

MORGAN STANLEY
Form FWP
June 29, 2018

Free Writing Prospectus No. 766
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Dated June 29, 2018
Filed Pursuant to Rule 433

Morgan Stanley Finance LLC Trigger Autocallable Notes Linked to the S&P 500[®] Index due July 3, 2028

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

Investment Description

These Trigger Autocallable Notes (the “Securities”) are unsecured and unsubordinated debt obligations of Morgan Stanley Finance LLC (“MSFL”) and are fully and unconditionally guaranteed by Morgan Stanley. The Securities provide returns based on the performance of the S&P 500[®] Index (the “Underlying”). If the closing level of the Underlying on any annual Observation Date beginning June 28, 2019 (including the Final Observation Date) is equal to or greater than the Initial Level, MSFL will automatically call the Securities and pay the principal amount of the Securities *plus* a Call Return that will vary depending on the Observation Date and will reflect a fixed Call Return Rate on a per-annum basis. If the Securities are not automatically called and the Final Level is less than the Initial Level but greater than or equal to the Downside Threshold, MSFL will pay you the principal amount at maturity. However, if the Final Level is less than the Downside Threshold, MSFL will pay you significantly less than the full principal amount, if anything, at maturity, resulting in a loss on your principal amount that is proportionate to the full decline in the level of the Underlying from the Strike Date to the Final Observation Date. Investors will not participate in any appreciation of the Underlying. These long-dated Securities may be appropriate for investors who are willing to risk their entire principal at maturity and are willing to forego current income in exchange for the possibility of receiving the Call Return prior to or at maturity, if the closing level of the Underlying is at or above the Initial Level as of one of the annual Observation Dates, and, if the Securities have not been called, in exchange for a contingent repayment of principal, but only if the Final Level has not declined below the Downside Threshold. **Investing in the Securities involves significant risks. You may lose a significant portion or all of your principal amount. Generally, the higher the Call Return Rate for the Securities, the greater the risk of loss on those Securities. The Downside Threshold is observed only on the Final Observation Date and the contingent downside market exposure applies at maturity; if you are able to sell the Securities prior to maturity, you may receive substantially less than the principal amount even if the level of the Underlying is greater than the Downside Threshold at the time of sale.**

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These Securities are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

Features

q **Automatically Callable:** MSFL will automatically call the Securities and pay you the principal amount plus a Call Return if the Observation Date Closing Level on any annual Observation Date beginning June 28, 2019 (including the Final Observation Date) is equal to or greater than the Initial Level, and no further payments will be made on the Securities. The Call Return will vary depending on the Observation Date and will reflect a fixed Call Return Rate on a per-annum basis. If the Securities are not called, investors will have the potential for downside equity market risk at

maturity.

q Contingent Downside Market Exposure: If the Securities have not been called and the Final Level is less than the Initial Level but equal to or greater than the Downside Threshold, MSFL will pay you the principal amount per Security at maturity. However, if the Final Level is less than the Downside Threshold, MSFL will repay significantly less than the principal amount, if anything, at maturity, resulting in a loss on your principal amount that is proportionate to the full decline in the level of the Underlying from the Strike Date to the Final Observation Date. The Downside Threshold is observed only on the Final Observation Date and the contingent downside market exposure applies at maturity; if you are able to sell the Securities prior to maturity, you may receive substantially less than the principal amount even if the level of the Underlying is greater than the Downside Threshold at the time of sale. Any payment on the Securities is subject to our creditworthiness.

Key Dates*

Strike Date	June 28, 2018
Trade Date	June 29, 2018
Settlement Date	July 5, 2018
Observation Dates	Annually, beginning June 28, 2019
See “Call Returns and Observation Dates”	on page 6 for details.
Final Observation Date**	June 29, 2028
Maturity Date**	July 3, 2028

* Expected. In the event that we make any change to the expected Trade Date and Settlement Date, we may change the Observation Dates, the Final Observation Date and/or the Maturity Date so that the stated term of the Securities remains the same.

** Subject to postponement in the event of a market disruption event or for non-index business days. See “Postponement of Determination Dates” in the accompanying product supplement.

NOTICE TO INVESTORS: THE SECURITIES ARE SIGNIFICANTLY RISKIER THAN CONVENTIONAL DEBT INSTRUMENTS. THE SECURITIES DO NOT GUARANTEE THE REPAYMENT OF THE FULL PRINCIPAL AMOUNT AT MATURITY, AND THE SECURITIES CAN HAVE DOWNSIDE MARKET RISK SIMILAR TO THE UNDERLYING. THIS MARKET RISK IS IN ADDITION TO THE CREDIT RISK INHERENT IN PURCHASING OUR DEBT OBLIGATIONS. YOU SHOULD NOT PURCHASE THE SECURITIES IF YOU DO NOT UNDERSTAND OR ARE NOT COMFORTABLE WITH THE SIGNIFICANT RISKS INVOLVED IN INVESTING IN THE SECURITIES. THE SECURITIES WILL NOT BE LISTED ON ANY SECURITIES EXCHANGE.

YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED UNDER “KEY RISKS” BEGINNING ON PAGE 7 BEFORE PURCHASING ANY SECURITIES. EVENTS RELATING TO ANY OF THOSE RISKS, OR OTHER RISKS AND UNCERTAINTIES, COULD ADVERSELY AFFECT THE MARKET VALUE OF, AND THE RETURN ON, YOUR SECURITIES. YOU MAY LOSE A SIGNIFICANT PORTION OR ALL OF YOUR PRINCIPAL AMOUNT.

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We are offering the Trigger Autocallable Notes linked to the S&P 500® Index. The Securities are offered at a minimum investment of \$1,000 in denominations of \$10 and integral multiples thereof.

Underlying	Call Return Rate*	Initial Level	Downside Threshold	CUSIP	ISIN
S&P 500® Index	9.05% per annum	2,716.31	2,444.68, which is approximately 90% of the Initial Level	61768R237	US61768R2379

* If the Securities are called, the Call Price will be a fixed amount based on the Call Return with respect to each Observation Date. See “Call Returns and Observation Dates” on page 6.

See “Additional Information about Morgan Stanley, MSFL and the Securities” on page 2. The Securities will have the terms set forth in the accompanying prospectus and product supplement and this free writing prospectus.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these Securities or passed upon the adequacy or accuracy of this free writing prospectus or the accompanying product supplement or prospectus. Any representation to the contrary is a criminal offense. The Securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

Estimated value on the Trade Date Approximately \$9.818 per Security, or within \$0.40 of that estimate. See “Additional Information about Morgan Stanley, MSFL and the Securities” on page 2.

	Price to Public	Underwriting Discount⁽¹⁾	Proceeds to Us⁽²⁾
Per Security	\$10	\$0.10	\$9.90
Total	\$	\$	\$

UBS Financial Services Inc., acting as dealer, will receive from Morgan Stanley & Co. LLC, the agent, a fixed (1) sales commission of \$0.10 for each Security it sells. For more information, please see “Supplemental Plan of Distribution; Conflicts of Interest” beginning on page 19 of this free writing prospectus.

(2) See “Use of Proceeds and Hedging” on page 18.

