Don Marcos Trading CO
Form 10-Q
November 07, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 000-52692

DON MARCOS TRADING CO.
(Exact name of registrant as specified in its charter)

Florida	65-0921319
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1850 Southeast 17th Street, Suite 300, Ft. Lauderdale, FL 33316
(Address of principal executive offices)

(954) 356-8111
(Issuer's telephone number)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

As of October 31, 2008, the number of shares of common stock outstanding was 44,300,000.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DON MARCOS TRADING CO.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED BALANCE SHEET
SEPTEMBER 30, 2008 AND DECEMBER 31, 2007

	Unaudited September 30, 2008		Audited December 31, 2007	
ASSETS				
CURRENT ASSETS				
Cash	$	7,642	$	11,166
Accounts receivable		96		0
Inventory		8,900		4,255
TOTAL CURRENT ASSETS	$	16,638	$	15,421
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$	10,824	$	9,466
STOCKHOLDERS' EQUITY				
Preferred stock, no stated value				
Authorized 10,000,000 shares				
Issued and outstanding -0- shares		-		-
Common stock, no par value				
Authorized 100,000,000 shares				
Issued and outstanding - 44,300,000 shares at				
September 30, 2008 and 37,100,000 shares				
at December 31, 2007		223,454		187,454
Deficit accumulated during the development stage		(217,640)		(181,499)
TOTAL STOCKHOLDERS' EQUITY		5,814		5,955
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	16,638	$	15,421

The accompanying notes are an integral part of these unaudited financial statements.
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DON MARCOS TRADING CO.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
AND FOR THE PERIOD FROM MAY 11, 1999 TO SEPTEMBER 30, 2008
(UNAUDITED)

	Three Month Periods Ended September 30, 2008	2007	Nine Month Periods Ended September 30, 2008	2007	May 11, 1999 (Inception) To September 30, 2008
REVENUES	$ 288	-	$ 288	$ -	$
COSTS OF GOODS SOLD	14	-	14	-	
GROSS PROFIT	274	-	274	-	

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applicable to Morgan Stanley s non-U.S. broker-dealer subsidiaries. These rules, which specify minimum ca requirements, are generally designed to measure general financial integrity and liquidity and require that at le minimum amount of net assets be kept in relatively liquid form. See also Consolidated Supervision and Re Capital Standards above and Note 16 in Notes to Consolidated Financial Statements in Part II, Item 8. R FINRA and other self-regulatory organizations also impose limitations and requirements on the transfer of m organizations assets.

Compliance with the capital requirements may limit Morgan Stanley s operations requiring the intensive us capital. Such requirements restrict Morgan Stanley s ability to withdraw capital from its broker-dealer subsi which in turn may limit its ability to pay dividends, repay debt or redeem or purchase shares of its own outst stock. Any change in such rules or the imposition of new rules affecting the scope, coverage, calculation or a of capital requirements, or a significant operating loss or any unusually large charge against capital, could adversely affect Morgan Stanley s ability to pay dividends or to expand or maintain present business levels. addition, such rules may require Morgan Stanley to make substantial capital infusions into one or more of its broker-dealer subsidiaries in order for such subsidiaries to comply with such rules, either in the form of cash subordinated loans made in accordance with the requirements of the SEC s net capital rule.

Regulation of Certain Commodities Activities. The commodities activities in the Institutional Securities b segment are subject to extensive and evolving energy, commodities, environmental, health and safety, and o governmental laws and regulations in the U.S. and abroad. Intensified scrutiny of certain energy markets by federal, state and local authorities in the U.S. and abroad and the public has resulted in increased regulatory a legal enforcement and remedial proceedings involving energy companies, including those engaged in power generation and liquid hydrocarbons trading. The EU has increased its focus on the energy markets, which ha resulted in increased regulation of companies participating in the energy markets, including those engaged in power generation and liquid hydrocarbons trading.

Terminal facilities and other assets relating to Morgan Stanley s commodities activities are also subject to environmental laws both in the U.S. and abroad. In addition, pipeline, transport and terminal operations are s to state laws in connection with the cleanup of hazardous substances that may have been released at properti currently or previously owned or operated by us or locations to which we have sent wastes for disposal.

Additional Regulation of U.S. Entities. As a registered futures commission merchant, MS&Co. is subject net capital requirements of, and its activities are regulated by, the Commodity Futures Trading Commission CFTC) and various commodity exchanges. Certain subsidiaries of Morgan Stanley are registered with the commodity trading advisors and/or commodity pool operators. Morgan Stanley s futures and options-on-fut businesses are also regulated by the National Futures Association (the NFA), a registered futures associat which MS&Co. and certain of its affiliates are members. Violations of the rules of the CFTC, the NFA or th commodity exchanges could result in remedial actions including fines, registration restrictions or terminatio trading prohibitions or revocations of commodity exchange memberships.

Morgan Stanley Bank, through which Morgan Stanley conducts certain financing and lending activities, is a industrial bank chartered under the laws of the State of Utah. It has deposits that are eligible for insurance by Federal Deposit Insurance Corporation (FDIC) in accordance with FDIC rules and is subject to comprehe regulation and periodic examination by the Utah Department of Financial Institutions and the FDIC. Morgan Stanley Bank is not considered a bank under the Bank Holding Company Act of 1956, as amended (the

Morgan Stanley Trust National Association, a wholly owned subsidiary, is a federally chartered national ban whose activities are limited to fiduciary activities, primarily personal trust services. It is subject to comprehe regulation and periodic examination by the Office of the Comptroller of the Currency. Morgan Stanley Trust National Association is not FDIC-insured and is not considered a bank for purposes of the BHCA.

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Morgan Stanley Trust, a wholly owned subsidiary which conducts certain transfer agency, sub-accounting a other activities, is a federally chartered savings bank whose activities are subject to comprehensive regulatio periodic examination by the Office of Thrift Supervision (OTS). As a result of its ownership of Morgan S Trust, Morgan Stanley is registered with the OTS as a unitary savings and loan holding company (SLHC) subject to regulation and examination by the OTS as a SLHC. Subsidiaries of Morgan Stanley, including Mo Stanley Trust, are registered transfer agents subject to regulation and examination by the SEC. Morgan Stanl Trust has deposits that are eligible for insurance by the FDIC.

Non-U.S. Regulation. Morgan Stanley s businesses are also regulated extensively by non-U.S. regulators including governments, securities exchanges, commodity exchanges, self-regulatory organizations, central b and regulatory bodies, especially in those jurisdictions in which Morgan Stanley maintains an office. As Mo Stanley continues to expand its business internationally, including in Europe, Latin America, Asia and the M East, it will become subject to regulation in the jurisdictions in which it conducts business. Certain Morgan S subsidiaries are regulated as broker-dealers under the laws of the jurisdictions in which they operate. Subsidi engaged in banking and trust activities outside the U.S. are regulated by various government agencies in the particular jurisdiction where they are chartered, incorporated and/or conduct their business activity. For insta the Financial Services Authority and several U.K. securities and futures exchanges, including the London St Exchange and Euronext.liffe regulate the Company s activities in the U.K.; the Deutsche Borse AG and the Bundesanstalt für Finanzdienstleistungsaufsicht (the Federal Financial Supervisory Authority) regulate its ac in the Federal Republic of Germany; the Swiss Federal Banking Commission regulates its activities in Switz the Comisión Nacional del Mercado del Valores (C.N.M.V.) regulates its activities in Spain; the Financial Se Agency, the Bank of Japan, the Japanese Securities Dealers Association and several Japanese securities and exchanges, including the Tokyo Stock Exchange, the Osaka Securities Exchange and the Tokyo Internationa Financial Futures Exchange, regulate its activities in Japan; the Hong Kong Securities and Futures Commiss the Hong Kong Exchanges and Clearing Limited regulate its operations in Hong Kong; and the Monetary Authority of Singapore and the Singapore Exchange Limited regulate its business in Singapore.

Research. Both U.S. and non-U.S. regulators continue to focus on research conflicts of interest. Research- regulations have been implemented in many jurisdictions and are proposed or under consideration in other jurisdictions. New and revised requirements resulting from these regulations and the global research settlem with U.S. Federal and state regulators (to which Morgan Stanley is a party) have necessitated the developme enhancement of corresponding policies and procedures.

Asset Management.

The majority of subsidiaries related to Morgan Stanley s asset management activities and others, including MS&Co., are registered as investment advisers with the SEC, and, in certain states, some employees or representatives of subsidiaries are registered as investment adviser representatives. Many aspects of Morgan Stanley s asset management activities are subject to federal and state laws and regulations primarily intende benefit the investor or client. These laws and regulations generally grant supervisory agencies and bodies bro administrative powers, including the power to limit or restrict Morgan Stanley from carrying on its asset management activities in the event that it fails to comply with such laws and regulations. Sanctions that may imposed for such failure include the suspension of individual employees, limitations on Morgan Stanley eng in various asset management activities for specified periods of time, the revocation of registrations, other cen and fines.

Morgan Stanley s Asset Management business is also regulated outside the U.S. For example, the Financial Services Authority regulates Morgan Stanley s business in the U.K.; the Financial Services Agency regulate Morgan Stanley s business in Japan; the Securities and Exchange Board of India regulates Morgan Stanley business in India; and the Monetary Authority of Singapore regulates Morgan Stanley s business in Singapo

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Executive Officers of Morgan Stanley.

The executive officers of Morgan Stanley and their ages and titles as of January 28, 2008 are set forth below
Business experience for the past five years is provided in accordance with SEC rules.

John J. Mack (63). Chairman of the Board of Directors and Chief Executive Officer (since June 2005). Chairman of Pequot Capital Management (June 2005). Co-Chief Executive Officer of Credit Suisse Group (January 2003 to June 2004). President, Chief Executive Officer and Director of Credit Suisse First Boston (2001 to June 2004). President and Chief Operating Officer of Morgan Stanley (May 1997 to March 2001).

Walid Chammah (53). Co-President (since December 2007). Chairman and Chief Executive Officer of M Stanley International (since July 2007). Head of Investment Banking (August 2005 to July 2007) and Head o Global Capital Markets (July 2002 to August 2005).

James Gorman (49). Co-President (since December 2007). Co-Head of Strategic Planning (since Octobe 2007) and President and Chief Operating Officer of the Global Wealth Management Group (since February Head of Corporate Acquisitions Strategy & Research at Merrill Lynch & Co., Inc. (Merrill Lynch) (July 2 August 2005) and President of the Global Private Client business at Merrill Lynch (December 2002 to July 2

Colm Kelleher (50). Executive Vice President and Chief Financial Officer and Co-Head of Strategic Plan (since October 2007). Head of Global Capital Markets (February 2006 to October 2007). Co-Head of Fixed Income Europe (May 2004 to February 2006). Head of Fixed Income Sales Europe (December 2000 to May

Gary G. Lynch (57). Executive Vice President and Chief Legal Officer (since October 2005). Global Ger Counsel (October 2001 to October 2005) of Credit Suisse First Boston. Executive Vice Chairman (July 2004 October 2005) and Vice Chairman (December 2002 to July 2004) of Credit Suisse First Boston and member Executive Board (July 2004 to July 2005) of Credit Suisse Group. Partner at the law firm of Davis Polk & Wardwell (September 1989 to October 2001).

Thomas R. Nides (46). Executive Vice President, Chief Administrative Officer and Secretary (since Sept 2005). Worldwide President and Chief Executive Officer of Burson-Marsteller (November 2004 to August 2 Chief Administrative Officer of Credit Suisse First Boston (June 2001 to June 2004).

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Item 1A. Risk Factors.

Liquidity Risk.

Liquidity and funding risk refers to the risk that Morgan Stanley will be unable to finance its operations due loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the ability of Morgan Stanley to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. For more infor on how we monitor and manage liquidity and funding risk, see Management s Discussion and Analysis of of Operations Liquidity and Capital Resources in Part II, Item 7 below.

Liquidity is essential to our businesses and we rely on external sources to finance a significant portion of operations.

Liquidity is essential to our businesses. Our liquidity could be substantially negatively affected by an inabilit raise funding in the long-term or short-term debt capital markets or the equity capital markets or an inability access the secured lending markets. Factors that we cannot control, such as disruption of the financial marke negative views about the financial services industry generally, could impair our ability to raise funding. In addition, our ability to raise funding could be impaired if lenders develop a negative perception of our long-t short-term financial prospects. Such negative perceptions could be developed if we incur large trading losses are downgraded or put on negative watch by the rating agencies, we suffer a decline in the level of our busin activity, regulatory authorities take significant action against us, or we discover serious employee misconduc illegal activity, among other reasons. If we are unable to raise funding using the methods described above, w would likely need to liquidate unencumbered assets, such as our investment and trading portfolios, to meet maturing liabilities. We may be unable to sell some of our assets, or we may have to sell assets at a discount market value, either of which could adversely affect our results of operations.

Our borrowing costs and access to the debt capital markets depend significantly on our credit ratings.

The cost and availability of unsecured financing generally are dependent on our short-term and long-term cr ratings. Factors that are significant to the determination of our credit ratings or otherwise affect our ability to short-term and long-term financing include the level and volatility of our earnings; our relative competitive position in the markets in which we operate; our geographic and product diversification; our ability to retain personnel; our risk profile; our risk management policies; our cash liquidity; our capital adequacy; our corpo lending credit risk; and legal and regulatory developments. A deterioration in any of these factors or combin of these factors may lead rating agencies to downgrade our credit ratings, thereby increasing our cost of obta unsecured funding.

Our debt ratings also can have a significant impact on certain trading revenues, particularly in those business where longer term counterparty performance is critical, such as OTC derivative transactions, including credi derivatives and interest rate swaps. In connection with certain OTC trading agreements and certain other agreements associated with the Institutional Securities business segment, we may be required to provide add collateral to certain counterparties in the event of a credit ratings downgrade.

We are a holding company and depend on payments from our subsidiaries.

We depend on dividends, distributions and other payments from our subsidiaries to fund dividend payments fund all payments on our obligations, including debt obligations. Regulatory and other legal restrictions may our ability to transfer funds freely, either to or from our subsidiaries. In particular, many of our subsidiaries, including our broker-dealer subsidiaries, are subject to laws and regulations that authorize regulatory bodies block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances. These laws and regulations may hinder our ability to access funds that we may need t payments on our obligations.

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If our liquidity and funding policies are not adequate, we may be unable to access sufficient financing.

Our liquidity and funding policies have been designed to ensure that we maintain sufficient liquid financial resources to continue to conduct our business for an extended period in a stressed liquidity environment. If o liquidity and funding policies are not adequate or we do not adhere to the policies, we may be unable to acce sufficient financing to service our financial obligations when they come due, which could have a material ad franchise or business impact.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices of commodities or secur rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option price correlations or other market factors, such as liquidity, will result in losses for a position or portfolio. For mor information on how we monitor and manage market risk, see Market Risk in Part II, Item 7A herein.

Our results of operations may be materially affected by market fluctuations and by economic and other fa

The amount, duration and range of our market risk exposures have been increasing over the past several year may continue to do so. Our results of operations may be materially affected by market fluctuations due to economic and other factors. Results of operations in the past have been, and in the future may continue to be materially affected by many factors of a global nature, including political, economic and market conditions; availability and cost of capital; the liquidity of global markets; the level and volatility of equity prices, comm prices and interest rates; currency values and other market indices; technological changes and events; the availability and cost of credit; inflation; natural disasters; acts of war or terrorism; investor sentiment and confidence in the financial markets; or a combination of these or other factors. In addition, legislative, legal regulatory developments related to our businesses potentially could increase costs, thereby affecting results o operations. These factors also may have an impact on our ability to achieve our strategic objectives.

The results of our Institutional Securities business segment, particularly results relating to our involvement i primary and secondary markets for all types of financial products, are subject to substantial fluctuations due variety of factors, such as those enumerated above that we cannot control or predict with great certainty. The fluctuations impact results by causing variations in new business flows and in the fair value of securities and financial products. Fluctuations also occur due to the level of global market activity, which, among other thi affects the size, number and timing of investment banking client assignments and transactions and the realiz of returns from our principal investments. During periods of unfavorable market or economic conditions, the of individual investor participation in the global markets may also decrease, which would negatively impact results of our Global Wealth Management Group business segment. In addition, fluctuations in global marke activity could impact the flow of investment capital into or from assets under management or supervision an way customers allocate capital among money market, equity, fixed income or other investment alternatives, could negatively impact our Asset Management business segment.

We may experience further writedowns of our financial instruments and other losses related to volatile an illiquid market conditions.

The Company recorded $9.4 billion in mortgage-related writedowns in the fourth quarter of fiscal 2007, incl $7.8 billion relating to our U.S. subprime trading positions and $1.6 billion relating to other mortgage-relate products, such as commercial mortgage-backed securities, ALT-A and other loans, conduit and non-perform loans and European non-conforming loans, and an impairment charge related to mortgage-related securities portfolios in our domestic subsidiary banks. We continue to have exposure to these markets and products an market conditions continue to evolve the fair value of these mortgage-related instruments could further dete In addition, recent market volatility has made it extremely difficult to value certain of our

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securities. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the of these securities in future periods. In addition, at the time of any sales and settlements of these securities, tl price we ultimately realize will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could require us to take further writedowr the value of our securities portfolio, which may have an adverse effect on our results of operations in future periods.

The results for fiscal 2007 included other losses primarily related to the illiquid market conditions that existe during the second half of fiscal 2007. These included losses reflecting mark-to-market valuations associated loans and loan commitments largely related to acquisition financing to non-investment grade companies. Th Company s leveraged finance business originates and distributes loans and commitments, and intends to dis its current positions; however, this may take longer than in the past and is dependent on liquidity reentering market and additional writedowns of these loans and commitments may occur. The valuation of these commitments could change in future periods depending on, among other things, the extent that they are renegotiated or repriced or the associated acquisition transaction does not occur.

Other areas of our business which to date have not been adversely affected by the illiquidity in our mortgage lending businesses could be adversely affected if the current conditions in the credit market spread to other s

Holding large and concentrated positions may expose us to losses.

Concentration of risk may reduce revenues or result in losses in our market-making, proprietary trading, inv block trading, underwriting and lending businesses in the event of unfavorable market movements. We com substantial amounts of capital to these businesses, which often results in us taking large positions in the secu of, or make large loans to, a particular issuer or issuers in a particular industry, country or region. Moreover, trend in all major capital markets is towards larger and more frequent commitments of capital in many of th activities, and we expect this trend to continue.

Markets may experience periods of high volatility accompanied by reduced liquidity.

Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompan a reduction in asset liquidity, such as the asset price deterioration in the U.S. subprime residential mortgage market. Under these extreme conditions, hedging and other risk management strategies may not be as effecti mitigating trading losses as they would be under more normal market conditions. Moreover, under these con market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, such as crowded trades. Morgan Stanley s risk management and monit processes seek to quantify and mitigate risk to more extreme market moves. Severe market events have histo been difficult to predict, however, and Morgan Stanley could realize significant losses if unprecedented extr market events were to occur, as illustrated by recent results in our subprime mortgage-related proprietary tra

We may incur significant losses in the real estate sector.

We finance and acquire principal positions in a number of real estate and real estate-related products for our account, for investment vehicles managed by affiliates in which we also may have a significant investment, separate accounts managed by affiliates and for major participants in the commercial and residential real esta markets, and originate loans secured by commercial and residential properties. We also securitize and trade i wide range of commercial and residential real estate and real estate-related whole loans, mortgages and othe estate and commercial assets and products, including residential and commercial mortgage-backed securities These businesses could be adversely affected by a downturn in the real estate sector.

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Credit Risk.

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterp obligor does not meet its obligations. For more information on how we monitor and manage credit risk, see Risk in Part II, Item 7A herein.

We are exposed to the risk that third parties that are indebted to us will not perform their obligations.

We incur significant, single-name credit risk exposure through the Institutional Securities business segme risk may arise, for example, from entering into swap or other derivative contracts under which counterpartie long-term obligations to make payments to us and by extending credit to our clients through various credit arrangements. We incur individual consumer credit risk in the Global Wealth Management Group busine segment through margin and non-purpose loans to individual investors, which are collateralized by securitie

The amount, duration and range of our credit exposures have been increasing over the past several years, an continue to do so. In recent years, we have significantly expanded our use of swaps and other derivatives an may continue to do so. Corporate clients are increasingly seeking loans or lending commitments from us in connection with investment banking and other assignments. In addition, we have experienced, due to compe factors, increased pressure to assume longer-term credit risk, to provide swaps and lending commitments to counterparties and borrowers with lower credit quality, to extend credit against less liquid collateral and to p derivatives instruments more aggressively based on the credit risks that we take. As a clearing member firm, finance our customer positions and we could be held responsible for the defaults or misconduct of our custo Although we regularly review our credit exposures, default risk may arise from events or circumstances that difficult to detect or foresee.

Defaults by another larger financial institution could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, tra clearing or other relationships between the institutions. As a result, concerns about, or a default or threatene default by, one institution could lead to significant market-wide liquidity problems, losses or defaults by oth institutions. This is sometimes referred to as systemic risk and may adversely affect financial intermedia as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a da basis, and therefore could adversely affect Morgan Stanley.

Operational Risk.

Operational risk refers to the risk of financial or other loss, or potential damage to a firm s reputation, arisi inadequate or failed internal processes, people, resources, systems or from external events (e.g., external or i fraud, legal and compliance risks, damage to physical assets, etc.). Morgan Stanley may incur operational ris across its full scope of business activities, including revenue-generating activities (e.g., sales and trading) an support functions (e.g., information technology and facilities management). As such, Morgan Stanley may in operational risk in each of its businesses, as well as within the control groups. For more information on how monitor and manage operational risk, see Operational Risk in Part II, Item 7A herein.

We are subject to operational risk and an operational event could adversely affect our businesses.

Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transaction across numerous and diverse markets in many currencies. In general, the transactions we process are increas complex. We perform the functions required to operate our different businesses either by ourselves or throug agreements with third parties. We rely on the ability of our employees, our internal systems and systems at technology centers operated by third parties to process a high volume of transactions. We also face the risk o operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial

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intermediaries we use to facilitate our securities transactions. In the event of a breakdown or improper opera our or third party s systems or improper action by third parties or employees, we could suffer financial loss, impairment to our liquidity, a disruption of our businesses, regulatory sanctions or damage to our reputation.

Despite the business contingency plans we have in place, our ability to conduct business may be adversely a by a disruption in the infrastructure that supports our business and the communities where we are located. Th may include a disruption involving physical site access, terrorist activities, disease pandemics, electrical, communications or other services used by Morgan Stanley, its employees or third parties with whom we con business.

Legal Risk.

Legal risk refers to the risk of non-compliance with applicable legal and regulatory requirements and standar Legal risk also includes contractual and commercial risk such as the risk that a counterparty s performance obligations will be unenforceable. For more information on how we monitor and manage legal risk, see Le in Part II, Item 7A herein.

The financial services industry faces substantial litigation and regulatory risks, and we may face damage reputation and legal liability.

We have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions, and other litigation, arising in connection with our activities as a global diversified financial service institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/ punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would oth be the primary defendants in such cases are bankrupt or in financial distress.

We are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business, including, among other thin accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, pe injunctions or other relief. The number of these investigations and proceedings has increased in recent years regard to many firms in the financial services industry, including us. Like any large corporation, we are also subject to risk from potential employee misconduct, including non-compliance with policies and improper u disclosure of confidential information. Substantial legal liability or significant regulatory action against us c materially adversely affect our business, financial condition or results of operations or cause us significant reputational harm, which could seriously harm our business. For more information regarding legal proceedin which we are involved see Legal Proceedings in Part I, Item 3 herein.

We are subject to extensive regulation in the jurisdictions in which we conduct our businesses.

We are subject to extensive regulation globally and face the risk of significant intervention by regulatory authorities in the jurisdictions in which we conduct our businesses. Among other things, we could be fined, prohibited from engaging in some of our business activities or subject to limitations or conditions on our bus activities. Significant regulatory action against us could have material adverse financial effects, cause signifi reputational harm to us, or harm our business prospects. New laws or regulations or changes in the enforcem existing laws or regulations applicable to our clients may also adversely affect our business. For more inform regarding the regulatory environment in which we operate, see Regulation in Part I, Item 1 herein.

Our commodities activities subject us to extensive regulation, potential catastrophic events and environme risks and regulation that may expose us to significant costs and liabilities.

In connection with the commodities activities in our Institutional Securities business segment, we engage in production, storage, transportation, marketing and trading of several commodities, including metals (base an precious), agricultural products, crude oil, oil products, natural gas, electric power, emission credits, coal, fr

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LNG and related products and indices. In addition, we own five electricity generating facilities in the U.S. an Europe; TransMontaigne Inc. and its subsidiaries, a group of companies operating in the refined petroleum products marketing and distribution business; and the Heidmar Group of companies, which provide internati marine transportation and U.S. marine logistics services. As a result of these activities, we are subject to exte and evolving energy, commodities, environmental, health and safety, and other governmental laws and regul For example, liability may be incurred without regard to fault under certain environmental laws and regulati the remediation of contaminated areas. Our commodities business also exposes us to the risk of unforeseen a catastrophic events, including natural disasters, leaks, spills, explosions, release of toxic substances, fires, ac on land and at sea, wars, and terrorist attacks that could result in personal injuries, loss of life, property dama and suspension of operations.

Although we have attempted to mitigate our pollution and other environmental risks by, among other measu adopting appropriate policies and procedures for power plant operations, monitoring the quality of petroleum storage facilities and transport vessels and implementing emergency response programs, these actions may n prove adequate to address every contingency. In addition, insurance covering some of these risks may not be available, and the proceeds, if any, from insurance recovery may not be adequate to cover liabilities with res particular incidents. As a result, our financial condition and results of operations may be adversely affected b these events.

We also expect the other laws and regulations affecting our commodities business to increase in both scope a complexity. During the past several years, intensified scrutiny of certain energy markets by federal, state and authorities in the U.S. and abroad and the public has resulted in increased regulatory and legal enforcement, litigation and remedial proceedings involving companies engaged in the activities in which we are engaged. example, the EU has increased its focus on the energy markets which has resulted in increased regulation of companies participating in the energy markets, including those engaged in power generation and liquid hydrocarbons trading. We may incur substantial costs in complying with current or future laws and regulatio our overall businesses and reputation may be adversely affected by the current legal environment. In additio failure to comply with these laws and regulations may result in substantial civil and criminal fines and penal

Potential conflicts of interest are increasing and a failure to appropriately deal with conflicts of interest co adversely affect our businesses.

Our reputation is one of our most important assets. As we have expanded the scope of our businesses and ou base, we increasingly have to address potential conflicts of interest, including those relating to our proprietar activities. For example, conflicts may arise between our position as a financial advisor in a merger transactio a principal investment we hold in one of the parties to the transaction. In addition, hedge funds and private e funds are an increasingly important portion of our client base, and also compete with us in a number of our businesses. We have procedures and controls that are designed to address various conflicts of interest. Howe identifying and managing potential conflicts of interest can be complex and difficult and our reputation coul damaged if we fail, or appear to fail, to deal appropriately with conflicts of interest. In addition, the SEC and federal and state regulators have increased their scrutiny of potential conflicts of interest. It is possible that potential or perceived conflicts could give rise to litigation or enforcement actions, which may lead to our cl being less willing to enter into transactions in which such a conflict may occur, which will adversely affect o businesses.

Competitive Environment.

We face strong competition from other financial services firms, which could lead to pricing pressures that
materially adversely affect our revenue and profitability.

The financial services industry and all of our businesses are intensely competitive, and we expect them to re
so. We compete with commercial banks, insurance companies, sponsors of mutual funds, hedge funds, energ
companies and other companies offering financial services in the U.S., globally and through the internet. We

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compete on the basis of several factors, including transaction execution, capital or access to capital, products services, innovation, reputation and price. Over time, certain sectors of the financial services industry have b considerably more concentrated, as financial institutions involved in a broad range of financial services have acquired by or merged into other firms. This convergence could result in our competitors gaining greater cap and other resources, such as a broader range of products and services and geographic diversity. We may exp pricing pressures as a result of these factors and as some of our competitors seek to increase market share by reducing prices. For more information regarding the competitive environment in which we operate, see Competition in Part I, Item 1 herein.

Our ability to retain and attract qualified employees is critical to the success of our business and the failu do so may materially adversely affect our performance.

Our people are our most important resource and competition for qualified employees is intense. In order to a and retain qualified employees, we must compensate such employees at market levels. Typically, those level caused employee compensation to be our greatest expense as compensation is highly variable and changes w performance. If we are unable to continue to attract and retain qualified employees, or do so at rates necessar maintain our competitive position, or if compensation costs required to attract and retain employees become expensive, our performance, including our competitive position, could be materially adversely affected.

Automated trading markets may adversely affect our business and may increase competition.

We have experienced intense price competition in some of our businesses in recent years. In particular, the a to execute securities trades electronically on exchanges and through other automated trading markets has inc the pressure on trading commissions. The trend toward direct access to automated, electronic stock markets likely continue. It is possible that we will experience competitive pressures in these and other areas in the fu some of our competitors may seek to obtain market share by reducing prices.

International Risk.

We are subject to numerous political, economic, legal, operational, franchise and other risks as a result o international operations which could adversely impact our businesses in many ways.

We are subject to political, economic, legal, operational, franchise and other risks that are inherent in operati many countries, including risks of possible nationalization, expropriation, price controls, capital controls, ex controls and other restrictive governmental actions, as well as the outbreak of hostilities or political and governmental instability. In many countries, the laws and regulations applicable to the securities and financi services industries are uncertain and evolving, and it may be difficult for us to determine the exact requireme local laws in every market. Our inability to remain in compliance with local laws in a particular market coul a significant and negative effect not only on our business in that market but also on our reputation generally. are also subject to the enhanced risk that transactions we structure might not be legally enforceable in all cas

We have expanded, and continue to look at opportunities to expand, in the emerging markets. Various emerg market countries have experienced severe economic and financial disruptions, including significant devaluat their currencies, capital and currency exchange controls, high rates of inflation and low or negative growth r their economies. Crime and corruption, as well as issues of security and personal safety, also exist in certain these countries. These conditions could adversely impact our businesses and increase volatility in financial n generally.

The emergence of a pandemic or other widespread health emergency, or concerns over the possibility of suc emergency, could create economic and financial disruptions in emerging markets and other areas throughou world, and could lead to operational difficulties (including travel limitations) that could impair our ability to manage our businesses around the world.

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Acquisition Risk.

We may be unable to fully capture the expected value from acquisitions, joint ventures and minority stake

We expect to grow in part through acquisitions, joint ventures and minority stakes. To the extent we make acquisitions or enter into combinations or joint ventures, we face numerous risks and uncertainties combinin integrating the relevant businesses and systems, including the need to combine accounting and data processi systems and management controls and to integrate relationships with clients and business partners. In the ca joint ventures and minority stakes, we are subject to additional risks and uncertainties in that we may be dep upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that under our control. In addition, conflicts or disagreements between us and our joint venture partners may neg impact the benefits to be achieved by the joint venture. There is no assurance that our recent acquisitions or business we acquire in the future will be successfully integrated and result in all of the positive benefits anticipated. If we are not able to integrate successfully our past and future acquisitions, there is a risk that ou results of operations may be materially and adversely affected.

Risk Management.

Our hedging strategies and other risk management techniques may not be fully effective in mitigating our exposure in all market environments or against all types of risk.

We have devoted significant resources to develop our risk management policies and procedures and expect t continue to do so in the future. Nonetheless, our hedging strategies and other risk management techniques m be fully effective in mitigating our risk exposure in all market environments or against all types of risk, inclu risks that are unidentified or unanticipated. Some of our methods of managing risk are based upon our use o observed historical market behavior. As a result, these methods may not predict future risk exposures, which be significantly greater than the historical measures indicate (*e.g.*, recent events in the U.S. subprime residen mortgage market). Management of operational, legal and regulatory risks requires, among other things, polic and procedures to record properly and verify a large number of transactions and events, and these policies ar procedures may not be fully effective. For more information on how we monitor and manage market and cer other risks, see Risk Management Market Risk in Part II, Item 7A herein.

Item 1B. Unresolved Staff Comments.

Morgan Stanley, like other well-known seasoned issuers, from time to time receives written comments from staff of the SEC regarding its periodic or current reports under the Exchange Act. There are no comments th remain unresolved that Morgan Stanley received not less than 180 days before the end of its fiscal year to w this report relates that Morgan Stanley believes are material.

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Item 2. Properties.

Morgan Stanley has offices, operations and processing centers and warehouse facilities located throughout th U.S., and certain subsidiaries maintain offices and other facilities in international locations. Morgan Stanley properties that are not owned are leased on terms and for durations that are reflective of commercial standard the communities where these properties are located. Morgan Stanley believes the facilities it owns or occupie adequate for the purposes for which they are currently used and are well maintained. Our principal offices co of the following properties:

Location	Owned/ Leased	Lease Expiration	Approximate Square F as of November 30, 2
U.S. Locations			
1585 Broadway New York, New York (*Global Headquarters and Institutional Securities Headquarters*)	Owned	N/A	894,390 square feet
522 Fifth Avenue New York, New York (*Asset Management Headquarters*)	Owned	N/A	581,242 square feet
2000 Westchester Avenue Purchase, New York (*Global Wealth Management Group Headquarters*)	Owned	N/A	590,303 square feet
New York, New York (*Several locations*)	Leased	2008 2018	2,238,726 square feet
One Pierrepont Plaza Brooklyn, New York	Leased	2013	456,686 square feet
Jersey City, New Jersey (*Several locations*)	Leased	2008 2012	499,350 square feet
International Locations			

25 Cabot Square, Canary Wharf (*London Headquarters*)	Owned**	N/A	450,150 square feet
Canary Wharf (*Several locations*)	Leased	2013 2038	957,378 square feet
1 Austin Road Kowloon Station, West Kowloon (*Hong Kong Headquarters*)	Leased	2019	356,630 square feet
Sapporo s Yebisu Garden Place, Ebisu, Shibuya-ku (*Tokyo Headquarters*)	Leased	Option to cancel in 2008, or at any time thereafter	396,314 square feet

* The indicated total aggregate square footage leased does not include space occupied by Morgan Stanley securities bra offices.

** Morgan Stanley holds the freehold interest in the land and building.

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Item 3. Legal Proceedings.

In addition to the matters described below, in the normal course of business, Morgan Stanley has been name from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litig arising in connection with its activities as a global diversified financial services institution. Certain of the act threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendan such cases are bankrupt or in financial distress.

Morgan Stanley is also involved, from time to time, in other reviews, investigations and proceedings (both fo and informal) by governmental and self-regulatory agencies regarding Morgan Stanley s business, including among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

Morgan Stanley contests liability and/or the amount of damages as appropriate in each pending matter. In vi the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, Morga Stanley cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or othe relief, if any, might be. Subject to the foregoing, Morgan Stanley believes, based on current knowledge and a consultation with counsel, that the outcome of such pending matters will not have a material adverse effect o consolidated financial condition of Morgan Stanley, although the outcome of such matters could be material Morgan Stanley s operating results and cash flows for a particular future period, depending on, among other the level of Morgan Stanley s revenues or income for such period.

Coleman Litigation.

In May 2003, Coleman (Parent) Holdings Inc. (CPH) filed a complaint against Morgan Stanley in the Cir of the Fifteenth Judicial Circuit for Palm Beach County, Florida relating to the 1998 merger between The Co Company, Inc. and Sunbeam, Inc. (Sunbeam). The complaint, as amended, alleged that CPH was induced to the transaction with Sunbeam based on certain financial misrepresentations, and it asserted claims against Morgan Stanley for aiding and abetting fraud, conspiracy and punitive damages. Shortly before trial, which commenced in April 2005, the trial court granted, in part, a motion for entry of a default judgment against M Stanley and ordered that portions of CPH s complaint, including those setting forth CPH s primary allegati against Morgan Stanley, be read to the jury and deemed established for all purposes in the action. In May 20 jury returned a verdict in favor of CPH and awarded CPH $604 million in compensatory damages and $850 in punitive damages. In June 2005, the trial court issued a final judgment in favor of CPH in the amount of $ million, which included prejudgment interest and excluded certain payments received by CPH in settlement related claims against others.

In March 2007, the District Court of Appeal for the Fourth District of Florida (the Court of Appeal) issue opinion reversing the trial court s award for compensatory and punitive damages and remanding the matter trial court for entry of judgment for Morgan Stanley. In June 2007, the Court of Appeal s opinion became fi when the Court of Appeal issued an order denying CPH s motions for rehearing, rehearing *en banc* and for

certification of certain questions for review by the Florida Supreme Court (the Supreme Court). On Dece
2007, the Supreme Court denied CPH s request for review of the Court of Appeal s decision, directing judg
favor of Morgan Stanley.

IPO Fee Litigation.

Starting in late 1998, purported class actions, later captioned *In re Public Offering Fee Antitrust Litigation* (t
purchaser actions) and *In re Issuer Plaintiff Initial Public Offering Fee Antitrust Litigation* (the issuer ac
were initiated in the U.S. District Court for the Southern District of New York (the SDNY) against

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Morgan Stanley and numerous other underwriters. The consolidated proceedings, one on behalf of purchaser the other on behalf of issuers of certain shares in initial public offerings (IPOs), allege that defendants co fix the underwriters spread at 7% in IPOs of U.S. companies in the $20 million to $80 million range in viol Section 1 of the Sherman Act. The complaints seek treble damages and injunctive relief. Plaintiffs claims f damages in the purchaser actions have been dismissed, but the claims for injunctive relief remain and plainti claims in the issuer actions for damages and injunctive relief remain. Plaintiffs moved for class certification actions, and defendants opposed that motion in May 2005. In October 2005, plaintiffs moved for summary judgment, which defendants opposed. In May 2006, plaintiffs filed a petition pursuant to Federal Rule of Ci Procedure 23(f) for leave to appeal the SDNY s denial of class certification and in September 2007, the U.S of Appeals for the Second Circuit (the Second Circuit) reversed the SDNY s decision and remanded the to the district court for further consideration of class certification issues. On remand, plaintiffs filed a motion class certification on October 17, 2007.

IPO Allocation Matters.

Beginning in March 2001, numerous purported class actions, now captioned *In re Initial Public Offering Sec Litigation*, were filed in the SDNY against certain issuers of IPO securities, certain individual officers of tho issuers, Morgan Stanley and other underwriters of those IPOs, purportedly on behalf of purchasers of stock i IPOs or the aftermarket. These complaints allege that defendants required customers who wanted allocations IPO securities to pay undisclosed and excessive underwriters compensation in the form of increased broke commissions and to buy shares of securities offered in the IPOs after the IPOs were completed at escalating levels higher than the IPO price (a practice plaintiffs refer to as laddering), and claim violations of the fe securities laws, including Sections 11 and 12(a)(2) of the Securities Act of 1933 (the Securities Act) and Section 10(b) of the Exchange Act. Some of the complaints also allege that continuous buy recommendat the defendants research analysts improperly increased or sustained the prices at which the securities traded IPOs. In February 2003, the underwriter defendants joint motion to dismiss was denied, except as to certai specified offerings. In December 2006, the Second Circuit reversed the SDNY s grant of class certification, ruled that these cases could not be certified for class treatment. In August 2007, plaintiffs filed second conso amended class action complaints, which purport to amend the allegations in light of the Second Circuit s re the SDNY s decision approving the cases to proceed as class actions. Plaintiffs again seek certification of c

In October 2007, numerous derivative actions, purportedly brought on behalf of certain issuers of IPO secur were filed in the U.S. District Court for the Western District of Washington against Morgan Stanley and oth underwriters of those IPOs. The actions seek to recover short swing profits allegedly generated in violati Section 16(b) of the Exchange Act.

Late Trading and Market Timing.

Starting in July 2003, Morgan Stanley received subpoenas and requests for information from various regula and governmental agencies, including the SEC, the NYSE and various states, in connection with industry-w investigations of broker-dealers and mutual fund complexes relating to possible late trading and market timi mutual funds. In December 2007, Morgan Stanley settled all claims with the SEC concerning late trading an market timing of mutual funds in the retail system over the period from January 2002 to August 2003. Unde terms of the settlement, Morgan Stanley will, among other things, be censured and pay a monetary fine.

Subprime-related Matters.

Morgan Stanley is responding to subpoenas and requests for information from certain regulatory and govern
entities concerning the origination, purchase, securitization and servicing of subprime and non-subprime resi
mortgages and related issues. Morgan Stanley has also been named as a defendant in various civil litigation r
related to the subprime and non-subprime residential mortgage business, including

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purported class actions related to Morgan Stanley s role as an underwriter of certain preferred stock offering New Century Financial Corp. and Countrywide Financial Corp. and certain offerings of mortgage pass throu certificates for a subsidiary of Countrywide Financial Corp., and other related matters.

A shareholder derivative lawsuit was filed in the SDNY during November 2007 asserting claims related in la part to losses caused by certain subprime-related trading positions and related matters, but no complaint has served. In December 2007, several purported class action complaints were filed in SDNY asserting claims o behalf of participants in Morgan Stanley s 401(k) plan and employee stock ownership plan against Morgan and other parties, including certain present and former directors and officers, under the Employee Retiremen Income Security Act of 1974. The complaints relate in large part to subprime-related losses, and allege, amo other things, that Morgan Stanley stock was not a prudent investment and that risks associated with Morgan Stanley stock and Morgan Stanley s financial condition were not adequately disclosed.

The following matters were terminated during the quarter ended November 30, 2007:

Global Wealth Management Group Employment Matters.

Wage and Hour Matters. Complaints raising allegations of unpaid overtime and unlawful wage deductio filed against Morgan Stanley in New Jersey, New York, Connecticut, Texas, Florida, Illinois, California and seeking damages on behalf of certain current and former employees. In October 2006, Morgan Stanley reach agreement to resolve these claims on behalf of the individual claimants as well as other potential class memb nationwide. In November 2006, for purposes of executing the settlement, a consolidated amended complaint captioned *Steinberg, et al. v. Morgan Stanley* was filed in the U.S. District Court for the Southern District of California (SDC). In December 2006, the Judicial Panel on Multi-District Litigation issued an order centr the various matters pending across the country in the SDC.

Gender Matters. In June 2006, Morgan Stanley was named in two purported class actions alleging gender discrimination under state and federal law. On October 24, 2007, the U.S. District Court for the District of Columbia granted final approval to the settlement reached in *Joanne Augst-Johnson v. Morgan Stanley*. The approved settlement resolved all of the class-wide and individual plaintiffs claims and included, among oth things, a payment to the settlement fund and certain programmatic relief. All similar class wide claims raise second purported gender class action captioned *Daisy Jaffe et al. v. Morgan Stanley* were subsumed by the *Augst-Johnson* settlement.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders during the fourth quarter of our fiscal year end November 30, 2007.

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Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters a Issuer Purchases of Equity Securities.

Morgan Stanley s common stock trades on the NYSE under the symbol MS. At January 23, 2008, Morga had approximately 94,469 holders of record; however, Morgan Stanley believes the number of beneficial ow of common stock exceeds this number.

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

	Low Sale Price	High Sale Price	Di
Fiscal 2007:			
Fourth Quarter	$ 47.56	$ 69.87	$
Third Quarter*	$ 54.90	$ 90.95	$
Second Quarter	$ 70.30	$ 87.44	$
First Quarter	$ 73.04	$ 84.66	$
Fiscal 2006:			
Fourth Quarter	$ 65.26	$ 80.00	$
Third Quarter	$ 54.52	$ 69.50	$
Second Quarter	$ 57.58	$ 66.00	$
First Quarter	$ 55.89	$ 62.15	$

* On June 30, 2007, Morgan Stanley completed the Discover Spin-off. Prior to the Discover Spin-off, the Low Sale Price and the High Sale Price for the Third Quarter were $82.73 and $90.95, respectively.

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The table below sets forth the information with respect to purchases made by or on behalf of Morgan Stanley
common stock during the fourth quarter of our fiscal year ended November 30, 2007.

Issuer Purchases of Equity Securities

(dollars in millions, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs (C)	Approxima Value of that Ma Be Purch Und the Pla Progr
Month #1 (September 1, 2007 September 30, 2007)				
Share Repurchase Program (A)		N/A		$
Employee Transactions (B)	2,348,230	$ 62.89	N/A	
Month #2 (October 1, 2007 October 31, 2007)				
Share Repurchase Program (A)	2,830,092	$ 63.32	2,830,092	$
Employee Transactions (B)	29,705	$ 66.34	N/A	
Month #3 (November 1, 2007 November 30, 2007)				
Share Repurchase Program (A)	6,364,081	$ 52.93	6,364,081	$
Employee Transactions (B)	98,592	$ 53.65	N/A	
Total				
Share Repurchase Program (A)	9,194,173	$ 56.13	9,194,173	$
Employee Transactions (B)	2,476,527	$ 62.56	N/A	

(A) On December 19, 2006, Morgan Stanley announced that its Board of Directors authorized the repurchase of up to $6 b
of Morgan Stanley s outstanding stock under a new share repurchase program (the Share Repurchase Program). Th
Repurchase Program is a program for capital management purposes that considers, among other things, business segm
capital needs, as well as equity-based compensation and benefit plan requirements. The Share Repurchase Program ha
expiration or termination date.

(B) Includes: (1) shares delivered or attested to in satisfaction of the exercise price and/or tax withholding obligations by h
of employee stock options (granted under employee stock compensation plans) who exercised options; (2) restricted s
withheld (under the terms of grants under employee stock compensation plans) to offset tax withholding obligations th
occur upon vesting and release of restricted shares; and (3) shares withheld (under the terms of grants under employee
compensation plans) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlyin
restricted stock units. Morgan Stanley s employee stock compensation plans provide that the value of the shares deliv
attested, or withheld, shall be valued using the fair market value of Morgan Stanley common stock on the date the rele
transaction occurs, using a valuation methodology established by Morgan Stanley.

(C) Share purchases under publicly announced programs are made pursuant to open-market purchases, Rule 10b5-1 plans
privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices M
Stanley deems appropriate.

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Stock performance graph. The following graph compares the cumulative total shareholder return (round the nearest whole dollar) of our common stock, the S&P 500 Stock Index (S&P 500) and the S&P 500 Di Financials Index (S5DIVF) for our last five fiscal years. The graph assumes a $100 investment at the clos on November 30, 2002 and reinvestment of dividends on the respective dividend payment dates without commissions. Historical prices are adjusted to reflect the Discover Spin-off completed on June 30, 2007. Thi graph does not forecast future performance of our common stock.

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Item 6. Selected Financial Data.

MORGAN STANLEY

SELECTED FINANCIAL DATA

(dollars in millions, except share and per share data)

			Fiscal Year		
	2007	**2006**	**2005**	**2004**	
Income Statement Data:					
Revenues:					
Investment banking	$ 6,368	$ 4,755	$ 3,843	$ 3,341	$
Principal transactions:					
Trading	3,206	11,805	7,377	5,512	
Investments	3,262	1,807	1,128	721	
Commissions	4,682	3,770	3,331	3,235	
Asset management, distribution and administration fees	6,519	5,238	4,915	4,436	
Interest and dividends	60,083	42,776	25,987	16,719	
Other	1,208	585	496	332	
Total revenues	85,328	70,736	47,077	34,296	
Interest expense	57,302	40,897	23,552	13,977	
Net revenues	28,026	29,839	23,525	20,319	
Non-interest expenses:					
Compensation and benefits	16,552	13,986	10,749	9,320	
Other	8,033	6,750	6,711	5,482	
September 11th related insurance recoveries, net			(251)		
Total non-interest expenses	24,585	20,736	17,209	14,802	
Income from continuing operations before losses from unconsolidated investees, income taxes, dividends on preferred securities subject to mandatory redemption and cumulative effect of accounting change, net	3,441	9,103	6,316	5,517	
Losses from unconsolidated investees	47	40	311	328	
Provision for income taxes	831	2,728	1,473	1,384	
Dividends on preferred securities subject to mandatory redemption				45	
Income from continuing operations before cumulative effect of accounting change, net	2,563	6,335	4,532	3,760	
Discontinued operations:					
Net gain from discontinued operations	1,024	1,666	559	1,129	
Provision for income taxes	378	529	201	403	
Net gain on discontinued operations	646	1,137	358	726	

Cumulative effect of accounting change, net			49		
Net income	$ 3,209	$ 7,472	$ 4,939	$ 4,486	$
Preferred stock dividend requirements	$ 68	$ 19	$	$	$
Earnings applicable to common shareholders(1)	$ 3,141	$ 7,453	$ 4,939	$ 4,486	$

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	Fiscal Year 2007	2006	2005	2004	2003
Per Share Data:					
Earnings per basic common share:					
Income from continuing operations	$ 2.49	$ 6.25	$ 4.32	$ 3.48	$
Gain on discontinued operations	0.64	1.13	0.33	0.67	
Cumulative effect of accounting change, net			0.05		
Earnings per basic common share	$ 3.13	$ 7.38	$ 4.70	$ 4.15	$
Earnings per diluted common share:					
Income from continuing operations	$ 2.37	$ 5.99	$ 4.19	$ 3.40	$
Gain on discontinued operations	0.61	1.08	0.33	0.66	
Cumulative effect of accounting change, net			0.05		
Earnings per diluted common share	$ 2.98	$ 7.07	$ 4.57	$ 4.06	$
Book value per common share	$ 28.56	$ 32.67	$ 27.59	$ 25.95	$ 2
Dividends per common share	$ 1.08	$ 1.08	$ 1.08	$ 1.00	$
Balance Sheet and Other Operating Data:					
Total assets	$ 1,045,409	$ 1,121,192	$ 898,835	$ 747,578	$ 603
Consumer loans, net		22,915	21,966	19,166	18
Total capital(2)	191,085	162,134	125,891	110,793	82
Long-term borrowings(2)	159,816	126,770	96,709	82,587	57
Shareholders equity	31,269	35,364	29,182	28,206	24
Return on average	8.9%	23.5%	17.3%	16.8%	

common shareholders equity					
Average common and equivalent shares(1)	1,001,878,651	1,010,254,255	1,049,896,047	1,080,121,708	1,076,754

(1) Amounts shown are used to calculate earnings per basic common share.
(2) These amounts exclude the current portion of long-term borrowings and include Capital Units and junior subordinated issued to capital trusts.

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Item 7. Management s Discussion and Analysis of Financial Condition and Result Operations.

Introduction.

Morgan Stanley (the Company) is a global financial services firm that maintains significant market positi each of its business segments Institutional Securities, Global Wealth Management Group and Asset Manag The Company, through its subsidiaries and affiliates, provides a wide variety of products and services to a la and diversified group of clients and customers, including corporations, governments, financial institutions ar individuals. A summary of the activities of each of the segments follows.

Institutional Securities includes capital raising; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity and fixed income securities and related products, including foreign excha and commodities; benchmark indices and risk management analytics; research; and investment activities.

Global Wealth Management Group provides brokerage and investment advisory services covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit other lending products; cash management services; retirement services; and trust and fiduciary services.

Asset Management provides global asset management products and services in equity, fixed income, alternat investments, which includes hedge funds and fund of funds, and merchant banking, which includes real estat private equity and infrastructure, to institutional and retail clients through proprietary and third-party retail distribution channels, intermediaries and the Company s institutional distribution channel. Asset Manageme engages in investment activities.

The Company s results of operations for the 12 months ended November 30, 2007 (fiscal 2007), Novemb 2006 (fiscal 2006) and November 30, 2005 (fiscal 2005) are discussed below.

Discontinued Operations.

On June 30, 2007, the Company completed the spin-off (the Discover Spin-off) of Discover Financial Se (DFS) to its shareholders. DFS results are included within discontinued operations for all periods prese through the date of the Discover Spin-off. The results of Quilter Holdings Ltd. (Quilter), Global Wealth Management Group s former mass affluent business in the U.K., are reported as discontinued operations fo periods presented through its sale on February 28, 2007. The results of the Company s aircraft leasing busi which was sold on March 24, 2006, are also reported as discontinued operations through its date of sale. See 22 to the consolidated financial statements.

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Results of Operations.

Executive Summary.

Financial Information.

	Fiscal Year		
	2007	2006	2
Net revenues (dollars in millions):			
Institutional Securities	$ 16,149	$ 21,110	$ 1
Global Wealth Management Group	6,625	5,512	
Asset Management	5,493	3,453	
Intersegment Eliminations	(241)	(236)	
Consolidated net revenues	$ 28,026	$ 29,839	$ 2
Income before taxes (dollars in millions)(1):			
Institutional Securities	$ 817	$ 7,721	$
Global Wealth Management Group	1,155	508	
Asset Management	1,467	851	
Intersegment Eliminations	2	23	
Consolidated income before taxes	$ 3,441	$ 9,103	$
Consolidated net income (dollars in millions)	$ 3,209	$ 7,472	$
Earnings applicable to common shareholders (dollars in millions)(2)	$ 3,141	$ 7,453	$
Earnings per basic common share:			
Income from continuing operations	$ 2.49	$ 6.25	$
Gain on discontinued operations	0.64	1.13	
Cumulative effect of accounting change, net			
Earnings per basic common share	$ 3.13	$ 7.38	$
Earnings per diluted common share:			
Income from continuing operations	$ 2.37	$ 5.99	$
Gain on discontinued operations	0.61	1.08	
Cumulative effect of accounting change, net			
Earnings per diluted common share	$ 2.98	$ 7.07	$
Regional net revenues (dollars in millions)(3):			
Americas	$ 12,150	$ 18,803	$ 1
Europe, Middle East and Africa	10,008	7,762	
Asia	5,868	3,274	
Consolidated net revenues	$ 28,026	$ 29,839	$ 2

Statistical Data.

Book value per common share(4)	$ 28.56	$ 32.67	$
Average common equity (dollars in billions)(5):			
Institutional Securities	$ 23.9	$ 18.0	$
Global Wealth Management Group	1.7	3.0	
Asset Management	3.5	2.4	
Unallocated capital	2.9	3.1	
Total from continuing operations	32.0	26.5	
Discontinued operations	3.2	5.2	
Total	$ 35.2	$ 31.7	$

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Statistical Data (Continued).

	Fiscal Year		
	2007	**2006**	**20**
Return on average common equity(5):			
Consolidated	9%	23%	
Institutional Securities	4%	30%	
Global Wealth Management Group	41%	11%	
Asset Management	26%	21%	
Effective income tax rate from continuing operations	24.5%	30.1%	
Worldwide employees (excluding DFS employees of 13,186 in 2006 and 13,495 in 2005)	48,256	43,124	39
Consolidated assets under management or supervision by asset class (dollars in billions):			
Equity	$ 355	$ 307	$
Fixed income	127	111	
Money market	108	89	
Alternatives(6)	109	61	
Subtotal	699	568	
Unit trusts	15	14	
Other(7)	61	63	
Total assets under management or supervision(8)	775	645	
Share of minority interest assets(9)	7	4	
Total	$ 782	$ 649	$
Institutional Securities (dollars in billions):			
Mergers and acquisitions completed transactions(10):			
Global market volume	$ 1,280.6	$ 730.5	$ 5
Market share	35.4%	25.4%	
Rank	1	3	
Mergers and acquisitions announced transactions(10):			
Global market volume	$ 1,339.4	$ 973.9	$ 7
Market share	31.8%	28.9%	
Rank	2	2	
Global equity and equity-related issues(10):			
Global market volume	$ 64.7	$ 57.2	$
Market share	7.4%	8.0%	
Rank	5	4	
Global debt issues(10):			
Global market volume	$ 361.2	$ 409.9	$ 3
Market share	5.4%	5.8%	
Rank	6	6	
Global initial public offerings(10):			
Global market volume	$ 24.1	$ 22.6	$
Market share	7.8%	8.4%	
Rank	3	2	
Pre-tax profit margin(11)	5%	37%	

Statistical Data (Continued).

	Fiscal Year 2007	2006	2
Global Wealth Management Group:			
Global representatives	8,429	7,944	9
Annualized net revenue per global representative (dollars in thousands)(12)	$ 811	$ 651	$
Client assets by segment (dollars in billions):			
$10 million or more	$ 247	$ 199	$
$1 million $10 million	275	243	
Subtotal $1 million or more	522	442	
$100,000 $1 million	179	177	
Less than $100,000	23	27	
Client assets excluding corporate and other accounts	724	646	
Corporate and other accounts	34	30	
Total client assets	$ 758	$ 676	$
Fee-based assets as a percentage of total client assets(13)	27%	29%	
Client assets per global representative (dollars in millions)(14)	$ 90	$ 85	$
Bank deposits (dollars in billions)(15)	$ 26.2	$ 13.3	$
Pre-tax profit margin(11)	17%	9%	
Asset Management:			
Assets under management or supervision (dollars in billions)(16)	$ 597	$ 496	$
Percent of fund assets in top half of Lipper rankings(17)	49%	40%	
Pre-tax profit margin(11)	27%	25%	

(1) Amounts represent income from continuing operations before losses from unconsolidated investees, income taxes and cumulative effect of accounting change, net.

(2) Earnings applicable to common shareholders are used to calculate earnings per share information. Fiscal 2007 and fisc include a preferred stock dividend of $68 million and $19 million, respectively.

(3) Reflects the regional view of the Company s consolidated net revenues, on a managed basis, based on the following methodology:
Institutional Securities: investment banking client location, equity capital markets client location, debt capital marke recording location, sales and trading trading desk location. Global Wealth Management Group: global representative Asset Management: client location, except for the merchant banking business, which is based on asset location.

(4) Book value per common share equals common shareholders equity of $30,169 million at November 30, 2007, $34,2 million at November 30, 2006 and $29,182 million at November 30, 2005, divided by common shares outstanding of 1,056 million at November 30, 2007, 1,049 million at November 30, 2006 and 1,058 million at November 30, 2005.

(5) The computation of average common equity for each business segment is based upon an economic capital model that estimates the amount of equity capital required to support the businesses and their risk-generating activities through th business cycle while simultaneously satisfying regulatory, rating agency and investor minimum requirements. The eco capital model will evolve over time in response to changes in the business and regulatory environment and to improve in modeling techniques in order to reflect the capital required to support business activities. The effective tax rates use computation of segment return on average common equity were determined on a separate entity basis.

(6) Amounts reported for Alternatives reflect the Company s invested equity in those funds and include a range of alterna investment products such as real estate funds, hedge funds, private equity funds, funds of hedge funds and funds of pr equity funds.

(7) Amounts include assets under management or supervision associated with the Global Wealth Management Group bus segment.

(8) Revenues and expenses associated with these assets are included in the Company s Asset Management, Global Wealt Management Group and Institutional Securities business segments.

