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MORGAN STANLEY
Form 10-K
January 29, 2008
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended November 30, 2007

Commission File Number 1-11758

(Exact name of Registrant as specified in its charter)

Delaware

1585 Broadway

36-3145972

(212) 761-4000

(State or other jurisdiction of
incorporation or organization)

New York, NY 10036
(Address of principal executive
offices, including zip code)

(I.R.S. Employer Identification No.)

(Registrant's telephone number,
including area code)

Name of exchange on

which registered

Title of each class

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.01 par value

Depository Shares, each representing 1/1,000th interest in a share of Floating Rate Non-Cumulative Preferred Stock, Series A, \$0.01 par value

6¼% Capital Securities of Morgan Stanley Capital Trust III (and Registrant's guaranty with respect thereto)

6¼% Capital Securities of Morgan Stanley Capital Trust IV (and Registrant's guaranty with respect thereto)

5¾% Capital Securities of Morgan Stanley Capital Trust V (and Registrant's guaranty with respect thereto)

6.60% Capital Securities of Morgan Stanley Capital Trust VI (and Registrant's guaranty with respect thereto)

6.60% Capital Securities of Morgan Stanley Capital Trust VII (and Registrant's guaranty with respect thereto)

6.45% Capital Securities of Morgan Stanley Capital Trust VIII (and Registrant's guaranty with respect thereto)

SPARQS® due March 20, 2008; SPARQS due April 20, 2008; SPARQS due May 20, 2008; SPARQS due June 20, 2008

(3 issuances); SPARQS due July 20, 2008; SPARQS due August 20, 2008; SPARQS due September 20, 2008; SPARQS

due October 20, 2008; SPARQS due January 20, 2009 (2 issuances); SPARQS due February 20, 2009

Exchangeable Notes due December 30, 2008; Exchangeable Notes due December 30, 2010; Exchangeable Notes due June 30, 2011

Callable Index-Linked Notes due December 30, 2008

BRIDGESSM due August 30, 2008; BRIDGES due December 30, 2008; BRIDGES due February 28, 2009; BRIDGES due March 30, 2009; BRIDGES due June 30, 2009; BRIDGES due July 30, 2009; BRIDGES due August 30, 2009; BRIDGES due October 30, 2009; BRIDGES due December 30, 2009; BRIDGES due June 15, 2010

Capital Protected Notes due June 30, 2008; Capital Protected Notes due September 30, 2008; Capital Protected Notes due December 30, 2008; Capital Protected Notes due December 30, 2009; Capital Protected Notes due April 20, 2010; Capital Protected Notes due July 20, 2010 (2 issuances); Capital Protected Notes due August 30, 2010; Capital Protected Notes due October 30, 2010; Capital Protected Notes due January 30, 2011; Capital Protected Notes due February 20, 2011; Capital Protected Notes due March 30, 2011 (2 issuances); Capital Protected Notes due June 30, 2011; Capital Protected Notes due August 20, 2011; Capital Protected Notes due October 30, 2011 (2 issuances); Capital Protected Notes due December 30, 2011; Capital Protected Notes due September 30, 2012

Capital Protected Notes due September 1, 2010

HITSSM due February 20, 2008; HITS due March 20, 2008; HITS due April 20, 2008

MPSSM due December 30, 2008; MPS due December 30, 2009; MPS due February 1, 2010; MPS due June 15, 2010; MPS due December 30, 2010 (2 issuances); MPS due March 30, 2012

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

American Stock Exchange

American Stock Exchange

American Stock Exchange

American Stock Exchange

American Stock Exchange

The NASDAQ Stock Market LLC

American Stock Exchange

American Stock Exchange

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MPS due March 30, 2009	The NASDAQ Stock Market LLC
Stock Participation Notes due September 15, 2010; Stock Participation Notes due December 30, 2010	American Stock Exchange
Bear Market PLUS due February 20, 2008; Bear Market PLUS due April 20, 2008; Bear Market PLUS due July 20, 2008	American Stock Exchange
Outperformance PLUS due December 20, 2008	American Stock Exchange
PLUS SM due March 20, 2008 (3 issuances); PLUS due April 30, 2008 (2 issuances); PLUS due May 20, 2008; PLUS due October 20, 2008; PLUS due December 20, 2008 (4 issuances); PLUS due January 20, 2009 (3 issuances); PLUS due February 20, 2009; PLUS due June 30, 2009	American Stock Exchange
PLUS due June 20, 2008; PLUS due August 20, 2008; PLUS due November 20, 2008; PLUS due December 20, 2008; PLUS due January 20, 2009; PLUS due September 30, 2009	The NASDAQ Stock Market LLC
PROPELS SM due December 30, 2011 (3 issuances)	American Stock Exchange
Protected Absolute Return Barrier Notes due December 20, 2008; Protected Absolute Return Barrier Notes due July 20, 2008; Protected Absolute Return Barrier Notes due September 20, 2008; Protected Absolute Return Barrier Notes due October 20, 2008; Protected Absolute Return Barrier Notes due June 20, 2009 (2 issuances); Protected Absolute Return Barrier Notes due July 20, 2009	American Stock Exchange
Strategic Total Return Securities due December 17, 2009; Strategic Total Return Securities due March 30, 2010; Strategic Total Return Securities due July 30, 2011 (2 issuances); Strategic Total Return Securities due January 15, 2012	American Stock Exchange
Strategic Total Return Securities due October 30, 2011	The NASDAQ Stock Market LLC
BOXES SM due October 30, 2031; BOXES due January 30, 2032	American Stock Exchange
	Philadelphia Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:	
Targeted Income Strategic Total Return Securities due October 30, 2011	The NASDAQ Stock Market LLC
MPS SM due March 30, 2009	The NASDAQ Stock Market LLC
Indicate by check mark if Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO "	

Indicate by check mark if Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES " NO x

Indicate by check mark whether 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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO "

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Exchange Act Rule 12b-2. Large accelerated filer x Accelerated filer " Non-accelerated filer "

Indicate by check mark whether Registrant is a shell company (as defined in Exchange Act Rule 12b-2). YES " NO x

As of May 31, 2007, the aggregate market value of the common stock of Registrant held by non-affiliates of Registrant was approximately \$88,843,773,992.03. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of January 11, 2008, there were 1,104,587,663 shares of Registrant's common stock, \$0.01 par value, outstanding.

Documents Incorporated By Reference: Portions of Registrant's definitive proxy statement for its annual stockholders' meeting to be held on April 8, 2008 are incorporated by reference in Part III of this Form 10-K.

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ANNUAL REPORT ON FORM 10-K

for the fiscal year ended November 30, 2007

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Forward-Looking Statements

We have included or incorporated by reference into this report, and from time to time may make in our public filings, press releases or other public statements, certain statements, including (without limitation) those under **Legal Proceedings** in Part I, Item 3, **Management's Discussion and Analysis of Financial Condition and Results of Operations** in Part II, Item 7 and **Quantitative and Qualitative Disclosures about Market Risk** in Part II, Item 7A, that may constitute **forward-looking statements** within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, our management may make forward-looking statements to analysts, investors, representatives of the media and others. These forward-looking statements are not historical facts and represent only Morgan Stanley's beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond our control.

The nature of Morgan Stanley's business makes predicting the future trends of our revenues, expenses and net income difficult. The risks and uncertainties involved in our businesses could affect the matters referred to in such statements and it is possible that our actual results may differ from the anticipated results indicated in these forward looking statements. Important factors that could cause actual results to differ from those in the forward-looking statements include (without limitation):

the credit ratings assigned to Morgan Stanley;

the effect of political and economic conditions and geopolitical events;

the effect of market conditions, including in the global equity and credit markets and with respect to corporate, commercial and residential lending;

the availability and cost of capital;

the level and volatility of equity prices, commodity prices and interest rates, currency values and other market indices;

the actions and initiatives of current and potential competitors;

the impact of current, pending and future legislation, regulation and regulatory and legal actions in the U.S. and worldwide;

our reputation;

investor sentiment;

the potential effects of technological changes; and

other risks and uncertainties detailed under **Competition** and **Regulation** in Part I, Item 1, **Risk Factors** in Part I, Item 1A, and elsewhere throughout this report.

