

Report Prepared On: 10/29/12

Structured Product Details

Name	RevCons linked to The Goodyear Tire & Rubber Co.
Issue Size	\$38,000
Issue Price	\$1,000
Term	3 Months
Annualized Coupon	14.00%
Pricing Date	June 24, 2011
Issue Date	June 29, 2011
Valuation Date	September 26, 2011
Maturity Date	September 29, 2011
Issuer	Morgan Stanley
CDS Rate	69.17 bps
Swap Rate	0.25%
Reference Asset	Goodyear Tire & Rubber Co.'s stock
Initial Level	\$15.88
Conversion Price	\$10.16
Trigger Price	\$12.70
Dividend Rate	0.00%
Implied Volatility	46.24%
Delta¹	0.47
Fair Price at Issue	\$954.55
Realized Return	-79.51%
CUSIP	617482US1
SEC Link	www.sec.gov/Archives/edgar/data/895421/000095010311002547/dp23307_424b2-ps820.htm

RevCons linked to The Goodyear Tire & Rubber Co.

Description

Morgan Stanley issued \$38,000 of RevCons linked to The Goodyear Tire & Rubber Co. on June 29, 2011 at \$1,000 per note.

These notes are Morgan Stanley-branded reverse convertibles. Reverse convertibles pay periodic interest coupons and at maturity convert into shares of the reference security if the price of the reference stock at the notes' maturity is below its price when the notes were issued and had closed below a specified "trigger" during the term of the notes.

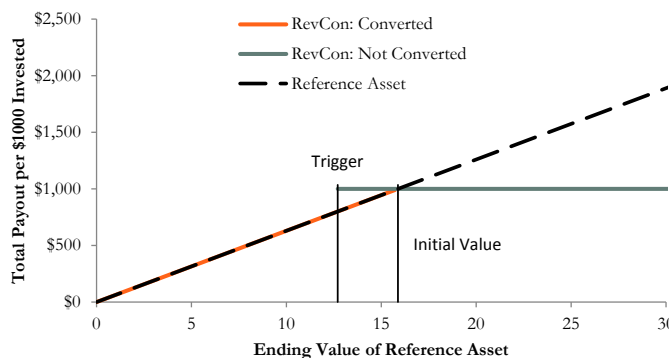
These 3-month notes pay monthly coupons at an annualized rate of 14.00%. In addition to the monthly coupons, at maturity on September 29, 2011 investors will receive the market value of 62.97 shares of Goodyear Tire & Rubber Co.'s stock if on September 26, 2011 Goodyear Tire & Rubber Co.'s stock price closes below \$15.88 (Goodyear Tire & Rubber Co.'s stock price on June 24, 2011) and had ever closed at or below \$12.70 during the term of the notes. Otherwise, investors will receive the \$1,000 face value per note.

Valuation

This Morgan Stanley reverse convertible linked to Goodyear Tire & Rubber Co.'s stock can be valued as a combination of a note from Morgan Stanley and a short down-and-in, at-the-money put option on Goodyear Tire & Rubber Co.'s stock. For reasonable valuation inputs this note was worth \$954.55 per \$1,000 when it was issued on June 29, 2011 because investors were effectively being paid only \$32.55 for giving Morgan Stanley an option which was worth \$78.00.

There is no active secondary market for most structured products. Structured products, including this note, therefore are much less liquid than simple stocks, bonds, notes and mutual funds. Investors are likely to receive less than the structured product's estimated market value if they try to sell the structured product prior to maturity. Our valuations do not incorporate this relative lack of liquidity and therefore should be considered an upper bound on the value of the structured product.

Payoff Curve at Maturity



The payoff diagram shows the final payoff of this note given Goodyear Tire & Rubber Co.'s stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in Goodyear Tire & Rubber Co.'s stock directly.

Related Research

Research Papers:

www.slcg.com/research.php

- "Are Structured Products Suitable for Retail Investors?" December 2006.
- "Structured Products in the Aftermath of Lehman Brothers," November 2009.
- "What TiVo and JP Morgan Teach Us about Reverse Convertibles," June 2010.

