

# Morgan Stanley

Free Writing Prospectus  
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## Morgan Stanley First Quarter 2009 Overview May 2009

# Notice

The information provided herein may include certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures are included in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2008, Quarterly Report on Form 10-Q and Current Reports on Form 8-K, including any amendments thereto, all of which are available on [www.morganstanley.com](http://www.morganstanley.com).

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# Index

- Consolidated Financial Results
  - Institutional Securities
  - Asset Management
  - Global Wealth Management
- Reduction in Risk Positions
- Firmwide Real Estate Investments
- Reduction in Leverage
- Strong Capital
- Funding Diversification

# Consolidated Financial Highlights

## 1Q 2009 Highlights

Net Revenues (\$Bn)	3.0
PBT (\$Bn)	(0.9)
Net Income (\$Bn)	(0.18)
Diluted EPS (\$)	(0.57)
Diluted EPS (\$) (Ex-Loss from Debt-Related Credit Spreads)	0.37
Book Value per Common Share (\$)	27.10
Tangible Book Value per Common Share <sup>(1)</sup>	24.41
Leverage Ratio <sup>(2)</sup>	11.2X

## 1Q 2009 Revenue Drivers

- Delivered strong results in Commodities, Interest Rates, Credit Products & Investment Banking; solid performance in Global Wealth Management
- Improvements in Morgan Stanley's Debt-Related Credit Spreads resulted in an accounting loss of \$1.5 billion
- Industry-Wide decline in Commercial Real Estate Market negatively impacted revenues by \$800 million and expenses by \$200 million

## Strategic Momentum

- Expenses Reduced 33%; Firm on track to achieve annual savings target of \$2 billion
- MOU signed to establish new joint venture integrating the Morgan Stanley and Mitsubishi UFJ Financial Group, Inc.'s Japanese securities businesses into the third largest brokerage franchise in Japan
- Morgan Stanley Smith Barney joint venture scheduled to launch by the end of this year's third quarter

### Source:

Morgan Stanley Earnings Conference Call, SEC Filings

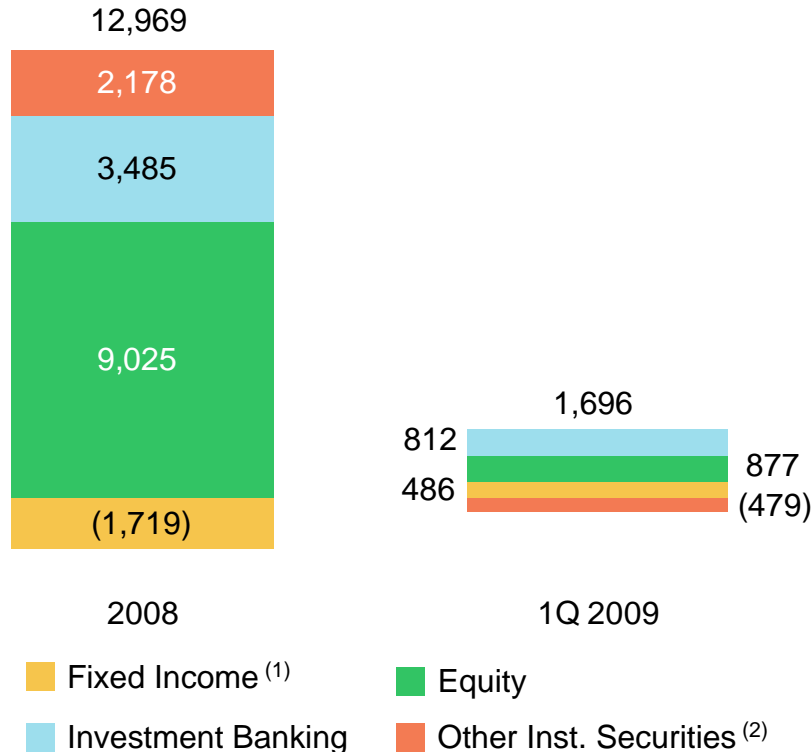
(1) Tangible Book value per common share equals tangible common equity divided by period end common shares outstanding.