(9) Amounts represent Asset Management s proportional share of assets managed by entities in which it owns a minority

(10) Source: Thomson Financial, data as of January 8, 2008 The data for fiscal 2007, fiscal 2006 and fiscal 2005 are for th periods from January 1 to December 31, 2007, January 1 to December 31, 2006 and January 1 to December 31, 2005, respectively, as Thomson Financial presents these data on a calendar-year basis.

(11) Percentages represent income from continuing operations before losses from unconsolidated investees, income taxes a cumulative effect of accounting change, net, as a percentage of net revenues.

(12) Annualized net revenue per global representative amounts equal Global Wealth Management Group s net revenues d by the quarterly average global representative headcount for the periods presented.

(13) The decline in fee-based assets as a percent of total client assets largely reflected the termination on October 1, 2007 Company s fee-based (fee in lieu of commission) brokerage program pursuant to a court decision vacating a Securiti Exchange Commission (SEC) rule that permitted fee-based brokerage. Client assets that were in the fee-based prog primarily moved to commission-based brokerage accounts, or at the election of some clients, into other fee-based adv programs, including Morgan Stanley Advisory, a new nondiscretionary account launched in August 2007.

(14) Client assets per global representative equal total period-end client assets divided by period-end global representative headcount.

(15) Bank deposits are held at certain of the Company s Federal Deposit Insurance Corporation (the FDIC) insured dep institutions for the benefit of retail clients through their accounts.

(16) Amounts include Asset Management s proportional share of assets managed by entities in which it owns a minority i

(17) Source: Lipper, one-year performance excluding money market funds as of November 30, 2007, November 30, 2006 November 30, 2005, respectively.

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Fiscal 2007 Performance.

Company Results. The Company recorded net income of $3,209 million in fiscal 2007, a 57% decrease fro $7,472 million in the prior year. Net revenues (total revenues less interest expense) declined 6% to $28,026 r in fiscal 2007. During the fourth quarter of fiscal 2007, the Company recorded $9.4 billion in mortgage-relat writedowns resulting from an unfavorable subprime mortgage-related trading strategy and the continued deterioration and lack of market liquidity for subprime and other mortgage-related instruments. Included in t $9.4 billion were writedowns of $7.8 billion related to U.S. subprime trading positions, principally super sen derivative positions in collateralized debt obligations (CDOs). These derivative positions were entered int primarily by the Company s proprietary trading group. The remaining writedowns of $1.6 billion related to mortgage-related instruments, which included $1.2 billion relating to commercial mortgage-backed securitie (CMBS), ALT-A (a residential mortgage loan categorization that falls between prime and subprime) and loans, conduit and non-performing loans, European non-conforming loans and an impairment charge of $43' million related to mortgage-related securities portfolios in the Company s domestic subsidiary banks. The re for fiscal 2007 also included losses of approximately $700 million that reflected mark-to-market valuations associated with loans and loan commitments largely related to acquisition financing to non-investment grade companies (see Impact of Credit Market Events herein).

Non-interest expenses increased 19% to $24,585 million from the prior year primarily due to higher compen costs. Diluted earnings per share were $2.98 compared with $7.07 a year ago. Compensation and benefits ex increased 18%, primarily reflecting higher incentive-based compensation accruals due to higher net revenues certain of the Company s businesses. Diluted earnings per share from continuing operations were $2.37 com with $5.99 last year. The return on average common equity in fiscal 2007 was 8.9% compared with 23.5% in prior year. The return on average common equity from continuing operations for fiscal 2007 was 7.8% comp with 23.8% last year.

Results for fiscal 2007 also included a gain of $168 million ($109 million after-tax) in discontinued operatio related to the sale of Quilter on February 28, 2007. Results for fiscal 2006 included a loss of $125 million ($ million after-tax) related to the sale of the Company s aircraft leasing business (see Note 22 to the consolida financial statements). In addition, pre-tax results for fiscal 2007 included the $360 million reversal of the Co litigation reserve (see Other Matters Coleman Litigation herein). Results for fiscal 2006 included non-ca incremental compensation expenses of approximately $260 million for stock-based awards granted to retirement-eligible employees (see Note 2 to the consolidated financial statements).

The Company s effective income tax rate from continuing operations was 24.5% in fiscal 2007 compared w 30.1% in fiscal 2006. The decrease primarily reflected lower earnings that increased the effect of permanent differences. Fiscal 2006 s income tax provision included an income tax benefit of $242 million resulting fro resolution of a federal tax audit. Excluding the benefits from the federal tax audit, the Company s effective tax rate from continuing operations in fiscal 2006 would have been 32.8%.

At fiscal year-end, the Company had 48,256 employees worldwide compared with 43,124 (excluding DFS employees) at the prior year-end.

Subsequent to the 2007 fiscal year-end, in December 2007, the Company sold equity units (the Equity Unit
wholly owned subsidiary of the China Investment Corporation Ltd. (CIC) for approximately $5,579 milli
Liquidity and Capital Resources China Investment Corporation Investment herein).

Institutional Securities. Institutional Securities recorded income from continuing operations before losses unconsolidated investees and income taxes of $817 million, an 89% decrease from a year ago. Net revenues declined 24% to $16,149 million as record results in equity sales and trading, advisory and underwriting wer than offset by lower results in fixed income sales and trading. Non-interest expenses increased 15% to $15,3 million, reflecting higher compensation costs and non-compensation expenses. Non-compensation expenses increased 24% as higher costs associated with higher levels of business activity, business investment

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and operating expenses associated with TransMontaigne Inc. (TransMontaigne), the Heidmar Group of co
(Heidmar) and Saxon Capital, Inc. (Saxon) were partially offset by the reversal of the Coleman Litigat

Investment banking revenues rose 31% from last year to $5,538 million. Underwriting revenues rose 21% fr year to $2,997 million. Advisory fees from merger, acquisition and restructuring transactions were $2,541 m an increase of 45% from fiscal 2006.

Fixed income sales and trading revenues were $650 million, down 93% from a year ago. The decrease was d by significant losses in credit products and lower results in commodities, partially offset by record results in interest rate and currency products. The decline in credit product revenues primarily reflected the mortgage-r writedowns (see Impact of Credit Market Events herein). Commodity revenues decreased primarily due t trading results from oil liquids, electricity and natural gas products. Fiscal 2006 also benefited from revenue recognized on structured transactions. Interest rate and currency product revenues benefited from stronger re in interest rate, emerging markets and foreign exchange products.

Equity sales and trading revenues increased 38% to a record $8,658 million. Record international results contributed to record revenues from derivative products and prime brokerage and strong results in cash prod

Sales and trading revenues also benefited in fiscal 2007 from the widening of the Company s credit spreads financial instruments that are accounted for at fair value.

In fiscal 2007, other sales and trading losses of approximately $1,242 million reflected loans and loan commitments largely related to event-driven lending to non-investment grade companies and the impairmen charge related to mortgage-related securities portfolios in the Company s domestic subsidiary banks (see I Credit Market Events Subsidiary Banks herein).

Principal transaction net investment revenues increased 35% to $1,459 million in fiscal 2007. Fiscal 2007 s primarily related to realized and unrealized net gains associated with certain of the Company s investments higher revenues from the Company s investments in passive limited partnership interests associated with th Company s real estate funds. The increase also reflected higher revenues primarily related to the appreciatio investments related to certain employee deferred compensation plans.

Global Wealth Management Group. Global Wealth Management Group recorded income from continuin operations before income taxes of $1,155 million, up 127% from the prior year. Net revenues were $6,625 m a 20% increase over a year ago, primarily reflecting higher revenues from increased underwriting activity, hi asset management revenues reflecting growth in fee-based products and higher net interest revenue from gro the bank deposit program. Total non-interest expenses were $5,470 million, a 9% increase from a year ago. Compensation and benefits expense increased 15%, primarily reflecting higher incentive-based compensatio accruals due to higher net revenues. Non-compensation costs decreased 2%, primarily reflecting lower charg legal and regulatory matters and continued cost discipline across the business. Total client assets increased t billion, up 12% from the prior fiscal year-end. In addition, client assets in fee-based accounts increased 3% f year ago to $201 billion and decreased as a percentage of total client assets to 27% from last year s 29%. Th

decline in fee-based assets as a percent of total client assets largely reflected the termination on October 1, 2
the Company s fee-based (fee in lieu of commission) brokerage program pursuant to a court decision vacati
SEC rule that permitted fee-based brokerage. At fiscal year-end, the number of global representatives was 8,
an increase of 485 from a year ago.

Asset Management. Asset Management recorded income before income taxes of $1,467 million, a 72% in
from last year. Net revenues of $5,493 million increased 59% from the prior year, reflecting significantly hig
investment revenues, primarily in the merchant banking business, which includes the real estate, private equi
infrastructure businesses. The increase primarily reflected higher revenues associated with the appreciation o
investments related to employee deferred compensation and co-investment plans. The

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increase was also due to higher asset management, distribution and administration fees primarily due to an in in assets under management, a more favorable asset mix and higher performance fees due to growth in the alternatives business, including FrontPoint Partners (FrontPoint), which was acquired in December 2006. transaction net investment gains for the year were $1,774 million compared with $669 million a year ago. Non-interest expenses increased 55% from the prior year to $4,026 million. Compensation and benefits expe increased, primarily due to expenses associated with certain deferred compensation plans, higher levels of bu investment and higher incentive-based compensation accruals associated with increased net revenues. Non-compensation expenses increased primarily due to increased business activity, including activity from FrontPoint. Assets under management or supervision within Asset Management of $597 billion were up $10 billion, or 20%, from last year, primarily due to market appreciation and positive net customer inflows.

Global Market and Economic Conditions in Fiscal 2007.

In the U.S., the moderate pace of economic growth that occurred during the first half of fiscal 2007 slowed d the second half of fiscal 2007, primarily reflecting the significant and broad-based illiquidity in the residenti estate and credit markets. Concerns about the impact of subprime loans caused the subprime-related and bro credit markets to deteriorate considerably over the course of the third and fourth quarters of fiscal 2007, with increased volatility, significant spread widening and lower levels of liquidity and price transparency for cert products. The U.S. unemployment rate at the end of fiscal 2007 increased to 4.7% from 4.5% at the end of fi 2006. Conditions in the U.S. equity markets were also volatile, and major equity market indices rose during first half of fiscal 2007 while declining during the second half of fiscal 2007, primarily as a result of mixed corporate earnings and the developments in the credit markets. The Federal Reserve Board (the Fed) left r unchanged during the first half of the year. In the third quarter, the Fed lowered the discount rate by 0.50%, the fourth quarter, the Fed lowered both the benchmark interest rate and discount rate by an aggregate of 0.7 The Fed acted in order to provide additional liquidity and stability to the financial markets and to contain the negative economic impact related to the residential real estate and credit markets. The Fed had not changed t benchmark interest rate since June 2006. In December 2007, the Fed lowered both the benchmark interest ra the discount rate by 0.25% and the U.S. unemployment rate increased to 5.0%. In January, the Fed lowered b the benchmark interest rate and the discount rate by 0.75%.

In Europe, economic growth continued to be strong, reflecting momentum in domestic demand and exports. Corporate business surveys indicated, however, that growth in Europe may be slowing. Major equity market indices in Europe increased during fiscal 2007, primarily due to strong corporate earnings, merger and acqui activity and generally favorable economic conditions, which more than offset the difficult conditions in the c markets in the second half of fiscal 2007. The European Central Bank raised the benchmark interest rate by a aggregate of 0.75% in fiscal 2007. The Bank of England raised the benchmark interest rate by an aggregate o 0.75% in fiscal 2007 but subsequently reduced the benchmark interest rate by 0.25% in December 2007.

In Japan, moderate economic growth continued to be driven by exports and domestic demand. The level of unemployment also remained relatively low. Japanese equity market indices decreased during fiscal 2007 pr due to tighter global credit conditions. The Bank of Japan raised the benchmark interest rate from 0.25% to (during fiscal 2007. Economies elsewhere in Asia expanded, particularly in China, which benefited from stre exports, domestic demand for capital projects and continued globalization. In China, equity market indices r during fiscal 2007. The People s Bank of China raised the benchmark lending rate by an aggregate of 1.17% fiscal 2007.

Business Segments.

The remainder of Results of Operations is presented on a business segment basis before discontinued ope
Substantially all of the Company s operating revenues and operating expenses can be directly attributed to i
business segments. Certain revenues and expenses have been allocated to each business segment, generally i
proportion to its respective revenues or other relevant measures.

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As a result of treating certain intersegment transactions as transactions with external parties, the Company in
an Intersegment Eliminations category to reconcile the segment results to the Company s consolidated resul
Income before taxes in Intersegment Eliminations represents the effect of timing differences associated with
revenue and expense recognition of commissions paid by Asset Management to Global Wealth Management
Group associated with sales of certain products and the related compensation costs paid to Global Wealth
Management Group s global representatives. Income before income taxes recorded in Intersegment Elimina
was $2 million, $23 million and $86 million in fiscal 2007, fiscal 2006 and fiscal 2005, respectively. Include
the results of Intersegment Eliminations for fiscal 2007 is a $25 million advisory fee related to the Discover
Spin-off that was eliminated in consolidation. In addition, the results in Institutional Securities for fiscal 200
included a $30 million advisory fee related to the Company s sale of the aircraft leasing business that was
eliminated in consolidation.

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INSTITUTIONAL SECURITIES

INCOME STATEMENT INFORMATION

	Fiscal 2007	Fiscal 2006	
	(dollars in millions)		
Revenues:			
Investment banking	$ 5,538	$ 4,228	$
Principal transactions:			
Trading	2,740	11,326	
Investments	1,459	1,081	
Commissions	3,262	2,606	
Asset management, distribution and administration fees	103	73	
Interest and dividends	59,131	42,106	
Other	983	444	
Total revenues	73,216	61,864	
Interest expense	57,067	40,754	
Net revenues	16,149	21,110	
Total non-interest expenses	15,332	13,389	
Income from continuing operations before losses from unconsolidated investees, income taxes and cumulative effect of accounting change, net	817	7,721	
Losses from unconsolidated investees	47	40	
Income tax (benefit) provision	(170)	2,212	
Income from continuing operations before cumulative effect of accounting change, net	$ 940	$ 5,469	$

Investment Banking. Investment banking revenues are derived from the underwriting of securities offerin
fees from advisory services. Investment banking revenues were as follows:

	Fiscal 2007	Fiscal 2006
	(dollars in millior	
Advisory fees from merger, acquisition and restructuring transactions	$ 2,541	$ 1,753
Equity underwriting revenues	1,570	1,059
Fixed income underwriting revenues	1,427	1,416
Total investment banking revenues	$ 5,538	$ 4,228

Investment banking revenues increased 31% in fiscal 2007 and reached record levels. The increase was due t
higher revenues from merger, acquisition and restructuring activities and equity underwriting transactions. In
2006, investment banking revenues increased 25%, primarily reflecting higher revenues from merger, acquis
and restructuring activities and fixed income and equity underwriting transactions.

In fiscal 2007, advisory fees from merger, acquisition and restructuring transactions increased 45% to a reco
$2,541 million. Advisory fees in fiscal 2007 reflected a strong volume of transaction activity, particularly du
the first half of fiscal 2007. In fiscal 2006, advisory fees from merger, acquisition and restructuring transacti
increased 26% to $1,753 million, primarily reflecting a strong volume of transaction activity.

Equity underwriting revenues increased 48% to a record $1,570 million in fiscal 2007. Equity underwriting
revenues increased 17% to $1,059 million in fiscal 2006. Both periods reflected higher global industry-wide
and equity-related activity. Fiscal 2006 reflected a strong volume of initial public offerings.

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Fixed income underwriting revenues increased 1% to $1,427 in fiscal 2007 and increased 29% to $1,416 mil fiscal 2006. Fiscal 2007 revenues reflected strong revenues from underwriting investment grade corporate products, as corporate issuers sought longer-term financings due to market turmoil in the fixed income credi markets. The increase in fiscal 2006 was primarily due to an increase in underwriting revenues from non-investment grade and investment grade products as the level of issuer refinancings rose due to record le maturing debt. Acquisition-related financing resulting from a strong market for merger and acquisition activ contributed to the increase in both fiscal 2007 and fiscal 2006.

At the end of fiscal 2007, the backlog of merger, acquisition and restructuring transactions and equity under transactions remained relatively strong despite current market conditions. The backlog of fixed income underwriting transactions was lower for non-investment grade products while the backlog of fixed income underwriting transactions was higher for investment-grade products, as compared with the end of fiscal 2006 backlog of merger, acquisition and restructuring transactions and equity and fixed income underwriting transactions is subject to the risk that transactions may not be completed due to challenging or unforeseen economic and market conditions, adverse developments regarding one of the parties to the transaction, a fai obtain required regulatory approval or a decision on the part of the parties involved not to pursue a transacti

Sales and Trading Revenues. Sales and trading revenues are composed of principal transaction trading re commissions and net interest revenues (expenses). In assessing the profitability of its sales and trading activ the Company views principal trading, commissions and net interest revenues in the aggregate. In addition, decisions relating to principal transactions are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes, among other things, an asse of the potential gain or loss associated with a transaction, including any associated commissions, dividends, interest income or expense associated with financing or hedging the Company s positions, and other related expenses.

The components of the Company s sales and trading revenues are described below:

Principal Transactions Trading. Principal transaction trading revenues include revenues from customers purchases and sales of financial instruments in which the Company acts as principal and gains and losses on Company s positions. The Company also engages in proprietary trading activities for its own account.

Commissions. Commission revenues primarily arise from agency transactions in listed and over-the-count (OTC) equity securities and options.

Net Interest. Interest and dividend revenues and interest expense are a function of the level and mix of tota assets and liabilities, including financial instruments owned and financial instruments sold, not yet purchase reverse repurchase and repurchase agreements, trading strategies, customer activity in the Company s prime brokerage business, and the prevailing level, term structure and volatility of interest rates. Reverse repurcha repurchase agreements and securities borrowed and securities loaned transactions may be entered into with different customers using the same underlying securities, thereby generating a spread between the interest re on the reverse repurchase agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions.

Total sales and trading revenues decreased 47% in fiscal 2007 and increased 37% in fiscal 2006. The decreas fiscal 2007 reflected lower fixed income revenues and other sales and trading losses, partially offset by highe equity sales and trading revenues. Sales and trading revenues were adversely affected by the difficult market conditions that existed during the second half of fiscal 2007. The credit markets deteriorated considerably ov course of the latter half of the year with increased volatility, significant spread widening, lower levels of liqu and reduced price transparency. These factors affected the subprime mortgage markets, including the market collateralized debt obligations, and other structured credit product markets, leveraged lending

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markets and the effectiveness of hedging strategies. This credit environment adversely impacted the Compar
credit sales and trading and corporate lending activities. In addition, such conditions contributed to increasec
volatility and systematic risk reduction in the equity markets, which adversely affected the Company s quan
trading strategies.

Sales and trading revenues included the following:

	Fiscal 2007(1)	Fiscal 2006(1)	F 20
	(dollars in millions)		
Equity	$ 8,658	$ 6,281	$
Fixed income	650	9,291	
Other	(1,242)	(288)	
Total sales and trading revenues	$ 8,066	$ 15,284	$ 1

(1) Amounts include Principal transactions-trading, Commissions and Net interest revenues. Equity and fixed income sale trading revenues include certain funding costs that were not previously allocated to those businesses. Other sales and t net revenues primarily include net losses from loans and closed pipeline commitments related to investment banking, corporate lending and other corporate activities. All prior-year amounts have been reclassified to conform to the currer presentation.

Equity sales and trading revenues increased 38% to a record $8,658 million in fiscal 2007, benefiting from re
international revenues. The increase was driven by record revenues from derivative products and prime brok
and higher revenues from equity cash and financing products, partially offset by trading losses in quantitativ
strategies resulting from unfavorable positioning. Revenues from derivative products benefited from strong
customer flows. Prime brokerage generated record revenues, reflecting continued growth in global client ass
balances. Higher revenues from financing products were primarily due to higher commission revenues drive
strong market volumes. Equity sales and trading revenues also benefited from the widening of the Company
spreads on financial instruments that are accounted for at fair value, including, but not limited to, those for w
the fair value option was elected pursuant to the Statement of Financial Accounting Standards (SFAS) No
The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159) on December 1,
Note 3 to the consolidated financial statements). Revenues increased by approximately $390 million due to t
widening of the Company s credit spreads during the year resulting from the decrease in the fair value of ce
the Company s long-term and short-term borrowings, such as structured notes, for which the fair value optio
elected.

Equity sales and trading revenues increased 31% to a then record $6,281 million in fiscal 2006. The increase
broad based and included higher revenues from derivatives and equity cash products, financing products, pri
brokerage and principal trading strategies. Derivative revenues increased due to strong customer flows, altho
volatility in the global equity markets continued to be generally low. Revenues from equity cash products re
higher market volumes, particularly in Europe and Asia. Financing product revenues also benefited from inc
client activity. Prime brokerage generated record revenues, reflecting continued growth in global client asset
balances. Global equity markets generally trended higher and created favorable opportunities for principal tr
strategies. Although commission revenues increased, revenues continued to be affected by intense competiti
particularly in the U.S., and a continued shift toward electronic trading.

Fixed income sales and trading revenues decreased 93% to $650 million in fiscal 2007. Fiscal 2007 results reflected significant losses in credit products and lower results in commodities, partially offset by record resu interest rate and currency products. Credit product revenues decreased $9.4 billion, primarily reflecting mortgage-related writedowns of $7.8 billion, reflecting the deterioration in value of U.S. subprime trading positions, principally super senior derivative positions in CDOs entered into primarily by the Company s proprietary trading group. Spread widening, lower liquidity and higher volatility resulted in lower origination securitization and trading results across most credit product groups and also adversely affected the performa

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of the Company s hedging strategies. The Company s residential and commercial mortgage loan activities contributed to the significant decline in credit product revenues, reflecting the difficult market conditions ref to above, as well as continued concerns in the subprime mortgage loan sector. See Impact of Credit Market herein, detailing the Company s direct U.S. subprime mortgage-related exposures at November 30, 2007.

Interest rate and currency product revenues increased 63% in fiscal 2007, reflecting higher revenues from in rate, emerging markets and foreign exchange products. Commodity revenues decreased 33%, primarily due lower trading results from oil liquids, electricity and natural gas products and lower revenues recognized on structured transactions. Fixed income sales and trading revenues also benefited from the widening of the Company s credit spreads on financial instruments that are accounted for at fair value, including, but not lim those for which the fair value option was elected (see Note 3 to the consolidated financial statements). The decrease in the fair value of certain of the Company s long-term and short-term borrowings, such as structu notes, for which the fair value option was elected, which was attributable to the widening of the Company s spreads during the year, increased revenues by approximately $450 million (see Note 3 to the consolidated financial statements). Fixed income sales and trading revenues also benefited from gains on interest rate derivatives.

Fixed income sales and trading revenues increased 41% to a record $9,291 million in fiscal 2006. The increa driven by record results from commodities, credit products, and interest rate and currency products. Commo revenues increased 112% due to strong results from electricity, natural gas products and oil liquids. Credit p revenues increased 52%, primarily due to significantly improved corporate credit trading and strength in resi and commercial securitized products. Interest rate and currency products decreased 1%. Both commodity an interest rate and currency products benefited from revenues recognized on structured transactions as a result increased observability of market value in accordance with Emerging Issues Task Force (EITF) Issue No. Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved Energy Trading and Risk Management Activities (EITF Issue No. 02-3). With the adoption of SFAS No Value Measurements (SFAS No. 157) on December 1, 2006, the Company no longer applies the revenu recognition criteria of EITF Issue No. 02-3 (see Note 2 to the consolidated financial statements).

In addition to the equity and fixed income sales and trading revenues discussed above, sales and trading reve include the net revenues from the Company s corporate lending activities. In fiscal 2007, other sales and tra losses of approximately $1.2 billion primarily reflected approximately $700 million of mark-to-market valu associated with loans and commitments largely related to acquisition financing to non-investment grade com and the impairment charge related to securities in the Company s domestic subsidiary banks (see Impact o Market Events Subsidiary Banks herein). The losses included markdowns of leveraged loan commitments associated with acquisition financing transactions that were accepted by the borrower but not yet closed. The losses were primarily related to the illiquid market conditions that existed during third quarter of fiscal 2007 valuation of these commitments could change in future periods depending on, among other things, the exten they are renegotiated or repriced or if the associated acquisition transaction does not occur. In addition, the Company s leveraged finance business originates and distributes loans and commitments and intends to dist its current positions; however, this could take longer than in the past and is dependent on liquidity re-enterin market. Subsequent to November 30, 2007, there has been further widening in credit spreads for non-investm grade loans that, if sustained, will result in additional writedowns for these loans and commitments. The fair measurement of loan commitments takes into account certain fee income that is attributable to the contingen commitment contract. For further information about the Company s corporate lending activities, see Item 7 Quantitative and Qualitative Disclosures about Market Risk Credit Risk. In fiscal 2006, revenues from c lending activities decreased by approximately $50 million from fiscal 2005, reflecting the impact of mark-to-market valuations on a higher level of new loans made during the year.

Principal Transactions-Investments. The Company s investments generally are held for appreciation and facilitate other business activities. It is not possible to determine when the Company will realize the value of

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investments since, among other factors, such investments generally are subject to significant sales restriction
Moreover, estimates of the fair value of the investments may involve significant judgment and may fluctuate
significantly over time in light of business, market, economic and financial conditions generally or in relatio
specific transactions.

Principal transaction net investment revenues aggregating $1,459 million were recognized in fiscal 2007 as compared with $1,081 million in fiscal 2006 and $593 million in fiscal 2005. The increase in fiscal 2007 wa primarily related to realized and unrealized net gains associated with certain of the Company s investments, including Grifols S.A. and Bovespa Holdings S.A., and higher revenues from the Company s investments in limited partnership interests associated with the Company s real estate funds. The increase in fiscal 2007 als reflected higher revenues primarily due to the appreciation of investments related to certain employee deferr compensation plans. The increase in fiscal 2006 was primarily related to net gains associated with the Comp investments.

Other. Other revenues consist primarily of revenues from providing benchmark indices and risk managem analytics associated with MSCI Inc. (see Note 23 to the consolidated financial statements). Other revenues a include revenues related to the operation of pipelines, terminals and barges and the distribution of refined petroleum products associated with TransMontaigne, the marine transportation and logistics services associa with Heidmar, revenues associated with Saxon, a servicer and originator of residential mortgages (see Note 2 the consolidated financial statements) and a commodities-related strategic investment.

Other revenues increased 121% in fiscal 2007 and 33% in fiscal 2006. The increase in both fiscal 2007 and f 2006 was primarily attributable to revenues related to the operation of pipelines, terminals and barges and th distribution of refined petroleum products associated with TransMontaigne and higher sales of benchmark in and risk management analytic products. The increase in fiscal 2007 was also due to higher revenues associat with Saxon and from the sale of a commodities-related strategic investment.

Non-Interest Expenses. Non-interest expenses increased 15% in fiscal 2007. Compensation and benefits e increased 10%, primarily reflecting higher incentive-based compensation accruals for certain businesses. Th increase also reflected higher costs associated with certain employee deferred compensation plans, partially by Institutional Securities share ($190 million) of the incremental compensation expense related to equity a to retirement-eligible employees in the first quarter of fiscal 2006 (see Note 2 to the consolidated financial statements). Excluding compensation and benefits expense, non-interest expenses increased 24%, reflecting increased levels of business activity and expenses associated with acquired businesses. Occupancy and equip expense increased 33%, primarily due to higher rent and occupancy costs in Europe, Asia and the U.S. Brok clearing and exchange fees increased 30%, primarily reflecting substantially increased equity and fixed inco trading activity. Marketing and business development expense increased 27%, primarily due to a higher leve business activity. Professional services expense increased 6%, primarily due to higher legal and consulting c related to increased business activity. Other expenses increased 50%, reflecting costs associated with TransMontaigne, Heidmar and Saxon, partially offset by lower net litigation accruals. Fiscal 2007 results inc a reversal of the $360 million legal accrual related to the Company s favorable outcome from the Coleman litigation. Fiscal 2006 included legal accruals related to the pending settlement of General American litigatio which was partially offset by a favorable outcome related to the LVMH litigation.

Non-interest expenses increased 23% in fiscal 2006. Compensation and benefits expense increased 36%, pri reflecting higher incentive-based compensation costs resulting from higher net revenues. Fiscal 2006 also in Institutional Securities share ($190 million) of incremental compensation expense related to equity awards

retirement-eligible employees while fiscal 2005 included Institutional Securities share ($193 million) of the
associated with senior management changes (see Other Matters Senior Management Compensation Charg
herein). Excluding compensation and benefits expense, non-interest expenses remained relatively unchanged
Occupancy and equipment expense decreased 6%, primarily due to a $71 million charge that was recorded in
first quarter of fiscal 2005 for the correction in the method of accounting for certain real

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estate leases (see Note 26 to the consolidated financial statements). Brokerage, clearing and exchange fees increased 32%, primarily reflecting increased equity and fixed income trading activity. Professional services expense increased 18%, primarily due to higher legal and consulting costs, reflecting increased levels of bus activity. Other expenses decreased 48% due to lower charges for legal and regulatory matters. Fiscal 2006 re a net reduction in legal accruals of approximately $40 million related to the IPO Allocation Matters litigatio LVMH litigation and the settlement of the General American litigation. Other expenses in fiscal 2005 includ legal accruals of $360 million related to the Coleman litigation and approximately $170 million related to th Parmalat settlement and the IPO Allocation Matters litigation.

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GLOBAL WEALTH MANAGEMENT GROUP

INCOME STATEMENT INFORMATION

	Fiscal 2007	Fiscal 2006
	(dollars in millions	
Revenues:		
Investment banking	$ 625	$ 428
Principal transactions:		
Trading	598	487
Investments	29	57
Commissions	1,433	1,168
Asset management, distribution and administration fees	3,067	2,757
Interest and dividends	1,221	1,004
Other	163	130
Total revenues	7,136	6,031
Interest expense	511	519
Net revenues	6,625	5,512
Total non-interest expenses	5,470	5,004
Income from continuing operations before income taxes and cumulative effect of accounting change, net	1,155	508
Provision for income taxes	459	167
Income from continuing operations before cumulative effect of accounting change, net	$ 696	$ 341

Investment Banking. Global Wealth Management Group investment banking includes revenues from the distribution of equity and fixed income securities, including initial public offerings, secondary offerings, closed-end funds and unit trusts. Revenues also include fees earned from offerings underwritten by the Instit Securities business segment. Investment banking revenues increased 46% and 34% in fiscal 2007 and fiscal respectively. The increase in fiscal 2007 was driven by strong underwriting activity across equity, fixed inco and unit trust products. The increase in fiscal 2006 was primarily due to higher revenues from equity-related offerings and unit trust products.

Principal Transactions Trading. Principal transactions include revenues from customers purchases and financial instruments in which the Company acts as principal and gains and losses on the Company s invent positions held, primarily to facilitate customer transactions. Principal transaction trading revenues increased in fiscal 2007 primarily due to higher revenues from derivative products, municipal and corporate fixed inco securities and foreign exchange products. The increase was also due to higher revenues primarily associated the appreciation of investments related to certain employee deferred compensation plans. In fiscal 2006, prin transaction trading revenues increased 4%, primarily reflecting higher revenue from foreign exchange produ equity linked notes and municipal fixed income securities, partially offset by lower revenues from corporate government fixed income products and other securities.

Principal Transactions Investments. Principal transaction net investment revenues were $29 million in fi
2007 compared with $57 million in fiscal 2006 and $2 million in fiscal 2005. The results in fiscal 2007 refle
lower net gains from certain of the Company s investments in exchanges and memberships. The results in fi
2006 were primarily related to realized and unrealized gains on the Company s investments in Bolsas y Me
Españoles and the New York Stock Exchange.

Commissions. Commission revenues primarily arise from agency transactions in listed and OTC equity se
and sales of mutual funds, futures, insurance products and options. Commission revenues increased

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23% in fiscal 2007 and decreased 2% in fiscal 2006. The increase in fiscal 2007 reflected higher levels of cli activity. The decrease in fiscal 2006 largely reflected lower revenues from equity products, which was relate lower agency activity with customers due, in part, to growth in other product areas, including investment ban and asset management.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administr fees include revenues from individual investors electing a fee-based pricing arrangement and fees for investm management, account services and administration. The Company also receives shareholder servicing fees an for services it provides in distributing certain open-ended mutual funds and other products. Mutual fund distribution fees are based on either the average daily fund net asset balances or average daily aggregate net sales and are affected by changes in the overall level and mix of assets under management or supervision.

Asset management, distribution and administration fees increased 11% in fiscal 2007 and 6% in fiscal 2006. both fiscal years, the increase was driven by higher client asset balances in fee-based accounts. Client assets fee-based accounts rose 3% to $201 billion at November 30, 2007 and represented 27% of total client assets 29% at November 30, 2006. The decline in fee-based assets as a percent of total client assets largely reflecte termination on October 1, 2007 of the Company s fee-based (fee in lieu of commission) brokerage program pursuant to a court decision vacating an SEC rule that permitted fee-based brokerage. Client assets that were fee-based program primarily moved to commission-based brokerage accounts, or, at the election of some cli into other fee-based advisory programs, including Morgan Stanley Advisory, a new nondiscretionary accoun launched in August 2007. Client assets in fee-based accounts rose 18% to $195 billion at November 30, 200 increased as a percentage of total client assets to 29% of total client assets from 27% at November 30, 2005.

Total client asset balances increased to $758 billion at November 30, 2007 from $676 billion at November 3 2006 primarily due to higher client inflows and market appreciation. Client asset balances in households grea than $1 million increased to $522 billion at November 30, 2007 from $442 billion at November 30, 2006 and billion at November 30, 2005.

Net Interest. Interest and dividend revenues and interest expense are a function of the level and mix of tota assets and liabilities, including customer bank deposits and margin loans and securities borrowed and securit loaned transactions. Net interest revenues increased 46% and 53% in fiscal 2007 and fiscal 2006, respectivel increase in both periods was primarily due to increased customer account balances in the bank deposit progr that was launched in November 2005. Balances in the bank deposit program rose to $26.2 billion at Novemb 2007 from $13.3 billion at November 30, 2006.

Other. Other revenues primarily include customer account service fees and other miscellaneous revenues. revenues increased 25% in fiscal 2007 and decreased 9% in fiscal 2006. In fiscal 2007, the increase primarily reflected higher service fees and higher other miscellaneous revenues. In fiscal 2006, the decrease primarily reflected lower service fees.

Non-Interest Expenses. Non-interest expenses increased 9% in fiscal 2007, primarily reflecting an increas compensation and benefits expense, partially offset by lower non-compensation expenses primarily due to lo charges for legal and regulatory matters and continued cost discipline across the business. Compensation and benefits expense increased 15%, primarily reflecting higher incentive-based compensation accruals due to hi net revenues and investments in the business, partially offset by Global Wealth Management Group s share million) of the incremental compensation expense related to equity awards to retirement-eligible employees first quarter of fiscal 2006 (see Note 2 to the consolidated financial statements). Excluding compensation and benefits expense, non-interest expenses decreased 2%. Occupancy and equipment expense increased 6% pri due to leasehold improvements and higher rental costs. Information processing and communications expense decreased 8% primarily due to lower computing costs. Marketing and business development expense increas 39% primarily due to costs associated with the Company s advertising campaign. Other expenses

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decreased 20%, primarily resulting from a reduction in costs associated with legal and regulatory matters, wh
included an insurance reimbursement related to a litigation matter.

Non-interest expenses increased 12% in fiscal 2006. Fiscal 2005 included a reduction in non-interest expens related to Global Wealth Management Group s share ($198 million) of the insurance settlement related to th of September 11, 2001 (see Note 25 to the consolidated financial statements). Compensation and benefits ex increased 15%, primarily reflecting higher incentive-based compensation costs. In addition, fiscal 2006 expe included Global Wealth Management Group s share ($50 million) of the incremental compensation expense to equity awards to retirement-eligible employees, including new hires (see Note 2 to the consolidated financ statements), while fiscal 2005 included Global Wealth Management Group s share ($48 million) of the cost associated with senior management changes (see Other Matters Senior Management Compensation Charg herein). Excluding compensation and benefits expense and the insurance settlement, non-interest expenses decreased 4%. Occupancy and equipment expense decreased 6% primarily due to a $29 million charge for th correction in the method of accounting for certain real estate leases that was recorded in the first quarter of fi 2005 (see Note 26 to the consolidated financial statements). Professional services expense increased 15%, la due to higher sub-advisory fees associated with growth in fee-based assets and higher costs for outside legal counsel. Other expenses decreased 20%, primarily resulting from lower costs associated with legal and regul matters. During fiscal 2006 and fiscal 2005, the Company recorded legal and regulatory expenses of approxi $105 million and $170 million, respectively, related to ongoing regulatory, employment and branch litigation matters.

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ASSET MANAGEMENT

INCOME STATEMENT INFORMATION

	Fiscal 2007	Fiscal 2006
	(dollars in millions	
Revenues:		
Investment banking	$ 264	$ 138
Principal transactions:		
Trading	(129)	
Investments	1,774	669
Commissions	23	25
Asset management, distribution and administration fees	3,524	2,574
Interest and dividends	74	48
Other	75	26
Total revenues	5,605	3,480
Interest expense	112	27
Net revenues	5,493	3,453
Total non-interest expenses	4,026	2,602
Income before income taxes and cumulative effect of accounting change, net	1,467	851
Provision for income taxes	541	340
Income before cumulative effect of accounting change, net	$ 926	$ 511

Investment Banking. Asset Management generates investment banking revenues primarily from the acqui of investments in real estate funds and the underwriting of unit trust products. Investment banking revenues increased 91% in fiscal 2007 and 4% in fiscal 2006. The increase in fiscal 2007 primarily reflected higher re from certain real estate products. The increase in fiscal 2006 primarily reflected higher revenues from real es products and higher equity unit trust sales, partially offset by a lower volume of fixed income unit trust sales

Principal Transactions-Trading. In fiscal 2007, the Company recognized losses of $129 million related to structured investment vehicles. See Impact of Credit Market Events Structured Investment Vehicles here further discussion.

Principal Transactions-Investments. Asset Management principal transaction investment revenues consis primarily of gains and losses on the Company s investments in alternative investment products.

Principal transaction net investment gains aggregating $1,774 million were recognized in fiscal 2007 as com
with $669 million in fiscal 2006. The results in both fiscal years were primarily related to investments associ
with the Company s real estate products and private equity portfolio, including employee deferred compens
plans and co-investment plans.

Real estate and private equity investments generally are held for appreciation. It is not possible to determine
the Company will realize the value of such investments since, among other factors, such investments genera
subject to significant sales restrictions. Moreover, estimates of the fair value of the investments involve signi
judgment and may fluctuate significantly over time in light of business, market, economic and financial cond
generally or in relation to specific transactions.

Asset Management, Distribution and Administration Fees. Asset Management, distribution and administ
fees include revenues generated from the management and supervision of assets, performance-

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based fees relating to certain funds, and separately managed accounts and fees relating to the distribution of open-ended mutual funds. Asset Management fees arise from investment management services the Company provides to investment vehicles pursuant to various contractual arrangements. The Company receives fees primarily based upon mutual fund daily average net assets or based on monthly or quarterly invested equity other vehicles. Performance-based fees are earned on certain funds as a percentage of appreciation earned by funds and, in certain cases, are based upon the achievement of performance criteria. These fees are normally earned annually and are recognized on a monthly or quarterly basis.

Asset management, distribution and administration fees increased 37% in fiscal 2007 and 5% in fiscal 2006. increase in fiscal 2007 was primarily due to higher fund management and administration fees resulting from increase in assets and a more favorable asset mix. The increase was also due to higher performance fees from alternatives business, including those associated with FrontPoint, which the Company acquired in December (see Note 23 to the consolidated financial statements). The increase in fiscal 2006 was due to higher fund management and administration fees, partially offset by lower distribution fees. The higher management and administration fees in fiscal 2007 and fiscal 2006 were associated with increases in average assets under management of 20% and 6%, respectively.

Asset Management s year-end and average assets under management or supervision were as follows:

	At November 30,			Average f	
	2007	2006	2005	Fiscal 2007	Fiscal 2006
	(dollars in billions)				
Assets under management or supervision by distribution channel:					
Americas Retail Morgan Stanley brand	$ 64	$ 63	$ 63	$ 64	$ 64
Americas Retail Van Kampen brand	99	94	88	99	90
Americas Intermediary(1)	68	58	48	65	51
U.S. Institutional	128	100	96	116	97
Non-U.S.	132	93	69	111	80
Total long-term assets under management or supervision	491	408	364	455	382
Institutional money markets/liquidity	68	49	33	57	39
Retail money markets	31	35	46	33	40
Total money markets	99	84	79	90	79
Total assets under management or supervision	590	492	443	545	461
Share of minority interest assets(2)	7	4		6	
Total	$ 597	$ 496	$ 443	$ 551	$ 461
Assets under management or supervision by asset class:					
Equity	$ 265	$ 239	$ 218	$ 256	$ 228
Fixed income	102	94	91	97	91
Money market	99	84	79	90	79
Alternatives(3)	109	61	43	87	50
Subtotal	575	478	431	530	448
Unit trusts	15	14	12	15	13

Total assets under management or supervision	590	492	443	545	461
Share of minority interest assets(2)	7	4		6	
Total	$ 597	$ 496	$ 443	$ 551	$ 461

(1) Americas Intermediary channel primarily represents client flows through defined contribution, insurance and bank tru platforms.

(2) Amounts represent Asset Management s proportional share of assets managed by entities in which it owns a minority

(3) The alternatives asset class includes a range of investment products, such as real estate funds, hedge funds, private equ funds, funds of hedge funds and funds of private equity funds.

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Activity in Asset Management s assets under management or supervision during fiscal 2007 and fiscal 2006
follows:

	Fiscal 2007	Fisca 2006
	(dollars in billions	
Balance at beginning of period	$ 496	$ 44
Net flows by distribution channel:		
Americas Retail Morgan Stanley brand	(4)	(
Americas Retail Van Kampen brand		(
Americas Intermediary(1)	4	
U.S. Institutional	3	(1
Non-U.S.	22	
Net inflows/(outflows) excluding money markets	25	(1
Money market net flows:		
Institutional	15	1
Retail	(5)	(1
Total money market net flows	10	
Market appreciation/other	56	5
Total net increase	91	4
Acquisitions	7	
Net increase in share of minority interest assets(2)	3	
Balance at end of period	$ 597	$ 49

(1) Americas Intermediary channel primarily represents client flows through defined contribution, insurance and bank tru
platforms.
(2) Amount represents Asset Management s proportional share of assets managed by entities in which it owns a minority

Net inflows (excluding money markets) in fiscal 2007 were primarily associated with positive flows from no
clients. Money market net flows for fiscal 2007 were primarily associated with positive flows into institution
liquidity assets, partially offset by outflows from certain money market funds that were impacted by the grov
Global Wealth Management Group s bank deposit program.

Other. Other revenues increased 188% in fiscal 2007 primarily due to revenues associated with Lansdown
Partners (Lansdowne), a London-based investment manager, and Avenue Capital Group (Avenue), a N
York-based investment manager, which the Company acquired minority stakes in the fourth quarter of fiscal
(see Note 23 to the consolidated financial statements). Other revenues remained flat in fiscal 2006.

Non-Interest Expenses. Non-interest expenses increased 55% in fiscal 2007, primarily reflecting an increa
compensation and benefits expense. Compensation and benefits expense increased 81% in fiscal 2007, prima
reflecting higher incentive-based compensation accruals due to higher net revenues. The increase in fiscal 20

was also due to expenses associated with certain employee deferred compensation plans, partially offset by A
Management s share ($20 million) of the incremental compensation expense related to equity awards to retirement-eligible employees that was recorded in the first quarter of fiscal 2006 (see Note 2 to the consolid
financial statements). Excluding compensation and benefits expense, non-interest expenses increased 24%. Occupancy and equipment expenses increased 29% primarily due to higher rental costs associated with busi
growth. Brokerage, clearing and exchange fees increased 10% primarily due to increased fee sharing, increas
assets under management and higher commission expenses associated with the launching of new products. T
increases were offset by a decrease in the deferred commission amortization. Information processing and communications expense increased 21% primarily due to higher licensing fees associated with the acquisitio
FrontPoint. Professional services expense increased 47% primarily due to higher sub-advisory fees related to
acquisition of FrontPoint. Other expenses increased 47% primarily due to an insurance reimbursement recei
fiscal 2006 related to certain legal matters and an increase in other miscellaneous expenses.

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Non-interest expenses increased 19% in fiscal 2006. Fiscal 2005 included a reduction in non-interest expens
from Asset Management s share ($43 million) of the insurance settlement related to the events of Septembe
2001 (see Note 25 to the consolidated financial statements). Compensation and benefits expense increased 3
fiscal 2006, primarily reflecting higher incentive-based compensation costs as well as the impact of new hire
addition, fiscal 2006 included Asset Management s share ($20 million) of the incremental compensation ex
related to equity awards to retirement-eligible employees (see Note 2 to the consolidated financial statement
while fiscal 2005 included Asset Management s share ($41 million) of the costs associated with senior man
changes (see Other Matters Senior Management Compensation Charges herein). Excluding compensatio
benefits expense and the insurance settlement, non-interest expenses were unchanged. Brokerage, clearing a
exchange fees decreased 14%, primarily reflecting lower amortization expense associated with certain open-
funds. The decrease in amortization expense reflected a lower level of deferred costs in recent periods due to
decrease in sales of certain open-ended funds. Marketing and business development expense increased 11%
primarily due to higher advertising and marketing costs.

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Impact of Credit Market Events.

Overview.

The Company recorded $9.4 billion in mortgage-related writedowns in the fourth quarter of fiscal 2007 resul
from an unfavorable subprime mortgage-related trading strategy and the continued deterioration and lack of
liquidity for subprime and other mortgage-related instruments. Included in the $9.4 billion were writedowns
$7.8 billion related to U.S. subprime trading positions, principally super senior derivative positions in CDOs
These derivative positions were entered into primarily by the Company s proprietary trading group (see U
CDO Exposures). As the credit markets in general, and the mortgage markets in particular, declined drama
in the fourth quarter, increases in the implied cumulative losses in the subprime mortgage market, coupled w
illiquid nature of the Company s trading positions, led to a significant deterioration in value in its subprime-
trading positions. A summary of the Company s U.S. subprime trading positions, writedowns and remaining
exposures is further detailed in the table on page 53 and is discussed in U.S. Subprime Mortgage-Related
Exposures herein.

The $9.4 billion of fourth quarter writedowns also included an impairment charge of $437 million related to
mortgage-related securities portfolios in the Company s domestic subsidiary banks (see Subsidiary Banks
and $1.2 billion related to CMBS, ALT-A (a residential mortgage loan categorization that falls between prim
subprime) and other loans, conduit and non-performing loans and European non-conforming loans. The Con
continues to have exposure to these markets and instruments, and, as market conditions continue to evolve, t
value of these other mortgage-related instruments could further deteriorate.

The valuation methodology used for these instruments incorporated a variety of inputs, including prices obse
from the execution of a limited number of trades in the marketplace; ABX and similar indices that track the
performance of a series of credit default swaps based on subprime mortgages; and other market information,
including data on remittances received and updated cumulative loss data on the underlying mortgages. For a
further discussion of the Company s risk management policies and procedures see Quantitative and Qualit
Disclosures about Market Risk Risk Management in Part II, Item 7A.

For further discussion regarding the Company s involvement with other U.S. subprime-related activities, se
Special Purpose Entities and Variable Interest Entities and Other Exposures to Subprime Lenders.

The results for fiscal 2007 also included losses of approximately $700 million primarily recorded in the third
quarter of fiscal 2007 that reflected mark-to-market valuations associated with loans and loan commitments
related to acquisition financing to non-investment grade companies. The losses included markdowns of lever
loan commitments associated with acquisition financing transactions that were accepted by the borrower but
yet closed. These losses were primarily related to the illiquid market conditions that existed during the secon
of fiscal 2007. The valuation of these commitments could change in future periods depending on, among oth
things, the extent that they are renegotiated or repriced or the associated acquisition transaction does not occ
addition, the Company s leveraged finance business originates and distributes loans and commitments, and
to distribute its current positions; however, this could take longer than in the past and is dependent on liquidi
re-entering the market. Subsequent to November 30, 2007, there has been further widening in credit spreads
non-investment grade loans that, if sustained, will result in additional writedowns for these loans and

commitments. For further information about the Company s corporate lending activities, see Item 7A, Qua and Qualitative Disclosures about Market Risk Credit Risk.

The Company also recognized losses of $129 million in the fourth quarter of fiscal 2007 related to structured investment vehicles (see Structured Investment Vehicles herein).

U.S. Subprime Mortgage-Related Exposures.

The Company s U.S. subprime mortgage-related trading positions consist of those related to U.S. ABS CDO other mortgage-related exposures arising from investments in subprime loans, from asset-backed securities

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that, in whole or in part, are backed by subprime mortgage loans, and from derivatives referencing subprime mortgages or subprime mortgage-backed securities.

Subprime mortgages are loans secured by real property made to a borrower (or borrowers) with a diminished impaired credit rating or with a limited credit history. A borrower s credit history is reflected in his credit re routinely converted into a numerical credit score often referred to as a Fair Isaac Corporation (or FICO) s Generally, a loan made to a borrower with a low FICO score or other credit score has historically been consi as subprime. Loans to borrowers with higher FICO scores may be subprime if the loan exhibits other high-ri factors. Such risk factors may include loans where: (a) the loan has a high loan-to-value ratio or combined loan-to-value ratios; (b) the borrower has reduced or limited income documentation; (c) the borrower has a h debt-to-income ratio; (d) the occupancy type for the loan is other than the borrower s primary residence. Th many other risk factors, including borrowers who have purchased multiple properties or have taken previous withdrawal (cash out) refinancings within the last 12 to 24 month period, non-arm s length purchase transac and unsupported or high-risk collateral properties, among others. Subprime mortgage-related securities are t securities that derive a significant portion of their value from subprime loans.

U.S. ABS CDO Exposures.

The Company purchases interests in and enters into derivatives with ABS CDOs. CDOs provide credit risk exposure to a portfolio of asset-backed securities (cash CDOs) or a reference portfolio of securities (syn CDOs). The underlying or reference portfolios consist primarily of residential mortgage-backed securities. CDOs to which the Company has exposure are primarily structured and underwritten by third parties, althou Company also structures and underwrites CDOs, for which it receives structuring and/or distribution fees, ar from time to time retain interests in such CDOs.

The Company s primary exposure to ABS CDOs is to synthetic CDOs that hold or are referenced to collater ratings of BBB+, BBB or BBB- (mezzanine CDOs). The majority of the Company s writedowns in the f quarter related to super senior credit default swaps referencing such mezzanine CDOs that were entered into primarily by the Company s proprietary trading group. Under these credit default swap arrangements, the C can be required to make payments in the event that securities in the referenced portfolios default or experien other credit events such as rating agency downgrades. (The characterization of these credit default swaps as senior derives from their seniority in the capital structure of the synthetic CDO.) The Company also has ex to ABS CDOs via other types of credit default swaps, direct investments in CDO securities, and retained inte in CDOs that the Company has underwritten. In determining the fair value of the Company s ABS CDO-rel instruments the Company took into consideration prices observed from the execution of a limited number of transactions and data for relevant benchmark instruments in synthetic subprime markets. Despite the fact tha actual defaults on swap obligations have not yet been realized, the fair value of such positions has experienc significant declines, as a result of a deterioration of value in the benchmark instruments as well as market developments. These losses, as well as the Company s net CDO exposures, are quantified in the U.S. subprime-related exposures table below.

Other U.S. Subprime Mortgage-Related Exposures.

The Company also has exposure to the U.S. subprime mortgage market via investments in subprime mortgag loans and ABS that are backed in whole or in part by subprime mortgage loans and via derivatives referencin subprime mortgages or subprime mortgage-backed securities. With respect to whole loans, the Company pur pools of mortgage loans from third-party originators and also originates mortgage loans through its retail, wholesale and conduit channels and typically disposes of such loans by securitizing them. The Company typ retains certain lower-rated securities of such securitizations, often referred to as residual tranche securities. T Company s other subprime mortgage-related trading exposures are quantified in the table below.

The Company s interests in U.S. subprime-related exposures are carried at fair value with changes recogniz earnings.

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The following table provides a summary of the Company s direct U.S. subprime trading exposures (excludi amounts related to mortgage-related securities portfolios in the Company s domestic subsidiary banks (see Subsidiary Banks herein)) as of and for the fiscal year ended November 30, 2007. The Company utilizes v methods of evaluating risk in its trading and other portfolios, including monitoring Net Exposure. Net Expos defined as potential loss to the Company over a period of time in an event of 100% default of the referenced assuming zero recovery. The value of these positions remains subject to mark-to-market volatility. Positive n exposure amounts indicate potential loss (long position) in a default scenario. Negative net exposure amount indicate potential gain (short position) in a default scenario. Net Exposure does not take into consideration th of counterparty default. See Quantitative and Qualitative Disclosures about Market Risk Credit Risk in P Item 7A for a further description of how credit risk is monitored. Actual losses could exceed the amount of N Exposure.

	November 30, 2007			
	Statement of Financial Condition 11/30/07(1)	Profit and (Loss) Three Months Ended	Profit and (Loss) 12 Months Ended	Ex 11
	(dollars in billions)			
Super Senior Derivative Exposure:				
Mezzanine	$ (8.7)	$ (7.1)	$ (9.3)	$
CDO squared(3)	(0.1)	(0.1)	(0.1)	
Total ABS CDO super senior derivative exposure	$ (8.8)	$ (7.2)	$ (9.4)	$
Other CDO Exposure:				
ABS CDO CDS	$ 2.7	$ 1.3	$ 2.3	$
ABS CDO bonds	1.1	(0.5)	(0.8)	
Total other CDO exposure	$ 3.8	0.8	1.5	
Subtotal ABS CDO-related exposure(2)	$ (5.0)	$ (6.4)	$ (7.9)	$
U.S. Subprime Mortgage-Related Exposure:				
Loans	$ 0.6	$ (0.1)	$ (0.2)	$
Total rate-of-return swaps			0.1	
ABS bonds	2.7	(2.9)	(3.8)	
ABS CDS	7.8	1.6	5.0	
Subtotal U.S. subprime mortgage-related exposure	$ 11.1	$ (1.4)	$ 1.1	$
Total U.S. subprime trading exposure	$ 6.1	$ (7.8)	$ (6.8)	$

(1) Statement of financial condition amounts are presented on a net asset/liability basis and do not take into account any n of cash collateral against these positions. In addition, these amounts reflect counterparty netting to the extent that there positions with the same counterparty that are subprime-related; they do not reflect any counterparty netting to the exte there are positions with the same counterparty that are not subprime related. The $6.1 billion is reflected in the Compa consolidated statement of financial condition as follows: Financial instruments owned of $15.3 billion and Financial instruments sold, not yet purchased of $9.2 billion.

(2) In determining the fair value of the Company s ABS super senior CDO-related exposures the Company took into consideration prices observed from the execution of a limited number of transactions and data for relevant benchmark instruments in synthetic subprime markets. Deterioration of value in the benchmark instruments as well as market developments have led to significant declines in the estimates of fair value. These declines reflected increased implied

across this portfolio. These implied loss levels are consistent with losses in the range between 13% 20% implied by indices. These cumulative loss levels, at a severity rate of 50%, imply defaults in the range of 43% 50% for 2005 an outstanding mortgages.

(3) Refers to CDOs where the collateral is comprised entirely of another CDO security.

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Subsidiary Banks.

The securities portfolios of Morgan Stanley Bank (Utah) and Morgan Stanley Trust FSB (collectively, the subsidiary banks) include certain subprime-related securities. The portfolios contain no subprime whole l subprime residuals or CDOs.

At November 30, 2007, the securities portfolios totaled $9.9 billion consisting primarily of AAA-rated ABS residential mortgage-backed securities. Of the total amount, $5.5 billion were subprime mortgage-related securities.

The securities in the subsidiary domestic banks portfolios were previously classified as securities available in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (S 115). In the fourth quarter of fiscal 2007, the Company determined that it no longer intends to hold these se until the fair value of the securities recovers to a level that exceeds their initial cost. Accordingly, the Compa recorded an other-than-temporary impairment charge of $437 million in Principal transactions-trading reven the consolidated statement of income on its portfolio of securities available for sale in the fourth quarter of fi 2007 and reclassified the portfolios to Financial instruments owned in the consolidated statement of financia condition effective November 30, 2007.

Special Purpose Entities and Variable Interest Entities.

The Company s involvement with special purpose entities (SPEs) and variable interest entities (VIEs) in Note 5 to the consolidated financial statements and Critical Accounting Policies Special Purpose Entitie In relation to subprime loans and subprime-backed securities, the Company s involvement with SPEs/VIEs primarily of the following:

- Engaging in securitization activities related to subprime loans and subprime-backed securities;
- Acting as an underwriter of beneficial interests issued by securitization vehicles;
- Transferring whole loans into SPEs/VIEs;
- Holding one or more classes of securities issued by such securitization vehicles (including residual tr securities) and possibly entering into derivative agreements with such securitization vehicles;
- Purchasing and selling (in both a market-making and a proprietary-trading capacity) subprime-backed securities issued by SPEs/VIEs, whether such vehicles are sponsored by the Company or not;

Entering into derivative transactions with SPEs/VIEs (not sponsored by the Company) that hold subprime-related assets;

Providing warehouse financing to CDOs and collateralized loan obligations (CLOs);

Entering into derivative agreements with non-SPE/VIEs, whose value is derived from securities issue SPEs/VIEs;

Servicing assets held by SPEs/VIEs or holding servicing rights related to assets held by SPEs/VIEs th serviced by others under subservicing arrangements;

Serving as an asset manager to various investment funds that may invest in securities that are backed, whole or in part, by subprime loans.

Other Exposures to Subprime Lenders.

The Company provides warehouse financing to entities collateralized by residential mortgage loans. Under t lines of credit arrangements, the Company requires those entities to provide collateral in excess of the monie advanced. The Company values the collateral on a regular basis to ensure that the value of the collateral exce the value of the monies advanced in accordance with the collateral agreements. The Company does not carry amounts lent under such arrangements at fair value but instead carries such amounts at amortized cost. In

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addition, the Company does not fair value its commitments under such arrangements. The Company evaluat exposure and any potential impairment under such arrangements, whether funded or committed, in accordan with SFAS No. 5, Accounting for Contingencies (SFAS No. 5).

