

Morgan Stanley

Internet Trends

June 7, 2010

CM Summit – New York City

mary.meeker@ms.com / scott.devitt@ms.com / liang.wu@ms.com

www.morganstanley.com/techresearch

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

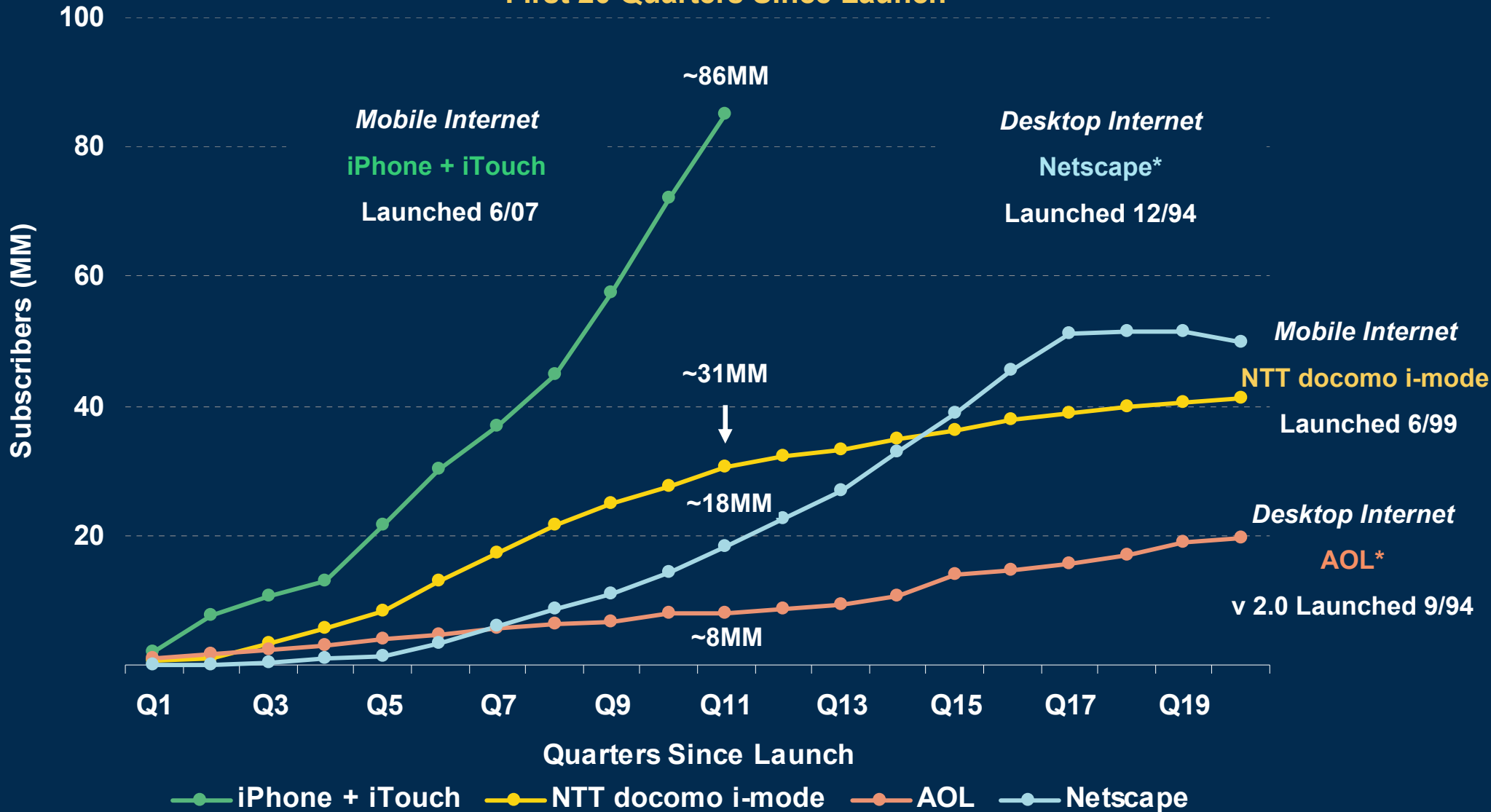
Internet Trends Outline

- **Mobile Internet** – Unprecedented Early Stage Growth
- **Innovation** – Unprecedented Intensity?
- **Online Advertising** – May Be Entering Golden Age, Finally
- **Online Commerce** – Mobile Should Be Share Gain Accelerator
- **Communications** – Share Shift to Sharing
- **‘Cloud Computing’** – Consumer First, Enterprise Next
- **Technology** – What’s Next...
- **Beyond Technology** – It’s Complicated...

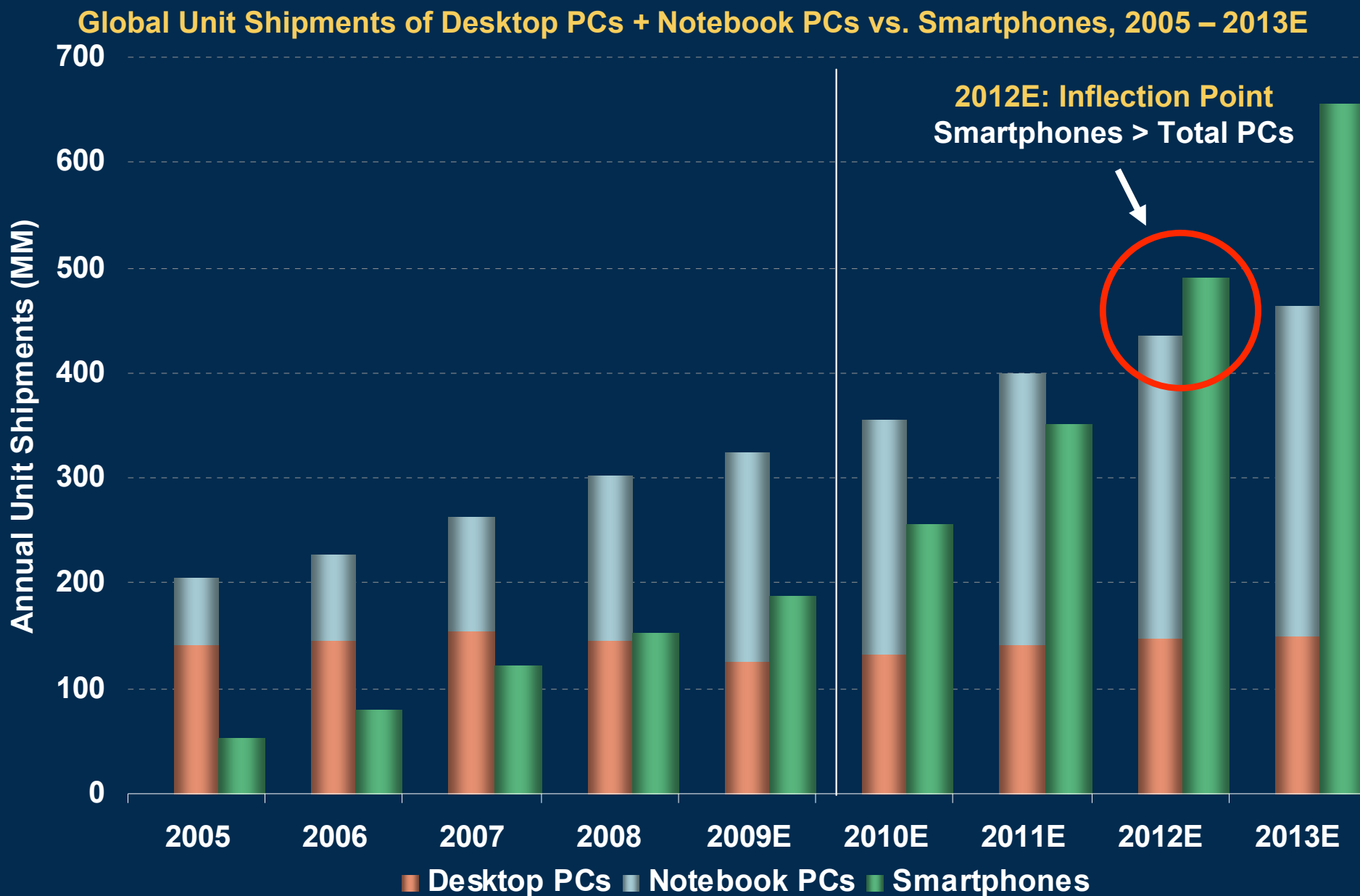
*Mobile Internet –
Unprecedented Early Stage Growth*

Mobile Internet Ramping Faster than Desktop Internet Did – Apple Leading Charge

iPhone + iTouch vs. NTT docomo i-mode vs. AOL vs. Netscape Users
First 20 Quarters Since Launch