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Accordingly, you are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made. Morgan Stanley undertakes no obligation to update publicly or revise any forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made, whether as a result of new information, future events or otherwise except as required by applicable law. You should, however, consult further disclosures Morgan Stanley may make in future filings of its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and any amendments thereto or in future press releases or other public statements.

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Part I

Item 1. Business.

Overview.

Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Morgan Stanley was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924. Morgan Stanley conducts its business from its headquarters in and around New York City, its regional offices and branches throughout the U.S. and its principal offices in London, Tokyo, Hong Kong and other world financial centers. At November 30, 2007, Morgan Stanley had 48,256 employees worldwide. Unless the context otherwise requires, the terms Morgan Stanley, the Company, we, us and our mean Morgan Stanley and its consolidated subsidiaries.

Financial information concerning Morgan Stanley, our business segments and geographic regions for each of the fiscal years ended November 30, 2007, November 30, 2006 and November 30, 2005 is included in the consolidated financial statements and the notes thereto in Financial Statements and Supplementary Data in Part II, Item 8.

Available Information.

Morgan Stanley files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Morgan Stanley) file electronically with the SEC. Morgan Stanley's electronic SEC filings are available to the public at the SEC's internet site, www.sec.gov.

Morgan Stanley's internet site is www.morganstanley.com. You can access Morgan Stanley's Investor Relations webpage at www.morganstanley.com/about/ir. Morgan Stanley makes available free of charge, on or through our Investor Relations webpage, its proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Morgan Stanley also makes available, through its Investor Relations webpage, via a link to the SEC's internet site, statements of beneficial ownership of Morgan Stanley's equity securities filed by its directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

Morgan Stanley has a Corporate Governance webpage. You can access information about Morgan Stanley's corporate governance at www.morganstanley.com/about/company/governance. Morgan Stanley posts the following on its Corporate Governance webpage:

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Composite Certificate of Incorporation;

Bylaws;

Charters for our Audit Committee, Compensation, Management Development and Succession Committee and Nominating and Governance Committee;

Corporate Governance Policies;

Policy Regarding Communication with the Board of Directors;

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Policy Regarding Director Candidates Recommended by Shareholders;

Policy Regarding Corporate Political Contributions;

Policy Regarding Shareholder Rights Plan;

Code of Ethics and Business Conduct; and

Integrity Hotline.

Morgan Stanley's Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer, its Chief Financial Officer and its Controller and Principal Accounting Officer. Morgan Stanley will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, Inc. (NYSE) on its internet site. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, 1585 Broadway, New York, NY 10036 (212-761-4000). The information on Morgan Stanley's internet site is not incorporated by reference into this report.

Business Segments.

Morgan Stanley is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Global Wealth Management Group and Asset Management. A summary of the activities of each of the business 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 exchange 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 and 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, alternative investments, which includes hedge funds and fund of funds, and merchant banking, which includes real estate, private equity and infrastructure, to institutional and retail clients through proprietary and third-party retail distribution channels, intermediaries and Morgan Stanley's institutional distribution channel. Asset Management also engages in investment activities.

On June 30, 2007, the Company completed the spin-off of Discover Financial Services (the Discover Spin-off).

Institutional Securities.

Morgan Stanley provides financial advisory and capital-raising services to a diverse group of corporate and other institutional clients globally, primarily through wholly owned subsidiaries that include Morgan Stanley & Co. Incorporated (MS&Co.), Morgan Stanley & Co. International plc, Morgan Stanley Japan Securities Co., Ltd. and Morgan Stanley Asia Limited. These and other subsidiaries also conduct sales and trading activities worldwide, as principal and agent, and provide related financing services on behalf of institutional investors.

Investment Banking.

Capital Raising. Morgan Stanley manages and participates in public offerings and private placements of debt, equity and other securities worldwide. Morgan Stanley is a leading underwriter of common stock, preferred stock and other equity-related securities, including convertible securities and American Depositary Receipts (ADRs).

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Morgan Stanley is a leading underwriter of fixed income securities, including investment grade debt, non-investment grade instruments, mortgage-related and other asset-backed securities, tax-exempt securities and commercial paper and other short-term securities.

Financial Advisory Services. Morgan Stanley provides corporate and other institutional clients globally with advisory services on key strategic matters, such as mergers and acquisitions, divestitures, corporate defense strategies, joint ventures, privatizations, recapitalizations, spin-offs, corporate restructurings, shareholder relations, tender offers, exchange offers and leveraged buyouts. Morgan Stanley also provides advice concerning rights offerings, dividend policy, valuations, foreign exchange exposure, financial risk management strategies and financial planning. In addition, Morgan Stanley furnishes advice and services regarding project financings and provides advisory services in connection with the purchase, sale, leasing and financing of real estate.

Corporate Lending. Morgan Stanley provides to selected corporate clients through subsidiaries (including Morgan Stanley Bank) loans or lending commitments, including bridge financing. These loans and commitments have varying terms, may be senior or subordinated and/or secured or unsecured, are generally contingent upon representations, warranties and contractual conditions applicable to the borrower and may be syndicated, hedged or traded by Morgan Stanley.* The borrowers may be rated investment grade or non-investment grade.

Sales and Trading Activities.**

Morgan Stanley conducts sales, trading, financing and market-making activities on securities and futures exchanges and in over-the-counter (OTC) markets around the world. Morgan Stanley's Institutional Securities business includes Equity and Proprietary Trading; Interest Rates, Credit and Currencies; Commodities and Clients and Services.

Equity and Proprietary Trading. Morgan Stanley acts as principal (including as a market maker) and agent in executing transactions globally in equity and equity-related products, including common stock, ADRs, global depositary receipts and exchange-traded funds.

Morgan Stanley's equity derivatives sales, trading and market-making activities cover equity-related products globally, including equity swaps, options, warrants and futures overlying individual securities, indices and baskets of securities and other equity-related products. Morgan Stanley also issues and makes a principal market in equity-linked products to institutional and individual investors, including principal-protected securities.

Morgan Stanley has several dedicated trading groups which engage in proprietary trading and investing activities utilizing multiple strategies across various cash and derivative asset classes including, among others, equity securities, quantitative and program driven strategies, commodities, currencies, interest rates, emerging markets, bonds, loans, corporate credit, as well as mortgage-related and other asset-backed securities.

Interest Rates, Credit and Currencies. Morgan Stanley trades, makes markets and takes long and short proprietary positions in fixed income securities and related products globally, including, among other products, investment and non-investment grade corporate debt, distressed debt, bank loans, U.S. and other sovereign securities, emerging market bonds and loans, convertible bonds, collateralized debt obligations and securities issued by structured investment vehicles, mortgage-related and other asset-backed securities and real estate loan products, municipal securities, preferred stock and commercial paper, money market and other short-term securities. Morgan Stanley is a primary dealer of U.S. government securities and a member of the selling groups

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* Revenues and expenses associated with the trading of syndicated loans are included in Sales and Trading Activities.

** The description set forth under Sales and Trading Activities reflects organizational changes implemented since December 2007. See also Risk Management in Part II, Item 7A for a description of Morgan Stanley's trading risk management structure, policies and procedures.

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that distribute various U.S. agency and other debt securities. Morgan Stanley is a primary dealer or market-maker of government securities in numerous European, Asian and emerging market countries.

Morgan Stanley trades, makes markets and takes long and short proprietary positions in listed futures and OTC swaps, forwards, options and other derivatives referencing, among other things, interest rates, currencies, investment grade and non-investment grade corporate credits, loans, bonds, U.S. and other sovereign securities, emerging market bonds and loans, credit indexes, asset-backed security indexes, property indexes, mortgage-related and other asset-backed securities and real estate loan products.

Morgan Stanley is a market-maker in foreign currencies. Most of Morgan Stanley's foreign exchange business relates to major foreign currencies such as Yen, Euro, Sterling, Swiss francs and Canadian dollars. Morgan Stanley trades on a principal basis in the spot, forward, option and futures markets and takes proprietary positions in such currencies.

Through the use of repurchase and reverse repurchase agreements, Morgan Stanley acts as an intermediary between borrowers and lenders of short-term funds and provides funding for various inventory positions. Morgan Stanley also provides financing to customers for commercial and residential real estate loan products and other securitizable asset classes.