In addition, the Company had entered into derivative and lending arrangements with a third-party-sponsored commercial paper conduit that provides warehouse financing to subprime lenders, where such derivative anc lending arrangements are linked to the performance of the conduit s loans to the subprime lenders. At November 30, 2007, exposure related to these arrangements was approximately $300 million. These arrange were satisfactorily settled and terminated in December 2007. The Company had no further subprime-related commitments to the third-party-sponsored commercial paper conduit as of November 30, 2007. The Compar not sponsor any commercial paper conduits.

Structured Investment Vehicles.

Structured investment vehicles (SIVs) are unconsolidated entities that issue various capital notes and debt instruments to fund the purchase of assets. While the Company does not sponsor or serve as asset manager to unconsolidated SIVs, the Company does serve as investment advisor to certain unconsolidated money marke funds (the Funds) that have investments in securities issued by SIVs. In 2007, widespread illiquidity in th commercial paper market led to market value declines and rating agency downgrades of many securities issu SIVs, some of which were held by the Funds. As a result, the Company purchased approximately $900 milli such securities from the Funds during the year at amortized cost, which resulted in losses to the Company of million. The carrying value of the purchased securities still held by the Company as of November 30, 2007 v $543 million. Such positions are reflected at fair value, and presented in Financial instruments owned Corp and other debt in the consolidated statement of financial condition. Subsequent to November 30, 2007, the Company purchased approximately $160 million of additional securities from the Funds and recorded losses approximately $40 million on these securities. The Company was not obligated to purchase any of these secu and has no obligation to purchase any additional securities from the Funds in the future. The Funds continue have investment in securities issued by SIVs, with an aggregate face value of $8.2 billion as of November 30 ($5.4 billion as of January 18, 2008.) These securities have been issued by SIVs that are predominately bank-sponsored, and meet the requirements and investment criteria to continue to be held by the Funds.

Monoline Insurers.

Monoline insurers (Monolines) provide credit enhancement to capital markets transactions. The current c environment severely affected the capacity of such financial guarantors. The Company s exposure to Mono limited to bonds that are insured by Monolines and as counterparties to derivative contracts. The aggregate d exposure to Monolines at November 30, 2007 was $3.7 billion primarily including ABS bonds of $1.5 billio the Subsidiary Banks portfolio (see Subsidiary Banks) that are collateralized by first and second lien sub mortgages enhanced by financial guarantees, $1.3 billion in insurance municipal bond securities and $800 m in net counterparty exposure.

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Other Matters.

The following matters are discussed in the Company s notes to the consolidated financial statements. For fu
information on these matters, please see the applicable note:

Accounting Developments:
Limited Partnerships
Accounting for Certain Hybrid Financial Instruments
Accounting for Servicing of Financial Assets
Accounting for Uncertainty in Income Taxes
Fair Value Measurements
Employee Benefit Plans
Fair Value Option
Offsetting of Amounts Related to Certain Contracts
Investment Company Accounting
Dividends on Share-Based Payment Awards
Business Combinations
Noncontrolling Interests
Tax Matters
Discontinued Operations
Business and Other Acquisitions and Dispositions and Sale of Minority Interest
Staff Accounting Bulletin No. 108
Insurance Settlement
Lease Adjustment

Stock-Based Compensation.

The Company early adopted SFAS No. 123R, Share-Based Payment (SFAS No. 123R) using the modi
prospective approach as of December 1, 2004. For further information on SFAS No. 123R, see Note 2 to the
consolidated financial statements.

Additionally, based on interpretive guidance related to SFAS No. 123R in the first quarter of fiscal 2006, the
Company changed its accounting policy for expensing the cost of anticipated fiscal 2006 year-end equity aw
that were granted to retirement-eligible employees in the first quarter of fiscal 2007. Effective December 1, 2
the Company accrues the estimated cost of these awards over the course of the current fiscal year rather than
expensing the awards on the date of grant.

As a result, fiscal 2006 stock-based compensation expense primarily included the following costs:

amortization of fiscal 2003 year-end awards;

- amortization of fiscal 2004 year-end awards;
- amortization of fiscal 2005 year-end awards to non-retirement eligible employees;
- the full cost of fiscal 2005 year-end awards to retirement eligible employees (made in December 2005
- the full cost of fiscal 2006 year-end awards to retirement eligible employees (made in December 2006

Fiscal 2007 stock-based compensation expense primarily included the following costs:

- amortization of fiscal 2004 year-end awards;
- amortization of fiscal 2005 year-end awards to non-retirement eligible employees;
- amortization of fiscal 2006 year-end awards to non-retirement eligible employees; and
- the full cost of fiscal 2007 year-end awards to retirement eligible employees (made in December 2007

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Fiscal 2003 and fiscal 2004 year-end awards are generally amortized over three and four years, while fiscal 2 and fiscal 2006 year-end awards are generally amortized over two and three years.

Senior Management Compensation Charges.

Compensation and benefits expense in fiscal 2005 included charges for certain members of senior managem related to severance and new hires, which increased non-interest expenses by approximately $282 million. T compensation charges were allocated to the Company s business segments as follows: Institutional Securiti million), Global Wealth Management Group ($48 million) and Asset Management ($41 million).

Coleman Litigation.

In May 2003, Coleman (Parent) Holdings Inc. (CPH) filed a complaint against Morgan Stanley in the Cir of the Fifteenth Judicial Circuit for Palm Beach County, Florida relating to the 1998 merger between The Co Company, Inc. and Sunbeam, Inc. In June 2005, the trial court issued a final judgment in favor of CPH in th amount of $1,578 million, which included prejudgment interest and excluded certain payments received by C settlement of related claims against others. In June 2005, Morgan Stanley filed a notice of appeal with the Di Court of Appeal for the Fourth District of Florida (the Court of Appeal) and posted a supersedeas bond, w automatically stayed execution of the judgment pending appeal.

In March 2007, the Court of Appeal issued an opinion reversing the trial court s award for compensatory an punitive damages and remanding the matter to the trial court for entry of judgment for Morgan Stanley. In Ju 2007, the Court of Appeal s opinion became final when the Court of Appeal issued an order denying CPH for rehearing, rehearing *en banc* and for certification of certain questions for review by the Florida Supreme (the Supreme Court). In June 2007, the trial court issued an order cancelling the supersedeas bond that Mo Stanley had posted. In July 2007, CPH filed a petition with the Supreme Court asking that court to review th Court of Appeal s decision (Petition for Review). On December 12, 2007, the Supreme Court issued an o denying CPH s Petition for Review.

The Company believes, after consultation with outside counsel, that the Supreme Court s decision to deny t Petition for Review has effectively ended CPH s civil claim against the Company. Effective November 30, the Company reversed the $360 million reserve previously established for the Coleman litigation under SFA No. 5.

Defined Benefit Pension and Other Postretirement Plans.

Contributions. The Company made contributions of $131 million and $84 million (excluding $30 million fiscal 2006 relating to DFS and Quilter) to its U.S. and non-U.S. defined benefit pension plans in fiscal 2007 fiscal 2006, respectively. These contributions were funded with cash from operations.

The Company determines the amount of its pension contributions to its funded plans by considering several including the level of plan assets relative to plan liabilities, expected plan liquidity needs and expected futur contribution requirements. The Company s policy is to fund at least the amounts sufficient to meet minimu funding requirements under applicable employee benefit and tax regulations (for example in the U.S., the minimum required contribution under the Employee Retirement Income Security Act of 1974, or ERISA) November 30, 2007, there were no minimum required ERISA contributions for the Company s U.S. pensio that is qualified under Section 401(a) of the Internal Revenue Code (the U.S. Qualified Plan). Liabilities f benefits payable under certain postretirement and unfunded supplementary plans are accrued by the Compan are funded when paid to the beneficiaries.

Expense. In accordance with U.S. GAAP, the Company recognizes the compensation cost of an employee pension benefits (including prior-service cost) over the employee s estimated service period. This process i making certain estimates and assumptions, including the discount rate and the expected long-term rate of ret plan assets.

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The assumed discount rate, which is intended to reflect the rates at which pension benefits could be effective settled, is used to measure the projected and accumulated benefit obligations and to calculate the service cos interest cost. For fiscal 2007, the assumed discount rate for all U.S. plans was selected by the Company, in consultation with its independent actuaries, using a pension discount yield curve based on the characteristics U.S. Qualified Plan liabilities. The pension discount yield curve represents spot discount yields based on dur implicit in a representative broad based Aa corporate bond universe of high-quality fixed income investment includes only bonds of reasonable issue size and excludes certain types of bonds, such as callable bonds. As November 30, 2007, the Company s U.S. Qualified Plan represented 82% of the total liabilities of its U.S. p and postretirement plans combined. The assumed discount rate for the defined benefit portion of its U.K. per plan was selected by the Company using a pension discount yield curve based on the characteristics of the U defined benefit pension liabilities. As of November 30, 2007, the defined benefit portion of the Company s pension plan represented 59% of the total liabilities of its non-U.S. pension plans combined. For all other no pension plans, the Company set the assumed discount rates based on the nature of liabilities, local economic environments and available bond indices.

The expected long-term rate of return on assets represents the Company s best estimate of the long-term ret plan assets and generally was estimated by adjusting the previous year s rate by the difference in the weight average return of the underlying long-term expected returns on the different asset classes, based on the targe allocations, taking into consideration estimated expenses and the benefits of diversification and rebalancing portfolio. This rate is expected to remain the same from one year to the next unless there is a significant char the target asset allocation, the fees and expenses paid by the plan or market conditions.

As of November 30, 2007, the Company s U.S. Qualified Plan represented 90% of the total assets of its U.S non-U.S. pension plans combined. The Company, in consultation with its independent investment consultant actuaries, determined the expected long-term rate of return on its U.S. Qualified Plan assets would remain at for fiscal 2007 (see Note 19 to the consolidated financial statements). There was no significant change in the paid by the plan or the underlying market outlook since September 2006. To better align the duration of plan with the duration of plan liabilities, in May 2007, the U.S. Qualified Plan s target asset allocation policy wa changed from 45%/55% equity/fixed income to 30%/70% equity/fixed income. The effects of this change w reflected in fiscal 2008, and the impact is not expected to be material to the Company s consolidated results operations. The preliminary expected long-term rate of return on U.S. Qualified Plan assets is 6.50% for fisc 2008.

The Company s expected long-term rate of return on assets for its U.S. Qualified Plan was based on the foll target asset allocation:

	Target Investment Mix	Expected Ar Return(1
Domestic equity:		
Large capitalization	12%	
Small capitalization	3%	
International equity	15%	
Fixed income:		
Long-term government/corporate	70%	

(1) These returns do not include the impact of diversification on the overall expected portfolio return.

Each year, the Company compares its initial estimate of the expected long-term rate of return on assets for th
Qualified Plan (and adjusts, if necessary) with a portfolio return calculator model (the Portfolio Model) th
produces a range of expected returns for the portfolio. Return assumptions used are forward-looking gross re
that are not developed solely by an examination of historical returns. The Portfolio Model begins with the cu
U.S. Treasury yield curve, recognizing that expected returns on bonds are heavily influenced by the current l
yields. Corporate bond spreads and equity risk premiums, based on current market conditions, are

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then added to develop the return expectations for each asset class. The resulting expected portfolio investme then adjusted downward to reflect an assumed load for expenses, which include investment and transaction f that typically are paid from plan assets, added to the cost basis or subtracted from sale proceeds, as well as administrative expenses paid from plan assets.

The Company uses the expected long-term rate of return on plan assets to compute the expected return on as component of pension expense. For the U.S. Qualified Plan, expected returns are computed based on a market-related value of assets. The market-related value of assets is a smoothed actuarial value of assets equ moving average of market values in which investment income is recognized over a five-year period. The market-related value of assets must be no greater than 120% and no less than 80% of the market value of ass Investment income equal to the expected return on the plan s assets as calculated for the prior year s expen recognized immediately. Any difference between the actual investment income (on a market-value basis) an expected return is recognized over a five-year period in accordance with SFAS No. 87, Employers Accou Pensions (SFAS No. 87).

Other assumptions, including mortality rates, long-term salary growth and employee turnover rates, are set b Company in consultation with its independent actuaries. These assumptions are tested every year by monitor gains and losses, performing assumption studies as needed, and monitoring Company objectives and actuari trends. These assumptions are adjusted whenever necessary.

The Company amortizes (as a component of pension expense) unrecognized net gains and losses over the av future service of active participants (5 to 20 years depending upon the plan) to the extent that the gain/loss e 10% of the greater of the projected benefit obligation or the market-related value of plan assets. The loss amortization component for the U.S. and the non-U.S. pension plans was $41 million for fiscal 2007 (28% o pension expense) and $51 million for fiscal 2006 (32% of pension expense).

Impact of SFAS No. 158. In September 2006, the Financial Accounting Standards Board (FASB) issue No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendm FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158). Among other items, SFAS No. 158 req recognition of the overfunded or underfunded status of the Company s defined benefit and postretirement p an asset or liability in the consolidated financial statements for the fiscal year ending November 30, 2007. T Company recorded an after-tax charge of $208 million ($347 million pre-tax) to Shareholders equity upon adoption of this requirement. SFAS No. 158 also requires the measurement of defined benefit and postretire plan assets and obligations as of the end of the fiscal year. SFAS No. 158 s requirement to use the fiscal ye date as the measurement date is effective for fiscal years ending after December 15, 2008. The Company ex early adopt a fiscal year-end measurement date for its fiscal year ending November 30, 2008 and currently e to record an after-tax charge of approximately $15 million to Shareholders equity upon adoption.

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Critical Accounting Policies.

The Company s consolidated financial statements are prepared in accordance with U.S. GAAP, which requi
Company to make estimates and assumptions (see Note 1 to the consolidated financial statements). The Con
believes that of its accounting policies (see Note 2 to the consolidated financial statements), the following m
involve a higher degree of judgment and complexity.

Fair Value.

Financial Instruments Measured at Fair Value. A significant number of the Company s financial instru
are carried at fair value with changes in fair value recognized in earnings each period. The Company makes
estimates regarding valuation of assets and liabilities measured at fair value in preparing the consolidated fin
statements. These assets and liabilities include:

- Financial instruments owned and Financial instruments sold, not yet purchased;
- Securities received as collateral and Obligation to return securities received as collateral;
- Certain Commercial paper and other short-term borrowings, primarily structured notes;
- Certain Deposits;
- Other secured financings; and
- Certain Long-term borrowings, primarily structured debt.

Fair Value Measurement Definition and Hierarchy. The Company adopted the provisions of SFAS No. 1
effective December 1, 2006. SFAS No. 157 defines fair value as the price that would be received to sell an a
paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the
measurement date.

In determining fair value, the Company uses various valuation approaches, including market, income and/or
approaches. SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes th
of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be
when available. Observable inputs are inputs that market participants would use in pricing the asset or liabili
developed based on market data obtained from sources independent of the Company. Unobservable inputs a
inputs that reflect the Company s assumptions about the assumptions market participants would use in prici
asset or liability developed based on the best information available in the circumstances. The hierarchy is br
down into three levels based on the reliability of inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Leve instruments. Since valuations are based on quoted prices that are readily and regularly available in an market, valuation of these products does not entail a significant degree of judgment.

Assets and liabilities utilizing Level 1 inputs include exchange-traded equity securities and listed derivatives are actively traded, most U.S. Government securities and certain other sovereign government obligations.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant i are observable, directly or indirectly.

Assets and liabilities utilizing Level 2 inputs include: exchange-traded equity securities and listed derivative are not actively traded; most OTC derivatives; restricted stock; corporate and municipal bonds; certain corpo loans and loan commitments; certain high-yield debt; certain residential and commercial mortgage loans; cer mortgage-backed securities (MBS), asset-backed securities (ABS), and CDO securities; retained intere securitization transactions; structured notes; physical commodities; and mortgage servicing rights.

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Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Assets and liabilities utilizing Level 3 inputs include: certain corporate loans and loan commitments; certain commercial whole loans; certain mortgage loans; certain high-yield debt; distressed debt (i.e., securities of is encountering financial difficulties, including bankruptcy or insolvency); certain MBS, ABS and CDO securi retained interests in certain securitization transactions; investments in real estate funds; private equity invest and complex over-the-counter derivatives (including certain foreign currency options; long-dated commodity options and swaps; certain mortgage-related credit default swaps; derivative interests in mortgage-related CI and basket credit default swaps).

The availability of observable inputs can vary from product to product and is affected by a wide variety of fa including, for example, the type of product, whether the product is new and not yet established in the market and other characteristics particular to the transaction. To the extent that valuation is based on models or inpu are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into differ levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy w which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who holds the or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are no readily available, the Company s own assumptions are set to reflect those that market participants would use pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instru to be reclassified from Level 1 to Level 2 or Level 2 to Level 3. See Note 3 to the consolidated financial stat for further information about the Company s financial assets and liabilities that are accounted for at fair valu

Valuation Techniques. Many cash and OTC contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that the Company and others are willing to pay for an asset. prices represent the lowest price that the Company and others are willing to accept for an asset. For financial instruments whose inputs are based on bid-ask prices, the Company does not require that fair value always b predetermined point in the bid-ask range. The Company s policy is to allow for mid-market pricing and adju the point within the bid-ask range that meets the Company s best estimate of fair value. For offsetting positi the same financial instrument, the same price within the bid-ask spread is used to measure both the long and positions.

Fair value for many cash and OTC contracts is derived using pricing models. Pricing models take into accou contract terms (including maturity) as well as multiple inputs, including, where applicable, commodity price equity prices, interest rate yield curves, credit curves, creditworthiness of the counterparty, option volatility a currency rates. In accordance with SFAS No. 157, the impact of the Company s own credit spreads are also considered when measuring the fair value of liabilities, including OTC derivative contracts. Where appropria valuation adjustments are made to account for various factors, including bid-ask spreads, credit quality and m liquidity. These adjustments are applied on a consistent basis and are based upon observable inputs where available.

OTC Derivative Contracts. OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices.

Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closed-form analytic formulae, such as the Black-Scholes op

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pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing in are observed from actively quoted markets, as is the case for generic interest rate swap and option contracts. case of more established derivative products, the pricing models used by the Company are widely accepted b financial services industry. A substantial majority of OTC derivative products valued by the Company using pricing models fall into this category and are categorized within Level 2 of the fair value hierarchy.

Other derivative products, typically the newest and most complex products, will require more judgment in th implementation of the valuation technique applied due to the complexity of the valuation assumptions and th reduced observability of inputs. This includes certain credit default swaps where direct trading activity or qu are unobservable. Derivative interests in mortgage-related CDOs, for which observability of external price d extremely limited, are valued based on an evaluation of the market for similar positions as indicated by seco and primary market activity in the cash CDO and synthetic CDO market. Each position is evaluated indepen taking into consideration the underlying collateral performance and pricing, behavior of the tranche under va cumulative loss and prepayment scenarios, deal structures (e.g., non-amortizing reference obligations, call features) and liquidity. While these factors may be supported by historical and actual external observations, determination of their value as it relates to specific positions nevertheless requires significant judgment. Mortgage-related credit default swaps are valued based on data from comparable credit instruments in the ca market and trades in comparable swaps as benchmarks, as prices and spreads for the specific credits subject valuation tend to be of limited observability. For basket credit default swaps and CDO-squared positions, the correlation between reference credits is often a significant input into the pricing model, in addition to severa more observable inputs such as credit spread, interest and recovery rates. As the correlation input is unobserv for each specific swap, it is benchmarked to standardized proxy baskets for which external data are available These instruments involve significant unobservable inputs and are categorized in Level 3 of the fair value hierarchy.

The Company trades various derivative structures with commodity underlyings. Depending on the type of structure, the model inputs generally include interest rate yield curves, commodity underlier spread curves, volatility of the underlying commodities and, in some cases, the correlation between these inputs. The fair va these products is estimated using executed trades and broker and consensus data to provide values for the aforementioned inputs. Where these inputs are unobservable, relationships to observable commodities and da points, based on historic and/or implied observations, are employed as a technique to estimate the model inp values. Commodity derivatives are generally categorized in Level 2 of the fair value hierarchy; in instances significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

Prior to the adoption of SFAS No. 157, the Company followed the provisions of EITF Issue No. 02-3. Under Issue No. 02-3, recognition of day one profit at inception of an OTC derivative contract was prohibited unles fair value of the contact was based on a valuation technique incorporating observable market data. With the adoption of SFAS No. 157, the Company is no longer applying the revenue recognition criteria of EITF Issu 02-3.

Other Sovereign Government Obligations. The fair value of foreign sovereign government obligations is generally based on quoted prices in active markets. When quoted prices are not available, fair value is deter based on a valuation model that has as inputs interest rate yield curves, cross-currency basis index spreads, a country credit spreads for structures similar to the bond in terms of issuer, maturity and seniority. These bon generally categorized in Levels 1 or 2 of the fair value hierarchy.

Municipal Bonds. The fair value of municipal bonds is estimated using recently executed transactions, mar
price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swa
spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy.

Corporate Bonds. The fair value of corporate bonds is estimated using recently executed transactions, marl
price quotations (where observable), bond spreads or credit default swap spreads. The spread data used are f

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the same maturity as the bond. If the spread data do not reference the issuer, then data that reference a compa issuer is used. When observable price quotations are not available, fair value is determined based on cash flo models with yield curves, bond or single name credit default swap spreads and recovery rates based on colla values as key inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy; in inst where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy.

Corporate Loans and Loan Commitments. The fair value of corporate loans is estimated using recently exe transactions, market price quotations (where observable) and market observable credit default swap levels al with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable. The fair value of contingent corporate loan commitments is estimated by using executed trans on comparable loans and the anticipated market price based on pricing indications from syndicate banks and customers. The valuation of these commitments also takes into account certain fee income. While certain co loans, closed loan commitments and revolving loans are Level 2 instruments, certain other corporate loans a contingent corporate loan commitments are categorized in Level 3 of the fair value hierarchy.

Mortgage Loans. The valuation of mortgage loans depends upon the exit market for the loan. Loans not in for securitization are valued based on the analysis of the underlying collateral performance, capital structure market spreads for comparable positions as prices and/or spreads for specific credits tend to be unobservable Where comparables do not exist, such loans are valued based on origination price and collateral performance (credit events) since origination. These loans are classified in Levels 2 or 3 of the fair value hierarchy.

The Company also holds certain loan products and mortgage products with the intent to securitize them. Wh structuring of the related securitization is substantially complete, such that the value likely to be realized in a current transaction is consistent with the price that a securitization entity will pay to acquire these products, Company marks them to the expected securitized value. Factors affecting the value of loan and mortgage pr intended to be securitized include, but are not limited to, loan type, underlying property type and geographic location, loan interest rate, loan to value ratios, debt service coverage ratio, updated cumulative loan loss dat prepayment rates, yields, investor demand, any significant market volatility since the last securitization, and enhancement. While these valuation factors may be supported by historical and actual external observations, determination of their value as it relates to specific positions may require significant judgment. These instru are classified in Levels 2 or 3 of the fair value hierarchy.

U.S. Agency Securities. U.S. agency securities include To-be-announced (TBA) securities and mortgag pass-through certificates. TBA securities are liquid and have quoted market prices. Fair value of mortgage pass-through certificates is determined via a simulation model, which considers different rate scenarios and historical activity to calculate a spread to the comparable TBA security. U.S. agency securities are categoriz Level 2 of the fair value hierarchy.

Commercial Mortgage-Backed Securities and Asset-Backed Securities (ABS). CMBS and ABS may be based on external price/spread data. When position-specific external price data are not observable, the valua based on prices of comparable bonds. Included in this category are certain interest-only securities, which, in absence of market prices, are valued as a function of observable whole bond prices and cash flow values of principal-only bonds using current market assumptions at the measurement date. CMBS and ABS are categ in Level 3 if external prices are unobservable; otherwise they are categorized in Level 2 of the fair value hie

Retained Interests in Securitization Transactions. The Company engages in securitization activities related various types of loans and bonds. The Company may retain interests in securitized financial assets as one or tranches of the securitization. To determine fair values, observable inputs are used if available. Observable i however, may not be available for certain retained interests so the Company estimates fair value based on th present value of expected future cash flows using its best estimates of the key assumptions, including foreca credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks

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involved. When there are no significant unobservable inputs, retained interests are categorized in Level 2 of fair value hierarchy. When unobservable inputs are significant to the fair value measurement, albeit generall supportable by historical and actual benchmark data, retained interests are categorized in Level 3 of the fair hierarchy.

Investments in Private Equity and Real Estate. The Company s investments in private equity and real esta the form of direct private equity investments and investment in private equity and real estate funds. The tran price is used as the best estimate of fair value at inception. When evidence supports a change to the carrying from the transaction price, adjustments are made to reflect expected exit values. Ongoing reviews by Compa management are based on an assessment of each underlying investment, incorporating valuations that consid evaluation of financing and sale transactions with third parties, expected cash flows and market-based inform including comparable company transactions, performance multiples and changes in market outlook, among factors. These nonpublic investments are included in Level 3 of the fair value hierarchy because they trade infrequently, and, therefore, the fair value is unobservable.

Physical Commodities. The Company trades various physical commodities, including crude oil and refine products, metals and agricultural products. Fair value for physical commodities is determined using observa inputs, including broker quotations and published indices. Physical commodities are categorized in Level 2 fair value hierarchy.

Deposits. The fair value of certificates of deposit is estimated using third-party quotations. These deposits categorized in Level 2 of the fair value hierarchy.

Structured Notes. The Company issues structured notes that have coupons or repayment terms linked to th performance of debt or equity securities, indices, currencies or commodities. Fair value of structured notes i estimated using valuation models described in this section for the derivative and debt features of the notes. T models incorporate observable inputs, including prices that the notes are linked to, interest rate yield curves, volatility and currency rates. The impact of the Company s own credit spreads also is included based on the Company s observed secondary bond market spreads. Most structured notes are categorized in Level 2 of th value hierarchy.

Reclasses from Level 2 to Level 3. During the fourth quarter of fiscal 2007, the Company reclassified approximately $7.0 billion of funded assets and $279 million of net derivative contracts from Level 2 to Lev because certain significant inputs for the fair value measurement became unobservable. These reclasses wer primarily related to the continued market and liquidity deterioration in the mortgage markets. The most mate transfers to Level 3 were in commercial whole loans, residuals from residential securitizations, interest-only commercial mortgage and agency bonds as well as commercial and residential credit default swaps.

Fair Value Control Processes. The Company employs control processes to validate the fair value of its fin instruments, including those derived from pricing models. These control processes are designed to assure th values used for financial reporting are based on observable inputs wherever possible. In the event that obser inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. These control processes inclu reviews of the pricing model s theoretical soundness and appropriateness by Company personnel with relev expertise who are independent from the trading desks. Additionally, groups independent from the trading div within the Financial Control, Market Risk and Credit Risk Departments participate in the review and validat the fair values generated from pricing models, as appropriate. Where a pricing model is used to determine fa value, recently executed comparable transactions and other observable market data are considered for purpos validating assumptions underlying the model.

Consistent with market practice, the Company has individually negotiated agreements with certain counterpa to exchange collateral (margining) based on the level of fair values of the derivative contracts they have e Through this margining process, one party or both parties to a derivative contract provides the other party wi information about the fair value of the derivative contract to calculate the amount of collateral required. This sharing of fair value information provides additional support of the Company s recorded fair value

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for the relevant OTC derivative products. For certain OTC derivative products, the Company, along with oth market participants, contributes derivative pricing information to aggregation services that synthesize the dat make it accessible to subscribers. This information is then used to evaluate the fair value of these OTC deriv products.

Legal, Regulatory and Tax Contingencies.

In the normal course of business, the Company has been named, from time to time, as a defendant in various actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some the issuers that would otherwise be the primary defendants in such cases are bankrupt or in financial distress

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both for and informal) by governmental and self-regulatory agencies regarding the Company s business, including, a other matters, accounting and operational matters, certain of which may result in adverse judgments, settlem fines, penalties, injunctions or other relief.

Reserves for litigation and regulatory proceedings are generally determined on a case-by-case basis and repr an estimate of probable losses after considering, among other factors, the progress of each case, prior experi and the experience of others in similar cases, and the opinions and views of internal and external legal couns Given the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Co cannot predict with certainty the loss or range of loss, if any, related to such matters, how such matters will b resolved, when they will ultimately be resolved or what the eventual settlement, fine, penalty or other relief, might be.

The Company is subject to the income and indirect tax laws of the U.S., its states and municipalities and tho the foreign jurisdictions in which the Company has significant business operations. These tax laws are comp and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. The Company must make judgments and interpretations about the application of these inherently complex tax law when determining the provision for income taxes and the expense for indirect taxes and must also make esti about when in the future certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Comp regularly assesses the likelihood of assessments in each of the taxing jurisdictions resulting from current and subsequent years examinations, and tax reserves are established as appropriate.

The Company establishes reserves for potential losses that may arise out of litigation, regulatory proceeding tax audits to the extent that such losses are probable and can be estimated in accordance with SFAS No. 5. O established, reserves are adjusted when there is more information available or when an event occurs requirin change. Significant judgment is required in making these estimates, and the actual cost of a legal claim, tax assessment or regulatory fine/penalty may ultimately be materially different from the recorded reserves, if an

See Notes 2, 15 and 20 to the consolidated financial statements for additional information on legal proceedin
tax examinations.

Special Purpose Entities.

The Company enters into a variety of transactions with special purpose entities, primarily in connection with
securitization activities. The Company engages in securitization activities related to commercial and residen
mortgage loans, U.S. agency collateralized mortgage obligations, corporate bonds and loans, municipal bond

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and other types of financial instruments. In most cases, these SPEs are deemed to be variable interest entities Unless a VIE is determined to be a qualifying special purpose entity (QSPE), the Company is required un accounting guidance to perform an analysis of each VIE at the date upon which the Company becomes invol with it to determine whether the Company is the primary beneficiary of the VIE, in which case the Company consolidate the VIE. QSPEs are not consolidated.

In accordance with accounting guidance, the Company reassesses whether it is the primary beneficiary of a upon the occurrence of certain reconsideration events. If the Company s initial assessment results in a deter that it is not the primary beneficiary of a VIE, then the Company reassesses this determination upon the occu of:

Changes to the VIE s governing documents or contractual arrangements in a manner that reallocates obligation to absorb the expected losses or the right to receive the expected residual returns of the VI between the current primary beneficiary and the other variable interest holders, including the Compar

Acquisition by the Company of additional variable interests in the VIE.

If the Company s initial assessment results in a determination that it is the primary beneficiary, then the Co reassesses this determination upon the occurrence of:

Changes to the VIE s governing documents or contractual arrangements in a manner that reallocates obligation to absorb the expected losses or the right to receive the expected residual returns of the VI between the current primary beneficiary and the other variable interest holders, including the Compar

A sale or disposition by the Company of all or part of its variable interests in the VIE to unrelated par

The issuance of new variable interests by the VIE to parties unrelated to the Company.

The determination of whether an SPE meets the accounting requirements of a QSPE requires significant jud particularly in evaluating whether the permitted activities of the SPE are significantly limited and in determi whether derivatives held by the SPE are passive and nonexcessive. In addition, the analysis involved in determining whether an entity is a VIE, and in determining the primary beneficiary of a VIE, requires signifi judgment (see Note 5 to the consolidated financial statements).

Certain Factors Affecting Results of Operations.

The Company s results of operations may be materially affected by market fluctuations and by economic fa addition, results of operations in the past have been, and in the future may continue to be, materially affected many factors of a global nature, including political, economic and market conditions; the availability and cos capital; the level and volatility of equity prices, commodity prices and interest rates; currency values and oth market indices; technological changes and events; the availability and cost of credit; inflation; and investor sentiment and confidence in the financial markets. In addition, there continues to be a heightened level of legislative, legal and regulatory developments related to the financial services industry that potentially could increase costs, thereby affecting future results of operations. Such factors also may have an impact on the Company s ability to achieve its strategic objectives on a global basis. For a further discussion of these and important factors that could affect the Company s business, see Risk Factors in Part I, Item 1A.

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Liquidity and Capital Resources.

The Company s senior management establishes the overall liquidity and capital policies of the Company. Tl various risk and control committees, the Company s senior management reviews business performance rela these policies, monitors the availability of alternative sources of financing, and oversees the liquidity and int rate and currency sensitivity of the Company s asset and liability position. These committees, along with th Company s Treasury Department and other control groups, also assist in evaluating, monitoring and control impact that the Company s business activities have on its consolidated balance sheet, liquidity and capital st thereby helping to ensure that its business activities are integrated with the Company s liquidity and capital For a description of the Company s other principal risks and how they are monitored and managed, see Qu and Qualitative Disclosures about Market Risk Risk Management in Part II, Item 7A.

The Company s liquidity and funding risk management policies are designed to mitigate the potential risk tl Company may be unable to access adequate financing to service its financial obligations when they come du without material, adverse franchise or business impact. The key objectives of the liquidity and funding risk management framework are to support the successful execution of the Company s business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of financial distress. principal elements of the Company s liquidity management framework are the Contingency Funding Plan, t Liquidity Reserve and the Cash Capital Policy. Comprehensive financing guidelines (collateralized funding, long-term funding strategy, surplus capacity, diversification, staggered maturities and committed credit facil support the Company s target liquidity profile.

The Balance Sheet.

The Company monitors and evaluates the composition and size of its balance sheet. Given the nature of the Company s market-making and customer financing activities, the size of the balance sheet fluctuates from t time. A substantial portion of the Company s total assets consists of highly liquid marketable securities and short-term receivables arising principally from its Institutional Securities sales and trading activities. The hig liquid nature of these assets provides the Company with flexibility in financing and managing its business.

The Company s total assets decreased to $1,045,409 million at November 30, 2007 from $1,121,192 millio November 30, 2006. The decrease was primarily due to decreases in securities borrowed, securities purchase under agreements to resell and the completion of the Discover Spin-off (see Note 22 to the consolidated fina statements), partially offset by an increase in cash and securities deposited with clearing organizations and securities received as collateral.

Within the sales and trading related assets and liabilities, there are transactions attributable to securities finar activities. Securities financing assets and liabilities as of November 30, 2007 were $587 billion and $559 bil respectively. Securities financing transactions include repurchase and resale agreements, securities borrowed loaned transactions, securities received as collateral and obligation to return securities received, customer receivables/payables and related segregated customer cash.

Securities financing assets and liabilities include matched book transactions with minimal market, credit and
liquidity risk. These matched book transactions are to accommodate customers, as well as to obtain securitie
the settlement and finance of inventory positions. The customer receivable/payable portion of the securities
financing transactions includes customer margin loans, collateralized by customer owned securities, and cus
cash, which is segregated in order to satisfy regulatory requirements. The Company s exposure on these
transactions is limited by collateral maintenance policies, which in turn limits the Company s credit exposu
customers. Included within securities financing assets was $82 billion that, in accordance with SFAS No. 14
Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS No
represented equal and offsetting assets and liabilities for fully collateralized non-cash loan transactions.

Balance sheet leverage ratios are one indicator of capital adequacy when viewed in the context of a company
overall liquidity and capital policies. The Company views the adjusted leverage ratio as a more relevant mea

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of financial risk when comparing financial services firms and evaluating leverage trends. The Company has adopted a definition of adjusted assets that excludes certain self-funded assets considered to have minimal m credit and/or liquidity risk. These low-risk assets generally are attributable to the Company s matched book securities lending businesses. Adjusted assets are calculated by reducing gross assets by aggregate resale agreements and securities borrowed less non-derivative short positions and assets recorded under certain provisions of SFAS No. 140 and FASB Interpretation No. 46 (revised December 2003) Consolidation of V Interest Entities (FIN 46R). Gross assets are also reduced by the full amount of cash and securities deposi clearing organizations or segregated under federal and other regulations or requirements. The adjusted levera ratio reflects the deduction from shareholders equity of the amount of equity used to support goodwill and intangible assets (as the Company does not view this amount of equity as available to support its risk capital needs). In addition, the Company views junior subordinated debt issued to capital trusts as a component of it capital base given the inherent characteristics of the securities. These characteristics include the long-dated r (e.g., some have final maturity at issuance of 30 years extendible at the Company s option by a further 19 y others have a 60-year final maturity at issuance), the Company s ability to defer coupon interest for up to 20 consecutive quarters and the subordinated nature of the obligations in the capital structure. The Company als receives rating agency equity credit for these securities. Excluding the $82 billion of assets and liabilities rec in accordance with SFAS No. 140 would reduce the leverage ratio from 32.6x to 30.0x.

The following table sets forth the Company s total assets, adjusted assets and leverage ratios as of Novembe 2007 and November 30, 2006 and for the average month-end balances during fiscal 2007 and fiscal 2006:

	Balance at		Average Month-End Ba	
	November 30, 2007	November 30, 2006	Fiscal 2007(1)	Fiscal 2
	(dollars in millions, except ratio data)			
Total assets	$ 1,045,409	$ 1,121,192	$ 1,202,065	$ 1,02
Less: Securities purchased under agreements to resell	(126,887)	(175,787)	(176,973)	(18
Securities borrowed	(239,994)	(299,631)	(279,729)	(27
Add: Financial instruments sold, not yet purchased	134,341	183,119	172,075	15
Less: Derivative contracts sold, not yet purchased	(71,604)	(57,491)	(59,869)	(4
Subtotal	741,265	771,402	857,569	67
Less: Cash and securities deposited with clearing organizations or segregated under federal and other regulations or requirements(3)	(61,608)	(29,565)	(41,357)	(4
Assets recorded under certain provisions of SFAS No. 140 and FIN 46R	(110,001)	(100,236)	(132,141)	(8
Goodwill and net intangible assets(4)	(4,071)	(3,443)	(3,924)	(
Adjusted assets	$ 565,585	$ 638,158	$ 680,147	$ 54
Common equity	$ 30,169	$ 34,264	$ 35,235	$ 3
Preferred equity	1,100	1,100	1,100	
Shareholders equity	31,269	35,364	36,335	3
Junior subordinated debt issued to capital trusts	4,876	4,884	4,878	
Subtotal	36,145	40,248	41,213	3
Less: Goodwill and net intangible assets(4)	(4,071)	(3,443)	(3,924)	(

Tangible shareholders equity	$	32,074	$	36,805	$	37,289	$ 3
Leverage ratio(5)		32.6x		30.5x		32.2x	
Adjusted leverage ratio(6)		17.6x		17.3x		18.2x	

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(1) Average balances for fiscal 2007 were calculated based upon month-end balances from November 2006 through Nove 2007. Average common equity was adjusted for the Discover Spin-off.
(2) The results for the Company and for the Institutional Securities business segment for the first two quarters of fiscal 20 adjusted (see Note 24 to the consolidated financial statements).
(3) In the second quarter of fiscal 2007, the adjusted assets calculation was revised in order to reduce gross assets by the f amount of cash and securities deposited with clearing organizations or segregated under federal and other regulations requirements. All prior periods have been restated to conform with the current presentation.
(4) Effective December 1, 2006, mortgage servicing rights have been included in net intangible assets. Amounts as of November 30, 2006 have been reclassified to conform with the current presentation.
(5) Leverage ratio equals total assets divided by tangible shareholders equity.
(6) Adjusted leverage ratio equals adjusted assets divided by tangible shareholders equity.

Activity in Fiscal 2007.

The Company s total capital consists of shareholders equity, long-term borrowings (debt obligations schec mature in more than 12 months) and junior subordinated debt issued to capital trusts. At November 30, 2007 capital was $191,085 million, an increase of $28,951 million from November 30, 2006. The Company redee all $66 million of its outstanding Capital Units on February 28, 2007.

During the 12 months ended November 30, 2007, the Company issued senior notes with a carrying value aggregating $76.1 billion, including non-U.S. dollar currency notes aggregating $35.2 billion. In connection the note issuances, the Company has entered into certain transactions to obtain floating interest rates based primarily on short-term London Interbank Offered Rates (LIBOR) trading levels. At November 30, 2007, aggregate outstanding principal amount of the Company s Senior Indebtedness (as defined in the Company debt indentures) was approximately $207 billion (including guaranteed obligations of the indebtedness of subsidiaries). The weighted average maturity of the Company s long-term borrowings, based upon stated m dates, was approximately 5.5 years at November 30, 2007. Subsequent to fiscal year-end and through Decem 31, 2007, the Company s long-term borrowings (net of repayments) increased by approximately $10 billion addition, in December 2007, the Company sold Equity Units to a wholly owned subsidiary of CIC for approximately $5,579 million. See China Investment Corporation Investment herein.

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China Investment Corporation Investment.

In December 2007, the Company sold Equity Units which include contracts to purchase Company common s (see Stock Purchase Contracts herein) to a wholly owned subsidiary of CIC for approximately $5,579 mil CIC s ownership in the Company s common stock, including the maximum number of shares of common s received by CIC upon settlement of the stock purchase contracts, will be 9.9% or less of the Company s tota outstanding based on the total shares outstanding on November 30, 2007. CIC will be a passive financial inv and will have no special rights of ownership nor a role in the management of the Company. A substantial po of the investment proceeds will be treated as Tier 1 capital for regulatory capital purposes.

Each stock purchase contract mandatorily settles in Company common stock at prices between $48.0700 and $57.6840. The maximum number of shares to be issued upon settlement of the stock purchase contracts inclu the Equity Units is approximately 116,063,000. The stock purchase contracts settle for Company common st August 17, 2010, subject to adjustment. Each Equity Unit will pay a fixed annual payment rate of 9% payab quarterly.

As described below, the Equity Units consist of interests in trust preferred securities issued by Morgan Stanl Capital Trust A (Series A Trust), Morgan Stanley Capital Trust B (Series B Trust) or Morgan Stanley C (Series C Trust) (each a Morgan Stanley Trust and, collectively, the Trusts) and stock purchase c by the Company. The only assets held by the Series A Trust, Series B Trust and Series C Trust are junior subordinated debentures issued by the Company.

Equity Units.

Each Equity Unit has a stated amount of $1,000 per unit consisting of:

(i) an undivided beneficial ownership interest in a trust preferred security of Series A Trust, Series B Trust Series C Trust with an initial liquidation amount of $1,000; and

(ii) a stock purchase contract relating to the common stock, par value of $0.01 per share, of the Company.

*Junior Subordinated Debentures Issued to Support Trust Common and Trust Preferred Securities***.**

In the first quarter of fiscal 2008, the Company issued junior subordinated debt securities due no later than February 17, 2042 for a total of $5,579,173,000 in exchange for $5,579,143,000 in aggregate proceeds from sale of the trust preferred securities by the Trusts and $30,000 in trust common securities issued equally by t Trusts. The Company elected to fair value the junior subordinated debentures pursuant to SFAS No. 159. Th common and trust preferred securities of the Trusts, totaling approximately $5,579 million, represent undivic beneficial ownership interests in the assets of the Trusts, have no stated maturity and must be redeemed upon redemption or maturity of the corresponding series of junior subordinated debt securities the sole assets of t respective Trusts. The Series A Trust, Series B Trust and Series C Trust will make quarterly distributions on trust common and trust preferred securities at an annual rate of 6%.

The trust common securities, which are held by the Company, represent an interest in the Trusts and are reco as an equity method investment in the Company s consolidated statement of financial condition. The Trusts VIEs in accordance with FIN 46R and the Company does not consolidate its interests in the Trusts as it is no primary beneficiary of any of the Trusts.

The Company has directly guaranteed the repayment of the trust preferred securities to the holders thereof to extent that there are funds available in the Trusts. If the Company does not make payments on the junior subordinated debentures owned by a Morgan Stanley Trust, such Morgan Stanley Trust will not be able to pa amounts payable in respect of the trust preferred securities issued by it and will not have funds legally availa that purpose. In that event, holders of such series of trust preferred securities would not be able to

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rely upon the guarantee for payment of those amounts. The guarantee will remain in place until the redempti price of all of the trust preferred securities is paid, the amounts payable with respect to the trust preferred sec upon liquidation of the Morgan Stanley Trusts are paid or the junior subordinated debentures are distributed holders of all the trust preferred securities. The trust preferred securities held by the Equity Unit holders are pledged to the Company to collateralize the obligations of the Equity Unit holders under the related stock pu contracts. The Equity Unit holders may substitute certain zero-coupon treasury securities in place of the trust preferred securities as collateral under the stock purchase contracts.

Stock Purchase Contracts.

Each stock purchase contract requires the holder to purchase, and the Company to sell, on the stock purchase number of newly issued or treasury shares of the Company s common stock, par value $0.01 per share, equa settlement rate. The settlement rate at the respective stock purchase date will be calculated based on the arith average of the volume-weighted average prices of the common stock during a specified 20-day period endin days immediately preceding the applicable stock purchase date (applicable market value). If the applicabl value of the Company s common stock is less than the threshold appreciation price of $57.6840 but greater $48.0700, the reference price, the settlement rate will be a number of shares of the Company s common stoc to $1,000 divided by the applicable market value. If the applicable market value is less than or equal to the reference price, the settlement rate will be the number of shares of the Company s common stock equal to $ divided by the reference price. If the applicable market value is greater than or equal to the threshold appreci price, the settlement rate will be the number of shares of the Company s common stock equal to $1,000 divi the threshold appreciation price. Accordingly, upon settlement in the aggregate, the Company will receive proceeds of approximately $5,579 million and issue up to approximately 116,063,000 shares of its common The stock purchase contract may be settled early at the option of the holder at any time prior to the second bu day immediately preceding the beginning of the first remarketing period. However, upon early settlement, th holder will receive the minimum settlement rate, subject to adjustment.

The initial quarterly distributions on the Series A, Series B and Series C trust preferred securities of 6%, con with the contract adjustment payments on the stock purchase contracts of 3%, result in the 9% yield on the E Units.

If the Company defers any of the contract adjustment payments on the stock purchase contracts, then it will a additional amounts on the deferred amounts at the annual rate of 9% until paid, to the extent permitted by law

The present value of the future contract adjustment payments due under the stock purchase contracts was approximately $400 million and was recorded in Other liabilities and accrued expenses with a corresponding decrease recorded in Shareholders equity in the Company s consolidated statement of financial condition i quarter of fiscal 2008. The other liability balance related to the stock purchase contracts will accrete over the of the stock purchase contract using the effective yield method with a corresponding charge to Interest exper When the contract adjustment payments are made under the stock purchase contracts, they will reduce the ot liability balance.

Calculation of Impact on Average Diluted Common Shares Outstanding Prior to Settlement of Stock Purcha Contract.

Prior to the issuance of common stock upon settlement of the stock purchase contract, the impact of the Equi
Units will be reflected in the Company s earnings per diluted common share using the treasury stock metho
defined by SFAS No. 128, Earnings Per Share. Under the treasury stock method, the number of shares of
stock included in the calculation of earnings per diluted common share will be calculated as the excess, if an
the number of shares expected to be issued upon settlement of the stock purchase contract based on the

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average market price for the last 20 days of the reporting period, less the number of shares that could be purc by the Company with the proceeds to be received upon settlement of the contract at the average closing price the reporting period.

Dilution of net income per share will occur (i) in reporting periods when the average closing price of commo shares is over $57.6840 per share or (ii) in reporting periods when the average closing price of common shar a reporting period is between $48.0700 and $57.6840 and is greater than the average market price for the las days ending three days prior to the end of such reporting period.

Upon settlement of the Stock Purchase Contract, the amount of common shares issued in settlement of the co will be included in the basic and diluted earnings per share calculation of weighted average common shares outstanding for the reporting period.

Economic Capital.

The Company s economic capital model estimates the amount of equity capital required to support the busi and their risk-generating activities through the business cycle while simultaneously satisfying regulatory, rat agency and investor minimum requirements. The economic capital model will evolve over time in response changes in the business and regulatory environment and to incorporate improvements in modeling technique order to reflect the capital required to support business activities.

Economic capital requirements are allocated to each business segment and are sub-allocated to product lines appropriate. Each business segment is capitalized as if each were an independent operating entity. This proc intended to align equity capital with the risks in each business, provide business managers with tools for mea and managing risk and associated cost of required capital, and allow senior management to evaluate risk-adj returns (such as return on equity and shareholder value added) to facilitate resource allocation decisions.

The Company s methodology is based on a going-concern approach that assigns equity to each business bas regulatory capital usage plus additional capital for stress losses, including principal investment risk. Regulat capital, including additional capital assigned for certain goodwill, intangible assets and net deferred tax asset minimum requirement to ensure the Company s access to funding and credibility in the market. The Compa believes it must be able to sustain stress losses and maintain capital substantially above regulatory minimum supporting ongoing business activities. The difference between the Company s consolidated book equity an aggregate equity requirements denotes the Company s unallocated capital position, which is not currently re in business segment performance metrics.

The Company assesses stress loss capital across various dimensions of market, credit, business and operatio risks. Market risk scenarios capture systematic, idiosyncratic and random market risk through the use of inte market stress data. Credit risk is included in the form of idiosyncratic counterparty default events. Business r incorporates earnings volatility due to variability in revenue flows, with estimates on the mix of fixed versus variable expenses at various points in the business cycle. Operational stress losses primarily reflect legal risk across the Company.

Beginning in fiscal 2007, economic capital requirements are met by regulatory Tier 1 equity (including comm shareholders equity, certain preferred stock, eligible hybrid capital instruments and deductions of certain go intangible assets and net deferred tax assets), subject to regulatory limits.

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The following table presents the Company s allocated average Tier 1 equity (economic capital) for fiscal average common equity for fiscal 2007 and fiscal 2006:

	Fiscal Year Ended 2007		
	Average Tier 1 Equity	Average Common Equity	A C I
	(dollars in billions)		
Institutional Securities	$ 24.6	$ 23.9	$
Global Wealth Management Group	1.5	1.7	
Asset Management	2.7	3.5	
Unallocated capital	2.9	2.9	
Total from continuing operations	31.7	32.0	
Discontinued operations	2.7	3.2	
Total	$ 34.4	$ 35.2	$

The increase in capital allocated to Institutional Securities from the prior-year period reflects the increased m and credit risk profile as well as capital required for new acquisitions and investments. The Company expect continue deploying capital, provided market opportunities continue to warrant such investments. The decrea the economic capital allocated to the Global Wealth Management Group was due to the Company s reassess the amount of capital required to support the market risks and credit risks in this business segment. The incremental equity capital allocated to Asset Management primarily represents capital required for acquisitio investments in asset management products.

The Company s unallocated economic capital was $(2.7) billion at November 30, 2007 due to the loss reco the fourth quarter of fiscal 2007 and increased capital assigned to the Institutional Securities business segme December 2007, the Company entered into an agreement with CIC as a long-term financial investor and issu new capital of approximately $5,579 million through Equity Units. These Equity Units will help to further b the Company s capital position and enhance growth opportunities globally while also building on the Comp deep historic ties and market leadership in China (see China Investment Corporation Investment herein).

The Company continues to believe that it is adequately capitalized. The Company generally uses available unallocated capital for organic growth, additional acquisitions, and other capital needs including repurchases common stock while maintaining adequate internal capital ratios.

During fiscal 2007, the Company s shareholders equity has been affected by the adoption of SFAS No. 15 Note 19 to the consolidated financial statements), SFAS No. 157 and SFAS No. 159 (see Notes 2 and 3 to th consolidated financial statements), and the Discover Spin-off (see Note 22 to the consolidated financial statements).

Equity Capital Management Policies. The Company s senior management views equity capital as an imp source of financial strength and, therefore, pursues a strategy of ensuring that the Company s equity capital adequately reflects and provides protection from the economic risks inherent in its businesses. Capital is requ for, among other things, the Company s inventories, underwritings, principal investments, bridge loans and financings, investments in fixed assets and for future uses. Capital for future uses will be included within unallocated capital until required by the business segments. The Company also considers return on common to be an important measure of its performance, in the context of both the particular business environment in the Company is operating and its peer group s results. In this regard, the Company actively manages its consolidated equity capital position based upon, among other things, business opportunities, capital availabil rates of return together with internal capital policies, regulatory requirements and rating agency guidelines

and, therefore, in the future may expand or contract its equity capital base to address the changing needs of i
businesses. The Company attempts to maintain total equity, on a consolidated basis, at least equal to the sum
operating subsidiaries equity.

At November 30, 2007, the Company s equity capital (which includes shareholders equity and junior subo
debt issued to capital trusts) was $36,145 million, a decrease of $4,103 million from November 30, 2006, pri
due to the Discover Spin-off. The Company returns internally generated equity capital that is in excess of the
of its businesses to its shareholders through common stock repurchases and dividends. During fiscal 2007, th
Company purchased approximately $3.8 billion of its common stock (approximately 52 million shares) throu
open market purchases at an average cost of $72.65 (see also Market for Registrant s Common Equity, Re
Stockholder Matters and Issuer Purchases of Equity Securities in Part II, Item 5).

In December 2006, the Company announced that its Board of Directors had authorized the repurchase of up
billion of the Company s outstanding common stock. This share repurchase authorization replaced the Com
previous repurchase authorizations with one repurchase program for capital management purposes that will
consider, among other things, business segment capital needs, as well as equity-based compensation and ben
plan requirements. As of November 30, 2007, the Company had approximately $2.3 billion remaining under
current share repurchase authorization.

The Board of Directors determines the declaration and payment of dividends on a quarterly basis. In Decemb
2007, the Company announced that its Board of Directors declared a quarterly dividend per common share o
$0.27. The Company also announced that its Board of Directors declared a quarterly dividend of $379.66 pe
of Series A Floating Rate Non-Cumulative Preferred Stock (represented by depositary shares, each represent
1/1,000th interest in a share of preferred stock and each having a dividend of $0.37966).

Liquidity Management Policies.

The primary goal of the Company s liquidity management and financing activities is to ensure adequate fun
over a wide range of market environments. Given the highly liquid nature of the Company s balance sheet,
requirements are largely fulfilled through the use of collateralized financing. The Company has centralized
management of credit-sensitive unsecured funding sources in the Treasury Department. The Company maint
liquidity management framework in order to meet target liquidity requirements and withstand a contraction i
credit availability. The framework components include the Contingency Funding Plan (CFP), Liquidity R
and Cash Capital.

Contingency Funding Plan. The Company maintains a CFP to manage a potential prolonged liquidity
contraction over a one-year time period and to provide the ability to conduct business in an orderly manner.
CFP is produced on a parent, bank subsidiary and non-bank subsidiary level. The CFP sets forth a course of
to ensure effective management of a liquidity event. Liquidity risk exposures are regularly evaluated and rep
to the Firm Risk Committee and appropriate business segment risk committees.

The Company s CFP model incorporates a wide range of potential cash outflows during a liquidity stress ev including, but not limited to, the following: (i) repayment of all unsecured debt maturing within one year; (ii) maturity roll-off of outstanding letters of credit with no further issuance and replacement with cash colla (iii) return of unsecured securities borrowed and any cash raised against these securities; (iv) additional colla that would be required by counterparties in the event of a ratings downgrade; (v) higher haircuts on or lower availability of secured funding; (vi) client cash withdrawals; (vii) drawdowns on unfunded commitments pro to third parties; and (viii) discretionary unsecured debt buybacks.

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The Company s CFP is developed at the legal entity level in order to capture specific cash requirements and availability for the parent company and each of its major operating subsidiaries. The CFP assumes that the p company does not have access to cash that may be trapped at subsidiaries due to regulatory, legal or tax constraints. In addition, the CFP assumes that the parent company does not draw down on its committed cre facilities.

Liquidity Reserve. The Company seeks to maintain a target liquidity reserve that is sized to cover daily fu needs and to meet strategic liquidity targets as outlined in the CFP. This liquidity reserve is held in the form cash deposits with banks and a pool of unencumbered securities. The Company manages the pool of unencumbered securities, against which funding can be raised, on a global basis, and securities for the pool a chosen accordingly. The U.S. and non-U.S. components, held in the form of a reverse repurchase agreement parent company, consists of U.S. and European government bonds and other high-quality collateral. The Co believes that diversifying the form in which its liquidity reserve (cash and securities) is maintained enhances ability to quickly and efficiently source funding in a stressed environment. The Company s funding require and target liquidity reserve may vary based on changes in the level and composition of its balance sheet, tim specific transactions, client financing activity, market conditions and seasonal factors.

The table below summarizes the Company s liquidity reserves on a parent, bank subsidiary and non-bank su level. The liquidity held on the bank and non-bank subsidiary level is generally not available to the parent.

		Average Balance	
Liquidity Reserve	**At November 30, 2007**	**For the Quarter Ended November 30, 2007**	**For the Fiscal Y November 3**
		(dollars in billions)	
Parent	$ 62	$ 64	$
Bank subsidiaries	22	22	
Non-bank subsidiaries	34	34	
Total	$ 118	$ 120	$

Cash Capital. The Company maintains a cash capital model that measures long-term funding sources agai requirements. Sources of cash capital include the parent company s equity and the non-current portion of ce long-term borrowings. Uses of cash capital include the following: (i) illiquid assets such as buildings, equip goodwill, net intangible assets, exchange memberships, deferred tax assets and principal investments; (ii) a p of securities inventory that is not expected to be financed on a secured basis in a credit-stressed environment stressed haircuts); and (iii) expected drawdowns on unfunded commitments.

The Company seeks to maintain a surplus cash capital position. The Company s equity capital of $36,145 m (including junior subordinated debt issued to capital trusts of $4,876 million) and long-term borrowings (deb obligations scheduled to mature in more than 12 months) of $154,940 million comprised the Company s tot capital of $191,085 million as of November 30, 2007, which substantially exceeded cash capital requiremen

Committed Credit Facilities.

The maintenance of committed credit facilities serves to further diversify the Company s funding sources. T
Company values committed credit as a secondary component of its liquidity management framework. The committed credit facilities include a diversification of lenders to the Company covering geographic regions, including North America, Europe and Asia.

The Company maintains a senior revolving credit agreement with a group of banks to support general liquid
needs, including the issuance of commercial paper, which consists of three separate tranches: a U.S. dollar

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tranche; a Japanese yen tranche; and a multicurrency tranche available in both euro and British pound, all of
exist with the Company as the sole borrower. Under this combined facility (the Credit Facility), the banks
committed to provide up to $7.6 billion under the U.S. dollar tranche, 80 billion Japanese yen under the Japa
yen tranche and $3.25 billion under the multicurrency tranche. The Credit Facility expires on April 16, 2008 and includes a term-out feature that allows the Company, at its option, to extend borrowings under the
Credit Facility for an additional one year beyond the expiration date. At November 30, 2007, the Company h
$13.8 billion consolidated stockholders equity surplus as compared with the Credit Facility s covenant req

The Company anticipates that it may utilize the Credit Facility for short-term funding from time to time. The
Company does not believe that any of the covenant requirements in its Credit Facility will impair its ability t
obtain funding under the Credit Facility, pay its current level of dividends or obtain loan arrangements, letter
credit and other financial guarantees or other financial accommodations. At November 30, 2007, no borrowi
were outstanding under the Credit Facility.

