

# Morgan Stanley

## **Distribution of Discover Financial Services Common Stock**

### **Morgan Stanley Stockholder Tax Basis Information**

If you did not receive the Distribution (as defined below) of Discover Financial Services common stock on June 30, 2007, you may disregard this notice. Additionally, this notice does not apply to shares of Morgan Stanley common stock sold, exchanged or otherwise disposed of prior to the time of the Distribution.

On June 30, 2007, Morgan Stanley, a Delaware corporation (“Morgan Stanley”), distributed (the “Distribution”) all of the outstanding shares of common stock of Discover Financial Services, a Delaware corporation (“Discover”), to the holders of record of Morgan Stanley common stock that were issued and outstanding as of the close of business on June 18, 2007 (each a “Morgan Stanley Stockholder”). Morgan Stanley Stockholders will also receive cash in lieu of any fractional share of Discover common stock resulting from the Distribution.

Morgan Stanley Stockholders will be required to allocate the tax basis in their Morgan Stanley common stock among the shares of Discover common stock received in the Distribution (including a fractional share for which cash was received) and their shares of Morgan Stanley common stock. The difference between the cash received in lieu of a fractional share of Discover common stock over the tax basis allocable to such fractional share will generally be treated as capital gain or loss from the sale of such fractional share.

A Morgan Stanley Stockholder’s tax basis in his or her shares of Morgan Stanley common stock prior to the Distribution should be allocated in proportion to the fair market value, on the date of the Distribution, of the Discover common stock received (including any fractional share of Discover common stock for which cash was received) and the Morgan Stanley common stock in respect of which such Discover common stock was received. Fair market value generally is the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the facts. U.S. federal tax law does not specifically identify how you should determine the fair market values of the Morgan Stanley shares and the Discover shares immediately after the Distribution. There are several possible methods of measuring these values, including: (i) the closing trading prices of the Morgan Stanley common stock and the Discover common stock quoted on the New York Stock Exchange on the “when issued” market on June 29, 2007; (ii) the opening trading prices of the Morgan Stanley common stock and the Discover common stock quoted on the New York Stock Exchange on the first regular trading day after the Distribution (July 2, 2007); (iii) the average of the high and low trading prices of the Morgan Stanley common stock and the Discover common stock quoted on the New York Stock Exchange on the first regular trading day after the Distribution (July 2, 2007); and (iv) the closing trading prices of the Morgan Stanley common stock and the Discover common stock quoted on the New York Stock Exchange on the first regular trading day after the Distribution (July 2, 2007).

Morgan Stanley Stockholders that acquired Morgan Stanley common stock at different times and different prices will need to calculate their tax basis in each block of Morgan Stanley common stock, and then allocate a portion of that tax basis to the Discover common stock received in the Distribution with respect to such shares.

You and your tax advisor may find the information in the following tables useful. The first table sets forth the prices for each of the four valuation methodologies described above. The second table sets forth the percentage that is multiplied by your tax basis in your shares of Morgan Stanley common stock prior to the Distribution to determine the amount allocable to your Morgan Stanley common stock and your Discover common stock (including any fractional share of Discover common stock for which cash was received) after the Distribution.

**Table 1**  
**Trading Prices**

<b>Common Shares</b>	<b>Closing Trading Price (“When Issued”) on June 29, 2007</b>	<b>Opening Trading Price on July 2, 2007</b>	<b>High-Low Average Trading Price on July 2, 2007</b>	<b>Closing Trading Price on July 2, 2007</b>
<b>Morgan Stanley</b>	\$69.51	\$71.39	\$71.34	\$71.33
<b>Discover</b> (value per share)	\$28.50	\$28.55	\$28.18	\$27.50
<b>Discover</b> (relative value*)	\$14.25	\$14.28	\$14.09	\$13.75

\* based on 0.5 distribution ratio

**Table 2**  
**Tax Basis Allocation Percentages**

<b>Common Shares</b>	<b>Closing Trading Price (“When Issued”) Allocation (B)</b>	<b>Opening Trading (July 2) Price Allocation</b>	<b>High-Low Average Trading (July 2) Price Allocation</b>	<b>Closing Trading (July 2) Price Allocation</b>
<b>Morgan Stanley</b>	82.99%	83.33%	83.51%	83.84%
<b>Discover</b>	17.01%	16.67%	16.49%	16.16%

### **Example**

Please see below an **example** of how the basis allocation would be calculated if you chose the closing trading price quoted on the New York Stock Exchange on the “when issued” market on June 29, 2007 as the method of determining the fair market value of the Morgan Stanley common stock and the Discover common stock.