Morgan Stanley advises on investment and liability strategies and assists corporations in their debt repurchases and tax planning. Morgan Stanley structures debt securities and derivatives with risk/return factors designed to suit client objectives, including using repackaged asset and other structured vehicles through which clients can restructure asset portfolios to provide liquidity or reconfigure risk profiles.

Commodities. Morgan Stanley trades as principal and maintains long and short proprietary trading positions in the spot, forward and futures markets in several commodities, including metals (base and precious), agricultural products, crude oil, oil products, natural gas, electric power, emission credits, coal, freight, liquefied natural gas (LNG) and related products and indices. Morgan Stanley is a market-maker in exchange-traded options and futures and OTC options and swaps on commodities, and offers counterparties hedging programs relating to production, consumption, reserve/inventory management and structured transactions, including energy-contract securitizations. Morgan Stanley is an electricity power marketer in the U.S. and owns five electricity generating facilities in the U.S. and Europe.

Morgan Stanley owns 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 international marine transportation and U.S. marine logistics services.

Clients and Services. Morgan Stanley provides financing services, including prime brokerage, which offers, among other services, consolidated clearance, settlement, custody, financing and portfolio reporting services to clients trading multiple asset classes. Morgan Stanley also engages in principal securities lending with clients, institutional lenders and other broker-dealers. In addition, Morgan Stanley's institutional distribution and sales activities are overseen and coordinated through Clients and Services.

Other Activities.

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Benchmark Indices and Risk Management Analytics. As of November 30, 2007, Morgan Stanley's majority-owned subsidiary, MSCI Inc. (MSCI), calculates and distributes over 100,000 international and U.S. equity benchmark indices (including the MSCI World and EAFE Indices) covering 56 countries, and has a historical database spanning over 35 years that includes fundamental and valuation data on thousands of equity securities in developed and emerging market countries. MSCI also calculates and distributes over 200 hedge fund indices. MSCI's subsidiary, Barra, Inc., is a leading provider of risk analytic tools and services to investors to help them

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analyze, measure and manage portfolio and firm-wide investment risk. The initial public offering of shares of MSCI began trading on the New York Stock Exchange on November 15, 2007. After this offering, Morgan Stanley continues to own in excess of 80 percent of MSCI.

Research. Morgan Stanley's global research department (Research) consists of economists, strategists and industry analysts. Research engages in equity and fixed income research activities and produces reports and studies on the U.S. and global economy, financial markets, portfolio strategy, technical market analyses, individual companies and industry developments. Research examines worldwide trends covering numerous industries and individual companies, the majority of which are located outside of the U.S. Research provides analysis and forecasts relating to economic and monetary developments that affect matters such as interest rates, foreign currencies, securities, derivatives and economic trends. Research provides analytical support and publishes reports on asset-backed securities and the markets in which such securities are traded. Research reports and data are disseminated to investors through third party distributors, proprietary internet sites such as Client Link and Morgan Stanley's sales forces.

Investments. Morgan Stanley from time to time makes investments that represent business facilitation or principal investing activities. Business facilitation investments are strategic investments undertaken by Morgan Stanley to facilitate core business activities. Principal investing activities are capital commitments provided to public and private companies, funds and other entities generally for proprietary purposes to maximize total returns to Morgan Stanley. Morgan Stanley expects to make additional principal investments over time. These principal investment activities are conducted within the investment banking and sales and trading areas in Institutional Securities.

Morgan Stanley sponsors and manages investment vehicles and separate accounts for clients seeking exposure to private equity, real estate-related and other alternative investments. Morgan Stanley may also invest in and provide capital to such investment vehicles. See also Asset Management.

Operations and Information Technology.

Morgan Stanley's Operations and Information Technology departments provide the process and technology platform that supports Institutional Securities sales and trading activity, including post-execution trade processing and related internal controls over activity from trade entry through settlement and custody, such as asset servicing. This is done for proprietary and customer transactions in listed and OTC transactions in commodities, equity and fixed income securities, including both primary and secondary trading, as well as listed, OTC and structured derivatives in markets around the world. This activity is undertaken through Morgan Stanley's own facilities, through membership in various clearing and settlement organizations, and through agreements with unaffiliated third parties.

Global Wealth Management Group.

Morgan Stanley's Global Wealth Management Group provides comprehensive financial services to clients through a network of approximately 8,400 global representatives in approximately 500 locations globally, including over 450 U.S. locations at fiscal year end. As of November 30, 2007, Morgan Stanley had \$758 billion in client assets. On April 1, 2007, Morgan Stanley merged its primary broker-dealer for Global Wealth Management Group, Morgan Stanley DW Inc., into MS&Co. Upon completion of the merger, MS&Co. became Morgan Stanley's principal U.S. broker-dealer.

Clients.

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Global Wealth Management Group professionals serve individual investors and small-to-medium size businesses and institutions with an emphasis on ultra high net worth, high net worth and affluent investors. In the U.S., products and services are delivered through three principal channels. Specialized private wealth management

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investment representative teams located in dedicated offices provide sophisticated investment solutions and services for ultra high net worth individuals, families and foundations. Financial advisors located in branches across the U.S. provide solutions designed to accommodate individual investment objectives, risk tolerance and liquidity needs for ultra high net worth, high net worth and affluent investors. Call centers are available to meet the needs of emerging affluent clients. Outside the U.S., Morgan Stanley offers financial services to clients in Europe, the Middle East, Asia and Latin America.

Products and Services.

Morgan Stanley's Global Wealth Management Group provides clients with a comprehensive array of financial solutions, including Morgan Stanley's products and services, and products and services from third party providers, such as insurance companies and mutual fund families. Morgan Stanley offers brokerage and investment advisory services covering various investment alternatives, including equities, options, futures, foreign currencies, precious metals, fixed income securities, mutual funds, structured products, alternative investments, unit investment trusts, managed futures, separately managed accounts and mutual fund asset allocation programs. Morgan Stanley also offers financial and wealth planning services, including education savings programs, as well as annuity and other insurance products. In addition, Morgan Stanley offers several cash management services, including cash sweeps, debit cards and checkwriting, as well as lending products, including securities based lending and a mortgage referral program, which provides residential mortgages and home equity lines of credit originated through Morgan Stanley's affiliated entities. Morgan Stanley's BusinessScapes program offers cash management and commercial credit solutions to qualified small and medium businesses in the U.S. Morgan Stanley provides individual and corporate retirement solutions, including IRAs and 401(k) plans and U.S. stock plan services to corporate executives and businesses. Morgan Stanley also offers trust and fiduciary services to individual and corporate clients.

Morgan Stanley's Global Wealth Management Group offers its clients a variety of ways to establish a relationship and conduct business, including brokerage accounts with transaction-based pricing and investment advisory accounts with asset-based fee pricing. The Active Assets Account[®] offers clients brokerage and cash management services in one account. Clients can also choose a fee-based, separately managed account managed by affiliated or unaffiliated professional asset managers.

Operations and Information Technology.

Morgan Stanley's Operations and Information Technology departments provide the process and technology platform that supports the activities of Morgan Stanley's Global Wealth Management Group from trade capture through clearance, settlement and custody, including asset servicing as well as bank deposit and loan processing through Morgan Stanley's affiliated banks. These activities are undertaken through Morgan Stanley's own facilities, through memberships in various clearing and settlement organizations, and through agreements with unaffiliated third parties.

Asset Management.

Morgan Stanley Investment Management is one of the largest global asset management organizations of any full-service securities firm and offers individual and institutional clients a diverse array of equity, fixed income and alternative investments and merchant banking strategies. Morgan Stanley had \$597 billion of assets under management or supervision as of November 30, 2007. Morgan Stanley's asset management activities are principally conducted under the Morgan Stanley and Van Kampen brands. Portfolio managers located in the U.S., Europe, Japan, Singapore and India manage investment products ranging from money market funds to equity, taxable and tax-exempt fixed income funds and alternative investment and merchant banking products in developed and emerging markets. Morgan Stanley offers clients various investment styles, such as value, growth, core, fixed income and asset allocation; global investments; active and passive management; and diversified and

concentrated portfolios.