The Company also maintains a committed bilateral credit facility to support general liquidity needs. This fac
expected to be drawn from time to time to cover short-term funding needs.

Capital Covenants.

In October 2006 and April 2007, the Company executed a replacement capital covenant in connection with offerings by Morgan Stanley Capital Trust VII and Morgan Stanley Capital Trust VIII (the Capital Securiti
Under the terms of the replacement capital covenant, the Company has agreed, for the benefit of certain spec
holders of debt, to limitations on its ability to redeem or repurchase any of the Capital Securities for specifie
periods of time. For a complete description of the Capital Securities and the terms of the replacement capital covenant, see the Company s Current Reports on Form 8-K dated October 12, 2006 and April 26, 2007.

Funding Management Policies.

The Company funds its balance sheet on a global basis through diverse sources. These sources include the Company s equity capital; long-term debt; repurchase agreements; U.S., Canadian, European, Japanese and
Australian commercial paper; asset-backed securitizations; letters of credit; unsecured bond borrowings; sec
lending; buy/sell agreements; municipal reinvestments; promissory notes; master notes; and committed and uncommitted lines of credit. Repurchase agreement transactions, securities lending and a portion of the Com
bank borrowings are made on a collateralized basis and, therefore, provide a more stable source of funding t
short-term unsecured borrowings. The Company has active financing programs for both standard and structu
products in the U.S., European and Asian markets, targeting global investors and currencies such as the U.S.
euro, British pound, Australian dollar and Japanese yen.

The Company s bank subsidiaries solicit deposits from consumers, purchase Federal Funds, issue short-term
institutional certificates of deposits and issue bank notes. Interest bearing deposits are classified by type as s
brokered and other time deposits. Savings deposits consist primarily of money market deposit accounts sold nationally and savings deposits obtained from individual securities clients. Brokered deposits consist primar

certificates of deposit issued by the Company s bank subsidiaries. Other time deposits include individual an institutional certificates of deposit.

The Company s funding management policies are designed to provide for financings that are executed in a r that reduces the risk of disruption to the Company s operations that would result from an interruption in the availability of the Company s funding sources. The Company pursues a strategy of diversification of fundin sources (by product, by investor and by region) and attempts to ensure that the tenor of the Company s liabi equals or exceeds the expected holding period of the assets being financed. Maturities of financings are desig to manage exposure to refinancing risk in any one period. The Company maintains a surplus of unused short funding sources at all times to withstand any unforeseen contraction in credit capacity. In addition, the Comp attempts to maintain cash and unhypothecated marketable securities equal to at least 110% of its outstanding short-term unsecured borrowings. The Company also maintains committed credit facilities (described above) support its ongoing borrowing programs.

Secured Financing. A substantial portion of the Company s total assets consists of highly liquid marketal securities and short-term receivables arising principally from its Institutional Securities sales and trading act The highly liquid nature of these assets provides the Company with flexibility in financing these assets with collateralized borrowings.

The Company s goal is to encourage funding through collateralized borrowings in order to achieve an optim of secured and unsecured financing. The Institutional Securities business emphasizes the use of collateralize short-term borrowings to limit the growth of short-term unsecured funding, which is more typically subject t disruption during periods of financial stress. As part of this effort, the Institutional Securities business segme continually seeks to expand its global secured borrowing capacity.

In addition, the Company, through several of its subsidiaries, maintains funded and unfunded committed cre facilities to support various businesses, including the collateralized commercial and residential mortgage wh loan, derivative contracts, warehouse lending, emerging market loan, structured product, corporate loan, investment banking and prime brokerage businesses.

Unsecured Financing. The Company views long-term debt as a stable source of funding for core inventor illiquid assets. In general, securities inventories not financed by secured funding sources and the majority of current assets are financed with a combination of short-term funding, floating rate long-term debt or fixed ra long-term debt swapped to a floating rate. The Company uses derivative products (primarily interest rate, cu and equity swaps) to assist in asset and liability management, reduce borrowing costs and hedge interest rate (see Note 13 to the consolidated financial statements).

The Company issues long-term debt in excess of the amount necessary to meet the needs of its securities inv and less liquid assets as determined by its Cash Capital Policy. In addition to these needs, long-term debt fun is employed to enhance the Company s liquidity position by reducing reliance on short-term credit sensitive instruments (e.g., commercial paper and other unsecured short-term borrowings). Availability and cost of fin to the Company can vary depending on market conditions, the volume of certain trading and lending activiti Company s credit ratings and the overall availability of credit.

The Company has a portfolio approach for managing the unsecured debt issued by the parent company. This approach gives the Company flexibility to manage the unsecured debt portfolio across maturities, currencies investors and regions, taking into account market capacity and pricing. Down-lending to subsidiaries is man ensure that intercompany borrowings mature before those of the parent company. Liquidity and funding poli recognize potential constraints on the Company s ability to transfer funds between regulated entities and the company.

During fiscal 2007, the Company s long-term financing strategy was driven, in part, by its continued focus o
improving its balance sheet strength (evaluated through enhanced capital and liquidity positions), a significa
factor in the maintenance of strong credit ratings. As a result, for fiscal 2007, a principal amount of $53 billi
unsecured debt was issued (of which $22 billion of equity-linked and credit-linked notes were not considered
a component of the Company s cash capital). Financing transactions were structured to ensure staggered ma
thereby mitigating refinancing risk, and a diversified investor base was targeted through sales to domestic as
as international institutional and retail clients. Unsecured debt issuance activity resulted in a net increase in t
long-term debt component of the cash capital portfolio of approximately $30 billion.

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Credit Ratings.

The Company s reliance on external sources to finance a significant portion of its day-to-day operations ma access to global sources of financing important. The cost and availability of unsecured financing generally a dependent on the Company s short-term and long-term credit ratings. Factors that are significant to the determination of the Company s credit ratings or that otherwise affect its ability to raise short-term and long financing include the Company s level and volatility of earnings, relative positions in the markets in which operates, geographic and product diversification, retention of key personnel, risk profile, risk management p cash liquidity, capital structure, corporate lending credit risk, and legal and regulatory developments. A deterioration in any of the previously mentioned factors or combination of these factors may lead rating agen downgrade the credit ratings of the Company, thereby increasing the cost to the Company in obtaining unsec funding. In addition, the Company s debt ratings can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical, such as OTC derivat transactions, including credit derivatives and interest rate swaps.

In connection with certain OTC trading agreements and certain other agreements associated with the Institut Securities business, the Company may be required to provide additional collateral to certain counterparties in event of a credit ratings downgrade. At November 30, 2007, the amount of additional collateral that would b required in the event of a one-notch downgrade of the Company s senior debt credit rating was approximate million. Of this amount, $677 million relates to bilateral arrangements between the Company and other parti where upon the downgrade of one party, the downgraded party must deliver incremental collateral to the oth These bilateral downgrade arrangements are a risk management tool used extensively by the Company as cr exposures are reduced if counterparties are downgraded.

As of January 22, 2008, the Company s credit ratings were as follows:

	Commercial Paper	S
Dominion Bond Rating Service Limited	R-1 (middle)	AA
Fitch Ratings(1)	F1+	AA
Moody s Investors Service(2)	P-1	Aa
Rating and Investment Information, Inc.(3)	a-1+	AA
Standard & Poor s(4)	A-1+	AA

(1) On December 19, 2006, Fitch Ratings changed the outlook on the Company s senior debt ratings from Stable to Nega
(2) On November 8, 2007, Moody s Investors Service changed the outlook on the Company s senior debt ratings from S Negative.
(3) On December 20, 2007, Rating and Investment Information, Inc. changed the outlook on the Company s senior debt Stable to Negative.
(4) On July 30, 2007, Standard & Poor s upgraded the Company s commercial paper rating from A-1 to A-1+ and upgra Company s senior debt rating from A+ to AA-. On November 8, 2007, Standard & Poor s changed the outlook on th Company s commercial paper and senior debt ratings from Stable to Negative. On December 19, 2007, Standard & P placed the Company s commercial paper and senior debt ratings on CreditWatch with Negative implications.

Off-Balance Sheet Arrangements with Unconsolidated Entities.

The Company enters into various arrangements with unconsolidated entities, including variable interest entit
primarily in connection with its Institutional Securities businesses.

Institutional Securities Activities. The Company utilizes SPEs primarily in connection with securitization activities. The Company engages in securitization activities related to commercial and residential mortgage l U.S. agency collateralized mortgage obligations, corporate bonds and loans, municipal bonds and other type financial assets. The Company may retain interests in the securitized financial assets as one or more tranches securitization. These retained interests are included in the consolidated statements of financial condition at fa value. Any changes in the fair value of such retained interests are recognized in the consolidated

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statements of income. Retained interests in securitized financial assets were approximately $5.3 billion at November 30, 2007, the majority of which were related to residential mortgage loan, commercial mortgage l and U.S. agency collateralized mortgage obligation securitization transactions. For further information about Company s securitization activities, see Notes 2 and 5 to the consolidated financial statements as well as I Credit Market Events herein.

The Company has entered into liquidity facilities with SPEs and other counterparties, whereby the Company required to make certain payments if losses or defaults occur. The Company often may have recourse to the underlying assets held by the SPEs in the event payments are required under such liquidity facilities (see No to the consolidated financial statements).

Guarantees. FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Gua Including Indirect Guarantees of Indebtedness of Others (FIN 45), requires the Company to disclose inf about its obligations under certain guarantee arrangements. FIN 45 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party l on changes in an underlying measure (such as an interest or foreign exchange rate, a security or commodity p an index, or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity secu a guaranteed party. FIN 45 also defines guarantees as contracts that contingently require the guarantor to ma payments to the guaranteed party based on another entity s failure to perform under an agreement as well as guarantees of the indebtedness of others.

The table below summarizes certain information regarding derivative contracts, financial guarantees to third parties, market value guarantees and liquidity facilities at November 30, 2007:

	Maximum Potential Payout/Notional						
	Years to Maturity					Carrying	Co
Type of Guarantee	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Total**	**Amount**	**R**
	(dollars in millions)						
Notional amount of derivative contracts	$ 999,552	$ 1,004,069	$ 2,546,374	$ 2,570,385	$ 7,120,380	$ 131,678	$
Standby letters of credit and other financial guarantees(1)	5,133	1,824	1,107	6,712	14,776	802	
Market value guarantees	97	106		655	858	44	
Liquidity facilities	18,043	1,026	444	1,652	21,165		

(1) Approximately $14 billion of standby letters of credit are also reflected in the Commitments and Contractual Obligat table below in the investment grade and non-investment grade primary and secondary lending commitments and in the of credit issued by subsidiaries that are guaranteed by the Company.

In the ordinary course of business, the Company guarantees the debt and/or certain trading obligations (inclu obligations associated with derivatives, foreign exchange contracts and the settlement of physical commoditi certain subsidiaries. These guarantees generally are entity or product specific and are required by investors o trading counterparties. The activities of the subsidiaries covered by these guarantees (including any related d trading obligations) are included in the Company s consolidated financial statements.

See Note 15 to the consolidated financial statements for information on trust preferred securities, indemnitie exchange/clearinghouse member guarantees, general partner guarantees, securitized asset guarantees and oth guarantees.

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Commitments and Contractual Obligations.

The Company s commitments associated with outstanding letters of credit, other financial guarantees, inves activities, and corporate lending and financing arrangements as of November 30, 2007 are summarized belo period of expiration. Since commitments associated with letters of credit, other financial guarantees, and len and financing arrangements may expire unused, the amounts shown do not necessarily reflect the actual futu funding requirements:

	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	T
	(dollars in millions)				
Letters of credit and other financial guarantees(1)	$ 10,790	$ 4	$ 4	$	$
Letters of credit issued by subsidiaries that are guaranteed by the Company	197	1,186	194	3,674	
Investment activities(2)	318	238	108	647	
Investment grade primary lending commitments(3)(4)	19,656	5,791	23,323	1,421	
Non-investment grade primary lending commitments(3)(4)	789	1,072	3,931	14,220	
Investment grade secondary lending commitments(4)(5)				1,406	
Non-investment grade secondary lending commitments(4)(5)	81	27	151	2,090	
Commitments for secured lending transactions(6)	3,824	4,095	1,073	2,628	
Commercial and residential mortgage-related commitments(7)	5,680				
Other commitments(8)	964	19	5		
Total	$ 42,299	$ 12,432	$ 28,789	$ 26,086	$ 1

(1) This amount primarily represents the Company s outstanding letters of credit and other financial guarantees issued by third-party banks to certain of the Company s counterparties. The Company is contingently liable for these letters of other financial guarantees, which are primarily used to satisfy various collateral and margin requirements.

(2) This amount represents commitments associated with the Company s real estate, private equity and principal investm activities, which include alternative products.

(3) The Company s investment grade and non-investment grade primary lending commitments are made in connection w corporate lending and other business activities. Credit ratings for commitments are determined by the Company s Ins Credit Department using methodologies generally consistent with those employed by external rating agencies. Obligo ratings of BB+ or lower are considered non-investment grade.

(4) The Company records these commitments at fair value within Financial instruments owned and Financial instruments not yet purchased in the consolidated statement of financial condition (see Note 3 to the consolidated financial statem

(5) This amount represents commitments associated with the Company s Institutional Securities sales and trading activit

(6) This amount represents lending commitments extended by the Company to companies that are secured by real estate a the borrower. Loans made under these arrangements typically are at variable rates and generally provide for over-collateralization based upon the creditworthiness of the borrower. This amount also includes commitments to asset-backed commercial paper conduits of $1,246 million, which have maturities of less than four years.

(7) These amounts represent the Company s forward purchase contracts involving mortgage loans, residential mortgage l commitments to individuals and residential home equity lines of credit.

(8) This amount includes commercial loan commitments to small businesses and commitments related to securities-based lending activities in connection with the Company s Global Wealth Management Group business.

At November 30, 2007, the Company had commitments to enter into reverse repurchase and repurchase agreements of approximately $107 billion and $26 billion, respectively.

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In the normal course of business, the Company enters into various contractual obligations that may require f
cash payments. Contractual obligations at November 30, 2007 include long-term borrowings, operating leas
purchase obligations. The Company s future cash payments associated with its contractual obligations as of
November 30, 2007 are summarized below:

	Payments Due in:				
	Fiscal 2008	Fiscal 2009-2010	Fiscal 2011-2012	Thereafter	T
	(dollars in millions)				
Long-term borrowings(1)	$ 30,808	$ 43,081	$ 39,701	$ 77,034	$ 1
Operating leases office facilities(2)	549	907	676	2,732	
Operating leases equipment(2)	650	569	210	123	
Purchase obligations(3)	268	107	8		
Total	$ 32,275	$ 44,664	$ 40,595	$ 79,889	$ 1

(1) See Note 13 to the consolidated financial statements.
(2) See Note 15 to the consolidated financial statements.
(3) Purchase obligations for goods and services include payments for, among other things, consulting, outsourcing, advert
sponsorship, and computer and telecommunications maintenance agreements. Purchase obligations at November 30, 2
reflect the minimum contractual obligation under legally enforceable contracts with contract terms that are both fixed
determinable. These amounts exclude obligations for goods and services that already have been incurred and are refle
the Company s consolidated statement of financial condition.

Regulatory Requirements.

On April 1, 2007, the Company merged Morgan Stanley DW Inc. (MSDWI) into Morgan Stanley & Co.
Incorporated (MS&Co). Upon completion of the merger, the surviving entity, MS&Co., became the Com
principal U.S. broker-dealer. MS&Co. is a registered broker-dealer and registered futures commission merch
and, accordingly, is subject to the minimum net capital requirements of the SEC, the Financial Industry Reg
Authority and the Commodity Futures Trading Commission. MS&Co. has consistently operated in excess o
requirements. MS&Co. s net capital totaled $6,673 million at November 30, 2007, which exceeded the amo
required by $4,950 million. Morgan Stanley & Co. International plc (MSIP), a London-based broker-deal
subsidiary, is subject to the capital requirements of the Financial Services Authority, and Morgan Stanley Ja
Securities Co., Ltd. (MSJS), a Tokyo-based broker-dealer subsidiary, is subject to the capital requirement
Financial Services Agency. MSIP and MSJS consistently operated in excess of their respective regulatory ca
requirements.

Under regulatory capital requirements adopted by the FDIC and other bank regulatory agencies, FDIC-insur
financial institutions must maintain (a) 3% to 4% of Tier 1 capital, as defined, to average assets (leverage r
(b) 4% of Tier 1 capital, as defined, to risk-weighted assets (Tier 1 risk-weighted capital ratio) and (c) 8%
capital, as defined, to risk-weighted assets (total risk-weighted capital ratio). At November 30, 2007, the
ratio, Tier 1 risk-weighted capital ratio and total risk-weighted capital ratio of each of the Company s FDIC
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 th countries in which they operate. These subsidiaries have consistently operated in excess of their local capital adequacy requirements.

Morgan Stanley Derivative Products Inc. (MSDP) and Cournot Financial Products LLC (Cournot), wh triple-A rated derivative products subsidiaries, maintain certain operating restrictions that have been reviewe various rating agencies. Both entities are operated such that creditors of the Company should not expect to h

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any claims on either the assets of Cournot or the assets of MSDP, unless and until the obligations of such ent
its own creditors are satisfied in full. Creditors of Cournot or MSDP, respectively, should not expect to have
claims on the assets of the Company or any of its affiliates, other than the respective assets of Cournot or MS

The Company is a consolidated supervised entity (CSE) as defined by the SEC. As such, the Company is
group-wide supervision and examination by the SEC and to minimum capital requirements on a consolidated
During fiscal 2007, the Company was in compliance with CSE capital requirements.

MS&Co. is required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 mil
accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. MS&Co. is also require
notify the SEC in the event that its tentative net capital is less than $5 billion. As of November 30, 2007, MS
had tentative net capital in excess of the minimum and the notification requirements.

Effects of Inflation and Changes in Foreign Exchange Rates.

The Company s assets to a large extent are liquid in nature and, therefore, are not significantly affected by i
although inflation may result in increases in the Company s expenses, which may not be readily recoverabl
price of services offered. To the extent inflation results in rising interest rates and has other adverse effects u
the securities markets and upon the value of financial instruments, it may adversely affect the Company s fi
position and profitability.

A significant portion of the Company s business is conducted in currencies other than the U.S. dollar, and c
in foreign exchange rates relative to the U.S. dollar can therefore affect the value of non-U.S. dollar net asse
revenues and expenses. Potential exposures as a result of these fluctuations in currencies are closely monitor
and, where cost-justified, strategies are adopted that are designed to reduce the impact of these fluctuations o
Company s financial performance. These strategies may include the financing of non-U.S. dollar assets with
or swap-based borrowings in the same currency and the use of currency forward contracts or the spot marke
various hedging transactions related to net assets, revenues, expenses or cash flows.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Risk Management.

Risk Management Policy and Control Structure.

Risk is an inherent part of the Company s business and activities. The Company s ability to properly and ef identify, assess, monitor and manage each of the various types of risk involved in its activities is critical to it soundness and profitability. The Company s broad-based portfolio of business activities helps reduce the im that volatility in any particular area or related areas may have on its net revenues as a whole. The Company s to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal risks involved in the Company s business activities: market, credit, operational, legal, and liquidity funding risk. Liquidity and funding risk is discussed in Management s Discussion and Analysis of Financi Condition and Results of Operations Liquidity and Capital Resources in Part II, Item 7. The Company s c exposure relating to its net monetary investments in non-U.S. dollar functional currency subsidiaries is discu Note 16 to the consolidated financial statements.

The cornerstone of the Company s risk management philosophy is protection of the Company s franchise, and financial standing. The Company s risk management philosophy is based on the following principles: comprehensiveness, independence, accountability, defined risk tolerance and transparency. Given the import of effective risk management to the Company s reputation, senior management requires thorough and frequ communication and appropriate escalation of risk matters.

Risk management at the Company requires independent Company-level oversight, accountability of the Con business segments, constant communication, judgment, and knowledge of specialized products and markets. Company s senior management takes an active role in the identification, assessment and management of var risks at both the Company and business segment level. In recognition of the increasingly varied and complex nature of the global financial services business, the Company s risk management philosophy, with its attend policies, procedures and methodologies, is evolutionary in nature and subject to ongoing review and modific

The nature of the Company s risks, coupled with this risk management philosophy, informs the Company s governance structure. The Company s risk governance structure includes the Firm Risk Committee, the Cap Structure and Strategic Transactions Committee, the Chief Risk Officer, the Internal Audit Department, independent control groups, and various other risk control managers, committees and groups located within across business segments.

The Firm Risk Committee, composed of the Company s most senior officers, oversees the Company s risk management structure. The Firm Risk Committee s responsibilities include oversight of the Company s ris management principles, procedures and limits, and the monitoring of material financial, operational and fran risks. The Firm Risk Committee is overseen by the Audit Committee of the Board of Directors (the Audit Committee). The Capital Structure and Strategic Transactions Committee (the Capital Committee) revie strategic transactions for the Company and significant changes to the Company s capital structure. The Cap

Committee s responsibilities include reviewing measures of capital and evaluating capital resources relative Company s risk profile and strategy.

The Chief Risk Officer, a member of the Firm Risk Committee, oversees compliance with Company risk lim approves certain excessions of Company risk limits; reviews material market, credit and operational risks; an reviews results of risk management processes with the Audit Committee.

The Internal Audit Department provides independent risk and control assessment and reports to the Audit Committee and administratively to the Chief Legal Officer. The Internal Audit Department examines the Company s operational and control environment and conducts audits designed to cover all major risk catego

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The Market Risk, Credit Risk, Operational Risk, Financial Control, Treasury, and Legal and Compliance Departments (collectively, the Company Control Groups), which are all independent of the Company s b units, assist senior management and the Firm Risk Committee in monitoring and controlling the Company s through a number of control processes. 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.

Each business segment has a risk committee that is responsible for ensuring that the business segment, as applicable, adheres to established limits for market, credit, operational and other risks; implements risk measurement, monitoring, and management policies and procedures that are consistent with the risk framew established by the Firm Risk Committee; and reviews, on a periodic basis, its aggregate risk exposures, risk exception experience, and the efficacy of its risk identification, measurement, monitoring and management p and procedures, and related controls.

Each of the Company s business segments also has designated operations officers, committees and groups, including operations and information technology groups (collectively, Segment Control Groups and, toge the Company Control Groups, the Control Groups) to manage and monitor specific risks and report to the segment risk committee. The Control Groups work together to review the risk monitoring and risk managem policies and procedures relating to, among other things, the business segment s market, credit and operation profile, sales practices, reputation, legal enforceability, and operational and technological risks. Participation senior officers of the Control Groups helps ensure that risk policies and procedures, exceptions to risk limits products and business ventures, and transactions with risk elements undergo a thorough review.

The following is a discussion of the Company s risk management policies and procedures for its principal ri (other than funding and liquidity risk). The discussion focuses on the Company s securities activities (prima institutional trading activities) and corporate lending and related activities. The Company believes that these activities generate a substantial portion of its principal risks. This discussion and the estimated amounts of th Company s market risk exposure generated by the Company s statistical analyses are forward-looking state However, the analyses used to assess such risks are not predictions of future events, and actual results may v significantly from such analyses due to events in the markets in which the Company operates and certain oth factors described below.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or othe market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, the Comp incurs market risk as a result of trading and client facilitation activities, principally within the Institutional Securities business where the substantial majority of the Company s Value-at-Risk (VaR) for market risk is generated. In addition, the Company incurs trading-related market risk within the Global Wealth Managem Group. Asset Management incurs non-trading market risk primarily from capital investments in funds and investments in private equity vehicles.

Sound market risk management is an integral part of the Company s culture. The various business units and desks are responsible for ensuring that market risk exposures are well-managed and prudent. The Control Gr help ensure that these risks are measured and closely monitored and are made transparent to senior managem The Market Risk Department is responsible for ensuring transparency of material market risks, monitoring compliance with established limits, and escalating risk concentrations to appropriate senior management. To execute these responsibilities, the Market Risk Department monitors the Company s risk against limits on a risk exposures, performs a variety of risk analyses, routinely reports risk summaries, and maintains the Com VaR system. A variety of limits is designed to control price and market liquidity

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risk. Market risk is monitored through various measures: statistically (using VaR and related analytical meas by measures of position sensitivity; and through routine stress testing and scenario analyses conducted by th Market Risk Department in collaboration with the business units. The material risks identified by these proc are summarized in reports produced by the Market Risk Department that are circulated to and discussed with senior management.

Subprime and Related Risks.

During 2007, asset-backed products referencing subprime consumer mortgages experienced a significant inc in expected default rates, resulting in a dramatic reduction in asset prices and market liquidity. Although oth markets have also experienced periods of significant illiquidity in the past, the combined magnitude and velo price depreciation, as well as the continuing nature of the event, place it among the most significant market s ever realized. While such events may recur in the future, the timing and magnitude of recurrence are difficul predict.

Events of this magnitude are outside of the loss estimates forecast by VaR models and are more commonly measured by alternative risk measures such as stress tests and scenario analyses. However, the market move associated with the subprime events of 2007 were significantly greater than those included in the Company tests and scenario analyses at that time. The Company has since enhanced its stress test and scenario analyse better incorporate the levels of price volatility realized during the second half of fiscal 2007. Stress tests and scenario analyses represent estimates of future significant events. Actual market moves may continue to be r dramatic than the estimates included in the Company s VaR, stress tests and scenario analyses. Limitations models are discussed further in VaR Methodology, Assumptions and Limitations below.

Sales and Trading and Related Activities.

Primary Market Risk Exposures and Market Risk Management. During fiscal 2007, the Company had exposures to a wide range of interest rates, equity prices, foreign exchange rates and commodity prices and associated implied volatilities and spreads related to the global markets in which it conducts its trading acti

The Company is exposed to interest rate and credit spread risk as a result of its market-making activities and proprietary trading in interest rate sensitive financial instruments (e.g., risk arising from changes in the level implied volatility of interest rates, the timing of mortgage prepayments, the shape of the yield curve and cred spreads). The activities from which those exposures arise and the markets in which the Company is active in but are not limited to, the following: emerging market corporate and government debt, non-investment grade distressed corporate debt, investment grade corporate debt and asset-backed debt (including mortgage-relate securities).

The Company is exposed to equity price and implied volatility risk as a result of making markets in equity securities and derivatives and maintaining proprietary positions (including positions in non-public entities). Positions in non-public entities may include, but are not limited to, exposures to private equity, venture capi private partnerships, real estate funds and other funds. Such positions are less liquid, have longer investment horizons and are more difficult to hedge than listed equities.

The Company is exposed to foreign exchange rate and implied volatility risk as a result of making markets i
foreign currencies and foreign currency derivatives, from maintaining foreign exchange positions and from h
non U.S. dollar-denominated financial instruments. The Company is exposed to commodity price and implie
volatility risk as a result of market-making activities and maintaining positions in physical commodities (suc
crude and refined oil products, natural gas, electricity, and precious and base metals) and related derivatives.
Commodity exposures are subject to periods of high price volatility as a result of changes in supply and dem
These changes can be caused by weather conditions; physical production, transportation and storage issues; c
geopolitical and other events that affect the available supply and level of demand for these commodities.

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The Company manages its trading positions by employing a variety of risk mitigation strategies. These strate include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (e.g., futur forwards, swaps and options). Hedging activities may not always provide effective mitigation against trading losses due to differences in the terms, specific characteristics or other basis risks that may exist between the instrument and the risk exposure that is being hedged. The Company manages the market risk associated wit trading activities on a Company-wide basis, on a worldwide trading division level and on an individual prod basis. The Company manages and monitors its market risk exposures in such a way as to maintain a portfoli the Company believes is well-diversified in the aggregate with respect to market risk factors and that reflects Company s aggregate risk tolerance as established by the Company s senior management.

Aggregate market risk limits have been approved for the Company and for its major trading divisions worldv (equity and fixed income, which includes interest rate products, credit products, foreign exchange and commodities). 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 monit 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 fro market risk perspective utilizing VaR 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 mark exposures.

Net exposure, defined as the potential loss to the Company over a period of time in the event of default of a referenced asset, assuming zero recovery, is one key risk measure the Company employs to standardize the aggregation of market risk exposures across cash and derivative products. Stress testing, which measures the impact on the value of existing portfolios of specified changes in market factors for certain products, is perfo periodically and is reviewed by trading division risk managers, desk risk managers and the Market Risk Department. The Market Risk Department also conducts scenario analyses, which estimate the Company s sensitivity to a set of specific, predefined market and geopolitical events.

Value-at-Risk (VaR). The Company uses the statistical technique known as VaR as one of the tools used t measure, monitor and review the market risk exposures of its trading portfolios. The Market Risk Departmen calculates and distributes daily VaR-based risk measures to various levels of management.

VaR Methodology, Assumptions and Limitations. The Company estimates VaR using a model based on historical simulation for major market risk factors and Monte Carlo simulation for name-specific risk in cert equity and fixed income exposures. Historical simulation involves constructing a distribution of hypothetical changes in the value of trading portfolios based on two sets of inputs: historical observation of daily changes market indices or other market factors (market risk factors); and information on the sensitivity of the port values to these market risk factor changes. The Company s VaR model uses approximately four years of his data to characterize potential changes in market risk factors. The Company s 95%/one-day VaR correspond unrealized loss in portfolio value that, based on historically observed market risk factor movements, would h been exceeded with a frequency of 5%, or five times in every 100 trading days, if the portfolio were held co for one day.

The Company s VaR model generally takes into account linear and non-linear exposures to price risk, intere
risk and credit spread risk and linear exposures to implied volatility risks. Market risks that are incorporated
VaR model include equity and commodity prices, interest rates, credit spreads, foreign exchange rates and
associated implied volatilities. The VaR model also captures certain correlation risks associated with portfol
credit derivatives, as well as certain basis risks between corporate debt and related credit derivatives. As a
supplement to the use of historical simulation for major market risk factors, the Company s VaR model uses

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Monte Carlo simulation to capture name-specific risk in equities and credit products (i.e., corporate bonds, l
and credit derivatives).

The Company s VaR models evolve over time in response to changes in the composition of trading portfoli
to improvements in modeling techniques and systems capabilities. The Company is committed to continuous
review and enhancement of VaR methodologies and assumptions in order to capture evolving risks associate
changes in market structure and dynamics. As part of regular process improvement, additional systematic an
name-specific risk factors may be added to improve the VaR model s ability to more accurately estimate ris
specific asset classes or industry sectors. In response to increased levels of market volatility realized during t
second half of fiscal 2007, the Company has reviewed the appropriateness of the implementation of its VaR
models and has made certain changes to more accurately capture risks generated by certain fixed income pro
These changes include additional historical time series that provide broader product coverage of subprime
consumer mortgage products as well as updated mappings of risk exposures to historical price time series.

Among their benefits, VaR models permit estimation of a portfolio s aggregate market risk exposure, incorp
a range of varied market risks; reflect risk reduction due to portfolio diversification or hedging activities; and
cover a wide range of portfolio assets. However, VaR risk measures should be interpreted carefully in light o
methodology s limitations, which include the following: past changes in market risk factors may not always
accurate predictions of the distributions and correlations of future market movements; changes in portfolio v
response to market movements (especially for complex derivative portfolios) may differ from the responses
calculated by a VaR model; VaR using a one-day time horizon does not fully capture the market risk of posi
that cannot be liquidated or hedged within one day; the historical market risk factor data used for VaR estima
may provide only limited insight into losses that could be incurred under market conditions that are unusual
relative to the historical period used in estimating the VaR; and published VaR results reflect past trading po
while future risk depends on future positions. VaR is most appropriate as a risk measure for trading positions
liquid financial markets and will understate the risk associated with severe events, such as periods of extrem
illiquidity. The Company is aware of these and other limitations and, therefore, uses VaR as only one compo
in its risk management oversight process. As explained above, this process also incorporates stress testing an
scenario analyses and extensive risk monitoring, analysis, and control at the trading desk, division and Comp
levels.

VaR for Fiscal 2007. The table below presents the Company s Aggregate (Trading and Non-trading), Tra
and Non-trading VaR for each of the Company s primary market risk exposures at November 30, 2007 and
November 30, 2006, incorporating substantially all financial instruments generating market risk that are man
by the Company s trading businesses. This measure of VaR incorporates most of the Company s trading-re
market risks. However, a small proportion of trading positions generating market risk is not included in VaR
the modeling of the risk characteristics of some positions relies upon approximations that, under certain
circumstances, could produce significantly different VaR results from those produced using more precise
measures. For example, risks associated with residential mortgage-backed securities have been approximated
is difficult to capture precisely the relevant microeconomic factors that affect mortgage prices within a VaR
context.

Aggregate Trading and Non-trading VaR also incorporates (a) the interest rate risk generated by funding liab
related to institutional trading positions, (b) public company equity positions recorded as investments by the
Company and (c) corporate loan exposures that are awaiting distribution to the market. Investments made by
Company that are not publicly traded are not reflected in the VaR results reported below. Aggregate Trading
Non-trading VaR also excludes certain funding liabilities primarily related to fixed and other non-trading ass
well as the credit spread risk generated by the Company s funding liabilities. As of November 30, 2007, the
notional amount of funding liabilities related to non-trading assets (including premises, equipment and softw

goodwill, deferred tax assets and intangible assets) was approximately $7.8 billion, with a duration of approximately 10 years. The credit spread risk sensitivity generated by the Company s funding

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liabilities (i.e., those funding both trading and non-trading assets) corresponded to an increase in value of approximately $78 million for each +1 basis point (or 1/100th of a percentage point) widening in the Compar credit spread level as of November 30, 2007.

Since the VaR statistics reported below are estimates based on historical position and market data, VaR shou be viewed as predictive of the Company s future revenues or financial performance or of its ability to monit manage risk. There can be no assurance that the Company s actual losses on a particular day will not excee VaR amounts indicated below or that such losses will not occur more than five times in 100 trading days. Va does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.

The table below presents 95%/one-day VaR for each of the Company s primary risk exposures and on an ag basis at November 30, 2007 and November 30, 2006.

Table 1: 95% Total VaR Primary Market Risk Category	Aggregate (Trading and Non-trading) 95%/One-Day VaR at November 30, 2007	2006	Trading 95%/One-Day VaR at November 30, 2007	2006	Non-trac 95%/One-D at Novemb 2007
			(dollars in millions)		
Interest rate and credit spread	$ 52	$ 41	$ 45	$ 38	$ 33
Equity price	40	58	39	55	4
Foreign exchange rate	24	9	25	9	1
Commodity price	34	31	34	31	
Subtotal	150	139	143	133	38
Less diversification benefit(1)	67	50	65	48	5
Total VaR	$ 83	$ 89	$ 78	$ 85	$ 33

(1) Diversification benefit equals the difference between Total VaR and the sum of the VaRs for the four risk categories. benefit arises because the simulated one-day losses for each of the four primary market risk categories occur on differe days; similar diversification benefits also are taken into account within each category.

The Company s Aggregate VaR at November 30, 2007 was $83 million compared with $89 million at November 30, 2006. The decrease in Aggregate VaR and Trading VaR at year-end was driven primarily by a decrease in equity exposures toward the end of the fiscal year.

The Company s Trading VaR at November 30, 2007 was $78 million compared with $85 million at Novem 2006. The decrease in Trading VaR at year-end was driven primarily by a decrease in equity price VaR, part mitigated by increases in foreign exchange rate VaR and interest rate and credit spread VaR. The increase in foreign exchange rate VaR was driven by increased exposure to foreign currencies. The increase in interest r and credit spread VaR was driven primarily by two factors. First, at November 30, 2007 the Company reclas the investment portfolio of its bank subsidiaries from securities available for sale to Financial instruments ov the consolidated statement of financial condition. (The total notional amount of reclassified assets at Novem

2007 was $8.1 billion, consisting entirely of ABS and residential mortgage-backed securities). Second, durir fiscal 2007, the U.S. subprime market experienced a significant increase in price volatility. This increase in volatility drove an increase in VaR with respect to the Company s exposure to securities that reference subp mortgage pools and related financial instruments, whose change in value is modeled as a function of the und securities.

Non-trading VaR at November 30, 2007 increased to $33 million from $15 million at November 30, 2006 primarily due to an increase in interest rate and credit spread non-trading VaR resulting from an increase in non-trading loan assets.

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The Company views average Trading VaR over the fiscal year as more representative of trends in the busine VaR at any single point in time. Table 2 below, which presents the high, low and average 95%/one-day Trad VaR during fiscal 2007 and fiscal 2006, represents substantially all of the Company s trading activities. Cer market risks included in the year-end Aggregate VaR discussed above are excluded from these measures (e.g equity price risk in public company equity positions recorded as principal investments by the Company and funding liabilities related to trading positions).

Average Trading VaR for fiscal 2007 increased to $87 million from $60 million in fiscal 2006, driven by inc across all four primary market risk categories. Average Total VaR for fiscal 2007 increased to $92 million fr $67 million in fiscal 2006, which was also driven by increases across all four primary market risk categories increase in interest rate and credit spread VaR was predominately driven by increased volatility in securitize product and corporate credit markets, which resulted in a higher VaR despite a reduction in risk exposures d the fiscal year. The increase in equity price VaR was primarily driven by increased equity exposures. The in in foreign exchange rate VaR was driven by increased exposure to foreign currencies. The increase in comm price VaR was predominately driven by increased exposure to electricity and natural gas products.

Table 2: 95% High/Low/Average Trading VaR	Daily 95%/One-Day VaR for Fiscal 2007			Daily 95%/One-Da for Fiscal 200	
Primary Market Risk Category	High	Low	Average	High	Low
	(dollars in millions)				
Interest rate and credit spread	$ 88	$ 34	$ 46	$ 48	$ 29
Equity price	61	29	43	55	21
Foreign exchange rate	33	10	18	23	5
Commodity price	48	28	37	43	23
Trading VaR	108	69	87	85	49
Non-trading VaR	61	11	22	37	10
Total VaR	$ 123	$ 70	$ 92	$ 91	$ 54

VaR Statistics under Varying Assumptions.

VaR statistics are not readily comparable across firms because of differences in the breadth of products inclu each firm s VaR model, in the statistical assumptions made when simulating changes in market factors, and methods used to approximate portfolio revaluations under the simulated market conditions. These difference result in materially different VaR estimates for similar portfolios. As a result, VaR statistics are more reliabl relevant when used as indicators of trends in risk taking within a firm rather than as a basis for inferring diff in risk taking across firms. Table 3 below presents the VaR statistics that would result if the Company were adopt alternative parameters for its calculations, such as the reported confidence level (95% versus 99%) for VaR statistic or a shorter historical time series (four years versus one year) for market data upon which it bas simulations:

Table 3: Average 95% and 99% Trading VaR with Four-Year/One-Year Historical Time Series	Average 95%/One-Day VaR for Fiscal 2007		Average 99%/On VaR for Fiscal 20	
Primary Market Risk Category	Four-Year Factor History	One-Year Factor History	Four-Year Factor History	On Facto
	(dollars in millions)			
Interest rate and credit spread	$ 46	$ 46	$ 74	$
Equity price	43	49	65	

Foreign exchange rate	18	18	26	
Commodity price	37	37	57	
Trading VaR	$ 87	$ 90	$ 127	$

In addition, if the Company were to report Trading VaR (using a four-year historical time series) with respec
10-day holding period, the Company s 95% and 99% Average Trading VaR for fiscal 2007 would have bee
million and $402 million, respectively.

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Distribution of VaR Statistics and Net Revenues for Fiscal 2007.

As shown in Table 2 above, the Company s average 95%/one-day Trading VaR for fiscal 2007 was $87 mil
The histogram below presents the distribution of the Company s daily 95%/one-day Trading VaR for fiscal
The most frequently occurring value was between $86 million and $89 million, while for approximately 90%
trading days during the fiscal year, VaR ranged between $71 million and $98 million.

One method of evaluating the reasonableness of the Company s VaR model as a measure of the Company
potential volatility of net revenue is to compare the VaR with actual trading revenue. Assuming no intra-day
trading, for a 95%/one-day VaR, the expected number of times that trading losses should exceed VaR during
fiscal year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the accu
the VaR model could be questioned. Accordingly, the Company evaluates the reasonableness of its VaR mo
comparing the potential declines in portfolio values generated by the model with actual trading results. For d
where losses exceed the 95% or 99% VaR statistic, the Company examines the drivers of trading losses to e
the VaR model s accuracy relative to realized trading results.

The Company incurred daily trading losses in excess of the 95%/one-day Trading VaR on 15 days during fis
2007. These losses were incurred during a period of exceptionally high volatility across equity, corporate cre
and securitized product markets. Since the Company bases its VaR calculations on four years of equally wei
historical data, clustering of VaR exceptions should occur during periods of exceptionally high market turbu
An examination of the 15 outliers incurred during the fiscal year revealed that these losses occurred on days
markets experienced unusually high price volatility.

Over the longer term, trading losses are expected to exceed VaR an average of three times per quarter at the
confidence level. The Company bases its VaR calculations on the long-term (or unconditional) distribution a
therefore, evaluates its risk from a longer term perspective, which avoids understating risk during periods of
relatively lower volatility in the market.

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The histogram below shows the distribution of daily net trading revenue during fiscal 2007 for the Company
trading businesses (including net interest and non-agency commissions but excluding certain non-trading rev
such as primary, fee-based and prime brokerage revenue credited to the trading businesses). During fiscal 20
Company experienced net trading losses on 34 days. These loss days were driven predominately by increase
market volatility realized during the second half of the fiscal year.

Credit Risk.

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterp
obligor does not meet its financial obligations. The Company is exposed to two distinct types of credit risk in
businesses. The Company incurs significant, single-name credit risk exposure through the Institutional Se
business and to a lesser extent through its commercial lending activity in its Global Wealth Management Gro
This type of risk requires credit analysis of specific counterparties, both initially and on an ongoing basis. Th
Company also incurs individual consumer credit risk in the Global Wealth Management Group business t
margin and non-purpose loans to individual investors, which are collateralized by securities.

The Company has structured its credit risk management framework to reflect that each of these businesses
generates unique credit risks that are appropriately managed discretely. The Institutional Credit Department
(Institutional Credit) evaluates and monitors credit risk exposure for the Institutional Securities business.
Institutional Credit is responsible for ensuring transparency of material credit risks, ensuring compliance wit
established limits, approving material extensions of credit, and escalating risk concentrations to appropriate s
management. Credit risk exposure in the Global Wealth Management Group business segment is managed th
various credit risk committees, whose membership includes Institutional Credit. The Global Wealth Manage
Group Risk Management Department is responsible for monitoring, measuring and analyzing credit risk exp
including margin loans and credit sensitive, higher risk transactions.

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Institutional Securities Activities.

Corporate Lending. In connection with certain of its Institutional Securities business activities, the Compa
provides loans or lending commitments (including bridge financing) to selected clients. Such loans and commitments can generally be classified as either event-driven or relationship-driven.

Event-driven loans and commitments refer to activities associated with a particular event or transaction, s
support client merger, acquisition or recapitalization transactions. The commitments associated with these event-driven activities may not be indicative of the Company s actual funding requirements since fundin
contingent upon a proposed transaction being completed. In addition, the borrower may not fully utilize the commitment or the Company s portion of the commitment may be reduced through the syndication process
borrower s ability to draw on the commitment is also subject to certain terms and conditions, among other f
The borrowers of event-driven lending transactions may be investment grade or non-investment grade. Th
Company risk manages its exposures in connection with event-driven transactions through various means
including syndication, distribution and/or hedging.

Relationship-driven loans and commitments are generally made to expand business relationships with sel
clients. The commitments associated with relationship-driven activities may not be indicative of the Com
actual funding requirements, as the commitment may expire unused or the borrower may not fully utilize the
commitment. The borrowers of relationship-driven lending transactions may be investment grade or non-investment grade. The Company may hedge its exposures in connection with relationship-driven tran

Securitized Products. The Company also extends loans and lending commitments to clients that are secure
assets of the borrower and generally provide for over-collateralization, including commercial real estate, loa
secured by loan pools, corporate and operating company loans, and secured lines of revolving credit. Credit
with respect to these loans and lending commitments arises from the failure of a borrower to perform accord
the terms of the loan agreement and a decline in collateral value.

Other. In addition to the activities performed by Institutional Credit, there are credit risks managed by vari
business areas within Institutional Securities. For example, certain businesses with heightened settlement ris
monitor compliance with established settlement risk limits. Certain risk management activities as they pertai
establishing appropriate collateral amounts for the Company s prime brokerage and securitized product bus
are primarily monitored within those areas in that they determine the appropriate collateral level for each str
or position. In addition, a collateral management group monitors collateral levels against requirements and oversees the administration of the collateral function.

Derivative Contracts. In the normal course of business, the Company enters into a variety of derivative co
related to financial instruments and commodities. The Company uses these instruments for trading and inves
purposes, as well as for asset and liability management. These instruments generally represent future commi
to swap interest payment streams, exchange currencies, or purchase or sell commodities and other financial instruments on specific terms at specified future dates. Many of these products have maturities that do not ex
beyond one year, although swaps, options and equity warrants typically have longer maturities.

The Company incurs credit risk as a dealer in OTC derivatives. Credit risk with respect to derivative instrum arises from the failure of a counterparty to perform according to the terms of the contract. The Company s e to credit risk at any point in time is represented by the fair value of the derivative contracts reported as assets fair value of derivatives represents the amount at which the derivative could be exchanged in a current transa between willing parties, other than in a forced or liquidation sale, and is further described in Note 2 to the consolidated financial statements. Future changes in interest rates, foreign currency exchange rates, or the fa values of the financial instruments, commodities, or indices underlying these contracts ultimately may result cash settlements exceeding fair value amounts recognized in the consolidated statements of financial conditi

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Analyzing Credit Risk. Credit risk management takes place at the transaction, counterparty and portfolio l In order to help protect the Company from losses resulting from these activities, Institutional Credit analyzes material lending and derivative transactions and ensures that the creditworthiness of the Company s counter and borrowers is reviewed regularly and that credit exposure is actively monitored and managed. Institutiona Credit assigns obligor credit ratings to the Company s counterparties and borrowers. These credit ratings are intended to assess a counterparty s probability of default and are derived using methodologies generally con with those employed by external rating agencies. Credit ratings of BB+ or below are considered non-inve grade. Additionally, for lending transactions, Institutional Credit evaluates the relative position of the Compa particular obligation in the borrower s capital structure and relative recovery prospects, as well as collateral applicable) and other structural elements of the particular transaction. The Company has credit guidelines tha potential credit exposure to any one borrower or counterparty and to aggregates of borrowers or counterparti Institutional Credit administers these limits and monitors and reports credit exposure relative to limits.

Risk Mitigation. The Company may seek to mitigate credit risk from its lending and derivatives transactio multiple ways. At the transaction level, the Company seeks to mitigate risk through management of key risk elements such as size, tenor, seniority and collateral. The Company actively hedges its lending and derivativ exposure through various financial instruments which may include single name, portfolio and structured cre derivatives. Additionally, the Company may sell, assign or sub-participate funded loans and lending commit to other financial institutions in the primary and secondary loan market. In connection with its derivatives tr activities, the Company may enter into master netting agreements and collateral arrangements with counterp These agreements may provide the Company with the ability to offset a counterparty s rights and obligation request additional collateral when necessary or liquidate the collateral in the event of counterparty default.

Credit Exposure-Corporate Lending. The following table presents information about the Company s cor loans and commitments as of November 30, 2007. The total corporate lending exposure column includes lending commitments and funded loans. Funded loans represent loans that have been drawn by the borrower that were outstanding as of November 30, 2007. Lending commitments represent legally binding obligations provide funding to clients as of November 30, 2007 for both relationship-driven and event-driven trans discussed above, these loans and commitments have varying terms, may be senior or subordinated, may be s or unsecured, are generally contingent upon representations, warranties and contractual conditions applicabl borrower, and may be syndicated, traded or hedged by the Company.

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At November 30, 2007 and November 30, 2006, the aggregate amount of investment grade loans was $13.0 and $6.4 billion, respectively, and the aggregate amount of non-investment grade loans was $10.9 billion anc billion, respectively. At November 30, 2007 and November 30, 2006, the aggregate amount of lending commitments outstanding was $70.2 billion and $53.5 billion, respectively. In connection with these busines activities (which include corporate funded loans and lending commitments), the Company had hedges with a notional amount of $37.6 billion and $26.5 billion at November 30, 2007 and November 30, 2006, respective The table below shows the Company s credit exposure from its corporate lending positions and commitmen November 30, 2007. Since commitments associated with these business activities may expire unused, they d necessarily reflect the actual future cash funding requirements:

Corporate Lending Commitments and Funded Loans

Credit Rating(1)	Years to Maturity Less than 1	1-3	3-5	Over 5	Total Corporate Lending Exposure(2)(3)	Corporate Funded Loans	T Cor Le Comm
	(dollars in millions)						
AAA	$ 701	$ 462	$ 1,253	$	$ 2,416	$ 380	$
AA	8,016	457	3,615	369	12,457	1,941	
A	7,695	3,451	8,617	419	20,182	3,120	
BBB	10,010	3,954	13,058	1,124	28,146	7,569	
Investment grade	26,422	8,324	26,543	1,912	63,201	13,010	
Non-investment grade	2,862	2,387	4,777	20,883	30,909	10,897	
Total	$ 29,284	$ 10,711	$ 31,320	$ 22,795	$ 94,110	$ 23,907	$

(1) Obligor credit ratings are determined by Institutional Credit using methodologies generally consistent with those empl by external rating agencies.

(2) Total corporate lending exposure includes both lending commitments and funded loans. Amounts exclude approximat billion of notional amount of hedges.

(3) Total corporate lending exposure includes event-driven funded loans of $10.8 billion and event-driven lending c of $24.5 billion. Included in the $24.5 billion of event-driven loan commitments were $12.2 billion of commitment non-investment grade borrowers that were accepted by the borrower but not yet closed.

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Credit Exposure-Derivatives. The table below presents a summary by counterparty credit rating and remai contract maturity of the fair value of OTC derivatives in a gain position at November 30, 2007. Fair value represents the risk reduction arising from master netting agreements, where applicable, and, in the final colu net of collateral received (principally cash and U.S. government and agency securities):

OTC Derivative Products Financial Instruments Owned(1)

Credit Rating(2)	Years to Maturity Less than 1	1-3	3-5	Over 5	Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-Cash Collateral	Net E P Col
	(dollars in millions)						
AAA	$ 1,625	$ 1,572	$ 2,142	$ 8,219	$ (4,057)	$ 9,501	$
AA	11,560	9,686	6,649	23,231	(29,925)	21,201	
A	4,196	3,212	3,675	8,234	(8,454)	10,863	
BBB	3,245	3,444	2,879	2,566	(3,484)	8,650	
Non-investment grade	6,299	3,954	2,753	3,016	(5,007)	11,015	
Unrated(4)	2,005	664	190	691	(368)	3,182	
Total	$ 28,930	$ 22,532	$ 18,288	$ 45,957	$ (51,295)	$ 64,412	$

(1) Fair values shown present the Company s exposure to counterparties related to the Company s OTC derivative produ table does not include the effect of any related hedges utilized by the Company. The table also excludes fair values corresponding to other credit exposures, such as those arising from the Company s lending activities.
(2) Obligor credit ratings are determined by Institutional Credit using methodologies generally consistent with those empl by external rating agencies.
(3) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity categories. Receivable and payable balances with the same counterparty in the same maturity category are netted with maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right o exists.
(4) In lieu of making an individual assessment of the creditworthiness of unrated companies, the Company makes a determination that the collateral held with respect to such obligations is sufficient to cover a substantial portion of its exposure.

The following tables summarize the fair values of the Company s OTC derivative products recorded in Fina instruments owned and Financial instruments sold, not yet purchased by product category and maturity at November 30, 2007, including on a net basis, where applicable, reflecting the fair value of related non-cash collateral for financial instruments owned:

OTC Derivative Products Financial Instruments Owned

Product Type	Years to Maturity Less than 1	1-3	3-5	Over 5	Cross-Maturity and Cash Collateral Netting(1)	Net Exposure Post-Cash Collateral	Net E P Col
	(dollars in millions)						

Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts	$ 5,236	$ 10,704	$ 11,752	$ 42,911	$ (37,028)	$ 33,575	$
Foreign exchange forward contracts and options	10,449	1,133	142	67	(4,043)	7,748	
Equity securities contracts (including equity swaps, warrants and options)	6,875	3,157	872	764	(3,493)	8,175	
Commodity forwards, options and swaps	6,370	7,538	5,522	2,215	(6,731)	14,914	
Total	$ 28,930	$ 22,532	$ 18,288	$ 45,957	$ (51,295)	$ 64,412	$

(1) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity and product categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within the maturity category, where appropriate. Cash collateral received is netted on a counterparty basis, provided legal right of offset exists.

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OTC Derivative Products Financial Instruments Sold, Not Yet Purchased(1)

Product Type	Years to Maturity Less than 1	1-3	3-5	Over 5	Cross-Maturity and Cash Collateral Netting(2)	
	(dollars in millions)					
Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts	$ 6,573	$ 8,749	$ 11,154	$ 29,487	$ (37,138)	$
Foreign exchange forward contracts and options	10,868	1,043	117	380	(3,038)	
Equity securities contracts (including equity swaps, warrants and options)	6,375	4,952	2,129	1,746	(3,453)	
Commodity forwards, options and swaps	7,762	7,821	2,273	1,743	(5,946)	
Total	$ 31,578	$ 22,565	$ 15,673	$ 33,356	$ (49,575)	$

(1) Since these amounts are liabilities of the Company, they do not result in credit exposures.
(2) Amounts represent the netting of receivable balances with payable balances for the same counterparty across maturity product categories. Receivable and payable balances with the same counterparty in the same maturity category are net within the maturity category, where appropriate. Cash collateral paid is netted on a counterparty basis, provided legal offset exists.

The Company s derivatives (both listed and OTC) at November 30, 2007 and November 30, 2006 are sumn in the table below, showing the fair value of the related assets and liabilities by product:

Product Type	At November 30, 2007 Assets	Liabilities	At November 3 Assets	Li
		(dollars in millions)		
Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts	$ 33,804	$ 19,515	$ 19,444	$
Foreign exchange forward contracts and options	7,755	9,372	7,325	
Equity securities contracts (including equity swaps, warrants and options)	19,913	27,887	16,705	
Commodity forwards, options and swaps	15,531	14,830	11,969	
Total	$ 77,003	$ 71,604	$ 55,443	$

Each category of derivative products in the above tables includes a variety of instruments, which can differ substantially in their characteristics. Instruments in each category can be denominated in U.S. dollars or in o more non-U.S. currencies.

The Company determines the fair values recorded in the above tables using various pricing models. For a discussion of fair value as it affects the consolidated financial statements, see Management s Discussion a Analysis of Financial Condition and Results of Operations Critical Accounting Policies in Part I, Item 2 ar to the consolidated financial statements.

Country Exposure. The Company monitors its credit exposure to individual countries. Credit exposure to country arises from the Company s primary lending activities and derivatives activities in a country. At November 30, 2007, based on the domicile of the counterparty, approximately 7% of the Company s credit exposure (for credit exposure arising from corporate loans and lending commitments as discussed above and current exposure arising from the Company s OTC derivatives contracts) was to emerging markets, and no emerging market country accounted for more than 2% of the Company s credit exposure. The Company def emerging markets to include generally all countries that are not members of the Organization for Economic Co-operation and Development and includes as well the Czech Republic, Hungary, Korea, Mexico, Poland, Slovak Republic and Turkey but excludes countries rated AA and Aa2 or above by Standard & Poor s and M Investors Service, respectively.

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Industry Exposure. The Company also monitors its credit exposure to individual industries. At November
2007, the Company s material credit exposure (for credit exposure arising from corporate loans and lending
commitments as discussed above and current exposure arising from the Company s OTC derivatives contra
to entities engaged in the following industries: utilities, financial institutions, consumer-related entities, bank
telecommunications, sovereign and energy-related entities.

Global Wealth Management Group Activities.

Margin Lending. Customer margin accounts, the primary source of retail credit exposure, are collateralize
accordance with internal and regulatory guidelines. The Company monitors required margin levels and estab
credit limits daily and, pursuant to such guidelines, requires customers to deposit additional collateral, or red
positions, when necessary. Factors considered in the review of margin loans are the amount of the loan, the
intended purpose, the degree of leverage being employed in the account, and overall evaluation of the portfo
ensure proper diversification or, in the case of concentrated positions, possible hedging strategies. Additiona
transactions relating to concentrated or restricted positions require a review of any legal impediments to liqu
of the underlying collateral. Underlying collateral for margin loans is reviewed with respect to the liquidity o
proposed collateral positions, valuation of securities, historic trading range, volatility analysis and an evaluat
industry concentrations. At November 30, 2007, there were approximately $7.3 billion of customer margin l
outstanding.

Non-purpose Securities-Based Lending: Non-purpose securities-based lending allows clients to borrow m
against the value of qualifying securities for any suitable purpose other than purchasing, trading, or carrying
marketable securities or refinancing margin debt. The Company establishes approved lines and advance rate
against qualifying securities and monitors limits daily and, pursuant to such guidelines, requires customers to
deposit additional collateral, or reduce debt positions, when necessary. Factors considered in the review
of non-purpose securities-based lending are amount of the loan, the degree of concentrated or restricted
positions, and the overall evaluation of the portfolio to ensure proper diversification or, in the case of concen
positions, possible hedging strategies. Underlying collateral for non-purpose securities-based loans is review
with respect to the liquidity of the proposed collateral positions, historic trading range, volatility analysis and
evaluation of industry concentrations.

Commercial Lending. Global Wealth Management Group provides structured credit facilities to high net w
individuals and their small and medium-size domestic businesses through Morgan Stanley Commercial Fina
Services, Inc. (CFS). CFS suite of products includes working capital lines of credit, revolving lines of cr
standby letters of credit, term loans and commercial real estate mortgages. Clients are required to submit a cr
application and financial statements to CFS centralized credit processing platform. CFS underwriting
professionals recommend a lending structure following an analysis of the borrower, the guarantor, the collat
cash flow, liquidity, leverage and credit history. For standard transactions, credit requests are approved via
signature of independent credit officers, and where transactions are of size and higher complexity, approval i
secured through a formal loan committee chaired by independent credit professionals. The facility is risk rat
upon credit approval is moved to the general portfolio where it is monitored periodically through account
management, covenants compliance certificates, and spot and cycle audits.

Consumer Lending Activities.