The agent for this offering, Morgan Stanley & Co. LLC (“MS & Co.”), is our affiliate and a wholly owned subsidiary of Morgan Stanley. See “Supplemental Plan of Distribution; Conflicts of Interest” beginning on page 19 of this free writing prospectus.

Morgan Stanley UBS Financial Services Inc.

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Additional Information about Morgan Stanley, MSFL and the Securities

Morgan Stanley and MSFL have filed a registration statement (including a prospectus, as supplemented by a product supplement and an index supplement) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement, the product supplement, the index supplement and any other documents relating to this offering that Morgan Stanley and MSFL have filed with the SEC for more complete information about Morgan Stanley, MSFL and this offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, Morgan Stanley, MSFL, any underwriter or any dealer participating in this offering will arrange to send you the prospectus, the index supplement and the product supplement if you so request by calling toll-free 1-(800)-584-6837.

You may access the accompanying product supplement, index supplement and prospectus on the SEC website at www.sec.gov as follows:

- t Product supplement for auto-callable securities dated November 16, 2017
https://www.sec.gov/Archives/edgar/data/895421/000095010317011247/dp82806_424b2-autocall.htm

- t Index supplement dated November 16, 2017:
https://www.sec.gov/Archives/edgar/data/895421/000095010317011283/dp82797_424b2-indexsupp.htm

- t Prospectus dated November 16, 2017:
https://www.sec.gov/Archives/edgar/data/895421/000095010317011237/dp82798_424b2-base.htm

References to “MSFL” refer only to MSFL, references to “Morgan Stanley” refer only to Morgan Stanley and references to “we,” “our” and “us” refer to MSFL and Morgan Stanley collectively. In this document, the “Securities” refers to the Trigger Autocallable Notes that are offered hereby. Also, references to the accompanying “prospectus,” “index supplement” and “product supplement” mean the prospectus filed by MSFL and Morgan Stanley dated November 16, 2017, the index supplement filed by MSFL and Morgan Stanley dated November 16, 2017 and the product supplement for auto-callable securities filed by MSFL and Morgan Stanley dated November 16, 2017, respectively.

You should rely only on the information incorporated by reference or provided in this free writing prospectus or the accompanying product supplement, index supplement and prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these Securities in any state where the offer is not permitted. You should not assume that the information in this free writing prospectus or the accompanying product supplement, index supplement and prospectus is accurate as of any date other than the date on the front of this document.

If the terms described in this free writing prospectus are inconsistent with those described in the accompanying product supplement, index supplement or prospectus, the terms described in this free writing prospectus will prevail.

The Issue Price of each Security is \$10. This price includes costs associated with issuing, selling, structuring and hedging the Securities, which are borne by you, and, consequently, the estimated value of the Securities on the Trade Date will be less than \$10. We estimate that the value of each Security on the Trade Date will be approximately \$9.818, or within \$0.40 of that estimate. Our estimate of the value of the Securities as determined on the Trade Date will be set forth in the final pricing supplement.

What goes into the estimated value on the Trade Date?

In valuing the Securities on the Trade Date, we take into account that the Securities comprise both a debt component and a performance-based component linked to the Underlying. The estimated value of the Securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the Underlying, instruments based on the Underlying, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the Securities?

In determining the economic terms of the Securities, including the Call Return Rate and the Downside Threshold, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the Securities would be more favorable to you.

What is the relationship between the estimated value on the Trade Date and the secondary market price of the Securities?

The price at which MS & Co. purchases the Securities in the secondary market, absent changes in market conditions, including those related to the Underlying, may vary from, and be lower than, the estimated value on the Trade Date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the Securities are not fully deducted upon issuance, for a period of up to 4 months following the Settlement Date, to the extent that MS & Co. may buy or sell the Securities in the secondary market, absent changes in market conditions, including those related to the Underlying, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. currently intends, but is not obligated, to make a market in the Securities, and, if it once chooses to make a market, may cease doing so at any time.

Investor Suitability

The Securities may be suitable for you if:

t You fully understand the risks inherent in an investment in the Securities, including the risk of loss of your entire initial investment in the Securities.

t You can tolerate a loss of all or a substantial portion of your investment and are willing to make an investment that may have the same downside market risk as the Underlying.

t You understand the characteristics of the Underlying.

t You believe the Underlying will close at or above the Initial Level on one of the Observation Dates or will close at or above the Downside Threshold on the Final Observation Date.

t You understand and accept that you will not participate in any appreciation in the level of the Underlying and that your potential return is limited to the applicable Call Return.

t You can tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations of the Underlying.

t You are willing to invest in the Securities based on the Downside Threshold specified on the cover hereof.

The Securities may not be suitable for you if:

t You do not fully understand the risks inherent in an investment in the Securities, including the risk of loss of your entire initial investment in the Securities.

t You cannot tolerate a loss of all or a substantial portion of your investment, and are unwilling to make an investment that may have the same downside market risk as the Underlying.

t You require an investment designed to provide a full return of principal at maturity.

t You do not understand the characteristics of the Underlying.

t You believe that the level of the Underlying will decline during the term of the Securities and is likely to close below the Downside Threshold on the Final Observation Date, exposing you to the full decline in the Underlying.

t You seek an investment that participates in the full appreciation in the level of the Underlying or that has unlimited return potential.

t You cannot tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations of the Underlying.

t You are unwilling to invest in the Securities based on the Downside Threshold specified on the cover hereof.

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- t You are willing to invest in the Securities based on the Call Return Rate specified on the cover hereof.
- t You are unwilling to invest in the Securities based on the Call Return Rate specified on the cover hereof.
- t You do not seek current income from this investment and are willing to forgo dividends paid on the constituent stocks of the Underlying.
- t You prefer the lower risk, and therefore accept the potentially lower returns, of fixed income investments with comparable maturities and credit ratings.
- t You are willing to invest in securities that may be called early and you are otherwise willing to hold such securities to maturity, as set forth on the cover page of this free writing prospectus.
- t You seek current income from this investment or prefer to receive the dividends paid on the constituent stocks of the Underlying, if any.
- t You accept that there may be little or no secondary market for the Securities and that any secondary market will depend in large part on the price, if any, at which MS & Co. is willing to trade the Securities.
- t You are unable or unwilling to hold securities that may be called early, or you are otherwise unable or unwilling to hold such securities to maturity, as set forth on the cover page of this free writing prospectus, or you seek an investment for which there will be an active secondary market.
- t You are not willing to assume our credit risk for all payments under the Securities.
- t You are willing to assume our credit risk for all payments under the Securities, and understand that we default on our obligations you may not receive any amounts due to you and could lose your entire investment.

The investor suitability considerations identified above are not exhaustive. Whether or not the Securities are a suitable investment for you will depend on your individual circumstances, and you should reach an investment decision only after you and your investment, legal, tax, accounting and other advisors have carefully considered the suitability of an investment in the Securities in light of your particular circumstances. You should also review carefully the sections entitled “Key Risks” beginning on page 7 of this free writing prospectus and “Risk Factors” beginning on page 7 of the accompanying prospectus and page S-38 of the accompanying product supplement for risks related to an investment in the Securities. For additional information about the Underlying, see the information set forth under “The S&P 500 Index” on page 16.

