years. At November 30, 2001 and November 30, 2000, goodwill of approximately $1.4 billion and $1.3 billion, respectively, was included in the Company's consolidated statements of financial condition as a component of other assets (see "New Accounting Pronouncements)."

Deferred Compensation Arrangements. In accordance with EITF Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested," assets of rabbi trusts are to be consolidated with those of the employer, and the value of the employer's stock held in rabbi trusts should be classified in shareholders' equity and generally accounted for in a manner similar to treasury stock. The Company, therefore, has included its obligations under certain deferred compensation plans in employee stock trust. Shares that the Company has issued to its rabbi trusts are recorded in common stock issued to employee trust. Both employee stock trust and common stock issued to employee trust are components of shareholders' equity.

Software Costs. In accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," certain costs incurred in connection with an internal-use software project should be capitalized and amortized over the expected useful life. The Company adopted SOP 98-1 effective December 1, 1999.

Securitization Activities. The Company engages in securitization activities related to commercial and residential mortgage loans, corporate bonds and loans, credit card loans and other types of financial assets. The Company may retain interests in the securitized financial assets as one or more tranches of the securitization, an undivided seller's interest, cash collateral accounts, servicing rights, and rights to any excess cash flows remaining after payments to investors in the securitization trusts of their contractual rate of return and reimbursement of credit losses. The exposure to credit losses from securitized loans is limited to the Company's retained contingent risk, which represents the Company's retained interest in securitized loans, including any credit enhancement provided. The gain or loss on the sale of financial assets depends in part on the previous carrying amount of the assets involved in the transfer, and each subsequent transfer in revolving structures, allocated between the assets sold and the retained interests based upon their respective fair values at the date of sale. To obtain fair values, quoted market prices are used if available. However, quoted market prices are generally not available for retained interests, so the Company estimates fair value based on the present value of expected future cash flows using its best estimates of the key assumptions, including forecasted credit losses, payment rates, forward yield curves and discount rates commensurate with the risks involved. The present value of future net servicing revenues that the Company estimates it will receive over the term of the securitized loans is recognized in income as the loans are securitized. A corresponding asset also is recorded and then amortized as a charge to income over the term of the securitized loans, with actual net servicing revenues continuing to be recognized in income as they are earned. Retained interests in securitized financial assets associated with the Company's Securities business was approximately $100 million at November 30, 2001. These retained interests are included in the consolidated statements of financial condition at fair value. Any changes in the fair value of such retained interests are recognized in the consolidated statements of income. For the 12 months ended November 30, 2001, the aggregate cash proceeds from securitizations were approximately $27 billion.

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

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125." While SFAS No. 140 carries over most of the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," it provides new guidelines for reporting financial assets transferred as collateral and new guidelines for the derecognition of financial assets, in particular transactions involving the use of special purpose entities. Effective April 1, 2001, the Company was required to recognize securities received as collateral (as opposed to cash received as collateral) in certain securities lending transactions in the consolidated statements of financial condition as of November 30, 2001. SFAS No. 140 also prescribes additional disclosures for collateral transactions and for securitization transactions accounted for as sales. The new guidelines for collateral transactions were effective for fiscal years ending after December 15, 2000, while the new guidelines for the derecognition of financial assets were effective for transfers made after March 31, 2001. The additional disclosure requirements for collateral and securitization transactions were effective for the second quarter of fiscal 2001 and are reflected herein.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method no longer is permitted. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination that is completed after June 30, 2001. The Company adopted the provisions of SFAS No. 141 on July 1, 2001.

SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. Intangible assets that do not have indefinite lives will continue to be amortized over their useful lives and reviewed for impairment. The Company has early adopted the provisions of SFAS No. 142 as of the beginning of fiscal year 2002. The full impact of adoption is yet to be determined; however, annual amortization expense related to goodwill in fiscal 2001 approximated $100 million.

3. Securities Financing Transactions.

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

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

	At November 30, 2001
	(dollars in millions)
Financial instruments owned:	
U.S. government and agency securities	$ 9,310
Corporate and other debt	3,350
Corporate equities	2,850
Total	$15,510

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions to, among other things, finance the Company's inventory positions, acquire securities to cover short positions and settle other securities obligations and to accommodate customers' needs. The Company also engages in securities financing transactions for customers through margin lending. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government and agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed transactions and customer margin loans. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter into securities lending transactions or for delivery to counterparties to cover short positions. At November 30, 2001, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was $355 billion, and the fair value of the portion that has been sold or repledged was $323 billion.

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

4. Consumer Loans.

Consumer loans were as follows:

	Nov. 30, 2001	Nov. 30, 2000
	(dollars in millions)	
General purpose credit card, mortgage and consumer installment	$20,955	$22,526
Less:		
Allowance for consumer loan losses	847	783
Consumer loans, net	$20,108	$21,743

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

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions)		
Balance beginning of period	$ 783	$ 772	$ 797
Additions:			
Provision for consumer loan losses	1,052	810	526
Deductions:			
Charge-offs	1,086	907	898
Recoveries	(98)	(108)	(121)
Net charge-offs	988	799	777
Other(1)	—	—	226
Balance end of period	$ 847	$ 783	$ 772

(1) This amount primarily reflects transfers related to general purpose credit card asset securitizations.

Interest accrued on general purpose credit card loans subsequently charged off, recorded as a reduction of interest revenue, was $172 million, $127 million and $116 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

At November 30, 2001 and November 30, 2000, $5,037 million and $5,478 million, respectively, of the Company's consumer loans had minimum contractual maturities of less than one year. Because of the uncertainty regarding consumer loan repayment patterns, which historically have been higher than contractually required minimum payments, this amount may not necessarily be indicative of the Company's actual consumer loan repayments.

At November 30, 2001, the Company had commitments to extend credit for consumer loans in the amount of $304 billion. Commitments to extend credit arise from agreements with customers for unused lines of credit on certain credit cards, provided there is no violation of conditions established in the related agreement. These commitments, substantially all of which the Company can terminate at any time and which do not necessarily represent future cash requirements, are periodically reviewed based on account usage and customer creditworthiness.

The Company received net proceeds from consumer loan asset securitizations of $7,638 million, $10,294 million and $3,333 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

The estimated fair value of the Company's consumer loans approximated carrying value at November 30, 2001 and November 30, 2000. The Company's domestic consumer loan portfolio, including securitized loans, is geographically diverse, with a distribution approximating that of the population of the U.S.

The Company's retained interests in credit card asset securitizations include an undivided seller's interest, cash collateral accounts, servicing rights and rights to any excess cash flows ("Residual Interests") remaining after payments to investors in the securitization trust of their contractual rate of return and reimbursement of credit losses. The Company receives annual servicing fees of 2% of the investor principal balance outstanding. At November 30, 2001, the Company had $7.9 billion of retained interests, including $5.6 billion of undivided seller's interest, in credit card asset securitizations. The Company's undivided seller's interest ranks *pari passu* with investors' interests in the securitization trust, and the remaining retained interests are subordinate to investors' interests. The retained interests are subject to credit, payment and interest rate risks on the transferred credit card assets. The investors and the securitization trust have no recourse to the Company's other assets for failure of cardmembers to pay when due.

For fiscal 2001, the Company completed credit card asset securitizations of $7.3 billion and recognized net securitization gains of $70 million as servicing fees in the Company's consolidated statements of income. The uncollected balances of general purpose credit card loans sold through asset securitizations were $29,247 million and $25,257 million at November 30, 2001 and November 30, 2000, respectively.