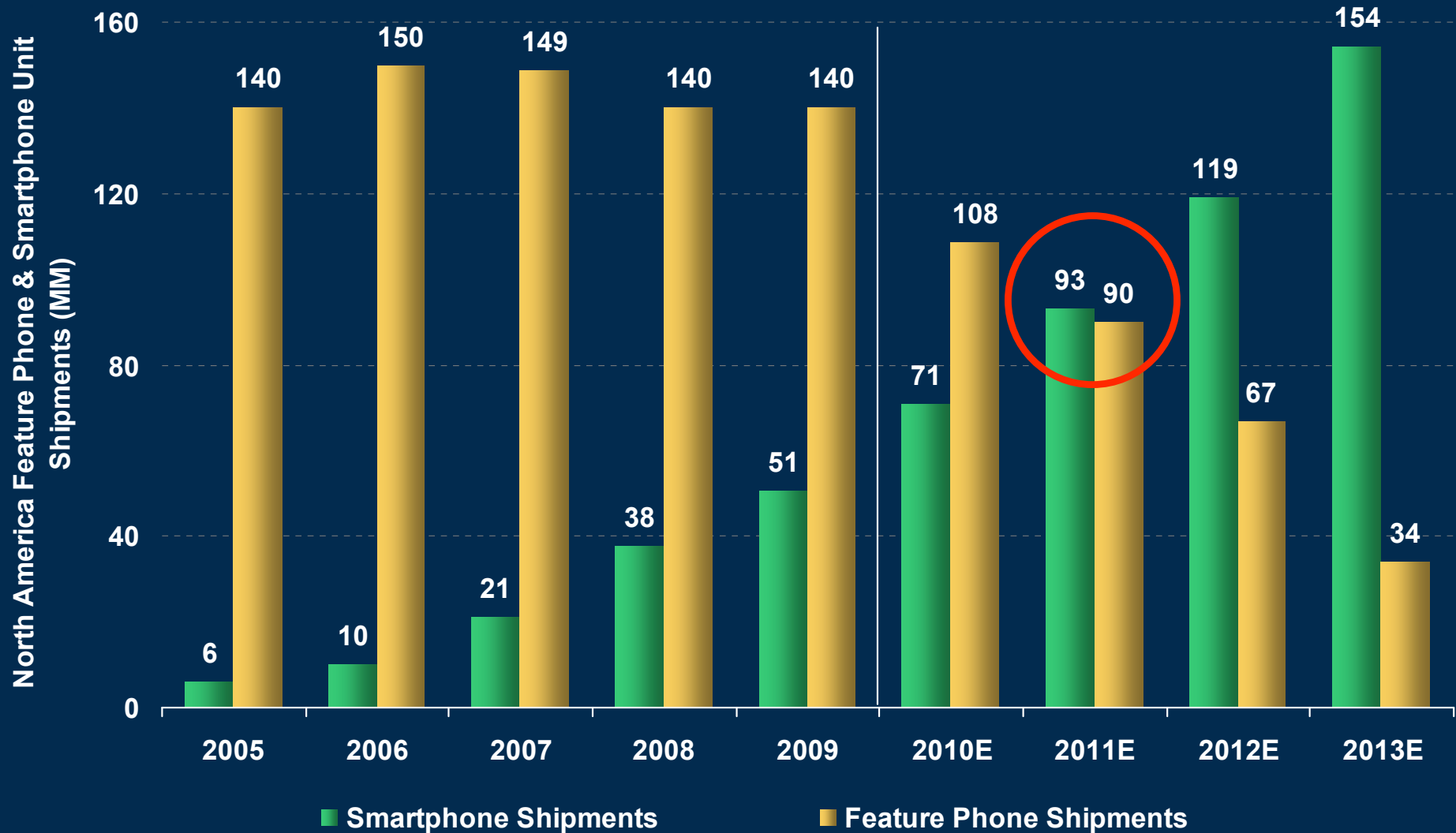


Smartphone > PC Shipments Within 2 Years, Global – Implies Very Rapid Evolution of Internet Access



Smartphone > Feature Phone Shipments Within 1 Year, N. Amer. – Implies Very Rapid Evolution of Internet Access

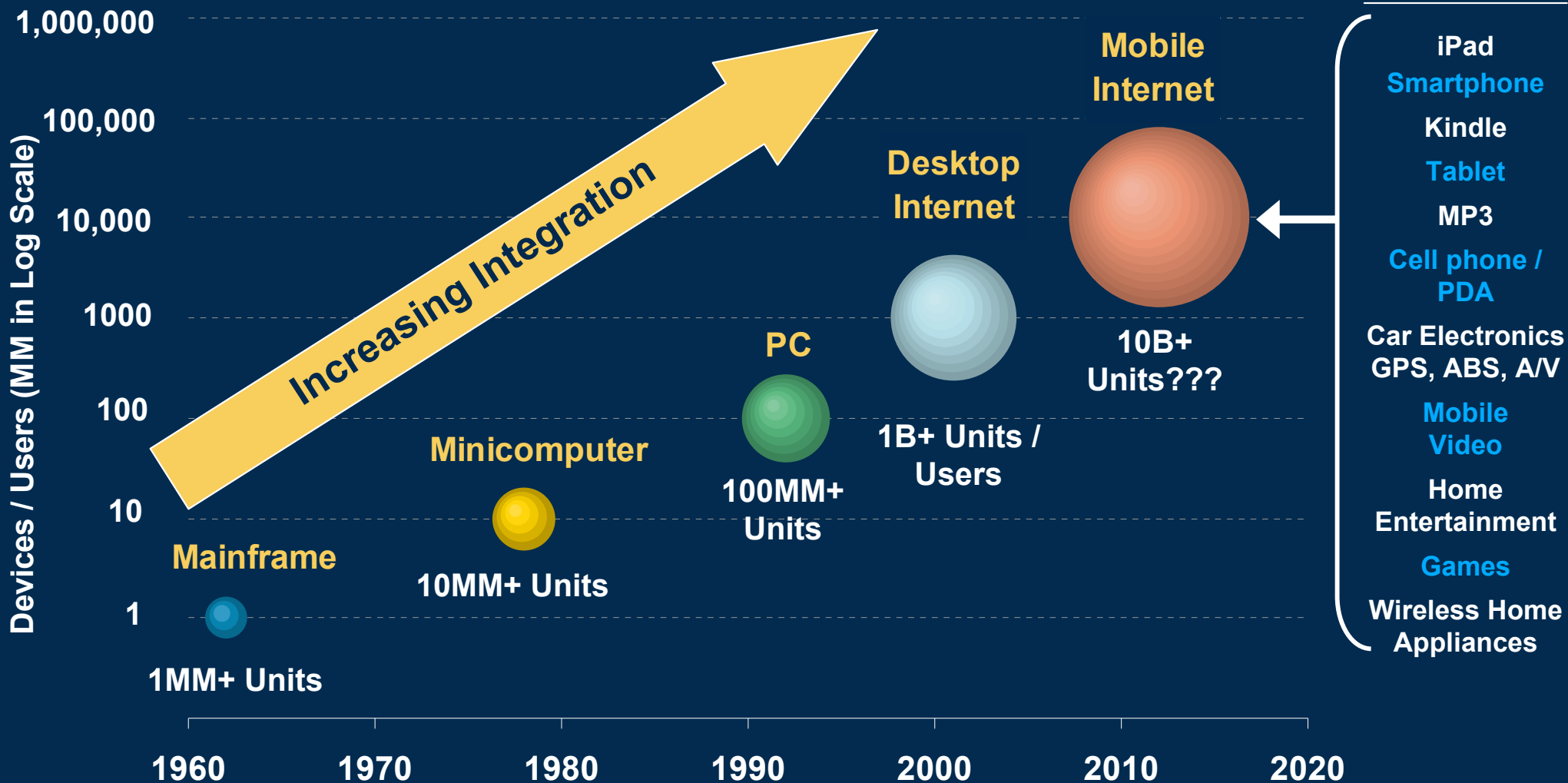
North America Unit Shipments of Smartphones vs. Feature Phones, 2005 – 2013E



New Computing Cycles – 10x More Devices

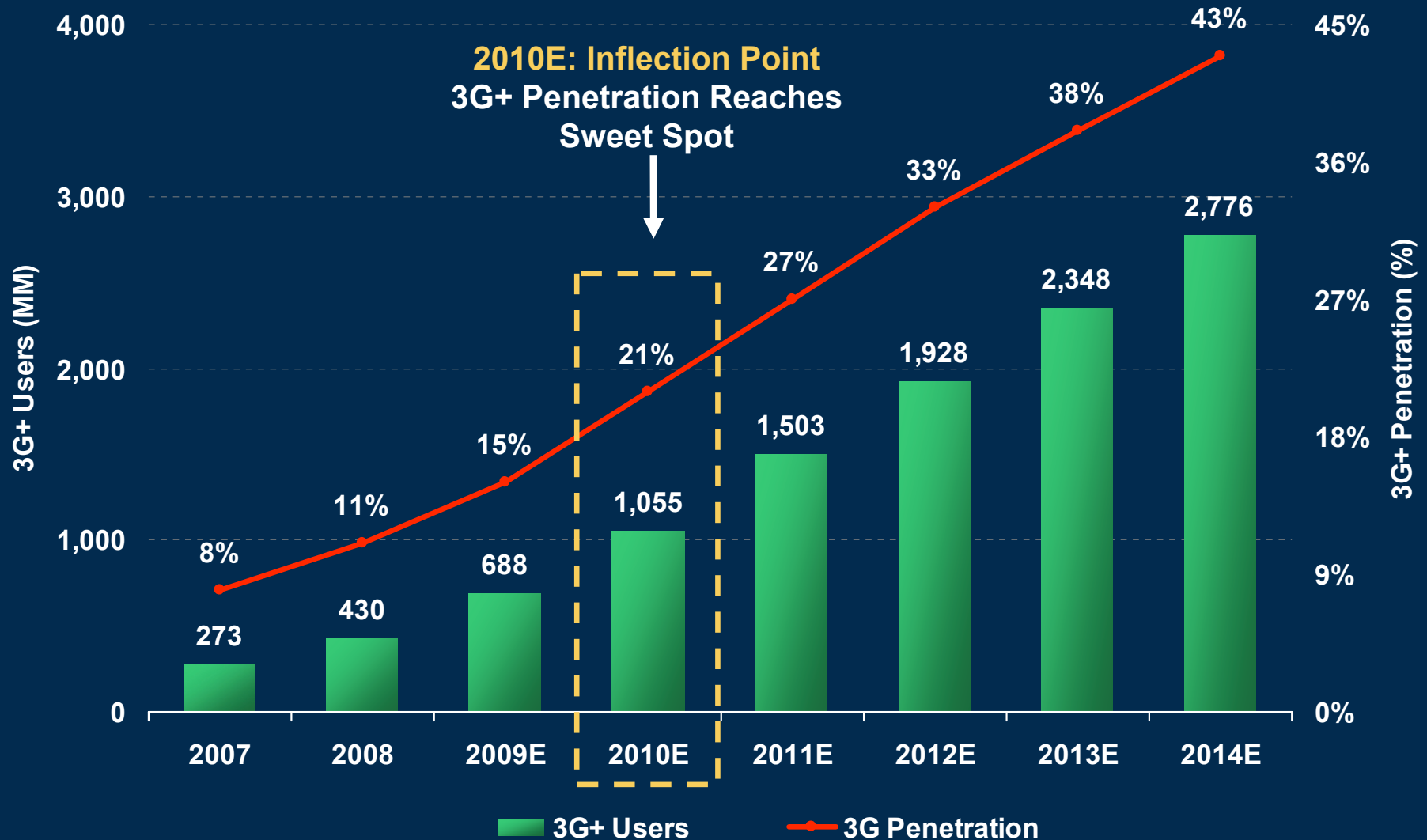
New = Reduce Usage Friction Via Better Processing Power + Improved User Interface + Smaller Form Factor + Lower Prices + Expanded Services

Computing Growth Drivers Over Time, 1960 – 2020E



3G = A Key to Success of Mobile Internet – 2010E 'Mainstream' Inflection Point, 3G Penetration >20%

Global 3G+ Subscribers & Penetration, 2007 – 2014E



Wireless Options Growing Rapidly – Creating Broad-Based Wireless Infrastructure



- **GPS** – 421MM+ chipsets sold in 2008E, +57% Y/Y; Cell Phones / PDAs = 60% of GPS shipments.



