

Report Prepared On: 11/01/12

Structured Product Details

Name	PLUS based on the Value of the S&P 500 Index
Issue Size	\$7.18 million
Issue Price	\$10
Term	13 Months
Annualized Coupon	0.00%
Pricing Date	January 7, 2010
Issue Date	January 12, 2010
Valuation Date	February 9, 2011
Maturity Date	February 14, 2011
Issuer	Morgan Stanley
CDS Rate	155.7 bps
Swap Rate	0.98%
Reference Asset	the S&P 500 Index
Initial Level	1,141.69
Dividend Rate	2.03%
Implied Volatility	21.32%
Delta¹	0.72
Fair Price at Issue	\$9.35
Realized Return	13.77%
CUSIP	617484696
SEC Link	www.sec.gov/Archives/edgar/data/895421/000095010310000058/dp16127_424b2-ps278.htm

PLUS based on the Value of the S&P 500 Index

Description

Morgan Stanley issued \$7.18 million of PLUS based on the Value of the S&P 500 Index on January 12, 2010 at \$10 per note.

These notes are Morgan Stanley-branded PLUS securities that do not pay periodic coupons, but instead pay a single amount at maturity depending on the S&P 500 Index level at maturity.

If the S&P 500 Index level on February 9, 2011 is higher than 1,141.69, but lower than 1,199.16, the notes pay a return equal to the percentage increase in the S&P 500 Index multiplied by 3.0. If on February 9, 2011 the S&P 500 Index level is above the 1,199.16, the notes pay the maximum payout of \$11.51. If on February 9, 2011 the S&P 500 Index level is below 1,141.69, investors receive the face value per note reduced by the percentage decline in the reference asset. The notes will pay nothing at maturity if the reference asset declines to zero.

Valuation

This note can be valued as a combination of a note from Morgan Stanley, a short at-the-money put option, three long at-the-money call options, and three short out-of-the-money call options. The short at-the-money put option exposes investors to any decline in the S&P 500 Index. The three short out-of-the-money call options has the strike price of 1,199.16, and limits the maximum return of the notes beyond the cap level. For reasonable valuation inputs this note was worth \$9.35 when it was issued on January 12, 2010 because the value of the options investors gave Morgan Stanley plus the interest investors would have received on Morgan Stanley's straight debt was worth \$0.65 more than the call options investors received from Morgan Stanley.

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.

Related Research

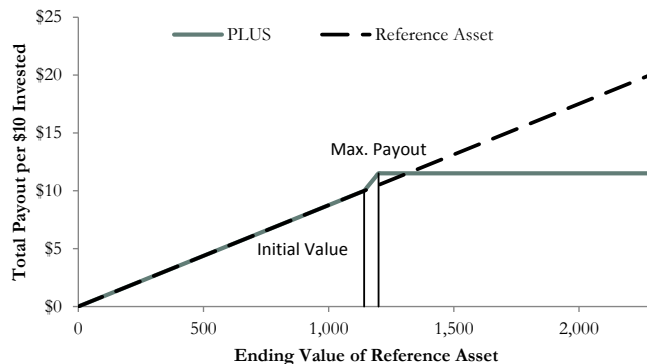
Research Papers:

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.