Key economic assumptions used in measuring the Residual Interests at the date of securitization resulting from credit card asset securitizations completed during fiscal 2001 were as follows:

Weighted average life (in months)	6.1–6.4
Payment rate (rate per month)	16.88%–16.93%
Credit losses (rate per annum)	5.23%–6.95%
Discount rate (rate per annum)	16.50%–17.50%

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

	At Nov. 30, 2001
Residual Interests (carrying amount/fair value)	$ 213
Weighted average life (in months)	6.1
Payment rate (rate per month)	16.88%
Impact on fair value of 10% adverse change	$ (15)
Impact on fair value of 20% adverse change	$ (27)
Credit losses (rate per annum)	6.95%
Impact on fair value of 10% adverse change	$ (71)
Impact on fair value of 20% adverse change	$ (141)
Discount rate (rate per annum)	16.50%
Impact on fair value of 10% adverse change	$ (3)
Impact on fair value of 20% adverse change	$ (6)

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

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

	Fiscal 2001
Proceeds from new credit card asset securitizations	$ 7.3
Proceeds from collections reinvested in previous credit card asset securitizations	$50.7
Contractual servicing fees received	$ 0.6
Cash flows received from retained interests	$ 1.6

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

	At Nov. 30, 2001		Fiscal 2001	
	Loans Outstanding	Loans Delinquent	Average Loans	Net Credit Losses
Managed general purpose credit card loans	$49.3	$3.4	$49.4	$2.6
Less: Securitized general purpose credit card loans	29.2			
Owned general purpose credit card loans	$20.1			

5. Deposits.

Deposits were as follows:

	Nov. 30, 2001	Nov. 30, 2000
	(dollars in millions)	
Demand, passbook and money market accounts	$ 1,741	$ 1,589
Consumer certificate accounts	1,578	1,649
$100,000 minimum certificate accounts	8,957	8,692
Total	$12,276	$11,930

The weighted average interest rates of interest bearing deposits outstanding during fiscal 2001 and fiscal 2000 were 6.2% and 6.4%, respectively.

At November 30, 2001, certificate accounts maturing over the next five years were as follows:

Fiscal Year	(dollars in millions)
2002	$ 3,346
2003	1,833
2004	2,080
2005	2,046
2006	1,287

The estimated fair value of the Company's deposits, using current rates for deposits with similar maturities, approximated carrying value at November 30, 2001 and November 30, 2000.

6. Short-Term Borrowings.

At November 30, 2001 and November 30, 2000, commercial paper of $25,158 million and $18,352 million, with weighted average interest rates of 2.4% and 6.0%, respectively, was outstanding.

At November 30, 2001 and November 30, 2000, other short-term borrowings of $7,684 million and $9,402 million, respectively, were outstanding. These borrowings included bank loans, Federal Funds and bank notes.

The Company maintains a senior revolving credit agreement with a group of banks to support general liquidity needs, including the issuance of commercial paper (the "MSDW Facility"). Under the terms of the MSDW Facility, the banks are committed to provide up to $5.5 billion. The MSDW Facility contains restrictive covenants which require, among other things, that the Company maintain specified levels of shareholders' equity. At November 30, 2001, the Company maintained an $8.2 billion surplus shareholders' equity as compared with the MSDW Facility's restrictive covenant requirement. The Company believes that the covenant restrictions will not impair its ability to obtain funding under the MSDW Facility nor impair its ability to pay its current level of dividends. At November 30, 2001, no borrowings were outstanding under the MSDW Facility.

The Company maintains a master collateral facility that enables MS&Co. to pledge certain collateral to secure loan arrangements, letters of credit and other financial accommodations (the "MS&Co. Facility"). As part of the MS&Co. Facility, MS&Co. also maintains a secured committed credit agreement with a group of banks that are parties to the master collateral facility under which such banks are committed to provide up to $1.875 billion. The credit agreement contains restrictive covenants which require, among other things, that MS&Co. maintain specified levels of consolidated stockholder's equity and Net Capital, each as defined in the MS&Co. Facility. At

November 30, 2001, MS&Co. maintained a $2.3 billion surplus consolidated stockholder's equity and a $3.0 billion surplus Net Capital. The Company believes that the restrictive covenants will not impair its ability to secure loan arrangements, letters of credit and other financial accommodations under the MS&Co. Facility. At November 30, 2001, no borrowings were outstanding under the MS&Co. Facility.

The Company also maintains a revolving credit facility that enables MSIL to obtain committed funding from a syndicate of banks (the "MSIL Facility") by providing a broad range of collateral under repurchase agreements for a secured repo facility and a Company guarantee for an unsecured facility. The syndicate of banks is committed to provide up to an aggregate of $1.95 billion, available in six major currencies. The facility agreement contains restrictive covenants which require, among other things, that MSIL maintain specified levels of Shareholder's Equity and Financial Resources, each as defined in the MSIL Facility. At November 30, 2001, MSIL maintained a $1.4 billion surplus Shareholder's Equity and a $1.0 billion surplus Financial Resources. The MSDW Facility's restrictive covenants described above apply to the Company as guarantor. The Company believes that the restrictive covenants will not impair its ability to obtain funding under the MSIL Facility. At November 30, 2001, no borrowings were outstanding under the MSIL Facility.

MSJL, the Company's Tokyo-based broker-dealer subsidiary, maintains a committed revolving credit facility, guaranteed by the Company, that provides funding to support general liquidity needs, including support of MSJL's unsecured borrowings (the "MSJL Facility"). The MSDW Facility's restrictive covenants described above apply to the Company as guarantor. Under the terms of the MSJL Facility, a syndicate of banks is committed to provide up to 70 billion Japanese yen. The Company believes that the restrictive covenants will not impair its ability to obtain funding under the MSJL Facility. At November 30, 2001, no borrowings were outstanding under the MSJL Facility.

The Company anticipates that it will utilize the MSDW Facility, the MS&Co. Facility, the MSIL Facility or the MSJL Facility for short-term funding from time to time.

7. Long-Term Borrowings.

Maturities and Terms. Long-term borrowings at fiscal year-end consisted of the following:

	U.S. Dollar			Non-U.S. Dollar(1)			At November 30,	
	Fixed Rate	Floating Rate(2)	Index/Equity Linked	Fixed Rate	Floating Rate(2)	Index/Equity Linked	2001 Total(3)	2000 Total
	(dollars in millions)							
Due in fiscal 2001	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$12,155
Due in fiscal 2002	1,359	6,203	817	418	1,148	82	10,027	6,277
Due in fiscal 2003	4,135	4,124	604	930	641	136	10,570	8,527
Due in fiscal 2004	2,482	2,907	184	666	1,029	4	7,272	3,071
Due in fiscal 2005	3,263	158	123	2,269	127	13	5,953	4,639
Due in fiscal 2006	4,057	385	18	2,202	72	57	6,791	616
Thereafter	7,343	97	70	633	745	167	9,055	6,766
Total	$22,639	$13,874	$1,816	$7,118	$3,762	$459	$49,668	$42,051
Weighted average coupon at fiscal year-end	6.8%	2.6%	n/a	4.6%	3.3%	n/a	4.9%	6.5%

(1) Weighted average coupon was calculated utilizing non-U.S. dollar interest rates.

(2) U.S. dollar contractual floating rate borrowings bear interest based on a variety of money market indices, including London Interbank Offered Rates ("LIBOR") and Federal Funds rates. Non-U.S. dollar contractual floating rate borrowings bear interest based on euro floating rates.

(3) Amounts include an increase of approximately $850 million to the carrying amount of certain of the Company's long-term borrowings associated with fair value hedges under SFAS No. 133.

Medium-Term Notes. Included in the table above are medium-term notes of $18,390 million and $20,163 million at November 30, 2001 and November 30, 2000, respectively. The weighted average interest rate on all medium-term notes was 3.3% in fiscal 2001 and 6.3% in fiscal 2000. Maturities of these notes range from fiscal 2002 through fiscal 2029.