Indicative Terms

Issuer Morgan Stanley Finance LLC
 Guarantor Morgan Stanley
 Issue Price \$10.00 per Security. The Securities are offered at a minimum investment of 100 Securities.
 S&P 500® Index

Underlying

Principal Amount \$10.00 per Security
 Term Approximately 10 years, unless called earlier
 The Securities will be called automatically if the Observation Date Closing Level on any Observation Date, including the Final Observation Date, is **equal to or greater than** the Initial Level.

Automatic Call Feature If the Securities are called, MSFL will pay you on the related Call Settlement Date a Call Price per Security calculated as follows (see “Call Returns and Observation Dates” on page 6):

$$\$10 + (\$10 \times \text{Call Return})$$

Call Return and Call Return Rate After the Securities have been called, no further payments will be made on the Securities. The Call Return varies depending on the Observation Date and increases the longer the Securities are outstanding. The Call Return is based on an annual Call Return Rate of 9.05% per annum. See “Call Returns and Observation Dates” on page 6.

Observation Dates Annually, beginning June 28, 2019. See “Call Returns and Observation Dates” on page 6.

Final Observation Date June 29, 2028

Call Settlement Dates See “Call Returns and Observation Dates” on page 6. The Call Settlement Date with respect to the Final Observation Date will be the Maturity Date.

Maturity Date July 3, 2028

Payment at Maturity (per Security) If the Securities are not automatically called prior to or on the Maturity Date, MSFL will pay you a cash payment on the Maturity Date based on the Final Level, as follows:

If the Securities are not called prior to or on the Maturity Date, and the Final Level is **less than** the Initial Level but **equal to or greater than** the Downside Threshold, MSFL will pay you the \$10 principal amount.

If the Securities are not called prior to or on the Maturity Date, and the Final Level is **less than** the Downside Threshold, MSFL will pay you an amount per Security calculated as follows:

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$\$10 \times (1 + \text{Underlying Return})$

In this case, you will lose a significant portion and could lose all of the principal amount in an amount proportionate to the full decline of the Underlying from the Strike Date to the Final Observation Date.

Observation Date	
Closing Level	The Closing Level of the Underlying on any Observation Date.
Underlying Return	$\frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}}$

Initial Level 2,716.31, which is the Closing Level of the Underlying on the Strike Date.
Final Level The Closing Level of the Underlying on the Final Observation Date.
Downside Threshold 2,444.68, which is approximately 90% of the Initial Level
Trustee The Bank of New York Mellon
Calculation Agent MS & Co.

Investment Timeline

Strike Date The Initial Level and Downside Threshold are determined.

The Securities will be called automatically if the Observation Date Closing Level on any Observation Date (including the Final Observation Date) is equal to or greater than the Initial Level.

Annually, beginning June 28, 2019 (if not previously called)

If the Securities are called, MSFL will pay you a Call Price per Security calculated as follows:

$$\$10 + (\$10 \times \text{Call Return})$$

After the Securities are called, no further payments will be made on the Securities.

Maturity Date (if not previously called)

The Final Level is determined as of the Final Observation Date.

If the Securities are not automatically called prior to or on the Maturity Date and the Final Level is equal to or greater than the Downside Threshold but below the Initial Level, MSFL will pay you the \$10 principal amount.

If the Securities are not automatically called prior to or on the Maturity Date and the Final Level is less than the Downside Threshold, MSFL will pay you an amount calculated as follows:

$$\$10 \times (1 + \text{Underlying Return})$$

This will be less than the \$10 principal amount by an amount proportionate to the full negative Underlying Return, and you could lose your entire investment.

Investing in the Securities involves significant risks. You may lose YOUR ENTIRE principal amount. Any payment on the Securities is subject to OUR creditworthiness. If WE were to default on OUR payment obligations, you may not receive any amounts owed to you under the Securities and you could lose your entire investment.

Call Returns and Observation Dates

Observation Date	Call Settlement Date / Maturity Date**	Call Return (Based on a Call Return Rate of 9.05% per annum)***	Call Price (per \$10 of Securities)
6/28/2019	7/2/2019	9.05%	\$10.905
6/29/2020	7/1/2020	18.10%	\$11.810
6/29/2021	7/1/2021	27.15%	\$12.715
6/29/2022	7/1/2022	36.20%	\$13.620
6/29/2023	7/3/2023	45.25%	\$14.525
6/28/2024	7/2/2024	54.30%	\$15.430
6/30/2025	7/2/2025	63.35%	\$16.335
6/29/2026	7/1/2026	72.40%	\$17.240
6/29/2027	7/1/2027	81.45%	\$18.145
6/29/2028 (the Final Observation Date)*	7/3/2028 (the Maturity Date)*	90.50%	\$19.050

* Subject to postponement in the event of a market disruption event or for non-index business days. See “Postponement of Determination Dates” in the accompanying product supplement.

** If, due to a market disruption event or otherwise, any Observation Date (including the Final Observation Date) is postponed so that it falls less than two business days prior to the scheduled Call Settlement Date, the Call Settlement Date or Maturity Date, as applicable, will be postponed to the second business day following that Observation Date as postponed.

*** If the Securities are called following any Observation Date, the Call Price will be a fixed amount based on the Call Return with respect to each Observation Date, as specified above, regardless of the actual number of days during such period.

Key Risks

An investment in the Securities involves significant risks. Some of the risks that apply to the Securities are summarized here, but we urge you to also read the “Risk Factors” section of the accompanying prospectus and product supplement. You should also consult your investment, legal, tax, accounting and other advisers before you invest in the Securities.

The Securities do not pay interest or guarantee the return of any principal. The terms of the Securities differ from those of ordinary debt securities in that the Securities do not pay interest or guarantee the return of any of the principal amount at maturity. In addition, while the Securities will generally offer the possibility of a higher return if the Securities are automatically called than the potential return payable on our ordinary debt securities with a similar maturity, this higher return potential reflects the risk that you may not receive a positive return on the Securities and may lose a significant portion or all of your investment if the Securities have not been called prior to maturity and if the Final Level is less than the Downside Threshold. In this case, you will be exposed to the full negative Underlying Return, and MSFL will pay you an amount at maturity that is significantly less than the \$10 principal amount, resulting in a loss proportionate to the full decline of the Underlying over the term of the Securities. **You could lose your entire principal amount.**

The appreciation potential of the Securities is limited by the fixed Call Returns specified for each Observation Date. The appreciation potential of the Securities is limited to the fixed Call Returns specified for each Observation Date if the Underlying closes at or above the Initial Level on any Observation Date, including the Final Observation Date, and you will not participate in any appreciation of the Underlying, which could be significant. If the Securities are not previously called and the Final Level is less than the Downside Threshold, you will be fully exposed to the decline in the level of the Underlying from the Strike Date to the Final Observation Date, and you will lose a significant portion or all of your investment.

You may incur a loss on your investment if you sell your Securities prior to maturity. The Downside Threshold is observed only on the Final Observation Date and the contingent downside market exposure applies at maturity. If you are able to sell your Securities in the secondary market prior to maturity, you may have to sell them at a loss relative to your initial investment even if the level of the Underlying is above the Downside Threshold at that time.

