



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

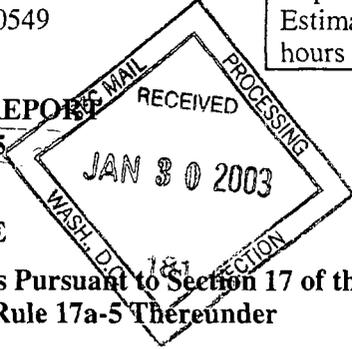
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ANNUAL AUDITED REPORT

FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder



SEC FILE NUMBER  
8-14172

REPORT FOR THE PERIOD BEGINNING 12/1/01 AND ENDING 11/30/02  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

Morgan Stanley DW Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1585 Broadway  
(No. and Street)

New York New York 10036  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Sandra Alfano (212) 537-2428  
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Deloitte & Touche LLP  
(Name - if individual, state last, first, middle name)

Two World Financial Center New York New York 10281-1414  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED  
FEB 13 2003  
THOMSON FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

**MORGAN STANLEY DW INC.  
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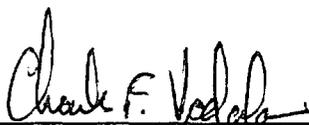
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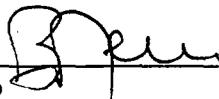
**\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a(e)(3)**

**AFFIRMATION**

We, Charles F. Vadala and Bruce F. Alonso, affirm that, to the best of our knowledge and belief, the accompanying consolidated financial statements of Morgan Stanley DW Inc. and subsidiaries for the year ended November 30, 2002, and unconsolidated supplemental schedules pertaining to Morgan Stanley DW Inc. as of November 30, 2002 are true and correct, and such consolidated financial statements and unconsolidated supplemental schedules will be made available promptly to all members and allied members of the New York Stock Exchange, Inc. in our organization. We further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.



Charles F. Vadala  
Managing Director and Chief Financial Officer



Bruce F. Alonso  
Managing Director

Subscribed to before me this  
27 day of January, 2003.



Notary Public  
CHRISTINE L. JAWIN  
Notary Public, State of New York  
No. 4967801  
Qualified in New York County  
Commission Expires Oct. 28, 2005

Deloitte & Touche LLP  
Two World Financial Center  
New York, New York 10281-1414

Tel: (212) 436-2000  
Fax: (212) 436-5000  
www.us.deloitte.com

**Deloitte  
& Touche**



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Morgan Stanley DW Inc.

We have audited the accompanying consolidated statement of financial condition of Morgan Stanley DW Inc. and subsidiaries (the "Company") as of November 30, 2002, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This consolidated financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement based on our audit.

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

In our opinion, such consolidated statement of financial condition presents fairly, in all material respects, the financial position of Morgan Stanley DW Inc. and subsidiaries at November 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

January 10, 2003

**MORGAN STANLEY DW INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**November 30, 2002**  
**(In thousands of dollars)**

**ASSETS**

Cash and cash equivalents	\$ 260,877
Cash and securities deposited with clearing organizations or segregated under federal and other regulations (including securities at fair value of \$1,369,036)	1,686,681
Financial instruments owned (\$25,688 was pledged to various parties):	
U.S. government and federal agency	504,813
Corporate and other debt	844,845
Equities	152,049
Securities purchased under agreements to resell	3,027,331
Securities borrowed	255,798
Receivables:	
Customers (net of allowances of \$29,074)	4,608,924
Brokers, dealers and clearing organizations	117,261
Office facilities, at cost (less accumulated depreciation and amortization of \$429,177)	195,355
Other assets	<u>997,208</u>
<b>Total assets</b>	<b><u>\$12,651,142</u></b>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Short-term borrowings - affiliates	\$ 787,046
Financial instruments sold, not yet purchased:	
U.S. government and federal agency	526,629
Corporate and other debt	137,302
Equities	55,409
Securities sold under agreements to repurchase	2,899,188
Securities loaned	605,657
Payables:	
Customers	3,028,393
Brokers, dealers and clearing organizations	251,614
Other liabilities and accrued expenses	<u>1,630,174</u>
	9,921,412
Subordinated liabilities	1,174,006
Stockholder's equity	<u>1,555,724</u>
<b>Total liabilities and stockholder's equity</b>	<b><u>\$12,651,142</u></b>

See Notes to Consolidated Statement of Financial Condition.

