

MEMORANDUM

To: All Option Members, Member Organizations and ROTs
 From: Market Watch
 Date: June 25, 2007
 Re: **Morgan Stanley (MS) - Stock Distribution**

Morgan Stanley (MS) has declared a distribution of Common Stock of Discover Financial Services (DFS) to MS shareholders of record, June 18, 2007. Distribution will be Saturday, June 30, 2007. **The NYSE has set the ex-distribution date as July 2, 2007.** The distribution will be .50 shares of Discover Financial Services per share of Morgan Stanley held.

Accordingly, pursuant to OCC By-Laws, all MS options on the ex-distribution date must be adjusted as follows:

Adjustment Date: **Effective Monday, July 2, 2007.**
 Symbol(s): **MS/VWD/WWD becomes MQS/XMJ/KMS**
 Strike Price: Unchanged
 Multiplier: 100 (e.g., Premium of 1.00 = \$100)
 New Deliverable: **1) 100 Shares of Morgan Stanley (MS)**
2) 50 Shares of Discover Financial Services (DFS)

GOOD-TILL-CANCELLED (GTC) ORDERS

Customers should be advised that all Good-til-Cancelled (GTC) orders not on AUTOM must be cancelled and re-entered prior to the ex-distribution or effective date. GTC AUTOM orders will be deleted by PHLX Service Desk/AUTOM personnel.

Morgan Stanley (MS) (Before 7/2/2007) (100 shrs MS)					Morgan Stanley (MQS) (Beginning 7/2/2007) (See new deliverable above)				
			Calls	Puts			Calls	Puts	
MS	JUL	60	GL	SL	MQS	JUL	60	GL	SL
MS	JUL	65	GM	SM	MQS	JUL	65	GM	SM
MS	JUL	70	GN	SN	MQS	JUL	70	GN	SN
MS	JUL	75	GO	SO	MQS	JUL	75	GO	SO
MS	JUL	80	GP	SP	MQS	JUL	80	GP	SP
MS	JUL	85	GQ	SQ	MQS	JUL	85	GQ	SQ
MS	JUL	90	GR	SR	MQS	JUL	90	GR	SR
MS	JUL	95	GS	SS	MQS	JUL	95	GS	SS
MS	JUL	100	GT	ST	MQS	JUL	100	GT	ST
MS	AUG	65	HM	TM	MQS	AUG	65	HM	TM
MS	AUG	70	HN	TN	MQS	AUG	70	HN	TN
MS	AUG	75	HO	TO	MQS	AUG	75	HO	TO
MS	AUG	80	HP	TP	MQS	AUG	80	HP	TP
MS	AUG	85	HQ	TQ	MQS	AUG	85	HQ	TQ
MS	AUG	90	HR	TR	MQS	AUG	90	HR	TR
MS	AUG	95	HS	TS	MQS	AUG	95	HS	TS
MS	AUG	100	HT	TT	MQS	AUG	100	HT	TT
MS	AUG	105	HA	TA	MQS	AUG	105	HA	TA
MS	AUG	110	HB	TB	MQS	AUG	110	HB	TB
MS	OCT	60	JL	VL	MQS	OCT	60	JL	VL
MS	OCT	65	JM	VM	MQS	OCT	65	JM	VM
MS	OCT	70	JN	VN	MQS	OCT	70	JN	VN
MS	OCT	75	JO	VO	MQS	OCT	75	JO	VO
MS	OCT	80	JP	VP	MQS	OCT	80	JP	VP
MS	OCT	85	JQ	VQ	MQS	OCT	85	JQ	VQ
MS	OCT	90	JR	VR	MQS	OCT	90	JR	VR