Structured Borrowings. U.S. dollar index/equity linked borrowings include various structured instruments whose payments and redemption values are linked to the performance of a specific index (e.g., Standard & Poor's 500), a basket of stocks or a specific equity security. To minimize the exposure resulting from movements in the underlying equity position or index, the Company has entered into various equity swap contracts and purchased options that effectively convert the borrowing costs into floating rates based upon LIBOR. These instruments are included in the preceding table at their redemption values based on the performance of the underlying indices, baskets of stocks or specific equity securities at November 30, 2001 and November 30, 2000.

Other Borrowings. Included in the Company's long-term borrowings are subordinated notes (including the notes issued by MS&Co. discussed below) of $666 million and $1,332 million at November 30, 2001 and November 30, 2000, respectively. The weighted average interest rate on these subordinated notes was 7.4% in both fiscal 2001 and fiscal 2000. Maturities of the subordinated notes range from fiscal 2002 to fiscal 2016.

Certain of the Company's long-term borrowings are redeemable prior to maturity at the option of the holder. These notes contain certain provisions which effectively enable noteholders to put the notes back to the Company and, therefore, are scheduled in the foregoing table to mature in fiscal 2002 through fiscal 2009. The stated maturities of these notes, which aggregate $4,292 million, are from fiscal 2002 to fiscal 2031.

At November 30, 2001, MS&Co., a U.S. broker-dealer subsidiary of the Company, had outstanding $243 million of 8.51% fixed rate subordinated Series B notes, $96 million of 7.03% fixed rate subordinated Series D notes, $82 million of 7.28% fixed rate subordinated Series E notes and $25 million of 7.82% fixed rate subordinated Series F notes. These notes had maturities from fiscal 2003 to fiscal 2016. The terms of such notes contain restrictive covenants which require, among other things, that MS&Co. maintain specified levels of Consolidated Tangible Net Worth and Net Capital, each as defined. During fiscal 2001, MS&Co. redeemed all $357 million of its 8.22% fixed rate subordinated Series A notes and all $313 million of its 6.81% fixed rate subordinated Series C notes prior to their scheduled maturity.

Extinguishment of Long-Term Borrowings. During the third quarter of fiscal 2001, the Company recorded an extraordinary loss of $30 million, net of income taxes, resulting from the early extinguishment of certain long-term borrowings associated with the Company's aircraft financing activities.

Asset and Liability Management. A portion of the Company's fixed rate long-term borrowings is used to fund highly liquid marketable securities and short-term receivables arising from securities transactions. The Company uses interest rate swaps to more closely match the duration of these borrowings to the duration of the assets being funded and to manage interest rate risk. These swaps effectively convert certain of the Company's fixed rate borrowings into floating rate obligations. In addition, for non-U.S. dollar currency borrowings that are not used to fund assets in the same currency, the Company has entered into currency swaps that effectively convert the borrowings into U.S. dollar obligations. The Company's use of swaps for asset and liability management affected its effective average borrowing rate as follows:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Weighted average coupon of long-term borrowings at fiscal year-end(1)	4.9%	6.5%	5.9%
Effective average borrowing rate for long-term borrowings after swaps at fiscal year-end(1)	3.0%	6.7%	5.8%

(1) Included in the weighted average and effective average calculations are non-U.S. dollar interest rates.

The effective weighted average interest rate on the Company's index/equity linked notes, which is not included in the table above, was 2.3% and 6.8% in fiscal 2001 and fiscal 2000, respectively, after giving effect to the related hedges.

The estimated fair value of the Company's long-term borrowings approximated carrying value based on rates available to the Company at year-end for borrowings with similar terms and maturities.

Cash paid for interest for the Company's borrowings and deposits approximated interest expense in fiscal 2001, fiscal 2000 and fiscal 1999.

8. Commitments and Contingencies.

The Company has non-cancelable operating leases covering office space and equipment. At November 30, 2001, future minimum rental commitments under such leases (net of subleases, principally on office rentals) were as follows:

Fiscal Year	(dollars in millions)
2002	$ 457
2003	392
2004	348
2005	338
2006	309
Thereafter	2,594

Occupancy lease agreements, in addition to base rentals, generally provide for rent and operating expense escalations resulting from increased assessments for real estate taxes and other charges. Total rent expense, net of sublease rental income, was $423 million, $416 million and $296 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

The Company has an agreement with IBM Corporation, expiring in June 2005, under which the Company receives information processing, data networking and related services. Under the terms of the agreement, the Company has an aggregate minimum annual calendar year commitment of $120 million through 2004 and a $60 million calendar year commitment in 2005, subject to annual cost-of-living adjustments.

In fiscal 2001, the Company sold a 1 million-square-foot office tower in New York City that has been under construction since 1999. Under the terms of the sale agreement, the Company is obligated to complete the construction of the building, which is expected to occur in mid-2002.

At November 30, 2001 and November 30, 2000, the Company had approximately $4.5 billion and $6.1 billion, respectively, of letters of credit outstanding to satisfy various collateral requirements.

The Company has commitments to fund certain fixed assets and other less liquid investments, including at November 30, 2001 approximately $800 million in connection with its private equity and other principal investment activities. Additionally, the Company has provided and will continue to provide financing, including margin lending and other extensions of credit to clients (including subordinated loans on an interim basis to companies associated with its investment banking and its private equity and other principal investment activities), that may subject the Company to increased credit and liquidity risks.

In connection with its aircraft financing business, the Company has entered into agreements to purchase aircraft and related equipment. As of November 30, 2001, the aggregate amount of such purchase commitments was

$564 million. Approximately 80% of the aircraft to be acquired under these purchase obligations are subject to contractual lease arrangements.

At November 30, 2001, the Company had contracted to receive the following minimum rentals under operating leases in connection with its aircraft financing activities:

Fiscal Year	(dollars in millions)
2002	$ 505
2003	444
2004	348
2005	255
2006	174
Thereafter	1,012

In connection with certain of its business activities, the Company provides, on a selective basis, through certain of its subsidiaries (including Morgan Stanley Bank) financing or financing commitments to companies in the form of senior and subordinated debt, including bridge financing. The borrowers may be rated investment grade or non-investment grade. These loans and funding commitments typically are secured against the borrower's assets (in the case of senior loans), have varying maturity dates and are generally contingent upon certain representations, warranties and contractual conditions applicable to the borrower. As part of these activities, the Company may syndicate and trade certain of these loans. At November 30, 2001, the Company provided commitments associated with these activities to investment grade issuers aggregating $6.3 billion and commitments to non-investment grade issuers aggregating $0.8 billion. Since these commitments may expire unused, the total commitment amount does not necessarily reflect the actual future cash funding requirements.

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

In the normal course of business, the Company has been named as a defendant in various lawsuits and has been involved in certain investigations and proceedings. Some of these matters involve claims for substantial amounts. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management, after consultation with counsel, that the resolution of such matters will not have a material adverse effect on the consolidated financial condition of the Company but may be material to the Company's operating results for any particular period, depending, upon other things, on the level of the Company's income for such period.