Early redemption risk. The term of your investment in the Securities may be limited to as short as approximately one year by the automatic call feature of the Securities. If the Securities are called prior to maturity, you will not receive any further payments on the Securities and you may be forced to invest in a lower interest rate environment and may not be able to reinvest at comparable terms or for similar returns. Generally, the longer the Securities have been outstanding, the less likely it is that they will be automatically called, because the level of the Underlying will necessarily have declined from the Initial Level if the Securities were not called following an Observation Date, and there will be less time remaining until maturity in which the level of the Underlying can recover.

No interest payments. You will not receive any interest payments during the term of the Securities.

The Securities are subject to our credit risk, and any actual or anticipated changes to our credit ratings or our credit spreads may adversely affect the market value of the Securities. You are dependent on our ability to pay

all amounts due on the Securities, if any, and any payments upon an automatic call or at maturity, and therefore you are subject to our credit risk. If we default on our obligations under the Securities, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the Securities prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in our credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the Securities.

As a finance subsidiary, MSFL has no independent operations and will have no independent assets. As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *t pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *t pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

The market price of the Securities may be influenced by many unpredictable factors. Several factors, many of which are beyond our control, will influence the value of the Securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the Securities in the secondary market. Although we expect that generally the closing level of the Underlying on any day will affect the value of the Securities more than any other single factor, other factors that may influence the value of the Securities include:

o the volatility (frequency and magnitude of changes in value) of the Underlying,

o interest and yield rates in the market,

- o time remaining until the Securities mature,

o geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the Underlying or equities markets generally and which may affect the Observation Date Closing Levels or Final Level,

o any actual or anticipated changes in our credit ratings or credit spreads.

Some or all of these factors will influence the terms of the Securities at the time of issuance and the price that you will receive if you are able to sell your Securities prior to maturity, as the Securities are comprised of both a debt component and a performance-based component linked to the Underlying, and these are the types of factors that also generally affect the values of debt securities and derivatives

linked to the Underlying. Generally, the longer the time remaining to maturity, the more the market price of the Securities will be affected by the other factors described above. The level of the Underlying may be, and has recently been, volatile, and we can give you no assurance that the volatility will lessen. See “The S&P 500® Index” below. You may receive less, and possibly significantly less, than the principal amount per Security if you try to sell your Securities prior to maturity.

A higher Call Return Rate and/or a lower Downside Threshold may reflect greater expected volatility of the Underlying, and greater expected volatility generally indicates an increased risk of declines in the level of the Underlying and, potentially, a significant loss at maturity. The economic terms for the Securities, including the Call Return Rate and the Downside Threshold, are based, in part, on the expected volatility of the Underlying at the time the terms of the Securities are set. “Volatility” refers to the frequency and magnitude of changes in the level of the Underlying. Higher expected volatility with respect to the Underlying as of the Trade Date generally indicates a greater expectation as of that date that the Final Level of the Underlying could ultimately be less than the Downside Threshold on the Final Observation Date, which would result in a loss of a significant portion or all of the Principal Amount. At the time the terms of the Securities are set, higher expected volatility will generally be reflected in a higher Call Return Rate and/or a lower Downside Threshold, as compared to otherwise comparable securities. Therefore, a relatively higher Call Return Rate, which would increase the upside return if the Securities are automatically called, may indicate an increased risk that the level of the Underlying will decrease substantially, which would result in a significant loss at maturity. In addition, and as described above in “The Securities do not pay interest or guarantee the return of any principal,” in general, the higher potential return on the Securities than the return payable on our ordinary debt securities with a comparable maturity indicates the risk that you may not receive a positive return on the Securities and may lose a significant portion or all of your investment. Further, a relatively lower Downside Threshold may not indicate that the Securities have a greater likelihood of a return of principal at maturity. You should be willing to accept the downside market risk of the Underlying and the potential to lose a significant portion or all of your Principal Amount at maturity.

Investing in the Securities is not equivalent to investing in the Underlying or the stocks composing the Underlying. Investing in the Securities is not equivalent to investing in the Underlying or the stocks that constitute the Underlying. Investors in the Securities will not participate in any appreciation of the Underlying, and will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to the stocks that constitute the Underlying. Additionally, the Underlying is not a “total return” index, which, in addition to reflecting the market prices of the stocks that constitute the Underlying, would also reflect dividends paid on such stocks. The return on the Securities will not include such a total return feature.

Adjustments to the Underlying could adversely affect the value of the Securities. The index publisher of the Underlying is responsible for calculating and maintaining the Underlying. The index publisher may add, delete or substitute the stocks constituting the Underlying or make other methodological changes required by certain corporate events relating to the stocks constituting the Underlying, such as stock dividends, stock splits, spin-offs, rights offerings and extraordinary dividends, that could change the value of the Underlying. The index publisher may discontinue or suspend calculation or publication of the Underlying at any time. In these circumstances, the Calculation Agent will have the sole discretion to substitute a Successor Index that is comparable to the discontinued Index, and is permitted to consider indices that are calculated and published by the Calculation Agent or any of its affiliates. Any of these actions could adversely affect the value of the Underlying, and, consequently, the value of the Securities.

The Securities will not be listed on any securities exchange and secondary trading may be limited. The Securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the Securities. MS & Co. currently intends, but is not obligated, to make a market in the Securities. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Securities easily. Because we do not expect that other broker-dealers will participate significantly in the secondary market for the Securities, the price at which you may be able to trade your Securities is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the Securities, it is likely that there would be no secondary market for the Securities. Accordingly, you should be willing to hold your Securities to maturity.

The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the Securities in the Issue Price reduce the economic terms of the Securities, cause the estimated value of the Securities to be less than the Issue Price and will adversely affect secondary market prices. Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the Securities in secondary market transactions will likely be significantly lower than the Issue Price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the Issue Price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the Securities in the Issue Price and the lower rate we are willing to pay as issuer make the economic terms of the Securities less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the Securities are not fully deducted upon issuance, for a period of up to 4 months following the Settlement Date, to the extent that MS & Co. may buy or sell the Securities in the secondary market, absent changes in market conditions, including those related to the Underlying, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

The estimated value of the Securities is determined by reference to our pricing and valuation models, which may differ from those of other dealers and is not a maximum or minimum secondary market price. These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher

estimated value of the Securities than those generated by others, including other dealers in the market, if they attempted to value the Securities. In addition, the estimated value on the Trade Date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your Securities in the secondary market (if any exists) at any time. The value of your Securities at any time after the date of this free writing prospectus will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also “The market price of the Securities may be influenced by many unpredictable factors” above.

Hedging and trading activity by our affiliates could potentially adversely affect the value of the Securities. One or more of our affiliates and/or third-party dealers have carried out, and will continue to carry out, hedging activities related to the Securities (and to other instruments linked to the Underlying), including trading in the Underlying. As a result, these entities may be unwinding or adjusting hedge positions during the term of the Securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the Final Observation Date approaches. Some of our affiliates also trade the Underlying and other financial instruments related to the Underlying on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the Strike Date could have increased the Initial Level, and, as a result, could have increased the level at or above which the Underlying must close on any of the Observation Dates for the Securities to be called, or the Downside Threshold, which, if the Securities are not called, is the level at or above which the Underlying must close on the Final Observation Date so that you do not suffer a significant loss on your initial investment in the Securities. Additionally, such hedging or trading activities during the term of the Securities could potentially affect the level of the Underlying on the Observation Dates, and, accordingly, whether the Securities are automatically called, and, if the Securities are not called, the payout to you at maturity, if any.