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Morgan Stanley offers a range of alternative investment and merchant banking products for institutional investors and high net worth individuals. Morgan Stanley's alternative investments platform includes hedge funds, funds of hedge funds, funds of private equity funds and portable alpha overlays, including FrontPoint Partners LLC, a leading provider of absolute return strategies with approximately \$8.5 billion in assets under management, and minority stakes in Lansdowne Partners and Avenue Capital Group. Morgan Stanley's Merchant Banking Division, formed in 2007, includes Morgan Stanley's real estate investing business, private equity funds and infrastructure investing group. Morgan Stanley typically acts as general partner of, and investment adviser to, its alternative investment and merchant banking funds and typically commits to invest a minority of the capital of such funds with subscribing investors contributing the majority.

Institutional Investors.

Morgan Stanley provides asset management products and services to institutional investors worldwide, including pension plans, corporations, private funds, non-profit organizations, foundations, endowments, governmental agencies, insurance companies and banks. Products and services are available to institutional investors primarily through separate accounts, U.S. mutual funds and other pooled vehicles. Morgan Stanley Investment Management also sub-advises funds for various unaffiliated financial institutions and intermediaries. A global sales force and a team dedicated to covering the investment consultant industry serve institutional investors.

Individual Investors.

Morgan Stanley offers open-end and alternative investment funds and separately managed accounts to individual investors through affiliated and unaffiliated broker-dealers, banks, insurance companies and financial planners. Closed-end funds managed by Morgan Stanley or Van Kampen are available to individual investors through affiliated and unaffiliated broker-dealers. A small number of unaffiliated broker-dealers account for a substantial portion of Van Kampen open-end fund sales. Morgan Stanley also sells Van Kampen funds through numerous retirement plan platforms. Internationally, Morgan Stanley distributes traditional investment products to individuals outside the U.S. through non-proprietary distributors, and alternative investment products are distributed through affiliated broker-dealers.

Operations and Information Technology.

Morgan Stanley's Operations and Information Technology departments provide or oversee the process and technology platform required to support its asset management business. Support activities include transfer agency, mutual fund accounting and administration, transaction processing and certain fiduciary services, on behalf of institutional, retail and intermediary clients. These activities are undertaken through Morgan Stanley's own facilities, through membership in various clearing and settlement organizations, and through agreements with unaffiliated third parties.

Competition.

All aspects of Morgan Stanley's businesses are highly competitive and Morgan Stanley expects them to remain so. Morgan Stanley competes in the U.S. and globally for clients, market share and human talent in all aspects of its business segments. Morgan Stanley's competitive position depends on its reputation and the quality of its products, services and advice. Morgan Stanley's ability to sustain or improve its competitive position also depends substantially on its ability to continue to attract and retain qualified employees while managing compensation and other costs. Morgan Stanley competes with commercial banks, insurance companies, sponsors of mutual funds, hedge funds, energy companies and

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other companies offering financial services in the U.S., globally and through the internet.

Institutional Securities and Global Wealth Management Group.

Morgan Stanley's competitive position depends on innovation, execution capability and relative pricing. Morgan Stanley competes directly in the U.S. and globally with other securities and financial services firms and broker-dealers, and with others on a regional or product basis.

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Morgan Stanley's ability to access capital at competitive rates (which is generally dependent on Morgan Stanley's credit ratings) and to commit capital efficiently, particularly in its capital-intensive underwriting and sales, trading, financing and market-making activities, also affects its competitive position. Corporate clients continue to request that Morgan Stanley provide loans or lending commitments in connection with certain investment banking activities.

Over time, certain sectors of the financial services industry have become more concentrated, as financial institutions involved in a broad range of financial services industries have been acquired by or merged into other firms. This convergence could result in Morgan Stanley's competitors gaining greater capital and other resources, such as the ability to offer a broader range of products and services and geographic diversity. It is possible that competition may become even more intense as Morgan Stanley continues to compete with financial institutions that may be larger, or better capitalized, or may have a stronger local presence and longer operating history in certain areas. Many of these firms have greater capital than Morgan Stanley and have the ability to offer a wide range of products and services that may enhance their competitive position and could result in pricing pressure in our businesses. The complementary trends in the financial services industry of consolidation and globalization present, among other things, technological, risk management, regulatory and other infrastructure challenges that require effective resource allocation in order for Morgan Stanley to remain competitive.

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

Asset Management.

Competition in the asset management industry is affected by several factors, including Morgan Stanley's reputation, investment objectives, quality of investment professionals, performance of investment products relative to peers and an appropriate benchmark index, advertising and sales promotion efforts, fee levels, the effectiveness of and access to distribution channels, and the types and quality of products offered. Morgan Stanley's alternative investment products, such as private equity funds, real estate and hedge funds, compete with similar products offered by both alternative and traditional asset managers.

Regulation.

Most aspects of Morgan Stanley's business are subject to stringent regulation by U.S. federal and state regulatory agencies and securities exchanges and by non-U.S. government agencies or regulatory bodies and securities exchanges. Aspects of Morgan Stanley's public disclosure, corporate governance principles, internal control environment and the roles of auditors and counsel are subject to the Sarbanes-Oxley Act of 2002 and related regulations and rules of the SEC and the NYSE.

New laws or regulations or changes to existing laws and regulations (including changes in the interpretation or enforcement thereof) either in the U.S. or elsewhere could materially adversely affect Morgan Stanley's financial condition or results of operations. As a global financial institution, to the extent that different regulatory regimes impose inconsistent or iterative requirements on the conduct of its business, Morgan Stanley faces complexity and additional costs in its compliance efforts.

Consolidated Supervision and Revised Capital Standards.

Effective December 1, 2005, Morgan Stanley became a consolidated supervised entity (CSE) as defined by the SEC. As such, Morgan Stanley is subject to group-wide supervision and examination by the SEC and to minimum capital requirements on a consolidated basis. Morgan Stanley's European regulated entities implemented Basel II capital standards on January 1, 2008. Morgan Stanley continues to work with its regulators on the implementation of the CSE rules and Basel II capital standards.

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Anti-Money Laundering.

Morgan Stanley's Anti-Money Laundering (AML) program is coordinated on an enterprise-wide basis. In the U.S., for example, the USA PATRIOT Act of 2001 (the USA PATRIOT Act) imposes significant obligations on financial institutions to detect and deter money laundering and terrorist financing activity, including requiring banks, broker-dealers and mutual funds to identify and verify customers that maintain accounts. The USA PATRIOT Act also mandates that certain types of financial institutions monitor and report suspicious activity to appropriate law enforcement or regulatory authorities. An institution subject to the USA PATRIOT Act also must designate an AML compliance officer, provide employees with training on money laundering prevention, and undergo an annual, independent audit to assess the effectiveness of its AML program. Outside the U.S., applicable laws and regulations similarly subject designated types of financial institutions to AML requirements. Morgan Stanley has implemented policies, procedures and internal controls that are designed to comply with these AML requirements.

Protection of Client Information.

Many aspects of Morgan Stanley's business are subject to increasingly comprehensive legal requirements concerning the use and protection of certain client information, including those adopted pursuant to the Gramm-Leach-Bliley Act of 1999 and the Fair and Accurate Credit Transactions Act of 2003 in the U.S., the European Union Data Protection Directive in the EU and various laws in Asia, including the Japanese Personal Information (Protection) Law, the Hong Kong Personal Data (Protection) Ordinance and the Australian Privacy Act. Morgan Stanley has adopted measures in response to such requirements.

Institutional Securities and Global Wealth Management Group.

Broker-Dealer Regulation. MS&Co. is registered as a broker-dealer with the SEC and in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, and is a member of self-regulatory organizations, including the Financial Industry Regulatory Authority (FINRA) and securities exchanges, including the NYSE. Broker-dealers are subject to laws and regulations covering all aspects of the securities business, including sales and trading practices, securities offerings, publication of research reports, use of customers' funds and securities, capital structure, record-keeping and retention and the conduct of their directors, officers, representatives and other associated persons. Broker-dealers are also regulated by securities administrators in those states where they do business. Violations of the laws and regulations governing a broker-dealer's actions could result in censures, fines, the issuance of cease-and-desist orders, revocation of licenses or registrations, the suspension or expulsion from the securities industry of such broker-dealer or its officers or employees, or other similar consequences by both federal and state securities administrators.