(2) Leverage ratio equals total assets divided by tangible Morgan Stanley shareholders' equity.

# Institutional Securities

## Net Revenue

(\$MM)



## 1Q 2009 Highlights

- Fixed Income delivered strong results in Commodities, Interest Rates and Credit Products
- Investment Banking delivered strong results
  - Ranked # 1 in announced global M&A
- Equity derivatives delivered solid quarter
- Entered MOU (memorandum of understanding) to establish securities joint venture with Mitsubishi UFJ Financial Group, Inc.

## Notable Revenue Items

- Morgan Stanley Credit Spread Improvement – (\$1.5 billion)
- Principal Investments<sup>(3)</sup> – (\$791 million)
- Lending Business – (\$437 million)
- Subsidiary Bank Investment Portfolio – (\$200 million)

## Notable Expense Item

- Non-interest expenses were 34% below the average quarter in 2008

### Source:

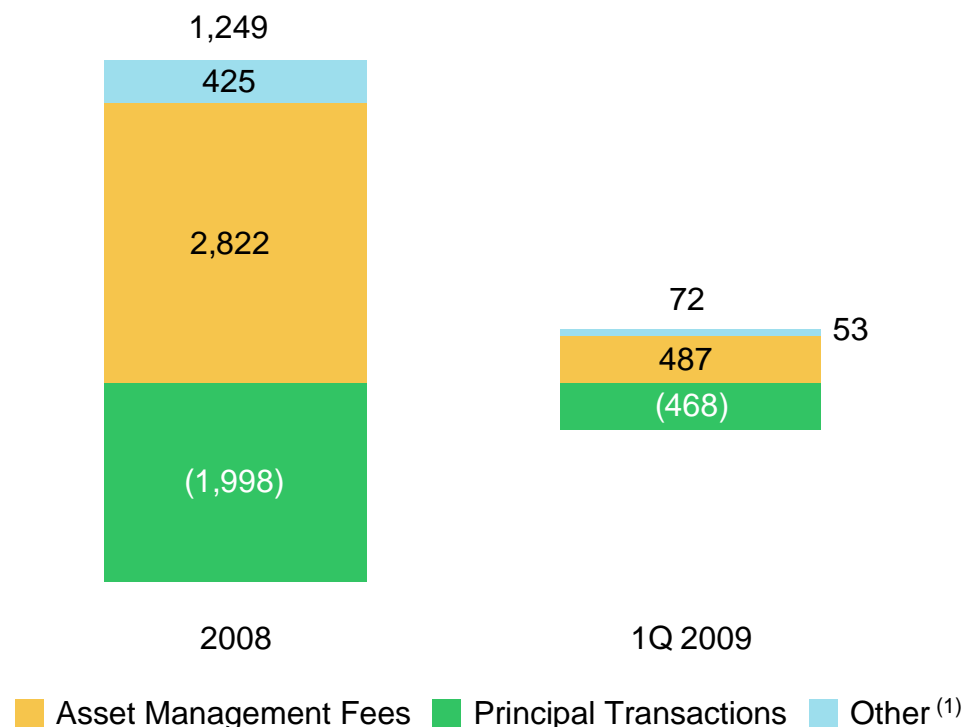
Morgan Stanley Earnings Conference Call, SEC Filings

- (1) Represents combined revenues from Fixed Income Sales and Trading and Other Sales and Trading. Other sales and trading net revenue primarily includes net losses from the mark-to-market of loans and closed and pipeline commitments and related hedges, and results related to Investment Banking and other activities.
- (2) 2008 includes pre-tax gains of \$1,489 million related to the follow-on offerings of MSCI Inc. 1Q09 includes Investment losses, fees and other revenues.
- (3) Principal transactions investments revenue reflects net gain / (loss) on investments marked at fair value. The related investment asset balance for the quarters ended Mar 31, 2008, June 30, 2008, Sept 30, 2008, Dec 31, 2008 and Mar 31, 2009 are \$10.7 billion, \$10.3 billion, \$9.7 billion, \$6.7 billion, and \$6.3 billion, respectively.