9. Earnings per Share.

Earnings per share were calculated as follows (in millions, except for per share data):

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Basic EPS			
Income before extraordinary item and cumulative effect of accounting change	$3,610	$5,456	$4,791
Extraordinary item	(30)	—	—
Cumulative effect of accounting change	(59)	—	—
Preferred stock dividend requirements	(32)	(36)	(44)
Net income applicable to common shareholders	$3,489	$5,420	$4,747
Weighted average common shares outstanding	1,086	1,096	1,097
Basic EPS before extraordinary item and cumulative effect of accounting change	$ 3.29	$ 4.95	$ 4.33
Extraordinary item	(0.03)	—	—
Cumulative effect of accounting change	(0.05)	—	—
Basic EPS	$ 3.21	$ 4.95	$ 4.33

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Diluted EPS			
Income before extraordinary item and cumulative effect of accounting change	$3,610	$5,456	$4,791
Extraordinary item	(30)	—	—
Cumulative effect of accounting change	(59)	—	—
Preferred stock dividend requirements	(32)	(36)	(36)
Net income applicable to common shareholders	$3,489	$5,420	$4,755
Weighted average common shares outstanding	1,086	1,096	1,097
Effect of dilutive securities:			
Stock options	35	47	39
Convertible debt	1	—	—
ESOP convertible preferred stock	—	2	24
Weighted average common shares outstanding and common stock equivalents	1,122	1,145	1,160
Diluted EPS before extraordinary item and cumulative effect of accounting change	$ 3.19	$ 4.73	$ 4.10
Extraordinary item	(0.03)	—	—
Cumulative effect of accounting change	(0.05)	—	—
Diluted EPS	$ 3.11	$ 4.73	$ 4.10

10. Trading Activities.

Trading Revenues. The Company's trading activities are conducted through the integrated management of its client-driven and proprietary transactions, along with the hedging and financing of these positions. While trading activities are generated by client order flow, the Company also takes proprietary positions based on expectations of future market movements and conditions.

The Company manages its trading businesses by product groupings and, therefore, has established distinct, worldwide trading divisions having responsibility for equity, fixed income, foreign exchange and commodities products. Because of the integrated nature of the markets for such products, each product area trades cash instruments as well as related derivative products (e.g., options, swaps, futures, forwards and other contracts with respect to such underlying instruments or commodities). Principal transaction trading revenues are summarized below by trading division:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions)		
Equities	$3,110	$4,705	$3,065
Fixed income	1,319	1,728	1,903
Foreign exchange	373	349	397
Commodities	699	579	431
Total principal transaction trading revenues	$5,501	$7,361	$5,796

Interest and dividend revenue and interest expense and commissions are integral components of trading activities. In assessing the profitability of trading activities, the Company views net interest, commissions and principal trading revenues in the aggregate.

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

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

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

Fixed Income. The Company trades and makes markets in domestic and international fixed income securities and related products, including preferred stock, investment grade corporate debt, high-yield securities, senior loans, U.S. and non-U.S. government securities, municipal securities, and commercial paper, money market and other short-term securities. The Company also makes markets in, and acts as principal with respect to, mortgage-related and other asset-backed securities and real estate loan products and provides financing to customers for commercial, residential and real estate loan products.

The Company is a dealer in interest rate and currency swaps and other related derivative products, credit derivatives (including credit default swaps), OTC options on U.S. and non-U.S. government bonds, and mortgage-backed forward agreements, options and swaps. The Company also acts as principal in aircraft finance transactions, under which the Company acquires aircraft outright or under leases.

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

Foreign Exchange. The Company is a market-maker in a number of foreign currencies. It actively trades currencies with its customers on a principal basis in the spot, forward and currency option markets earning a dealer spread. In connection with its market-making activities, the Company seeks to manage its market risk by entering into offsetting positions. The Company also takes proprietary positions in currencies to profit from market price and volatility movements in the currencies positioned.

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

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

Commodities. The Company, as a major participant in the world commodities markets, trades in physical precious, base and platinum group metals, electricity, energy products (principally crude oil, refined oil products and natural gas) as well as a variety of derivatives related to these commodities such as futures, forwards, and exchange traded and OTC options and swaps. Through these activities, the Company provides clients with a ready market to satisfy end users' current raw material needs and facilitates their ability to hedge price fluctuations related to future inventory needs.

To facilitate hedging for its clients, the Company often is required to take positions in the commodity markets in the form of forward, option and swap contracts involving oil, natural gas, precious and base metals, and electricity. The Company also maintains proprietary trading positions in commodity derivatives, including futures, forwards and options in addition to physical commodities, to profit from price and volatility movements in the underlying commodities markets.

The counterparties to the Company's OTC commodity business include precious metals producers, refiners and consumers as well as shippers, central banks, and oil, gas and electricity producers.

The following discussions of risk management, market risk, credit risk, concentration risk and customer activities relate to the Company's trading activities.

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

The Management Committee, composed of the Company's most senior officers, establishes the overall risk management policies for the Company and reviews the Company's performance relative to these policies. The

Management Committee has created several Risk Committees to assist it in monitoring and reviewing the Company's risk management practices. These Risk Committees, as well as other committees established to manage and monitor specific risks, review the risk monitoring and risk management policies and procedures relating to the Company's market and credit risk profile, sales practices, legal enforceability, and operational and systems risks. The Market Risk, Credit Risk, Controllers, Treasury, and Law and Compliance Departments, which are all independent of the Company's business units, assist senior management and the Risk Committees in monitoring and controlling the Company's risk profile. The Market Risk and Credit Risk Departments have operational responsibility for measuring and monitoring aggregate market risk and credit risk, respectively, with respect to the Company's institutional trading activities and are responsible for risk policy development, risk analysis and risk reporting to senior management and the Risk Committees. In addition, the Internal Audit Department, which also reports to senior management, periodically examines and evaluates the Company's operations and control environment. The Company is committed to employing qualified personnel with appropriate expertise in each of its various administrative and business areas to implement effectively the Company's risk management and monitoring systems and processes.

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

The Company manages the market risk associated with its trading activities on a Company-wide basis, on a worldwide trading division level and on an individual product basis. Aggregate market risk limits have been approved for the Company and for each major trading division of the Company worldwide. Additional market risk limits are assigned to trading desks and, as appropriate, products and regions. Trading division risk managers, desk risk managers, traders and the Market Risk Department monitor market risk measures against limits in accordance with policies set by senior management.

The Market Risk Department independently reviews the Company's trading portfolios on a regular basis from a market risk perspective utilizing Value-at-Risk and other quantitative and qualitative risk measures and analyses. The Company's trading businesses and the Market Risk Department also use, as appropriate, measures such as sensitivity to changes in interest rates, prices, implied volatilities and time decay to monitor and report market risk exposures. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors for certain products, is performed periodically and is reviewed by trading division risk managers, desk risk managers and the Market Risk Department. Reports summarizing material risk exposures are produced by the Market Risk Department and are disseminated to senior management.

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

The Credit Risk Department administers limits, monitors credit exposure and periodically reviews the financial soundness of customers and counterparties on a worldwide basis. The Company manages the credit exposure relating to its trading activities in various ways, including entering into master netting agreements, collateral arrangements, and limiting the duration of exposure. Risk is mitigated in certain cases by closing out transactions, entering into risk-reducing transactions, assigning transactions to other parties, or purchasing credit protection.

Concentration Risk. The Company is subject to concentration risk by holding large positions in certain types of securities or commitments to purchase securities of a single issuer, including sovereign governments and other entities, issuers located in a particular country or geographic area, public and private issuers involving developing countries or issuers engaged in a particular industry. Financial instruments owned by the Company include U.S. government and agency securities and securities issued by other sovereign governments (principally Germany, Japan, Italy and the United Kingdom), which, in the aggregate, represented approximately 10% of the Company's total assets at November 30, 2001. In addition, substantially all of the collateral held by the Company for resale agreements or bonds borrowed, which together represented approximately 23% of the Company's total assets at November 30, 2001, consist of securities issued by the U.S. government, federal agencies or other sovereign government obligations. Positions taken and commitments made by the Company, including positions taken and underwriting and financing commitments made in connection with its private equity and principal investment activities, often involve substantial amounts and significant exposure to individual issuers and businesses, including non-investment grade issuers. The Company seeks to limit concentration risk through the use of the systems and procedures described in the preceding discussions of risk management, market risk and credit risk.