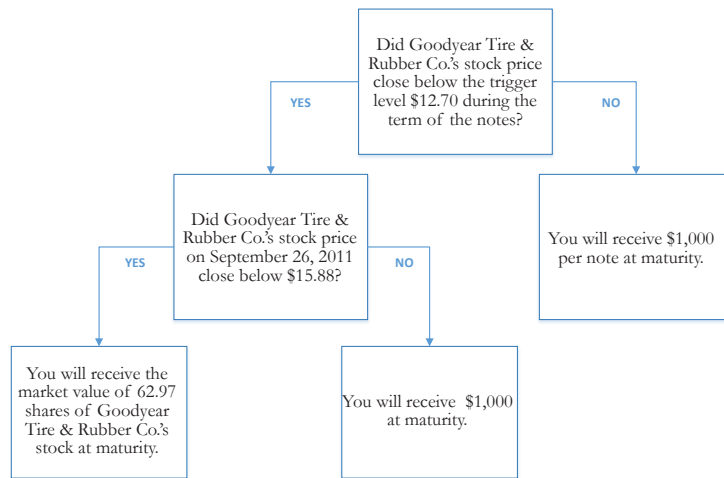
Geng Deng, Ph.D., FRM

Director, SLCG
 (+1) 703.890.0741
GengDeng@slcg.com

Principal Payback Table

Goodyear Tire & Rubber Co.'s Stock	Converted Note Payoff	Non-Converted Note Payoff
\$0.00	\$0.00	
\$1.59	\$100.00	
\$3.18	\$200.00	
\$4.76	\$300.00	
\$6.35	\$400.00	
\$7.94	\$500.00	
\$9.53	\$600.00	
\$11.12	\$700.00	
\$12.70	\$800.00	\$1,000.00
\$14.29	\$900.00	\$1,000.00
\$15.88	\$1,000.00	\$1,000.00
\$17.47	\$1,000.00	\$1,000.00
\$19.06	\$1,000.00	\$1,000.00
\$20.64	\$1,000.00	\$1,000.00
\$22.23	\$1,000.00	\$1,000.00
\$23.82	\$1,000.00	\$1,000.00

Maturity Payoff Diagram



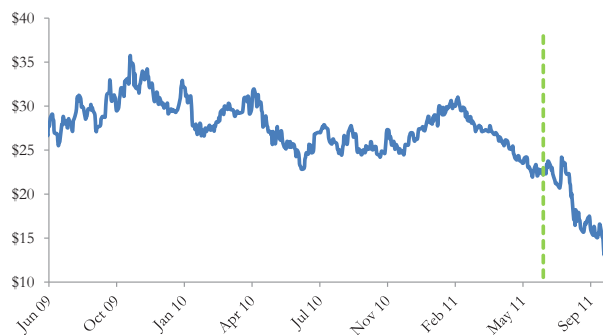
The contingent payoffs of this RevCon.

Analysis

This reverse convertible's 14.00% coupon rate is higher than the yield Morgan Stanley paid on its straight debt but, in addition to Morgan Stanley's credit risk, investors bear the risk that they will receive shares of Goodyear Tire & Rubber Co.'s stock when they are worth substantially less than the face value of the note at maturity.

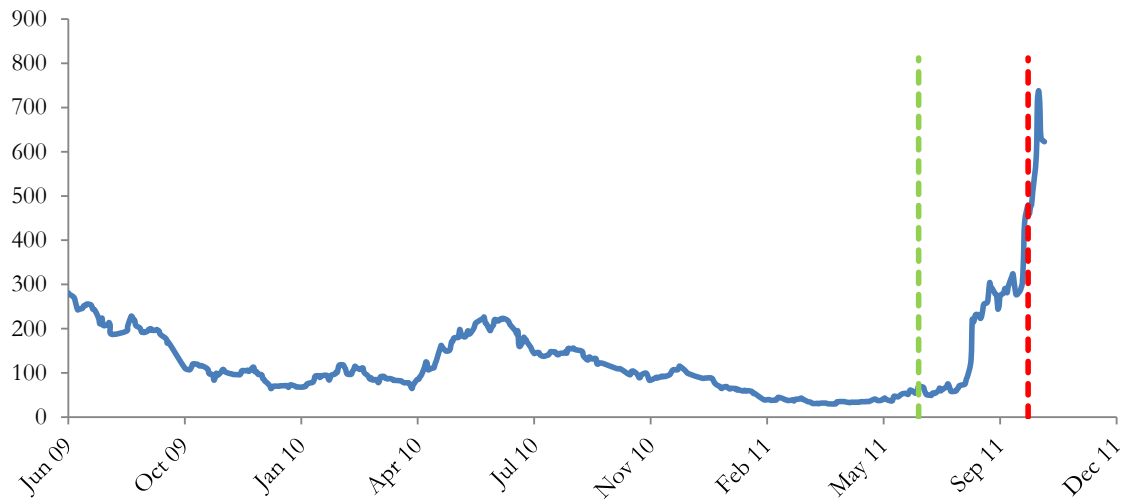
Investors purchasing reverse convertibles effectively sell put options to Morgan Stanley and post the note's issue price as collateral to secure satisfaction of the investors' obligations under the option contracts. Morgan Stanley pays investors a "coupon" that is part payment for the put options and part interest on the investors' posted collateral. This reverse convertible is fairly priced if and only if the excess of the reverse convertible's "coupon rate" above the interest Morgan Stanley pays on its straight debt equals the value of the put option investors are giving to Morgan Stanley. Whether the reverse convertible is suitable or not is equivalent to whether selling put options on the reference stock at the option premium being paid by Morgan Stanley was suitable for the investor.