**MORGAN STANLEY DW INC.**  
**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**As of November 30, 2002**  
**(In thousands of dollars except share data)**

**Note 1 - Introduction and Basis of Presentation**

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

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

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

**Note 2 - Summary of Significant Accounting Policies**

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

Financial instruments used in the Company's trading activities are recorded at fair value, and unrealized gains and losses are reflected in principal transactions revenue. Fair value is the amount at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced or distressed sale. A substantial percentage of the fair value of the Company's financial instruments owned and sold is based on observable market prices, observable market parameters, or is derived directly from such prices or parameters. Purchases and sales of financial instruments are recorded on trade date.

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

Asset management and administration fees include revenues from asset management services, including fees for promoting and distributing mutual funds ("12b-1 fees"), fees for investment management services provided to segregated customer accounts pursuant to various contractual arrangements, and revenues from customers electing a fee-based pricing arrangement. The Company receives 12b-1 fees for services it provides in promoting and distributing certain open-ended mutual funds. These fees are based on either the average daily fund net asset balances or average daily aggregate net fund sales and are affected by changes in the overall level and mix of assets under management or supervision.

Office facilities consist of fixed assets, leasehold improvements and capitalized software. Capitalized software is amortized utilizing the straight-line method over the useful life of three years. Fixed assets placed into service prior to June 30, 2002 are depreciated utilizing accelerated methods. Leasehold improvements placed into service prior to June 30, 2002 are amortized utilizing either accelerated or straight-line methods. For all fixed assets and leasehold improvements placed in service after July 1, 2002, the Company prospectively changed its depreciation policy from an accelerated method to the straight-line method. The Company has assessed the manner in which the assets contribute to the Company's operations and believe the straight-line method best represents the manner in which the assets are now being consumed over their useful lives. The effect of the change in depreciation method on the consolidated financial statement was immaterial for the year ended November 30, 2002 ("fiscal 2002"). All fixed assets are depreciated over their useful lives of two to nine years, and leasehold improvements are amortized over the lesser of the lease term or useful life.

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

Prior to the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" on December 1, 2001, goodwill was amortized on a straight-line basis over periods from five to 40 years, generally not exceeding 25 years. The Company early adopted the provisions of SFAS No. 142 discontinuing the amortization of goodwill effective December 1, 2001. During the quarter ended May 31, 2002, the Company computed the initial transitional goodwill impairment test, which did not indicate any goodwill impairment and therefore did not have an effect on the Company's consolidated statement of financial condition. At November 30, 2002, goodwill of approximately \$159,283 was included in the Company's consolidated statement of financial condition as a component of other assets.

### **Accounting Pronouncements**

In July 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which supersedes prior accounting guidance, Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit and Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 prescribes new guidelines for recognition of costs associated with exit or disposal activities. The provisions of SFAS No. 146 are effective for disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 identifies characteristics of certain guarantee contracts and requires that a liability be recognized at fair value at the inception of such guarantees for the obligations the guarantor has undertaken. Additional disclosures are also prescribed for certain guarantee contracts. The initial recognition and initial measurement provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The Company is currently evaluating the impact of FIN 45 on its consolidated financial statement.

In January 2003, the FASB issued FIN 46 "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51." FIN 46 provides guidance on the consolidation of entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for entities created after January 31, 2003. The provisions of FIN 46 should be applied to entities created before February 1, 2003 no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The Company will adopt FIN 46 as required in 2003 and is currently evaluating its impact on the consolidated financial statement.