Margin lending by broker-dealers is regulated by the Federal Reserve Board's restrictions on lending in connection with customer and proprietary purchases and short sales of securities, as well as securities borrowing and lending activities. Broker-dealers are also required by the National Association of Securities Dealers, Inc. and NYSE rules to impose maintenance requirements on the value of securities contained in margin accounts. In many cases, Morgan Stanley's broker-dealer subsidiaries' margin policies are more stringent than these rules.

Morgan Stanley conducts some of its government securities activities through Morgan Stanley Market Products Inc., a FINRA member registered as a government securities broker-dealer with the SEC and in certain states. The Department of Treasury has promulgated regulations concerning, among other things, capital adequacy, custody and use of government securities and transfers and control of government securities subject to repurchase transactions. The rules of the Municipal Securities Rulemaking Board, which are enforced by FINRA, govern the municipal securities activities of Morgan Stanley.

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As registered U.S. broker-dealers, certain subsidiaries of Morgan Stanley, including MS&Co., are subject to the SEC's net capital rule and the net capital requirements of various securities exchanges. Many non-U.S. securities exchanges and regulatory authorities either have imposed or are proposing rules relating to capital requirements

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

Compliance with the capital requirements may limit Morgan Stanley's operations requiring the intensive use of capital. Such requirements restrict Morgan Stanley's ability to withdraw capital from its broker-dealer subsidiaries, which in turn may limit its ability to pay dividends, repay debt or redeem or purchase shares of its own outstanding stock. Any change in such rules or the imposition of new rules affecting the scope, coverage, calculation or amount 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. In 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 or 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 business segment are subject to extensive and evolving energy, commodities, environmental, health and safety, and other governmental laws and regulations in the U.S. and abroad. Intensified scrutiny of certain energy markets by U.S. federal, state and local authorities in the U.S. and abroad and the public has resulted in increased regulatory and 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 has 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 subject to state laws in connection with the cleanup of hazardous substances that may have been released at properties 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 to the net capital requirements of, and its activities are regulated by, the Commodity Futures Trading Commission (the "CFTC") and various commodity exchanges. Certain subsidiaries of Morgan Stanley are registered with the CFTC as commodity trading advisors and/or commodity pool operators. Morgan Stanley's futures and options-on-futures businesses are also regulated by the National Futures Association (the "NFA"), a registered futures association, of which MS&Co. and certain of its affiliates are members. Violations of the rules of the CFTC, the NFA or the commodity exchanges could result in remedial actions including fines, registration restrictions or terminations, trading prohibitions or revocations of commodity exchange memberships.

Morgan Stanley Bank, through which Morgan Stanley conducts certain financing and lending activities, is an industrial bank chartered under the laws of the State of Utah. It has deposits that are eligible for insurance by the Federal Deposit Insurance Corporation ("FDIC") in accordance with FDIC rules and is subject to comprehensive 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 "BHCA").

Morgan Stanley Trust National Association, a wholly owned subsidiary, is a federally chartered national bank whose activities are limited to fiduciary activities, primarily personal trust services. It is subject to comprehensive 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 and other activities, is a federally chartered savings bank whose activities are subject to comprehensive regulation and periodic examination by the Office of Thrift Supervision (OTS). As a result of its ownership of Morgan Stanley Trust, Morgan Stanley is registered with the OTS as a unitary savings and loan holding company (SLHC) and subject to regulation and examination by the OTS as a SLHC. Subsidiaries of Morgan Stanley, including Morgan Stanley Trust, are registered transfer agents subject to regulation and examination by the SEC. Morgan Stanley 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 banks and regulatory bodies, especially in those jurisdictions in which Morgan Stanley maintains an office. As Morgan Stanley continues to expand its business internationally, including in Europe, Latin America, Asia and the Middle East, it will become subject to regulation in the jurisdictions in which it conducts business. Certain Morgan Stanley subsidiaries are regulated as broker-dealers under the laws of the jurisdictions in which they operate. Subsidiaries 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 instance, the Financial Services Authority and several U.K. securities and futures exchanges, including the London Stock 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 activities in the Federal Republic of Germany; the Swiss Federal Banking Commission regulates its activities in Switzerland; the Comisión Nacional del Mercado de Valores (C.N.M.V.) regulates its activities in Spain; the Financial Services Agency, the Bank of Japan, the Japanese Securities Dealers Association and several Japanese securities and futures exchanges, including the Tokyo Stock Exchange, the Osaka Securities Exchange and the Tokyo International Financial Futures Exchange, regulate its activities in Japan; the Hong Kong Securities and Futures Commission, 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-related 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 settlement with U.S. Federal and state regulators (to which Morgan Stanley is a party) have necessitated the development or 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 intended to benefit the investor or client. These laws and regulations generally grant supervisory agencies and bodies broad 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 be imposed for such failure include the suspension of individual employees, limitations on Morgan Stanley engaging in various asset management activities for specified periods of time, the revocation of registrations, other censures 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 regulates Morgan Stanley s business in Japan; the Securities and Exchange Board of India regulates Morgan Stanley s business in India; and the Monetary Authority of Singapore regulates Morgan Stanley s business in Singapore.

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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 (July 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 Morgan Stanley International (since July 2007). Head of Investment Banking (August 2005 to July 2007) and Head of Global Capital Markets (July 2002 to August 2005).

James Gorman (49). Co-President (since December 2007). Co-Head of Strategic Planning (since October 2007) and President and Chief Operating Officer of the Global Wealth Management Group (since February 2006). Head of Corporate Acquisitions Strategy & Research at Merrill Lynch & Co., Inc. (Merrill Lynch) (July 2005 to August 2005) and President of the Global Private Client business at Merrill Lynch (December 2002 to July 2005).

Colm Kelleher (50). Executive Vice President and Chief Financial Officer and Co-Head of Strategic Planning (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 2004).

Gary G. Lynch (57). Executive Vice President and Chief Legal Officer (since October 2005). Global General Counsel (October 2001 to October 2005) of Credit Suisse First Boston. Executive Vice Chairman (July 2004 to October 2005) and Vice Chairman (December 2002 to July 2004) of Credit Suisse First Boston and member of the 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 September 2005). Worldwide President and Chief Executive Officer of Burson-Marsteller (November 2004 to August 2005). 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 to a 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 information on how we monitor and manage liquidity and funding risk, see Management's Discussion and Analysis of Results 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 our operations.

Liquidity is essential to our businesses. Our liquidity could be substantially negatively affected by an inability to raise funding in the long-term or short-term debt capital markets or the equity capital markets or an inability to access the secured lending markets. Factors that we cannot control, such as disruption of the financial markets or 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-term or short-term financial prospects. Such negative perceptions could be developed if we incur large trading losses, we are downgraded or put on negative watch by the rating agencies, we suffer a decline in the level of our business activity, regulatory authorities take significant action against us, or we discover serious employee misconduct or illegal activity, among other reasons. If we are unable to raise funding using the methods described above, we 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 from 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 credit ratings. Factors that are significant to the determination of our credit ratings or otherwise affect our ability to raise 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 key personnel; our risk profile; our risk management policies; our cash liquidity; our capital adequacy; our corporate lending credit risk; and legal and regulatory developments. A deterioration in any of these factors or combination of these factors may lead rating agencies to downgrade our credit ratings, thereby increasing our cost of obtaining unsecured funding.

Our debt ratings also can have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical, such as OTC derivative transactions, including credit 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 additional 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 and to fund all payments on our obligations, including debt obligations. Regulatory and other legal restrictions may limit 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 to 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 to make 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 our liquidity and funding policies are not adequate or we do not adhere to the policies, we may be unable to access sufficient financing to service our financial obligations when they come due, which could have a material adverse 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 securities, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio. For more 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 factors.

The amount, duration and range of our market risk exposures have been increasing over the past several years, and 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; the availability and cost of capital; the liquidity of global markets; the level and volatility of equity prices, commodity 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 and regulatory developments related to our businesses potentially could increase costs, thereby affecting results of 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 in primary and secondary markets for all types of financial products, are subject to substantial fluctuations due to a variety of factors, such as those enumerated above that we cannot control or predict with great certainty. These fluctuations impact results by causing variations in new business flows and in the fair value of securities and other financial products. Fluctuations also occur due to the level of global market activity, which, among other things, affects the size, number and timing of investment banking client assignments and transactions and the realization of returns from our principal investments. During periods of unfavorable market or economic conditions, the level of individual investor participation in the global markets may also decrease, which would negatively impact the results of our Global Wealth Management Group business segment. In addition, fluctuations in global market activity could impact the flow of investment capital into or from assets under management or supervision and the way customers allocate capital among money market, equity, fixed income or other investment alternatives, which could negatively impact our Asset Management business segment.