Morgan Stanley's Stock Price



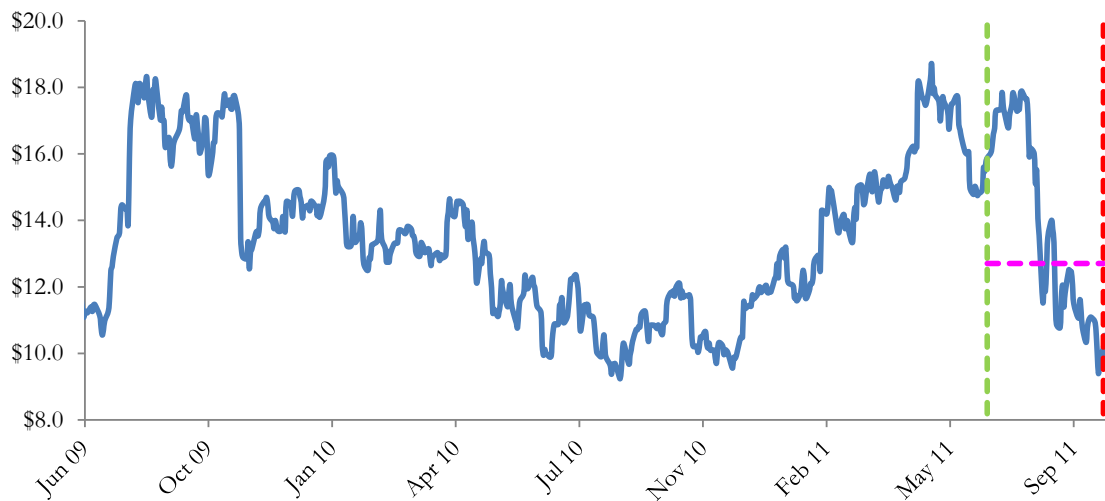
The graph above shows the adjusted closing price of the issuer Morgan Stanley for the past several years. The stock price of the issuer is an indication of the financial strength of Morgan Stanley. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

Morgan Stanley's CDS Rate



Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as Morgan Stanley. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of Morgan Stanley's debt, including outstanding RevCon. Fluctuations in Morgan Stanley's CDS rate impact the market value of the notes in the secondary market.

Goodyear Tire & Rubber Co.'s Stock Price

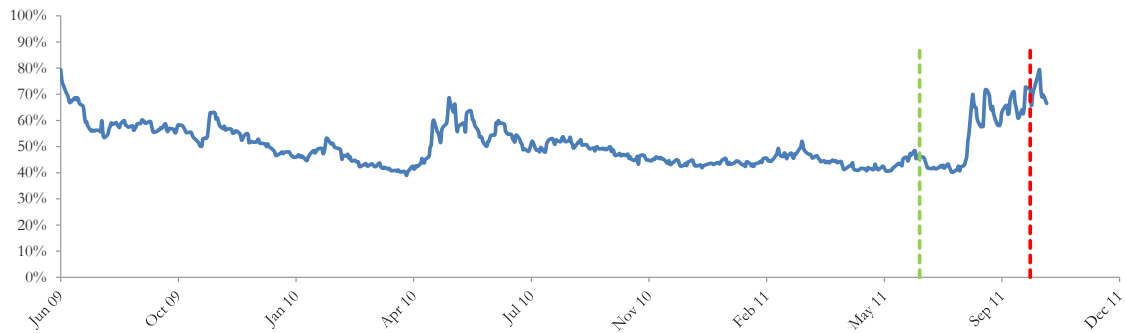


The graph above shows the historical levels of Goodyear Tire & Rubber Co.'s stock for the past several years. The final payoff of this note is determined by Goodyear Tire & Rubber Co.'s stock price at maturity. Higher fluctuations in Goodyear Tire & Rubber Co.'s stock price correspond to a greater uncertainty in the final payout of this RevCon.