With respect to first mortgages and second mortgages within the Company s Institutional Securities busines
segment, including home equity lines of credit (mortgage lending), a loan evaluation process is adopted w
framework of credit underwriting policies and collateral valuation. The Company s underwriting policy is d
to ensure that all borrowers pass an assessment of capacity and willingness to pay, which includes an analysi
applicable industry standard credit scoring models (e.g., FICO scores), debt ratios and reserves of the borrow
Loan-to-collateral value ratios are determined based on independent third-party property appraisal/valuation
security lien position is established through title/ownership reports. As part of the mortgage

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lending business strategy, almost all loans are sold in the secondary market through securitizations and whol sales, while almost all servicing rights are retained. These sales and securitizations pass the risk of credit los the purchaser/investor.

Operational Risk.

Operational risk refers to the risk of financial or other loss, or potential damage to a firm s reputation, result from inadequate or failed internal processes, people, systems or from external events (e.g., external or intern fraud, legal and compliance risks, damage to physical assets, etc.). The Company may incur operational risk the full scope of its business activities, including revenue generating activities (e.g., sales and trading) and su functions (e.g., information technology and facilities management). Legal and compliance risk is included in scope of operational risk and is discussed below under Legal Risk.

The goal of the Company s operational risk management framework is to establish firm-wide operational ri standards related to risk measurement, monitoring and management. Operational risk policies are designed t reduce the likelihood and/or impact of operational incidents as well as to mitigate legal, regulatory and reput risks. As a foundation for the Basel II Advanced Measurement Approach, an enhanced risk-based capital mo has been developed for the calculation of capital related to operational risk. This model encompasses both quantitative and qualitative elements, including internal and external operational incidents, metrics, risk and control self-assessments and scenario analysis. The Company will seek to obtain approval from the SEC to implement the Advanced Measurement Approach for Operational Risk Capital requirements in 2008.

The Company s Operational Risk Manager (ORM) oversees, monitors, measures, analyzes and reports o operational risk across the Company. The ORM is independent of the business segments and is supported by Firm-wide Operational Risk Department (ORD). The ORM is also responsible for facilitating, designing, implementing and monitoring the Firm-wide operational risk program. The ORD works with the business segments and Control Groups to help ensure a transparent, consistent and comprehensive framework for ma operational risk within each area and across the Company, globally.

Primary responsibility for the management of operational risk is with the business segments, the Control Gr and the business managers therein. The business managers, generally, maintain processes and controls desig identify, assess, manage, mitigate and report operational risk. As new products and business activities are developed and processes are designed and modified, operational risks are considered. Each business segmen designated operational risk coordinator. In addition, business segment risk committees review operational ri matters and/or reports on a regular basis. Each Control Group also has a designated operational risk coordina equivalent, and a forum for discussing operational risk matters and/or reports with senior management. Over of business segment operational risk is provided by business segment risk committees, a Firm-wide operatio risk committee and, ultimately, senior management through the Firm Risk Committee.

Business Continuity Management is an ongoing program of analysis and planning that ensures a recovery st and required resources for the resumption of critical business functions following a disaster or other busines interruption. Disaster recovery plans are in place for critical facilities and resources on a Company-wide bas redundancies are built into the systems as deemed appropriate. The key components of the Company s disa recovery plans include: crisis management; business segment recovery plans; applications/data recovery; wo recovery; and other elements addressing management, analysis, training and testing.

The Company maintains an information security program that coordinates the management of information se risks and satisfies regulatory requirements. Information security procedures are designed to protect the Comp information assets against unauthorized disclosure, modification or misuse. These procedures cover a broad of areas, including: application system entitlement; data protection; internet and intranet access, communicat and usage; and mobile and portable information usage. The Company has also established policies, procedur technologies to protect its computer and other assets from unauthorized access.

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The Company utilizes the services of external vendors in connection with the Company s ongoing operatior
These may include, for example, outsourced processing and support functions and consulting and other professional services. The Company manages its exposures to the quality of these services through a variety means, including service level and other contractual agreements, service and quality reviews, and ongoing monitoring of the vendors performance. It is anticipated that the use of these services will continue and pos increase in the future.

Legal Risk.

Legal risk includes the risk of non-compliance with applicable legal and regulatory requirements and standar Legal risk also includes contractual and commercial risk such as the risk that a counterparty s performance obligations will be unenforceable. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business (see Business Regulation in Part I, Item 1). The Company established procedures based on legal and regulatory requirements on a worldwide basis that are designed to compliance with applicable statutory and regulatory requirements. The Company, principally through the Le and Compliance Division, also has established procedures that are designed to require that the Company s p relating to conduct, ethics and business practices are followed globally. In connection with its businesses, th Company has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, potential conflicts of interest, structured transactions and safekeeping of customer funds and securities, credit granting, money laundering, privacy and recordkeep In addition, the Company has established procedures to mitigate the risk that a counterparty s performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adeq of legal documentation, the permissibility of a transaction under applicable law and whether applicable bank or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial service industry presents a continuing business challenge for the Company.

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Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Morgan Stanley:

We have audited the accompanying consolidated statements of financial condition of Morgan Stanley and subsidiaries (the Company) as of November 30, 2007 and 2006, and the related consolidated statements o comprehensive income, cash flows and changes in shareholders equity for each of the three years in the per ended November 30, 2007. 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Bo (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance a whether the financial statements are free of material misstatement. An audit includes examining, on a test ba evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessin 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, such consolidated financial statements present fairly, in all material respects, the financial po of Morgan Stanley and subsidiaries as of November 30, 2007 and 2006, and the results of their operations ar cash flows for each of the three years in the period ended November 30, 2007, in conformity with accountin principles generally accepted in the United States of America.

As discussed in Note 2 and Note 18 to the consolidated financial statements, in fiscal 2005, the Company ad Statement of Financial Accounting Standards No. 123(R), Share-Based Payment , and effective Decembe Morgan Stanley changed its accounting policy for recognition of equity awards granted to retirement-eligibl employees.

As discussed in Note 24 to the consolidated financial statements, effective August 31, 2006, Morgan Stanley elected application of Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstateme when Quantifying Misstatements in Current Year Financial Statements .

As discussed in Note 2 and Note 3 to the consolidated financial statements, effective December 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurement and S of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 .

Also, as discussed in Note 2 and Note 19 to the consolidated financial statements, the Company adopted Sta Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) .

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of November 30, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Or of the Treadway Commission and our report dated January 28, 2008, expressed an unqualified opinion on th Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York

January 28, 2008

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MORGAN STANLEY

Consolidated Statements of Financial Condition

(dollars in millions, except share data)

	November 30, 2007	Novem 20
Assets		
Cash and cash equivalents	$ 25,598	$
Cash and securities deposited with clearing organizations or segregated under federal and other regulations or requirements (including securities at fair value of $31,354 in 2007 and $8,648 in 2006)	61,608	
Financial instruments owned, at fair value (approximately $131 billion in 2007 and $125 billion in 2006 were pledged to various parties):		
U.S. government and agency securities	23,887	
Other sovereign government obligations	21,606	
Corporate and other debt	147,724	1
Corporate equities	87,377	
Derivative contracts	77,003	
Investments	14,270	
Physical commodities	3,096	
Total financial instruments owned	374,963	3
Securities received as collateral, at fair value	82,229	
Collateralized agreements:		
Securities purchased under agreements to resell	126,887	1
Securities borrowed	239,994	2
Receivables:		
Consumer loans (net of allowances of $831 in 2006)		
Customers	76,352	
Brokers, dealers and clearing organizations	16,011	
Other loans	11,629	
Fees, interest and other	8,320	
Other investments	4,524	
Premises, equipment and software costs, at cost (net of accumulated depreciation of $3,449 in 2007 and $3,645 in 2006)	4,372	
Goodwill	3,024	
Intangible assets (net of accumulated amortization of $175 in 2007 and $109 in 2006) (includes $428 at fair value in 2007)	1,047	
Other assets	8,851	
Total assets	$ 1,045,409	$ 1,1

See Notes to Consolidated Financial Statements.

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MORGAN STANLEY

Consolidated Statements of Financial Condition (Continued)

(dollars in millions, except share data)

	November 30, 2007	Novemb 200
Liabilities and Shareholders Equity		
Commercial paper and other short-term borrowings (includes $3,068 at fair value in 2007)	$ 34,495	$ 2
Deposits (includes $3,769 at fair value in 2007)	31,179	2
Financial instruments sold, not yet purchased, at fair value:		
U.S. government and agency securities	8,221	2
Other sovereign government obligations	15,627	2
Corporate and other debt	7,592	1
Corporate equities	30,899	5
Derivative contracts	71,604	5
Physical commodities	398	
Total financial instruments sold, not yet purchased	134,341	18
Obligation to return securities received as collateral, at fair value	82,229	6
Collateralized financings:		
Securities sold under agreements to repurchase	162,840	26
Securities loaned	110,423	15
Other secured financings, at fair value	27,772	4
Payables:		
Customers	203,453	13
Brokers, dealers and clearing organizations	10,454	
Interest and dividends	1,724	
Other liabilities and accrued expenses	24,606	2
Long-term borrowings (includes $38,392 at fair value in 2007)	190,624	14
	1,014,140	1,08
Capital Units		
Commitments and contingencies		
Shareholders equity:		
Preferred stock	1,100	
Common stock, $0.01 par value;		
Shares authorized: 3,500,000,000 in 2007 and 2006;		
Shares issued: 1,211,701,552 in 2007 and 2006;		
Shares outstanding: 1,056,289,659 in 2007 and 1,048,877,006 in 2006	12	
Paid-in capital	1,902	
Retained earnings	38,045	4
Employee stock trust	5,569	
Accumulated other comprehensive loss	(199)	
Common stock held in treasury, at cost, $0.01 par value; 155,411,893 shares in 2007 and 162,824,546 shares in 2006	(9,591)	(
Common stock issued to employee trust	(5,569)	(

Total shareholders equity	31,269	3
Total liabilities and shareholders equity	$ 1,045,409	$ 1,12

See Notes to Consolidated Financial Statements.

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MORGAN STANLEY

Consolidated Statements of Income

(dollars in millions, except share and per share data)

		Fiscal Year	
	2007	2006	200
Revenues:			
Investment banking	$ 6,368	$ 4,755	$
Principal transactions:			
Trading	3,206	11,805	
Investments	3,262	1,807	
Commissions	4,682	3,770	
Asset management, distribution and administration fees	6,519	5,238	
Interest and dividends	60,083	42,776	
Other	1,208	585	
Total revenues	85,328	70,736	
Interest expense	57,302	40,897	
Net revenues	28,026	29,839	
Non-interest expenses:			
Compensation and benefits	16,552	13,986	
Occupancy and equipment	1,130	912	
Brokerage, clearing and exchange fees	1,656	1,305	
Information processing and communications	1,193	1,089	
Marketing and business development	813	643	
Professional services	2,112	1,889	
Other	1,129	912	
September 11th related insurance recoveries, net			
Total non-interest expenses	24,585	20,736	
Income from continuing operations before losses from unconsolidated investees, income taxes and cumulative effect of accounting change, net	3,441	9,103	
Losses from unconsolidated investees	47	40	
Provision for income taxes	831	2,728	
Income from continuing operations before cumulative effect of accounting change, net	2,563	6,335	
Discontinued operations:			
Net gain from discontinued operations	1,024	1,666	
Provision for income taxes	378	529	
Net gain on discontinued operations	646	1,137	
Cumulative effect of accounting change, net			
Net income	$ 3,209	$ 7,472	$
Preferred stock dividend requirements	$ 68	$ 19	$
Earnings applicable to common shareholders	$ 3,141	$ 7,453	$

Earnings per basic common share:					
Income from continuing operations	$	2.49	$	6.25	$
Gain on discontinued operations		0.64		1.13	
Cumulative effect of accounting change, net					
Earnings per basic common share	$	3.13	$	7.38	$
Earnings per diluted common share:					
Income from continuing operations	$	2.37	$	5.99	$
Gain on discontinued operations		0.61		1.08	
Cumulative effect of accounting change, net					
Earnings per diluted common share	$	2.98	$	7.07	$
Average common shares outstanding:					
Basic		1,001,878,651		1,010,254,255	1,049,8
Diluted		1,054,240,169		1,054,796,062	1,079,9

See Notes to Consolidated Financial Statements.

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MORGAN STANLEY

Consolidated Statements of Comprehensive Income

(dollars in millions)

	Fiscal Year 2007	2006	
Net income	$ 3,209	$ 7,472	$
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments(1)	65	104	
Net change in cash flow hedges(2)	19	53	
Minimum pension liability adjustment(3)	(40)	(2)	
Comprehensive income	$ 3,253	$ 7,627	$

(1) Amounts are net of provision for (benefit from) income taxes of $35 million, $56 million and $(48) million for fiscal 2 fiscal 2006 and fiscal 2005, respectively.
(2) Amounts are net of provision for (benefit from) income taxes of $10 million, $29 million and $(38) million for fiscal 2 fiscal 2006 and fiscal 2005, respectively.
(3) Amounts are net of provision for (benefit from) income taxes of $(16) million, $(5) million and $11 million for fiscal fiscal 2006 and fiscal 2005, respectively.

See Notes to Consolidated Financial Statements.

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MORGAN STANLEY

Consolidated Statements of Cash Flows

(dollars in millions)

	Fiscal Year 2007	2006	2
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,209	$ 7,472	$
Adjustments to reconcile net income to net cash used for operating activities:			
Losses from unconsolidated investees	47	40	
Cumulative effect of accounting change, net			
Deferred income taxes	(2,046)	111	
Compensation payable in common stock and options	1,941	1,923	
Depreciation and amortization	475	876	
Provision for consumer loan losses	478	756	
Lease adjustment			
Insurance settlement	(38)		
Gain on sale of Quilter Holdings Ltd.	(168)		
Aircraft-related charges		125	
Other-than-temporary impairment charge	437		
Changes in assets and liabilities:			
Cash and securities deposited with clearing organizations or segregated under federal and other regulations or requirements	(32,040)	10,592	
Financial instruments owned, net of financial instruments sold, not yet purchased	(30,573)	(78,370)	(
Securities borrowed	59,637	(55,390)	(
Securities loaned	(39,834)	29,803	
Receivables and other assets	1,786	(41,929)	
Payables and other liabilities	71,057	33,971	
Securities purchased under agreements to resell	48,900	(1,075)	(
Securities sold under agreements to repurchase	(105,361)	30,292	
Net cash used for operating activities	(22,093)	(60,803)	(
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (payments for) proceeds from:			
Office facilities and aircraft under operating leases	(1,469)	993	
Business acquisitions, net of cash acquired	(1,169)	(2,706)	
Sale of Quilter Holdings Ltd.	476		
Net principal disbursed on consumer loans	(4,776)	(12,164)	(
Sales of consumer loans	5,301	11,532	
Sale of interest in POSIT			
Insurance settlement			
Purchases of securities available for sale	(14,073)		
Sales of securities available for sale	4,272		
Net cash used for investing activities	(11,438)	(2,345)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments for):			
Short-term borrowings	8,274	(2,422)	
MSCI Inc. initial public offering	265		
Derivatives financing activities	(859)	546	
Other secured financings	(24,231)	22,022	
Deposits	23,099	9,647	
Tax benefits associated with stock-based awards	281	144	
Net proceeds from:			

Issuance of preferred stock		1,097	
Issuance of common stock	927	643	
Issuance of long-term borrowings	74,540	47,849	
Payments for:			
Repayments of long-term borrowings	(33,120)	(20,643)	(
Redemption of Capital Units	(66)		
Repurchases of common stock	(3,753)	(3,376)	
Cash distribution in connection with the Discover Spin-off	(5,615)		
Cash dividends	(1,219)	(1,167)	
Net cash provided by financing activities	38,523	54,340	
Net increase (decrease) in cash and cash equivalents	4,992	(8,808)	
Cash and cash equivalents, at beginning of period	20,606	29,414	
Cash and cash equivalents, at end of period	$ 25,598	$ 20,606	$

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were $59,955 million, $39,667 million and $23,415 million for fiscal 2007, fiscal 2006 and fis 2005, respectively.

Cash payments for income taxes were $3,404 million, $3,115 million and $1,536 million for fiscal 2007, fiscal 2006 and f 2005, respectively.

See Notes to Consolidated Financial Statements.

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MORGAN STANLEY

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)	Common Stock Held in Treasury at Cost	Common Stock Issued to Employee Trust	T
BALANCE AT NOVEMBER 30, 2004	$	$ 12	$ 2,088	$ 31,426	$ 3,824	$ (56)	$ (6,614)	$ (2,474)	$
Net income				4,939					
Dividends				(1,180)					
Issuance of common stock			(780)				1,107		
Repurchases of common stock							(3,693)		
Compensation payable in common stock and options			669		(764)		1,437	(586)	
Tax benefits associated with stock-based awards			317						
Employee tax withholdings and other			95				(451)		
Net change in cash flow hedges						(70)			
Minimum pension liability adjustment						25			
Foreign currency translation adjustments						(89)			
BALANCE AT NOVEMBER 30, 2005		12	2,389	35,185	3,060	(190)	(8,214)	(3,060)	
Adjustment to opening shareholders equity			34	(68)					
Net income				7,472					
Dividends				(1,167)					
Issuance of preferred stock	1,100								
Issuance of common stock			(1,949)				2,592		
Repurchases of common stock							(3,376)		
Compensation payable in common stock and options			1,486		1,255		5	(1,255)	
Tax benefits associated with stock-based awards			72						
Employee tax withholdings and other			181				(355)		
Net change in cash flow hedges						53			
Minimum pension liability adjustment						(2)			
Foreign currency translation adjustments						104			
BALANCE AT NOVEMBER 30, 2006	1,100	12	2,213	41,422	4,315	(35)	(9,348)	(4,315)	
Fair value adjustment				186					
Net income				3,209					
Dividends				(1,219)					

Issuance of common stock			(1,555)				2,482		
Repurchases of common stock							(3,753)		
Compensation payable in common stock and options			1,710	5	1,254		376	(1,254)	
Tax benefits associated with stock-based awards			280						
Employee tax withholdings and other			(15)				(318)		
Net change in cash flow hedges						19			
Minimum pension liability adjustment						(40)			
SFAS No. 158 pension adjustment						(208)			
Foreign currency translation adjustments						65			
MSCI Inc. initial public offering			239						
Discover Spin-off			(970)	(5,558)			970		
BALANCE AT NOVEMBER 30, 2007	$ 1,100	$ 12	$ 1,902	$ 38,045	$ 5,569	$ (199)	$ (9,591)	$ (5,569)	$

See Notes to Consolidated Financial Statements.

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Introduction and Basis of Presentation.

The Company. Morgan Stanley (the Company) is a global financial services firm that maintains signific market positions in each of its business segments Institutional Securities, Global Wealth Management Grou Asset Management.

A summary of the activities of each of the Company s business segments is as follows:

Institutional Securities includes capital raising; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity and fixed income securities and related products, including foreign excha and commodities; benchmark indices and risk management analytics; research; and investment activities.

Global Wealth Management Group provides brokerage and investment advisory services covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit other lending products; cash management services; retirement services; and trust and fiduciary services.

Asset Management provides global asset management products and services in equity, fixed income, alternat investments, which includes hedge funds and fund of funds, and merchant banking, which includes real estat private equity and infrastructure, to institutional and retail clients through proprietary and third-party retail distribution channels, intermediaries and the Company s institutional distribution channel. Asset Manageme engages in investment activities.

Discontinued Operations.

Discover. On June 30, 2007, the Company completed the spin-off (the Discover Spin-off) of its busines Discover Financial Services (DFS). The results of DFS prior to the Discover Spin-off are reported as disc operations for all periods presented.

Quilter Holdings Ltd. The results of Quilter Holdings Ltd. (Quilter) are reported as discontinued operati all periods presented through its sale on February 28, 2007. The results of Quilter were formerly included in

Global Wealth Management Group business segment.

Aircraft Leasing. The results of the Company s aircraft leasing business are reported as discontinued oper for all periods presented through its sale on March 24, 2006. The results of the Company s aircraft leasing b were formerly included in the Institutional Securities business segment.

See Note 22 for additional information on discontinued operations.

Basis of Financial Information. The consolidated financial statements for the 12 months ended Novembe 2007 (fiscal 2007), November 30, 2006 (fiscal 2006) and November 30, 2005 (fiscal 2005) are prep accordance with accounting principles generally accepted in the U.S., which require the Company to make estimates and assumptions regarding the valuations of certain financial instruments, the outcome of litigatio and other matters that affect the consolidated financial statements and related disclosures. The Company bel that the estimates utilized in the preparation of the consolidated financial statements are prudent and reasona Actual results could differ materially from these estimates.

The Company, in accordance with Staff Accounting Bulletin No. 108, Considering the Effects of Prior Yea Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), adjus opening retained earnings for fiscal 2006 and financial results for the first two quarters of fiscal 2006 to refle

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

change in its hedge accounting for certain securities under Statement of Financial Accounting Standards (S No. 133, Accounting for Derivatives Instruments and Hedging Activities, as amended (SFAS No. 133) periods also reflect the adjustments of two compensation and benefit accruals. See Note 24 for additional information on SAB 108.

All material intercompany balances and transactions have been eliminated.

Consolidation. The consolidated financial statements include the accounts of the Company, its wholly own subsidiaries, other entities in which the Company has a controlling financial interest and certain variable inte entities (VIE).

For entities where (1) the total equity investment at risk is sufficient to enable the entity to finance its activiti independently and (2) the equity holders bear the economic residual risks of the entity and have the right to m decisions about the entity s activities, the Company consolidates those entities it controls through a majority interest or otherwise. For entities that do not meet these criteria, commonly known as variable interest entitie Company consolidates those entities where the Company is deemed to be the primary beneficiary when it ab a majority of the expected losses or a majority of the expected residual returns, or both, of such entities.

Notwithstanding the above, certain securitization vehicles, commonly known as qualifying special purpose e are generally not consolidated by the Company if they meet certain criteria regarding the types of assets and derivatives they may hold, the types of sales they may engage in and the range of discretion they may exerci connection with the assets they hold.

For investments in entities in which the Company does not have a controlling financial interest but has signi influence over operating and financial decisions, the Company generally applies the equity method of accoun except in instances where the Company has elected to fair value certain eligible investments (see Note 3).

Equity and partnership interests held by entities qualifying for accounting purposes as investment companies carried at fair value.

The Company s U.S. and international subsidiaries include Morgan Stanley & Co. Incorporated (MS&Co. Stanley & Co. International plc (MSIP), Morgan Stanley Japan Securities Co., Ltd. (MSJS) and Morga Investment Advisors Inc. On April 1, 2007, the Company merged Morgan Stanley DW Inc. (MSDWI) int

MS&Co. Upon completion of the merger, the surviving entity, MS&Co., became the Company s principal U
broker-dealer.

***Income Statement Presentation*.** The Company, through its subsidiaries and affiliates, provides a wide var
products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. In connection with the delivery of the various products a
services to clients, the Company manages its revenues and related expenses in the aggregate. As such, when assessing the performance of its businesses, the Company considers its principal trading, investment bankin
commissions, and interest and dividend income, along with the associated interest expense, as one integrate
activity for each of the Company s separate businesses.

The Company s cost infrastructure supporting its businesses varies by activity. In some cases, these costs ar
directly attributable to one line of business, and, in other cases, such costs relate to multiple businesses. As s
when assessing the performance of its businesses, the Company does not consider these costs separately but
assesses performance in the aggregate along with the related revenues.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Therefore, the Company s pricing structure considers various items, including the level of expenses incurre directly and indirectly to support the cost infrastructure, the risk it incurs in connection with a transaction, th overall client relationship and the availability in the market for the particular product and/or service. Accord the Company does not manage or capture the costs associated with the products or services sold or its genera administrative costs by revenue line, in total or by product.

2. Summary of Significant Accounting Policies.

Revenue Recognition.

Investment Banking. Underwriting revenues and fees from mergers, acquisitions and advisory assignments recorded when services for the transactions are determined to be completed, generally as set forth under the of the engagement. Transaction-related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction, are deferred and recognized in the same period as the related investment ban transaction revenue. Underwriting revenues are presented net of related expenses. Non-reimbursed expenses associated with advisory transactions are recorded within Non-interest expenses.

Commissions. The Company generates commissions from executing and clearing customer transactions on options and futures markets. Commission revenues are recorded in the accounts on trade date.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administrat fees are recognized over the relevant contract period, generally quarterly or annually. In certain management arrangements, the Company is entitled to receive performance-based fees (also referred to as incentive fees) the return on assets under management exceeds certain benchmark returns or other performance targets. In s arrangements, performance fee revenue is accrued (or reversed) quarterly based on measuring account/fund performance to date versus the performance benchmark stated in the investment management agreement.

Financial Instruments and Fair Value.

A significant portion of the Company s financial instruments is carried at fair value with changes in fair val recognized in earnings each period. A description of the Company s policies regarding fair value measurem its application to these financial instruments follows.

Financial Instruments Measured at Fair Value. All of the instruments within Financial instruments owned Financial instruments sold, not yet purchased, are measured at fair value, either through the fair value option election (discussed below) or as required by other accounting pronouncements. These instruments primarily represent the Company s trading and investment activities and include both cash and derivative products. In addition, Securities received as collateral and Obligation to return securities received as collateral are measu fair value as required by other accounting pronouncements. Additionally, certain Commercial paper and oth short-term borrowings (primarily structured notes), certain Deposits, Other secured financings and certain Long-term borrowings (primarily structured debt) are measured at fair value through the fair value option el Gains and losses on all of these instruments carried at fair value are reflected in Principal transactions tradi revenues or Principal transactions investment revenues in the consolidated statements of income. Interest in and expense and dividend income are recorded within the consolidated statements of income depending on t nature of the instrument and related market conventions. When interest and dividends are included as a com of the instruments fair value, interest and dividends are included within Principal transactions trading revenues. Otherwise, they are included within Interest and dividend income or Interest expense.

Fair Value Option. The Company adopted the provisions of SFAS No. 159, The Fair Value Option for Fi Assets and Financial Liabilities (SFAS No. 159), effective December 1, 2006. SFAS No. 159 provides e option to measure certain financial assets and financial liabilities at fair value with changes

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in fair value recognized in earnings each period. SFAS No. 159 permits the fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to basis of accounting for that instrument. The Company applies the fair value option for certain eligible instru including certain loans and loan commitments, certain equity method investments, certain structured notes, c certificates of deposits and other secured financings. See Accounting Developments herein for additional information regarding the Company s adoption of SFAS No. 159.

Fair Value Measurement Definition and Hierarchy. The Company adopted the provisions of SFAS No. 15 Value Measurements (SFAS No. 157), effective December 1, 2006. See Accounting Developments h additional information regarding the Company s adoption of SFAS No. 157. Under this standard, fair value defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches, including market, income and/or approaches. SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inp used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable are inputs that reflect the Company s assumptions about the assumptions market participants would use in p the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Leve instruments. Since valuations are based on quoted prices that are readily and regularly available in an market, valuation of these products does not entail a significant degree of judgment.

Assets and liabilities utilizing Level 1 inputs include exchange-traded equity securities and listed derivatives are actively traded, most U.S. Government securities and certain other sovereign government obligations.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant i are observable, either directly or indirectly.

Assets and liabilities utilizing Level 2 inputs include: exchange-traded equity securities and listed derivative are not actively traded; most over-the-counter (OTC) derivatives; restricted stock; corporate and municipa certain corporate loans and loan commitments; certain high-yield debt; certain residential and commercial mortgage loans; certain mortgage-backed securities (MBS), asset-backed securities (ABS), and collate obligation (CDO) securities; retained interests in certain securitization transactions; structured notes; phys commodities; and mortgage servicing rights.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Assets and liabilities utilizing Level 3 inputs include: certain corporate loans and loan commitments; certain commercial whole loans; certain mortgage loans; certain high-yield debt, distressed debt (i.e., securities of is encountering financial difficulties, including bankruptcy or insolvency); certain MBS, ABS and CDO securi retained interests in certain securitization transactions; investments in real estate funds; private equity invest and complex over-the-counter derivatives (including certain foreign currency options; long-dated commodit options and swaps; certain mortgage-related credit default swaps; derivative interests in mortgage-related CI and basket credit default swaps).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The availability of observable inputs can vary from product to product and is affected by a wide variety of fa including, for example, the type of product, whether the product is new and not yet established in the market and other characteristics particular to the transaction. To the extent that valuation is based on models or inpu are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest leve that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who holds the or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are no readily available, the Company s own assumptions are set to reflect those that market participants would use pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instru to be reclassified from Level 1 to Level 2 or Level 2 to Level 3 (see Note 3).

Valuation Techniques. Many cash and OTC contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that the Company and others are willing to pay for an asset. prices represent the lowest price that the Company and others are willing to accept for an asset. For financial instruments whose inputs are based on bid-ask prices, the Company does not require that fair value always b predetermined point in the bid-ask range. The Company s policy is to allow for mid-market pricing and adju the point within the bid-ask range that meets the Company s best estimate of fair value. For offsetting positi the same financial instrument, the same price within the bid-ask spread is used to measure both the long and positions.

Fair value for many cash and OTC contracts is derived using pricing models. Pricing models take into accou contract terms (including maturity) as well as multiple inputs, including, where applicable, commodity price equity prices, interest rate yield curves, credit curves, creditworthiness of the counterparty, option volatility a currency rates. In accordance with SFAS No. 157, the impact of the Company s own credit spreads are also considered when measuring the fair value of liabilities, including OTC derivative contracts. Where appropria valuation adjustments are made to account for various factors, including bid-ask spreads, credit quality and m liquidity. These adjustments are applied on a consistent basis and are based upon observable inputs where available.

<u>OTC Derivative Contracts.</u> OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices.

Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closed-form analytic formulae, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail m subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing in are observed from actively quoted markets, as is the case for generic interest rate swap and option contracts. case of more established derivative products, the pricing models used by the Company are widely accepted b financial services industry. A substantial majority of OTC derivative products valued by the Company using pricing models fall into this category and are categorized within Level 2 of the fair value hierarchy.

Other derivative products, typically the newest and most complex products, will require more judgment in th implementation of the valuation technique applied due to the complexity of the valuation assumptions and th reduced

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

observability of inputs. This includes certain credit default swaps where direct trading activity or quotes are unobservable. Derivative interests in mortgage-related CDOs, for which observability of external price data extremely limited, are valued based on an evaluation of the market for similar positions as indicated by prim and secondary market activity in the cash CDO and synthetic CDO market. Each position is evaluated independently taking into consideration the underlying collateral performance and pricing, behavior of the tr under various cumulative loss and prepayment scenarios, deal structures (e.g., non-amortizing reference obligations, call features) and liquidity. While these factors may be supported by historical and actual extern observations, the determination of their value as it relates to specific positions nevertheless requires significa judgment. Mortgage-related credit default swaps are valued based on data from comparable credit instrumen the cash market and trades in comparable swaps as benchmarks, as prices and spreads for the specific credits subject to valuation tend to be of limited observability. For basket credit default swaps and CDO-squared po the correlation between reference credits is often a significant input into the pricing model, in addition to sev other more observable inputs such as credit spread, interest and recovery rates. As the correlation input is unobservable for each specific swap, it is benchmarked to standardized proxy baskets for which external dat available. These instruments involve significant unobservable inputs and are categorized in Level 3 of the fa value hierarchy.

The Company trades various derivative structures with commodity underlyings. Depending on the type of structure, the model inputs generally include interest rate yield curves, commodity underlier spread curves, volatility of the underlying commodities and, in some cases, the correlation between these inputs. The fair va these products is estimated using executed trades and broker and consensus data to provide values for the aforementioned inputs. Where these inputs are unobservable, relationships to observable commodities and d points, based on historic and/or implied observations, are employed as a technique to estimate the model inp values. Commodity derivatives are generally categorized in Level 2 of the fair value hierarchy; in instances w significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

Other Sovereign Government Obligations. The fair value of foreign sovereign government obligations is generally based on quoted prices in active markets. When quoted prices are not available, fair value is deter based on a valuation model that has as inputs interest rate yield curves, cross-currency basis index spreads, a country credit spreads for structures similar to the bond in terms of issuer, maturity and seniority. These bon generally categorized in Levels 1 or 2 of the fair value hierarchy.

Municipal Bonds. The fair value of municipal bonds is estimated using recently executed transactions, mar price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swa spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy.

Corporate Bonds. The fair value of corporate bonds is estimated using recently executed transactions, mar price quotations (where observable), bond spreads or credit default swap spreads. The spread data used are f same maturity as the bond. If the spread data do not reference the issuer, then data that reference a comparab issuer is used. When observable price quotations are not available, fair value is determined based on cash flo

models with yield curves, bond or single name credit default swap spreads and recovery rates based on colla
values as key inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy; in inst
where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy.

Corporate Loans and Loan Commitments. The fair value of corporate loans is estimated using recently exe
transactions, market price quotations (where observable) and market observable credit default swap levels al
with proprietary valuation models and default recovery analysis where such transactions and quotations are
unobservable. The fair value of contingent corporate loan commitments is estimated by using executed trans
on comparable loans and the anticipated market price based on pricing indications from syndicate banks and
customers. The valuation of these commitments also takes into account certain fee income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

While certain corporate loans, closed loan commitments and revolving loans are Level 2 instruments, certai
corporate loans and contingent corporate loan commitments are categorized in Level 3 of the fair value hiera

Mortgage Loans. The valuation of mortgage loans depends upon the exit market for the loan. Loans not in
for securitization are valued based on the analysis of the underlying collateral performance, capital structure
market spreads for comparable positions as prices and/or spreads for specific credits tend to be unobservable
Where comparables do not exist, such loans are valued based on origination price and collateral performanc
(credit events) since origination. These loans are classified in Levels 2 or 3 of the fair value hierarchy.

The Company also holds certain loan products and mortgage products with the intent to securitize them. Wh
structuring of the related securitization is substantially complete, such that the value likely to be realized in a
current transaction is consistent with the price that a securitization entity will pay to acquire these products, t
Company marks them to the expected securitized value. Factors affecting the value of loan and mortgage pro
intended to be securitized include, but are not limited to, loan type, underlying property type and geographic
location, loan interest rate, loan to value ratios, debt service coverage ratio, updated cumulative loan loss dat
prepayment rates, yields, investor demand, any significant market volatility since the last securitization, and
enhancement. While these valuation factors may be supported by historical and actual external observations,
determination of their value as it relates to specific positions may require significant judgment. These instru
are classified in Levels 2 or 3 of the fair value hierarchy.

U.S. Agency Securities. U.S. agency securities include To-be-announced (TBA) securities and mortgag
pass-through certificates. TBA securities are liquid and have quoted market prices. Fair value of mortgage
pass-through certificates is determined via a simulation model, which considers different rate scenarios and
historical activity to calculate a spread to the comparable TBA security. U.S. agency securities are categoriz
Level 2 of the fair value hierarchy.

Commercial Mortgage-Backed Securities (CMBS) and Asset-Backed Securities (ABS). CMBS and
valued based on external price/spread data. When position-specific external price data are not observable, th
valuation is based on prices of comparable bonds. Included in this category are certain interest-only securitie
which, in the absence of market prices, are valued as a function of observable whole bond prices and cash fl
values of principal-only bonds using current market assumptions at the measurement date. CMBS and ABS
categorized in Level 3 if external prices are unobservable; otherwise they are categorized in Level 2 of the fa
value hierarchy.

Retained Interests in Securitization Transactions. The Company engages in securitization activities related
various types of loans and bonds. The Company may retain interests in securitized financial assets as one or
tranches of the securitization. To determine fair values, observable inputs are used if available. Observable i
however, may not be available for certain retained interests so the Company estimates fair value based on th

present value of expected future cash flows using its best estimates of the key assumptions, including forecas credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks involve When there are no significant unobservable inputs, retained interests are categorized in Level 2 of the fair va hierarchy. When unobservable inputs are significant to the fair value measurement, albeit generally supporta historical and actual benchmark data, retained interests are categorized in Level 3 of the fair value hierarchy.

Investments in Private Equity and Real Estate. The Company s investments in private equity and real esta the form of direct private equity investments and investment in private equity and real estate funds. The tran price is used as the best estimate of fair value at inception. When evidence supports a change to the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

carrying value from the transaction price, adjustments are made to reflect expected exit values. Ongoing revi by Company management are based on an assessment of each underlying investment, incorporating valuatio consider the evaluation of financing and sale transactions with third parties, expected cash flows and market information, including comparable company transactions, performance multiples and changes in market outl among other factors. These nonpublic investments are included in Level 3 of the fair value hierarchy becaus trade infrequently, and, therefore, the fair value is unobservable.

Physical Commodities. The Company trades various physical commodities, including crude oil and refined products, metals and agricultural products. Fair value for physical commodities is determined using observa inputs, including broker quotations and published indices. Physical commodities are categorized in Level 2 c fair value hierarchy.

Deposits. The fair value of certificates of deposit is estimated using third-party quotations. These deposits categorized in Level 2 of the fair value hierarchy.

Structured Notes. The Company issues structured notes that have coupons or repayment terms linked to th performance of debt or equity securities, indices, currencies or commodities. Fair value of structured notes is estimated using valuation models described in this section for the derivative and debt features of the notes. T models incorporate observable inputs, including prices that the notes are linked to, interest rate yield curves, volatility and currency rates. The impact of the Company s own credit spreads also is included based on the Company s observed secondary bond market spreads. Most structured notes are categorized in Level 2 of th value hierarchy.

Fair Value Measurement Other.

Prior to the adoption of SFAS No. 157, the Company followed the provisions of Emerging Issues Task Forc (EITF) Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purpos Contracts Involved in Energy Trading and Risk Management Activities (EITF Issue No. 02-3). Under E No. 02-3, recognition of day one profit at inception of an OTC derivative contract was prohibited unless the value of the contract was based on a valuation technique incorporating observable market data. With the ado of SFAS No. 157, the Company is no longer applying the revenue recognition criteria of EITF Issue No. 02-

The fair value of OTC financial instruments, including derivative contracts related to financial instruments a commodities, is presented in the accompanying consolidated statements of financial condition on a net-by-counterparty basis, when appropriate. Additionally, the Company nets fair value of cash collateral pa received against its derivatives inventory under credit support annexes, which the Company views as conditi contracts, pursuant to legally enforceable master netting agreements.

Hedge Accounting.

The Company applies hedge accounting for hedges involving various derivative financial instruments and non-U.S. dollar-denominated debt used to hedge interest rate, foreign exchange and credit risk arising from a
and liabilities not held at fair value. These derivative financial instruments are included within Financial instruments owned Derivative contracts or Financial instruments sold, not yet purchased Derivative contra
consolidated statements of financial condition.

The Company s hedges are designated and qualify for accounting purposes as one of the following types of
hedges of changes in fair value of assets and liabilities due to the risk being hedged (fair value hedges), hedg
the variability of future cash flows from floating rate assets and liabilities due to the risk being hedged (cash
hedges) and hedges of net investments in foreign operations whose functional currency is different from the
reporting currency of the parent company (net investment hedges).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For all hedges where hedge accounting is being applied, effectiveness testing and other procedures to ensure ongoing validity of the hedges are performed at least monthly. The impact of hedge ineffectiveness on the consolidated statements of income, primarily related to fair value hedges, was a gain of $132 million during 2007. The amount excluded from the assessment of hedge effectiveness was immaterial. If a derivative is de-designated as a hedge, it is thereafter accounted for as a financial instrument used for trading.

Fair Value Hedges Interest Rate Risk. In the first quarter of fiscal 2007, the Company began using regressio analysis to perform an ongoing prospective and retrospective assessment of the effectiveness of these hedgin relationships (i.e., the Company applied the long-haul method of hedge accounting). A hedging relationsh deemed effective if the fair values of the hedging instrument (derivative) and the hedged item (debt liability) change inversely within a range of 80% to 125%.

Previously, the Company s designated fair value hedges consisted primarily of interest rate swaps designate value hedges of changes in the benchmark interest rate of fixed rate borrowings, including both certificates o deposit and senior long-term borrowings. For these hedges, the Company ensured that the terms of the hedgi instruments and hedged items matched and that other accounting criteria were met so that the hedges were assumed to have no ineffectiveness (i.e., the Company applied the shortcut method of hedge accounting). Company also used interest rate swaps as fair value hedges of the benchmark interest rate risk of host contra equity-linked notes that contained embedded derivatives. For these hedging relationships, regression analysi used for the prospective and retrospective assessments of hedge effectiveness.

For qualifying fair value hedges of benchmark interest rates, the changes in the fair value of the derivative a changes in the fair value of the hedged liability provide offset of one another and, together with any resultin ineffectiveness, are recorded in Interest expense. When a derivative is de-designated as a hedge, any basis adjustment remaining on the hedged liability is amortized to Interest expense over the remaining life of the l using the effective interest method.

Fair Value Hedges Credit Risk. Until the fourth quarter of 2007, the Company had designated a portion of a derivative embedded in a non-recourse structured note liability as a fair value hedge of the credit risk arising a loan receivable to which the structured note liability was specifically linked. Regression analysis was used perform prospective and retrospective assessments of hedge effectiveness for this hedge relationship. The ch in the fair value of the derivative and the changes in the fair value of the hedged item provided offset of one another and, together with any resulting ineffectiveness, were recorded in Principal transactions trading rev This hedge was terminated in the fourth quarter of 2007 upon derecognition of both the hedging instrument a hedged item.

Cash Flow Hedges. Before the sale of the aircraft leasing business (see Note 22), the Company applied hed accounting to interest rate swaps used to hedge variable rate long-term borrowings associated with this busir

Changes in the fair value of the swaps were recorded in Accumulated other comprehensive income (loss) in Shareholders equity, net of tax effects, and then reclassified to Interest expense as interest on the hedged borrowings was recognized.

In connection with the sale of the aircraft leasing business, the Company de-designated the interest rate swap associated with this business effective August 31, 2005 and no longer accounts for them as cash flow hedges Amounts in Accumulated other comprehensive income (loss) related to those interest rate swaps continue to reclassified to Interest expense since the related borrowings remain outstanding. The Company estimates tha approximately $22 million of the unrealized loss recognized in Accumulated other comprehensive income (l of November 30, 2007 will be reclassified into earnings within the next 12 months.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net Investment Hedges. The Company utilizes forward foreign exchange contracts and non-U.S. dollar-denominated debt to manage the currency exposure relating to its net investments in non-U.S. dollar functional currency operations. No hedge ineffectiveness is recognized in earnings since the notional amoun the hedging instruments equal the portion of the investments being hedged, and, where forward contracts are the currencies being exchanged are the functional currencies of the parent and investee; where debt instrume used as hedges, they are denominated in the functional currency of the investee. The gain or loss from revalu hedges of net investments in foreign operations at the spot rate is deferred and reported within Accumulated comprehensive income (loss) in Shareholders equity, net of tax effects. The forward points on the hedging instruments are recorded in Interest and dividend revenues or expense.

Consolidated Statements of Cash Flows.

For purposes of these statements, cash and cash equivalents consist of cash and highly liquid investments no for resale with maturities, when purchased, of three months or less. In connection with business acquisitions Company assumed liabilities of $7,704 million, $1,377 million and $58 million in fiscal 2007, fiscal 2006 ar fiscal 2005, respectively. In connection with the Discover Spin-off, net assets of approximately $5,558 milli were distributed to shareholders (see Note 22). At November 30, 2007, $8,086 million of securities were transferred from Securities available for sale to Financial instruments owned (see Note 8).

Securitization Activities.

The Company engages in securitization activities related to commercial and residential mortgage loans, corp bonds and loans, U.S. agency collateralized mortgage obligations and other types of financial assets (see No Generally, such transfers of financial assets are accounted for as sales when the Company has relinquished c over the transferred assets. The gain or loss on sale of such financial assets depends, in part, on the previous carrying amount of the assets involved in the transfer allocated between the assets sold and the retained inter based upon their respective fair values at the date of sale. Transfers that are not accounted for as sales are accounted for as secured borrowings.

Premises, Equipment and Software Costs.

Premises and equipment consist of buildings, leasehold improvements, furniture, fixtures, computer and communications equipment, power plants, tugs, barges, terminals, pipelines and software (externally purcha and developed for internal use). Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided by the straight-line method over the estimated usef of the asset. Estimated useful lives are generally as follows: buildings 39 years; furniture and fixtures 7 yea

computer and communications equipment 3 to 8 years; power plants 15 years; tugs and barges 15 years; a
terminals and pipelines 3 to 25 years. Estimated useful lives for software costs are generally 3 to 5 years.

Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or, where appl
the remaining term of the lease, but generally not exceeding: 25 years for building structural improvements a
years for other improvements.

Certain costs incurred in connection with internal-use software projects are capitalized and amortized over th
expected useful life of the asset, generally 3 to 5 years.

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 t
bases of assets and liabilities using currently enacted tax rates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Earnings per Common Share.

Basic earnings per common share (EPS) is computed by dividing income available to common shareholde weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities.

Stock-Based Compensation.

The Company early adopted SFAS No. 123R, Share-Based Payment (SFAS No. 123R), using the mod prospective approach as of December 1, 2004. SFAS No. 123R revised the fair value-based method of accou for share-based payment liabilities, forfeitures and modifications of stock-based awards and clarified guidan several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to service periods. Upon adoption, the Company recognized an $80 million gain ($49 mil after-tax) as a cumulative effect of a change in accounting principle in the first quarter of fiscal 2005 resultin the requirement to estimate forfeitures at the date of grant instead of recognizing them as incurred. The cumu effect gain increased both basic and diluted earnings per share in fiscal 2005 by $0.05.

SFAS No. 123R requires measurement of compensation cost for equity-based awards at fair value and recog of compensation cost over the service period, net of estimated forfeitures. The Company determines the fair of restricted stock units based on the number of units granted and the grant date fair value of the Company s common stock, measured as the volume-weighted average price on the date of grant. The fair value of stock options is determined using the Black-Scholes valuation model and the single grant life method. Under the s grant life method, option awards with graded vesting are valued using a single weighted-average expected op life. Compensation expense for all stock-based payment awards is recognized using the graded vesting attrib method. The Employee Stock Purchase Plan (the ESPP) allows employees to purchase shares of the Com common stock at a 15% discount from market value. The Company expenses the 15% discount associated w ESPP.

For stock-based awards issued prior to the adoption of SFAS No. 123R, the Company s accounting policy f awards granted to retirement-eligible employees is to recognize compensation cost over the service period specified in the award terms. The Company accelerates any unrecognized compensation cost for such award and when a retirement-eligible employee leaves the Company.

For fiscal 2005 year-end stock-based compensation awards that were granted to retirement-eligible employe December 2005, the Company recognized the compensation cost for such awards at the date of grant instead over the service period specified in the award terms. As a result, the Company recorded non-cash incrementa compensation expenses of approximately $260 million in fiscal 2006 for stock-based awards granted to retirement-eligible employees as part of the fiscal 2005 year-end award process and for awards granted to retirement-eligible employees, including new hires, in fiscal 2006. These incremental expenses were include within Compensation and benefits expense and reduced income before taxes within the Institutional Securiti ($190 million), Global Wealth Management Group ($50 million) and Asset Management ($20 million) busin segments.

Additionally, based on interpretive guidance related to SFAS No. 123R in the first quarter of fiscal 2006, the Company changed its accounting policy for expensing the cost of anticipated fiscal 2006 year-end equity aw that are granted to retirement-eligible employees in the first quarter of the following year. Effective Decemb 2005, the Company accrues the estimated cost of these awards over the course of the current fiscal year. As s the Company accrued the estimated cost of fiscal 2007 year-end awards granted to retirement-eligible emplo over the 2007 fiscal year rather than expensing the awards on the date of grant (which occurred in December 2007). The Company believes that this method of recognition for retirement-eligible employees is preferable because it better reflects the period over which the compensation is earned.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

If the Company had accrued the estimated cost of equity awards granted to retirement-eligible employees ov course of the fiscal year ended November 30, 2005 rather than expensing such awards at the grant date in December 2005, net income would have decreased during fiscal 2005. The approximate resulting pro forma income would have been $4,684 million rather than the reported amount of $4,939 million. The approximate resulting impact on earnings per share for fiscal 2005 would have been a reduction in the reported amounts c earnings per basic share from $4.70 to $4.46 and earnings per diluted share from $4.57 to $4.34.

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 weig average rates of exchange for the year. 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 comprehe income (loss), a separate component of Shareholders equity. Gains or losses resulting from remeasurement foreign currency transactions are included in net income.

Goodwill and Intangible Assets. Goodwill and indefinite-lived assets are not amortized and are reviewed annually (or more frequently under certain conditions) for impairment. Other intangible assets are amortized their useful lives.

Investments in Unconsolidated Investees. The Company invests in unconsolidated investees that own syn fuel production plants and in certain structured transactions not integral to the operations of the Company. T Company accounts for these investments under the equity method. The Company s share of the (losses) gen by these investments is recorded within (Losses) gains from unconsolidated investees, and the applicable tax credits and the tax benefits associated with these operating losses are recorded within the Provision for incor taxes.

Deferred Compensation Arrangements. The Company maintains trusts, commonly referred to as rabbi tru connection with certain deferred compensation plans. Assets of rabbi trusts are consolidated, and the value o Company s stock held in rabbi trusts is classified in Shareholders equity and generally accounted for in a r similar to treasury stock. The Company has included its obligations under certain deferred compensation pla Employee stock trust. Shares that the Company has issued to its rabbi trusts are recorded in Common stock i to employee trust. Both Employee stock trust and Common stock issued to employee trust are components o Shareholders equity. The Company recognizes the original amount of deferred compensation (fair value of deferred stock award at the date of grant see Note 18) as the basis for recognition in Employee stock trust a Common stock issued to employee trust. Changes in the fair value of amounts owed to employees are not recognized as the Company s deferred compensation plans do not permit diversification and must be settled delivery of a fixed number of shares of the Company s common stock.

Accounting Developments.

Limited Partnerships. In June 2005, the Financial Accounting Standards Board (the FASB) ratified the reached in EITF Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Grou Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (EITF I No. 04-5). Under the provisions of EITF Issue No. 04-5, a general partner in a limited partnership is presur control that limited partnership and, therefore, should include the limited partnership in its consolidated finar statements, regardless of the amount or extent of the general partner s interest unless a simple majority of th limited partners can vote to dissolve or liquidate the partnership or otherwise remove the general partner wit having to show cause or the limited partners have substantive participating rights that can overcome the presumption of control by the general partner. EITF Issue No. 04-5 was effective immediately for all newly limited partnerships and existing limited partnerships for which the partnership agreements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

have been modified. For all other existing limited partnerships for which the partnership agreements have no modified, the Company adopted EITF Issue No. 04-5 on December 1, 2006. The adoption of EITF Issue No. on December 1, 2006 did not have a material impact on the Company s consolidated financial statements.

Accounting for Certain Hybrid Financial Instruments. In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS No. 155), which amends SFAS No. 133, for Derivatives Instruments and Hedging Activities, as amended (SFAS No. 133), and SFAS No. 140, for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS No. 140), and hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation to irrevocably be accounted for at fair value, with changes in fair value recognized in the statement of income. fair value election may be applied on an instrument-by-instrument basis. SFAS No. 155 also eliminates a restriction on the passive derivative instruments that a qualifying special purpose entity may hold. The Comp adopted SFAS No. 155 on December 1, 2006. Since SFAS No. 159 incorporates accounting and disclosure requirements that are similar to SFAS No. 155, the Company decided to apply SFAS No. 159, rather than SF No. 155, to its fair value elections for hybrid financial instruments.

Accounting for Servicing of Financial Assets. In March 2006, the FASB issued SFAS No. 156, Accountin Servicing of Financial Assets (SFAS No. 156), which requires all separately recognized servicing assets servicing liabilities to be initially measured at fair value, if practicable. The standard permits an entity to subsequently measure each class of servicing assets or servicing liabilities at fair value and report changes in value in the statement of income in the period in which the changes occur. The Company adopted SFAS No. on December 1, 2006 and elected to fair value mortgage servicing rights (MSRs) held as of the date of ad This election did not have a material impact on the Company s opening balance of Retained earnings as of December 1, 2006. The Company also elected to fair value MSRs acquired after December 1, 2006.

Accounting for Uncertainty in Income Taxes. In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure an transition. The adoption of FIN 48 on December 1, 2007 did not have a material impact on the Company s consolidated financial statements.

Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value and enhances disclosures requirements for fair value measurements. In addition, SFAS No. 157 disallows the use of block discounts when measuring financial instruments that trade with quoted prices in an active market. It also nullifies select guidance provided by EI Issue No. 02-3, which prohibited the recognition of trading gains or losses at the inception of a derivative co unless the fair value of such derivative is based on a valuation technique that incorporates observable market

SFAS No. 157 also requires the Company to consider its own credit spreads when measuring the fair value o liabilities, including derivatives. Effective December 1, 2006, the Company elected early adoption of SFAS No. 157. In accordance with the provisions of SFAS No. 157 related to block discounts and EITF Issue No. (the Company recorded a cumulative effect adjustment of approximately $84 million after-tax as an increase opening balance of Retained earnings as of December 1, 2006, which was primarily associated with EITF Is No. 02-3. The impact of considering the Company s own credit spreads when measuring the fair value of lia including derivatives, did not have a material impact on fair value measurements at the date of adoption. Wit adoption of SFAS No. 157, the Company no longer applies the revenue recognition criteria of EITF Issue No. 02-3.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Employee Benefit Plans. In September 2006, the FASB issued SFAS No. 158, Employers Accounting f Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 10 132(R) (SFAS No. 158). Among other items, SFAS No. 158 required recognition of the overfunded or underfunded status of the Company s defined benefit and postretirement plans as an asset or liability in the consolidated financial statements for the fiscal year ending November 30, 2007. The Company recorded an after-tax charge of $208 million to Shareholders equity upon the adoption of this requirement. SFAS No. 1 requires the measurement of defined benefit and postretirement plan assets and obligations as of the end of t fiscal year. SFAS No. 158 s requirement to use the fiscal year-end date as the measurement date is effective fiscal years ending after December 15, 2008. The Company expects to early adopt a fiscal year-end measure date for its fiscal year ending November 30, 2008 and currently expects to record an after-tax charge of approximately $15 million to Shareholders equity upon adoption.

Fair Value Option. In February 2007, the FASB issued SFAS No. 159, which provides entities the option t measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. SFAS No. 159 permits the fair value option election on an instrument-by-instrument b initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for tha instrument. Effective December 1, 2006, the Company elected early adoption of SFAS No. 159 for certain e instruments, including certain equity method investments, certain loans and loan commitments, certain certi of deposits and certain structured notes. Such instruments included loans and other financial instruments hel subsidiaries that are not registered broker-dealers as defined in the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, *Brokers and Dealers in Securities*, or that are not he investment companies as defined in the AICPA Audit and Accounting Guide, *Investment Companies*. A sub portion of these positions, as well as the financial instruments included within Other secured financings, had accounted for by the Company at fair value prior to the adoption of SFAS No. 159. Financial instruments un fair value option election are primarily reflected within Financial instruments owned and Financial instrume sold, not yet purchased in the consolidated statement of financial condition. As a result of the adoption of SF No. 159, the Company recorded a cumulative effect adjustment of approximately $102 million after-tax as a increase to the opening balance of Retained earnings as of December 1, 2006.

Offsetting of Amounts Related to Certain Contracts. In April 2007, the FASB issued FASB Staff Position No. FIN 39-1, Amendment of FASB Interpretation No. 39 , (FSP FIN 39-1). FSP FIN 39-1 amends ce provisions of FIN 39, Offsetting of Amounts Related to Certain Contracts, and permits companies to offs value amounts recognized for cash collateral receivables or payables against fair value amounts recognized f derivative positions executed with the same counterparty under the same master netting arrangement. FSP F 39-1 is effective for fiscal years beginning after November 15, 2007, with early application permitted. The adoption of FSP FIN 39-1 on December 1, 2007 did not have a material impact on the Company s consolid financial statements.

Investment Company Accounting. In June 2007, the AICPA issued Statement of Position (SOP) 07 1, Clarification of the Scope of the Audit and Accounting Guide *Investment Companies* and Accounting by P Companies and Equity Method Investors for Investments in Investment Companies (SOP 07-1). SOP 07 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounti Guide *Investment Companies* (the Guide). SOP 07-1 addresses whether the specialized industry account

principles of the Guide should be retained by a parent company in consolidation. In addition, SOP 07-1 inclu
certain disclosure requirements for parent companies and equity method investors in investment companies t
retain investment company accounting in the parent company s consolidated financial statements or the fina
statements of an equity method investor. SOP 07-1, as originally issued, was to be effective for the Company

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of December 1, 2008. In May 2007, the FASB issued FSP FIN 46R-7, Application of FIN 46R to Investme Companies, (FSP FIN 46R-7) which amends FASB Interpretation No. 46 (revised December 2003), C of Variable Interest Entities (FIN 46R) to make permanent the temporary deferral of the application of FI entities within the scope of the revised audit guide under SOP 07-1. FSP FIN 46R-7 is effective upon adopti SOP 07-1. The Company is currently evaluating the potential impact of adopting SOP 07-1 and FSP FIN 46 November 2007, the FASB issued a proposed FSP SOP 07-1-a to delay indefinitely the effective date of SO

Dividends on Share-Based Payment Awards. In June 2007, the EITF reached consensus on Issue No. 06-1 Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF Issue No. 06 Issue No. 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units tha expected to vest be recorded as an increase to additional paid-in capital. The Company currently accounts fo tax benefit as a reduction to its income tax provision. EITF Issue No. 06-11 is to be applied prospectively fo benefits on dividends declared in fiscal years beginning after December 15, 2007. The Company is currently evaluating the potential impact of adopting EITF Issue No. 06-11.

Business Combinations. In December 2007, the FASB issued SFAS No. 141(R), Business Combinations No. 141(R)). SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fai of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requi expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and c users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) applies to all transactions or other events in which the Company obtains con one or more businesses, including those sometimes referred to as true mergers or mergers of equals an combinations achieved without the transfer of consideration, for example, by contract alone or through the la minority veto rights. SFAS No. 141(R) applies prospectively to business combinations for which the acquisi date is on or after December 1, 2009.

Noncontrolling Interests. In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests i Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51 (SFAS No. 1 No. 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity an noncontrolling interests. SFAS No. 160 applies prospectively as of December 1, 2009, except for the presen and disclosure requirements which will be applied retrospectively for all periods presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Disclosures.

Fair Value Measurements.