- **3G** – 485MM global users, +46% Y/Y in CQ2, >11% mobile user penetration, rising to 44% by 2013E...Japan / W. Europe / USA already >30% penetration.



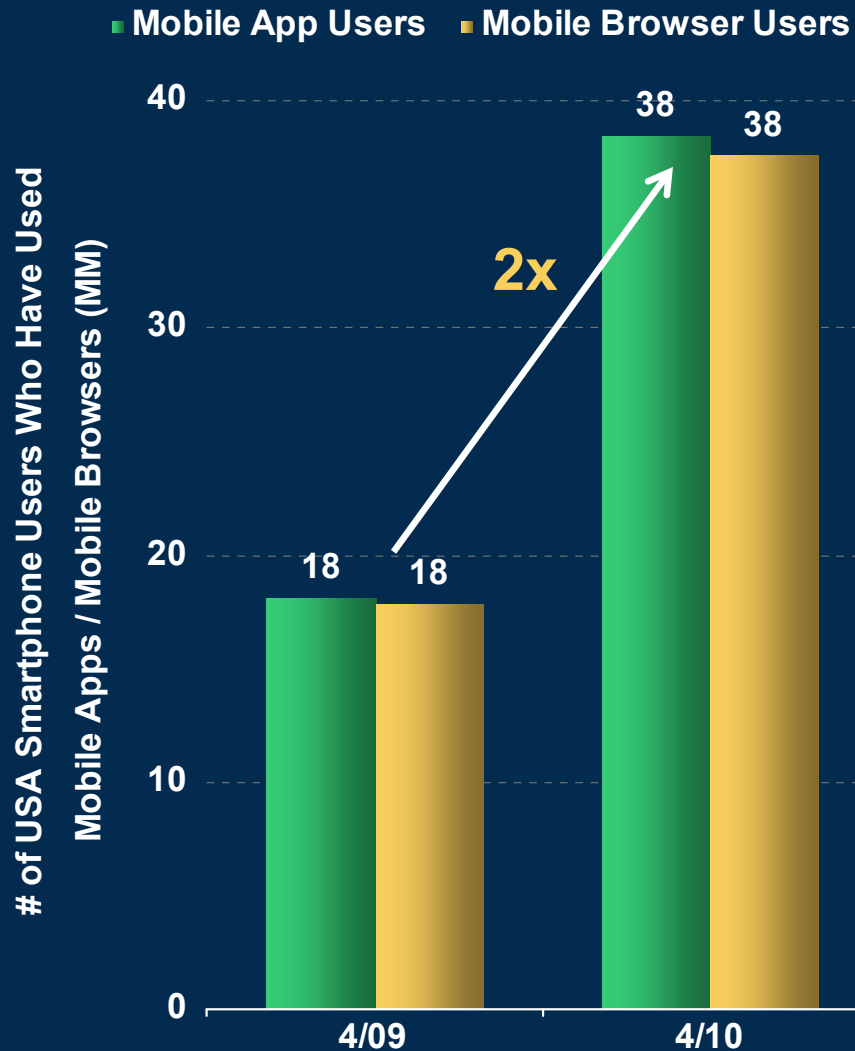
- **Wi-Fi** – 319MM chipsets sold in 2008E, +42%Y/Y with 862MM installed base; estimate 60% of iPhone / iTouch usage may be on Wi-Fi, providing a crucial (and ~10x faster) offload to stressed 3G networks.



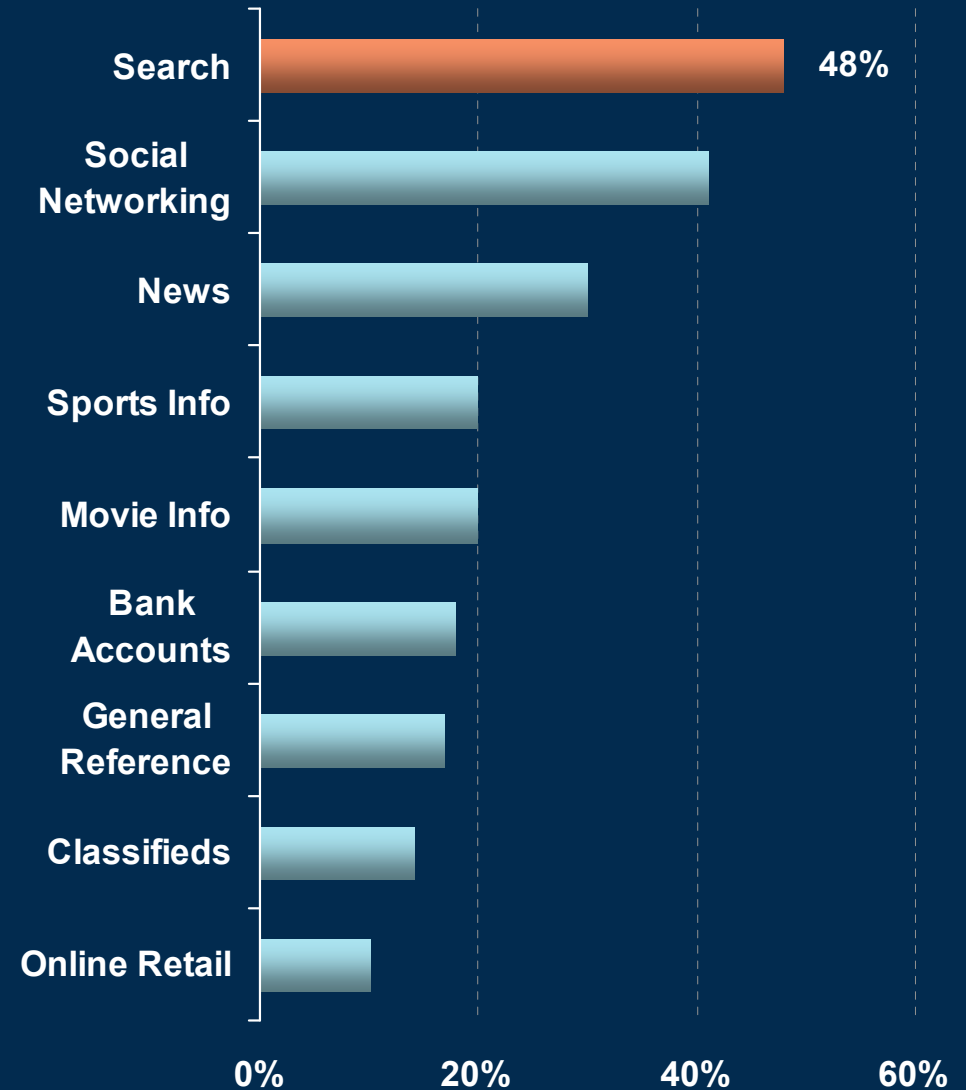
- **Bluetooth** – 1.3B Bluetooth-enabled units shipped in 2008, +45% Y/Y; 2B+ Bluetooth devices in use.

Mobile Apps & Mobile Search – Users of Both Up 2x Y/Y...Search = Most Used Browser Feature, USA

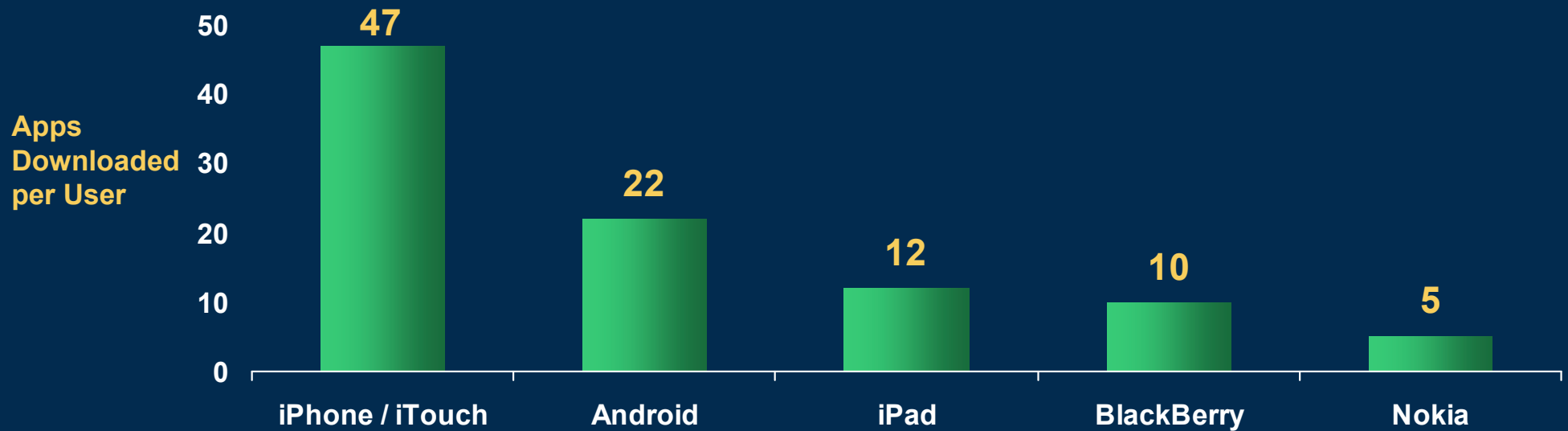
Number of USA Smartphone App & Browser Users
4/09 vs. 4/10