The Calculation Agent, which is an affiliate of the Issuer, will make determinations with respect to the Securities. As Calculation Agent, MS & Co. has determined the Initial Level and the Downside Threshold, and will determine the Observation Date Closing Levels, the Final Level, whether the Securities will be called following any Observation Date, whether a market disruption event has occurred and the payment that you will receive upon a call or at maturity, if any. Moreover, certain determinations made by MS & Co., in its capacity as Calculation Agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or nonoccurrence of market disruption events. These potentially subjective determinations may affect the payout to you upon a call or at maturity, if any. For further information regarding these types of determinations, see “Description of Auto-Callable Securities—Postponement of Determination Dates,” “—Discontinuance of Any Underlying; Alteration of Method of Calculation” and “—Calculation Agent and Calculations” in the accompanying product supplement. In addition, MS & Co. has determined the estimated value of the Securities on the Trade Date.

Uncertain tax treatment. Please note that the discussions in this free writing prospectus concerning the U.S. federal income tax consequences of an investment in the Securities supersede the discussions contained in the accompanying product supplement for auto-callable securities.

Subject to the discussion under “What Are the Tax Consequences of the Securities” in this free writing prospectus, although there is uncertainty regarding the U.S. federal income tax consequences of an investment in the Securities due to the lack of governing authority, in the opinion of our counsel, Davis Polk & Wardwell LLP (“our counsel”), under current law, and based on current market conditions, each Security should be treated as a single financial contract that is an “open transaction” for U.S. federal income tax purposes.

If the Internal Revenue Service (the “IRS”) were successful in asserting an alternative treatment for the Securities, the timing and character of income on the Securities might differ significantly from the tax treatment described herein. For example, under one possible treatment, the IRS could seek to recharacterize the Securities as debt instruments. In that event, U.S. Holders (as defined below) would be required to accrue into income original issue discount on the Securities every year at a “comparable yield” determined at the time of issuance and recognize all income and gain in respect of the Securities as ordinary income. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the Securities, would be recharacterized as debt is greater than the risk of recharacterization for comparable financial instruments that do not have such features. We do not plan to request a ruling from the IRS regarding the tax treatment of the Securities, and the IRS or a court may not agree with the tax treatment described in this free writing prospectus.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by Non-U.S. Holders (as defined below) should be subject to withholding tax; and whether these instruments are or should be subject to the “constructive ownership” rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the Securities, possibly with retroactive effect.

Both U.S. and Non-U.S. Holders should read carefully the discussion under “What Are the Tax Consequences of the Securities” in this free writing prospectus and consult their tax advisers regarding all aspects of the U.S. federal tax consequences of an investment in the Securities as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Hypothetical Payments on the Securities at Maturity

The examples below illustrate the payment upon a call or at maturity for a \$10 Security on a hypothetical offering of the Securities, with the following assumptions (the actual terms for the Securities are listed on the cover hereof; amounts may have been rounded for ease of reference):

t	Principal Amount: \$10
t	Term: Approximately 10 years
t	Hypothetical Initial Level: 2,700
t	Call Return Rate: 9.05% per annum.
t	Call Returns:

Observation Date	Call Return	Observation Date	Call Return
First Observation Date	9.05%	Sixth Observation Date	54.30%
Second Observation Date	18.10%	Seventh Observation Date	63.35%
Third Observation Date	27.15%	Eighth Observation Date	72.40%
Fourth Observation Date	36.20%	Ninth Observation Date	113,500
			\$214,269 \$592,266

Chief Financial Officer,
Senior Vice President,
and Treasurer

- (1) The value realized on exercise represents the difference between the exercise prices of the stock options and the trading price of the Corporation's Common Stock on the NASDAQ National Market System on the date of exercise, multiplied by the number of shares underlying the options.
- (2) The value of unexercised in-the-money stock options represents the difference between the exercise prices of the stock options and the closing price of the Corporation's Common Stock on the NASDAQ National Market System on December 31, 2003 of \$28.29, multiplied by the number of shares underlying the options.

INDEPENDENT AUDITORS

On June 5, 2003, PricewaterhouseCoopers LLP (PWC) was dismissed and Ernst & Young LLP (Ernst & Young) was engaged as the principal independent auditor for the Corporation. The decision to change auditors was unanimously approved by the Audit Committee of the Board of Directors.

The reports of PWC on the financial statements of the Corporation for the years ended December 31, 2002 and 2001 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

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During the Corporation's fiscal years ended December 31, 2002 and 2001, and the subsequent interim period through June 5, 2003, there were no disagreements with PWC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PWC, would have caused PWC to make reference to the subject matter of the disagreements in connection with its reports. None of the reportable events described in Item 304(a)(1)(v) of Regulation S-K occurred during the fiscal years ended December 31, 2002 and 2001, or the subsequent interim period through June 5, 2003.

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During the fiscal years ended December 31, 2002 and 2001, and the subsequent interim period through June 5, 2003, the Corporation did not consult with Ernst & Young regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Corporation's financial statements, and neither a written report was provided to the Corporation nor oral advice provided that Ernst & Young concluded was an important factor considered by the Corporation in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions, or a reportable event, as that term is described in Item 304(a)(1)(v) of Regulation S-K.

The Audit Committee has appointed Ernst & Young as independent auditors to examine the consolidated financial statements of the Corporation and its subsidiaries for the fiscal year ended December 31, 2004. A representative of Ernst & Young is expected to be present at the meeting and will have the opportunity to make a statement if he or she so desires and to respond to appropriate questions. Representatives of PWC are not expected to be present at the meeting.

Fees

The aggregate fees charged or expected to be charged by Ernst & Young for services rendered in auditing the Corporation's annual financial statements for the most recent fiscal year and reviewing the financial statements included in the Corporation's quarterly reports on Form 10-Q for the second and third quarters of the most recent fiscal year, as well as the fees charged by Ernst & Young for other professional services rendered during the most recent fiscal year are as follows:

Fees for fiscal 2003 (for services rendered June 6, 2003 through December 31, 2003):

Audit Fees	\$286,000
Audit-Related Fees, (which principally relate to consultation on accounting and audit matters)	\$ 16,000
Tax Fees:	
Tax compliance, planning and preparation	\$ 0
Tax consulting, advisory and other services	\$ 11,000
	<hr/>
Total Tax Fees	\$ 11,000
All Other Fees	\$ 0

The aggregate fees charged by PWC for services rendered in reviewing the financial statements included in the Corporation's quarterly report on Form 10-Q for the first quarter of 2003, as well as the fees charged by

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PWC for other professional services rendered during the most recent fiscal year through June 5, 2003 are as follows:

Fees for fiscal 2003 (for services rendered January 1, 2003 through June 5, 2003):

