

Intrinsic Value of IQ Brand & Fair Compensation For Its Creation

Exhibit

Source: 2002 Morgan Stanley Annual Report, except where noted -- amounts reflected in millions, except %'s & where otherwise noted

	2002	2001	2000	1999	1998	Five Year Average
Total Morgan Stanley Net Revenue	19,109	22,093	26,148	21,659	16,122	
Compensation & Benefits	7,933	9,372	10,896	8,361	6,609	
Compensation & Benefits as % of Revenue	41.5%	42.4%	41.7%	38.6%	41.0%	41.0%
Provision for Taxes	1,645	2,074	3,070	2,937	1,992	
Pre-Tax Income	4,720	5,734	8,554	7,756	5,405	
Effective Tax Rate	34.9%	36.2%	35.9%	37.9%	36.9%	36.3%

Morgan Stanley Market Capitalization (*)	46,482
Total Compensation Expense (****)	9,088
Compensation Expense as % of Market Cap.	19.6%

Applied to IQ Brand Revenue Annuity

Applied to Incremental Pre-Tax Income

Revenue per IQ deal (**)	10.0
Deals per year (****)	4.0
IQ Brand Revenue Annuity	40.0
Compensation & Benefits	(16.4)
Incremental Pre-Tax Income	23.6
Provision for Taxes	(8.6)
Incremental Net Income	15.0
Price Earnings Ratio (*)	16.67
Intrinsic value of IQ Brand	250.3

Direct Clients (***)	IQ	IQ2	IQ3	Total
Nationwide	138		45	183
State Farm		246		246
Allmerica	182			182
UCL			186	186
Aegon	57			57
MONY	70			70
Totals (c)	447	246	231	924

Intrinsic value of IQ Brand	250.3
Compensation Expense as % of Market Cap.	19.6%
Sell side of the transaction	50.0%
Infrastructure support	50.0%
Derived Compensation for IQ Brand (a)	12.236
Direct Client Coverage Responsibility	45.8%
Derived Compensation for Direct Clients (b)	5.605
Midpoint of Derived Compensation [(a+b)x.5]	8.921

Total client (d)	713	595	709	2,017
MS Collateral	0	183	200	383
Total Deal	713	778	909	2,400

% Direct Clients (c/d)	62.7%	41.3%	32.6%	45.8%
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(*) Source: New York Stock Exchange via Yahoo Finance as of market closing June 30, 2003

(**) Projected revenue on IQ@3 and future IQ@ transactions was to exceed this amount

(***) Source: Prospectus supplements for each deal (note: amounts in this table are shown in \$000's)

(****) As recently communicated to clients, Morgan Stanley will now issue an IQ@ transaction every quarter

(*****) Annualized Q2 compensation expense as reported in Morgan Stanley June 18, 2003 press release