The Company s assets and liabilities recorded at fair value have been categorized based upon a fair value hi
in accordance with SFAS No. 157. See Note 2 for a discussion of the Company s policies regarding this hie

The following fair value hierarchy tables present information about the Company s assets and liabilities mea
at fair value on a recurring basis as of November 30, 2007:

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of November 30, 2007

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Ba a Nover 2
			(dollars in millions)		
Assets					
Cash and securities deposited with clearing organizations or segregated under federal and other regulations or requirements	$ 31,354	$	$	$	$
Financial instruments owned:					
U.S. government and agency securities	11,038	12,189	660		
Other sovereign government obligations	15,834	5,743	29		
Corporate and other debt	223	110,443	37,058		
Corporate equities	82,592	3,549	1,236		
Derivative contracts(1)	4,526	90,654	21,601	(39,778)	
Investments	953	249	13,068		
Physical commodities		3,096			
Total financial instruments owned	115,166	225,923	73,652	(39,778)	
Securities received as collateral	68,031	14,191	7		
Intangible assets(2)		428			
Liabilities					
Commercial paper and other short-term borrowings	$	$ 3,068	$	$	$
Deposits		3,769			

Financial instruments sold, not yet purchased:				
U.S. government and agency securities	8,208	13		
Other sovereign government obligations	9,633	5,994		
Corporate and other debt	16	6,454	1,122	
Corporate equities	29,948	935	16	
Derivative contracts(1)	7,031	86,968	15,663	(38,058)
Physical commodities		398		
Total financial instruments sold, not yet purchased	54,836	100,762	16,801	(38,058)
Obligation to return securities received as collateral	68,031	14,191	7	
Other secured financings		25,451	2,321	
Long-term borrowings		37,994	398	

(1) Amounts represent the impact of counterparty netting across the levels of the fair value hierarchy. Netting among posi classified within the same level is included within that level.

(2) Amount represents MSRs accounted for at fair value (see Note 5).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents additional information about Level 3 assets and liabilities measured at fair valu recurring basis. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a the realized and unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below do not reflect the related realized or unrealized gains and losses on hedging instruments tha been classified by the Company within the Level 1 and/or Level 2 categories. Additionally, both observable unobservable inputs may be used to determine the fair value of positions that the Company has classified wi the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both obs (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilitie inputs.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Fiscal Ended November 30, 2007

	Beginning Balance	Total Realized and Unrealized Gains or (Losses) Included in Income: Principal Transactions: Trading	Principal Transactions: Investments	Other Revenues	Total Realized and Unrealized Gains or (Losses)	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers In and/or (Out) of Level 3
	(dollars in millions)						
Assets							
Financial instruments owned:							
U.S. government and agency securities	$ 2	$ 134	$	$	$ 134	$ 524	$
Other sovereign government obligations	162	10			10	(143)	
Corporate and other debt(1)	33,941	(5,999)			(5,999)	3,664	5,452
Corporate equities	1,040	62			62	(260)	394
Net derivative contracts(1)(2)	30	4,152			4,152	913	843
Investments(3)	3,879		2,538		2,538	6,651	
Securities received as collateral	40					(33)	
Other assets(4)	2,154			32	32	(2,186)	
Liabilities							
Financial instruments sold, not yet purchased:							
Corporate and other debt(1)	$ 185	$ (1,242)	$	$	$ (1,242)	$ (439)	$ 134
Corporate equities	9	(58)			(58)	(55)	4
	40					(33)	

Obligation to return securities received as collateral					
Other secured financings	4,724			(2,403)	
Long-term borrowings	464	(114)	(114)	(185)	5

(1) The net gains from Net derivative contracts and the net losses from Corporate and other debt resulted from market movements primarily associated with credit products and various credit linked instruments, respectively. The net gains Level 3 Net derivative contracts were primarily driven by certain credit default swaps and other instruments associated the Company s credit products and securitized products activities. The net losses in Level 3 Corporate and other debt primarily driven by certain asset-backed securities, including residential and commercial mortgage loans, and by corp loans and loan commitments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

These results are only a component of the overall trading strategies of these businesses and do not take into considerat related financial instruments that have been classified by the Company within the Level 1 and/or Level 2 categories. F example, the Company recorded offsetting net losses in Level 2 Net derivative contracts, which were primarily associa with the Company s credit products and securitized products activities.

The Company reclassified certain Corporate and other debt and Net derivative contracts from Level 2 to Level 3 becau certain significant inputs for the fair value measurement became unobservable. These reclassifications included transfe the fourth quarter primarily related to the continued market and liquidity deterioration in the mortgage markets. The m material transfers into Level 3 were in commercial whole loans, residuals from residential securitizations, and interest commercial mortgage and agency bonds as well as commercial and residential credit default swaps.

(2) Amounts represent Financial instruments owned derivative contracts net of Financial instruments sold, not yet purchased derivative contracts.

(3) The net gains from Financial instruments owned investments were primarily related to investments associated with th Company s real estate products and private equity portfolio.

(4) These assets were disposed of in connection with the Discover Spin-off.

The following table presents the amounts of unrealized gains or (losses) for the fiscal year ended November 2007 relating to those assets and liabilities for which the Company utilized significant Level 3 inputs to dete fair value and that were still held by the Company at November 30, 2007:

Fiscal 2007 Unrealized Gains (Losses) for Level 3 Assets and Liabilities Still Held at November 30, 200

	Fiscal Year Ended November 30, 200	
	Principal Transactions: Trading	Pri Trans Inves
	(dollars in millions	
Assets		
Financial instruments owned:		
U.S. government and agency securities	$ 49	$
Other sovereign government obligations	2	
Corporate and other debt	(4,528)	
Corporate equities	515	
Investments		
Net derivative contracts	(3,294)	
Liabilities		
Financial instruments sold, not yet purchased:		
Corporate and other debt	$ (455)	$
Corporate equities	(27)	
Long-term borrowings	(116)	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value Option.

The following table presents information about the eligible instruments for which the Company elected the f value option and for which a transition adjustment was recorded as of December 1, 2006:

	Carrying Value of Instrument at December 1, 2006	Transition Adjustment to Retained Earnings Gain/(Loss)	Carrying of Instru at Decembe (after Ad of SFAS N
		(dollars in millions)	
Financial instruments owned:			
Corporate lending(1)	$ 8,587	$ 16	$
Mortgage lending(2)	1,258	7	
Investments(3)	1,305	13	
Commercial paper and other short-term borrowings(4)	946	(1)	
Deposits(5)	3,143	1	
Long-term borrowings(4)	14,354	130	
Pre-tax cumulative effect of adoption of the fair value option		166	
Deferred taxes		64	
Cumulative effect of adoption of the fair value option		$ 102	

The transition adjustments were primarily related to the following:

(1) Loans and loan commitments made in connection with Institutional Securities corporate lending activities. The fair v option was elected for these positions as they are generally risk managed on a fair value basis.
(2) Certain mortgage lending products which are risk managed by the Institutional Securities business segment on a fair v basis. The Company did not elect the fair value option for other eligible mortgage lending products that were managed Discover business segment prior to the Discover Spin-off.
(3) Certain investments that had been previously accounted for under the equity method, as well as certain interests in clearinghouses. The fair value option was elected only for positions that are risk managed on a fair value basis.
(4) Structured notes and other hybrid long-term debt instruments. The fair value option was elected for these positions as risk managed on a fair value basis. The fair value option was elected for all such instruments issued after December 1, and a portion of the portfolio of instruments outstanding as of December 1, 2006. The fair value option was not electe the remaining portion of the portfolio that existed as of December 1, 2006 due to cost-benefit considerations, includin

operational effort involved.

(5) Brokered and callable certificates of deposit issued by certain of the Company s bank subsidiaries. The fair value opti elected for these positions as they are risk-managed on a fair value basis. The Company did not elect the fair value opt other eligible instruments within Deposits that were managed by the Discover business segment prior to the Discover Spin-off.

The following table presents gains and (losses) due to changes in fair value for items measured at fair value pursuant to the fair value option election for fiscal year ended November 30, 2007:

Fiscal year ended November 30, 2007	**Principal Transactions: Trading**	**Net Interest Revenue**	**Losses Inc the Y End Novemb 2007**
		(dollars in millions)	
Commercial paper and other short-term borrowings	$ (326)	$ (5)	$
Deposits	(5)		
Long-term borrowings	(481)	(366)	

(1) In addition to these amounts, as discussed in Note 2, all of the instruments within Financial instruments owned or Fina instruments sold, not yet purchased are measured at fair value, either through the election of SFAS No. 159 or as requ other accounting pronouncements. Changes in the fair value of these instruments are recorded in Principal transaction and Principal transactions investment revenues.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of November 30, 2007, the aggregate contractual principal amount of loans for which the fair value optio elected exceeded the fair value of such loans by approximately $28,880 million. The aggregate fair value of that were 90 or more days past due as of November 30, 2007 was $6,588 million. The aggregate contractual principal amount of such loans 90 or more days past due exceeded their fair value by approximately $23,501 million. This difference in amount primarily emanates from the Company s distressed debt trading business purchases distressed debt at amounts well below par.

For the fiscal year ended November 30, 2007, changes in the fair value of loans for which the fair value opti elected that were attributable to changes in instrument-specific credit spreads were losses of $2,258 million. Instrument-specific credit losses were determined by excluding the non-credit components of gains and loss such as those due to changes in interest rates.

For the fiscal year ended November 30, 2007, the estimated changes in the fair value of the Company s sho and long-term borrowings, including structured notes, for which the fair value option was elected that were attributable to changes in instrument-specific credit spreads were gains of approximately $840 million. This was attributable to the widening of the Company s credit spreads and was determined based upon observati the Company s secondary bond market spreads. As of November 30, 2007, the aggregate contractual princi amount of long-term debt instruments for which the fair value option was elected exceeded the fair value of instruments by approximately $1,572 million.

The estimated change in the fair value of other liabilities for which the fair value option was elected that wa attributable to changes in instrument-specific credit spreads was a loss of approximately $291 million in the year ended November 30, 2007. This loss was primarily related to leveraged loan contingent commitments a attributable to the illiquid market conditions that existed late in the year. It was generally determined based differential between estimated expected client yields at November 30, 2007 and contractual yields.

Financial Instruments Not Measured at Fair Value.

Some of the Company s financial instruments are not measured at fair value on a recurring basis but nevert are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial a and financial liabilities include: Cash and cash equivalents, the cash component of Cash and securities depo with clearing organizations or segregated under federal and other regulations or requirements, Securities pur under agreements to resell, Securities borrowed, Securities sold under agreements to repurchase, Securities l Receivables customers, Receivables brokers, dealers and clearing organizations, Payables customers, Payables brokers, dealers and clearing organizations, certain Commercial paper and other short-term borro and certain Deposits.

The Company s long-term borrowings are recorded at historical amounts unless elected under the SFAS No fair value election or designated as a hedged item in a fair value hedge under SFAS No. 133. The fair value Company s long-term borrowings was estimated using either quoted market prices or discounted cash flow based on the Company s current borrowing rates for similar types of borrowing arrangements. At Novembe 2007, the carrying value of the Company s long-term borrowings was approximately $3.3 billion higher tha value. At November 30, 2006, the carrying value of the Company s long-term borrowings was approximate billion less than fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Collateralized Transactions.

Securities purchased under agreements to resell (reverse repurchase agreements) and Securities sold unde agreements to repurchase (repurchase agreements), principally government and agency securities, are car amounts at which the securities subsequently will be resold or reacquired as specified in the respective agree such amounts include accrued interest. Reverse repurchase agreements and repurchase agreements are preser a net-by-counterparty basis, when appropriate. The Company s policy is to take possession of securities pur under agreements to resell. Securities borrowed and Securities loaned are carried at the amounts of cash coll advanced and received in connection with the transactions. Other secured financings include the liabilities re to transfers of financial assets that are accounted for as financings rather than sales, consolidated variable int entities where the Company is deemed to be the primary beneficiary and certain equity-referenced securities loans where in all instances these liabilities are payable solely from the cash flows of the related assets accou for as Financial instruments owned.

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

	At November 30, 2007	A Noven 20
	(dollars in million	
Financial instruments owned:		
U.S. government and agency securities	$ 7,134	$
Other sovereign government obligations	333	
Corporate and other debt	32,530	
Corporate equities	1,133	
Total	$ 41,130	$

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle oth securities obligations, to accommodate customers needs and to finance the Company s inventory positions Company also engages in securities financing transactions for customers through margin lending. Under thes agreements and transactions, the Company either receives or provides collateral, including U.S. government agency securities, other sovereign government obligations, corporate and other debt, and corporate equities. Company receives collateral in the form of securities in connection with reverse repurchase agreements, secu borrowed and derivative transactions, and customer margin loans. In many cases, the Company is permitted or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter securities lending and derivative transactions or for delivery to counterparties to cover short positions. At November 30, 2007 and November 30, 2006, the fair value of securities received as collateral where the Cor is permitted to sell or repledge the securities was $948 billion and $942 billion, respectively, and the fair val the portion that had been sold or repledged was $708 billion and $780 billion, respectively.

The Company additionally receives securities as collateral in connection with certain securities for securities transactions in which the Company is the lender. In instances where the Company is permitted to sell or repl these securities, the Company reports the fair value of the collateral received and the related obligation to ret the collateral in the consolidated statement of financial condition. At November 30, 2007 and November 30,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2006, $82 billion and $65 billion, respectively, were reported as Securities received as collateral and an Obli to return securities received as collateral in the consolidated statements of financial condition. Collateral rece in connection with these transactions that was subsequently repledged was approximately $72 billion and $4 billion at November 30, 2007 and November 30, 2006, respectively.

The Company manages credit exposure arising from reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Company, in the event o customer default, the right to liquidate collateral and the right to offset a counterparty s rights and obligatio 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 transactio adequately collateralized. Where deemed appropriate, the Company s agreements with third parties specify 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, adherence to the Company s collateral policies significantly limits the Company s credit exposure in the event of customer d The Company may request additional margin collateral from customers, if appropriate, and, if necessary, ma securities that have not been paid for or purchase securities sold but not delivered from customers.

5. Securitization Activities and Variable Interest Entities.

Securitization Activities. The Company engages in securitization activities related to commercial and resid mortgage loans, U.S. agency collateralized mortgage obligations, corporate bonds and loans, municipal bond other types of financial assets. Special purpose entities (SPEs), also known as variable interest entities (typically used in such securitization transactions. Transferred assets are carried at fair value prior to securitiz and any changes in fair value are recognized in the consolidated statements of income. The Company may a underwriter of the beneficial interests issued by securitization vehicles. Underwriting net revenues are recog in connection with these transactions. The Company may retain interests in the securitized financial assets a or more tranches of the securitization. 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 th consolidated statements of income. Retained interests in securitized financial assets were approximately $5.3 billion at November 30, 2007, the majority of which were related to residential mortgage loan, commercial mortgage loan and U.S. agency collateralized mortgage obligation securitization transactions. Net gains at th of securitization were not material in fiscal 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents information on the Company s residential mortgage loan, commercial mortgag and U.S. agency collateralized mortgage obligation securitization transactions. Key economic assumptions a sensitivity of the current fair value of the retained interests to immediate 10% and 20% adverse changes in th assumptions at November 30, 2007 were as follows (dollars in millions):

	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Age Collateral Mortga Obligati
Investment grade retained interests	$ 2,048	$ 678	$
Non-investment grade retained interests	1,167	406	
Total retained interests (carrying amount/fair value)	$ 3,215	$ 1,084	$
Weighted average life (in months)	49	57	
Range	1-322	0.5-139	1
Weighted average discount rate (per annum)	12.55%	8.48%	
Range	1.12-74.10%	3.00-16.83%	0.75-1
Impact on fair value of 10% adverse change	$ (114)	$ (14)	$
Impact on fair value of 20% adverse change	$ (218)	$ (28)	$
Weighted average credit losses (rate per annum)	4.52%	3.24%	
Range	0.00-12.00%	0.00-13.69%	0.00-
Impact on fair value of 10% adverse change	$ (215)	$ (5)	$
Impact on fair value of 20% adverse change	$ (371)	$ (10)	$
Weighted average prepayment speed assumption (PSA)(1)(2)	1,173		
Range	188-2,250PSA		167-718
Impact on fair value of 10% adverse change	$ (118)	$	$
Impact on fair value of 20% adverse change	$ (194)	$	$

(1) Amounts for residential mortgage loans exclude positive valuation effects from immediate 10% and 20% changes.
(2) Commercial mortgage loans typically contain provisions that either prohibit or economically penalize the borrower fro prepaying the loan for a specified period of time.

The weighted average assumptions and parameters used initially to value retained interests in relation to securitizations that were still held by the Company as of November 30, 2007 were as follows:

	Residential Mortgage Loans	Commercial Mortgage Loans	U.S. Age Collatera Mortga Obligati
Weighted average life (in months)	45	64	

Weighted average discount rate (rate per annum)	9.51%	6.87%
Weighted average credit losses (rate per annum)	2.23%	1.54%
Weighted average prepayment speed assumptions	1,842	

The tables above do not include the offsetting benefit of any financial instruments that the Company may uti
hedge risks inherent in its retained interests. In addition, the sensitivity analysis is hypothetical and should b
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
Also, the effect of a variation in a particular assumption on the fair value of the retained interests is calculate
independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. In addition, the sensitivity analysis does not co
any corrective action that the Company may take to mitigate the impact of any adverse changes in the key assumptions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During fiscal 2007, fiscal 2006 and fiscal 2005, the Company received proceeds from new securitization transactions of $64 billion, $68 billion and $65 billion, respectively, and cash flows from retained interests i securitization transactions of $6.0 billion, $6.0 billion and $7.1 billion, respectively.

Mortgage Servicing Rights. The Company may retain servicing rights to certain mortgage loans that are s through its securitization activities. These transactions create an asset referred to as MSRs, which are includ within Intangible assets in the consolidated statements of financial condition.

The following table presents information about the Company s MSRs, which relate to its mortgage loan bus activities (dollars in millions):

	Fisca 2007
Fair value as of the beginning of the period	$ 9
Additions:	
Purchases of servicing assets(1)	30
Servicing assets that result from transfers of financial assets	54
Total additions	85
Subtractions:	
Sales/disposals	(37
Changes in fair value(2)	(14
Fair value as of the end of the period	$ 42
Amount of contractually specified(2):	
Servicing fees	$ 17
Late fees	2
Ancillary fees	
	$ 19

(1) Amount includes MSRs obtained in connection with the Company s acquisition of Saxon Capital, Inc. (see Note 23).
(2) These amounts are recorded within Other revenues in the Company s consolidated statements of income.

	Fiscal 2007
Assumptions Used in Measuring Fair Value:	

Weighted average discount rate	18.11
Weighted average prepayment speed assumption	713PSA

The Company generally utilizes information provided by third parties in order to determine the fair value of MSRs. The valuation of MSRs consist of projecting servicing cash flows and discounting such cash flows us appropriate risk-adjusted discount rate. These valuations require estimation of various assumptions, includin future servicing fees, credit losses and other related costs, discount rates and mortgage prepayment speeds. T Company also compares the estimated fair values of the MSRs from the valuations with observable trades of similar instruments or portfolios. Due to subsequent changes in economic and market conditions, the actual r prepayments, credit losses and the value of collateral may differ significantly from the Company s original estimates. Such differences could be material. If actual prepayment rates and credit losses were higher than t assumed, the value of the Company s MSRs could be adversely affected. The Company may hedge a portio MSRs through the use of financial instruments, including certain derivative contracts.

Variable Interest Entities. FASB Interpretation No. 46, as revised (FIN 46R), Consolidation of Varial Entities, applies to certain entities in which equity investors do not have the characteristics of a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities with additional subordinated financial support from other parties. The primary beneficiary of a VIE is the party that absorbs a majority of the entity s expected losses, receives a majority of its expected residual returns or both as a result of holding variable interests. The Company consolidates entities in which it is the primary beneficiary. For those entities deemed to be qualifying special purpose entities (as defined in SFAS No. 140), the Company does not consolidate the entity. See Note 1 regarding the characteristics of qualifying special purpose entities.

The Company is involved with various entities in the normal course of business that may be deemed to be VIEs. The Company s variable interests in VIEs include debt and equity interests, commitments, guarantees and derivative instruments. The Company s involvement with VIEs arises primarily from:

- Purchased, sold and retained interests in connection with market making and securitization activities.
- Guarantees issued and residual interests retained in connection with municipal bond securitizations.
- Loans and investments made to VIEs that hold debt, equity, real estate or other assets.
- Derivatives entered into with variable interest entities.
- Structuring of credit linked notes or other asset-repackaged notes designed to meet the investment objectives of clients.
- Other structured transactions designed to provide enhanced, tax-efficient yields to the Company or its clients.

The following table sets forth the Company s total assets and maximum exposure to loss associated with VIEs the Company consolidated at November 30, 2007. The Company accounts for the assets held by the entities as Financial instruments owned and the liabilities of the entities as Other secured financings in the consolidated statement of financial condition (dollars in millions):

	As of November 30, 2007			
		Maximum Exposure to Loss in Consolidated V		
	VIE Assets That the Company Consolidates	Debt and Equity Interests	Derivatives	Commitments and Guarantees

Mortgage and asset-backed securitizations	$ 5,916	$ 1,746	$ 4	$	$
Municipal bond trusts	828	1		827	
Credit and real estate(2)	5,130	2,515	3,320		
Commodities financing	1,170		328		
Other structured transactions	9,403	8,868		9	
	$ 22,447	$ 13,130	$ 3,652	$ 836	$

(1) The Company s maximum exposure to loss often differs from the carrying value of the VIE s assets. The maximum to loss is dependent on the nature of the Company s variable interest in the VIEs and is limited to the notional amoun certain liquidity facilities, other credit support, total return swaps, written put options, and the fair value of certain oth derivatives and investments the Company has made in the VIEs. Where notional amounts are utilized in quantifying maximum exposure related to derivatives, such amounts do not reflect writedowns already recorded by the Company. Company s maximum exposure to loss does not include the offsetting benefit of any financial instruments that the Co may utilize to hedge these risks associated with the Company s variable interests.

(2) The Company s maximum exposure to loss associated with Credit and real estate VIEs exceeds the consolidated asse these entities. This is due to the inclusion in this category of certain VIEs that typically hold a limited amount of non-derivative security positions and instead obtain market exposure through the use of derivatives. Given the use of s derivatives, the risk of loss associated with such entities typically exceeds the carrying value of their assets. The Comp maximum exposure to loss associated with such consolidated variable interest entities is generally limited to the notion amount of the Company s derivatives entered into with the VIE and the fair value of any non-derivative security posi held by the Company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the Company s total assets and maximum exposure to loss associated with non-consolidated VIEs in which the Company had significant variable interests at November 30, 2007 (dolla millions):

		As of November 30, 2007			
	VIE Assets That the Company Does not Consolidate	Maximum Exposure to Loss in Non-consolidated V			
		Debt and Equity Interests	Derivatives	Commitments and Guarantees	
Mortgage and asset-backed securitizations	$ 7,234	$ 155	$ 125	$	$
Credit and real estate	20,265	12,987	200	68	
Other structured transactions	10,218	1,967		474	
	$ 37,717	$ 15,109	$ 325	$ 542	$

(1) The Company s maximum exposure to loss often differs from the carrying value of the VIE s assets. The maximum to loss is dependent on the nature of the Company s variable interest in the VIEs and is limited to the notional amoun certain liquidity facilities, other credit support, total return swaps, written put options, and the fair value of certain oth derivatives and investments the Company has made in the VIEs. Where notional amounts are utilized in quantifying maximum exposure related to derivatives, such amounts do not reflect writedowns already recorded by the Company. Company s maximum exposure to loss does not include the offsetting benefit of any financial instruments that the Co may utilize to hedge these risks associated with the Company s variable interests.

At November 30, 2006, in connection with its Institutional Securities business, the aggregate size of VIEs fo which the Company was the primary beneficiary of the entities was approximately $20.4 billion, which is th carrying amount of the consolidated assets recorded as Financial instruments owned that are collateral for th entities obligations. At November 30, 2006, also in connection with its Institutional Securities business, the aggregate size of the entities for which the Company holds significant variable interests was approximately $ billion.

6. Sales and Trading Activities.

The Company s institutional sales and trading activities are conducted through the integrated management o client-driven and proprietary transactions along with the hedging and financing of these positions. Sales and trading activities include revenues from customer purchases and sales of financial instruments in which the Company acts as principal and gains and losses on the Company s positions. The Company also engages in proprietary trading activities for its own account. Revenues from sales and trading activities are reflected in Principal transactions trading, Commissions, Interest and dividends, and Interest expense in the consolidate statement of income.

The Company s trading portfolios are managed with a view toward the risk and profitability of the portfolio following discussions of risk management, market risk, credit risk, concentration risk and customer activities to the Company s sales and trading activities.

Risk Management. The cornerstone of the Company s risk management philosophy is protection of the Company s franchise, reputation and financial standing. The Company s risk management philosophy is ba the following principles: comprehensiveness, independence, accountability, defined risk tolerance and transparency. Given the importance of effective risk management to the Company s reputation, senior mana requires thorough and frequent communication and appropriate escalation of risk matters.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Risk management at the Company requires independent Company-level oversight, accountability of the Con business segments, constant communication, judgment, and knowledge of specialized products and markets. Company s senior management takes an active role in the identification, assessment and management of va risks at both the Company and business segment level. In recognition of the increasingly varied and comple nature of the global financial services business, the Company s risk management philosophy, with its attend policies, procedures and methodologies, is evolutionary in nature and subject to ongoing review and modific

The nature of the Company s risks, coupled with this risk management philosophy, informs the Company s governance structure. The Company s risk governance structure includes the Firm Risk Committee, the Cap Structure and Strategic Transactions Committee, the Chief Risk Officer, the Internal Audit Department, independent control groups, and various risk control managers, committees and groups located within and ac the business segments.

The Firm Risk Committee, composed of the Company s most senior officers, oversees the Company s risk management structure. The Firm Risk Committee s responsibilities include oversight of the Company s ris management principles, procedures and limits, and the monitoring of material financial, operational and fran risks. The Firm Risk Committee is overseen by the Audit Committee of the Board of Directors (the Audit Committee). The Capital Structure and Strategic Transactions Committee (the Capital Committee) revie strategic transactions for the Company and significant changes to the Company s capital structure. The Cap Committee s responsibilities include reviewing measures of capital and evaluating capital resources relative Company s risk profile and strategy.

The Chief Risk Officer, a member of the Firm Risk Committee, oversees compliance with Company risk lim approves certain excessions of Company risk limits; reviews material market, credit and operational risks; a reviews results of risk management processes with the Audit Committee.

The Internal Audit Department provides independent risk and control assessment and reports to the Audit Committee and administratively to the Chief Legal Officer. The Internal Audit Department periodically exa the Company s operational and control environment and conducts audits designed to cover all major risk ca

The Market Risk, Credit Risk, Operational Risk, Financial Control, Treasury, and Legal and Compliance Departments (collectively, the Company Control Groups), which are all independent of the Company s b units, assist senior management and the Firm Risk Committee in monitoring and controlling the Company s through a number of control processes. 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.

Each business segment has a risk committee that is responsible for ensuring that the business segment, as applicable, adheres to established limits for market, credit, operational and other risks; implements risk measurement, monitoring, and management policies and procedures that are consistent with the risk framew established by the Firm Risk Committee; and reviews, on a periodic basis, its aggregate risk exposures, risk exception experience, and the efficacy of its risk identification, measurement, monitoring and management p and procedures, and related controls.

Each of the Company s business segments also has designated operations officers, committees and groups, including operations and information technology groups (collectively, Segment Control Groups and, toge

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

with the Company Control Groups, the Control Groups) to manage and monitor specific risks and report t business segment risk committee. The Control Groups work together to review the risk monitoring and risk management policies and procedures relating to, among other things, the business segment s market, credit operational risk profile, sales practices, reputation, legal enforceability, and operational and technological ris Participation by the senior officers of the Control Groups helps ensure that risk policies and procedures, exc to risk limits, new products and business ventures, and transactions with risk elements undergo a thorough re

Market Risk. Market risk refers to the risk that a change in the level of one or more market prices, rates, in implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlation 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 its major trading divisions worldwide (equity and fixed income, which in interest rate products, credit products, foreign exchange and commodities). 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 accordanc policies set by senior management.

The Market Risk Department independently reviews the Company s trading portfolios on a regular basis fro market risk perspective utilizing Value-at-Risk and other quantitative and qualitative risk measures and anal The Company s trading businesses and the Market Risk Department also use, as appropriate, measures such sensitivity to changes in interest rates, prices, implied volatilities and time decay to monitor and report mark exposures. Stress testing, which measures the impact on the value of existing portfolios of specified changes market factors for certain products, is performed periodically and is reviewed by trading division risk manag desk risk managers and the Market Risk Department. The Market Risk Department also conducts scenario analyses, which estimate the Company s revenue sensitivity to a set of specific, predefined market and geop events.

Credit Risk. Credit risk refers to the risk of loss arising from borrower or counterparty default when a borr counterparty or obligor does not meet its financial obligations. The Company incurs significant, single nam risk exposure through the Institutional Securities business. This type of risk requires credit analysis of specif counterparties, both initially and on an ongoing basis.

The Institutional Credit Department (Institutional Credit) manages credit risk exposure for the Institutiona Securities business. Institutional Credit is responsible for ensuring transparency of material credit risks, ensu compliance with established limits, approving material extensions of credit, and escalating risk concentratio appropriate senior management.

Concentration Risk. The Company is subject to concentration risk by holding large positions in certain typ securities, loans or commitments to purchase securities of a single issuer, including sovereign governments a 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 Compa include U.S. government and agency securities and securities issued by other sovereign governments (princi Japan, United Kingdom, Germany and Brazil), which, in the aggregate, represented approximately 4% of the Company s total assets at November 30, 2007. In addition, substantially all of the collateral held by the Com for resale agreements or bonds borrowed, which together represented approximately 19% of the Company s assets at November 30, 2007, consist of securities issued by the U.S. government, federal agencies or other

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sovereign government obligations. Positions taken and commitments made by the Company, including posit taken and underwriting and financing commitments made in connection with its private equity, principal investment and lending activities, often involve substantial amounts and significant exposure to individual is and businesses, including non-investment grade issuers. In addition, the Company may originate or purchase certain residential and commercial mortgage loans that could contain certain terms and features that may res additional credit risk as compared with more traditional types of mortgages. Such terms and features may inc loans made to borrowers subject to payment increases or loans with high loan-to-value ratios. The Company to limit concentration risk through the use of the systems and procedures described in the preceding discussi risk management, market risk and credit risk.

Customer Activities. The Company s customer activities involve the execution, settlement and financing o 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 m basis.

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

Derivative Contracts. The amounts in the following table represent the fair value of exchange traded and O options and other contracts (including interest rate, foreign exchange, and other forward contracts and swaps Derivatives included are held for trading and investment, as well as for asset and liability management. Deri are disclosed net of offsetting positions in situations where netting is appropriate. The asset amounts are not reported net of non-cash collateral, which the Company obtains with respect to certain of these transactions t reduce its exposure to credit losses.

Credit risk with respect to derivative instruments arises from the failure of a counterparty to perform accordi the terms of the contract. The Company s exposure to credit risk at any point in time is represented by the fa 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 s derivatives (both listed and OTC), net of cash collateral, at November 30, 2007 and Novem 2006 are summarized in the table below, showing the fair value of the related assets and liabilities by produc

Product Type	At November 30, 2007 Assets	Liabilities	At November 3 Assets	Li
	(dollars in millions)			
Interest rate and currency swaps, interest rate options, credit derivatives and other fixed income securities contracts	$ 33,804	$ 19,515	$ 19,444	$
Foreign exchange forward contracts and options	7,755	9,372	7,325	
Equity securities contracts (including equity swaps, warrants and options)	19,913	27,887	16,705	
Commodity forwards, options and swaps	15,531	14,830	11,969	
Total	$ 77,003	$ 71,604	$ 55,443	$

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Consumer Loans.

Consumer loans, which primarily related to general purpose credit card and consumer installment loans of D
were as follows:

	At November 30 2006 (dollars in millio
General purpose credit card and consumer installment	$ 23,7
Less:	
Allowance for consumer loan losses	8
Consumer loans, net	$ 22,9

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

	Fiscal 2006	F
	(dollars in millio	
Balance at beginning of period	$ 838	$
Additions:		
Provision for consumer loan losses(1)	756	
Purchase of consumer loans(2)	55	
Deductions:		
Charge-offs	(1,001)	(
Recoveries(1)	174	
Net charge-offs	(827)	
Translation adjustments and other	9	
Balance at end of period	$ 831	$

(1) Amounts included in discontinued operations.
(2) Amounts relate to the Company s acquisition of Goldfish (see Note 23) and other acquisitions.

At November 30, 2006, $5,570 million of the Company s consumer loans had minimum contractual maturit less than one year. Because of the uncertainty regarding consumer loan repayment patterns, which historical been higher than contractually required minimum payments, this amount may not have necessarily been indi of the Company s actual consumer loan repayments.

The Company received net proceeds from consumer loan sales of $5,301 million in fiscal 2007 through the d the Discover Spin-off. The Company received net proceeds from consumer loan sales of $11,532 million and $10,525 million in fiscal 2006 and fiscal 2005, respectively.

The Company s U.S. consumer loan portfolio as of November 30, 2006, including securitized loans, was geographically diverse, with a distribution approximating that of the population of the U.S.

At November 30, 2006, $2.3 billion of the Company s consumer loans were classified as held for sale. On J 2007, the Company completed the Discover Spin-off (see Note 22 for further information).

Credit Card Securitization Activities. The Company s retained interests in Discover s credit card asset securitizations included undivided seller s interests, accrued interest receivable on securitized credit card

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

receivables, cash collateral accounts, servicing rights, rights to any excess cash flows (Residual Interests) remaining after payments to investors in the securitization trusts of their contractual rate of return and reimbursement of credit losses, and other retained interests. The undivided seller s interests less an applicab allowance for loan losses were recorded in Consumer loans. The Company s undivided seller s interests ra *passu* with investors interests in the securitization trusts, and the remaining retained interests were subordi investors interests. Accrued interest receivable and certain other subordinated retained interests were recor Other assets at amounts that approximated fair value. The Company received annual servicing fees of 2% of investor principal balance outstanding. The Company did not recognize servicing assets or servicing liabiliti servicing rights as the servicing contracts provided just adequate compensation, as defined in SFAS No. 140 Company for performing the servicing. Residual Interests and cash collateral accounts were recorded in Oth assets and reflected at fair value. The retained interests were subject to credit, payment and interest rate risks transferred credit card assets. The investors and the securitization trusts had no recourse to the Company s c assets for failure of cardmembers to pay when due.

The uncollected balances of securitized general purpose credit card loans were $26.7 billion at November 30 2006.

The Company no longer has retained interests in Discover s credit card asset securitizations after the compl the Discover Spin-off on June 30, 2007.

8. Other Investments.

Other investments of $4,524 million and $3,232 million as of November 30, 2007 and November 30, 2006, respectively, primarily include investments in unconsolidated investees that are accounted for under the equi method of accounting (see Note 9).

Beginning in the second quarter of fiscal 2007, the Company purchased certain debt securities that were clas as securities available for sale in accordance with SFAS No. 115, Accounting for Certain Investments in Equity Securities (SFAS No. 115). During fiscal 2007, $4.3 billion of securities available for sale were s loss of $74 million. In the fourth quarter of fiscal 2007, the Company determined that it no longer intends to the remaining securities in this portfolio until the fair value of the securities recover to a level that exceeds th initial cost. Accordingly, the Company recorded an other-than-temporary impairment charge of $437 millio Principal transactions-trading revenues in the consolidated statement of income on these securities in the fou quarter of fiscal 2007 and reclassified $8.1 billion to Financial instruments owned in the consolidated statem financial condition effective November 30, 2007. This other-than-temporary impairment charge represented unrealized losses for these securities.

9. Investments in Unconsolidated Investees.

The Company invests in unconsolidated investees that own synthetic fuel production plants and in certain structured transactions not integral to the operations of the Company. The Company accounts for these inves under the equity method of accounting.

Losses from these investments were $47 million, $40 million and $311 million in fiscal 2007, fiscal 2006 an fiscal 2005, respectively.

Synthetic Fuel Production Plants. The Company s share of the operating losses generated by these inves is recorded within (Losses) gains from unconsolidated investees, and the tax credits and the tax benefits asso with these operating losses are recorded within the Provision for income taxes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below provides information regarding the losses from unconsolidated investees, tax credits and tax benefits on the losses:

	Fiscal Ye	
	2007	2006
	(dollars in mi	
Losses from unconsolidated investees	$ 140	$ 225
Tax credits	113	156
Tax benefits on losses	55	89

Synthetic fuels tax credits were granted under Section 45K of the Internal Revenue Code. Synthetic fuels tax credits were available in full only when the price of oil was less than a base price specified by the tax code, a adjusted for inflation (Base Price). The Base Price for each calendar year is determined by the Secretary o Treasury by April 1 of the following year. If the annual average price of a barrel of oil in 2007 exceeds the applicable Base Price, the synthetic fuels tax credits generated by the Company s synthetic fuel facilities wi phased out, on a ratable basis, over the phase-out range. Synthetic fuels tax credits realized in prior years are affected by this limitation. Based on fiscal year to date and futures prices at November 30, 2007, the Compa estimates that there will be a partial phase-out of tax credits earned in fiscal 2007. The impact of this anticip partial phase-out is included within (Losses) gains from unconsolidated investees and the Provision for inco taxes for the fiscal year ended November 30, 2007. Under current tax law, the Section 45K synthetic fuels ta credits expired on December 31, 2007.

The Company had entered into derivative contracts designed to reduce its exposure to rising oil prices and th potential phase-out of the synthetic fuels tax credits. Changes in fair value relative to these derivative contra included within Principal transactions trading revenues.

Structured Transactions. Gains from unconsolidated investees associated with investments in certain stru investments were $93 million in fiscal 2007 and $185 million in fiscal 2006.

10. Goodwill and Net Intangible Assets.

The Company completed its annual goodwill impairment testing, in accordance with SFAS No. 142, Good Other Intangible Assets (SFAS No. 142), as of December 1, 2006 and December 1, 2005. During the qu August 31, 2007, the Company changed the date of its annual goodwill impairment testing to June 1 in orde move the impairment testing outside of the Company s normal year-end reporting process to a date when re are less constrained. The Company believes that the resulting change in accounting principle related to the a testing date will not delay, accelerate or avoid an impairment charge. Goodwill impairment tests performed a

June 1, 2007 and December 1, 2006 and December 1, 2005 concluded that no impairment charges were requ
of those dates. The Company determined that the change in accounting principle related to the annual testing
is preferable under the circumstances and does not result in adjustments to the Company s financial stateme
when applied retrospectively. Additionally, due to the deterioration in the Company s subprime-related acti
the Company performed an interim impairment test of goodwill subsequent to its annual testing date of June
which did not result in an impairment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in the carrying amount of the Company s goodwill and intangible assets for fiscal 2007 and fiscal
were as follows:

	Institutional Securities	Global Wealth Management Group	Asset Management	Discover	
			(dollars in millions)		
Goodwill:					
Balance as of November 30, 2005	$ 444	$ 540	$ 966	$ 256	$
Foreign currency translation adjustments		49		31	
Goodwill acquired during the year(1)	257		2	247	
Balance as of November 30, 2006	701	589	968	534	
Foreign currency translation adjustments		18		2	
Goodwill acquired during the year(2)	862	3	207		
Goodwill disposed of during the year(3)	(8)	(313)	(3)	(536)	
Balance as of November 30, 2007	$ 1,555	$ 297	$ 1,172	$	$
Intangible assets:					
Balance as of November 30, 2005	$ 227	$	$	$ 67	$
Intangible assets acquired during the year and other(1)(4)	253		4	130	
Foreign currency translation adjustments				16	
Amortization expense(5)	(33)		(1)	(12)	
Balance as of November 30, 2006	447		3	201	
Intangible assets acquired during the year(2)	473		242	5	
Intangible assets disposed of during the year(3)	(49)		(3)	(200)	
Amortization expense(5)	(57)		(9)	(6)	
Balance as of November 30, 2007	$ 814	$	$ 233	$	$

(1) Institutional Securities activity primarily represents goodwill and intangible assets acquired in connection with the Co
acquisition of TransMontaigne Inc., Heidmar Group and Morgan Stanley Bank International (China) Limited (formerl
Tung Bank Ltd. Zhuhai). Discover activity represents goodwill and intangible assets acquired in connection with the
Company s acquisition of Goldfish and other acquisitions (see Note 23).

(2) Institutional Securities activity primarily represents goodwill and intangible assets acquired in connection with the
Company s joint venture with JM Financial and the Company s acquisitions of Saxon Capital, Inc. and CityMortgag
Bank. Asset Management activity primarily represents goodwill and intangible assets acquired in connection with the
Company s acquisition of FrontPoint Partners (see Note 23).

(3)

Global Wealth Management Group activity primarily represents goodwill disposed of in connection with the Compan
of Quilter. Discover activity represents goodwill and intangible assets disposed of in connection with the Discover Sp
(see Note 22).

(4) Effective December 1, 2006, mortgage servicing rights have been included in net intangible assets. During fiscal 2006
amounts were reclassified to conform with the current presentation. See Note 5 for further information on the Compar
mortgage servicing rights.

(5) Amortization expense for Discover is included in discontinued operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortizable intangible assets were as follows:

	At November 30, 2007		At November 30,	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accu Amo
		(dollars in millions)		
Amortizable intangible assets:				
Trademarks	$ 129	$ 22	$ 193	$
Technology-related	151	75	153	
Customer relationships	140	22	214	
Management contracts	220	8		
Other	154	48	107	
Total amortizable intangible assets	$ 794	$ 175	$ 667	$

Amortization expense associated with intangible assets is estimated to be approximately $49 million per yea the next five fiscal years.

11. Deposits.

Deposits were as follows:

	At November 30, 2007	Novem 20
	(dollars in million	
Demand, passbook and money market accounts	$ 27,186	$
Consumer certificate accounts(1)	3,993	
$100,000 minimum certificate accounts		
Total	$ 31,179	$

(1) Certain consumer certificate accounts are carried at fair value under the fair value option (see Note 3).

The weighted average interest rates of interest-bearing deposits outstanding during fiscal 2007 and fiscal 200
were 3.6% and 4.4%, respectively.

At November 30, 2007, interest-bearing deposits maturing over the next five years were as follows:

Fiscal Year	(dollars in millio
2008	$ 30,9
2009	
2010	
2011	
2012	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Commercial Paper and Other Short-Term Borrowings.

The table below summarizes certain information regarding commercial paper and other short-term borrowin fiscal 2007 and fiscal 2006:

	At November 3	
	2007	2(
	(dollars in millior	
Commercial paper:		
Balance at year-end	$ 22,596	$ 22
Average amount outstanding	$ 25,362	$ 23
Weighted average interest rate on year-end balance	4.8%	
Other short-term borrowings(1)(2):		
Balance at year-end	$ 11,899	$ 6
Average amount outstanding	$ 8,947	$ 7

(1) These borrowings included bank loans, Federal Funds and bank notes.
(2) Certain structured short-term borrowings are carried at fair value under the fair value option. See Note 3 for additional information.

The Company maintains a senior revolving credit agreement with a group of banks to support general liquid needs, including the issuance of commercial paper, which consists of three separate tranches: a U.S. dollar tr a Japanese yen tranche; and a multicurrency tranche available in both euro and British pound, all of which ex with the Company as the sole borrower. Under this combined facility (the Credit Facility), the banks are c to provide up to $7.6 billion under the U.S. dollar tranche, 80 billion Japanese yen under the Japanese yen tr and $3.25 billion under the multicurrency tranche. The Credit Facility expires on April 16, 2008 and include a term-out feature that allows the Company, at its option, to extend borrowings under the Credit Facility for additional one year beyond the expiration date. At November 30, 2007, the Company had a $13.8 billion consolidated stockholders equity surplus as compared with the Credit Facility s covenant requirement.

The Company anticipates that it may utilize the Credit Facility for short-term funding from time to time. The Company does not believe that any of the covenant requirements in its Credit Facility will impair the ability obtain funding under the Credit Facility, pay its current level of dividends, or obtain loan arrangements, lette credit and other financial guarantees or other financial accommodations. At November 30, 2007, no borrowi were outstanding under the Credit Facility.

The Company also maintains a committed bilateral credit facility to support general liquidity needs. This fac expected to be drawn from time to time to cover short-term funding needs.

In addition, the Company, through several of its subsidiaries, maintains several funded committed credit faci to support various businesses, including the collateralized commercial and residential mortgage whole loan, derivative contracts, warehouse lending, emerging market loan, structured product, corporate loan, investme banking and prime brokerage businesses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. 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 3	
	Fixed Rate	Floating Rate(2)	Index Linked(3)	Fixed Rate	Floating Rate(2)	Index Linked(3)	2007 Total(4)	20 Tota
				(dollars in millions)				
Due in fiscal 2007	$	$	$	$	$	$	$	$ 18
Due in fiscal 2008	1,592	17,679	5,305	1,339	4,136	757	30,808	33
Due in fiscal 2009	1,993	11,717	2,923	3,134	1,041	2,735	23,543	11
Due in fiscal 2010	3,709	5,499	3,204	2,309	1,538	3,279	19,538	11
Due in fiscal 2011	5,786	1,795	1,119	1,930	728	1,696	13,054	11
Due in fiscal 2012	6,958	2,600	1,658	5,118	6,262	4,051	26,647	13
Thereafter	24,337	6,001	3,227	14,467	17,024	11,978	77,034	44
Total	$ 44,375	$ 45,291	$ 17,436	$ 28,297	$ 30,729	$ 24,496	$ 190,624	$ 144
Weighted average coupon at fiscal year-end	5.6%	5.2%	n/a	4.3%	4.8%	n/a	5.0%	

(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 Lo Interbank Offered Rates (LIBOR) and Federal Funds rates. Non-U.S. dollar contractual floating rate borrowings be based primarily on Euribor floating rates.
(3) Amounts include borrowings that are equity-linked, credit-linked, commodity-linked or linked to some other index.
(4) Amounts include an increase of approximately $164 million at November 30, 2007 and a decrease of approximately $ million at November 30, 2006 to the carrying amount of certain of the Company s long-term borrowings associated w value hedges under SFAS No. 133.

The Company s long-term borrowings included the following components:

At Novembe

	2007	
	(dollars in mil	
Senior debt	$ 181,733	$ 1
Subordinated debt	4,015	
Junior subordinated debentures	4,876	
Total	$ 190,624	$ 1

Senior debt securities often are denominated in various non-U.S. dollar currencies and may be structured to provide a return that is equity-linked, credit-linked, commodity-linked or linked to some other index (e.g., th consumer price index). Senior debt also may be structured to be callable by the Company or extendible at th option of holders of the senior debt securities. Debt containing provisions that effectively allow the holders t or extend the notes aggregated $6,736 million at November 30, 2007 and $16,016 million at November 30, 2 Subordinated debt and junior subordinated debentures typically are issued to meet the capital requirements o Company or its regulated subsidiaries and primarily are U.S. dollar denominated.

Senior Debt Structured Borrowings. The Company s index-linked, equity-linked or credit-linked borrov include various structured instruments whose payments and redemption values are linked to the performance specific index (e.g., Standard & Poor s 500), a basket of stocks, a specific equity security, a credit exposure basket of credit exposures. To minimize the exposure resulting from movements in the underlying index, equ

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

credit or other position, the Company has entered into various swap contracts and purchased options that effectively convert the borrowing costs into floating rates based upon LIBOR. These instruments are include the preceding table at their redemption values based on the performance of the underlying indices, baskets o stocks, or specific equity securities, credit or other position or index. The Company accounts for these struct borrowings containing embedded derivatives which, prior to the adoption of SFAS No. 159, were bifurcated the hybrid notes and accounted for at fair value. Effective December 1, 2006, the Company applied the fair v election in certain cases to these hybrid notes. The swaps and purchased options used to economically hedge embedded features are derivatives, and also are carried at fair value. Changes in fair value related to the note economic hedges are reported in Principal transactions trading revenues.

Subordinated Debt and Junior Subordinated Debentures. Included in the Company s long-term borrowi subordinated notes (including the Series F notes issued by MS&Co. discussed below) of $4,015 million havi contractual weighted average coupon of 4.77% at November 30, 2007 and $3,881 million having a weighted average coupon of 4.77% at November 30, 2006. Junior subordinated debentures outstanding by the Compa were $4,876 million at November 30, 2007 and $4,884 million at November 30, 2006 having a contractual weighted average coupon of 6.37% at November 30, 2007 and 6.51% at November 30, 2006. Maturities of t subordinated and junior subordinated notes range from fiscal 2011 to fiscal 2046. Maturities of certain junio subordinated debentures can be extended to 2067 at the Company s option.

At November 30, 2007, MS&Co. had a $25 million 7.82% fixed rate subordinated Series F note outstanding note matures in fiscal 2016. The terms of the note contain restrictive covenants that require, among other thi MS&Co. to maintain specified levels of Consolidated Tangible Net Worth and Net Capital, each as defined therein. As of November 30, 2007, MS&Co. was in compliance with these restrictive covenants.

Asset and Liability Management. In general, securities inventories not financed by secured funding sourc the majority of current assets are financed with a combination of short-term funding, floating rate long-term fixed rate long-term debt swapped to a floating rate. Fixed assets are financed with fixed rate long-term debt Company uses interest rate swaps to more closely match these borrowings to the duration, holding period an interest rate characteristics of the assets being funded and to manage interest rate risk. These swaps effective convert certain of the Company s fixed rate borrowings into floating rate obligations. In addition, for non-U dollar currency borrowings that are not used to fund assets in the same currency, the Company has entered i currency swaps that effectively convert the borrowings into U.S. dollar obligations. The Company s use of s for asset and liability management affected its effective average borrowing rate as follows:

	Fiscal 2007	Fiscal 2006	F
Weighted average coupon of long-term borrowings at fiscal year-end(1)	5.0%	5.0%	
Effective average borrowing rate for long-term borrowings after swaps at fiscal	5.1%	5.0%	

year-end(1)

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

Subsequent to fiscal year-end and through December 31, 2007, the Company s long-term borrowings (net o repayments) increased by approximately $10 billion. In addition, the Company sold Equity Units to a wholly-owned subsidiary of China Investment Corporation Ltd. (CIC) for approximately $5,579 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Capital Units.

The Company had Capital Units outstanding that were issued by the Company and Morgan Stanley Finance (MSF), a U.K. subsidiary. A Capital Unit consisted of (a) a Subordinated Debenture of MSF guaranteed b Company and maturing in 2017 and (b) a related Purchase Contract issued by the Company, which may hav accelerated by the Company, requiring the holder to purchase one Depositary Share representing shares of th Company s Cumulative Preferred Stock. The aggregate amount of Capital Units outstanding was $66 millio November 30, 2006.

The Company redeemed all $66 million of the outstanding Capital Units on February 28, 2007.

15. Commitments, Guarantees and Contingencies.

Commitments.

The Company s commitments as of November 30, 2007 are summarized below by period of expiration. Sin commitments may expire unused, the amounts shown do not necessarily reflect the actual future cash fundin requirements:

	Years to Maturity				
	Less than 1	1-3	3-5	Over 5	T
	(dollars in millions)				
Letters of credit and other financial guarantees(1)	$ 10,790	$ 4	$ 4	$	$
Letters of credit issued by subsidiaries that are guaranteed by the Company	197	1,186	194	3,674	
Investment activities(2)	318	238	108	647	
Investment grade primary lending commitments(3)(4)	19,656	5,791	23,323	1,421	
Non-investment grade primary lending commitments(3)(4)	789	1,072	3,931	14,220	
Investment grade secondary lending commitments(4)(5)				1,406	
Non-investment grade secondary lending commitments(4)(5)	81	27	151	2,090	
Commitments for secured lending transactions(6)	3,824	4,095	1,073	2,628	
	5,680				

Commercial and residential mortgage-related commitments(7)					
Other commitments(8)	964	19	5		
Total	$ 42,299	$ 12,432	$ 28,789	$ 26,086	$ 1

(1) This amount primarily represents the Company s outstanding letters of credit and other financial guarantees issued by third-party banks to certain of the Company s counterparties. The Company is contingently liable for these letters of c other financial guarantees, which are primarily used to satisfy various collateral and margin requirements.

(2) This amount represents commitments associated with the Company s real estate, private equity and principal investm activities, which include alternative products.

(3) The Company s investment grade and non-investment grade primary lending commitments are made in connection w corporate lending and other business activities. Credit ratings for commitments are determined by the Company s Ins Credit Department using methodologies generally consistent with those employed by external rating agencies. Obligor ratings of BB+ or lower are considered non-investment grade.

(4) The Company records these commitments at fair value within Financial instruments owned and Financial instruments not yet purchased in the consolidated statement of financial condition (see Note 3).

(5) This amount represents commitments associated with the Company s Institutional Securities sales and trading activiti

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(6) This amount represents lending commitments extended by the Company to companies that are secured by real estate a the borrower. Loans made under these arrangements typically are at variable rates and generally provide for over-collateralization based upon the creditworthiness of the borrower. This amount also includes commitments to asset-backed commercial paper conduits of $1,246 million, which have maturities of less than four years.
(7) These amounts represent the Company s forward purchase contracts involving mortgage loans, residential mortgage l commitments to individuals and residential home equity lines of credit.
(8) This amount includes commercial loan commitments to small businesses and commitments related to securities-based lending activities in connection with the Company s Global Wealth Management Group business.

At November 30, 2007, the Company had commitments to enter into reverse repurchase and repurchase agreements of approximately $107 billion and $26 billion, respectively.

Premises and Equipment. The Company has non-cancelable operating leases covering premises and equipm At November 30, 2007, future minimum rental commitments under such leases (net of subleases, principally office rentals) were as follows (dollars in millions):

Fiscal Year	
2008	$ 5
2009	5
2010	4
2011	3
2012	3
Thereafter	2,7

The total of minimum rentals to be received in the future under non-cancelable subleases as of November 30 was $96 million.

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, n sublease rental income, was $604 million, $470 million and $571 million in fiscal 2007, fiscal 2006 and fisca 2005, respectively. The net rent expense for fiscal 2005 included $105 million related to the lease adjustmen charge recorded in the first quarter of fiscal 2005 (see Note 26).

In connection with its commodities business, the Company enters into operating leases for both crude oil and refined products storage and for vessel charters. These operating leases are integral parts of the Company s commodities risk management business. At November 30, 2007, future minimum rental commitments under leases were as follows (dollars in millions):

Fiscal Year	
2008	$ 6
2009	3
2010	2
2011	1
2012	
Thereafter	1

Guarantees.

The Company has certain obligations under certain guarantee arrangements, including contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party l

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

on changes in an underlying measure (such as an interest or foreign exchange rate, security or commodity pr index or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security guaranteed party. Also included as guarantees are contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity s failure to perform under an agreement, as well a indirect guarantees of the indebtedness of others. The Company s use of guarantees is described below by t guarantee:

Derivative Contracts. Certain derivative contracts meet the accounting definition of a guarantee, including certain written options, contingent forward contracts and credit default swaps. Although the Company s der arrangements do not specifically identify whether the derivative counterparty retains the underlying asset, lia or equity security, the Company has disclosed information regarding all derivative contracts that could meet accounting definition of a guarantee. The maximum potential payout for certain derivative contracts, such as written interest rate caps and written foreign currency options, cannot be estimated, as increases in interest o foreign exchange rates in the future could possibly be unlimited. Therefore, in order to provide information regarding the maximum potential amount of future payments that the Company could be required to make u certain derivative contracts, the notional amount of the contracts has been disclosed.

The Company records all derivative contracts at fair value. For this reason, the Company does not monitor it exposure to such derivative contracts based on derivative notional amounts; rather, the Company manages it exposure on a fair value basis. Aggregate market risk limits have been established, and market risk measures routinely monitored against these limits. The Company also manages its exposure to these derivative contrac through a variety of risk mitigation strategies, including, but not limited to, entering into offsetting economic positions. The Company believes that the notional amounts of the derivative contracts generally overstate its exposure.

Standby Letters of Credit and other Financial Guarantees. In connection with its corporate lending busine other corporate activities, the Company provides standby letters of credit and other financial guarantees to counterparties. Such arrangements represent obligations to make payments to third parties if the counterparty to fulfill its obligation under a borrowing arrangement or other contractual obligation.

Market Value Guarantees. Market value guarantees are issued to guarantee return of principal invested to investors associated with certain European equity funds and to guarantee timely payment of a specified retur investors in certain affordable housing tax credit funds. The guarantees associated with certain European equ funds are designed to provide for any shortfall between the market value of the underlying fund assets and in principal and a stipulated return amount. The guarantees provided to investors in certain affordable housing credit funds are designed to return an investor s contribution to a fund and the investor s share of tax losses credits expected to be generated by a fund.

Liquidity Facilities. The Company has entered into liquidity facilities with SPEs and other counterparties, w
the Company is required to make certain payments if losses or defaults occur. Primarily, the Company acts a
liquidity provider to municipal bond securitization SPEs and for standalone municipal bonds in which the ho
of beneficial interests issued by these SPEs or the holders of the individual bonds have the right to tender the
interests for purchase by the Company on specified dates at a specified price. The Company often may have
recourse to the underlying assets held by the SPEs in the event payments are required under such liquidity fa
as well as make-whole or recourse provisions with the trust sponsors.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below summarizes certain information regarding these guarantees at November 30, 2007:

Type of Guarantee	Maximum Potential Payout/Notional Years to Maturity Less than 1	1-3	3-5	Over 5	Total	Carrying Amount	Co Re
	(dollars in millions)						
Notional amount of derivative contracts	$ 999,552	$ 1,004,069	$ 2,546,374	$ 2,570,385	$ 7,120,380	$ 131,678	$
Standby letters of credit and other financial guarantees(1)	5,133	1,824	1,107	6,712	14,776	802	
Market value guarantees	97	106		655	858	44	
Liquidity facilities	18,043	1,026	444	1,652	21,165		

(1) Approximately $14 billion of standby letters of credit are also reflected in the Commitments table above in the inve grade and non-investment grade primary and secondary lending commitments and in the letters of credit issued by subsidiaries that are guaranteed by the Company.

Trust Preferred Securities. The Company has established Morgan Stanley Trusts for the limited purpose of issuing trust preferred securities to third parties and lending the proceeds to the Company in exchange for jur subordinated debentures. The Company has directly guaranteed the repayment of the trust preferred securitie the holders thereof to the extent that the Company has made payments to a Morgan Stanley Trust on the juni subordinated debentures. In the event that the Company does not make payments to a Morgan Stanley Trust, holders of such series of trust preferred securities would not be able to rely upon the guarantee for payment o those amounts. The Company has not recorded any liability in the consolidated financial statements for these guarantees and believes that the occurrence of any events (i.e., nonperformance on the part of the paying age that would trigger payments under these contracts is remote. See Note 13 for details on the Company s juni subordinated debentures.