% of Mobile Browser Users Who Have Done
the Following Activities, 4/10



Mobile App Usage Ramp = Unprecedented

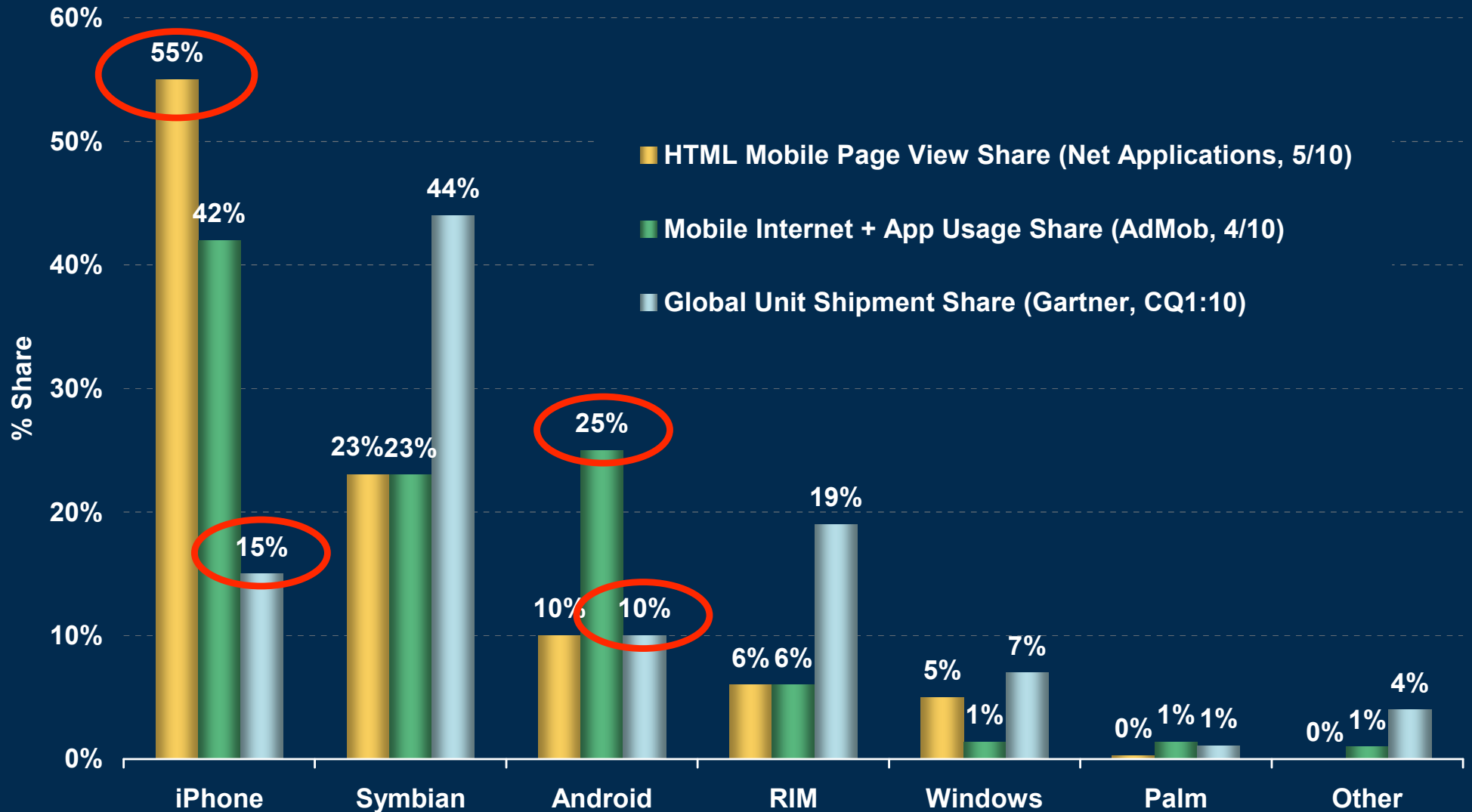


	iPhone / iTouch	Android	iPad	BlackBerry	Nokia
Apps Available	200K	50K	3K	5K	7K
Apps Downloaded	4B+	400MM	12MM+	--	--
Installed Base	86MM	10MM+	2MM	20MM*	50-70MM*
Launch Date	7/08	10/08	4/10	4/09	5/09

Note: *BlackBerry / Nokia installed base excludes older devices that cannot support app stores.
 Nokia apps available / downloaded exclude wallpapers / ringtones / music tracks.
 Source: Distimo, Apple, Google, RIM, Nokia, Nielsen. Morgan Stanley Research.

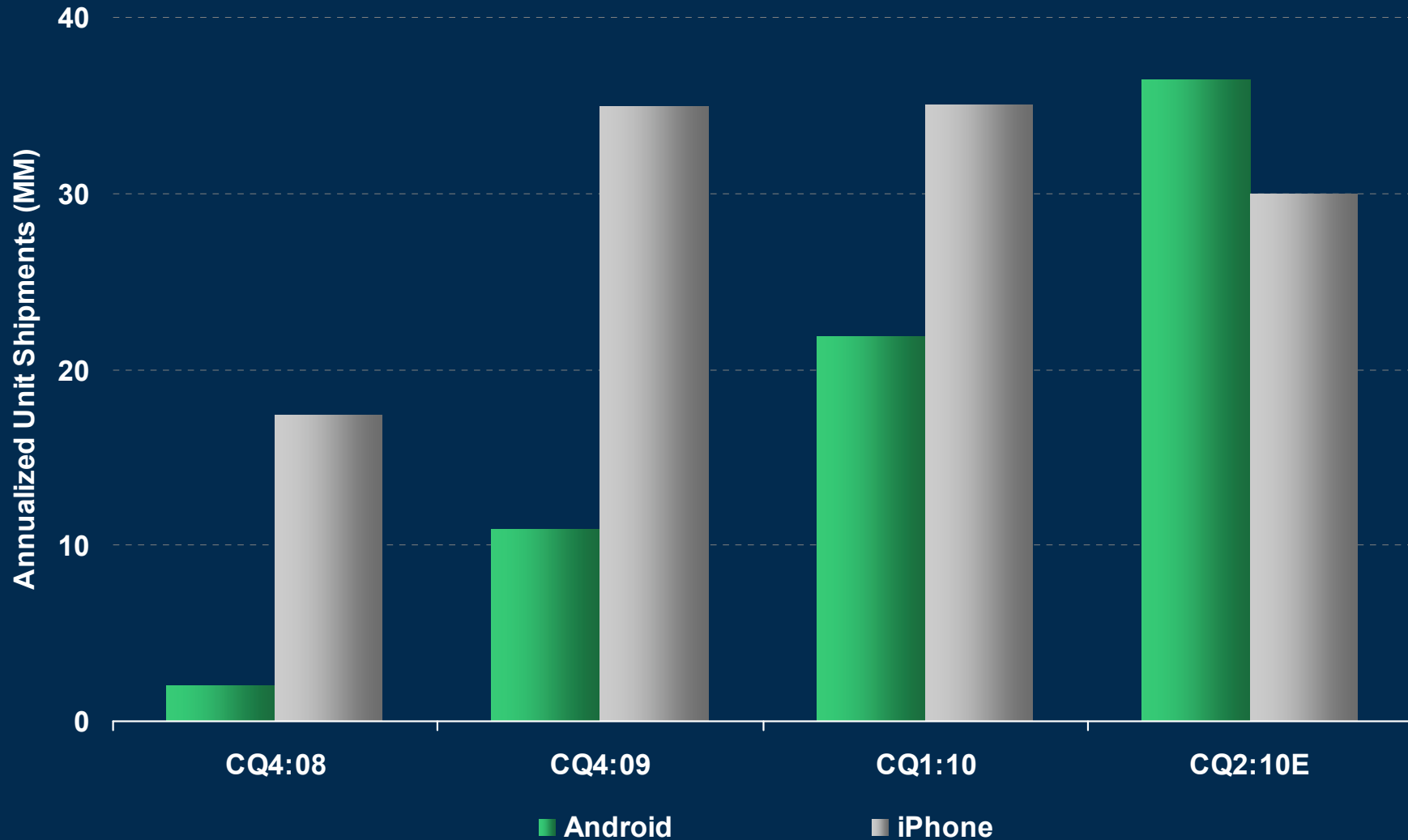
iPhone + Android Internet Usage = Outsized vs. Unit Installed Base

Global Smartphone Share of HTML Mobile Page View / Mobile Internet + App Usage / Unit Shipments



Android Unit Shipments Ramping Fast – Annualized Rates Near iPhone

Annualized Unit Shipments, Android vs. iPhone, CQ4:08 – CQ2:10E



Note: iPhone annualized shipments based on historical quarterly shipments (CQ2:10E data based on Katy Huberty's estimate). Android annualized shipments based on daily shipments & activation data provided by Google (e.g. Google disclosed that 100K Android units are activated / shipped daily in 5/10, leading to an annualized units of 36.5MM in CQ2:10E). Source: Company data, Katy Huberty, Morgan Stanley Research.

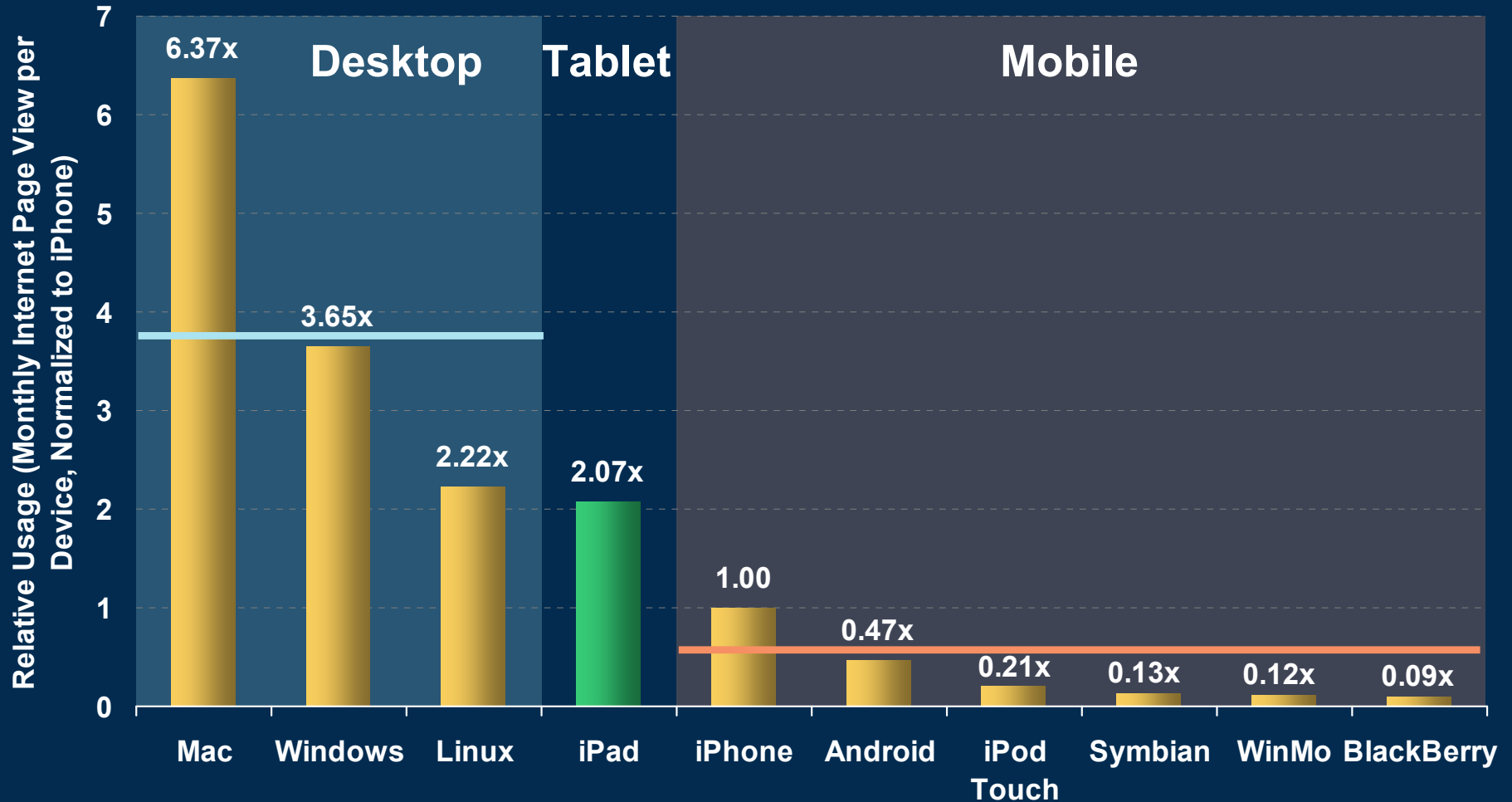
Apple iPad = Among One of the Fastest Growing New Consumer Computing Devices Ever