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Payoff Curve at Maturity

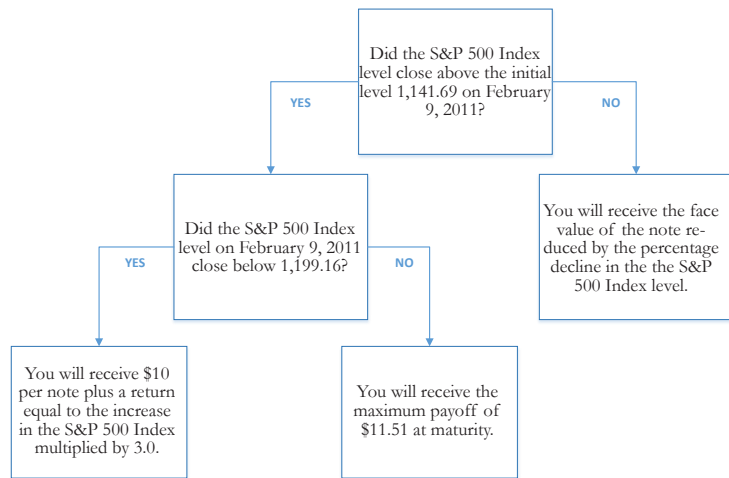


The payoff diagram shows the final payoff of this note given the S&P 500 Index level (horizontal axis). For comparison, the dashed line shows the payoff if you invested in the S&P 500 Index directly.

Principal Payback Table

The S&P 500 Index	Note Payoff
0.00	\$0.00
114.17	\$1.00
228.34	\$2.00
342.51	\$3.00
456.68	\$4.00
570.85	\$5.00
685.01	\$6.00
799.18	\$7.00
913.35	\$8.00
1,027.52	\$9.00
1,141.69	\$10.00
1,255.86	\$11.51
1,370.03	\$11.51
1,484.20	\$11.51
1,598.37	\$11.51
1,712.54	\$11.51

Maturity Payoff Diagram

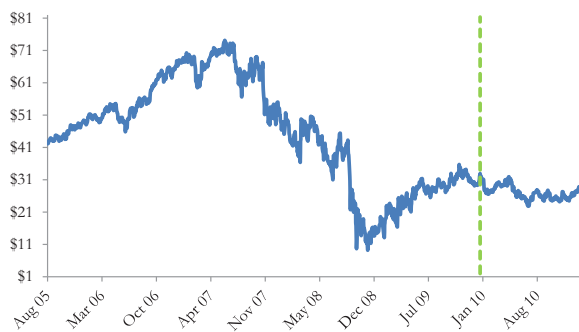


The contingent payoffs of this PLUS.

Analysis

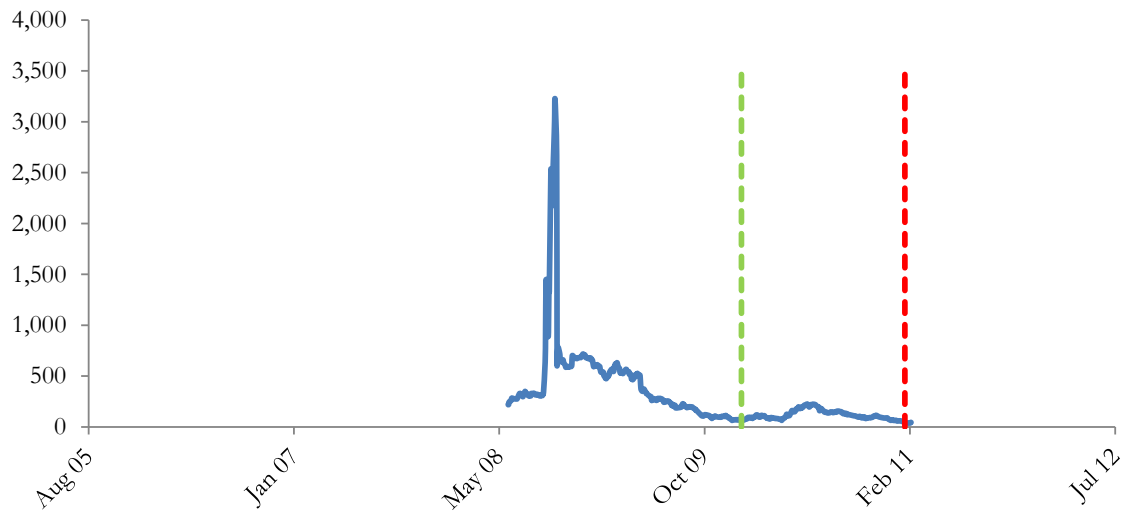
This PLUS pays investors the increase in the S&P 500 Index multiplied by 3.0 capped at 15.10%, but if the S&P 500 Index declines over the term of the note, investors will suffer losses equal to the percentage decline in the S&P 500 Index. In addition, investors bear the credit risk of Morgan Stanley. Investors purchasing this PLUS effectively sell at-the-money put and out-of-the-money call options to Morgan Stanley, buy at-the-money call options, and a zero-coupon note from Morgan Stanley. This PLUS is fairly priced if and only if the market value of the options investors received from Morgan Stanley equals the market value of the options investors gave Morgan Stanley plus the interest investors would have received on Morgan Stanley's straight debt.