Indemnities. In the normal course of its business, the Company provides standard indemnities to counterpa for certain contingent exposures and taxes, including U.S. and foreign withholding taxes, on interest and oth payments made on derivatives, securities and stock lending transactions, certain annuity products and other financial arrangements. These indemnity payments could be required based on a change in the tax laws or ch in interpretation of applicable tax rulings or a change in factual circumstances. Certain contracts contain prov that enable the Company to terminate the agreement upon the occurrence of such events. The maximum pote amount of future payments that the Company could be required to make under these indemnifications canno estimated. The Company has not recorded any contingent liability in the consolidated financial statements fo indemnifications and believes that the occurrence of any events that would trigger payments under these con is remote.

Exchange/Clearinghouse Member Guarantees. The Company is a member of various U.S. and non-U.S. exchanges and clearinghouses that trade and clear securities and/or futures contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of anoth member who may default on its obligations to the exchange or the clearinghouse. While the rules governing different exchange or clearinghouse memberships vary, in general the Company s guarantee obligations wo only if the exchange or clearinghouse had previously exhausted its resources. In addition, any such guarante obligation would be apportioned among the other non-defaulting members of the exchange or clearinghouse potential contingent liability under these membership agreements cannot be estimated. The Company has no recorded any contingent liability in the consolidated financial statements for these agreements and believes t any potential requirement to make payments under these agreements is remote.

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General Partner Guarantees. As a general partner in certain private equity and real estate partnerships, the Company receives distributions from the partnerships according to the provisions of the partnership agreeme The Company may, from time to time, be required to return all or a portion of such distributions to the limite partners in the event the limited partners do not achieve a certain return as specified in various partnership agreements, subject to certain limitations. The maximum potential amount of future payments that the Comp could be required to make under these provisions at November 30, 2007 and November 30, 2006 was $472 r and $320 million, respectively. As of November 30, 2007 and November 30, 2006, the Company s accrued for distributions that the Company has determined is probable it will be required to refund based on the appli refund criteria specified in the various partnership agreements was $20 million and $25 million, respectively

Securitized Asset Guarantees. As part of the Company s Institutional Securities securitization activities, th Company provides representations and warranties that certain securitized assets conform to specified guideli The Company may be required to repurchase such assets or indemnify the purchaser against losses if the ass not meet certain conforming guidelines. Due diligence is performed by the Company to ensure that asset gui qualifications are met, and, to the extent the Company has acquired such assets to be securitized from other p the Company seeks to obtain its own representations and warranties regarding the assets. The maximum pote amount of future payments the Company could be required to make would be equal to the current outstandin balances of all assets subject to such securitization activities. Also, in connection with originations of resider mortgage loans under the Company s FlexSource® program, the Company may permit borrowers to pledge marketable securities as collateral instead of requiring cash down payments for the purchase of the underlyin residential property. Upon sale of the residential mortgage loans, the Company may provide a surety bond th reimburses the purchasers for shortfalls in the borrowers securities accounts up to certain limits if the colla maintained in the securities accounts (along with the associated real estate collateral) is insufficient to cover that purchasers experience as a result of defaults by borrowers on the underlying residential mortgage loans. Company requires the borrowers to meet daily collateral calls to ensure the marketable securities pledged in a cash down payment are sufficient. At November 30, 2007 and November 30, 2006, the maximum potential amount of future payments the Company may be required to make under its surety bond was $122 million an $121 million, respectively. The Company has not recorded any contingent liability in the consolidated financ statements for these representations and warranties and reimbursement agreements and believes that the prob of any payments under these arrangements is remote.

Other. The Company may, from time to time, in its role as investment banking advisor be required to prov guarantees in connection with certain European merger and acquisition transactions. If required by the regula authorities, the Company provides a guarantee that the acquirer in the merger and acquisition transaction has will have sufficient funds to complete the transaction and would then be required to make the acquisition pay in the event the acquirer s funds are insufficient at the completion date of the transaction. These arrangemen generally cover the time frame from the transaction offer date to its closing date and, therefore, are generally term in nature. The maximum potential amount of future payments that the Company could be required to m cannot be estimated. The Company believes the likelihood of any payment by the Company under these arrangements is remote given the level of the Company s due diligence associated with its role as investmen banking advisor.

In the ordinary course of business, the Company guarantees the debt and/or certain trading obligations (inclu
obligations associated with derivatives, foreign exchange contracts and the settlement of physical commodit
certain subsidiaries. These guarantees generally are entity or product specific and are required by investors o
trading counterparties. The activities of the subsidiaries covered by these guarantees (including any related d
trading obligations) are included in the Company s consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contingencies.

Legal. In the normal course of business, the Company has been named, from time to time, as a defendant i various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal action include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts o damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankru in financial distress.

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both for and informal) by governmental and self-regulatory agencies regarding the Company s business, including, other matters, accounting and operational matters, certain of which may result in adverse judgments, settlem fines, penalties, injunctions or other relief.

The Company contests liability and/or the amount of damages as appropriate in each pending matter. In view the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Co cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief any, might be. Subject to the foregoing, the Company believes, based on current knowledge and after consul with counsel, that the outcome of such pending matters will not have a material adverse effect on the consoli financial condition of the Company, although the outcome of such matters could be material to the Company operating results and cash flows for a particular future period, depending on, among other things, the level o Company s revenues or income for such period. Legal reserves have been established in accordance with S No. 5, Accounting for Contingencies (SFAS No. 5). Once established, reserves are adjusted when ther information available or when an event occurs requiring a change.

Coleman Litigation. In May 2003, Coleman (Parent) Holdings Inc. (CPH) filed a complaint against Mo Stanley in the Circuit Court of the Fifteenth Judicial Circuit for Palm Beach County, Florida relating to the 1 merger between The Coleman Company, Inc. and Sunbeam, Inc. In June 2005, the trial court issued a final judgment in favor of CPH in the amount of $1,578 million, which included prejudgment interest and exclude certain payments received by CPH in settlement of related claims against others. In June 2005, Morgan Stan filed a notice of appeal with the District Court of Appeal for the Fourth District of Florida (the Court of Ap and posted a supersedeas bond, which automatically stayed execution of the judgment pending appeal.

In March 2007, the Court of Appeal issued an opinion reversing the trial court s award for compensatory an punitive damages and remanding the matter to the trial court for entry of judgment for Morgan Stanley. In Ju 2007, the Court of Appeal s opinion became final when the Court of Appeal issued an order denying CPH for rehearing, rehearing *en banc* and for certification of certain questions for review by the Florida Supreme (the Supreme Court). In June 2007, the trial court issued an order cancelling the supersedeas bond that M Stanley had posted. In July 2007, CPH filed a petition with the Supreme Court asking that court to review th Court of Appeal s decision (Petition for Review). On December 12, 2007, the Supreme Court issued an c denying CPH s Petition for Review.

The Company believes, after consultation with outside counsel, that the Supreme Court s decision to deny t Petition for Review has effectively ended CPH s civil claim against the Company. Effective November 30, the Company reversed the $360 million reserve previously established for the Coleman litigation under SFA No. 5.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Shareholders Equity.

Common Stock. Changes in shares of common stock outstanding for fiscal 2007 and fiscal 2006 were as f (share data in millions):

	Fiscal 2007	Fisca 200
Shares outstanding at beginning of period	1,049	1,05
Net impact of stock option exercises and other share issuances	59	4
Treasury stock purchases	(52)	(5
Shares outstanding at end of period	1,056	1,04

Treasury Shares. During fiscal 2007, the Company purchased $3.8 billion of its common stock through op market purchases at an average cost of $72.65 per share. During fiscal 2006, the Company purchased $3.4 bi of its common stock through open market purchases at an average cost of $65.43 per share. In December 20 Company announced that its Board of Directors had authorized the repurchase of up to $6 billion of the Com outstanding common stock. This share repurchase authorization considers, among other things, business seg capital needs, as well as equity-based compensation and benefit plan requirements. As of November 30, 200 Company had approximately $2.3 billion remaining under its current share repurchase authorization.

Rabbi Trusts. The Company has established rabbi trusts (the Rabbi Trusts) to provide common stock v rights to certain employees who hold outstanding restricted stock units. The number of shares of common st outstanding in the Rabbi Trusts was approximately 107 million at November 30, 2007 and approximately 81 million at November 30, 2006. The assets of the Rabbi Trusts are consolidated with those of the Compan the value of the Company s stock held in the Rabbi Trusts is classified in Shareholders equity and general accounted for in a manner similar to treasury stock.

Preferred Stock. In July 2006, the Company issued 44,000,000 Depositary Shares, in an aggregate of $1,100 million. Each Depositary Share represents 1/1,000th of a Share of Floating Rate Non-Cumulative Preferred Stock, Series A, $0.01 par value (Series A Preferred Stock). The Series A Preferred Stock is re at the Company s option, in whole or in part, on or after July 15, 2011 at a redemption price of $25,000 per (equivalent to $25 per Depositary Share). The Series A Preferred Stock also has a preference over the Comp common stock upon liquidation. Subsequent to fiscal year-end, the Company declared a quarterly dividend o $379.66 per share of Series A Preferred Stock that was paid on January 15, 2008 to preferred shareholders o record on December 31, 2007.

Regulatory Requirements. On April 1, 2007, the Company merged MSDWI into MS&Co. Upon completi the merger, the surviving entity, MS&Co., became the Company s principal U.S. broker-dealer. MS&Co. is registered broker-dealer and registered futures commission merchant and, accordingly, is subject to the mini net capital requirements of the Securities and Exchange Commission (the SEC), the Financial Industry Re Authority and the Commodity Futures Trading Commission. MS&Co. has consistently operated in excess of requirements. MS&Co. s net capital totaled $6,673 million at November 30, 2007, which exceeded the amo required by $4,950 million. MSIP, a London-based broker-dealer subsidiary, is subject to the capital requirem of the Financial Services Authority, and MSJS, a Tokyo-based broker-dealer subsidiary, is subject to the cap requirements of the Financial Services Agency. MSIP and MSJS consistently operated in excess of their resp regulatory capital requirements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under regulatory capital requirements adopted by the Federal Deposit Insurance Corporation (the FDIC) bank regulatory agencies, FDIC-insured financial institutions must maintain (a) 3% to 4% of Tier 1 capital, a defined, to average assets (leverage ratio), (b) 4% of Tier 1 capital, as defined, to risk-weighted assets (T risk-weighted capital ratio) and (c) 8% of total capital, as defined, to risk-weighted assets (total risk-weig capital ratio). At November 30, 2007, the leverage ratio, Tier 1 risk-weighted capital ratio and total risk-we capital ratio of each of the Company s FDIC-insured financial institutions exceeded these regulatory minim

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 th countries in which they operate. These subsidiaries have consistently operated in excess of their local capital adequacy requirements.

Morgan Stanley Derivative Products Inc. (MSDP) and Cournot Financial Products LLC (Cournot), wh triple-A rated derivative products subsidiaries, maintain certain operating restrictions that have been reviewe various rating agencies. Both entities are operated such that creditors of the Company should not expect to h any claims on either the assets of Cournot or the assets of MSDP, unless and until the obligations of such ent its own creditors are satisfied in full. Creditors of Cournot or MSDP, respectively, should not expect to have claims on the assets of the Company or any of its affiliates, other than the respective assets of Cournot or MS

The Company is a consolidated supervised entity (CSE) as defined by the SEC. As such, the Company is group-wide supervision and examination by the SEC and to minimum capital requirements on a consolidated As of November 2007, the Company was in compliance with the CSE capital requirements.

MS&Co. is required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 mil accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. MS&Co. is also require notify the SEC in the event that its tentative net capital is less than $5 billion. As of November 30, 2007, MS had tentative net capital in excess of the minimum and the notification requirements.

The regulatory capital requirements referred to above, and certain covenants contained in various agreement governing indebtedness of the Company, may restrict the Company s ability to withdraw capital from its subsidiaries. At November 30, 2007, approximately $14.2 billion of net assets of consolidated subsidiaries m restricted as to the payment of cash dividends and advances to the Company.

Accumulated Other Comprehensive Income (Loss). As of November 30, 2007, the components of the Company s Accumulated other comprehensive loss are as follows:

	At November 30, 2007	A Novem 20
	(dollars in millions	
Foreign currency translation adjustments, net of tax	$ 114	$
Net change in cash flow hedges, net of tax	(58)	
Minimum pension liability adjustment, net of tax	(47)	
SFAS No. 158 pension adjustment, net of tax	(208)	
Accumulated other comprehensive loss, net of tax	$ (199)	$

Cumulative Foreign Currency Translation Adjustments. Cumulative foreign currency translation adjustme include gains or losses resulting from translating foreign currency financial statements from their respective

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 curr exposure relating to its net monetary investments in non-U.S. dollar functional currency subsidiaries. Increas decreases in the value of the Company s net foreign investments generally are tax deferred for U.S. purpose the related hedge gains and losses are taxable currently. The Company attempts to protect its net book value 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 operation 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 foreign currency translation adjustments is summarized below:

	At November 30,	
	2007	2006
	(dollars in millions)	
Net monetary investments in non-U.S. dollar functional currency subsidiaries	$ 9,534	$ 6,19
Cumulative foreign currency translation adjustments resulting from net investments in subsidiaries with a non-U.S. dollar functional currency	$ 1,290	$ 74
Cumulative foreign currency translation adjustments resulting from realized or unrealized losses on hedges, net of tax	(1,176)	(69
Total cumulative foreign currency translation adjustments, net of tax	$ 114	$ 4

17. Earnings per Common Share.

Basic EPS is computed by dividing income available to common shareholders by the weighted average numl common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive secur The following table presents the calculation of basic and diluted EPS (in millions, except for per share data):

	Fiscal 2007	Fiscal 2006	Fis
Basic EPS:			
Income from continuing operations before cumulative effect of accounting change, net	$ 2,563	$ 6,335	$
Gain on discontinued operations, net	646	1,137	
Cumulative effect of accounting change, net			
Preferred stock dividend requirements	(68)	(19)	
Net income applicable to common shareholders	$ 3,141	$ 7,453	$

Weighted average common shares outstanding		1,002		1,010	
Earnings per basic common share:					
Income from continuing operations	$	2.49	$	6.25	$
Gain on discontinued operations		0.64		1.13	
Cumulative effect of accounting change, net					
Earnings per basic common share	$	3.13	$	7.38	$

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Fiscal 2007	Fiscal 2006	Fis
Diluted EPS:			
Net income applicable to common shareholders	$ 3,141	$ 7,453	$
Weighted average common shares outstanding	1,002	1,010	
Effect of dilutive securities:			
Stock options and restricted stock units	52	45	
Weighted average common shares outstanding and common stock equivalents	1,054	1,055	
Earnings per diluted common share:			
Income from continuing operations	$ 2.37	$ 5.99	$
Gain on discontinued operations	0.61	1.08	
Cumulative effect of accounting change, net			
Earnings per diluted common share	$ 2.98	$ 7.07	$

The following securities were considered antidilutive and, therefore, were excluded from the computation of diluted EPS:

	Fiscal 2007	Fiscal 2006
	(shares in milli	
Number of antidilutive securities (including stock options and restricted stock units) outstanding at end of period	19	38

18. Employee Stock-Based Compensation Plans.

As of December 1, 2004, the Company early adopted SFAS No. 123R using the modified prospective metho SFAS No. 123R requires measurement of compensation cost for equity-based awards at fair value and recog of compensation cost over the service period, net of estimated forfeitures.

The components of the Company s stock-based compensation expense (net of cancellations and a cumulativ of a change in accounting principle in fiscal 2005 associated with the adoption of SFAS No. 123R) are prese below:

	Fiscal 2007(1)	Fiscal 2006(1)	Fis
		(dollars in millions)	
Deferred stock	$ 1,592	$ 1,763	$
Stock options	241	152	
Employee Stock Purchase Plan	9	8	
Total	$ 1,842	$ 1,923	$

(1) Amounts for fiscal 2007 and fiscal 2006 include $345 million and $457 million, respectively, of accrued stock-based compensation expense primarily related to fiscal 2007 and fiscal 2006 year-end equity awards granted in December 2007 and December 2006, respectively, to employees who are retirement-eligible under the plan terms.

The table above excludes stock-based compensation expense included in discontinued operations, which was approximately $17 million, $32 million and $16 million, for fiscal 2007, fiscal 2006 and fiscal 2005, respect

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tax benefit for stock-based compensation expense related to deferred stock and stock options was $722 million, $737 million and $255 million for fiscal 2007, fiscal 2006 and fiscal 2005, respectively. The tax ben for stock-based compensation expense included in discontinued operations in fiscal 2007, fiscal 2006 and fis 2005 was approximately $6 million, $11 million and $5 million, respectively.

At November 30, 2007, the Company had approximately $1,376 million of compensation cost related to unv stock-based awards not yet recognized (excluding fiscal 2007 year-end awards granted in December 2007 to nonretirement-eligible employees, which will begin to be amortized in fiscal 2008). The unrecognized compensation cost relating to unvested stock-based awards expected to vest will primarily be recognized ove next two years.

In connection with awards under its equity-based compensation and benefit plans, the Company is authorize issue shares of its common stock held in treasury or newly issued shares. At November 30, 2007, approxima 166 million shares were available for future grant under these plans.

The Company generally uses treasury shares to deliver shares to employees and has an ongoing repurchase authorization that includes repurchases in connection with awards granted under its equity-based compensati plans.

As a result of the Discover Spin-off effective June 30, 2007, all outstanding options to purchase the Compan common stock held by employees of Discover were canceled and replaced with options to purchase Discove common stock. Outstanding options to purchase Morgan Stanley common stock held by directors and emplo who remained with the Company after the Discover Spin-off were adjusted to preserve the intrinsic value of award immediately prior to the spin-off using an adjustment ratio based on the Morgan Stanley closing mark stock price immediately prior to the spin-off date and the beginning market stock price at the date of the spir Additional compensation cost recognized as a result of this modification was not material.

Similarly, restricted stock units awarded pursuant to equity incentive plans and held by employees of Discov were canceled and replaced with restricted units of Discover stock. Outstanding deferred shares held by Mor Stanley directors and employees who remained with the Company after the Discover Spin-off were adjusted multiplying the number of shares by an adjustment ratio in order to account for the impact of the spin-off on value of the Company s shares at the time the spin-off was completed. No additional compensation cost was recognized as a result of this modification. Cash paid to the holders of deferred shares in lieu of fractional sh was not material.

Deferred Stock Awards. The Company has made deferred stock awards pursuant to several equity-based compensation plans. The plans provide for the deferral of a portion of certain key employees discretionary compensation with awards made in the form of restricted common stock or in the right to receive unrestricte shares of common stock in the future (restricted stock units). Awards under these plans are generally subj vesting over time contingent upon continued employment and to restrictions on sale, transfer or assignment u the end of a specified period, generally two to five years from date of grant. All or a portion of an award may canceled if employment is terminated before the end of the relevant restriction period. All or a portion of a v award also may be canceled in certain limited situations, including termination for cause during the relevant restriction period. Recipients of deferred stock awards generally receive dividend equivalents that are not sul vesting and have voting rights.

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The following table sets forth activity relating to the Company s vested and unvested restricted stock units (
data in millions):

	Fiscal 2007(1)	Fiscal 2006	Fiscal 200
Restricted stock units at beginning of year	95	60	7
Granted	31	38	
Conversions to common stock	(12)	(12)	(1
Canceled(2)	(6)	(5)	(
Restricted stock units at end of year(3)	108	81	6

(1) For fiscal 2007, the number of restricted stock units was adjusted to reflect the impact of the Discover Spin-off.
(2) Amount includes approximately 1 million awards held by Discover employees that were canceled as a result of the Di
Spin-off.
(3) Approximately 104 million awards were vested or expected to vest at the end of fiscal 2007.

The weighted average price of restricted stock units at the beginning and end of fiscal 2007 was $45.59 (as adjusted to reflect the impact of the Discover Spin-off) and $51.95, respectively. During fiscal 2007, the wei average price for granted, converted and canceled restricted stock units was $66.68, $40.22 and $52.24, respectively (adjusted to reflect the impact of the Discover Spin-off). The weighted average price for restrict stock units granted during fiscal 2006 and fiscal 2005 was $57.86 and $53.10, respectively (unadjusted for th Discover Spin-off).

The total fair value of restricted stock units converted to common stock during fiscal 2007, fiscal 2006 and f
2005 was $817 million, $768 million and $986 million, respectively.

The following table sets forth activity relating to the Company s unvested restricted stock units (share data i
millions):

	Fiscal 2007	
	Number of Shares(1)	Wei Av Grar Fair V
Unvested restricted stock units at beginning of period	60	$
Granted	31	

Vested	(27)	
Canceled(2)	(5)	
Unvested restricted stock units at end of period(3)	59	$

(1) The number of shares and weighted average grant date fair value have been adjusted to reflect the impact of the Disco Spin-off based on the adjustment ratio discussed above.
(2) Amount includes approximately 1 million awards held by Discover employees that were canceled due to the Discover Spin-off.
(3) Unvested restricted stock units represent awards where recipients have yet to satisfy either the explicit vesting terms o retirement-eligible requirements. Approximately 56 million unvested restricted stock units, with a weighted average g date fair value of $53.81, were expected to vest at the end of fiscal 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Option Awards. The Company has granted stock option awards pursuant to several equity-based compensation plans. The plans provide for the deferral of a portion of certain key employees discretionary compensation with awards made in the form of stock options generally having an exercise price not less than fair value of the Company s common stock on the date of grant. Such stock option awards generally become exercisable over a three-year period and expire 10 years from the date of grant, subject to accelerated expirat upon termination of employment. Stock option awards have vesting, restriction and cancellation provisions t generally similar to those in deferred stock awards.

The weighted average fair values of the Company s options granted during fiscal 2007, fiscal 2006 and fisca were $18.55 (as adjusted to reflect the impact of the Discover Spin-off), $14.15 and $12.77 (unadjusted for t Discover Spin-off), respectively, utilizing the following weighted average assumptions:

	Fiscal 2007	Fiscal 2006	Fiscal
Risk-free interest rate	4.4%	4.8%	
Expected option life in years	6.0	3.3	
Expected stock price volatility	23.8%	28.6%	
Expected dividend yield	1.4%	1.7%	

The Company s expected option life has been determined based upon historical experience. Beginning on December 1, 2006, the expected stock price volatility assumption was determined using the implied volatilit exchange-traded options, consistent with the guidance in Staff Accounting Bulletin (SAB) No. 107, Sha Payment (SAB 107). Prior to December 1, 2006, the expected stock price volatility was determined base Company s historical stock price data over a time period similar to the expected option life. The Company b that implied volatility is more reflective of market conditions and a better indicator of expected volatility tha historical volatility or a combined method of determining volatility.

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

	Fiscal 2007		Fiscal 2006		Fiscal 20	
	Number of Options(1)	Weighted Average Exercise Price(1)	Number of Options	Weighted Average Exercise Price	Number of Options	W A E
Options outstanding at beginning of period	128.6	$ 44.15	125.8	$ 51.01	152.2	$
Granted	18.9	66.90	2.1	64.05	0.9	
Exercised	(24.7)	39.86	(14.5)	44.60	(19.5)	
Canceled(2)	(4.7)	55.19	(4.0)	57.41	(7.8)	

Options outstanding at end of period(3)	118.1	$	48.22	109.4	$	51.88	125.8	$
Options exercisable at end of period	96.7	$	45.22	92.6	$	51.65	95.4	$

(1) For fiscal 2007, the number and weighted average exercise price have been adjusted to reflect the impact of the Disco Spin-off based on the adjustment ratio discussed above.
(2) Includes approximately 2 million awards held by DFS employees that were canceled due to the Discover Spin-off.
(3) 116.8 million awards, with a weighted average exercise price of $48.01, were vested or expected to vest at the end of f 2007.

The total intrinsic value of stock options exercised during fiscal 2007, fiscal 2006 and fiscal 2005 was $707 million, $326 million and $722 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of November 30, 2007, the intrinsic value of in-the-money exercisable stock options was $826 million.

The following table presents information relating to the Company s stock options outstanding at November 2007 (number of options outstanding data in millions):

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Exercise Price(1)**	**Average Remaining Life (Years)**	**Number Exercisable**	**Weighted Average Exercise Price(1)**	**Av Rem Life**
$22.00 $29.99	5.3	$ 22.91	0.1	5.3	$ 22.91	
$30.00 $39.99	23.6	34.20	3.5	23.6	34.20	
$40.00 $49.99	44.3	47.14	5.1	39.3	47.32	
$50.00 $59.99	24.9	53.66	2.7	24.8	53.66	
$60.00 $69.99	18.9	66.56	8.1	2.7	65.57	
$70.00 $79.99	0.7	72.89	3.2	0.6	73.12	
$80.00 $91.99	0.4	87.45	1.6	0.4	87.45	
Total	118.1			96.7		

(1) The weighted average exercise price has been adjusted to reflect the impact of the Discover Spin-off based on the adju ratio discussed above.

In November 2007, in connection with its initial public offering, MSCI Inc., a majority-owned subsidiary of Morgan Stanley, made a founders grant in the form of restricted stock units (representing shares of MSCI I common stock) and options to purchase MSCI Inc. common stock (such awards are not reflected in the abov disclosures). The aggregate value of the founders grant was $68 million of restricted stock units and option subject to two- to four-year vesting periods.

19. Employee Benefit Plans.

The Company sponsors various pension plans for the majority of its U.S. and non-U.S. employees. The Com provides certain other postretirement benefits, primarily health care and life insurance, to eligible U.S. emplo The Company also provides certain postemployment benefits other than pension and postretirement benefits certain former employees or inactive employees prior to retirement.

The Company s defined benefit pension, postretirement and postemployment plans are accounted for in acc
with SFAS Nos. 87, 88, 106 and 112. The Company adopted the provision of SFAS No. 158 to recognize th
overfunded or underfunded status of the Company s defined benefit and postretirement plans as an asset or
in the consolidated statement of financial condition at November 30, 2007. Accordingly, the Company recor
charge of $347 million ($208 million after-tax) to Accumulated other comprehensive income (loss), a compo
of Shareholders equity (see Note 2).

Prior to its adoption of SFAS No. 158, but after taking into account the effects of the Discover Spin-off, the
Company recognized a final net minimum pension liability of $68 million ($47 million after-tax) at Novemb
2007 and $13 million ($7 million after-tax with recognition of a $1 million intangible asset) at November 30
for defined benefit pension plans whose accumulated benefit obligations exceeded plan assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table illustrates the incremental effect of the application of SFAS No. 158:

	Before Application of SFAS No. 158	SFAS No. 158 Adjustments	Aft Applica SFAS N
	(dollars in millions)		
Other assets	$ 9,153	$ (302)	$
Other liabilities and accrued expenses	24,561	45	2
Net deferred tax assets	5,454	139	
Accumulated other comprehensive income (loss)	9	(208)	
Total shareholders equity	31,477	(208)	3

The Accumulated other comprehensive loss of $415 million pre-tax was composed of $(74) million in prior-service credits and $489 million in net actuarial losses. The estimated net loss for the defined benefit pensior that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over fiscal is approximately $32 million. The estimated prior-service credit that will be amortized from Accumulated ot comprehensive loss into net periodic benefit cost over fiscal 2008 is approximately $(8) million for defined b pension plans and $(2) million for postretirement plans.

Pension and Other Postretirement Plans. Substantially all of the U.S. employees of the Company hired be July 1, 2007 and its U.S. affiliates are covered by a non-contributory, defined benefit pension plan that is qua under Section 401(a) of the Internal Revenue Code (the Qualified Plan). Unfunded supplementary plans (Supplemental Plans) cover certain executives. In addition, certain of the Company s non-U.S. subsidiarie pension plans covering substantially all of their employees. These pension plans generally provide pension b that are based on each employee s years of credited service and on compensation levels specified in the plar 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 its Supplemental Plan accrued by the Company and are funded when paid to the beneficiaries. The Company s U.S. Qualified Plar closed to new participants effective July 1, 2007. In lieu of a defined benefit pension plan, eligible employee were first hired, rehired or transferred to a U.S. benefits eligible position will receive a retirement contributio their 401(k) plan. The amount of the retirement contribution is included in the Company s 401(k) cost and v equal to between 2% to 5% of eligible pay based on years of service as of December 31.

The Company also has unfunded postretirement benefit plans that provide medical and life insurance for elig U.S. retirees and their dependents.

The Company uses a measurement date of September 30 to calculate obligations under its pension and postretirement plans. The Company expects to early adopt a fiscal year-end measurement date for the fiscal y ending November 30, 2008.

In connection with the Discover Spin-off, the Company transferred assets and liabilities relating to certain cu
and former DFS employees to a new defined benefit pension plan established by DFS. The Company remeas
the assets and projected benefit obligation of the separated pension plans as of December 31, 2006. The imp
the remeasurement results on continuing operations for fiscal 2007 was not material.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present information for the Company s pension and postretirement plans on an aggreg basis:

Net Periodic Benefit Expense.

The following table presents the components of the net periodic benefit expense:

	Pension			Postretirement		
	Fiscal 2007	Fiscal 2006	Fiscal 2005	Fiscal 2007	Fiscal 2006	Fis
	(dollars in millions)					
Service cost, benefits earned during the year	$ 109	$ 111	$ 101	$ 7	$ 8	$
Interest cost on projected benefit obligation	125	119	110	8	10	
Expected return on plan assets	(124)	(116)	(107)			
Net amortization prior-service cost	(8)	(7)	(8)	(1)	(2)	
Net amortization actuarial loss	41	51	41		2	
Special termination benefits	2	2				
Net periodic benefit expense	$ 145	$ 160	$ 137	$ 14	$ 18	$

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Benefit Obligations and Funded Status.

The following table provides a reconciliation of the changes in the benefit obligation and fair value of plan a
for fiscal 2007 and fiscal 2006 as well as a summary of the funded status at November 30, 2007 and Novemb
2006:

	Pension		Postretireme	
	Fiscal 2007	Fiscal 2006	Fiscal 2007	Fisc
	(dollars in millions)			
Reconciliation of benefit obligation:				
Benefit obligation at beginning of year	$ 2,563	$ 2,524	$ 168	$
Service cost(1)	109	133	7	
Interest cost(2)	125	139	8	
Plan amendments	(9)	2	(4)	
Actuarial (gain) loss	(46)	(88)	14	
Benefits paid	(102)	(169)	(8)	
Plan settlements	(1)	(21)		
Special termination benefits	2	2		
Transfers/divestitures(3)	(400)		(23)	
Other, including foreign currency exchange rate changes	22	41		
Benefit obligation at end of year	$ 2,263	$ 2,563	$ 162	$
Reconciliation of fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 2,312	$ 2,217	$	$
Actual return on plan assets	161	144		
Employer contributions	131	114	8	
Benefits paid	(102)	(169)	(8)	
Plan settlements	(1)	(21)		
Transfers/divestitures(3)	(405)			
Other, including foreign currency exchange rate changes	17	27		
Fair value of plan assets at end of year	$ 2,113	$ 2,312	$	$
Funded status:				
Unfunded status	$ (150)	$ (251)	$ (162)	$
Amount contributed to plan after measurement date	24	4		
Unrecognized prior-service cost		(113)		
Unrecognized loss		708		
Net amount recognized	$ (126)	$ 348	$ (162)	$
Amounts recognized in the consolidated statements of financial condition consist of:				
Assets	$ 162	$ 598	$	$
Liabilities	(288)	(263)	(162)	

Intangible asset		1		
Accumulated other comprehensive income		12		
Net amount recognized	$ (126)	$ 348	$ (162)	$

(1) The pension amount related to the Discover Spin-off and the sale of Quilter was $22 million during fiscal 2006. The postretirement amount related to the Discover Spin-off was $2 million during fiscal 2006. These amounts are included discontinued operations (see Note 22).
(2) The pension amount related to the Discover Spin-off and the sale of Quilter was $20 million during fiscal 2006. The postretirement amount related to DFS was $1 million during fiscal 2006. These amounts are included in discontinued operations (see Note 22).
(3) Transfers and divestitures primarily relate to the impact of the Discover Spin-off and non-U.S. subsidiary plans.

The accumulated benefit obligation for all defined benefit pension plans was $2,147 million and $2,385 mill November 30, 2007 and November 30, 2006, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table contains information for pension plans with projected benefit obligations in excess of th value of plan assets as of fiscal year-end:

	November 30, 2007	Noven 2(
	(dollars in millio	
Projected benefit obligation	$ 511	$
Fair value of plan assets	216	

The following table contains information for pension plans with accumulated benefit obligations in excess o fair value of plan assets as of fiscal year-end:

	November 30, 2007	Noven 2(
	(dollars in millio	
Accumulated benefit obligation	$ 474	$
Fair value of plan assets	216	

Assumptions.

The following table presents the weighted average assumptions used to determine benefit obligations at fisca year-end:

	Pension		Postretirement	
	Fiscal 2007	Fiscal 2006	Fiscal 2007	Fiscal
Discount rate	6.17%	5.79%	6.34%	
Rate of future compensation increases	5.08	4.40	n/a	

The following table presents the weighted average assumptions used to determine net periodic benefit costs f fiscal 2007, fiscal 2006 and fiscal 2005:

	Pension			Postretirement		
	Fiscal 2007	Fiscal 2006	Fiscal 2005	Fiscal 2007	Fiscal 2006	Fiscal
Discount rate	5.79%	5.60%	5.90%	5.97%	5.75%	
	6.65	6.65	6.95	n/a	n/a	

Expected long-term rate of return on plan assets					
Rate of future compensation increases	4.40	4.35	4.45	n/a	n/a

The expected long-term rate of return on assets represents the Company s best estimate of the long-term ret plan assets and generally was estimated by computing a weighted average return of the underlying long-term expected returns on the different asset classes, based on the target asset allocations. For plans where there is established target asset allocation, actual asset allocations were used. The expected long-term return on asset long-term assumption that generally is expected to remain the same from one year to the next unless there is significant change in the target asset allocation, the fees and expenses paid by the plan or market conditions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents assumed health care cost trend rates used to determine the postretirement benef
obligations at fiscal year-end:

	November 30, 2007	Novembe 2006
Health care cost trend rate assumed for next year:		
Medical	8.33-8.61%	9.00-
Prescription	11.11%	1
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.00%	
Year that the rate reaches the ultimate trend rate	2012	

Assumed health care cost trend rates can have a significant effect on the amounts reported for the Company
postretirement benefit plans. A one-percentage point change in assumed health care cost trend rates would h
following effects:

	One-Percentage Point Increase	One-Perc Point (De
	(dollars in millions)	
Effect on total postretirement service and interest cost	$ 3	$
Effect on postretirement benefit obligation	26	

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was enacted in I
2003. For 2008, Morgan Stanley elected not to apply for the Medicare Retiree Drug Subsidy or take any othe
action related to the Act since Medicare prescription drug coverage was deemed to have no material effect o
Company s retiree medical program. No impact of the Act has been reflected in the Company s results.

U.S. Qualified Plan Assets.

The U.S. Qualified Plan assets represent 90% of the Company s total pension plan assets. The weighted ave
asset allocations for the U.S. Qualified Plan at November 30, 2007 and November 30, 2006 and the targeted
allocation for fiscal 2008 by asset class were as follows:

	Fiscal 2008 Targeted	November 30, 2007	Novembe 2006
Equity securities	30%	31%	

Fixed income securities	70	68
Other primarily cash		1
Total	100%	100%

U.S. Qualified Pension Plan Asset Allocation. The Company, in consultation with its independent investm consultants and actuaries, determined the asset allocation targets for its U.S. Qualified Plan based on its asse of business and financial conditions, demographic and actuarial data, funding characteristics and related risk factors. Other relevant factors, including industry practices and long-term historical and prospective capital r returns, were considered as well. The expected long-term rate of return on U.S. Qualified Plan assets is 6.75 fiscal 2007.

The U.S. Qualified Plan return objectives provide long-term measures for monitoring the investment perform against growth in the pension obligations. The overall allocation is expected to help protect the plan s funde while generating sufficiently stable real returns (net of inflation) to help cover current and future benefit pay Total U.S. Qualified Plan portfolio performance is assessed by comparing actual returns with relevant bench such as the S&P 500 Index, the Russell 2000 Index, the MSCI EAFE Index and, in the case of the fixed inco portfolio, the U.S. Qualified Plan s liability profile.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Both the equity and fixed income portions of the asset allocation use a combination of active and passive investment strategies and different investment styles. The fixed income asset allocation consists of longer du fixed income securities in order to help reduce plan exposure to interest rate variation and to better correlate with obligations. The longer duration fixed income allocation is expected to help maintain the stability of pla contributions over the long run.

The asset mix of the Company s U.S. Qualified Plan is reviewed by the Morgan Stanley Retirement Plan Investment Committee on a regular basis. When asset class exposure reaches a minimum or maximum level, asset allocation review process is initiated, and the portfolio is automatically rebalanced back to target alloca levels unless the Investment Committee determines otherwise.

Under the current Investment Committee policy, no more than 10% of the U.S. Qualified Plan assets can be allocated to non-traditional alternative asset classes and only to the extent that those alternatives provide a diversification benefits, absolute return enhancement and/or other potential benefit to the plan. Allocations to alternative asset classes will be made based upon an evaluation of particular attributes and relevant considera of each asset class.

Derivative instruments are permitted in the U.S. Qualified Plan s portfolio only to the extent that they comp all of the plan s policy guidelines and are consistent with the plan s risk and return objectives. In addition, a investment in derivatives must meet the following conditions:

Derivatives may be used only if the vehicle is deemed by the investment manager to be more attractiv a similar direct investment in the underlying cash market or if the vehicle is being used to manage risk the portfolio.

Derivatives may not be used in a speculative manner or to leverage the portfolio under any circumstan

Derivatives may not be used as short-term trading vehicles. The investment philosophy of the U.S. Qualified Plan is that investment activity is undertaken for long-term investment rather than short-term trading.

Derivatives may only be used in the management of the U.S. Qualified Plan s portfolio when their po effects can be quantified, shown to enhance the risk-return profile of the portfolio, and reported in a meaningful and understandable manner.

As a fundamental operating principle, any restrictions on the underlying assets apply to a respective derivativ
product. This includes percentage allocations and credit quality. Derivatives will be used solely for the purpo
enhancing investment in the underlying assets and not to circumvent portfolio restrictions.

Cash Flows.

The Company expects to contribute approximately $115 million to its pension and postretirement benefit pla
(U.S. and non-U.S.) in fiscal 2008 based upon their current funded status and expected asset return assumpti
fiscal 2008, as applicable.

Expected benefit payments associated with the Company s pension and postretirement benefit plans for the
five fiscal years and in aggregate for the five fiscal years thereafter are as follows:

	Pension	Postret
	(dollars in millio	
Fiscal 2008	$ 109	$
Fiscal 2009	109	
Fiscal 2010	108	
Fiscal 2011	109	
Fiscal 2012	119	
Fiscal 2013-2017	654	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Morgan Stanley 401(k) and Profit Sharing Awards. Eligible U.S. employees receive 401(k) matching contributions that are invested in the Company s common stock. The retirement contribution granted in lieu defined benefit pension plan is included in the Company s 401(k) expense. The Company also provides discretionary profit sharing to certain Non-U.S. employees. The pre-tax expense associated with the 401(k) r and profit sharing for fiscal 2007 was $128 million and $117 million for both fiscal 2006 and fiscal 2005. Th impact of the Discover Spin-off and Quilter disposal on pre-tax 401(k) match and profit sharing expense in f 2007, fiscal 2006 and fiscal 2005 was approximately $8 million, $15 million and $15 million, respectively. T impact was reflected in discontinued operations (see Note 22).

Defined Contribution Pension Plans.

The Company maintains separate defined contribution pension plans that cover substantially all employees o certain non-U.S. subsidiaries. Under such plans, benefits are determined based on a fixed rate of base salary certain vesting requirements. In fiscal 2007, fiscal 2006 and fiscal 2005, the Company s expense related to t plans was $115 million, $87 million and $71 million, respectively.

Other Postemployment Benefits. Postemployment benefits include, but are not limited to, salary continuat severance benefits, disability-related benefits, and continuation of health care and life insurance coverage pro to former employees or inactive employees after employment but before retirement. The postemployment be obligations were not material as of November 30, 2007 and November 30, 2006.

20. Income Taxes.

The provision for (benefit from) income taxes from continuing operations consisted of:

	Fiscal 2007	Fiscal 2006 (dollars in millions)	Fisca
Current:			
U.S. federal	$ 302	$ 1,084	$
U.S. state and local	147	254	
Non-U.S.	2,428	1,279	
	2,877	2,617	
Deferred:			

U.S. federal	(1,861)	126	
U.S. state and local	(69)	(20)	
Non-U.S.	(116)	5	
	(2,046)	111	
Provision for income taxes from continuing operations	$ 831	$ 2,728	$
Provision for income taxes from discontinued operations	$ 378	$ 529	$

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table reconciles the provision for (benefit from) income taxes to the U.S. federal statutory inc
tax rate:

	Fiscal 2007	Fiscal 2006	Fiscal
U.S. federal statutory income tax rate	35.0%	35.0%	
U.S. state and local income taxes, net of U.S. federal income tax benefits	1.5	1.6	
Lower tax rates applicable to non-U.S. earnings	(2.0)	(2.4)	
Domestic tax credits	(6.0)	(2.3)	
Tax exempt income	(3.3)	(0.9)	
Other	(0.7)	(0.9)	
Effective income tax rate(1)	24.5%	30.1%	

(1) The fiscal 2006 effective tax rate includes the impact of a $242 million income tax benefit, or $0.23 per diluted share, to the resolution of the Internal Revenue Service (the IRS) examination of years 1994-1998. The fiscal 2005 effecti includes the impact of a $309 million income tax benefit resulting from repatriation of foreign earnings under the prov of the American Jobs Creation Act of 2004.

As of November 30, 2007, the Company had approximately $5.8 billion of earnings attributable to foreign subsidiaries for which no provisions have been recorded for income tax that could occur upon repatriation. E 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 repatr

The American Jobs Creation Act, adopted on October 22, 2004, provided for a special one-time tax deductio dividend received deduction, of 85% of qualifying foreign earnings that are repatriated in either a company tax year that began before the enactment date or the first tax year that begins during the one-year period begi on the enactment date. In the fourth quarter of fiscal 2005, the Company recorded an income tax benefit of $ million, or $0.29 per diluted share, resulting from the Company s repatriation of approximately $4.0 billion qualifying foreign earnings under the provisions of the American Jobs Creation Act. The $309 million tax be resulted from the reversal of net deferred tax liabilities previously provided under SFAS No. 109, Accounti Income Taxes (SFAS No. 109), net of additional taxes associated with these qualifying earnings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting an bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect whe differences are expected to reverse. Significant components of the Company s deferred tax assets and liabili November 30, 2007 and November 30, 2006 were as follows:

	November 30, 2007	Noven 20
	(dollars in millior	
Deferred tax assets:		
Employee compensation and benefit plans	$ 4,789	$
Loan loss allowance		
Valuation and liability allowances	498	
Deferred expenses	38	
Tax credit and loss carryforward	1,729	
Other	851	
Total deferred tax assets	7,905	
Valuation allowance(1)	19	
Deferred tax assets after valuation allowance	7,886	
Deferred tax liabilities:		
Valuation of inventory, investments and receivables	787	
Prepaid commissions	52	
Fixed assets	283	
Other	1,171	
Total deferred tax liabilities	2,293	
Net deferred tax assets	$ 5,593	$

(1) The valuation allowance reduces the benefit of certain state net operating loss carryforwards to the amount that will m likely than not be realized.

During fiscal 2007, the valuation allowance was increased by $19 million related to the ability to utilize stat operating losses.

The Company had federal and state net operating loss carryforwards for which a deferred tax asset of $724 n and zero was recorded as of November 30, 2007 and November 30, 2006, respectively. These carryforwards subject to annual limitations and will expire in 2027.

The Company had tax credit carryforwards for which a related deferred tax asset of $1,005 million and zero recorded as of November 30, 2007 and November 30, 2006, respectively. These carryforwards are subject to annual limitations on utilization and will expire in 2017.

The Company believes that the realization of the recognized net deferred tax asset of $5,593 million (after valuation allowance) is more likely than not based on expectations as to future taxable income in the jurisdic in which it operates.

The Company recorded income tax benefits to Paid-in capital of $280 million, $72 million and $317 million related to employee stock compensation transactions in fiscal 2007, fiscal 2006 and fiscal 2005, respectively benefits were credited to Paid-in capital.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash paid for income taxes was $3,404 million, $3,115 million and $1,536 million in fiscal 2007, fiscal 2006 and fiscal 2005, respectively. The Company has requested a refund of $1,200 million for estimated taxes paid during fiscal 2007.

Income Tax Examinations. The Company is under continuous examination by the IRS and other tax authorities in certain countries, such as Japan and the U.K., and states in which the Company has significant business operations, such as New York. The tax years under examination vary by jurisdiction; for example, the current IRS examination covers 1999-2005. The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions resulting from these and subsequent years examinations. The Company has established tax reserves that the Company believes are adequate in relation to the potential for additional assessments. Once established, the Company adjusts tax reserves only when more information is available or when an event occurs necessitating a change to the reserves. The Company believes that the resolution of tax matters will not have a material effect on the consolidated financial condition of the Company, although a resolution could have a material impact on the Company s consolidated statement of income for a particular future period and on the Company s effective income tax rate for any period in which such resolution occurs.

21. Segment and Geographic Information.

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 provides a wide range of financial products and services to its customers in each of its business segments: Institutional Securities, Global Wealth Management Group and Asset Management. For further discussion of the Company s business segments, see Note 1.

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, non-interest expenses or other relevant measures.

As a result of treating certain intersegment transactions as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to the Company s consolidated results. Income before taxes in Intersegment Eliminations primarily represents the effect of timing differences associated with the revenue and expense recognition of commissions paid by Asset Management to the Global Wealth Management Group associated with sales of certain products and the related compensation costs paid to the Global Wealth Management Group s global representatives.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Selected financial information for the Company s segments is presented below:

Fiscal 2007	Institutional Securities	Global Wealth Management Group	Asset Management (dollars in millions)	Intersegment Eliminations(1)	
Net revenues excluding net interest	$ 14,085	$ 5,915	$ 5,531	$ (286)	$
Net interest	2,064	710	(38)	45	
Net revenues	$ 16,149	$ 6,625	$ 5,493	$ (241)	$
Income from continuing operations before losses from unconsolidated investees and income taxes	$ 817	$ 1,155	$ 1,467	$ 2	$
Losses from unconsolidated investees	47				
Income tax (benefit) provision	(170)	459	541	1	
Income from continuing operations(2)	$ 940	$ 696	$ 926	$ 1	$

Fiscal 2006(3)	Institutional Securities(2)	Global Wealth Management Group	Asset Management (dollars in millions)	Intersegment Eliminations(1)	
Net revenues excluding net interest	$ 19,758	$ 5,027	$ 3,432	$ (257)	$
Net interest	1,352	485	21	21	
Net revenues	$ 21,110	$ 5,512	$ 3,453	$ (236)	$
Income from continuing operations before losses from unconsolidated investees and income taxes	$ 7,721	$ 508	$ 851	$ 23	$
Losses from unconsolidated investees	40				
Provision for income taxes	2,212	167	340	9	
Income from continuing operations(2)	$ 5,469	$ 341	$ 511	$ 14	$

Fiscal 2005(3)	Institutional Securities	Global Wealth Management Group	Asset Management (dollars in millions)	Intersegment Eliminations	
Net revenues excluding net interest	$ 13,416	$ 4,729	$ 3,183	$ (238)	$
Net interest	2,081	318	36		
Net revenues	$ 15,497	$ 5,047	$ 3,219	$ (238)	$

Income from continuing operations before losses from unconsolidated investees, income taxes and cumulative effect of accounting change, net	$	4,609	$	591	$	1,030	$	86	$
Losses from unconsolidated investees		311							
Provision for income taxes		852		199		391		31	
Income from continuing operations before cumulative effect of accounting change, net(2)(4)	$	3,446	$	392	$	639	$	55	$

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net Interest	Institutional Securities	Global Wealth Management Group	Asset Management	Intersegment Eliminations(1)	
			(dollars in millions)		
Fiscal 2007					
Interest and dividends	$ 59,131	$ 1,221	$ 74	$ (343)	$
Interest expense	57,067	511	112	(388)	
Net interest	$ 2,064	$ 710	$ (38)	$ 45	$
Fiscal 2006(3)					
Interest and dividends	$ 42,106	$ 1,004	$ 48	$ (382)	$
Interest expense	40,754	519	27	(403)	
Net interest	$ 1,352	$ 485	$ 21	$ 21	$
Fiscal 2005(3)					
Interest and dividends	$ 25,439	$ 650	$ 87	$ (189)	$
Interest expense	23,358	332	51	(189)	
Net interest	$ 2,081	$ 318	$ 36	$	$

Total Assets(5)	Institutional Securities	Global Wealth Management Group	Asset Management	Discover	T
			(dollars in millions)		
At November 30, 2007	$ 1,005,452	$ 27,518	$ 12,439	$	$ 1,0
At November 30, 2006(3)	$ 1,063,985	$ 21,232	$ 6,908	$ 29,067	$ 1,1
At November 30, 2005(3)	$ 848,555	$ 19,290	$ 4,046	$ 26,944	$ 8

(1) The results of the Institutional Securities business segment for fiscal 2007 included a $25 million advisory fee related Discover Spin-off that was eliminated in consolidation. The results of the Institutional Securities business segment for 2006 included a $30 million advisory fee related to the Company s sale of the aircraft leasing business that was elimi consolidation.

(2) See Note 22 for a discussion of discontinued operations.

(3) Certain reclassifications have been made to prior-period amounts to conform to the current year s presentation.

(4) See Note 2 for a discussion of the cumulative effect of accounting change, net.

(5) 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 net revenue
total assets disclosed in the following table reflect the regional view of the Company s consolidated net reve
and total assets, on a managed basis, based on the following methodology:

Institutional Securities: investment banking client location, equity capital markets client location, de
markets revenue recording location, sales & trading trading desk location.

Global Wealth Management Group: global representative coverage location.

Asset Management: client location, except for merchant banking business, which is based on asset loc

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net Revenues	Americas	Europe, Middle East and Africa	Asia	
		(dollars in millions)		
Fiscal 2007	$ 12,150	$ 10,008	$ 5,868	$
Fiscal 2006(1)	18,803	7,762	3,274	
Fiscal 2005(1)	15,375	5,711	2,439	

Total Assets	Americas	Europe, Middle East and Africa	Asia	Eliminations	T
			(dollars in millions)		
At November 30, 2007	$ 705,728	$ 269,753	$ 83,328	$ (13,400)	$ 1,0
At November 30, 2006(1)	708,129	347,379	83,315	(17,631)	1,1
At November 30, 2005(1)	613,361	240,467	66,527	(21,520)	8

(1) Certain reclassifications have been made to prior-year amounts to conform to the current year s presentation.

22. Discontinued Operations.

Fiscal 2007.

Discover. On June 30, 2007, the Company completed the Discover Spin-off. The Company distributed all outstanding shares of DFS common stock, par value $0.01 per share, to the Company s stockholders of reco June 18, 2007. The Company s stockholders received one share of DFS common stock for every two shares Company s common stock. Stockholders received cash in lieu of fractional shares for amounts less than one DFS share. The Company received a tax ruling from the IRS that, based on customary representations and qualifications, the distribution was tax-free to the Company s stockholders for U.S. federal income tax purp

The Discover Spin-off allows the Company to focus its efforts on more closely aligned firm-wide strategic priorities within its Institutional Securities, Global Wealth Management Group and Asset Management busin segments.

The results of DFS prior to the Discover Spin-off are included within discontinued operations for all periods presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of the assets and liabilities associated with DFS as of November 30, 2006 (doll
millions):

Assets	
Cash and cash equivalents	$ 8
Financial instruments owned U.S. government and agency securities	
Financial instruments owned Derivative contracts	
Consumer loans	22,9
Fees, interest and other	1
Office facilities and other equipment, at cost, net	6
Goodwill and net intangible assets	7
Other assets	3,6
Total	$ 29,0
Liabilities and Shareholders Equity	
Commercial paper and other short-term borrowings	$ 3,1
Deposits	13,2
Financial instruments sold, not yet purchased Derivative contracts	
Interest and dividends payables	1
Other liabilities and accrued expenses	6,5
Long-term borrowings	2
Total	23,2
Net assets	$ 5,7

The net assets that were distributed to shareholders on the date of the Discover Spin-off were $5,558 million
which was recorded as a reduction to the Company s retained earnings.

Net revenues included in discontinued operations related to DFS were $2,392 million, $4,290 million and $3
million in fiscal 2007, fiscal 2006 and fiscal 2005, respectively.

The results of discontinued operations include interest expense that was allocated based upon borrowings th
specifically attributable to DFS operations through intercompany transactions existing prior to the Discove
Spin-off. For fiscal 2007, fiscal 2006 and fiscal 2005, the amount of interest expense reclassified to disconti
operations was approximately $159 million, $247 million and $145 million, respectively.

Quilter. On February 28, 2007, the Company sold Quilter, its standalone U.K. mass affluent business, whi formerly included within the Global Wealth Management Group business segment. The results of Quilter ar included within discontinued operations for all periods presented. The results for discontinued operations in 2007 also included a pre-tax gain of $168 million ($109 million after-tax) on disposition.

Fiscal 2006 and Fiscal 2005.

Aircraft Leasing. On August 17, 2005, the Company announced that its Board of Directors had approved management s recommendation to sell the Company s non-core aircraft leasing business. In connection wi action, the aircraft leasing business was classified as held for sale and reported as discontinued operation Company s consolidated financial statements. In addition, in the third quarter of fiscal 2005, the Company recognized a charge of approximately $1.7 billion ($1.0 billion after-tax) to reflect the writedown of the airc

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

leasing business to its estimated fair value of approximately $2.0 billion. In determining the charge that was recorded in the third quarter of fiscal 2005, the Company estimated the value to be realized in selling the airc leasing business as a whole. The estimated value of the business was based on the appraised values of the air portfolio, an evaluation of then current market conditions, recent transactions involving the sales of similar a leasing businesses, a detailed assessment of the portfolio and additional valuation analyses.

On January 30, 2006, the Company announced that it had signed a definitive agreement under which it woul its aircraft leasing business to Terra Firma, a European private equity group, for approximately $2.5 billion i and the assumption of liabilities. Based on the terms of the agreement and in accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), the Company revis estimate of the fair value (less selling costs) of the aircraft leasing business and, as a result, in the fourth qua reduced the pre-tax charge recorded in the third quarter of fiscal 2005 by approximately $1.1 billion. Full ye results for fiscal 2005 reflected a charge of $509 million ($316 million after-tax).

The sale was completed on March 24, 2006. The results for discontinued operations in fiscal 2006 included a of $125 million ($75 million after-tax) related to the impact of the finalization of the sales proceeds and bala sheet adjustments related to the closing. Gross revenues from the aircraft leasing business included in discon operations was $137 million and $417 million in fiscal 2006 and fiscal 2005, respectively.

Summarized financial information for the Company s discontinued operations for fiscal 2007, fiscal 200 fiscal 2005:

The table below provides information regarding amounts included within discontinued operations (dollars in millions):

		Fiscal Year	
	2007	2006	
Pre-tax gain (loss) on discontinued operations			
DFS	$ 850	$ 1,681	$
Quilter	174	27	
Aircraft leasing		(42)	
	$ 1,024	$ 1,666	$

23. Business and Other Acquisitions and Dispositions and Sale of Minority Interest.

Subsequent to Fiscal 2007.

Morgan Stanley Wealth Management S.V., S.A.U. On January 28, 2008, the Company announced that it h
reached an agreement to sell Morgan Stanley Wealth Management S.V., S.A.U. (MSWM), its Spanish on
mass affluent wealth management business. The transaction is expected to close during the first half of fiscal
subject to customary closing conditions, including regulatory approvals. The results of MSWM have been in
within the Global Wealth Management Group business segment.

Fiscal 2007.

MSCI. On July 31, 2007, the Company announced that it would sell a minority interest in its subsidiary, MSCI Inc. (MSCI) in an initial public offering (IPO). MSCI is a provider of investment decision suppo
investment institutions worldwide. MSCI is included within the Institutional Securities business segment. In November 2007, MSCI completed its IPO of 16.1 million shares and received net proceeds of approximately
million, net of underwriting discounts, commissions and offering expenses. As the IPO was part of a

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

broader corporate reorganization, contemplated by the Company at the IPO date, the increase in the carrying
amount of the Company s investment in MSCI was recorded in Paid-in capital in the Company s consolida
statement of financial condition and the Company s consolidated statement of changes in shareholders equ
November 30, 2007. Subsequent to the IPO, the Company maintains approximately 81% ownership of MSC
consolidates MSCI for financial reporting purposes.

JM Financial. In October 2007, the Company dissolved its India joint ventures with JM Financial. The Company purchased the joint venture s institutional equities sales, trading and research platform by acquiri Financial s 49% interest and sold the Company s 49% interest in the joint venture s investment banking, f income and retail operation to JM Financial.

CityMortgage Bank. On December 21, 2006, the Company acquired CityMortgage Bank (CityMortgage Moscow-based mortgage bank that specializes in originating, servicing and securitizing residential mortgage in the Russian Federation. Since the acquisition date, the results of CityMortgage have been included within Institutional Securities business segment.

Olco Petroleum Group Inc. On December 15, 2006, the Company acquired a 60% equity stake in Olco Petroleum Group Inc. (Olco), a petroleum products marketer and distributor based in eastern Canada. Sin acquisition date, the results of Olco have been included within the Institutional Securities business segment.

Saxon Capital, Inc. On December 4, 2006, the Company acquired Saxon Capital, Inc. (Saxon), a servic originator of residential mortgages. Since the acquisition date, the results of Saxon have been included withi Institutional Securities business segment.

FrontPoint Partners. On December 4, 2006, the Company acquired FrontPoint Partners (FrontPoint), a of absolute return investment strategies. Since the acquisition date, the results of FrontPoint have been inclu within the Asset Management business segment.

Fiscal 2006.

Goldfish. On February 17, 2006, the Company acquired the Goldfish credit card business in the U.K. As a of the Discover Spin-off, the results of Goldfish have been included within discontinued operations (see Not The acquisition price was $1,676 million, which was paid in cash in February 2006. The Company recorded goodwill and other intangible assets of approximately $370 million in connection with the acquisition.