Number of Days to Reach 1MM Units Sold



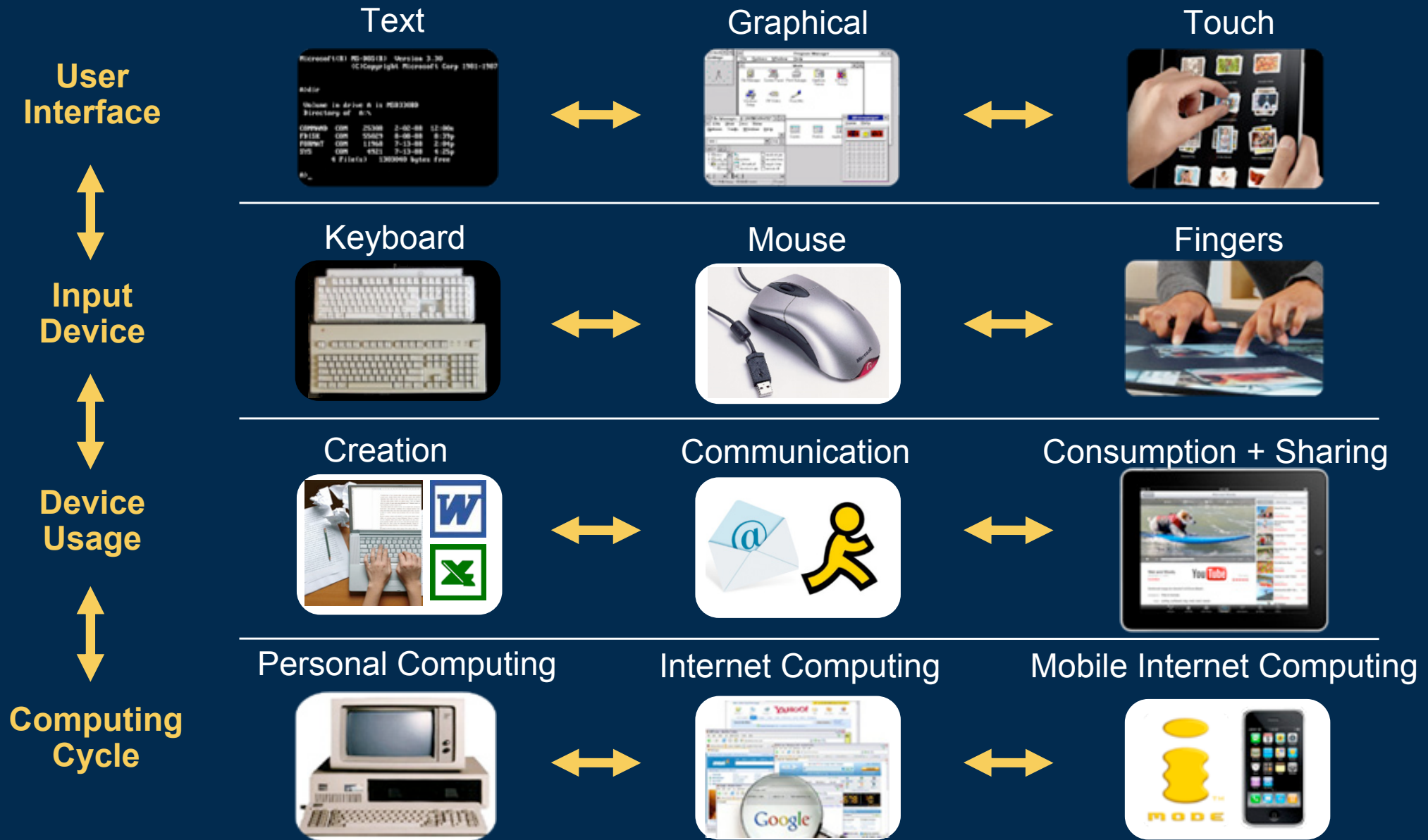
Apple iPad Internet Usage = More Like Desktop PCs than Smartphones

Monthly Internet Page Views per Device, Normalized to iPhone*, 5/10



Note: *We calculate usage as follows: market share of Internet page views by OS (per Net Applications) divided by market share of device installed base (desktop per Gartner, tablet & mobile per company data and our estimate) and then normalize it to iPhone's level. Source: Company data, Gartner, Net Applications, Morgan Stanley Research.

User Interface + Device Usage Evolution Over Past 30 Years – From Input...to Output...to Sharing



Massive / Rapid User Expectation Change

In Just 2 Years, Wireless Consumers Expect...

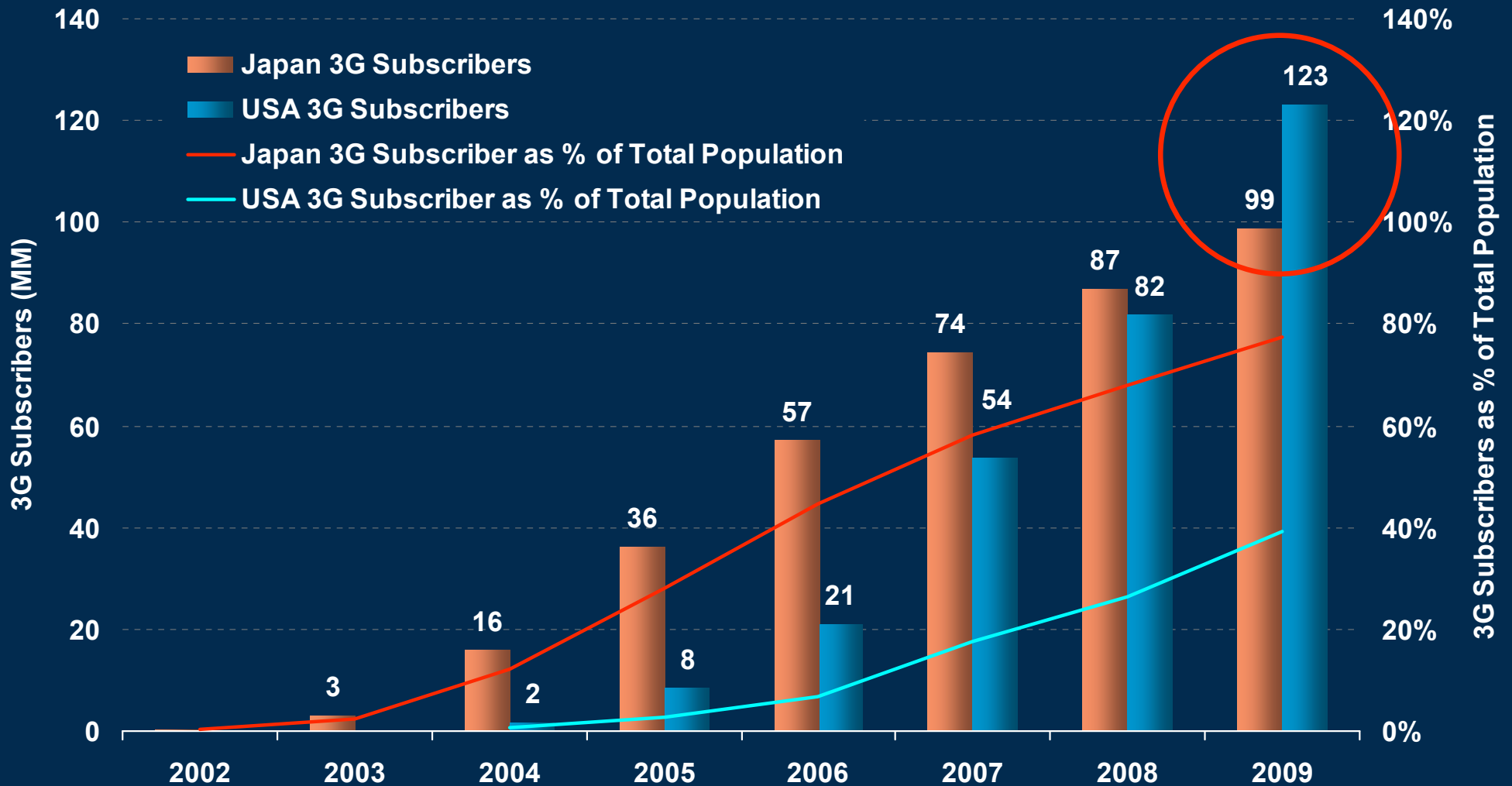
- Always-On Access with Super-Fast 'Boot Time'
- Near Zero Latency Access to Nearly All Information
- Day-Long-Plus Battery Life in Elegant Portable Devices

*Innovation –
Unprecedented Intensity?*

Mobile Internet – Tortoise vs. Hare?