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

The Company recorded \$9.4 billion in mortgage-related writedowns in the fourth quarter of fiscal 2007, including \$7.8 billion relating to our U.S. subprime trading positions and \$1.6 billion relating to other mortgage-related products, such as commercial mortgage-backed securities,

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ALT-A and other loans, conduit and non-performing 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 and as market conditions continue to evolve the fair value of these mortgage-related instruments could further deteriorate. 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 values of these securities in future periods. In addition, at the time of any sales and settlements of these securities, the 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 writedowns in 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 existed during the second half of fiscal 2007. These included losses reflecting mark-to-market valuations associated with loans and loan commitments largely related to acquisition financing to non-investment grade companies. The Company's leveraged finance business originates and distributes loans and commitments, and intends to distribute its current positions; however, this may take longer than in the past and is dependent on liquidity reentering the 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 and lending businesses could be adversely affected if the current conditions in the credit market spread to other sectors.

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, investing, block trading, underwriting and lending businesses in the event of unfavorable market movements. We commit substantial amounts of capital to these businesses, which often results in us taking large positions in the securities of, or make large loans to, a particular issuer or issuers in a particular industry, country or region. Moreover, the trend in all major capital markets is towards larger and more frequent commitments of capital in many of these 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 accompanied by 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 effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions 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 monitoring processes seek to quantify and mitigate risk to more extreme market moves. Severe market events have historically been difficult to predict, however, and Morgan Stanley could realize significant losses if unprecedented extreme market events were to occur, as illustrated by recent results in our subprime mortgage-related proprietary trading.

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 own account, for investment vehicles managed by affiliates in which we also may have a significant investment, for separate accounts managed by affiliates and for major participants in the commercial and residential real estate markets, and originate loans secured by commercial and residential properties. We also securitize and trade in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages and other real estate

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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, counterparty or obligor does not meet its obligations. For more information on how we monitor and manage credit risk, see **Credit 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 segment. This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have 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 business segment through margin and non-purpose loans to individual investors, which are collateralized by securities.

The amount, duration and range of our credit exposures have been increasing over the past several years, and may continue to do so. In recent years, we have significantly expanded our use of swaps and other derivatives and we 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 competitive 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 price derivatives instruments more aggressively based on the credit risks that we take. As a clearing member firm, we finance our customer positions and we could be held responsible for the defaults or misconduct of our customers. Although we regularly review our credit exposures, default risk may arise from events or circumstances that are 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, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity problems, losses or defaults by other institutions. This is sometimes referred to as **systemic risk** and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily 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, arising from inadequate or failed internal processes, people, resources, systems or from external events (e.g., external or internal fraud, legal and compliance risks, damage to physical assets, etc.). Morgan Stanley may incur operational risk across its full scope of business activities, including revenue-generating activities (e.g., sales and trading) and support functions (e.g., information technology and facilities management). As such, Morgan Stanley may incur operational risk in each of its businesses, as well as within the control groups. For more information on how we 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 transactions across numerous and diverse markets in many currencies. In general, the transactions we process are increasingly complex. We perform the functions required to operate our different businesses either by ourselves or through 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 of 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 operation of our or third party's systems or improper action by third parties or employees, we could suffer financial loss, an 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 affected by a disruption in the infrastructure that supports our business and the communities where we are located. This 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 conduct business.

Legal Risk.

Legal risk refers to the risk of non-compliance with applicable legal and regulatory requirements and standards. 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 **Legal Risk** in Part II, Item 7A herein.

The financial services industry faces substantial litigation and regulatory risks, and we may face damage to our 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 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 cases, the issuers that would otherwise 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 things, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number of these investigations and proceedings has increased in recent years with 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 use or disclosure of confidential information. Substantial legal liability or significant regulatory action against us could 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 proceedings in 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 business activities. Significant regulatory action against us could have material adverse financial effects, cause significant reputational harm to us, or harm our business prospects. New laws or regulations or changes in the enforcement of existing laws or regulations applicable to our clients may also adversely affect our business. For more information 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 environmental 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 the production, storage, transportation, marketing and trading of several commodities, including metals (base and precious), agricultural products, crude oil, oil products, natural gas, electric power, emission credits, coal, freight,

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LNG and related products and indices. In addition, we own five electricity generating facilities in the U.S. and 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 international marine transportation and U.S. marine logistics services. As a result of these activities, we are subject to extensive and evolving energy, commodities, environmental, health and safety, and other governmental laws and regulations. For example, liability may be incurred without regard to fault under certain environmental laws and regulations for the remediation of contaminated areas. Our commodities business also exposes us to the risk of unforeseen and catastrophic events, including natural disasters, leaks, spills, explosions, release of toxic substances, fires, accidents on land and at sea, wars, and terrorist attacks that could result in personal injuries, loss of life, property damage, and suspension of operations.

Although we have attempted to mitigate our pollution and other environmental risks by, among other measures, 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 not 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 respect to particular incidents. As a result, our financial condition and results of operations may be adversely affected by these events.

We also expect the other laws and regulations affecting our commodities business to increase in both scope and complexity. During the past several years, 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 and legal enforcement, litigation and remedial proceedings involving companies engaged in the activities in which we are engaged. For 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 regulations and our overall businesses and reputation may be adversely affected by the current legal environment. In addition, failure to comply with these laws and regulations may result in substantial civil and criminal fines and penalties.

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

Our reputation is one of our most important assets. As we have expanded the scope of our businesses and our client base, we increasingly have to address potential conflicts of interest, including those relating to our proprietary activities. For example, conflicts may arise between our position as a financial advisor in a merger transaction and a principal investment we hold in one of the parties to the transaction. In addition, hedge funds and private equity 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. However, identifying and managing potential conflicts of interest can be complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with conflicts of interest. In addition, the SEC and other 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 clients being less willing to enter into transactions in which such a conflict may occur, which will adversely affect our businesses.

Competitive Environment.

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

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The financial services industry and all of our businesses are intensely competitive, and we expect them to remain so. We compete with commercial banks, insurance companies, sponsors of mutual funds, hedge funds, energy 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 and services, innovation, reputation and price. Over time, certain sectors of the financial services industry have become considerably more concentrated, as financial institutions involved in a broad range of financial services have been acquired by or merged into other firms. This convergence could result in our competitors gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. We may experience 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 failure to 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 attract and retain qualified employees, we must compensate such employees at market levels. Typically, those levels have caused employee compensation to be our greatest expense as compensation is highly variable and changes with performance. If we are unable to continue to attract and retain qualified employees, or do so at rates necessary to maintain our competitive position, or if compensation costs required to attract and retain employees become more 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 ability to execute securities trades electronically on exchanges and through other automated trading markets has increased the pressure on trading commissions. The trend toward direct access to automated, electronic stock markets will likely continue. It is possible that we will experience competitive pressures in these and other areas in the future as 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 of our 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 operating in many countries, including risks of possible nationalization, expropriation, price controls, capital controls, exchange 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 financial services industries are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally. We are also subject to the enhanced risk that transactions we structure might not be legally enforceable in all cases.

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

financial markets generally.

The emergence of a pandemic or other widespread health emergency, or concerns over the possibility of such an emergency, could create economic and financial disruptions in emerging markets and other areas throughout the 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 stakes.

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 combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls and to integrate relationships with clients and business partners. In the case of joint ventures and minority stakes, we are subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control. In addition, conflicts or disagreements between us and our joint venture partners may negatively impact the benefits to be achieved by the joint venture. There is no assurance that our recent acquisitions or any 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 our 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 risk 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 to continue to do so in the future. Nonetheless, our hedging strategies and other risk management techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of our methods of managing risk are based upon our use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate (*e.g.*, recent events in the U.S. subprime residential mortgage market). Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. For more information on how we monitor and manage market and certain 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 the staff of the SEC regarding its periodic or current reports under the Exchange Act. There are no comments that remain unresolved that Morgan Stanley received not less than 180 days before the end of its fiscal year to which this report relates that Morgan Stanley believes are material.