The following table summarizes the fair values of the assets acquired and the liabilities assumed at the date o
acquisition:

	At February 17, 2 (dollars in millio
Consumer loans	$ 1,3
Goodwill	2
Amortizable intangible assets	1
Other assets	
Total assets acquired	1,7
Total liabilities assumed	
Net assets acquired	$ 1,6

The $123 million of acquired amortizable intangible assets includes customer relationships of $54 million (1
estimated useful life) and trademarks of $69 million (25-year estimated useful life).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Lansdowne Partners. On November 1, 2006, the Company acquired a 19% stake in Lansdowne Partners (Lansdowne), a London-based investment manager. The investment in Lansdowne is accounted for under equity method of accounting within the Asset Management business segment.

Avenue Capital Group. On October 30, 2006, the Company formed a strategic alliance with Avenue Capit Group (Avenue), a New York-based investment manager with approximately $12 billion in assets under management. The Company acquired a minority interest in Avenue. The investment in Avenue is accounted under the equity method of accounting within the Asset Management business segment.

Morgan Stanley Bank International (China) Limited. On September 29, 2006, the Company acquired Mo Stanley Bank International (China) Limited (China Bank) (formerly Nan Tung Bank Ltd. Zhuhai), a bank People s Republic of China. The acquisition enabled the Company to strengthen its platform in China. Since acquisition date, the results of China Bank have been included within the Institutional Securities business seg

TransMontaigne Inc. On September 1, 2006, the Company acquired TransMontaigne Inc. and its subsidia (TransMontaigne), a group of companies operating in the refined petroleum products marketing and distr business. The acquisition enabled the Company to expand its supply and distribution of oil and refined oil pr across a broader range of clients and regions across the U.S., as well as increase its oil storage capacity acros U.S. Since the acquisition date, the results of TransMontaigne and its subsidiaries have been included within Institutional Securities business segment.

Heidmar Group. On September 1, 2006, the Company acquired the Heidmar Group of companies that pro international shipping and U.S. marine logistics services. The acquisition enabled the Company to expand its physical freight business across multiple vessel classes and geographies and provided an opportunity to expa into international shipping and services. Since the acquisition date, the results of the Heidmar Group of comp have been included within the Institutional Securities business segment.

Office Building. On June 19, 2006, the Company purchased a majority interest in a joint venture that indir owned title to 522 Fifth Avenue, a 23-floor office building in New York City (the Building), for approxin $420 million. On July 10, 2007, the Company purchased the balance of the interest in the joint venture for approximately $37 million.

The pro forma impact of each of the above business acquisitions individually and in the aggregate was not m to the consolidated financial statements.

24. Staff Accounting Bulletin No. 108.

In September 2006, the SEC released SAB 108. SAB 108 permits the Company to adjust for the cumulative of errors relating to prior years in the carrying amount of assets and liabilities as of the beginning of the 200 year, with an offsetting adjustment to the opening balance of retained earnings in the year of adoption. SAB also requires the adjustment of any prior quarterly financial statements within the fiscal year of adoption for effects of such errors on the quarters when the information is next presented. Such adjustments do not requir previously filed reports with the SEC to be amended. Effective August 31, 2006, the Company elected early application of SAB 108. In accordance with SAB 108, the Company adjusted its opening retained earnings f fiscal 2006 and its financial results for the first two quarters of fiscal 2006 for the items described below. Th Company considers these adjustments to be immaterial to prior annual periods.

MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Trust Preferred Securities. The Company adjusted its opening retained earnings for fiscal 2006 and its fin
results for the first two quarters of fiscal 2006 to reflect a change in its hedge accounting under SFAS No. 13
change is being made following a clarification by the SEC of its interpretation of SFAS No. 133 related to th
accounting for fair value hedges of fixed-rate trust preferred securities.

Since January 2005, the Company entered into various interest rate swaps to hedge the interest rate risk inhe
its trust preferred securities. The terms of the interest rate swaps and the corresponding trust preferred securi
mirrored one another, and the Company determined in the past that the changes in the fair value of the swaps
hedged instruments were the same. The Company applied the commonly used short-cut method in accoun
these fair value hedges and, therefore, did not reflect any gains or losses during the relevant periods. Based u
the SEC s clarification of SFAS No. 133, the Company determined that since it has the ability at its election
interest payments on its trust preferred securities, these swaps did not qualify for the short-cut method. These
swaps performed as expected as effective economic hedges of interest rate risk. The Company ended hedgin
the interest rate risk on these trust preferred securities effective August 2006 and adjusted its financial results
hedge accounting was never applied. The Company currently manages the interest rate risk on these securitie
part of its overall asset liability management.

Compensation and Benefits. The Company also adjusted its opening retained earnings for fiscal 2006 and
financial results for the first two quarters of fiscal 2006 for two compensation and benefits accruals. Such ac
are related to (i) the overaccrual of certain payroll taxes in certain non-U.S. locations, primarily in the U.K.,
arose in fiscal 2000 through fiscal 2006 and (ii) an adjustment to the amortization expense associated with
stock-based compensation awards, which arose in fiscal 2003 and fiscal 2004.

Impact of Adjustments. The impact of each of the items noted above on fiscal 2006 opening Shareholders
and Retained earnings and on Net income for the first and second quarters of fiscal 2006 is presented below
(dollars in millions):

	Trust Preferred Securities	Non-U.S. Payroll Taxes	Amortization of Stock-Based Compensation Awards
Cumulative effect on Shareholders equity as of December 1, 2005	$ (84)	$ 38	$ 12
Cumulative effect on Retained earnings as of December 1, 2005	$ (84)	$ 38	$ (22)
Effect on:			
Net income for the three months ended February 28, 2006	$ (1)	$ 14	$
Net income for the three months ended May 31, 2006	$ (116)	$	$
Net income for the six months ended May 31, 2006	$ (117)	$ 14	$

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The aggregate impact of these adjustments is summarized below (dollars in millions, except per share data):

As of and for the Three Months Ended February 28, 2006	Previously Reported	Adjustment	Ac
Other assets	$ 15,988	$ 12	$
Other liabilities	$ 14,984	$ (98)	$
Long-term borrowings	$ 121,395	$ 131	$ 1
Shareholders equity	$ 30,124	$ (21)	$
Principal transactions trading revenue	$ 3,073	$ 13	$
Compensation and benefits expense	$ 4,032	$ (22)	$
Interest expense	$ 9,216	$ 15	$
Net income	$ 1,561	$ 13	$
Diluted EPS	$ 1.47	$ 0.01	$

As of and for the Three Months Ended May 31, 2006	Previously Reported	Adjustment	Ac
Other assets	$ 17,651	$ 12	$
Other liabilities	$ 18,159	$ (162)	$
Long-term borrowings	$ 127,985	$ 311	$ 1
Shareholders equity	$ 32,255	$ (137)	$
Principal transactions trading revenue	$ 3,729	$ (170)	$
Compensation and benefits expense	$ 3,587	$	$
Interest expense	$ 9,735	$ 9	$
Net income	$ 1,957	$ (116)	$
Diluted EPS	$ 1.86	$ (0.11)	$

For the Six Months Ended May 31, 2006	Previously Reported	Adjustment	Ac
Principal transactions trading revenue	$ 6,802	$ (157)	$
Compensation and benefits expense	$ 7,619	$ (22)	$
Interest expense	$ 18,951	$ 24	$
Net income	$ 3,518	$ (103)	$
Diluted EPS	$ 3.33	$ (0.10)	$

25. Insurance Settlement.

On September 11, 2001, the U.S. experienced terrorist attacks targeted against New York City and Washingt 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 e financial markets in the U.S. Through the implementation of its business recovery plans, the Company reloc displaced employees to other facilities.

In the first quarter of fiscal 2005, the Company settled its claim with its insurance carriers related to the ever
September 11, 2001. The Company recorded a pre-tax gain of $251 million as the insurance recovery was in
excess of previously recognized costs related to the terrorist attacks (primarily write-offs of leasehold
improvements and destroyed technology and telecommunications equipment in the World Trade Center com
employee relocation and certain other employee-related expenditures).

The pre-tax gain was recorded as a reduction to non-interest expenses and is included within the Global Wea
Management Group ($198 million), Asset Management ($43 million) and Institutional Securities ($10 millio
business segments. The insurance settlement was allocated to the respective segments in accordance with the
relative damages sustained by each segment.

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Lease Adjustment.

Prior to the first quarter of fiscal 2005, the Company did not record the effects of scheduled rent increases ar rent-free periods for certain real estate leases on a straight-line basis. In addition, the Company had been accounting for certain tenant improvement allowances as reductions to the related leasehold improvements i of recording funds received as deferred rent and amortizing them as reductions to lease expense over the leas term. In the first quarter of fiscal 2005, the Company changed its method of accounting for these rent escalat clauses, rent-free periods and tenant improvement allowances to properly reflect lease expense over the lease on a straight-line basis. The impact of this correction resulted in the Company recording $105 million of add rent expense in the first quarter of fiscal 2005. The impact of this change was included within non-interest expenses and reduced income before taxes within the Institutional Securities ($71 million), Global Wealth Management Group ($29 million) and Asset Management ($5 million) business segments. The impact of thi correction was not material to the pre-tax income of each of the segments or to the Company.

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27. Quarterly Results (unaudited).

	2007 Fiscal Quarter				2006 Fiscal Quarter			
	First	Second	Third	Fourth(1)	First(2)	Second(2)	Third	F
	(dollars in millions, except per share data)							
Total revenues	$ 23,192	$ 26,195	$ 21,230	$ 14,711	$ 16,644	$ 17,257	$ 18,613	$
Interest expense	13,198	15,671	13,272	15,161	9,231	9,744	11,549	
Net revenues	9,994	10,524	7,958	(450)	7,413	7,513	7,064	
Total non-interest expenses	6,538	7,000	5,693	5,354	5,503	5,212	4,820	
Income (losses) from continuing operations before (losses) gains from unconsolidated investees and income taxes	3,456	3,524	2,265	(5,804)	1,910	2,301	2,244	
(Losses) gains from unconsolidated investees	(26)	(20)	(19)	18	(19)	24	20	
Provision for (benefit from) income taxes	1,116	1,141	772	(2,198)	603	848	676	
Income (losses) from continuing operations	2,314	2,363	1,474	(3,588)	1,288	1,477	1,588	
Discontinued operations(3):								
Gain from discontinued operations	564	349	111		453	583	399	
Provision for income taxes	(206)	(130)	(42)		(167)	(219)	(136)	
Gain on discontinued operations	358	219	69		286	364	263	
Net income	$ 2,672	$ 2,582	$ 1,543	$ (3,588)	$ 1,574	$ 1,841	$ 1,851	$
Preferred stock dividend requirements	$ 17	$ 17	$ 17	$ 17	$	$	$	$
Earnings applicable to common shareholders	$ 2,655	$ 2,565	$ 1,526	$ (3,605)	$ 1,574	$ 1,841	$ 1,851	$
Earnings per basic common share(4):								
Income (losses) from continuing operations	$ 2.28	$ 2.35	$ 1.45	$ (3.61)	$ 1.26	$ 1.46	$ 1.57	$
Gain on discontinued operations	0.35	0.22	0.07		0.28	0.36	0.26	
Earnings per basic common share	$ 2.63	$ 2.57	$ 1.52	$ (3.61)	$ 1.54	$ 1.82	$ 1.83	$
Earnings per diluted common share(4):								
	$ 2.17	$ 2.24	$ 1.38	$ (3.61)	$ 1.21	$ 1.40	$ 1.50	$

Income (losses) from continuing operations								
Gain on discontinued operations	0.34	0.21	0.06		0.27	0.35	0.25	
Earnings per diluted common share	$ 2.51	$ 2.45	$ 1.44	$ (3.61)	$ 1.48	$ 1.75	$ 1.75	$
Dividends to common shareholders	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$
Book value	$ 34.71	$ 36.52	$ 32.14	$ 28.56	$ 28.12	$ 29.97	$ 31.24	$

(1) Results for the Company in the fourth quarter of fiscal 2007 included $9.4 billion in mortgage-related writedowns.
(2) Results for the Company for the first two quarters of fiscal 2006 were adjusted (see Note 24).
(3) See Note 22 for a discussion of discontinued operations.
(4) Summation of the quarters earnings per common share may not equal the annual amounts due to the averaging effect number of shares and share equivalents throughout the year.

28. Subsequent Event.

China Investment Corporation Investment.

In December 2007, the Company sold Equity Units which include contracts to purchase Company common (see Stock Purchase Contracts herein) to a wholly owned subsidiary of the CIC for approximately $5,579 CIC s ownership in the Company s common stock, including the maximum number of shares of common s received by CIC upon settlement of the stock purchase contracts, will be 9.9% or less of the Company s tota outstanding based on the total shares outstanding on November 30, 2007. CIC will be a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

passive financial investor and will have no special rights of ownership nor a role in the management of the Company. A substantial portion of the investment proceeds will be treated as Tier 1 capital for regulatory ca purposes.

Each stock purchase contract mandatorily settles in Company common stock at prices between $48.0700 and $57.6840. The maximum number of shares to be issued upon settlement of the stock purchase contracts inclu the Equity Units is approximately 116,063,000. The stock purchase contracts settle for Company common st August 17, 2010, subject to adjustment. Each Equity Unit will pay a fixed annual payment rate of 9% payab quarterly.

As described below, the Equity Units consist of interests in trust preferred securities issued by Morgan Stanl Capital Trust A (Series A Trust), Morgan Stanley Capital Trust B (Series B Trust) or Morgan Stanley C (Series C Trust) (each a Morgan Stanley Trust and, collectively, the Trusts) and stock purchase c by the Company. The only assets held by the Series A Trust, Series B Trust and Series C Trust are junior subordinated debentures issued by the Company.

Equity Units.

Each Equity Unit has a stated amount of $1,000 per unit consisting of:

(i) an undivided beneficial ownership interest in a trust preferred security of Series A Trust, Series B Trust Series C Trust with an initial liquidation amount of $1,000; and

(ii) a stock purchase contract relating to the common stock, par value of $0.01 per share, of the Company.

Junior Subordinated Debentures Issued to Support Trust Common and Trust Preferred Securities.

In the first quarter of fiscal 2008, the Company issued junior subordinated debt securities due no later than February 17, 2042 for a total of $5,579,173,000 in exchange for $5,579,143,000 in aggregate proceeds from sale of the trust preferred securities by the Trusts and $30,000 in trust common securities issued equally by t Trusts. The Company elected to fair value the junior subordinated debentures pursuant to SFAS No. 159. Th common and trust preferred securities of the Trusts, totaling approximately $5,579 million, represent undivi beneficial ownership interests in the assets of the Trusts, have no stated maturity and must be redeemed upo redemption or maturity of the corresponding series of junior subordinated debt securities the sole assets of t respective Trusts. The Series A Trust, Series B Trust and Series C Trust will make quarterly distributions on trust common and trust preferred securities at an annual rate of 6%.

The trust common securities, which are held by the Company, represent an interest in the Trusts and are reco as an equity method investment in the Company s consolidated statement of financial condition. The Trusts VIEs in accordance with FIN 46R and the Company does not consolidate its interests in the Trusts as it is no primary beneficiary of any of the Trusts.

The Company has directly guaranteed the repayment of the trust preferred securities to the holders thereof to extent that there are funds available in the Trusts. If the Company does not make payments on the junior subordinated debentures owned by a Morgan Stanley Trust, such Morgan Stanley Trust will not be able to pa amounts payable in respect of the trust preferred securities issued by it and will not have funds legally availa that purpose. In that event, holders of such series of trust preferred securities would not be able to rely upon guarantee for payment of those amounts. The guarantee will remain in place until the redemption price of all trust preferred securities is paid, the amounts payable with respect to the trust preferred

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MORGAN STANLEY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

securities upon liquidation of the Morgan Stanley Trusts are paid or the junior subordinated debentures are distributed to the holders of all the trust preferred securities. The trust preferred securities held by the Equity holders are pledged to the Company to collateralize the obligations of the Equity Unit holders under the rela stock purchase contracts. The Equity Unit holders may substitute certain zero-coupon treasury securities in p the trust preferred securities as collateral under the stock purchase contracts.

Stock Purchase Contracts.

Each stock purchase contract requires the holder to purchase, and the Company to sell, on the stock purchase number of newly issued or treasury shares of the Company s common stock, par value $0.01 per share, equa settlement rate. The settlement rate at the respective stock purchase date will be calculated based on the arith average of the volume-weighted average prices of the common stock during a specified 20-day period endin days immediately preceding the applicable stock purchase date (applicable market value). If the applicabl value of the Company s common stock is less than the threshold appreciation price of $57.6840 but greater $48.0700, the reference price, the settlement rate will be a number of shares of the Company s common sto to $1,000 divided by the applicable market value. If the applicable market value is less than or equal to the reference price, the settlement rate will be the number of shares of the Company s common stock equal to $ divided by the reference price. If the applicable market value is greater than or equal to the threshold apprec price, the settlement rate will be the number of shares of the Company s common stock equal to $1,000 divi the threshold appreciation price. Accordingly, upon settlement in the aggregate, the Company will receive proceeds of approximately $5,579 million and issue up to approximately 116,063,000 shares of its common The stock purchase contract may be settled early at the option of the holder at any time prior to the second b day immediately preceding the beginning of the first remarketing period. However, upon early settlement, th holder will receive the minimum settlement rate, subject to adjustment.

The initial quarterly distributions on the Series A, Series B and Series C trust preferred securities of 6%, con with the contract adjustment payments on the stock purchase contracts of 3%, result in the 9% yield on the E Units.

If the Company defers any of the contract adjustment payments on the stock purchase contracts, then it will a additional amounts on the deferred amounts at the annual rate of 9% until paid, to the extent permitted by la

The present value of the future contract adjustment payments due under the stock purchase contracts was approximately $400 million and was recorded in Other liabilities and accrued expenses with a correspondin decrease recorded in Shareholders equity in the Company s consolidated statement of financial condition i quarter of fiscal 2008. The other liability balance related to the stock purchase contracts will accrete over the of the stock purchase contract using the effective yield method with a corresponding charge to Interest expe When the contract adjustment payments are made under the stock purchase contracts, they will reduce the o liability balance.

Calculation of Impact on Average Diluted Common Shares Outstanding Prior to Settlement of Stock Purcha Contract.

Prior to the issuance of common stock upon settlement of the stock purchase contract, the impact of the Equi Units will be reflected in the Company s earnings per diluted common share using the treasury stock metho defined by SFAS No. 128, Earnings Per Share. Under the treasury stock method, the number of shares of stock included in the calculation of earnings per diluted common share will be calculated as the excess, if an the number of shares expected to be issued upon settlement of the stock purchase contract based on the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

average market price for the last 20 days of the reporting period, less the number of shares that could be purc by the Company with the proceeds to be received upon settlement of the contract at the average closing price the reporting period.

Dilution of net income per share will occur (i) in reporting periods when the average closing price of commo shares is over $57.6840 per share or (ii) in reporting periods when the average closing price of common shar a reporting period is between $48.0700 and $57.6840 and is greater than the average market price for the las days ending three days prior to the end of such reporting period.

Upon settlement of the Stock Purchase Contract, the amount of common shares issued in settlement of the co will be included in the basic and diluted earnings per share calculation of weighted average common shares outstanding for the reporting period.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Finar Disclosure.

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer our Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such t defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our Chief Executive Officer and our Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the p covered by this annual report.

Management s Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial rep Morgan Stanley s internal control over financial reporting is designed to provide reasonable assurance rega reliability of financial reporting and the preparation of financial statements for external purposes in accordar with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transa and dispositions of the assets of Morgan Stanley;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of fina statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of Morgan Stanley s manageme directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, us disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk th controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Morgan Stanley s internal control over financial reporting as of November 30, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. on management s assessment and those criteria, management believes that Morgan Stanley maintained effe internal control over financial reporting as of November 30, 2007.

Morgan Stanley s independent registered public accounting firm has audited and issued a report on Morgan Stanley s internal control over financial reporting, which appears below.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Morgan Stanley:

We have audited the internal control over financial reporting of Morgan Stanley and subsidiaries (the Com of November 30, 2007, based on criteria established in *Internal Control Integrated Framework* issued by th Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is resp for maintaining effective internal control over financial reporting and for its assessment of the effectiveness internal control over financial reporting, included in the accompanying Management s Report on Internal C Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control ove financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Boa (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance a whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a mat weakness exists, testing and evaluating the design and operating effectiveness of internal control based on th assessed risk, and performing such other procedures as we considered necessary in the circumstances. We be that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assur regarding the reliability of financial reporting and the preparation of financial statements for external purpos accordance with generally accepted accounting principles. A company s internal control over financial repo includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detai accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reaso assurance that transactions are recorded as necessary to permit preparation of financial statements in accorda with generally accepted accounting principles, and that receipts and expenditures of the company are being only in accordance with authorizations of management and directors of the company; and (3) provide reason assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the co assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may no prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the intern control over financial reporting to future periods are subject to the risk that the controls may become inadequ because of changes in conditions, or that the degree of compliance with the policies or procedures may deter

In our opinion, the Company maintained, in all material respects, effective internal control over financial rep as of November 30, 2007, based on the criteria established in *Internal Control Integrated Framework* issue the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of November 30, 2007 the related consolidated statement of income, comprehensive income, cash flows and changes in shareholder equity for the year ended November 30, 2007 and our report dated January 28, 2008 expressed an unqualifie opinion on those financial statements and includes an explanatory paragraph, in fiscal 2007, concerning the adoption of Statement of Financial Accounting Standards No. 157, Fair Value Measurement and Stateme Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 and, an explanatory paragraph, in fiscal

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2007, concerning the adoption of Statement of Financial Accounting Standards, No. 158, Employers Acc
for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88
and 132(R).

/s/ Deloitte & Touche LLP

New York, New York

January 28, 2008

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Changes in Internal Control Over Financial Reporting.

No change in Morgan Stanley s internal control over financial reporting (as such term is defined in Exchang
Rule 13a-15(f)) occurred during the fiscal quarter ended November 30, 2007 that materially affected, or is reasonably likely to materially affect, Morgan Stanley s internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

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Part III

Item 10. Directors, Executive Officers and Corporate Governance.

Information relating to Morgan Stanley s directors and nominees under the following captions in Morgan S Proxy Statement is incorporated by reference herein.

Item 1 Election of Directors

Item 1 Election of Directors Board Meetings and Committees

Information relating to Morgan Stanley s executive officers is contained in Part I, Item 1 of this report unde Executive Officers of Morgan Stanley.

Morgan Stanley s Code of Ethics and Business Conduct applies to all directors, officers and employees, inc its Chief Executive Officer, its Chief Financial Officer and its Controller and Principal Accounting Officer. can find our Code of Ethics and Business Conduct on our internet site, *www.morganstanley.com*. We will po amendments to the Code of Ethics and Business Conduct, and any waivers that are required to be disclosed b rules of either the SEC or the NYSE, on our internet site.

Because Morgan Stanley s common stock is listed on the NYSE, its Chief Executive Officer made his annu certification to the NYSE on May 4, 2007 stating that he was not aware of any violation by Morgan Stanley NYSE s corporate governance listing standards. In addition, Morgan Stanley has filed, as exhibits to this An Report on Form 10-K, the certifications of its Chief Executive Officer and Chief Financial Officer required u Section 302 of the Sarbanes-Oxley Act of 2002 to be filed with the SEC regarding the quality of Morgan Sta public disclosure.

Item 11. Executive Compensation.

Information relating to director and executive officer compensation under the following captions in Morgan Stanley s Proxy Statement is incorporated by reference herein.

Item 1 Election of Directors Director Compensation

Executive Compensation

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information.

The following table provides information about stock options outstanding and shares of common stock avail for future awards under all of Morgan Stanley s equity compensation plans as of November 30, 2007. Morg Stanley has not made any grants of common stock outside of its equity compensation plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights		(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securitie remaining available f future issuance unde equity compensatio plans (excluding secur reflected in column (a)
Equity compensation plans approved by security holders	118,130,600	$	48.2201	149,206,
Equity compensation plans not approved by security holders				4,993,
Total	118,130,600	$	48.2201	154,199,

(1) This column does not include 11,694,388 shares available under the 401(k) Plan.
(2) Includes the following:

42,582,283 shares available under the Employee Stock Purchase Plan (ESPP). Pursuant to this plan, which is qua under Section 423 of the Internal Revenue Code, eligible employees may purchase shares of common stock at a d to market price through regular payroll deduction.

100,000,000 shares available under the 2007 Equity Incentive Compensation Plan (EICP). Awards may consist o options, stock appreciation rights, restricted stock, restricted stock units to be settled by the delivery of shares of common stock (or the value thereof), other awards that are valued by reference to or otherwise based on the fair r value of common stock, and other equity-based or equity-related awards approved by the Compensation, Manage Development and Succession Committee.

5,621,592 shares available under the Employee Equity Accumulation Plan (EEAP). Awards may consist of stock options, stock appreciation rights, restricted stock, restricted stock units to be settled by the delivery of shares of common stock (or the value thereof), other awards that are valued by reference to or otherwise based on the fair r value of common stock, and other equity-based or equity-related awards approved by the Compensation, Manage Development and Succession Committee.

415,716 shares available under the Tax Deferred Equity Participation Plan (TDEPP). Awards consist of restricted units which are settled by the delivery of shares of common stock.

586,656 shares available under the Directors Equity Capital Accumulation Plan (DECAP). This plan provides f periodic awards of shares of common stock and stock units to non-employee directors and also allows non-emplo directors to defer the fees they earn from services as a director in the form of stock units.

(3) 22,957 shares available under the Branch Manager Compensation Plan (BMCP) and 4,970,372 shares available under Financial Advisor and Investment Representative Compensation Plan (FAIRCP). The material features of these plans described below.

The material features of Morgan Stanley s equity compensation plans that have not been approved by sharel under SEC rules (BMCP and FAIRCP) are described below. The following descriptions do not purport to be complete and are qualified in their entirety by reference to the plan documents. All plans through which awa may currently be granted are included as exhibits to this report.

BMCP. Branch managers are eligible to receive awards under BMCP. Awards under BMCP may consist c awards, restricted stock and restricted stock units to be settled by the delivery of shares of common stock.

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FAIRCP. Financial advisors and investment representatives are eligible to receive awards under FAIRCP. Awards under FAIRCP may consist of cash awards, restricted stock and restricted stock units to be settled by delivery of shares of common stock.

* * *

Other information relating to security ownership of certain beneficial owners and management is set forth un the caption Beneficial Ownership of Company Common Stock in Morgan Stanley s Proxy Statement and information is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions, and Director Independen

Information regarding certain relationships and related transactions under the following caption in Morgan Stanley s Proxy Statement is incorporated by reference herein.

Other Matters Certain Transactions

Item 14. Principal Accountant Fees and Services.

Information regarding principal accountant fees and services under the following caption in Morgan Stanley Proxy Statement is incorporated by reference herein.

Item 2 Ratification of Appointment of Morgan Stanley s Independent Auditor (excluding the info under the subheading Audit Committee Report)

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Part IV

Item 15. Exhibits and Financial Statement Schedules.

Documents filed as part of this report.

The financial statements required to be filed hereunder are listed on page S-1.

The financial statement schedules required to be filed hereunder are listed on page S-1.

An exhibit index has been filed as part of this report beginning on page E-1 and is incorporated herei
reference.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant h
caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on January 28, 2(

MORGAN STANLEY

(REGISTRANT)
By: /s/ JOHN J. MACK
(John J. Mack)

Chairman of the Board and

Chief Executive Officer

Power of Attorney

We, the undersigned, hereby severally constitute Colm Kelleher, Gary G. Lynch, and Martin M. Cohen, and
of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, and in
names in the capacities indicated below, any and all amendments to the Annual Report on Form 10-K filed v
the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be sig
our said attorneys to any and all amendments to said Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by th
following persons on behalf of the Registrant and in the capacities indicated on the 28th day of January, 200

Signature	Title
/s/ JOHN J. MACK	Chairman of the Board and Chief Executive Offic
(John J. Mack)	(Principal Executive Officer)
/s/ COLM KELLEHER	Executive Vice President and Chief Financial Offic
(Colm Kelleher)	(Principal Financial Officer)
/s/ PAUL C. WIRTH	Controller and Principal Accounting Officer
(Paul C. Wirth)	(Principal Accounting Officer)
/s/ ROY J. BOSTOCK	Director
(Roy J. Bostock)	

/s/ Erskine B. Bowles	Director
(Erskine B. Bowles)	
/s/ Howard J. Davies	Director
(Howard J. Davies)	
/s/ C. Robert Kidder	Director
(C. Robert Kidder)	
/s/ Donald T. Nicolaisen	Director
(Donald T. Nicolaisen)	

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Signature	Title
/s/ CHARLES H. NOSKI	Director
(Charles H. Noski)	
/s/ HUTHAM S. OLAYAN	Director
(Hutham S. Olayan)	
/s/ CHARLES E. PHILLIPS, JR.	Director
(Charles E. Phillips, Jr.)	
/s/ O. GRIFFITH SEXTON	Director
(O. Griffith Sexton)	
/s/ LAURA D ANDREA TYSON	Director
(Laura D Andrea Tyson)	
/s/ KLAUS ZUMWINKEL	Director
(Klaus Zumwinkel)	

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MORGAN STANLEY

INDEX TO FINANCIAL STATEMENTS AND

FINANCIAL STATEMENT SCHEDULES

ITEMS (15)(a)(1) AND (15)(a)(2)

Financial Statements

Financial Statement Schedules

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SCHED

MORGAN STANLEY

(Parent Company Only)

Condensed Statements of Financial Condition

(dollars in millions, except share data)

	November 30, 2007	Novemb 200
Assets:		
Cash and cash equivalents	$ 10,224	$
Financial instruments owned	8,551	1
Securities purchased under agreement to resell with affiliate	54,137	4
Advances to subsidiaries	156,446	14
Investment in subsidiaries, at equity	34,946	3
Other assets	4,149	
Total assets	$ 268,453	$ 24
Liabilities and Shareholders Equity:		
Commercial paper and other short-term borrowings	$ 20,615	$ 1
Financial instruments sold, not yet purchased	253	
Payables to subsidiaries	32,523	4
Other liabilities and accrued expenses	1,037	
Long-term borrowings	182,756	13
	237,184	21
Commitments and contingencies		
Shareholders equity:		
Preferred stock	1,100	
Common stock, $0.01 par value;		
Shares authorized: 3,500,000,000 in 2007 and 2006;		
Shares issued: 1,211,701,522 in 2007 and 2006;		
Shares outstanding: 1,056,289,659 in 2007 and 1,048,877,006 in 2006	12	
Paid-in capital	1,902	
Retained earnings	38,045	4
Employee stock trust	5,569	
Accumulated other comprehensive loss	(199)	
Common stock held in treasury, at cost, $0.01 par value; 155,411,893 shares in 2007 and 162,824,546 shares in 2006	(9,591)	(
Common stock issued to employee trust	(5,569)	(
Total shareholders equity	31,269	3
Total liabilities and shareholders equity	$ 268,453	$ 24

See Notes to Condensed Financial Statements.

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SCHED

MORGAN STANLEY

(Parent Company Only)

Condensed Statements of Income and Comprehensive Income

(dollars in millions)

	Fiscal 2007	Fiscal 2006	I
Revenues:			
Interest and dividends	$ 9,211	$ 6,036	$
Principal transactions	613	(156)	
Other	(2)	3	
Total revenues	9,822	5,883	
Expenses:			
Interest expense	9,834	6,744	
Non-interest expenses	427	146	
Total expenses	10,261	6,890	
(Loss) income before income tax benefit (provision) and equity in earnings of subsidiaries	(439)	(1,007)	
Income tax benefit (provision)	173	296	
(Loss) income before equity in earnings of subsidiaries	(266)	(711)	
Equity in earnings of subsidiaries, net of tax (including a cumulative effect of accounting change of $49 in fiscal 2005)	3,475	8,183	
Net income	$ 3,209	$ 7,472	$
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	65	104	
Net change in cash flow hedges	19	53	
Minimum pension liability adjustment	(40)	(2)	
Comprehensive income	$ 3,253	$ 7,627	$
Net income	$ 3,209	$ 7,472	$
Preferred stock dividend requirements	$ 68	$ 19	$
Earnings applicable to common shareholders	$ 3,141	$ 7,453	$

See Notes to Condensed Financial Statements.

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SCHED

MORGAN STANLEY

(Parent Company Only)

Condensed Statements of Cash Flows

(dollars in millions)

	Fiscal 2007	Fiscal 2006	F 2
Cash flows from operating activities:			
Net income	$ 3,209	$ 7,472	$
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change of subsidiaries			
Compensation payable in common stock and stock options	1,941	1,955	
Equity in subsidiaries earnings, net of dividends	3,500	(6,345)	
Change in assets and liabilities:			
Financial instruments owned, net of financial instruments sold, not yet purchased	(2,625)	(1,857)	
Other assets	6,346	7,091	(
Other liabilities and accrued expenses	(23,855)	10,064	
Net cash (used in) provided by operating activities	(11,484)	18,380	
Cash flows from investing activities:			
Advances to and investments in subsidiaries	(12,376)	(32,837)	
Securities purchased under agreement to resell with affiliate	(13,784)	(16,055)	(1
Net cash used for investing activities	(26,160)	(48,892)	(1
Cash flows from financing activities:			
Net proceeds from (payments for) short-term borrowings	6,360	(3,375)	(1
MSCI Inc. initial public offering	265		
Tax benefits associated with stock-based awards	281	144	
Net proceeds from:			
Issuance of preferred stock		1,097	
Issuance of common stock	927	643	
Issuance of long-term borrowings	60,651	44,009	3
Payments for:			
Repurchases of common stock	(3,753)	(3,376)	(
Repayments of long-term borrowings	(22,523)	(14,363)	(1
Cash dividends	(1,219)	(1,167)	(
Net cash provided by financing activities	40,989	23,612	
Net increase (decrease) in cash and cash equivalents	3,345	(6,900)	(
Cash and cash equivalents, at beginning of period	6,879	13,779	2

Cash and cash equivalents, at end of period	$ 10,224	$ 6,879	$ 1

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were $8,590 million, $6,230 million and $2,928 million for fiscal 2007, fiscal 20 fiscal 2005, respectively.

Cash payments for income taxes were $847 million, $1,517 million and $867 million for fiscal 2007, fiscal 2 and fiscal 2005, respectively.

See Notes to Condensed Financial Statements.

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MORGAN STANLEY

(Parent Company Only)

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Introduction and Basis of Presentation.

Basis of Financial Information. The accompanying condensed financial statements (the Parent Company Financial Statements), including the notes thereto, should be read in conjunction with the consolidated fina statements of Morgan Stanley (the Company) and the notes thereto found on pages 101 to 181 in this For

The Parent Company Financial Statements for the 12 months ended November 30, 2007 (fiscal 2007), November 30, 2006 (fiscal 2006) and November 30, 2005 (fiscal 2005) are prepared in accord accounting principles generally accepted in the U.S., which require the Company to make estimates and assumptions regarding valuations of certain financial instruments, the potential outcome of litigation and oth matters that affect the Parent Company Financial Statements and related disclosures. The Company believes the estimates utilized in the preparation of the Parent Company Financial Statements are prudent and reason Actual results could differ materially from these estimates.

2. Transactions with Subsidiaries.

The Company has transactions with its consolidated subsidiaries determined on an agreed-upon basis and ha guaranteed certain unsecured lines of credit and contractual obligations of certain of its consolidated subsidi

The Company received cash dividends from its consolidated subsidiaries totaling $6,975 million, $1,838 mil and $5,720 million in fiscal 2007, fiscal 2006 and fiscal 2005, respectively.

3. Guarantees.

In the normal course of its business, the Company guarantees certain of its subsidiaries obligations under derivative and other financial arrangements. The Company records all derivative contracts and Financial instruments owned and Financial instruments sold, not yet purchased at fair value on its consolidated statem financial condition. For a discussion of the Company s risk management activities, see Note 6 to the Compa consolidated financial statements.

The Company also, in the normal course of its business, provides standard indemnities to counterparties on b of its subsidiaries for taxes, including U.S. and foreign withholding taxes, on interest and other payments ma derivatives, securities and stock lending transactions and certain annuity products. These indemnity payment could be required based on a change in the tax laws or change in interpretation of applicable tax rulings. Cer contracts contain provisions that enable the Company to terminate the agreement upon the occurrence of suc events. The maximum potential amount of future payments that the Company could be required to make und these indemnifications cannot be estimated. The Company has not recorded any contingent liability in the condensed financial statements for these indemnifications and believes that the occurrence of any events tha would trigger payments under these contracts is remote.

The Company has issued guarantees on behalf of its subsidiaries to various U.S. and non-U.S. exchanges an clearinghouses that trade and clear securities and/or futures contracts. Under these guarantee arrangements, t Company may be required to pay the financial obligations of its subsidiaries related to business transacted o with the exchanges and clearinghouses in the event of a subsidiary s default on its obligations to the exchan the clearinghouse. The Company has not recorded any contingent liability in the condensed financial statem these arrangements and believes that any potential requirements to make payments under these arrangement remote.

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The Company guarantees certain debt instruments and warrants issued by subsidiaries. The debt instruments totaled $11.8 billion and the warrants totaled $0.1 billion at November 30, 2007. In connection with subsidia lease obligations, the Company has issued guarantees to various lessors. At November 30, 2007, the Compa $2.2 billion outstanding under subsidiary lease obligations, primarily in the United Kingdom.

4. Commitments and Contingencies.

For a discussion of the Company s commitments and contingencies, see Note 15 to the Company s consoli financial statements.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Morgan Stanley:

We have audited the consolidated financial statements of Morgan Stanley and subsidiaries (the Company November 30, 2007 and 2006, and for each of the three years in the period ended November 30, 2007 and th effectiveness of the Company s internal control over financial reporting as of November 30, 2007, and have our reports thereon dated January 28, 2008 (such report on the consolidated financial statements expresses ar unqualified opinion and includes an explanatory paragraph, in fiscal 2005, concerning the adoption of Stater Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS No. 123(R)) and, effective 2005, the change in accounting policy for recognition of equity awards granted to retirement-eligible employ and, an explanatory paragraph, in fiscal 2006, concerning the application of Staff Accounting Bulletin No. 1 Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements (SAB No. 108) and, an explanatory paragraph, in fiscal 2007, concerning the adop Statement of Financial Accounting Standards No. 157, Fair Value Measurement (SFAS No. 157) and S Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159) and, an explanatory p fiscal 2007, concerning the adoption of Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statement 87, 88, 106, and 132(R)); such consolidated financial statements and reports are included in this 2007 Annu Report on Form 10-K. Our audits also included Schedule I listed in the Index to Financial Statements and Fi Statement Schedules. This financial statement schedule is the responsibility of the Company s management responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all m respects, the information set forth therein.

In fiscal 2005, the Company adopted SFAS No. 123(R).

In fiscal 2006, the Company changed its accounting policy for recognition of equity awards granted to retire eligible employees and the Company elected application of SAB No. 108.

In fiscal 2007, the Company adopted SFAS No. 157, SFAS No. 158 and SFAS No. 159.

/s/ Deloitte & Touche LLP

New York, New York

January 28, 2008

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

EXHIBITS TO FORM 10-K

For the fiscal year ended November 30, 2007

Commission File No. 1-11758

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Exhibit Index

Certain of the following exhibits, as indicated parenthetically, were previously filed as exhibits to registratio statements filed by Morgan Stanley or its predecessor companies under the Securities Act or to reports or registration statements filed by Morgan Stanley or its predecessor companies under the Exchange Act, respectively, and are hereby incorporated by reference to such statements or reports. Morgan Stanley s Excl Act file number is 1-11758. The Exchange Act file number of Morgan Stanley Group Inc., a predecessor co (MSG), was 1-9085.

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Morgan Stanley, as amended to date (E 3 to Morgan Stanley s Quarterly Report on Form 10-Q for the quarter ended February 28, 20
3.2	Certificate of Elimination of the 8.03% Cumulative Preferred Stock dated as of March 23, 20 (Exhibit 3 to Morgan Stanley s Current Report on Form 8-K dated March 23, 2007).
3.3	By-Laws of Morgan Stanley, as amended to date (Exhibit 3 to Morgan Stanley s Current Rep Form 8-K dated June 19, 2007).
4.1	Indenture dated as of February 24, 1993 between Morgan Stanley and The Bank of New York trustee (Exhibit 4 to Morgan Stanley s Registration Statement on Form S-3 (No. 33-57202)).
4.2	Amended and Restated Senior Indenture dated as of May 1, 1999 between Morgan Stanley an Bank of New York, as trustee (Exhibit 4-e to Morgan Stanley s Registration Statement on Fo S-3/A (No. 333-75289)).
4.3*	Fourth Supplemental Senior Indenture dated as of October 8, 2007 between Morgan Stanley a Bank of New York as trustee (Supplemental to Amended and Restated Senior Indenture dated May 1, 1999).
4.4	Senior Indenture dated as of November 1, 2004 between Morgan Stanley and The Bank of Ne York, as trustee (Exhibit 4-f to Morgan Stanley s Registration Statement on Form S-3/A (No. 333-117752)).
4.5*	First Supplemental Senior Indenture dated as of September 4, 2007 between Morgan Stanley a The Bank of New York, as trustee (Supplemental to Senior Indenture dated as of November 1 2004).
4.6	Second Supplemental Senior Indenture dated as of January 4, 2008 between Morgan Stanley a The Bank of New York, as trustee (Exhibit 4.1 to Morgan Stanley Current Report on Form 8- dated January 4, 2008).
4.7	Amended and Restated Subordinated Indenture dated as of May 1, 1999 between Morgan Sta and The Bank of New York, as trustee (Exhibit 4-f to Morgan Stanley s Registration Stateme Form S-3/A (No. 333-75289)).
4.8	Subordinated Indenture dated as of October 1, 2004 between Morgan Stanley and The Bank o York, as trustee (Exhibit 4-g to Morgan Stanley s Registration Statement on Form S-3/A (No 333-117752)).
4.9	Junior Subordinated Indenture dated as of March 1, 1998 between Morgan Stanley and The B New York, as trustee (Exhibit 4.1 to Morgan Stanley s Quarterly Report on Form 10-Q for th quarter ended February 28, 1998).

(1) For purposes of this Exhibit Index, references to The Bank of New York mean in some instances the successor to JPMorgan Chase Bank, N.A. or J.P. Morgan Trust Company, National Association; referer JPMorgan Chase Bank, N.A. mean the entity formerly known as The Chase Manhattan Bank, in som instances as the successor to Chemical Bank; references to J.P. Morgan Trust Company, N.A. mean

formerly known as Bank One Trust Company, N.A., as successor to The First National Bank of Chicago

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Exhibit No.	Description
4.10	Junior Subordinated Indenture dated as of October 1, 2004 between Morgan Stanley and The B New York, as trustee (Exhibit 4-ww to Morgan Stanley s Registration Statement on Form S-3/ (No. 333-117752)).
4.11	Junior Subordinated Indenture dated as of October 12, 2006 between Morgan Stanley and The I of New York, as trustee (Exhibit 4.1 to Morgan Stanley s Current Report on Form 8-K dated October 12, 2006).
4.12	Certificate representing the Series A Preferred Stock (Exhibit 4.2 to Morgan Stanley s Quarterl Report on Form 10-Q for the quarter ended May 31, 2006).
4.13	Deposit Agreement dated as of July 6, 2006 among Morgan Stanley, JPMorgan Chase Bank, N. the holders from time to time of the depositary receipts described therein (Exhibit 4.3 to Morga Stanley s Quarterly Report on Form 10-Q for the quarter ended May 31, 2006).
4.14	Depositary Receipt for Depositary Shares, representing Floating Rate Non-Cumulative Preferre Stock, Series A (included in Exhibit 4.13 hereto).
4.15	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust III dated as of Februa 2003 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Ba New York (Delaware), as Delaware trustee, and the administrators named therein (Exhibit 4 to Morgan Stanley s Quarterly Report on Form 10-Q for the quarter ended February 28, 2003).
4.16	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust IV dated as of April 2 2003 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Ba New York (Delaware), as Delaware Trustee and the administrators named therein (Exhibit 4 to Morgan Stanley s Quarterly Report on Form 10-Q for the quarter ended May 31, 2003).
4.17	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust V dated as of July 16 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Bank of York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4 to Morga Stanley s Quarterly Report on Form 10-Q for the quarter ended August 31, 2003).
4.18	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust VI dated as of Januar 2006 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Ba New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4 to Morgan Stanley s Quarterly Report on Form 10-Q for the quarter ended February 28, 2006).
4.19	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust VII dated as of Octol 2006 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Ba New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4.3 to Morgan Stanley s Current Report on Form 8-K dated October 12, 2006).
4.20	Amended and Restated Trust Agreement of Morgan Stanley Capital Trust VIII dated as of Apri 2007 among Morgan Stanley, as depositor, The Bank of New York, as property trustee, The Ba New York (Delaware), as Delaware trustee and the administrators named therein (Exhibit 4.3 to Morgan Stanley s Current Report on Form 8-K dated April 26, 2007).
4.21	Instruments defining the Rights of Security Holders, Including Indentures Except as set forth i Exhibits 4.1 through 4.20 above, the instruments defining the rights of holders of long-term deb securities of Morgan Stanley and its subsidiaries are omitted pursuant to Section (b)(4)(iii) of It 601 of Regulation S-K. Morgan Stanley hereby agrees to furnish copies of these instruments to SEC upon request.
10.1	Amended and Restated Trust Agreement dated as of November 30, 2000 between Morgan Stan and State Street Bank and Trust Company (Exhibit T to Amendment No. 5 to the Schedule 13D as of November 30, 2000 filed by certain senior officers of Morgan Stanley) as amended by Amendment No. 1 dated as of November 30, 2000 between Morgan Stanley and State Street Ba Trust Company, effective January 1, 2002 (Exhibit 10.10 to Morgan Stanley s Annual Report o 10-K for the fiscal year ended November 30, 2001), Amendment No. 2 dated as of November 3 2000 between Morgan Stanley and State

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Exhibit No.		Description
		Street Bank and Trust Company, effective January 1, 2003 (Exhibit 10.12 to Morgan Stanley s A Report on Form 10-K for the fiscal year ended November 30, 2002), Amendment No. 3 dated as o November 30, 2000 between Morgan Stanley and State Street Bank and Trust Company, effective September 15, 2003 (Exhibit 10.11 to Morgan Stanley s Annual Report on Form 10-K for the fis ended November 30, 2003), Amendment No. 4 dated as of March 21, 2006 between Morgan Stan and State Street Bank and Trust Company (Exhibit 10.1 to Morgan Stanley s Quarterly Report on 10-Q for the quarter ended February 28, 2006) and Amendment No. 5 dated as of June 25, 2007 between Morgan Stanley and State Street Bank and Trust Company (Exhibit 10.1 to Morgan Stan Quarterly Report on Form 10-Q for the quarter ended August 31, 2007).
10.2		Separation and Distribution Agreement dated as of June 29, 2007 by and between Morgan Stanley Discover Financial Services (Exhibit 10 to Morgan Stanley s Current Report on Form 8-K dated 2007).
10.3		Securities Purchase Agreement dated as of December 19, 2007 between Morgan Stanley and Best Investment Corporation, a wholly owned subsidiary of China Investment Corporation (Exhibit 10 Morgan Stanley s Current Report on Form 8-K dated December 19, 2007).
10.4		Omnibus Equity Incentive Plan (Exhibit 4.1 to Morgan Stanley s Registration Statement on Form (No. 33-63024)).
10.5		Morgan Stanley 401(k) Plan (f/k/a the Morgan Stanley DPSP/START Plan) amended and restated effective as of October 1, 2002 (Exhibit 10.17 to Morgan Stanley s Annual Report on Form 10-K fiscal year ended November 30, 2002) as amended by Amendment (Exhibit 10.18 to Morgan Stan Annual Report on Form 10-K for the fiscal year ended November 30, 2002), Amendment (Exhibi to Morgan Stanley s Annual Report on Form 10-K for the fiscal year ended November 30, 2003) Amendment (Exhibit 10.19 to Morgan Stanley s Annual Report on Form 10-K for the fiscal year November 30, 2003), Amendment (Exhibit 10 to Morgan Stanley s Quarterly Report on Form 10 the quarter ended May 31, 2004), Amendment (Exhibit 10.16 to Morgan Stanley s Annual Repor Form 10-K for the fiscal year ended November 30, 2004), Amendment (Exhibit 10.1 to Morgan Stanley s Quarterly Report on Form 10-Q for the quarter ended February 28, 2005), Amendment (Exhibit 10.2 to Morgan Stanley s Quarterly Report on Form 10-Q for the quarter ended Februar 2005), Amendment (Exhibit 10.1 to Morgan Stanley s Quarterly Report on Form 10-Q for the qu ended May 31, 2005), Amendment (Exhibit 10.8 to Morgan Stanley s Annual Report on Form 10 the fiscal year ended November 30, 2005), Amendment (Exhibit 10 to Morgan Stanley s Quarter Report on Form 10-Q for the quarter ended February 28, 2007) and Amendment (Exhibit 10.2 to Morgan Stanley s Quarterly Report on Form 10-Q for the quarter ended August 31, 2007).
10.6	*	Amendment to Morgan Stanley 401(k) Plan, dated as of November 20, 2007.
10.7		1993 Stock Plan for Non-Employee Directors (Exhibit 4.3 to Morgan Stanley s Registration State on Form S-8 (No. 33-63024)) as amended by Amendment (Exhibit 10.37 to Morgan Stanley s An Report on Form 10-K for the fiscal year ended December 31, 1993) and Amendment (Exhibit 10.4 Morgan Stanley Quarterly Report on Form 10-Q for the quarter ended May 31, 2007).
10.8		1994 Omnibus Equity Plan as amended and restated (Exhibit 10.23 to Morgan Stanley s Annual on Form 10-K for the fiscal year ended November 30, 2003) as amended by Amendment (Exhibit to Morgan Stanley s Annual Report on Form 10-K for the fiscal year ended November 30, 2006)
10.9	*	Tax Deferred Equity Participation Plan as amended and restated as of November 26, 2007.
10.10		Directors Equity Capital Accumulation Plan as amended through March 19, 2007 (Exhibit 10.2 t Morgan Stanley s Quarterly Report on Form 10-Q for the quarter ended May 31, 2007).

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Exhibit No.		Description
10.11		Select Employees Capital Accumulation Program (Exhibit 10.2 to Morgan Stanley s Quarterly on Form 10-Q for the quarter ended February 29, 2004).
10.12	*	Employees Equity Accumulation Plan as amended and restated as of November 26, 2007.
10.13		Employee Stock Purchase Plan amended as of November 27, 2006 (Exhibit 10.16 to Morgan Sta Current Report on Form 10-K for the fiscal year ended November 30, 2006) as amended by Amendment (Exhibit 10.3 to Morgan Stanley s Quarterly Report on Form 10-Q for the quarter e August 31, 2007).
10.14		Form of Agreement under the Morgan Stanley & Co. Incorporated Owners and Select Earners (Exhibit 10.1 to MSG s Annual Report on Form 10-K for the fiscal year ended January 31, 1993
10.15		Form of Agreement under the Officers and Select Earners Plan (Exhibit 10.2 to MSG s Annu on Form 10-K for the fiscal year ended January 31, 1993).
10.16		Morgan Stanley & Co. Incorporated Excess Benefit Plan (Exhibit 10.31 to Morgan Stanley s An Report on Form 10-K for the fiscal year ended November 30, 1998) as amended by Amendment (Exhibit 10.32 to Morgan Stanley s Annual Report on Form 10-K for the fiscal year ended Nove 30, 2000), Amendment (Exhibit 10.2 to Morgan Stanley s Quarterly Report on Form 10-Q for th quarter ended August 31, 2002), Amendment (Exhibit 10.32 to Morgan Stanley s Annual Report Form 10-K for the fiscal year ended November 30, 2002), Amendment (Exhibit 10.34 to Morgan Stanley s Annual Report on Form 10-K for the fiscal year ended November 30, 2003), Amendm (Exhibit 10.33 to Morgan Stanley s Annual Report on Form 10-K for the fiscal year ended Nove 30, 2004) and Amendment (Exhibit 10.20 to Morgan Stanley s Annual Report on Form 10-K for fiscal year ended November 30, 2005).
10.17	*	Amendment to Morgan Stanley & Co. Incorporated Excess Benefit Plan, dated as of November 2 2007.
10.18		Supplemental Executive Retirement Plan (Exhibit 10.32 to Morgan Stanley s Annual Report on 10-K for the fiscal year ended November 30, 1998) as amended by Amendment (Exhibit 10.37 to Morgan Stanley s Annual Report on Form 10-K for the fiscal year ended November 30, 1999), Amendment (Exhibit 10.35 to Morgan Stanley s Annual Report on Form 10-K for the fiscal yea November 30, 2000), Amendment (Exhibit 10.3 to Morgan Stanley s Quarterly Report on Form for the quarter ended August 31, 2002), Amendment (Exhibit 10.37 to Morgan Stanley s Annual on Form 10-K for the fiscal year ended November 30, 2002), Amendment (Exhibit 10.40 to Morg Stanley s Annual Report on Form 10-K for the fiscal year ended November 30, 2003) and Amen (Exhibit 10.22 to Morgan Stanley s Annual Report on Form 10-K for the fiscal year ended November 30, 2005).
10.19	*	Amendment to Supplemental Executive Retirement Plan, dated as of November 20, 2007.
10.20		1988 Equity Incentive Compensation Plan as amended (Exhibit 10.12 to MSG s Annual Report 10-K for fiscal year ended January 31, 1993) as amended by Amendment (Exhibit 10.22 to Morg Stanley s Annual Report on Form 10-K for the fiscal year ended November 30, 2006).
10.21		1995 Equity Incentive Compensation Plan (Annex A to MSG s Proxy Statement for its 1996 An Meeting of Stockholders) as amended by Amendment (Exhibit 10.39 to Morgan Stanley s Annu Report on Form 10-K for the fiscal year ended November 30, 2000), Amendment (Exhibit 10.5 t Morgan Stanley s Quarterly Report on Form 10-Q for the quarter ended August 31, 2005), Ame (Exhibit 10.3 to Morgan Stanley s Quarterly Report on Form 10-Q for the quarter ended Februa 2006) and Amendment (Exhibit 10.24 to Morgan Stanley s Annual Report on Form 10-K for the year ended November 30, 2006).
10.22	*	Amendment to 1995 Equity Incentive Compensation Plan, dated as of November 26, 2007.
10.23		Form of Equity Incentive Compensation Plan Award Certificate (Exhibit 10.1 to Morgan Stanley Quarterly Report on Form 10-Q for the quarter ended August 31, 2004).

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Exhibit No.		Description
10.24		Form of Equity Incentive Compensation Plan Award Certificate (Exhibit 10.10 to Morgan Stanle Quarterly Report on Form 10-Q for the quarter ended August 31, 2005).
10.25		Form of Chief Executive Officer Equity Award Certificate for Discretionary Retention Award of Units under the EICP (Exhibit 10.2 to Morgan Stanley s Current Report on Form 8-K dated Dec 12, 2005).
10.26		Form of Chief Executive Officer Equity Award Certificate for Discretionary Retention Award of Units and Stock Options (Exhibit 10.28 to Morgan Stanley s Annual Report on Form 10-K for th year ended November 30, 2006).
10.27		Form of Management Committee Award Certificate for Discretionary Retention Award of Stock under the EICP (Exhibit 10.3 to Morgan Stanley s Current Report on Form 8-K dated December 2005).
10.28		Form of Management Committee Equity Award Certificate for Discretionary Retention Award of Units and Stock Options (Exhibit 10.30 to Morgan Stanley s Annual Report on Form 10-K for th year ended November 30, 2006).
10.29		1988 Capital Accumulation Plan as amended (Exhibit 10.13 to MSG s Annual Report on Form 1 the fiscal year ended January 31, 1993).
10.30		Form of Deferred Compensation Agreement under the Pre-Tax Incentive Program (Exhibit 10.12 MSG s Annual Report on Form 10-K for the fiscal year ended January 31, 1994).
10.31		Form of Deferred Compensation Agreement under the Pre-Tax Incentive Program 2 (Exhibit 10. MSG s Annual Report for the fiscal year ended November 30, 1996).
10.32		Key Employee Private Equity Recognition Plan (Exhibit 10.43 to Morgan Stanley s Annual Rep Form 10-K for the fiscal year ended November 30, 2000).
10.33	*	Morgan Stanley Branch Manager Compensation Plan as amended and restated as of November 2 2007.
10.34	*	Morgan Stanley Financial Advisor and Investment Representative Compensation Plan as amende restated as of November 26, 2007.
10.35		Morgan Stanley UK Share Ownership Plan (Exhibit 4.1 to Morgan Stanley s Registration Statem Form S-8 (No. 333-146954)).
10.36		Amended and Restated Employment Agreement dated as of September 20, 2005 between Morga Stanley and Mr. John J. Mack (Exhibit 10 to Morgan Stanley s Current Report on Form 8-K date September 19, 2005) as amended by Amendment dated December 13, 2005 (Exhibit 10.1 to Mor Stanley s Current Report on Form 8-K dated December 12, 2005) and Amendment dated Februa 2006 (Exhibit 10.4 to Morgan Stanley s Quarterly Report on Form 10-Q for the quarter ended February 28, 2006).
10.37		Form of Restrictive Covenant Agreement (Exhibit 10 to Morgan Stanley s Current Report on Fo dated November 22, 2005).
10.38		Morgan Stanley Performance Formula and Provisions (Exhibit 10.3 to Morgan Stanley s Quarte Report on Form 10-Q for the quarter ended May 31, 2006).
10.39	*	2007 Equity Incentive Compensation Plan as amended and restated as of November 26, 2007.
10.40		Morgan Stanley 2007 Notional Leveraged Co-Investment Plan (Exhibit 10.1 to Morgan Stanley Quarterly Report on Form 10-Q for the quarter ended May 31, 2007).
10.41	*	Governmental Service Amendment to Outstanding Stock Option and Stock Unit Awards (replaci superseding in its entirety Exhibit 10.3 to Morgan Stanley s Quarterly Report on Form 10-Q for quarter ended May 31, 2007).

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Exhibit No.	Description
11	Statement Re: Computation of Earnings Per Common Share (The calculation of per share earning Part II, Item 8, Note 10 to the Consolidated Financial Statements (Earnings per Share) and is omit accordance with Section (b)(11) of Item 601 of Regulation S-K).
12*	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
21*	Subsidiaries of Morgan Stanley.
23.1*	Consent of Deloitte & Touche LLP.
24	Powers of Attorney (included on signature page).
31.1**	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2**	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1**	Section 1350 Certification of Chief Executive Officer.
32.2**	Section 1350 Certification of Chief Financial Officer.

* Filed herewith.
** Furnished herewith.
Management contract or compensatory plan or arrangement required to be filed as an exhibit to this For 10-K pursuant to Item 15(b).

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