Realized Payoff

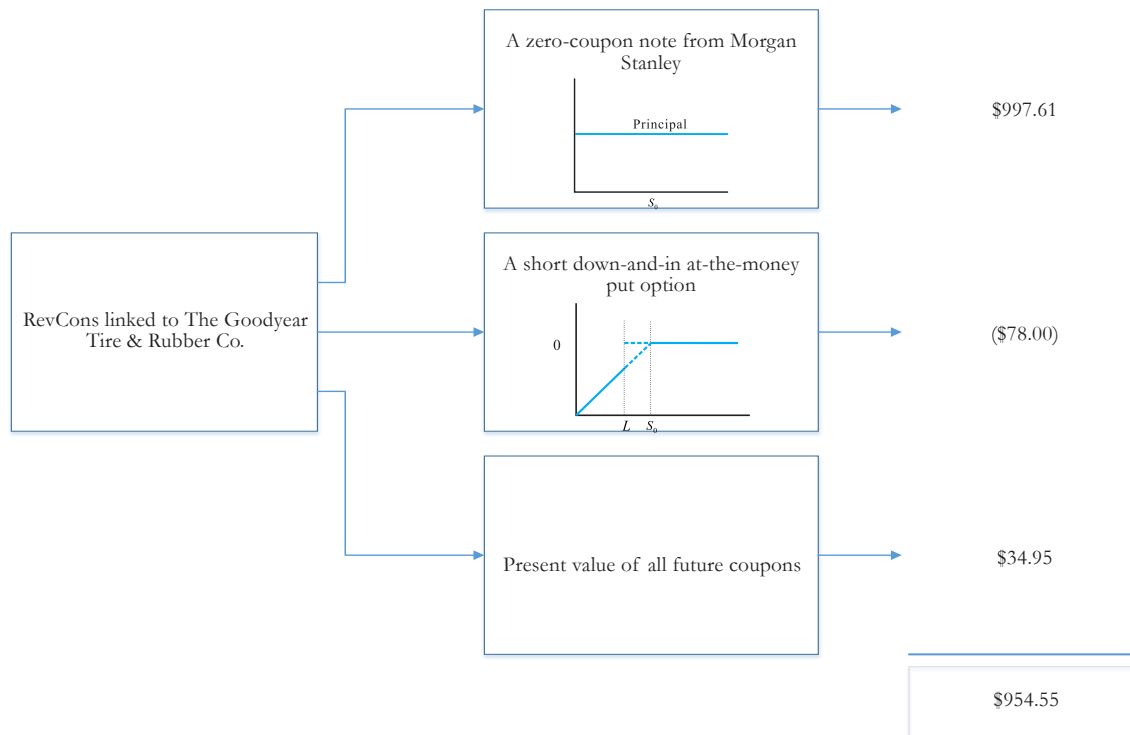
This note matured on September 29, 2011 and investors received \$639.80 per note (or equal to the value of 62.97 shares of Goodyear Tire & Rubber Co. stock's closing price on September 26, 2011).

Reference Asset Goodyear Tire & Rubber Co.'s Stock's Implied Volatility



The annualized implied volatility of Goodyear Tire & Rubber Co.'s stock on June 24, 2011 was 46.24%, meaning that options contracts on Goodyear Tire & Rubber Co.'s stock were trading at prices that reflect an expected annual volatility of 46.24%. The higher the implied volatility, the larger the expected fluctuations of Goodyear Tire & Rubber Co.'s stock price and of the Note's market value during the life of the Notes.

Decomposition of this RevCon



This note can be decomposed into different components, and each component can be valued separately. The chart above shows the value of each component of this RevCon.

1. Delta measures the sensitivity of the price of the note to the Goodyear Tire & Rubber Co.'s stock price on June 24, 2011.
2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the Goodyear Tire & Rubber Co.'s stock on June 24, 2011.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.