# Asset Management

## Net Revenue

(\$MM)



## 1Q 2009 Highlights

- Core Business which includes traditional funds, hedge funds and fund-of-funds asset management returned to profitability

### Notable Revenue Items

- Merchant Banking – Principal Investments
  - Real Estate Losses – (\$374 million)
  - Private Equity – (\$56 million)

### Notable Expense Items

- Crescent Impairment – (\$131 million)
- Cost reduction initiatives drove expenses down 38% from 4Q08 (excluding Crescent impairment in both periods)

### Other

- Assets under management down 12% to \$356 billion from 4Q08 reflecting reduced asset values and customer outflows

Source:

Morgan Stanley Earnings Conference Call, SEC Filings

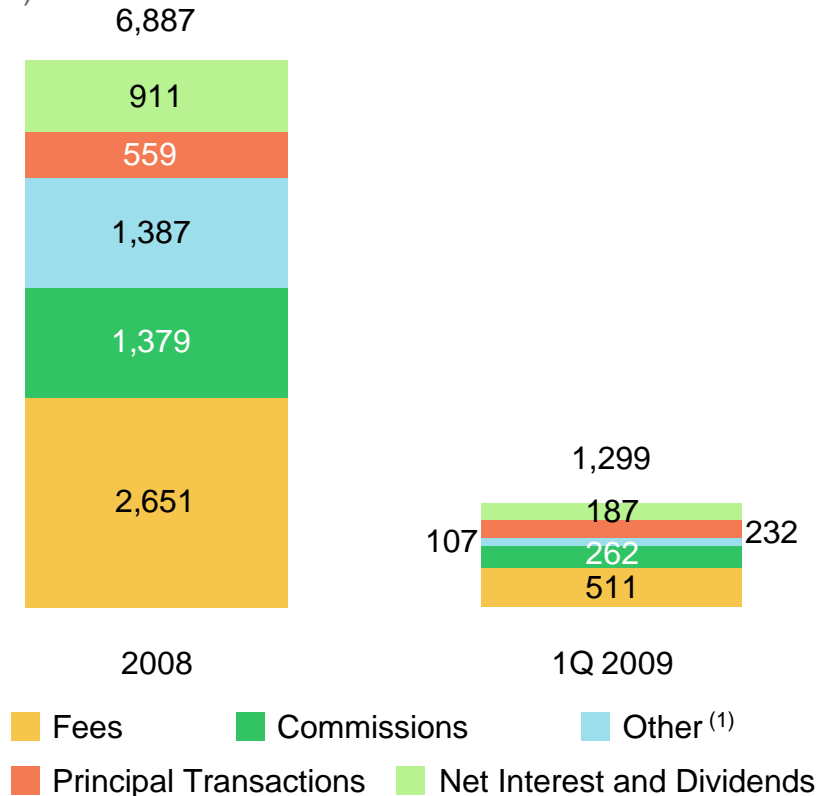
(1) "Other" includes Investment Banking, Net Interest and Dividends, Commissions and Other revenues.

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# Global Wealth Management

## Net Revenue

(\$MM)



## 1Q 2009 Highlights

- Solid Performance in 1Q 2009
  - 9% PBT Margin
  - 12% PBT margin (ex-joint venture integration costs)
  - 20% ROE
- Bank Deposits program up 21% from 4Q 2008 to \$47 billion
  - Total Firm-wide Deposits up to \$60 billion
- \$3 billion net new client assets
- \$630,000 average annualized revenue per global representative