Table of Contents**Item 2. Properties.**

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

Location	Owned/ Leased	Lease Expiration		Approximate Square Footage as of November 30, 2007*
U.S. Locations				
1585 Broadway	Owned	N/A		894,390 square feet
New York, New York				
(Global Headquarters and Institutional Securities Headquarters)				
522 Fifth Avenue	Owned	N/A		581,242 square feet
New York, New York				
(Asset Management Headquarters)				
2000 Westchester Avenue	Owned	N/A		590,303 square feet
Purchase, New York				
(Global Wealth Management Group Headquarters)				
New York, New York	Leased	2008	2018	2,238,726 square feet
(Several locations)				
One Pierrepont Plaza	Leased	2013		456,686 square feet
Brooklyn, New York				
Jersey City, New Jersey	Leased	2008	2012	499,350 square feet
(Several locations)				
International Locations				
25 Cabot Square, Canary Wharf	Owned**	N/A		450,150 square feet

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(London Headquarters)

Canary Wharf	Leased	2013 - 2038	957,378 square feet
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(Several locations)

1 Austin Road	Leased	2019	356,630 square feet
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Kowloon Station, West Kowloon

(Hong Kong Headquarters)

Sapporo s Yebisu Garden Place, Ebisu, Shibuya-ku	Leased	Option to cancel in 2008, or at any time thereafter	396,314 square feet
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(Tokyo Headquarters)

* The indicated total aggregate square footage leased does not include space occupied by Morgan Stanley securities branch 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 named, from time to time, as a defendant in 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 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 defendants in such cases are bankrupt or in financial distress.

Morgan Stanley is also involved, from time to time, in other reviews, investigations and proceedings (both formal 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 view of 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, Morgan Stanley cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, Morgan Stanley believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of Morgan Stanley, although the outcome of such matters could be material to Morgan Stanley's operating results and cash flows for a particular future period, depending on, among other things, 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 Circuit Court of the Fifteenth Judicial Circuit for Palm Beach County, Florida relating to the 1998 merger between The Coleman Company, Inc. and Sunbeam, Inc. (Sunbeam). The complaint, as amended, alleged that CPH was induced to agree 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 Morgan Stanley and ordered that portions of CPH's complaint, including those setting forth CPH's primary allegations against Morgan Stanley, be read to the jury and deemed established for all purposes in the action. In May 2005, the jury returned a verdict in favor of CPH and awarded CPH \$604 million in compensatory damages and \$850 million in punitive damages. 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 excluded certain payments received by CPH in settlement of related claims against others.

In March 2007, the District Court of Appeal for the Fourth District of Florida (the Court of Appeal) issued an opinion reversing the trial court's award for compensatory and punitive damages and remanding the matter to the trial court for entry of judgment for Morgan Stanley. In June 2007, the Court of Appeal's opinion became final 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 December 12, 2007, the Supreme Court denied CPH's request for review of the Court of Appeal's decision, directing judgment in favor of Morgan Stanley.

IPO Fee Litigation.

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Starting in late 1998, purported class actions, later captioned *In re Public Offering Fee Antitrust Litigation* (the purchaser actions) and *In re Issuer Plaintiff Initial Public Offering Fee Antitrust Litigation* (the issuer actions), 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 purchasers and the other on behalf of issuers of certain shares in initial public offerings (IPOs), allege that defendants conspired to fix the underwriters' spread at 7% in IPOs of U.S. companies in the \$20 million to \$80 million range in violation of Section 1 of the Sherman Act. The complaints seek treble damages and injunctive relief. Plaintiffs' claims for damages in the purchaser actions have been dismissed, but the claims for injunctive relief remain and plaintiffs' claims in the issuer actions for damages and injunctive relief remain. Plaintiffs moved for class certification in both 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 Civil Procedure 23(f) for leave to appeal the SDNY's denial of class certification and in September 2007, the U.S. Court of Appeals for the Second Circuit (the Second Circuit) reversed the SDNY's decision and remanded the case back to the district court for further consideration of class certification issues. On remand, plaintiffs filed a motion for class certification on October 17, 2007.

IPO Allocation Matters.

Beginning in March 2001, numerous purported class actions, now captioned *In re Initial Public Offering Securities Litigation*, were filed in the SDNY against certain issuers of IPO securities, certain individual officers of those issuers, Morgan Stanley and other underwriters of those IPOs, purportedly on behalf of purchasers of stock in the IPOs or the aftermarket. These complaints allege that defendants required customers who wanted allocations of "hot" IPO securities to pay undisclosed and excessive underwriters' compensation in the form of increased brokerage commissions and to buy shares of securities offered in the IPOs after the IPOs were completed at escalating price levels higher than the IPO price (a practice plaintiffs refer to as "laddering"), and claim violations of the federal 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" recommendations by the defendants' research analysts improperly increased or sustained the prices at which the securities traded after the IPOs. In February 2003, the underwriter defendants' joint motion to dismiss was denied, except as to certain specified offerings. In December 2006, the Second Circuit reversed the SDNY's grant of class certification, and ruled that these cases could not be certified for class treatment. In August 2007, plaintiffs filed second consolidated amended class action complaints, which purport to amend the allegations in light of the Second Circuit's reversal of the SDNY's decision approving the cases to proceed as class actions. Plaintiffs again seek certification of classes.

In October 2007, numerous derivative actions, purportedly brought on behalf of certain issuers of IPO securities, were filed in the U.S. District Court for the Western District of Washington against Morgan Stanley and other underwriters of those IPOs. The actions seek to recover "short swing" profits allegedly generated in violation of 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 regulatory and governmental agencies, including the SEC, the NYSE and various states, in connection with industry-wide investigations of broker-dealers and mutual fund complexes relating to possible late trading and market timing of mutual funds. In December 2007, Morgan Stanley settled all claims with the SEC concerning late trading and market timing of mutual funds in the retail system over the period from January 2002 to August 2003. Under the 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 governmental entities concerning the origination, purchase, securitization and servicing of subprime and non-subprime residential mortgages and related issues. Morgan Stanley has

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also been named as a defendant in various civil litigation matters 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 offerings for New Century Financial Corp. and Countrywide Financial Corp. and certain offerings of mortgage pass through 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 large part to losses caused by certain subprime-related trading positions and related matters, but no complaint has been served. In December 2007, several purported class action complaints were filed in SDNY asserting claims on behalf of participants in Morgan Stanley's 401(k) plan and employee stock ownership plan against Morgan Stanley and other parties, including certain present and former directors and officers, under the Employee Retirement Income Security Act of 1974. The complaints relate in large part to subprime-related losses, and allege, among 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 deductions were filed against Morgan Stanley in New Jersey, New York, Connecticut, Texas, Florida, Illinois, California and Ohio seeking damages on behalf of certain current and former employees. In October 2006, Morgan Stanley reached agreement to resolve these claims on behalf of the individual claimants as well as other potential class members 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 centralizing 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 other things, a payment to the settlement fund and certain programmatic relief. All similar class wide claims raised in the 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 ended November 30, 2007.