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

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

Fair Value of Derivatives. The fair value (carrying amount) of derivative instruments represents the cost of replacing these instruments and is further described in Note 2. Future changes in interest rates, foreign currency exchange rates or the fair values of the financial instruments, commodities or indices underlying these contracts ultimately may result in cash settlements exceeding fair value amounts recognized in the consolidated statements of financial condition. The amounts in the following table represent unrealized gains on purchased exchange-traded and OTC options and other contracts (including interest rate, foreign exchange, and other forward contracts and swaps), net of any unrealized losses owed to the counterparties on offsetting positions in situations where netting is appropriate. These amounts are not reported net of collateral, which the Company obtains with respect to certain of these transactions to reduce its exposure to credit losses.

Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk at any point in time is represented by the fair value of the contracts reported as assets. The Company monitors the creditworthiness of counterparties to these transactions on an ongoing basis and requests additional collateral when deemed necessary. The Company believes the ultimate settlement of the transactions outstanding at November 30, 2001 will not have a material effect on the Company's financial condition.

The credit quality of the Company's trading-related derivatives (both listed and over-the-counter) at November 30, 2001 and November 30, 2000 is summarized in the table below, showing the fair value of the related assets by counterparty credit rating. The actual credit ratings are determined by external rating agencies or by equivalent ratings used by the Company's Credit Risk Department:

	AAA	AA	A	BBB	Collateralized Non-Investment Grade	Other Non-Investment Grade	Total
				(dollars in millions)			
At November 30, 2001							
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$4,465	$5,910	$6,144	$1,482	$488	$ 631	$19,120
Foreign exchange forward contracts and options	76	1,051	1,090	212	—	269	2,698
Equity securities contracts (including equity swaps, warrants and options)	1,879	1,392	662	40	85	283	4,341
Commodity forwards, options and swaps	367	941	1,690	1,195	173	1,553	5,919
Total	$6,787	$9,294	$9,586	$2,929	$746	$2,736	$32,078
Percent of total	21%	29%	30%	9%	2%	9%	100%

	AAA	AA	A	BBB	Collateralized Non-Investment Grade	Other Non-Investment Grade	Total
				(dollars in millions)			
At November 30, 2000							
Interest rate and currency swaps and options (including caps, floors and swap options) and other fixed income securities contracts	$1,692	$4,012	$3,374	$1,128	$150	$ 399	$10,755
Foreign exchange forward contracts and options	112	909	1,144	111	—	195	2,471
Equity securities contracts (including equity swaps, warrants and options)	1,774	3,122	1,724	169	76	320	7,185
Commodity forwards, options and swaps	222	1,450	2,139	1,485	337	1,289	6,922
Total	$3,800	$9,493	$8,381	$2,893	$563	$2,203	$27,333
Percent of total	14%	35%	31%	10%	2%	8%	100%

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

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

	Shares Outstanding at November 30,		Balance at November 30,	
	2001	2000	2001	2000
			(dollars in millions)	
Series A Fixed/Adjustable Rate Cumulative Preferred Stock, stated value $200 per share	1,725,000	1,725,000	$345	$345
7-¾% Cumulative Preferred Stock, stated value $200 per share	—	1,000,000	—	200
Total			$345	$545

In fiscal 2001, the Company redeemed all 1,000,000 outstanding shares of its 7-¾% Cumulative Preferred Stock at a redemption price of $200 per share. The Company also simultaneously redeemed all corresponding Depositary Shares at a redemption price of $50 per Depositary Share. Each Depositary Share represented 1/4 of a share of the Company's 7-¾% Cumulative Preferred Stock.

Subsequent to November 30, 2001, on December 3, 2001, the Company redeemed all 1,725,000 outstanding shares of its Series A Fixed/Adjustable Rate Cumulative Preferred Stock at a redemption price of $200 per share. The Company also simultaneously redeemed all corresponding Depositary Shares at a redemption price of $50 per Depositary Share. Each Depositary Share represented 1/4 of a share of the Company's Series A Fixed/Adjustable Rate Cumulative Preferred Stock.

The Company has Capital Units outstanding that were issued by the Company and Morgan Stanley Finance plc ("MSF"), a U.K. subsidiary. A Capital Unit consists of (a) a Subordinated Debenture of MSF guaranteed by the Company and maturing in 2017 and (b) a related Purchase Contract issued by the Company, which may be accelerated by the Company, requiring the holder to purchase one Depositary Share representing shares (or fractional shares) of the Company's Cumulative Preferred Stock. The aggregate amount of Capital Units outstanding was $66 million and $70 million at November 30, 2001 and November 30, 2000, respectively.

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

In fiscal 2001, Morgan Stanley Capital Trust II, a consolidated Delaware statutory business trust (the "Capital Trust II"), all of the common securities of which are owned by the Company, issued $810 million of 7-1/4% Capital Securities (the "Capital Securities II") that are guaranteed by the Company. The Capital Trust II issued the Capital Securities II and invested the proceeds in 7-1/4% Junior Subordinated Deferrable Interest Debentures issued by the Company, which are due July 31, 2031.

12. Shareholders' Equity.

MS&Co. and MSDWI are registered broker-dealers and registered futures commission merchants and, accordingly, are subject to the minimum net capital requirements of the Securities and Exchange Commission, the New York Stock Exchange and the Commodity Futures Trading Commission. MS&Co. and MSDWI have consistently operated in excess of these requirements. MS&Co.'s net capital totaled $5,159 million at November 30, 2001, which exceeded the amount required by $4,454 million. MSDWI's net capital totaled

$1,495 million at November 30, 2001, which exceeded the amount required by $1,370 million. MSIL, a London-based broker-dealer subsidiary, is subject to the capital requirements of the Financial Services Authority, and MSJL, a Tokyo-based broker-dealer, is subject to the capital requirements of the Financial Services Agency. MSIL and MSJL have consistently operated in excess of their respective regulatory capital requirements.

Under regulatory capital requirements adopted by the Federal Deposit Insurance Corporation ("FDIC") and other bank regulatory agencies, FDIC-insured financial institutions must maintain (a) 3% to 5% of Tier 1 capital, as defined, to average assets ("leverage ratio"), (b) 4% of Tier 1 capital, as defined, to risk-weighted assets ("Tier 1 risk-weighted capital ratio") and (c) 8% of total capital, as defined, to risk-weighted assets ("total risk-weighted capital ratio"). At November 30, 2001, the leverage ratio, Tier 1 risk-weighted capital ratio and total risk-weighted capital ratio of each of the Company's FDIC-insured financial institutions exceeded these regulatory minimums.

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

The regulatory capital requirements referred to above, and certain covenants contained in various agreements governing indebtedness of the Company, may restrict the Company's ability to withdraw capital from its subsidiaries. At November 30, 2001, approximately $6.5 billion of net assets of consolidated subsidiaries may be restricted as to the payment of cash dividends and advances to the Company.

Cumulative translation adjustments include gains or losses resulting from translating foreign currency financial statements from their respective functional currencies to U.S. dollars, net of hedge gains or losses and related tax effects. The Company uses foreign currency contracts and designates certain non-U.S. dollar currency debt as hedges to manage the currency exposure relating to its net monetary investments in non-U.S. dollar functional currency subsidiaries. Increases or decreases in the value of the Company's net foreign investments generally are tax deferred for U.S. purposes, but the related hedge gains and losses are taxable currently. The Company attempts to protect its net book value from the effects of fluctuations in currency exchange rates on its net monetary investments in non-U.S. dollar subsidiaries by selling the appropriate non-U.S. dollar currency in the forward market. However, under some circumstances, the Company may elect not to hedge its net monetary investments in certain foreign operations due to market conditions, including the availability of various currency contracts at acceptable costs. Information relating to the hedging of the Company's net monetary investments in non-U.S. dollar functional currency subsidiaries and their effects on cumulative translation adjustments is summarized below:

	At November 30,	
	2001	**2000**
	(dollars in millions)	
Net monetary investments in non-U.S. dollar functional currency subsidiaries	$2,354	$2,336
Cumulative translation adjustments resulting from net investments in subsidiaries with a non-U.S. dollar functional currency	$ (334)	$ (211)
Cumulative translation adjustments resulting from realized or unrealized gains on hedges, net of tax	184	120
Total cumulative translation adjustments	$ (150)	$ (91)

13. Employee Compensation Plans.

The Company has adopted a variety of compensation plans for certain of its employees. These plans are designed to facilitate a pay-for-performance policy, provide compensation commensurate with other leading financial services companies and provide for internal stock ownership in order to align the interests of employees with the long-term interests of the Company's shareholders. Certain of these plans are summarized below.