**Source:**

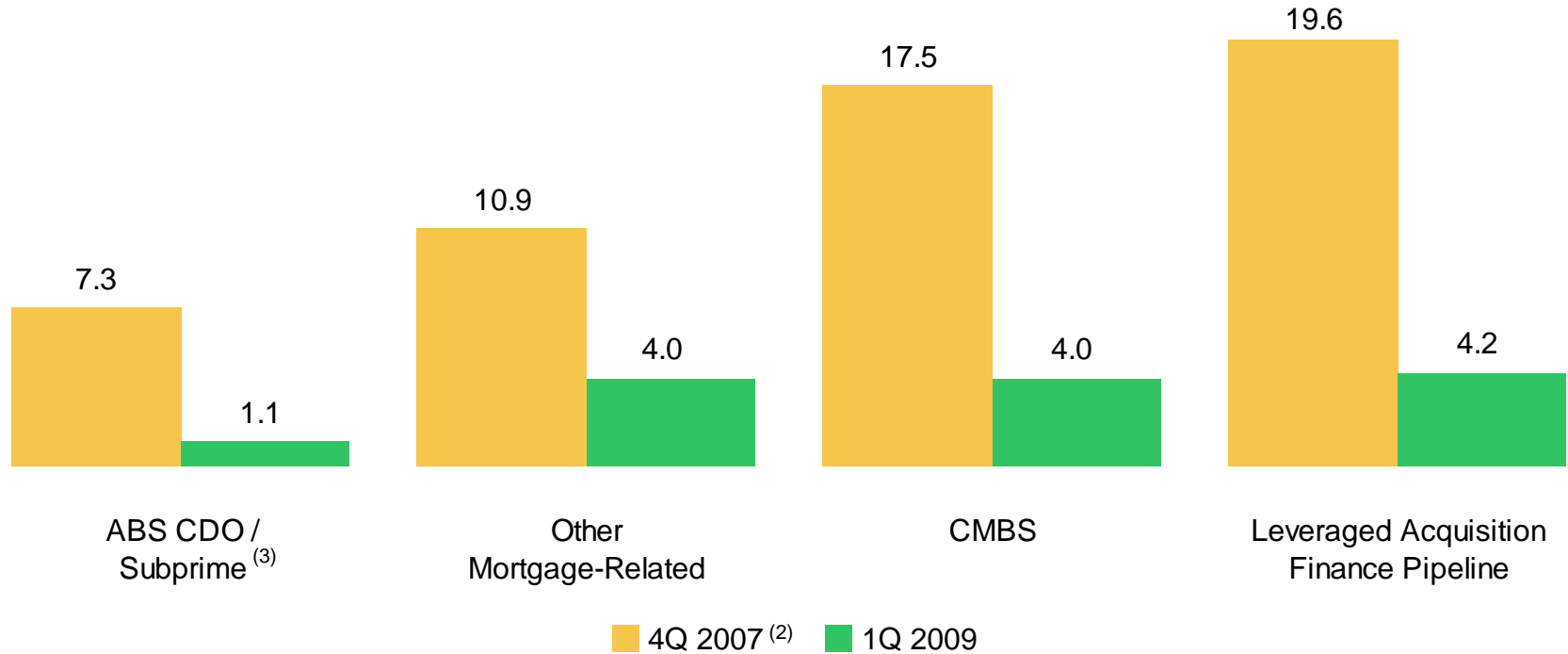
Morgan Stanley Earnings Conference Call, SEC Filings

(1) "Other" includes Investment Banking and Other revenues. 2008 includes a pre-tax gain of \$743 million on the sale of the Spanish wealth management business, Morgan Stanley Wealth Management S.V., S.A.U.

# Reduction in Risk Positions

## Net Exposure <sup>(1)</sup>

(\$Bn)