### Note 3 - Securities Financing Transactions

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

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

	<u>November 30, 2002</u>
Financial instruments owned category:	
U.S. government and agency securities	\$ 19,570
Corporate and other debt	3,322
Corporate equities	<u>2,796</u>
Total	<u>\$25,688</u>

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, finance the Company's inventory positions, acquire securities to cover short positions and settle other securities obligations, and accommodate customers' needs. The Company also engages in securities financing transactions for customers through margin lending. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government and agency securities, corporate and other debt, and corporate equities. The Company receives collateral in the form of securities in connection with reverse repurchase agreements, securities borrowed transactions, and customer margin loans. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter into securities lending transactions or for the delivery to counterparties to cover short positions. At November 30, 2002, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was \$10,102,798, and the fair value of the portion that has been sold or repledged was \$6,597,939.

The Company manages credit exposure arising from reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Company, in the event of a customer default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations. The Company also monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral to ensure such transactions are adequately collateralized. Where deemed appropriate, the Company's

agreements with third parties specify its rights to request additional collateral. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. For these transactions, the Company's collateral policies significantly limit the Company's credit exposure in the event of customer default. The Company may request additional margin collateral from customers, if appropriate, and if necessary may sell securities that have not been paid for or purchase securities sold but not delivered from customers.

#### **Note 4 - Related Party Transactions**

At November 30, 2002, balances with affiliates included securities borrowed and reverse repurchase agreements of \$254,746 and \$33,467, respectively, and securities loaned of \$589,375.

In the normal course of its securities business, the Company enters into transactions with affiliates including securities underwriting, mutual fund distribution and research activities. Short-term borrowings from affiliates are unsecured, bear interest at prevailing market rates and are payable on demand.

#### **Note 5 - Subordinated Liabilities**

The Company maintains a revolving note and cash subordination agreement with the Parent which entitles it to borrow up to \$1,000,000 on or before June 30, 2007. The amount outstanding at November 30, 2002 was \$1,000,000 bearing a variable interest rate of 1.53%, based on the fed fund rate, and is due on June 30, 2008. At November 30, 2002, amounts subordinated under deferred compensation plans totaled \$174,006 and mature on various dates through 2004.

#### **Note 6 - Stockholder's Equity and Regulatory Requirements**

At November 30, 2002, 11,000 shares of \$100 par value common stock were authorized and outstanding. The Company also had 1,000 shares of preferred stock authorized. No shares of preferred stock have been issued.

Morgan Stanley DW Inc. is a registered broker-dealer and futures commission merchant and, accordingly, is subject to the Net Capital rules of the SEC, the CFTC and the New York Stock Exchange, Inc. ("NYSE"). Under these rules, Morgan Stanley DW Inc. is required to maintain minimum Net Capital of not less than the greater of 2% of aggregate debit items arising from customer transactions, as defined, plus excess margin collateral on securities purchased under agreements to resell or 4% of funds required to be segregated for customers' regulated commodity accounts, as defined. The NYSE may require a member firm to reduce its business if net capital is less than 4% of such aggregate debit items and may prohibit a firm from expanding its business if net capital is less than 5% of such aggregate debit items. At November 30, 2002, Morgan Stanley DW Inc.'s Net Capital was \$1,319,674, which exceeded the minimum requirement by \$1,218,906.

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

## **Note 7 - Income Taxes**

The Company is included in the consolidated federal income tax return filed by the Parent. Federal income taxes have been provided on a separate entity basis. The Company is included in the combined state and local income tax returns with the Parent and certain other subsidiaries of the Parent. State and local income taxes have been provided on separate entity income at the effective tax rate of the Company's combined filing group.

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

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

## **Note 8 - Employee Benefit Plans**

### **Pension Plans**

Substantially all of the employees of the Company are covered by a non-contributory pension plan that is qualified under Section 410(a) of the Internal Revenue Code (the "Qualified Plan"). An unfunded supplemental plan (the "Supplemental Plan") covers certain executives. These pension plans generally provide pension benefits that are based on each employee's years of credited service and on compensation levels specified in the plans. For the Qualified Plan, the Company's policy is to contribute at least the amounts sufficient to meet minimum funding requirements under applicable employee benefit and tax regulations. Liabilities for benefits payable under the Supplementary Plan are accrued by the Company and are funded when paid to the beneficiaries.