Equity-Based Compensation Plans. The Company is authorized to issue up to approximately 618 million shares of its common stock in connection with awards under its equity-based compensation plans. At November 30, 2001, approximately 243 million shares were available for future grant under these plans.

Stock Option Awards. Stock option awards have been granted pursuant to several equity-based compensation plans. Historically, these plans have generally provided for the granting of stock options having an exercise price not less than the fair value of the Company's common stock (as defined in the plans) on the date of grant. Such options generally become exercisable over a one- to five-year period and expire seven to 10 years from the date of grant.

The following table sets forth activity relating to the Company's stock option awards (share data in millions):

	Fiscal 2001		Fiscal 2000		Fiscal 1999	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	137.6	$34.87	131.3	$26.76	126.6	$20.04
Granted(1)	24.5	57.56	25.5	67.41	23.2	56.65
Exercised	(8.1)	21.85	(17.8)	21.26	(15.5)	17.12
Forfeited	(2.6)	56.14	(1.4)	40.10	(3.0)	23.88
Options outstanding at end of period	151.4	$38.88	137.6	$34.87	131.3	$26.76
Options exercisable at end of period	92.4	$27.71	88.3	$26.74	93.6	$25.21

(1) Amounts include stock options granted to employees subsequent to fiscal year-end but as part of year-end compensation for the fiscal year.

The following table presents information relating to the Company's stock options outstanding at November 30, 2001 (share data in millions):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Average Remaining Life (Years)	Number Exercisable	Weighted Average Exercise Price
$ 4.00 – $ 19.99	39.0	$ 9.76	2.9	36.6	$ 9.78
$20.00 – $ 29.99	25.9	26.56	5.4	23.4	26.55
$30.00 – $ 49.99	20.7	36.97	6.5	18.0	37.11
$50.00 – $ 59.99	25.6	56.55	9.8	1.7	52.95
$60.00 – $ 69.99	37.2	63.19	8.6	10.7	60.83
$70.00 – $107.99	3.0	84.78	7.4	2.0	87.11
Total	151.4		6.5	92.4	

Deferred Compensation Awards. The Company has made deferred compensation awards pursuant to several equity-based compensation plans. These plans provide for the deferral of a portion of certain key employees' compensation with payments made in the form of the Company's common stock or in the right to receive unrestricted shares (collectively, "Restricted Stock"). Compensation expense for all such awards (including those subject to forfeiture) amounted to $612 million, $855 million and $699 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively. Compensation expense for Restricted Stock awards was determined based on the fair value of the Company's common stock (as defined in the plans). The number of Restricted Stock shares outstanding was 96 million at November 30, 2001 and 115 million at both November 30, 2000 and November 30, 1999.

Restricted Stock awarded under these plans are subject to restrictions on sale, transfer or assignment until the end of a specified restriction period, generally five to 10 years from the date of grant. Holders of Restricted Stock generally may forfeit ownership of all or a portion of their award if employment is terminated before the end of the relevant restriction period. Holders of vested Restricted Stock generally will also forfeit ownership in certain limited situations, including termination for cause during the restriction period.

Profit Sharing Plans. The Company sponsors qualified profit sharing plans covering substantially all U.S. employees and also provides cash payment of profit sharing to employees of its international subsidiaries. Contributions are made to eligible employees at the discretion of the Board of Directors based upon the financial performance of the Company. Profit sharing expense for fiscal 2001, fiscal 2000 and fiscal 1999 was $149 million, $182 million and $153 million, respectively.

Employee Stock Ownership Plan. The Company has a $140 million leveraged employee stock ownership plan, funded through an independently managed trust. The Employee Stock Ownership Plan ("ESOP") was established to broaden internal ownership of the Company and to provide benefits to its employees in a cost-effective manner. In January 2000, each share of the ESOP Convertible Preferred Stock was converted into 6.6 common shares of the Company. The ESOP trust funded its stock purchase through a loan of $140 million from the Company. The ESOP trust note, due September 19, 2005 (extendible at the option of the ESOP trust to September 19, 2010), bears a 10-3⁄8% interest rate per annum with principal payable without penalty on or before the due date. The ESOP trust expects to make principal and interest payments on the note from funds provided by dividends on the shares of common stock and contributions from the Company, if required. The note receivable from the ESOP trust is reflected as a reduction in the Company's shareholders' equity. Shares allocated to employees generally may not be withdrawn until the employee's death, disability, retirement or termination. Contributions to the ESOP by the Company and allocation of ESOP shares to employees are made annually at the discretion of the Board of Directors based on the financial performance of the Company. The cost of shares allocated to participants' accounts amounted to $13 million in fiscal 2001, $11 million in fiscal 2000 and $5 million in fiscal 1999. The ESOP debt service costs for fiscal 2001 and fiscal 1999 were paid from dividends received on stock held by the ESOP trust and from Company contributions. The ESOP debt service costs for fiscal 2000 were paid from dividends received on stock held by the ESOP trust.

Pro Forma Effect of SFAS No. 123. Had the Company elected to recognize compensation cost pursuant to SFAS No. 123 for its stock option plans and its employee stock purchase plan, net income would have been reduced by $375 million, $488 million and $327 million for fiscal 2001, fiscal 2000 and fiscal 1999, respectively, resulting in pro forma net income and earnings per share as follows:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions, except per share data)		
Net income			
As reported	$3,521	$5,456	$4,791
Pro forma	3,146	4,968	4,464
Earnings per share			
As reported:			
Basic	$ 3.21	$ 4.95	$ 4.33
Diluted	3.11	4.73	4.10
Pro forma:			
Basic	$ 2.87	$ 4.50	$ 4.03
Diluted	2.76	4.29	3.80

The weighted average fair value at date of grant for stock options granted during fiscal 2001, fiscal 2000 and fiscal 1999 was $26.43, $30.48 and $23.58 per option, respectively. The fair value of stock options at date of grant was estimated using the Black-Scholes option pricing model utilizing the following weighted average assumptions:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
Risk-free interest rate	4.7%	5.6%	5.9%
Expected option life in years	6.1	5.3	5.6
Expected stock price volatility	48.4%	43.4%	38.6%
Expected dividend yield	1.5%	1.1%	1.1%

14. Employee Benefit Plans.

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

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

The following tables present information for the Company's pension plans on an aggregate basis.