### Source:

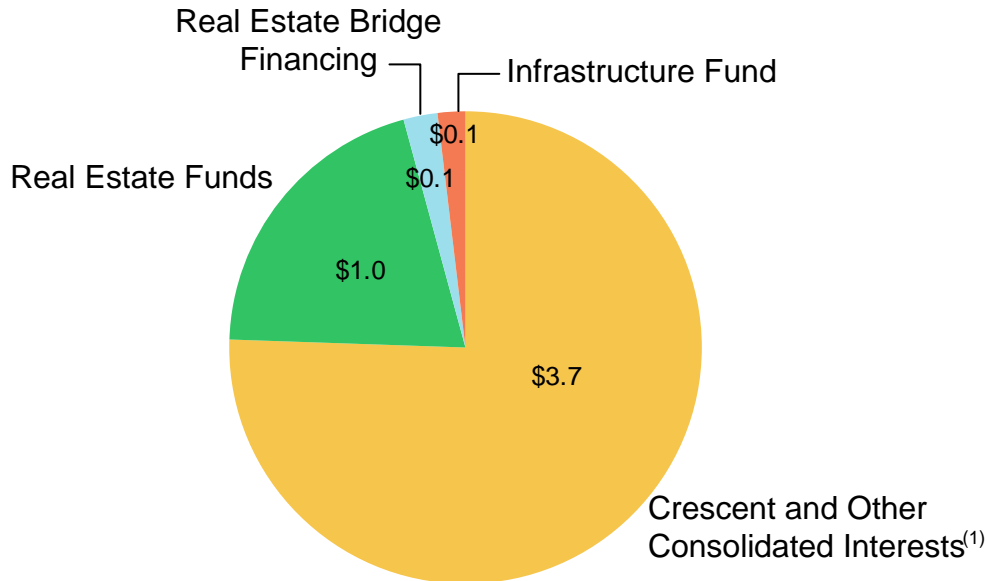
Morgan Stanley Earnings Conference Call, SEC Filings

- (1) Net Exposure is defined as potential loss to the Firm in an event of 100% default, assuming zero recovery, over a period of time. The value of these positions remains subject to mark-to-market volatility. Positive amounts indicate potential loss (long position) in a default scenario. Negative amounts indicate potential gain (short position) in a default scenario.
- (2) 4Q 2007 numbers as reported on fiscal basis.
- (3) Includes subprime securities held by the investment portfolios of Morgan Stanley Bank N.A. and Morgan Stanley Trust FSB (collectively, the "Subsidiary Banks"). The securities in the Subsidiary Banks' portfolios are part of the Company's overall Treasury liquidity management portfolio. The market value of the Subsidiary Banks' subprime-related securities, most of which are investment grade-rated residential mortgage-backed securities, was \$1.8 billion at March 31, 2009 and \$5.5 billion at November 30, 2007.



# Firmwide Real Estate Investments

Total Real Estate Investments \$4.9bn<sup>(2)</sup>



March 31, 2009

- Crescent and Other Consolidated Interests gross investment assets subject to non-recourse debt of \$2.5 billion provided by third party lenders
- Morgan Stanley has \$1.9 billion in contractual capital commitments, guarantees and counterparty arrangements with respect to total real estate investments as of March 31, 2009
  - Additional \$0.2 billion unsecured operating capital facility terms being discussed with one of the Funds

**Source:**

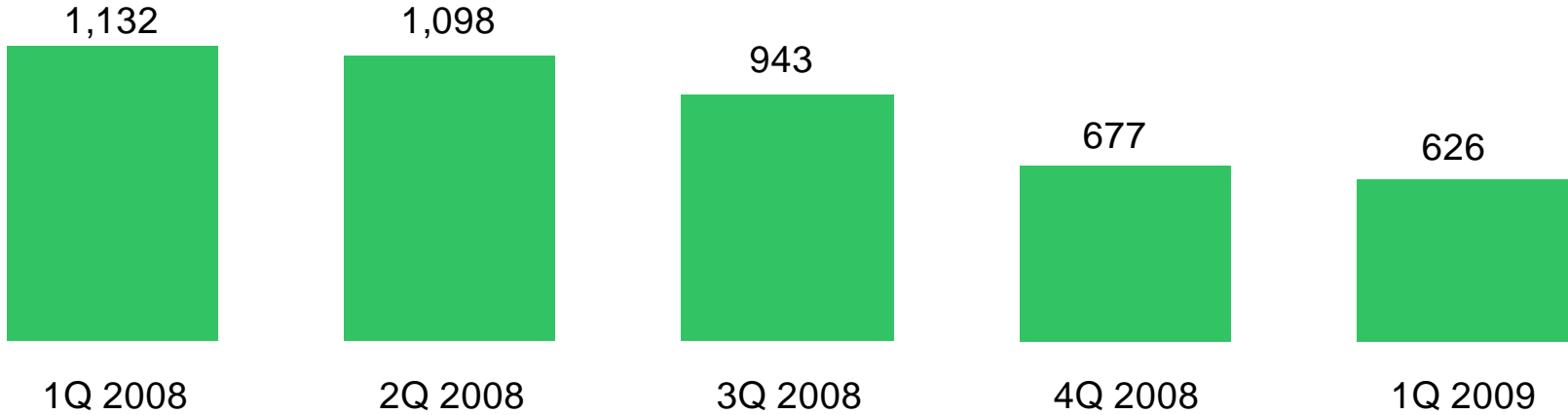
Morgan Stanley Earnings Conference Call, SEC Filings