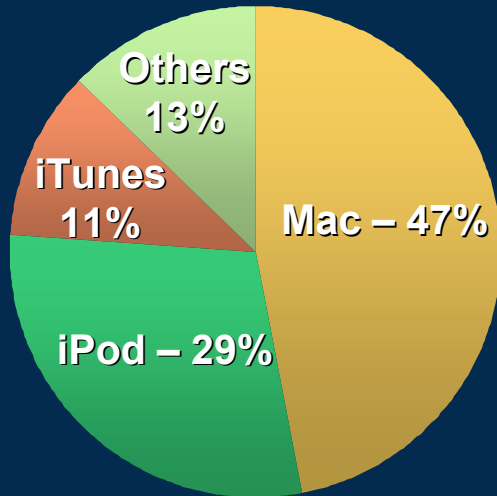
USA Surpassed Japan as Country with Most 3G Users in CQ1:09 –
USA Has Become Global Leader in Mobile Users + Innovation

3G Users in Japan vs. USA, 2002 - 2009

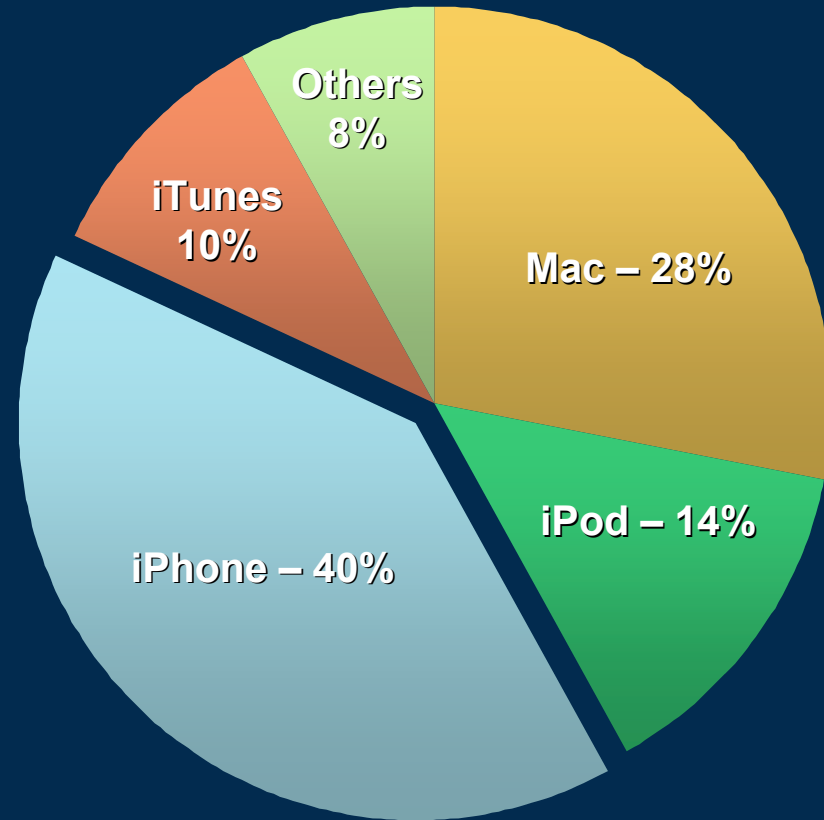


Apple's Epic Reinvention – Innovative Mobile Devices Driving Material Revenue Upside

Apple's Revenue Mix, Free Cash Flow & Operating Margin, CQ2:07 vs. CQ1:10



CQ2:07	Revenue (\$MM)	CQ1:10
\$2,533	Mac	\$3,760
\$1,571	iPod	\$1,861
\$5	iPhone	\$5,445
\$608	iTunes	\$1,327
\$693	Others	\$1,106
\$5,410	Total Revenue	\$13,499
\$944	Free Cash Flow	\$2,056
19%	Operating Margin	30%



Unusually High Level of Innovation from Incumbents

- **Apple** – iPad / iPhone / iTouch / iTunes / Multi-Touch Input
- **Google** – Android / Chrome / YouTube / Display Advertising / Web Apps
- **Amazon.com** – Kindle / EGM (Electronics & General Merchandise) Sales / Mobile Apps / AWS (Amazon Web Services)
- **Tencent** – Virtual Goods
- **Nintendo / Sony / Microsoft** – Motion Sensors (natural gaming input)
- **PayPal** – Mobile Payments
- **Netflix** – Streaming Content
- **Salesforce.com** – Chatter (real-time enterprise collaboration platform)

Unusually High Level of Innovation from New Attackers

- **Facebook** – Real-time Communication / Social Graph / Credits (payment platform)
- **Skype** – VoIP (Voice-over-IP) / Video Calling
- **Zynga** – Virtual Goods / Offers (Reward-Driven Marketing)
- **Twitter** – One-to-Many Real-Time Broadcast
- **OpenTable / Yelp** – Location-Aware Mobile Services
- **Hulu** – Streaming Content
- **Gilt / One Kings Lane / Rue La La** – Time-based ‘Flash’ Sales
- **Groupon** – Social Group Buying
- **Tapulous / Digital Chocolate / Ngmoco:)** – Social / Mobile Gaming

Unusually High Level of Global Innovation – Facebook & Tencent Learning From Each Other's Playbooks...

Facebook

- Largest Social Network in English-Speaking Countries – 519MM visitors, +69% Y/Y in 4/10
- **Real Identity** – Sharing among real-world friends / pictures / events



Tencent

- Largest Social Network in China – 523MM active IM users, +39% Y/Y in CQ1
- **Virtual Identity** – \$1.4B virtual goods revenue (from users customizing their avatars / purchasing game items...) in 2009, +94% Y/Y

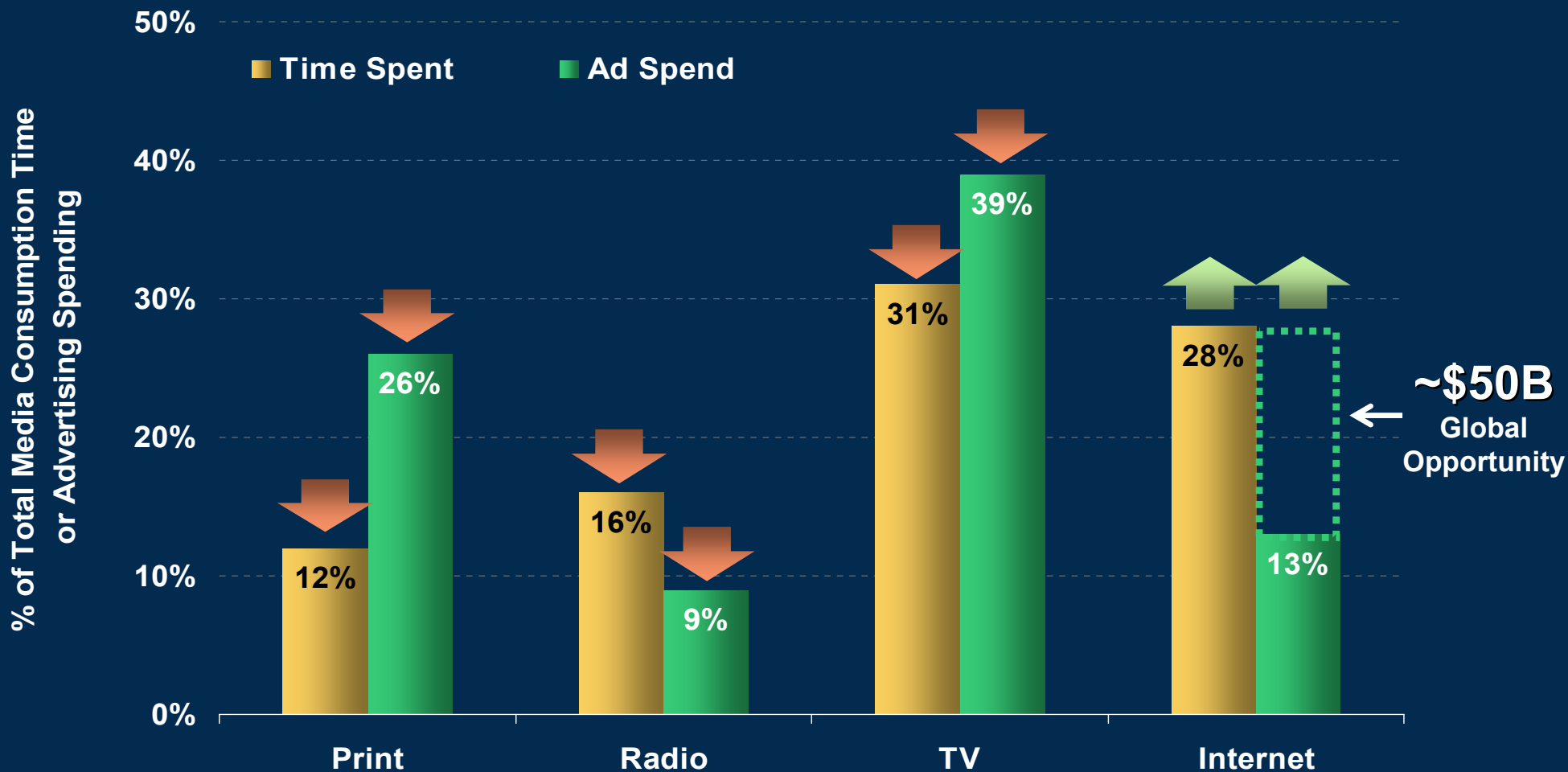


*Online Advertising –
May Be Entering Golden Age, Finally*

Media Time Spent vs. Ad Spend Still Out of Whack

Internet / Mobile (upside...) vs. Newspaper / Magazine / TV (downside...)

% of Time Spent in Media vs. % of Advertising Spending, USA 2009



Average Online CPMs = Still Well Below Other Media, Illustrating Upside Potential

Advertising Cost per Thousand Impressions by Medium, 2009 / 2010



● Denotes average CPM

Note: all media measured per adult (not per household), based on 2009 / 2010 rates; low estimates for traditional media include advertisements aimed at mass market (no demo targeting); Average estimates for TV include 1) early am, 2) daytime, 3) early news, 4) primetime, and 5) late evening and are based on upfront pricing. Source: Media Dynamics, comScore, Ben Swinburne, Morgan Stanley Research.