Morgan Stanley's Stock Price



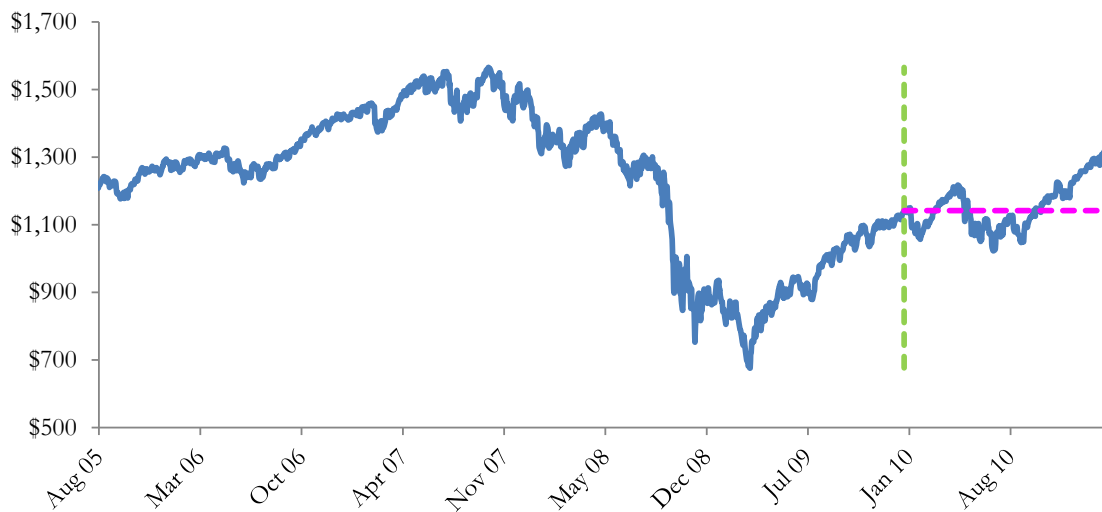
The graph above shows the adjusted closing price of the issuer Morgan Stanley for the past several years. The stock price of the issuer is an indication of the financial strength of Morgan Stanley. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

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 PLUS. Fluctuations in Morgan Stanley's CDS rate impact the market value of the notes in the secondary market.

The S&P 500 Index Level

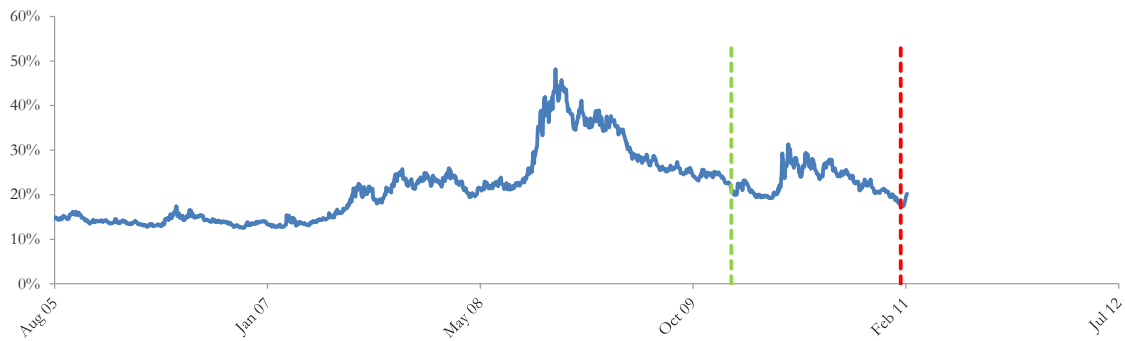


The graph above shows the historical levels of the S&P 500 Index for the past several years. The final payoff of this note is determined by the S&P 500 Index level at maturity. Higher fluctuations in the S&P 500 Index level correspond to a greater uncertainty in the final payout of this PLUS.

