

MORGAN STANLEY  
Form 10-Q  
July 07, 2006  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

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

For the quarterly period ended May 31, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-11758

**Morgan Stanley**

(Exact Name of Registrant as Specified in its Charter)

---

Edgar Filing: MORGAN STANLEY - Form 10-Q

**Delaware**  
(State of Incorporation)

**36-3145972**  
(I.R.S. Employer Identification No.)

**1585 Broadway**

**New York, NY**  
(Address of Principal  
Executive Offices)

**10036**  
(Zip Code)

**Registrant's telephone number, including area code: (212) 761-4000**

---

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

As of June 30, 2006, there were 1,071,959,235 shares of the Registrant's Common Stock, par value \$.01 per share, outstanding.

---

**Table of Contents**

**MORGAN STANLEY**

**INDEX TO QUARTERLY REPORT ON FORM 10-Q**

**Quarter Ended May 31, 2006**

	<b>Page</b>
	<b><u>      </u></b>
<b>Part I Financial Information</b>	
Item 1.	
	1
	3
	4
	5
	6
	36
Item 2.	37
Item 3.	77
Item 4.	84
<b>Part II Other Information</b>	
Item 1.	85
Item 1A.	87
Item 2.	88
Item 4.	88
Item 6.	88

**Table of Contents**

**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](http://www.sec.gov).

Morgan Stanley's internet site is [www.morganstanley.com](http://www.morganstanley.com). You can access Morgan Stanley's Investor Relations webpage through our internet site, [www.morganstanley.com](http://www.morganstanley.com), by clicking on the "About Morgan Stanley" link to the heading "Investor Relations." You can also access our Investor Relations webpage directly at [www.morganstanley.com/about/ir](http://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 our 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 Morgan Stanley's Corporate Governance webpage through our internet site, [www.morganstanley.com](http://www.morganstanley.com), by clicking on the "About Morgan Stanley" link to the heading "Inside the Company." You can also access our Corporate Governance webpage directly at [www.morganstanley.com/about/inside/governance](http://www.morganstanley.com/about/inside/governance). Morgan Stanley posts the following on its Corporate Governance webpage:

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;

Policy Regarding Director Candidates Recommended by Shareholders;

Policy Regarding Corporate Political Contributions;

Policy Regarding Shareholder Rights Plan; and

## Edgar Filing: MORGAN STANLEY - Form 10-Q

Code of Ethics and Business Conduct.

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.

ii

**Table of Contents****Item 1.****MORGAN STANLEY****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(dollars in millions, except share data)**

	<b>May 31, 2006</b>	<b>November 30, 2005</b>
	<b>(unaudited)</b>	
<b>Assets</b>		
Cash and cash equivalents	\$ 14,793	\$ 29,414
Cash and securities deposited with clearing organizations or segregated under federal and other regulations or requirements (including securities at fair value of \$26,979 at May 31, 2006 and \$30,223 at November 30, 2005)	46,612	40,130
Financial instruments owned (approximately \$104 billion and \$93 billion were pledged to various parties at May 31, 2006 and November 30, 2005, respectively):		
U.S. government and agency securities	33,781	31,742
Other sovereign government obligations	24,484	22,750
Corporate and other debt	128,358	105,381
Corporate equities	69,215	52,238
Derivative contracts	51,536	45,894
Physical commodities	2,797	2,610
<b>Total financial instruments owned</b>	<b>310,171</b>	<b>260,615</b>
Securities received as collateral	61,248	43,557
Collateralized agreements:		
Securities purchased under agreements to resell	190,289	174,330
Securities borrowed	274,581	244,241
Receivables:		
Consumer loans (net of allowances of \$776 at May 31, 2006 and \$838 at November 30, 2005)	21,965	22,916
Customers	67,878	50,979
Brokers, dealers and clearing organizations	6,785	5,030
Fees, interest and other	9,328	6,137
Office facilities, at cost (less accumulated depreciation of \$3,435 at May 31, 2006 and \$3,196 at November 30, 2005)	2,809	2,733
Aircraft held for sale		3,145
Goodwill and net intangible assets	2,932	2,500
Other assets	17,652	12,796
<b>Total assets</b>	<b>\$ 1,027,043</b>	<b>\$ 898,523</b>

**Table of Contents****MORGAN STANLEY****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)**

(dollars in millions, except share data)

	May 31, 2006	November 30, 2005
	(unaudited)	
<b>Liabilities and Shareholders Equity</b>		
Commercial paper and other short-term borrowings	\$ 34,028	\$ 31,120
Deposits	22,560	18,663
Financial instruments sold, not yet purchased:		
U.S. government and agency securities	19,594	20,425
Other sovereign government obligations	29,507	25,355
Corporate and other debt	7,788	5,480
Corporate equities	52,292	45,936
Derivative contracts	48,747	44,952
Physical commodities	1,894	4,852
	<u>159,822</u>	<u>147,000</u>
Total financial instruments sold, not yet purchased	159,822	147,000
Obligation to return securities received as collateral	61,248	43,557
Collateralized financings:		
Securities sold under agreements to repurchase	257,250	237,274
Securities loaned	141,454	120,454
Other secured financings	28,798	23,534
Payables:		
Customers	131,413	112,246
Brokers, dealers and clearing organizations	6,478	4,789
Interest and dividends	5,528	3,338
Other liabilities and accrued expenses	18,158	16,835
Long-term borrowings	127,985	110,465
	<u>994,722</u>	<u>869,275</u>
Capital Units	66	66
Commitments and contingencies		
Shareholders equity:		
Common stock, \$0.01 par value;		
Shares authorized: 3,500,000,000 at May 31, 2006 and November 30, 2005;		
Shares issued: 1,211,701,552 at May 31, 2006 and November 30, 2005;		
Shares outstanding: 1,071,786,172 at May 31, 2006 and 1,057,677,994 at November 30, 2005	12	12
Paid-in capital	1,670	2,389
Retained earnings	38,125	35,185
Employee stock trust	4,726	3,060
Accumulated other comprehensive income (loss)	20	(190)
Common stock held in treasury, at cost, \$0.01 par value;		
139,915,380 shares at May 31, 2006 and 154,023,558 shares at November 30, 2005	(7,572)	(8,214)
Common stock issued to employee trust	(4,726)	(3,060)