- (1) As of March 31, 2009, certain of the Company's subsidiaries were in default under third party real estate financings that are generally non-recourse (subject to limited guarantees) due to a breach of certain non-monetary covenants. Limited waivers of those covenants have been obtained from the lenders for the period effective March 31, 2009 and continuing through May 31, 2009.
- (2) Total real estate balances exclude investments that benefit certain deferred compensation and employee co-investment plan.

# Substantial Reduction in Leverage

## Total Assets

(\$Bn)



## Tangible Shareholders' Equity (\$Bn) <sup>(1)</sup>

41	42	48	56	56
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## Leverage Ratios <sup>(2)</sup>

27.7x	26.1x	19.8x	12.1x	11.2x
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**Source:**

Morgan Stanley Earnings Conference Call, SEC Filings

(1) Excludes non-controlling interests.

(2) Leverage ratio equals total assets divided by tangible Morgan Stanley shareholders' equity.

# Strong Capital

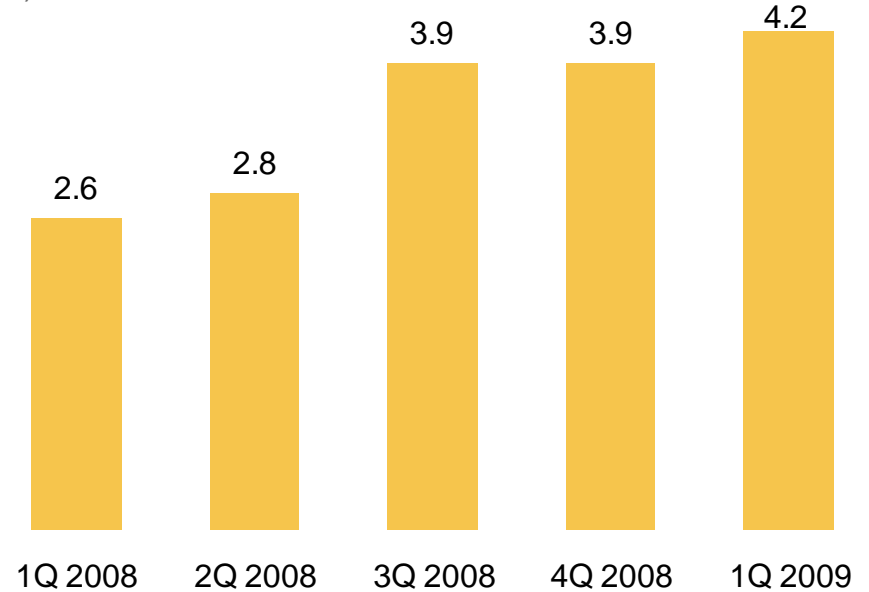
## Key Capital Ratios (Basel I)