Realized Payoff

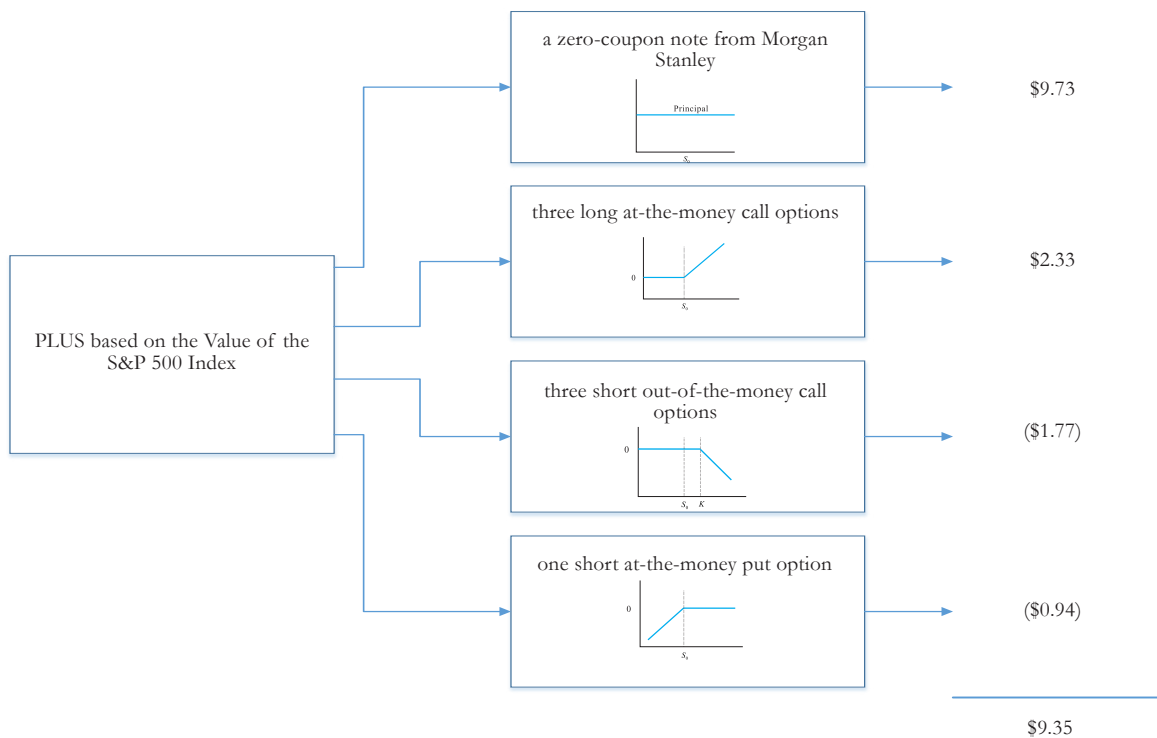
This note matured on February 14, 2011 and investors received \$11.51 per note.

Reference Asset The S&P 500 Index's Implied Volatility



The annualized implied volatility of the S&P 500 Index on January 7, 2010 was 21.32%, meaning that options contracts on the S&P 500 Index were trading at prices that reflect an expected annual volatility of 21.32%. The higher the implied volatility, the larger the expected fluctuations of the S&P 500 Index level and of the Note's market value during the life of the Notes.

Decomposition of this PLUS



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 PLUS.

1. Delta measures the sensitivity of the price of the note to the the S&P 500 Index level on January 7, 2010.
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 the S&P 500 Index on January 7, 2010.
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.