Table of Contents**Part II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Morgan Stanley's common stock trades on the NYSE under the symbol MS. At January 23, 2008, Morgan Stanley had approximately 94,469 holders of record; however, Morgan Stanley believes the number of beneficial owners 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	Dividends
Fiscal 2007:			
Fourth Quarter	\$ 47.56	\$ 69.87	\$ 0.27
Third Quarter*	\$ 54.90	\$ 90.95	\$ 0.27
Second Quarter	\$ 70.30	\$ 87.44	\$ 0.27
First Quarter	\$ 73.04	\$ 84.66	\$ 0.27
Fiscal 2006:			
Fourth Quarter	\$ 65.26	\$ 80.00	\$ 0.27
Third Quarter	\$ 54.52	\$ 69.50	\$ 0.27
Second Quarter	\$ 57.58	\$ 66.00	\$ 0.27
First Quarter	\$ 55.89	\$ 62.15	\$ 0.27

* 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 of its 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)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 (September 1, 2007 - September 30, 2007)				
Share Repurchase Program (A)		N/A		\$ 2,787
Employee Transactions (B)	2,348,230	\$ 62.89	N/A	N/A
Month #2 (October 1, 2007 - October 31, 2007)				
Share Repurchase Program (A)	2,830,092	\$ 63.32	2,830,092	\$ 2,608
Employee Transactions (B)	29,705	\$ 66.34	N/A	N/A
Month #3 (November 1, 2007 - November 30, 2007)				
Share Repurchase Program (A)	6,364,081	\$ 52.93	6,364,081	\$ 2,271
Employee Transactions (B)	98,592	\$ 53.65	N/A	N/A
Total				
Share Repurchase Program (A)	9,194,173	\$ 56.13	9,194,173	\$ 2,271
Employee Transactions (B)	2,476,527	\$ 62.56	N/A	N/A

- (A) On December 19, 2006, Morgan Stanley announced that its Board of Directors authorized the repurchase of up to \$6 billion of Morgan Stanley's outstanding stock under a new share repurchase program (the "Share Repurchase Program"). The Share Repurchase Program is a program for capital management purposes that considers, among other things, business segment capital needs, as well as equity-based compensation and benefit plan requirements. The Share Repurchase Program has no set expiration or termination date.
- (B) Includes: (1) shares delivered or attested to in satisfaction of the exercise price and/or tax withholding obligations by holders of employee stock options (granted under employee stock compensation plans) who exercised options; (2) restricted shares withheld (under the terms of grants under employee stock compensation plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares; and (3) shares withheld (under the terms of grants under employee stock compensation plans) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock units. Morgan Stanley's employee stock compensation plans provide that the value of the shares delivered or attested, or withheld, shall be valued using the fair market value of Morgan Stanley common stock on the date the relevant 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 or privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices Morgan Stanley deems appropriate.

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Stock performance graph. The following graph compares the cumulative total shareholder return (rounded to the nearest whole dollar) of our common stock, the S&P 500 Stock Index (S&P 500) and the S&P 500 Diversified Financials Index (S5DIVF) for our last five fiscal years. The graph assumes a \$100 investment at the closing price 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. This graph does not forecast future performance of our common stock.

Table of Contents**Item 6. Selected Financial Data.****MORGAN STANLEY****SELECTED FINANCIAL DATA**

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

	2007	2006	Fiscal Year 2005	2004	2003
Income Statement Data:					
Revenues:					
Investment banking	\$ 6,368	\$ 4,755	\$ 3,843	\$ 3,341	\$ 2,440
Principal transactions:					
Trading	3,206	11,805	7,377	5,512	6,262
Investments	3,262	1,807	1,128	721	170
Commissions	4,682	3,770	3,331	3,235	2,861
Asset management, distribution and administration fees	6,519	5,238	4,915	4,436	3,784
Interest and dividends	60,083	42,776	25,987	16,719	13,685
Other	1,208	585	496	332	245
Total revenues	85,328	70,736	47,077	34,296	29,447
Interest expense	57,302	40,897	23,552	13,977	11,826
Net revenues	28,026	29,839	23,525	20,319	17,621
Non-interest expenses:					
Compensation and benefits	16,552	13,986	10,749	9,320	7,892
Other	8,033	6,750	6,711	5,482	4,659
September 11 th related insurance recoveries, net			(251)		
Total non-interest expenses	24,585	20,736	17,209	14,802	12,551
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	5,070
Losses from unconsolidated investees	47	40	311	328	279
Provision for income taxes	831	2,728	1,473	1,384	1,305
Dividends on preferred securities subject to mandatory redemption				45	154
Income from continuing operations before cumulative effect of accounting change, net	2,563	6,335	4,532	3,760	3,332
Discontinued operations:					
Net gain from discontinued operations	1,024	1,666	559	1,129	696
Provision for income taxes	378	529	201	403	241
Net gain on discontinued operations	646	1,137	358	726	455
Cumulative effect of accounting change, net			49		

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Net income	\$ 3,209	\$ 7,472	\$ 4,939	\$ 4,486	\$ 3,787
Preferred stock dividend requirements	\$ 68	\$ 19	\$	\$	\$
Earnings applicable to common shareholders(1)	\$ 3,141	\$ 7,453	\$ 4,939	\$ 4,486	\$ 3,787

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	2007	2006	Fiscal Year 2005	2004	2003
Per Share Data:					
Earnings per basic common share:					
Income from continuing operations	\$ 2.49	\$ 6.25	\$ 4.32	\$ 3.48	\$ 3.10
Gain on discontinued operations	0.64	1.13	0.33	0.67	0.42
Cumulative effect of accounting change, net			0.05		
Earnings per basic common share	\$ 3.13	\$ 7.38	\$ 4.70	\$ 4.15	\$ 3.52
Earnings per diluted common share:					
Income from continuing operations	\$ 2.37	\$ 5.99	\$ 4.19	\$ 3.40	\$ 3.04
Gain on discontinued operations	0.61	1.08	0.33	0.66	0.41
Cumulative effect of accounting change, net			0.05		
Earnings per diluted common share	\$ 2.98	\$ 7.07	\$ 4.57	\$ 4.06	\$ 3.45
Book value per common share	\$ 28.56	\$ 32.67	\$ 27.59	\$ 25.95	\$ 22.93
Dividends per common share	\$ 1.08	\$ 1.08	\$ 1.08	\$ 1.00	\$ 0.92
Balance Sheet and Other					
Operating Data:					
Total assets	\$ 1,045,409	\$ 1,121,192	\$ 898,835	\$ 747,578	\$ 603,022
Consumer loans, net		22,915	21,966	19,166	18,362
Total capital(2)	191,085	162,134	125,891	110,793	82,769
Long-term borrowings(2)	159,816	126,770	96,709	82,587	57,902
Shareholders' equity	31,269	35,364	29,182	28,206	24,867
Return on average common shareholders' equity	8.9%	23.5%	17.3%	16.8%	16.5%
Average common and equivalent shares(1)	1,001,878,651	1,010,254,255	1,049,896,047	1,080,121,708	1,076,754,740

(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 debt issued to capital trusts.

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

Introduction.

Morgan Stanley (the Company) is a global financial services firm that maintains significant market positions in each of its business segments Institutional Securities, Global Wealth Management Group and Asset Management. The Company, through its subsidiaries and affiliates, provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and 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 exchange 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 and 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, alternative investments, which includes hedge funds and fund of funds, and merchant banking, which includes real estate, 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 Management also engages in investment activities.

The Company's results of operations for the 12 months ended November 30, 2007 (fiscal 2007), November 30, 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 Services (DFS) to its shareholders. DFS results are included within discontinued operations for all periods presented 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 for all periods presented through its sale on February 28, 2007. The results of the Company's aircraft leasing business, which was sold on March 24, 2006, are also reported as discontinued operations through its date of sale. See Note 22 to the consolidated financial statements.

Table of Contents**Results of Operations.****Executive Summary.*****Financial Information.***

	2007	Fiscal Year 2006	2005
Net revenues (dollars in millions):			
Institutional Securities	\$ 16,149	\$ 21,110	\$ 15,497
Global Wealth Management Group	6,625	5,512	5,047
Asset Management	5,493	3,453	3,219
Intersegment Eliminations	(241)	(236)	(238)
Consolidated net revenues	\$ 28,026	\$ 29,839	\$ 23,525
Income before taxes (dollars in millions)(1):			
Institutional Securities	\$ 817	\$ 7,721	\$ 4,609
Global Wealth Management Group	1,155	508	591
Asset Management	1,467	851	1,030
Intersegment Eliminations	2	23	86
Consolidated income before taxes	\$ 3,441	\$ 9,103	\$ 6,316
Consolidated net income (dollars in millions)	\$ 3,209	\$ 7,472	\$ 4,939
Earnings applicable to common shareholders (dollars in millions)(2)	\$ 3,141	\$ 7,453	\$ 4,939
Earnings per basic common share:			
Income from continuing operations	\$ 2.49	\$ 6.25	\$ 4.32
Gain on discontinued operations	0.64	1.13	0.33
Cumulative effect of accounting change, net			0.05
Earnings per basic common share	\$ 3.13	\$ 7.38	\$ 4.70
Earnings per diluted common share:			