Morgan Stanley (MS) (Before 7/2/2007) (100 shrs MS)					Morgan Stanley (MQS) (Beginning 7/2/2007) (See new deliverable above)				
			Calls	Puts				Calls	Puts
MS	OCT	95	JS	VS	MQS	OCT	95	JS	VS
MS	OCT	100	JT	VT	MQS	OCT	100	JT	VT
MS	OCT	105	JA	VA	MQS	OCT	105	JA	VA
MS	OCT	110	JB	VB	MQS	OCT	110	JB	VB
MS	JAN	30	AF	MF	MQS	JAN	30	AF	MF
MS	JAN	35	AG	MG	MQS	JAN	35	AG	MG
MS	JAN	40	AH	MH	MQS	JAN	40	AH	MH
MS	JAN	45	AI	MI	MQS	JAN	45	AI	MI
MS	JAN	50	AJ	MJ	MQS	JAN	50	AJ	MJ
MS	JAN	55	AK	MK	MQS	JAN	55	AK	MK
MS	JAN	60	AL	ML	MQS	JAN	60	AL	ML
MS	JAN	65	AM	MM	MQS	JAN	65	AM	MM
MS	JAN	70	AN	MN	MQS	JAN	70	AN	MN
MS	JAN	75	AO	MO	MQS	JAN	75	AO	MO
MS	JAN	80	AP	MP	MQS	JAN	80	AP	MP
MS	JAN	85	AQ	MQ	MQS	JAN	85	AQ	MQ
MS	JAN	90	AR	MR	MQS	JAN	90	AR	MR
MS	JAN	95	AS	MS	MQS	JAN	95	AS	MS
MS	JAN	100	AT	MT	MQS	JAN	100	AT	MT
MS	JAN	105	AA	MA	MQS	JAN	105	AA	MA
MS	JAN	110	AB	MB	MQS	JAN	110	AB	MB
MS	JAN	115	AC	MC	MQS	JAN	115	AC	MC

Morgan Stanley - 2009 Leap (VWD) (Before 7/2/2007) (100 shrs MS)					Morgan Stanley - 2009 Leap (XMJ) (Beginning 7/2/2007) (See new deliverable above)				
			Calls	Put				Calls	Put
VWD	JAN	30	AF	MF	XMJ	JAN	30	AF	MF
VWD	JAN	40	AH	MH	XMJ	JAN	40	AH	MH
VWD	JAN	50	AJ	MJ	XMJ	JAN	50	AJ	MJ
VWD	JAN	60	AL	ML	XMJ	JAN	60	AL	ML
VWD	JAN	70	AN	MN	XMJ	JAN	70	AN	MN
VWD	JAN	80	AP	MP	XMJ	JAN	80	AP	MP
VWD	JAN	90	AR	MR	XMJ	JAN	90	AR	MR
VWD	JAN	100	AT	MT	XMJ	JAN	100	AT	MT
VWD	JAN	110	AB	MB	XMJ	JAN	110	AB	MB
VWD	JAN	120	AD	MD	XMJ	JAN	120	AD	MD
VWD	JAN	130	AX	MX	XMJ	JAN	130	AX	MX
VWD	JAN	140	AZ	MZ	XMJ	JAN	140	AZ	MZ

Morgan Stanley - 2010 Leap (WWD) (Before 7/2/2007) (100 shrs MS)					Morgan Stanley - 2010 Leap (KMS) (Beginning 7/2/2007) (See new deliverable above)				
			Calls	Put				Calls	Put
WWD	JAN	70	AN	MN	KMS	JAN	70	AN	MN
WWD	JAN	80	AP	MP	KMS	JAN	80	AP	MP
WWD	JAN	90	AR	MR	KMS	JAN	90	AR	MR
WWD	JAN	100	AT	MT	KMS	JAN	100	AT	MT
WWD	JAN	110	AB	MB	KMS	JAN	110	AB	MB

Any additional MS series that are added prior to the ex-date will also be adjusted in the manner described above.

The new MS option contracts representing 100 shares of MS, will be admitted to trading on Tuesday, July 3, 2007. Strike prices and expiration months will be announced on a separate release prior to that date.

Questions regarding this release may be directed to Market Watch at 1-800-THE-PHLX, choice #2, or (215) 496-5380.