During 2002, the qualified plan was amended to change the mortality table for lump sum distributions as mandated by IRS Revenue Ruling 2001-62. Effective September 1, 2002, the Qualified Plan of the Company was merged into the qualified pension plan of an affiliate. The merged plan is sponsored by an affiliate; however, the Company continues to maintain its own discrete benefit structure.

The weighted average discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 6.75% and 5%, respectively. The expected long-term rate of return on plan assets was 8.50%.

The following table provides a reconciliation of the changes in the benefit obligation and fair value of plan assets for fiscal 2002 as well as a summary of the funded status of the plans as of November 30, 2002:

	Qualified Plans	Supplemental Plan
<b>Reconciliation of benefit obligation:</b>		
Benefit obligation at beginning of year	\$764,622	\$ 3,751
Service cost	42,102	-
Interest cost	58,449	265
Actuarial gain	148,246	243
Benefits paid	(128,251)	(451)
Plan amendment	8,988	-
Special termination benefits	<u>1,760</u>	<u>-</u>
Benefit obligation at end of year	<u>\$895,916</u>	<u>\$ 3,808</u>
<b>Reconciliation of the fair value of plan assets:</b>		
Fair value of plan assets at beginning of year	\$669,535	\$ -
Actual return on plan assets	(43,937)	-
Employer contributions	322,000	451
Benefits paid	<u>(128,251)</u>	<u>(451)</u>
Fair value of plan assets at end of year	<u>\$819,347</u>	<u>\$ -</u>
<b>Funded status:</b>		
Funded status	\$ (76,569)	\$(3,732)
Unrecognized loss	410,554	378
Unrecognized prior service cost	23,852	452
Adjustment to recognize additional minimum liability	<u>-</u>	<u>830</u>
Prepaid (accrued) benefit cost	<u>\$357,837</u>	<u>\$(2,072)</u>

#### Postretirement Benefits

The Company has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees, employees and dependents. At November 30, 2002, the Company's accrued postretirement benefit cost was \$4,473.

#### Other Plans

Certain employees of the Company participate in several of the Parent's equity-based stock compensation plans. The Parent applies the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for stock options. In August 2002, the Parent as a member of the Financial Services Forum, announced that beginning in fiscal 2003 it will expense employee stock options in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation." Under SFAS No. 123, compensation expense will be recognized based on the fair value of stock options on the date of grant. The Company is in the process of evaluating the impact of adopting the fair value based method of accounting for stock-based employee compensation plans under SFAS No. 123.

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

## Note 9 - Commitments and Contingencies

### **Leases**

The Company has non-cancelable operating leases covering office space and equipment. At November 30, 2002, future minimum rental commitments under such leases (net of subleases, principally on office rentals) were as follows:

2003	\$189,377
2004	166,289
2005	140,658
2006	122,421
2007	95,512
Thereafter	<u>222,127</u>
Total	<u>\$936,384</u>

Included in the table above are \$66,600 of future minimum rental commitments related to branch offices and support space, for which the present value was included in the restructuring charges taken during the fourth quarter of fiscal 2002 (see footnote 13).

Occupancy lease agreements, in addition to base rentals, generally provide for rent and operating expense escalations resulting from increased assessments for real estate taxes and other charges.

### **Other Commitments and Contingencies**

The Company had approximately \$22,510 of letters of credit outstanding at November 30, 2002 to satisfy various collateral requirements.

In the normal course of business, the Company has been named as a defendant in various legal actions, including arbitrations, arising in connection with its activities as a diversified financial services institution. Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. The Company is also involved, from time to time, in investigations and proceedings by governmental and self-regulatory agencies. Some of these legal actions, investigations and proceedings may result in adverse judgments, penalties or fines. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, the Company cannot predict with certainty what the eventual loss or range of loss related to such matters will be. The Company believes, based on current knowledge and after consultation with counsel, that the outcome of such matters will not have a material adverse effect on the consolidated financial condition of the Company, although the outcome could be material to the Company's operating results for a particular period, depending, upon other things, on the level of the Company's income for such period.