Tier 1 Capital ratio **16.7%**

Tier 1 Leverage ratio<sup>(2)</sup> **7.1%**

TCE to RWA<sup>(3)</sup> **9.2%**

## Tangible Common Equity / Tangible Assets<sup>(1)</sup> (%)



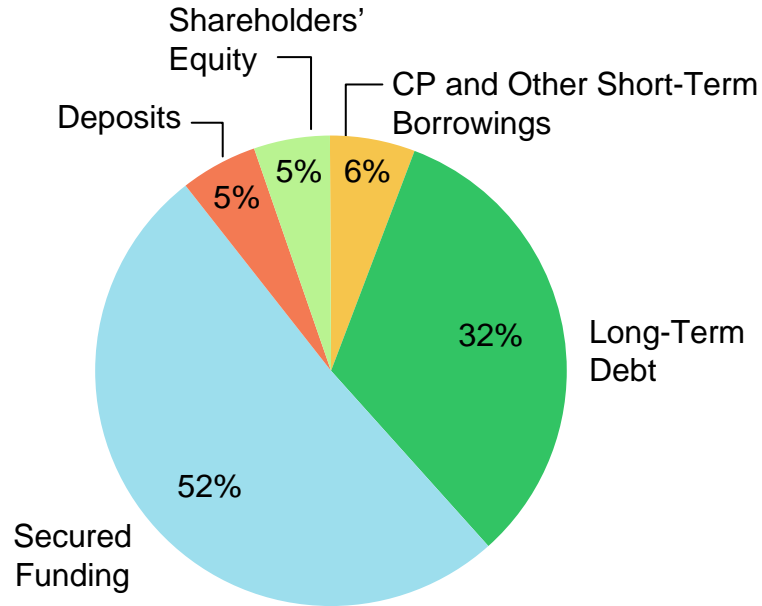
**Source:**

Morgan Stanley Earnings Conference Call, SEC Filings

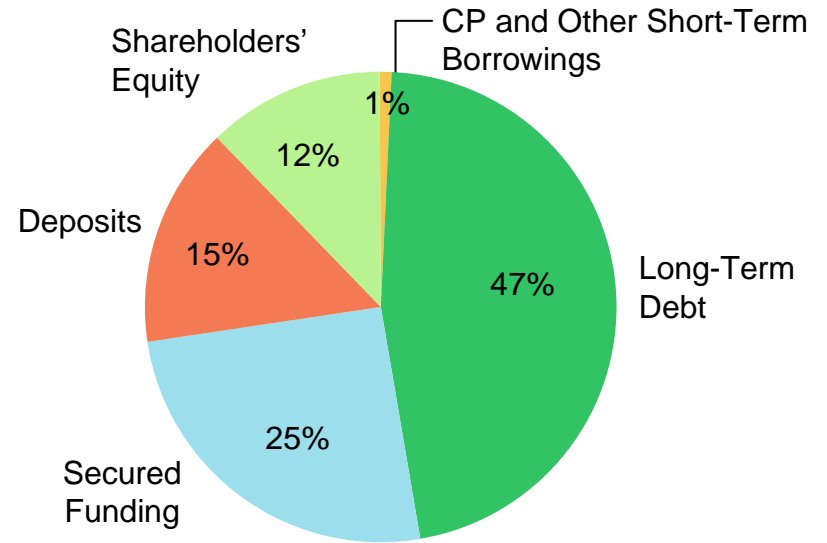
- (1) TCE / TA equals tangible common equity divided by tangible assets. Tangible assets are equal to total assets less goodwill and intangibles, excluding mortgage servicing rights.
- (2) Tier 1 Leverage ratio calculated as Tier 1 capital divided by adjusted average total assets (which reflects adjustments for disallowed goodwill, certain intangible assets and deferred tax assets)
- (3) Tangible Common Equity to Risk Weighted Assets – Effective March 31, 2009, the Company calculated its Tier 1 capital ratio and risk-weighted assets (RWAs) in accordance with the capital adequacy standards for bank holding companies adopted by the Federal Reserve Board. These standards are based upon a framework described in the International Convergence of Capital Measurement, dated July 1988, as amended, also referred to as “Basel I.”

# Funding Diversification

## Composition of Funding Liabilities and Equity



4Q 2007



1Q 2009