Audit Fees	\$ 54,000
Audit-Related Fees, (which principally relate to consultation on accounting and audit matters)	\$ 7,000
Tax Fees:	
Tax compliance, planning and preparation	\$ 59,000
Tax consulting, advisory and other services	\$384,000
	<hr/>
Total Tax Fees	\$443,000
All Other Fees	\$ 0

The aggregate fees charged by PWC for services rendered in auditing the Corporation's annual financial statements for fiscal year 2002 and reviewing the financial statements included in the Corporation's quarterly reports on Form 10-Q for 2002, as well as the fees charged by PWC for other professional services rendered during 2002 are as follows:

Fees for fiscal 2002:

Audit Fees	\$297,000
Audit-Related Fees	\$ 0
Tax Fees:	
Tax compliance, planning and preparation	\$271,000
Tax consulting, advisory and other services	\$367,000
	<hr/>
Total Tax Fees	\$638,000
All Other Fees	\$ 0

Pre-approval Policies

The Audit Committee pre-approves all auditing services and the terms of such services (which may include providing comfort letters in connection with securities underwritings) and non-audit services provided by the Corporation's independent auditors, but only to the extent that the non-audit services are not prohibited under applicable law and the Audit Committee reasonably determines that the non-audit services do not impair the independence of the independent auditors. The authority to pre-approve non-audit services may be delegated to one or more members of the Audit Committee, who present all decisions to pre-approve an activity to the full Audit Committee at its first meeting following such decision.

The pre-approval requirement is waived with respect to the provision of non-audit services for the Corporation if (i) the aggregate amount of all such non-audit services provided to the Corporation constitutes not more than 5% of the total amount of revenues paid by the Corporation to its independent auditors during the fiscal year in which such non-audit services were provided, (ii) such services were not recognized at the time of the engagement to be non-audit services, and (iii) such services are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit by the Audit Committee or by one or more of its members to whom authority to grant such approvals has been delegated by the Audit Committee.

The Audit Committee has considered and determined that the provision of the non-audit services described above is compatible with maintaining the auditor's independence.

REPORT OF THE AUDIT COMMITTEE(1)

The following is the report of the Audit Committee with respect to the Corporation's audited financial statements for the fiscal year ended December 31, 2003.

The Audit Committee has reviewed and discussed the Corporation's audited financial statements with management. The Audit Committee has discussed with Ernst & Young LLP, the Corporation's independent auditors, the matters required to be discussed by Statement of Auditing Standards No. 61, *Communication with Audit Committees* which provides that certain matters related to the conduct of the audit of the Corporation's financial statements are to be communicated to the Audit Committee. The Audit Committee has also received the written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board Standard No. 1 relating to the auditor's independence from the Corporation, has discussed with Ernst & Young LLP their independence from the Corporation, and has considered the compatibility of non-audit services with the auditor's independence.

The Audit Committee acts pursuant to the Audit Committee Charter. Each of the members of the Audit Committee qualifies as an independent Director under the applicable listing standards of the National Association of Securities Dealers.

Based on the review and discussions referred to above, the Audit Committee recommended to the Corporation's Board of Directors that the Corporation's audited financial statements be included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

AUDIT COMMITTEE

WILLIAM KRIVSKY, *Chairman*
JERALD FISHMAN
REUBEN WASSERMAN

(1) The material in this report is not soliciting material, is not deemed filed with the Commission and is not to be incorporated by reference in any filing of the Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

**COMPLIANCE WITH SECTION 16(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Section 16(a) of the Securities Exchange Act of 1934 requires the Corporation's officers and Directors and persons owning more than 10% of the outstanding Common Stock of the Corporation to file reports of ownership and changes in ownership with the Commission. Officers, Directors and greater than 10% holders of Common Stock are required by the Commission's regulations to furnish the Corporation with copies of all forms they file with the Commission under Section 16(a).

Based solely on copies of such forms furnished as provided above, the Corporation believes that during the year ended December 31, 2003, all Section 16(a) filing requirements applicable to its officers, Directors and owners of greater than 10% of its Common Stock were complied with.

**DEADLINES FOR SUBMISSION OF
STOCKHOLDER PROPOSALS**

Under regulations adopted by the Commission, any proposal submitted for inclusion in the Corporation's Proxy Statement relating to the 2005 Annual Meeting of Stockholders must be received at the Corporation's principal executive offices in Natick, Massachusetts on or before November 17, 2004. Receipt by the Corporation of any such proposal from a qualified stockholder in a timely manner will not ensure its inclusion in the proxy material because there are other requirements in the proxy rules for such inclusion.

In addition to the Commission requirements regarding stockholder proposals, the Corporation's By-Laws contain provisions regarding matters to be brought before stockholder meetings. If stockholder proposals, including proposals regarding the election of Directors, are to be considered at the 2005 Annual Meeting, notice of them whether or not they are included in the Corporation's proxy statement and form of proxy, must be given by personal delivery or by United States mail, postage prepaid, to the Clerk of the Corporation on or before February 11, 2005. The notice must set forth: (i) information concerning the stockholder, including his or her name and address; (ii) a representation that the stockholder is entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to present the matter specified in the notice; and (iii) such other information as would be required to be included in a proxy statement soliciting proxies for the presentation of such matter to the meeting. Stockholder proposals with respect to the election of directors must also contain other information set forth in the Corporation's By-Laws. Proxies solicited by the Board of Directors will confer discretionary voting authority with respect to these proposals subject to Commission rules governing the exercise of this authority.

It is suggested that any stockholder proposal be submitted by certified mail, return receipt requested.

OTHER MATTERS

Management knows of no matters which may properly be and are likely to be brought before the meeting other than the matters discussed herein. However, if any other matters properly come before the meeting, the persons named in the enclosed proxy will vote in accordance with their best judgment.

EXPENSES AND SOLICITATION

The cost of this solicitation will be borne by the Corporation. It is expected that the solicitation will be made primarily by mail, but regular employees or representatives of the Corporation (none of whom will receive any extra compensation for their activities) may also solicit proxies by telephone, telegraph and in

person and arrange for brokerage houses and other custodians, nominees and fiduciaries to send proxies and proxy material to their principals at the expense of the Corporation.

FORM 10-K REPORT

The Corporation will provide each beneficial owner of its securities with a copy of its annual report on Form 10-K, including the financial statements and schedules thereto, required to be filed with the Securities and Exchange Commission for the Corporation's most recent fiscal year, without charge, upon receipt of a written request from such person. Such request should be sent to Department of Investor Relations, Cognex Corporation, One Vision Drive, Natick, Massachusetts 01760.

VOTING PROXIES

The Board of Directors recommends an affirmative vote on all proposals specified. Proxies will be voted as specified. If a properly signed proxy is returned, but not marked as to a particular proposal, the shares represented by such proxy will be voted in favor of the Board of Directors' recommendations.