Pension expense included the following components:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions)		
U.S. Plans:			
Service cost, benefits earned during the period	$ 77	$ 74	$ 98
Interest cost on projected benefit obligation	96	88	80
Expected return on plan assets	(110)	(100)	(86)
Net amortization	1	6	8
Net settlements and curtailments	—	2	—
Total U.S. plans	64	70	100
Total international plans	4	4	16
Net pension expense	$ 68	$ 74	$116

The following table provides the assumptions used in determining the Company's benefit obligation for the U.S. Plans:

	Fiscal 2001	Fiscal 2000
Weighted average discount rate	7.55%	8.00%
Rate of increase in future compensation levels	5.00%	5.00%
Expected long-term rate of return on plan assets	9.00%	9.00%

The following table provides a reconciliation of the changes in the U.S. Plans' benefit obligation and fair value of plan assets for fiscal 2001 and fiscal 2000 as well as a summary of the U.S. Plans' funded status at November 30, 2001 and November 30, 2000:

	Fiscal 2001	Fiscal 2000
	(dollars in millions)	
Reconciliation of benefit obligation:		
Benefit obligation at beginning of year	$1,234	$1,214
Service cost	77	74
Interest cost	96	88
Actuarial loss or (gain)	136	(48)
Benefits paid	(86)	(84)
Settlements	—	(10)
Benefit obligation at end of year	$1,457	$1,234
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	$1,268	$1,154
Actual return on plan assets	(198)	158
Employer contributions	73	50
Benefits paid and settlements	(86)	(94)
Fair value of plan assets at end of year	$1,057	$1,268
Funded status:		
Funded status	$ (400)	$ 34
Amount contributed to plan after measurement date	20	—
Unrecognized transition obligation	2	2
Unrecognized prior-service cost	22	25
Unrecognized loss or (gain)	295	(153)
Net amount recognized	$ (61)	$ (92)
Amounts recognized in the consolidated statements of financial condition consist of:		
Prepaid benefit cost	$ 117	$ 53
Accrued benefit liability	(184)	(145)
Intangible asset	6	—
Net amount recognized	$ (61)	$ (92)

For the Supplemental Plans, the aggregate accumulated benefit obligation was $126 million and $91 million at November 30, 2001 and November 30, 2000, respectively.

The Company also maintains separate defined contribution pension plans that cover substantially all employees of certain non-U.S. subsidiaries. Under such plans, benefits are determined by the purchasing power of the accumulated value of contributions paid. In fiscal 2001, fiscal 2000 and fiscal 1999, the Company's expense related to these plans was $68 million, $46 million and $27 million, respectively.

Postretirement Benefits. The Company has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and dependents. At November 30, 2001 and November 30, 2000, the Company's accrued postretirement benefit liability was $112 million and $106 million, respectively.

Postemployment Benefits. Postemployment benefits include, but are not limited to, salary continuation, severance benefits, disability-related benefits, and continuation of health care and life insurance coverage provided to former employees or inactive employees after employment but before retirement. These benefits were not material to the Company's consolidated financial statements in fiscal 2001, fiscal 2000 and fiscal 1999.

15. Income Taxes.

The provision for income taxes consisted of:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(dollars in millions)		
Current:			
U.S. federal	$2,014	$2,299	$1,868
U.S. state and local	227	387	491
Non-U.S.	260	603	738
	2,501	3,289	3,097
Deferred:			
U.S. federal	(550)	(140)	37
U.S. state and local	(61)	(44)	(11)
Non-U.S.	184	(35)	(186)
	(427)	(219)	(160)
Provision for income taxes	$2,074	$3,070	$2,937

The following table reconciles the provision to the U.S. federal statutory income tax rate:

	Fiscal 2001	Fiscal 2000	Fiscal 1999
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
U.S. state and local income taxes, net of U.S. federal income tax benefits	1.9	2.5	3.6
Lower tax rates applicable to non-U.S. earnings	(0.4)	(2.0)	(2.3)
Other	—	0.5	1.7
Effective income tax rate	36.5%	36.0%	38.0%

As of November 30, 2001, the Company had approximately $4.7 billion of earnings attributable to foreign subsidiaries for which no provisions have been recorded for income tax that could occur upon repatriation. Except to the extent such earnings can be repatriated tax efficiently, they are permanently invested abroad. It is not practicable to determine the amount of income taxes payable in the event all such foreign earnings are repatriated.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Significant components of the Company's deferred tax assets and liabilities at November 30, 2001 and November 30, 2000 were as follows:

	Nov. 30, 2001	Nov. 30, 2000
	(dollars in millions)	
Deferred tax assets:		
Employee compensation and benefit plans	$1,898	$2,078
Loan loss allowance	289	284
Other valuation and liability allowances	923	690
Deferred expenses	17	138
Other	378	270
Total deferred tax assets	3,505	3,460
Deferred tax liabilities:		
Prepaid commissions	137	360
Other	338	369
Total deferred tax liabilities	475	729
Net deferred tax assets	$3,030	$2,731

Cash paid for income taxes was $910 million, $3,401 million and $1,736 million in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

The Company recorded income tax benefits of $460 million, $467 million and $367 million related to employee stock compensation transactions in fiscal 2001, fiscal 2000 and fiscal 1999, respectively. Such benefits were credited to paid-in capital.

16. Segment and Geographic Information.

Pursuant to SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for disclosures that relate to business operating segments ("segments"), the Company structures its segments primarily based upon the nature of the financial products and services provided to customers and the Company's management organization. The Company operates in three business segments: Securities, Investment Management and Credit Services through which it provides a wide range of financial products and services to its customers.

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

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

Fiscal 2001	Securities	Investment Management	Credit Services	Total
		(dollars in millions)		
All other net revenues	$ 13,981	$2,365	$ 2,202	$ 18,548
Net interest	1,933	58	1,357	3,348
Net revenues	$ 15,914	$2,423	$ 3,559	$ 21,896
Income before taxes, extraordinary item and cumulative effect of accounting change	$ 3,630	$ 927	$ 1,127	$ 5,684
Provision for income taxes	1,267	382	425	2,074
Income before extraordinary item and cumulative effect of accounting change	2,363	545	702	3,610
Extraordinary item	(30)	—	—	(30)
Cumulative effect of accounting change	(46)	—	(13)	(59)
Net income	$ 2,287	$ 545	$ 689	$ 3,521

Fiscal 2000(1)	Securities	Investment Management	Credit Services	Total
		(dollars in millions)		
All other net revenues	$ 18,335	$2,643	$ 1,963	$ 22,941
Net interest	1,472	69	1,517	3,058
Net revenues	$ 19,807	$2,712	$ 3,480	$ 25,999
Gain on sale of business	$ —	$ 35	$ —	$ 35
Income before taxes	$ 6,247	$1,135	$ 1,144	$ 8,526
Provision for income taxes	2,193	458	419	3,070
Net income	$ 4,054	$ 677	$ 725	$ 5,456

Fiscal 1999(1)	Securities	Investment Management	Credit Services	Total
		(dollars in millions)		
All other net revenues	$ 15,212	$2,227	$ 1,742	$ 19,181
Net interest	916	55	1,394	2,365
Net revenues	$ 16,128	$2,282	$ 3,136	$ 21,546
Income before taxes	$ 5,824	$ 784	$ 1,120	$ 7,728
Provision for income taxes	2,167	326	444	2,937
Net income	$ 3,657	$ 458	$ 676	$ 4,791

Total Assets(1)(2)	Securities	Investment Management	Credit Services	Total
		(dollars in millions)		
November 30, 2001	$452,421	$5,076	$25,131	$482,628
November 30, 2000	$389,511	$4,872	$26,896	$421,279
November 30, 1999	$336,909	$4,273	$25,785	$366,967

(1) Credit Services business segment information includes the operating results of Morgan Stanley Dean Witter Credit Corporation ("MSDWCC"). Prior to fiscal 2001, the Company had included MSDWCC's results within its Securities business segment. In addition, the operating results of the Investment Management business segment includes certain revenues and expenses associated with the Company's Investment Consulting Services business. Prior to fiscal 2001, such revenues and expenses were included within the Company's Securities business segment. The selected financial information for fiscal 2000 and fiscal 1999 have been restated to reflect these changes.

(2) Corporate assets have been fully allocated to the Company's business segments.