#### Assumptions:

Shares of Morgan Stanley common stock owned	125
Morgan Stanley Stockholder’s tax basis (@ \$45.00 per share) (A)	\$5,625.00
Shares of Discover common stock received in the Distribution (including the 0.5 fractional share for which cash was received) (125 shares of Morgan Stanley common stock x 0.5 distribution ratio)	62.5

**Example Tax Basis Allocation:**

<b>Common Stock</b>	<b># Shares Owned</b>	<b>NYSE “When Issued” Price (6/29/2007)</b>	<b>Fair Market Value</b>	<b>Percentage of Total Fair Market Value (B)</b>	<b>Stockholder’s Tax Basis in Morgan Stanley Stock (A)</b>	<b>Allocated Tax Basis = (A) x (B)</b>
Morgan Stanley	125	\$69.51	\$8,688.75	82.99%	\$5,625.00	<b>\$4,668.19</b> (82.99% of \$5,625.00)
Discover	62.5	\$28.50	\$1,781.25	17.01%	N/A	<b>\$956.81</b> (17.01% of \$5,625.00)
<b>Totals</b>			<b><u>\$10,470.00</u></b>	<b><u>100%</u></b>	<b><u>\$5,625.00</u></b>	<b><u>\$5,625.00</u></b>

Certain Morgan Stanley Stockholders (i.e., those Morgan Stanley Stockholders who, immediately before the Distribution, owned 5% or more (by vote or value) of Morgan Stanley stock or owned Morgan Stanley securities with an aggregate tax basis of \$1 million or more) who received shares of Discover common stock in the Distribution (including any cash in lieu of a fractional share of Discover common stock) are also required to include a statement related to the Distribution in their U.S. federal income tax returns for the year in which the Distribution occurs. This statement, “INFORMATION STATEMENT PURSUANT TO TREASURY REGULATIONS SECTION 1.355-5T(b) BY A SIGNIFICANT DISTRIBUTE,” is attached to this notice for your convenience.

**The information in this document does not constitute tax advice and is not intended or written to be used, and cannot be used, for the purposes of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein. It does not purport to be complete or to describe the consequences that apply to particular categories of Morgan Stanley Stockholders (e.g., it does not address Morgan Stanley Stockholders who did not hold their shares of Morgan Stanley common stock continuously from the close of business on the Record Date until the time of the Distribution, who sold shares of Discover common stock or who acquired blocks of Morgan Stanley common stock at different times and prices). Morgan Stanley Stockholders are encouraged to consult their own tax advisors regarding the tax consequences relevant to their specific circumstances.**

**INFORMATION STATEMENT PURSUANT TO TREASURY REGULATIONS SECTION  
1.355-5T(b) BY A SIGNIFICANT DISTRIBUTE**

On June 30, 2007, Morgan Stanley, a Delaware corporation (“Morgan Stanley”), distributed (the “Distribution”) all of the outstanding shares of common stock of Discover Financial Services, a Delaware corporation (“Discover”), to the holders of record of Morgan Stanley common stock as of the close of business on June 18, 2007 (the “Record Date”). As a result of the Distribution, each holder of record of shares of Morgan Stanley common stock as of the Record Date was entitled to receive one share of Discover common stock for every two shares of Morgan Stanley common stock held by such stockholder as of the Record Date.

1. Name, address and employer identification number of the distributing corporation:

Morgan Stanley  
1585 Broadway  
New York, NY 10036  
EIN: 36-3145972

2. Name, address and employer identification number of the controlled corporation:

Discover Financial Services  
2500 Lake Cook Road  
Riverwoods, Illinois 60015  
EIN: 36-2517428

3. The undersigned was a stockholder owning Morgan Stanley common stock as of the Record Date and received shares of Discover common stock, \$0.01 par value, in the Distribution (and may have received cash in lieu of a fractional share of Discover common stock, which fractional shares were aggregated and sold by the distribution agent). The aggregate fair market value of the Discover common stock and any cash received by the stockholder was \$\_\_\_\_\_.

4. The undersigned did not surrender any stock or securities in Morgan Stanley in connection with the Distribution.

5. The Distribution is a transaction that is described under Section 355 of the Internal Revenue Code of 1986, as amended.

\_\_\_\_\_  
Stockholder's Name (please print)

\_\_\_\_\_  
Stockholder's Signature

\_\_\_\_\_  
Taxpayer Identification Number  
or Social Security Number

**IF APPLICABLE, THIS STATEMENT SHOULD BE ATTACHED TO YOUR 2007 U.S. FEDERAL INCOME TAX RETURN. IT SHOULD NOT BE SENT TO MORGAN STANLEY OR DISCOVER FINANCIAL SERVICES.**