By Order of the Board of Directors

ANTHONY J. MEDAGLIA, JR., *Clerk*

Natick, Massachusetts
March 17, 2004

COGNEX CORPORATION

REVISED AND AMENDED AUDIT COMMITTEE CHARTER

ADOPTED: MARCH 12, 2004

I. Purpose

The primary function of the Audit Committee of Cognex Corporation (the "Corporation") is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing: the financial reports and other financial information provided by the Corporation to any governmental body or the public; the Corporation's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; and the Corporation's accounting and financial reporting processes and the audits of the Corporation's financial statements. Consistent with this function, the Audit Committee encourages continuous improvement of, and adherence to, the Corporation's policies, procedures and practices at all levels. The Audit Committee's primary duties and responsibilities are to:

Serve as an independent and objective party to monitor the Corporation's financial reporting process and internal control system.

Review and appraise the audit efforts of the Corporation's independent accountants.

Provide an open avenue of communication among the independent accountants, financial and senior management, and the Board of Directors.

II. Composition

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall satisfy the independence and experience requirements of applicable statutes and regulations, including those of the Marketplace Rules of the National Association of Securities Dealers, Inc., and shall not have participated in the preparation of the financial statements of the Corporation or a current subsidiary of the Corporation at any time during the past three years. At least one member of the Audit Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication.

The members of the Audit Committee shall be elected by the Board at the annual organizational meeting of the Board and shall serve until their successors shall be duly elected and qualified. The members of the Audit Committee may be replaced or removed by the Board at any time with or without cause. Resignation or removal of a Director from the Board, for whatever reason, shall automatically and without any further action constitute resignation or removal, as applicable, from the Audit Committee. Any vacancy on the Audit Committee, occurring for whatever reason, may be filled only by the Board. Unless a Chair is designated by the full Board, the members of the Audit Committee may designate a Chair by majority vote of the full Committee membership.

A member of the Audit Committee may not, other than in his capacity as a member of the Audit Committee, the Board or any other committee established by the Board, receive, directly or indirectly, from the Corporation any consulting, advisory or other compensatory fee from the Corporation.

III. Meetings

The Audit Committee shall meet as often as it determines is appropriate to carry out its responsibilities under this charter, but not less than four times per year. A majority of the members of the Audit Committee shall constitute a quorum for purposes of holding a meeting and the Audit Committee may act by a vote of a majority of the members present at such meeting. In lieu of a meeting, the Audit Committee may act by unanimous written consent. The Chair of the Audit Committee, in consultation with the other committee members, may determine the frequency and length of the committee meetings and may set meeting agendas consistent with this Charter.

IV. Responsibilities and Authority

In meeting its purpose, the Audit Committee is expected to:

Documents/ Report Review

1. Review and assess this Charter at least annually, and as conditions dictate, and recommend to the Board any amendments or modifications to the Charter that the Audit Committee deems appropriate.
2. Review the organization's annual and quarterly financial statements submitted to the Securities and Exchange Commission (the SEC) on Forms 10-K and 10-Q.
3. Review with financial management and the independent accountants the Corporation's quarterly results prior to the release of earnings.

Independent Accountants

4. Be directly responsible for the appointment, compensation, retention and termination, and oversight of the work of the Corporation's independent accountants (including resolution of any disagreements between management and the independent accountants regarding financial reporting) engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation.
5. Instruct the independent accountants to report directly to the Audit Committee.
6. Request that the independent auditor provide the Audit Committee with the written disclosures and the letter required by Independence Standards Board Standard No. 1, as modified or supplemented, require that the independent auditor submit to the Audit Committee on a periodic basis a formal written statement delineating all relationships between the independent auditor and the Corporation, discuss with the independent auditor any disclosed relationships or services that may impact the objectivity and independence of the independent auditor, and based on such disclosures, statement and discussion take appropriate action in response to the independent auditor's report to satisfy itself of the independent auditor's independence.
7. Review the performance of the independent accountants with the Corporation's senior financial management.
8. Pre-approve all auditing services and the terms thereof (which may include providing comfort letters in connection with securities underwritings) and non-audit services (other than non-audit services prohibited under Section 10A(g) of the Securities Exchange Act of 1934 (the Exchange Act) or the applicable rules of the SEC or the Public Company Accounting Oversight Board) to be provided to the Corporation by the independent auditor; *provided, however*, the pre-approval

requirement is waived with respect to the provision of non-audit services for the Corporation if the de minimus provisions of Section 10A(i)(1)(B) of the Exchange Act are satisfied. This authority to pre-approve non-audit services may be delegated to one or more members of the Audit Committee, who shall present all decisions to pre-approve an activity to the full Audit Committee at its first meeting following such decision.

Financial Reporting Processes

9. Meet with the independent auditors and financial management of the Corporation to review the scope of the proposed audit for the current year and the audit procedures to be utilized, and at the conclusion thereof review such audit, including any comments or recommendations of the independent auditors, including any serious difficulties or disputes with management encountered during the course of the audit.
10. Review with the independent auditors and senior financial personnel the adequacy and effectiveness of the accounting and financial controls of the Corporation, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper.
11. Discuss with the independent accountants any audit findings pursuant to Section 10A of the Private Securities Litigation Reform Act of 1995. (Among other things, this section requires each audit to include procedures regarding detection of illegal acts, identification of related party transactions and evaluation of the issuer's ability to continue as a going concern.)
12. In consultation with the independent accountants, review the integrity of the organization's financial reporting processes, both internal and external.
13. Consider the independent accountants' judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.
14. Discuss with management and the independent accountants the accounting policies of the Corporation which may be viewed as critical; the nature and extent of any significant changes in accounting principles or the application thereof; significant judgment areas; significant risks and exposures and the steps management has taken to minimize such risks to the Corporation; and the quality and adequacy of the Corporation's accounting policies and estimates.
15. Review and discuss with the independent auditor those matters brought to the attention of the Audit Committee by the auditors pursuant to Statement on Auditing Standards No. 61 (SAS 61), including internal control matters, fraud, the auditor's responsibility under generally accepted auditing standards, significant audit adjustments and other such items.
16. Based on the Audit Committee's review and discussions (1) with management of the audited financial statements, (2) with the independent auditor of the matters required to be discussed by SAS 61, and (3) with the independent auditor concerning the independent auditor's independence, make a recommendation to the Board as to whether the Corporation's audited financial statements should be included in the Corporation's Annual Report on Form 10-K for the last fiscal year.

Procedures for Addressing Complaints and Concerns

17. Establish procedures for (1) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters and (2) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters. The Audit Committee may review and reassess the adequacy of these procedures periodically and adopt any changes to such procedures that the Audit Committee deems necessary or appropriate.

Related Party Transactions

18. The Audit Committee shall conduct an appropriate review of all related party transactions for potential conflict of interest situations on an ongoing basis, and the approval of the Audit Committee shall be required for all related party transactions.

Other

19. Meet with the independent accountants and management in separate executive sessions to discuss any matters that the Audit Committee or these groups believe should be discussed privately with the Audit Committee.
20. Report Committee actions to the Board of Directors with such recommendations as the Audit Committee may deem appropriate.
21. Prepare the report required by Item 306 of Regulation S-K of the Exchange Act (or any successor provision) to be included in the Corporation's annual proxy statement.
22. The Audit Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities.
23. The Audit Committee may engage independent counsel and such other advisors it deems necessary or advisable to carry out its responsibilities and powers, and, if such counsel or other advisors are engaged, shall determine the compensation or fees payable to such counsel or other advisors.
24. The Committee shall perform such other functions as required by law, the Corporation's charter or bylaws, or the Board of Directors.
25. Provide an independent, direct communication link between the Board of Directors and the independent accountants.