The Company operates in both U.S. and non-U.S. markets. The Company's non-U.S. business activities are principally conducted through European and Asian locations. The following table presents selected income statement information and the total assets of the Company's operations by geographic area. The principal methodologies used in preparing the geographic area data are as follows: commission revenues are recorded based on the location of the sales force; trading revenues are principally recorded based on location of the trader; investment banking revenues are based on location of the client; and asset management and portfolio service fees are recorded based on the location of the portfolio manager:

Fiscal 2001	U.S.	Europe	Asia	Other	Eliminations	Total
			(dollars in millions)			
Net revenues	$ 16,726	$ 3,986	$ 1,405	$ 177	$ (398)	$ 21,896
Income before taxes, extraordinary item and cumulative effect of accounting change	4,169	1,146	245	124	—	5,684
Total assets at November 30, 2001	538,915	231,489	31,047	16,114	(334,937)	482,628

Fiscal 2000	U.S.	Europe	Asia	Other	Eliminations	Total
			(dollars in millions)			
Net revenues	$ 19,421	$ 5,048	$ 1,684	$ 166	$ (320)	$ 25,999
Income before taxes	6,308	1,646	466	106	—	8,526
Total assets at November 30, 2000	466,587	209,894	24,912	15,577	(295,691)	421,279

Fiscal 1999	U.S.	Europe	Asia	Other	Eliminations	Total
			(dollars in millions)			
Net revenues	$ 16,701	$ 3,848	$ 1,192	$ 128	$ (323)	$ 21,546
Income before taxes	6,040	1,364	244	80	—	7,728
Total assets at November 30, 1999	367,524	164,974	37,610	14,478	(217,619)	366,967

17. Business Acquisitions and Disposition.

In fiscal 2001, the Company acquired Quilter Holdings Limited ("Quilter"). Quilter is a well-established U.K.-based investment management business providing segregated account management and advisory services to private individuals, pension funds and trusts. The Company's fiscal 2001 results include the operations of Quilter since March 13, 2001, the date of acquisition.

In fiscal 2000, the Company acquired Ansett Worldwide, one of the world's leading aircraft leasing groups, leasing new and used commercial jet aircraft to airlines around the world. The Company's fiscal 2000 results include the operations of Ansett Worldwide since April 27, 2000, the date of acquisition.

In the fourth quarter of fiscal 1998, the Company sold its Global Custody business to The Chase Manhattan Corporation ("Chase"). At that time, the Company recorded a pre-tax gain of $323 million from the sale. Such gain included estimates for certain payments and purchase price adjustments which, under certain circumstances pursuant to the sales agreement, were payable by the Company to Chase. As a result of the resolution of these payments and purchase price adjustments during fiscal 2000, the Company recorded an additional pre-tax gain of $35 million related to the sale of its Global Custody business.

In fiscal 1999, the Company acquired Morgan Stanley, S.V., S.A. (formerly AB Asesores), the largest independent financial services firm in Spain. The Company's fiscal 1999 results include the operations of Morgan Stanley, S.V., S.A. since March 25, 1999, the date of acquisition.

The pro forma impact of each of the above acquisitions was not material to the Company's consolidated financial statements.

18. Terrorist Attacks.

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

The terrorist attacks had an immediate adverse impact on global economies, financial markets and certain industries, including the global aviation industry. These conditions had an adverse impact on the Company's results of operations in the fourth quarter of fiscal 2001, including an asset impairment charge and higher expenses associated with its aircraft financing activities. In addition to the immediate impact, there is much uncertainty regarding the potential long-term impact of these attacks. In the future, fears of global recession, war and additional acts of terrorism in the aftermath of the September 11, 2001 attacks may continue to impact global economies and financial markets.

During the fourth quarter of fiscal 2001, the Company recorded costs related to the terrorist attacks, which were offset by an expected insurance recovery. These costs and the related expected insurance recovery pertain to write-offs of leasehold improvements and destroyed technology and telecommunications equipment in the World Trade Center complex, employee relocation and certain employee-related expenditures, and other business recovery costs.

19. Asset Impairment.

The terrorist attacks of September 11, 2001 (see Note 18) had an adverse impact on the global aviation industry, including the Company's aircraft financing business. As a result of these conditions, and in accordance with SFAS No. 121, the Company incurred a non-cash pre-tax charge of $87 million in the fourth quarter of fiscal 2001 to reflect the impairment of certain aircraft. The fair values of the affected aircraft were obtained from independent appraisals. The impairment charge is reflected in "other expenses" in the Company's consolidated statements of income. The results of the aircraft financing business are included in the Company's "Securities" business segment (see Note 16).

20. Quarterly Results (unaudited).

	2001 Fiscal Quarter				2000 Fiscal Quarter(1)			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(dollars in millions, except share and per share data)							
Total revenues	$ 12,644	$ 12,569	$ 10,296	$ 8,218	$ 11,457	$ 11,594	$ 11,599	$ 10,335
Interest expense	6,179	6,413	4,883	3,304	3,932	4,420	5,242	4,582
Provision for consumer loan losses	213	231	277	331	223	204	175	208
Net revenues	6,252	5,925	5,136	4,583	7,302	6,970	6,182	5,545
Total non-interest expenses	4,559	4,460	3,978	3,215	4,870	4,675	4,307	3,656
Gain on sale of business	—	—	—	—	—	—	35	—
Income before income taxes, extraordinary item and cumulative effect of accounting change	1,693	1,465	1,158	1,368	2,432	2,295	1,910	1,889
Provision for income taxes	618	535	423	498	888	837	664	681
Income before extraordinary item and cumulative effect of accounting change	1,075	930	735	870	1,544	1,458	1,246	1,208
Extraordinary item	—	—	(30)	—	—	—	—	—
Cumulative effect of accounting change	(59)	—	—	—	—	—	—	—
Net income	$ 1,016	$ 930	$ 705	$ 870	$ 1,544	$ 1,458	$ 1,246	$ 1,208
Earnings per share(2):								
Basic before extraordinary item and cumulative effect of accounting change	$ 0.98	$ 0.85	$ 0.67	$ 0.80	$ 1.40	$ 1.32	$ 1.14	$ 1.10
Extraordinary item	—	—	(0.03)	—	—	—	—	—
Cumulative effect of accounting change	(0.05)	—	—	—	—	—	—	—
Basic	$ 0.93	$ 0.85	$ 0.64	$ 0.80	$ 1.40	$ 1.32	$ 1.14	$ 1.10
Diluted before extraordinary item and cumulative effect of accounting change	$ 0.94	$ 0.82	$ 0.65	$ 0.78	$ 1.34	$ 1.26	$ 1.09	$ 1.06
Extraordinary item	—	—	(0.03)	—	—	—	—	—
Cumulative effect of accounting change	(0.05)	—	—	—	—	—	—	—
Diluted	$ 0.89	$ 0.82	$ 0.62	$ 0.78	$ 1.34	$ 1.26	$ 1.09	$ 1.06
Dividends to common shareholders	$ 0.23	$ 0.23	$ 0.23	$ 0.23	$ 0.20	$ 0.20	$ 0.20	$ 0.20
Book value	$ 17.23	$ 17.54	$ 17.76	$ 18.64	$ 15.31	$ 15.66	$ 16.19	$ 16.91
Stock price range(3)	$62.38-89.80	$45.26-74.26	$51.20-66.10	$37.62-59.52	$59.97-71.38	$63.69-95.81	$75.25-107.58	$63.38-109.38

(1) Certain reclassifications have been made to previously reported fiscal 2000 quarterly amounts.

(2) Summation of the quarters' earnings per common share may not equal the annual amounts due to the averaging effect of the number of shares and share equivalents throughout the year.

(3) Amounts represent the range of closing prices per share on the New York Stock Exchange for the periods indicated. The number of shareholders of record at November 30, 2001 approximated 146,000. The number of beneficial owners of common stock is believed to exceed this number.