Edgar Filing: MORGAN STANLEY - Form 10-Q

Total shareholders' equity	32,255	29,182
Total liabilities and shareholders' equity	\$ 1,027,043	\$ 898,523

See Notes to Condensed Consolidated Financial Statements.



**Table of Contents****MORGAN STANLEY****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2006	2005	2006	2005
	(unaudited)		(unaudited)	
<b>Revenues:</b>				
Investment banking	\$ 1,132	\$ 814	\$ 2,114	\$ 1,635
<b>Principal transactions:</b>				
Trading	3,735	1,794	6,802	3,640
Investments	690	226	1,004	379
Commissions	1,005	824	1,934	1,648
<b>Fees:</b>				
Asset management, distribution and administration	1,333	1,246	2,612	2,450
Merchant, cardmember and other	277	318	566	626
Servicing and securitization income	651	423	1,247	917
Interest and dividends	10,114	6,035	20,663	11,878
Other	125	121	239	226
<b>Total revenues</b>	<b>19,062</b>	<b>11,801</b>	<b>37,181</b>	<b>23,399</b>
Interest expense	9,988	5,561	19,469	10,186
Provision for consumer loan losses	130	209	285	344
<b>Net revenues</b>	<b>8,944</b>	<b>6,031</b>	<b>17,427</b>	<b>12,869</b>
<b>Non-interest expenses:</b>				
Compensation and benefits	3,723	2,622	7,906	5,476
Occupancy and equipment	237	232	469	564
Brokerage, clearing and exchange fees	340	276	632	536
Information processing and communications	365	349	712	691
Marketing and business development	298	298	536	555
Professional services	538	438	972	817
Other	267	422	577	992
September 11 <sup>th</sup> related insurance recoveries, net				(251)
<b>Total non-interest expenses</b>	<b>5,768</b>	<b>4,637</b>	<b>11,804</b>	<b>9,380</b>
<b>Income from continuing operations before losses from unconsolidated investees, income taxes and cumulative effect of accounting change, net</b>				
	3,176	1,394	5,623	3,489
Losses from unconsolidated investees	103	67	172	140
Provision for income taxes	1,124	396	1,908	1,069
<b>Income from continuing operations before cumulative effect of accounting change, net</b>	<b>1,949</b>	<b>931</b>	<b>3,543</b>	<b>2,280</b>
<b>Discontinued operations:</b>				
Income/(loss) from discontinued operations	14	(5)	(42)	2
Income tax (provision)/benefit	(6)	2	17	(1)

Edgar Filing: MORGAN STANLEY - Form 10-Q

Income/(loss) on discontinued operations	8	(3)	(25)	1
Cumulative effect of accounting change, net				49
Net income	\$ 1,957	\$ 928	\$ 3,518	\$ 2,330
Earnings per basic share:				
Income from continuing operations	\$ 1.92	\$ 0.88	\$ 3.48	\$ 2.15
Income/(loss) on discontinued operations	0.01		(0.02)	
Cumulative effect of accounting change, net				0.05
Earnings per basic share	\$ 1.93	\$ 0.88	\$ 3.46	\$ 2.20
Earnings per diluted share:				
Income from continuing operations	\$ 1.85	\$ 0.86	\$ 3.35	\$ 2.10
Income/(loss) on discontinued operations	0.01		(0.02)	
Cumulative effect of accounting change, net				0.05
Earnings per diluted share	\$ 1.86	\$ 0.86	\$ 3.33	\$ 2.15
Average common shares outstanding:				
Basic	1,013,241,715	1,053,812,487	1,016,756,096	1,061,632,036
Diluted	1,054,733,745	1,079,811,172	1,056,493,761	1,084,988,764

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

## MORGAN STANLEY

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in millions)

	Three Months Ended		Six Months Ended	
	May 31,		May 31,	
	2006	2005	2006	2005
	(unaudited)		(unaudited)	
Net income	\$ 1,957	\$ 928	\$ 3,518	\$ 2,330
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	97	(41)	130	(45)
Net change in cash flow hedges	53	(56)	80	(50)
Comprehensive income	\$ 2,107	\$ 831	\$ 3,728	\$ 2,235

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****MORGAN STANLEY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(dollars in millions)**

	<b>Six Months Ended May 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(unaudited)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,518	\$ 2,330
Adjustments to reconcile net income to net cash used for operating activities:		
Cumulative effect of accounting change, net		(49)
Compensation payable in common stock and options	1,067	408
Depreciation and amortization	365	478