Google Paid Clicks Accelerating Showing Advertisers + Google Serving Better Results

Google Key Operating Metrics, CQ1:08 – CQ1:10

	CQ1:08	CQ2:08	CQ3:08	CQ4:08	CQ1:09	CQ2:09	CQ3:09	CQ4:09	CQ1:10
Net Revenue (ex. TAC) (\$MM)	\$3,700	\$3,893	\$4,046	\$4,218	\$4,073	\$4,070	\$4,386	\$4,953	\$5,064
<i>Y/Y Growth</i>	46%	43%	34%	25%	10%	5%	8%	17%	24%
EBITDA (\$MM)	\$2,164	\$2,242	\$2,409	\$2,532	\$2,564	\$2,544	\$2,770	\$3,122	\$3,110
<i>Margin (%)</i>	58%	58%	60%	60%	63%	63%	63%	63%	61%
Capital Expenditures (\$MM)	\$842	\$698	\$452	\$368	\$263	\$139	\$186	\$221	\$239
<i>% of Revenue</i>	23%	18%	11%	9%	6%	3%	4%	4%	5%
Gross Advertising Revenue (\$MM)	\$5,087	\$5,185	\$5,352	\$5,505	\$5,331	\$5,336	\$5,757	\$6,465	\$6,475
<i>Y/Y Growth</i>	40%	35%	28%	16%	5%	3%	8%	17%	21%
Paid Clicks (MM)	9,640	9,602	9,995	10,945	11,273	11,003	11,388	12,401	12,959
<i>Y/Y Growth</i>	20%	19%	18%	18%	17%	15%	14%	13%	15%
Cost per Click (\$)	\$0.53	\$0.54	\$0.54	\$0.50	\$0.47	\$0.48	\$0.51	\$0.52	\$0.50
<i>Q/Q Growth</i>	7%	2%	-1%	-6%	-6%	3%	5%	3%	-4%

Yahoo! Display + Home Page Growth Accelerating Showing Online Targeting / Personalization Improving

- Owned & Operated display advertising revenue +20% Y/Y to \$444MM in CQ1:10
- Post redesign (7/09), homepage time spent growth accelerated to +15% Y/Y in CQ4:09 from +8% in CQ4:08
- 32K customized homepages delivered every 5 minutes; 1MM variations per day

Yahoo! Homepage

Personalized information via 3rd party applications

The screenshot shows the Yahoo! homepage interface. At the top, there's a navigation bar with 'Web', 'Images', 'Video', 'Local', 'Shopping', and 'More'. Below that is the 'YAHOO!' logo and a search bar with a 'Web Search' button. The user is logged in as 'Hi, Liang'. The main content area is divided into several sections: 'MY FAVORITES' on the left with links to 'View Yahoo! Sites', 'Yahoo! Mail', 'Budget by Mint.com', 'Master', 'Travel', 'WSJ', 'NPR', 'eBay', 'All Things Digital', 'Barron's', 'Gmail', 'Facebook', 'Finance (Dow Jones)', and 'Sports'. The central 'TODAY - June 03, 2010' section features a large image of an oil spill and a headline 'BP successfully cuts pipe in oil-leak fix'. To the right, a 'TRENDING NOW' list includes names like 'Joran van der Si...', 'Mariah Carey', 'Kate Middleton', 'Oil Spill Clean...', 'Jane Lynch', 'Belinda Carlisle', 'Maytag Dishwashe...', 'Stephen Hawking', 'Sticky Rice Mort...', and 'Protein Shakes'. Below the main news story, there are smaller articles and a 'NEWS' section with headlines like 'BP CEO on Gulf spill: We will be here for a very long time'. At the bottom, there's an advertisement for 'MONDIEKE' and a 'Star style' section with fashion and beauty photos.

Real-time search trends to see what's hot

News from around the world and your neighborhood

Facebook's 500MM+ Users + Under-Monetized 'Like' Connections Offer Significant New Ad Opportunities

Rank	Top 20 Brands / Products	# of People Who Like This (Millions)	Equivalent TV Shows*	TV CPM Range (\$)
1	Texas Hold'em Poker (Zynga)	19.0	<i>NCIS</i>	↑
2	Mafia Wars (Zynga)	12.3	<i>The Good Wife</i>	
3	Facebook	9.5	<i>Glee</i>	
4	Starbucks	7.4	<i>Fringe</i>	~\$30
5	Coca-Cola	5.4	--	↑
6	YouTube (Google)	5.1	<i>Parks & Recreation</i>	
7	Skittles (Mars)	4.7	<i>Happy Town</i>	
8	Oreo (Kraft)	4.6	--	
9	Red Bull	4.1	--	↓
10	Windows Live Messenger (Microsoft)	4.1	--	
11	iTunes (Apple)	4.0	--	
12	Nutella (Ferrero)	3.9	<i>Scrubs</i>	↑
13	Disney	3.5	<i>Vampire Diaries</i>	
14	Victoria's Secret (Limited Brands)	3.5	--	↓
15	Pringles (P&G)	3.3	--	
16	Adidas Originals (Adidas)	2.9	<i>Dollhouse</i>	~\$20
17	Kinder Surprise (Ferrero)	2.7	<i>Smallville</i>	↓
18	Ferrero Rocher (Ferrero)	2.7	--	
19	Converse	2.7	--	
20	iPod	2.7	--	

Where are the Great Online Ads?

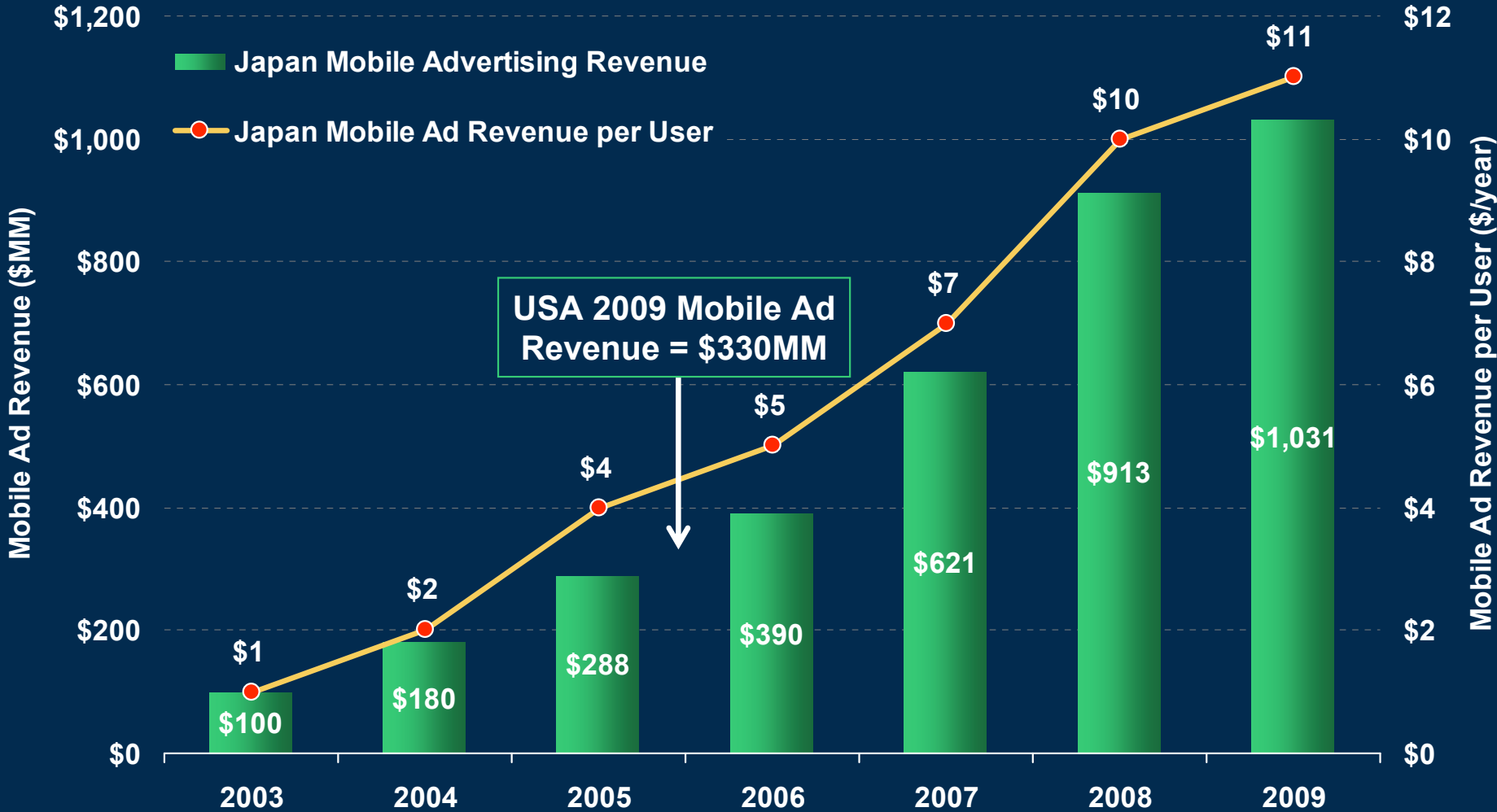
Apple / Google / Yahoo! / Facebook / Others Say 'Watch This Space!'