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

At November 30, 2002, the Company had commitments to enter into reverse repurchase and repurchase agreements of approximately \$600,000 and \$500,000, respectively.

### **Note 10 – Trading Activities**

The Company's trading activities are primarily generated by customer order flow and such customer activities involve the execution, settlement and financing of various customer securities and commodities transactions. The Company also takes positions in forward mortgage-backed security agreements ("TBAs") to facilitate customer trades. The gross notional amount of TBAs at November 30, 2002 totaled approximately \$77,000. The year-end and average fair values of these instruments were not material.

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

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

### **Note 11 - Financial Instruments Fair Value Information**

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

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

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

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

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

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

**Note 12 – Sale of Online Accounts**

In May 2002, the Company agreed to sell its self-directed online brokerage accounts to Bank of Montreal's Harrisdirect. The transaction closed during the third quarter of fiscal 2002.

**Note 13 – Restructuring and Other Charges**

In the fourth quarter of fiscal 2002, the Company initiated a restructuring and recorded liabilities of approximately \$59,300 and \$6,300 for space related costs and severance, respectively, and disposed of assets with a net book value of approximately \$26,100. The restructuring reflects the decision to reduce excess capacity. The space-related accrual and dispositions were attributable to the closure or subletting of excess branch office and support space. The space-related costs consisted of the present value of future rental charges and the asset write-offs related to furniture, fixtures and other fixed assets at the affected office locations. The severance-related costs were attributable to workforce reductions. The majority of the severance-related accruals consisted of severance payments and outplacement costs provided to the affected individuals. The consolidation of branch locations and other space actions are expected to be substantially completed by the third quarter of fiscal 2003. Cash payments associated with the restructuring charge made during fiscal 2002 were not material. The Company expects that remaining payments related to space and severance will be funded by cash from operations.

\* \* \* \* \*

Deloitte & Touche LLP  
Two World Financial Center  
New York, New York 10281-1414

Tel: (212) 436-2000  
Fax: (212) 436-5000  
www.us.deloitte.com

**Deloitte  
& Touche**

January 10, 2003

Morgan Stanley DW Inc.  
1585 Broadway  
New York, NY 10036

In planning and performing our audit of the consolidated financial statements of Morgan Stanley DW Inc. and subsidiaries (the "Company") for the year ended November 30, 2002 (on which we issued our report dated January 10, 2003), we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurance on the Company's internal control.

Also, as required by Rule 17a-5(g)(1) under the Securities Exchange Act of 1934 and Regulation 1.16 under the Commodity Exchange Act, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Company that we considered relevant to the objectives stated in Rule 17a-5(g) and Regulation 1.16: (1) in making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e) (including the practices and procedures followed by the Company in making the periodic computations for proprietary accounts of introducing brokers ("PAIB")); (2) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13; (3) in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System; (4) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3; and (5) in making the daily computations of the segregation requirements of Section 4d(2) and Regulation 30.7 under the Commodity Exchange Act.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control and of the practices and procedures, and to assess whether those practices and procedures can be expected to achieve the Securities and Exchange Commission's and the Commodity Futures Trading Commission's (the "Commissions") above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized acquisition, use, or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) and Regulation 1.16(d)(2) list additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation

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of the internal control or of such practices and procedures to future periods are subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with the practices or procedures may deteriorate.

Our consideration of the Company's internal control would not necessarily disclose all matters in the Company's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the Company's internal control and its operation, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commissions to be adequate for their purposes in accordance with the Securities Exchange Act of 1934, the Commodity Exchange Act and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at November 30, 2002, to meet the Commissions' objectives.

This report is intended solely for the information and use of the board of directors, management, the Securities and Exchange Commission, the New York Stock Exchange, Inc., the Commodity Futures Trading Commission, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 or Regulation 1.16 under the Commodity Exchange Act in their regulation of registered brokers and dealers and futures commission merchants, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

*Deloitte & Touche LLP*