Notwithstanding the responsibilities and authority of the Audit Committee set forth in this Charter, the Audit Committee does not have the responsibility of planning or conducting audits of the Corporation's financial statements or determining whether the Corporation's financial statements are complete, accurate and in accordance with GAAP. Such responsibilities are the duty of management and, to the extent of the independent auditor's audit responsibilities, the independent auditor. In addition, it is not the duty of the Audit Committee to conduct investigations or to ensure compliance with laws and regulations or the Corporation's Code of Business Conduct and Ethics.

In carrying out its responsibilities, the Audit Committee shall be entitled to rely upon advice and information that it receives in its discussions and communications with management, the independent auditor and such experts, advisors and professionals with whom the Audit Committee may consult. The Audit Committee shall have the authority to request that any officer or employee of the Corporation, the Corporation's outside legal counsel, the Corporation's independent auditor or any other professional retained

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by the Corporation to render advice to the Corporation attend a meeting of the Audit Committee or meet with any members of or advisors to the Audit Committee.

The Corporation shall provide appropriate funding, as determined by the Audit Committee, for payment of compensation to (1) the independent accountants engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation and (2) independent counsel or any other advisors engaged by the Audit Committee. The Audit Committee is authorized to incur such ordinary administrative expenses as are necessary or appropriate in carrying out its duties.

ADOPTED: March 12, 2004

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COGNEX CORPORATION

NOMINATING COMMITTEE CHARTER

I. Purpose

The Nominating Committee of the Board of Directors (the *Nominating Committee*) of Cognex Corporation (the *Corporation*) on behalf of the Board of Directors (the *Board*) is responsible for identifying individuals qualified to serve as board members and recommending to the Board nominees for election as directors at each annual meeting of stockholders and when vacancies in the Board occur for any reason.

II. Composition

The number of individuals serving on the Nominating Committee shall be fixed by the Board from time to time but shall consist of no fewer than two members, all of whom shall meet the independence requirements of applicable statutes and regulations, including those of the Marketplace Rules of the National Association of Securities Dealers, Inc.

The members of the Nominating Committee shall be appointed annually by the Board and may be replaced or removed by the Board at any time with or without cause. Resignation or removal of a Director from the Board, for whatever reason, shall automatically and without any further action constitute resignation or removal, as applicable, from the Nominating Committee. Any vacancy on the Nominating Committee, occurring for whatever reason, may be filled only by the Board. Unless a Chair is designated by the full Board, the members of the Nominating Committee may designate a Chair by majority vote.

III. Meetings

The Nominating Committee shall meet as often as it determines is appropriate to carry out its responsibilities under this Charter. A majority of the members of the Nominating Committee shall constitute a quorum for purposes of holding a meeting and the Nominating Committee may act by a vote of a majority of members present at such meeting. In lieu of a meeting, the Nominating Committee may act by unanimous written consent. The Chair of the Nominating Committee, in consultation with the other committee members, may determine the frequency and length of the committee meetings and may set meeting agendas consistent with this Charter.

IV. Responsibilities

The Nominating Committee's responsibilities shall be to:

A. Review of Charter

Review and reassess the adequacy of this Charter annually and recommend to the Board any amendments or modifications to the Charter that the Nominating Committee deems appropriate.

B. Selection of New Directors

Identify individuals qualified to serve as members of the Board and recommend to the Board nominees for election at each annual meeting of stockholders and when vacancies in the Board occur for any reason. In identifying individuals qualified to serve on the Board, the Nominating Committee may consider any criteria it deems appropriate, including, without limitation, the

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experience and qualifications of any particular director candidate as well as such director candidate's past or anticipated contributions to the Board and its committees.

C. Matters Relating to Retention and Termination of Search Firms to Identify Director Candidates

Exercise sole authority to retain and terminate any search firm that is to be used to assist in identifying director candidates. The Nominating Committee shall also have sole authority to approve any such search firm's fees and other retention terms.

V. General

The Nominating Committee may establish and delegate authority to subcommittees consisting of one or more of its members when the Nominating Committee deems it appropriate to do so in order to carry out its responsibilities.

The Nominating Committee shall make regular reports to the Board concerning areas of the Nominating Committee's responsibility.

In carrying out its responsibilities, the Nominating Committee shall be entitled to rely upon advice and information that it receives in its discussions and communications with management and such experts, advisors and professionals with whom the Nominating Committee may consult. The Nominating Committee shall have the authority to request that any officer or employee of the Corporation, the Corporation's outside legal counsel, the Corporation's independent auditor or any other professional retained by the Corporation to render advice to the Corporation attend a meeting of the Nominating Committee or meet with any members of or advisors to the Nominating Committee. The Nominating Committee shall also have the authority to engage legal, accounting or other advisors to provide it with advice and information in connection with carrying out its responsibilities.

The Nominating Committee may perform such other functions as may be requested by the Board from time to time.

ADOPTED: March 5, 2003

DETACH CARD

PROXY

**COGNEX CORPORATION
Special Meeting in Lieu of
2004 Annual Meeting of Stockholders
April 22, 2004**

The undersigned hereby appoints Robert J. Shillman and Anthony Sun, and each of them, with full power of substitution, proxies to represent the undersigned at the Special Meeting in Lieu of the 2004 Annual Meeting of Stockholders of COGNEX CORPORATION to be held April 22, 2004 at 10:00 a.m., local time, at the offices of Goodwin Procter LLP, 53 State Street, Boston, Massachusetts, and at any adjournment or postponement thereof, to vote in the name and place of the undersigned, with all powers which the undersigned would possess if personally present, all of the shares of common stock, par value \$0.002 per share, of COGNEX CORPORATION held of record by the undersigned as of the close of business on March 10, 2004, upon such business as may properly come before the meeting, including the following:

1. Election of two directors for terms of three years. Nominees: (01) Robert J. Shillman and (02) Anthony Sun
 - o FOR all nominees
 - o WITHHELD from all nominees
 - o WITHHELD as to the nominee noted:

2. In their discretion, the proxies are authorized to vote upon any other business which may properly come before the meeting or any adjournments or postponements thereof.

(Continued and to be signed on reverse side)

DETACH CARD

(Continued from the other side)

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS. THE BOARD RECOMMENDS AN AFFIRMATIVE VOTE ON ALL PROPOSALS SPECIFIED. THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS SPECIFIED. IF NO SPECIFICATION IS MADE, THE SHARES REPRESENTED WILL BE VOTED FOR THE ELECTION OF DIRECTORS AS SET FORTH IN THE PROXY STATEMENT AND IN ACCORDANCE WITH THE PROXIES' DISCRETION ON SUCH OTHER BUSINESS THAT MAY PROPERLY COME BEFORE THE MEETING.

Mark here if you plan to attend the meeting

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Date: _____, 2004

Signature

Signature

Please sign exactly as your names(s) appear(s) on the Proxy. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

PLEASE COMPLETE AND RETURN THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE MEETING IN PERSON