AdAge Top 25 Advertising Campaigns in Twentieth Century

Rank	Company	Commercial	Ad Agency	Year
1	Volkswagen	<i>Think Small</i>	Doyle Dane Bernbach	1959
2	Coca-Cola	<i>The pause that refreshes</i>	D'Arcy Co.	1929
3	Marlboro	<i>The Marlboro Man</i>	Leo Burnett Co.	1955
4	Nike	<i>Just do it</i>	Wieden & Kennedy	1988
5	McDonald's	<i>You deserve a break today</i>	Needham, Harper & Steers	1971
6	DeBeers	<i>A diamond is forever</i>	N.W. Ayer & Son	1948
7	Absolut Vodka	<i>The Absolut Bottle</i>	TBWA	1981
8	Miller Lite Beer	<i>Tastes great, less filling</i>	McCann-Erickson Worldwide	1974
9	Clairol	<i>Does she...or doesn't she?</i>	Foote, Cone & Belding	1957
10	Avis	<i>We try harder</i>	Doyle Dane Bernbach	1963
11	Federal Express	<i>Fast talker</i>	Ally & Gargano	1982
12	Apple Computer	<i>1984</i>	Chiat/Day	1984
13	Alka-Seltzer	<i>Various ads</i>	Jack Tinker & Partners; Doyle Dane Bernbach; Wells Rich, Greene	1960s, 1970s
14	Pepsi-Cola	<i>Pepsi-Cola hits the spot</i>	Newell-Emmett Co.	1940s
15	Maxwell House	<i>Good to the last drop</i>	Ogilvy, Benson & Mather	1959
16	Ivory Soap	<i>99 and 44/100% Pure</i>	Proctor & Gamble Co.	1882
17	American Express	<i>Do you know me?</i>	Ogilvy & Mather	1975
18	U.S. Army	<i>Be all that you can be</i>	N.W. Ayer & Son	1981
19	Anacin	<i>Fast, fast, fast relief</i>	Ted Bates & Co.	1952
20	Rolling Stone	<i>Perception. Reality.</i>	Fallon McElligott Rice	1985
21	Pepsi-Cola	<i>The Pepsi generation</i>	Batton, Barton, Durstine & Osborn	1964
22	Hathaway Shirts	<i>The man in the Hathaway shirt</i>	Hewitt, Ogilvy, Benson & Mather	1951
23	Burma-Shave	<i>Roadside signs in verse</i>	Allen Odell	1925
24	Burger King	<i>Have it your way</i>	BBDO	1973
25	Campbell Soup	<i>Mmm mm good</i>	BBDO	1930s

Japan Shows Potential for Mobile Advertising = Japan Mobile Advertising Revenue = \$11 per User vs. \$1 Six Years Ago

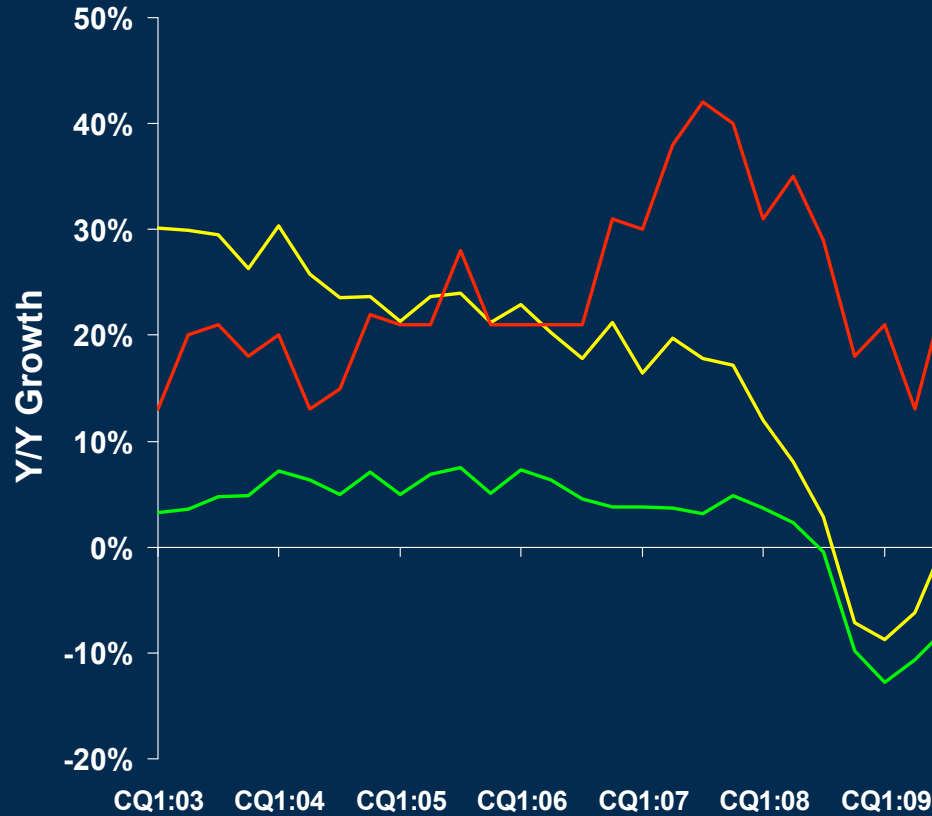
Japan Mobile Advertising Revenue & Ad Revenue per User, 2003 - 2009



*Online Commerce –
Mobile Should Be Share Gain Accelerator*

Amazon.com's Revenue Acceleration + Share Gains are Powerful

Amazon.com vs. US Retail E-Commerce Sales⁽¹⁾



— U.S. Retail E-Commerce Sales
— Amazon.com North America Revenue
— U.S. Total Retail Sales

Amazon.com Key Operating Metrics

	CQ1:09	CQ2:09	CQ3:09	CQ4:09	CQ1:10
Revenue (\$MM)	\$4,889	\$4,651	\$5,449	\$9,519	\$7,131
Y/Y Growth	18%	14%	28%	42%	46%
Media Revenue (\$MM)	\$2,723	\$2,442	\$2,929	\$4,679	\$3,430
Y/Y Growth	7%	1%	17%	29%	26%
% of Total	56	53	54	49	48
EGM Revenue (\$MM)	\$2,046	\$2,069	\$2,357	\$4,609	\$3,513
Y/Y Growth	38%	35%	44%	60%	72%
% of Total	42	44	43	48	49
Active Customers (MM)	91	94	98	105	114
Y/Y Growth	15%	15%	17%	19%	25%
Revenue per Customer	55	50	57	94	65
Y/Y Growth	2%	(1%)	10%	21%	19%
Active Sellers (000)	1,600	1,700	1,800	1,855	1,950
Y/Y Growth	23%	20%	24%	24%	22%
Total Units (MM)	255	243	267	423	357
Y/Y Growth	30%	28%	32%	37%	40%
Third-Party Units (MM)	82	73	83	118	111
Y/Y Growth	39%	32%	32%	42%	36%
Kindle Books (000)	270	320	360	400	500

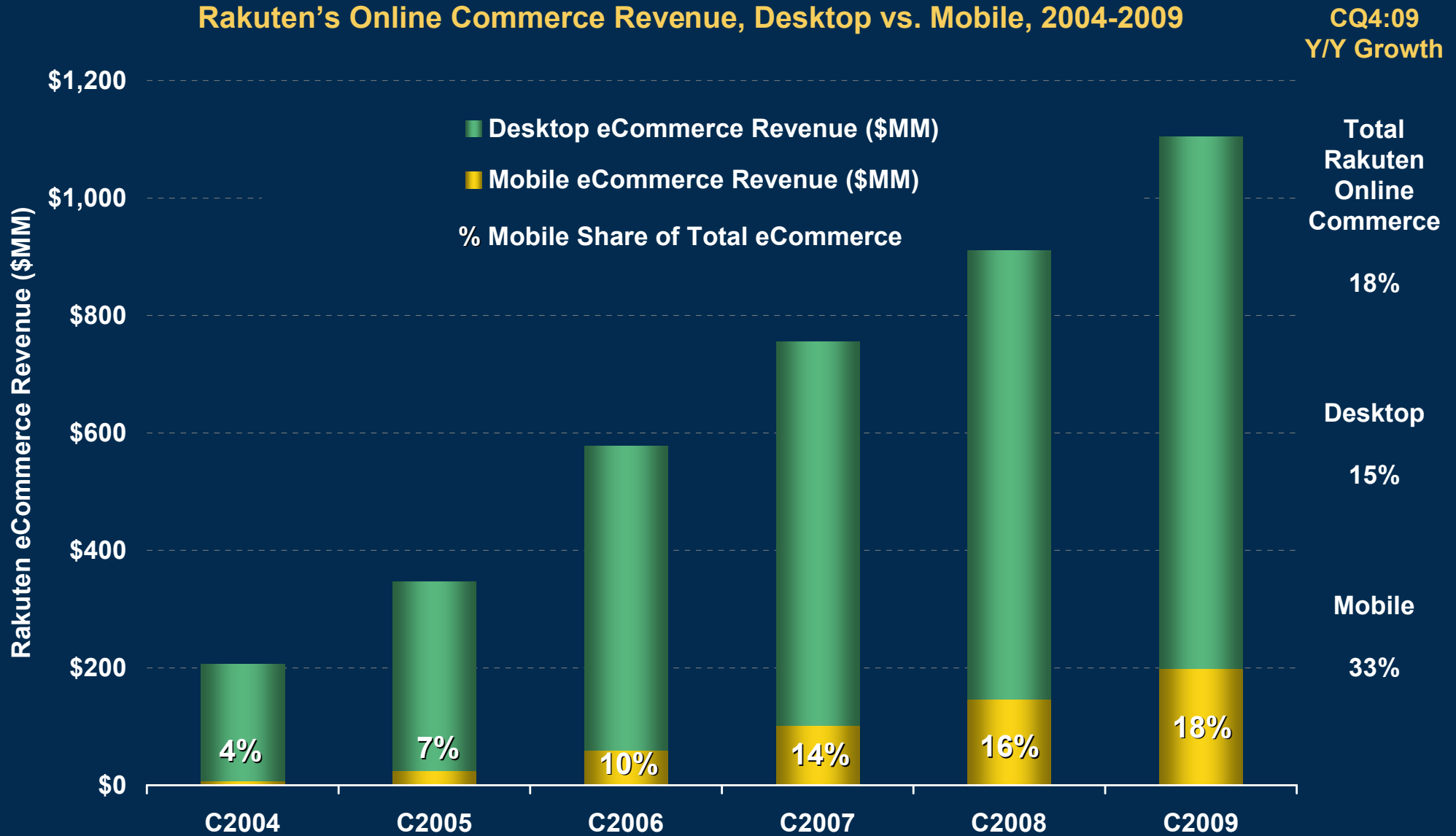
Note: (1) Adjusted for eBay by adding eBay US gross merchandise volume and subtracting eBay US transaction revenue; Source: Amazon.com (CQ4:09), US Dept. of Commerce (CQ3:09); EGM is Electronics and other General Merchandises; Revenue per active customers is based on average active customers during the quarter. Source: Amazon.com, DOC, Morgan Stanley Research.

China's TaoBao = Supporting Impressive Momentum

- **190MM** active users as of CQ1, up ~80% Y/Y (vs. 114MM for Amazon.com and 90MM for eBay).
- **\$29B Gross Merchandise Volume** in 2009, **up 2x Y/Y**, accounting for 1.5-2% of China's overall retail sales.
- **~50%** of 2B total package deliveries in China in 2009.

Japan Shows Potential for Mobile Commerce = 19% (and Rising) of Rakuten's CQ4:09 Online Commerce Revenue Derived from Mobile

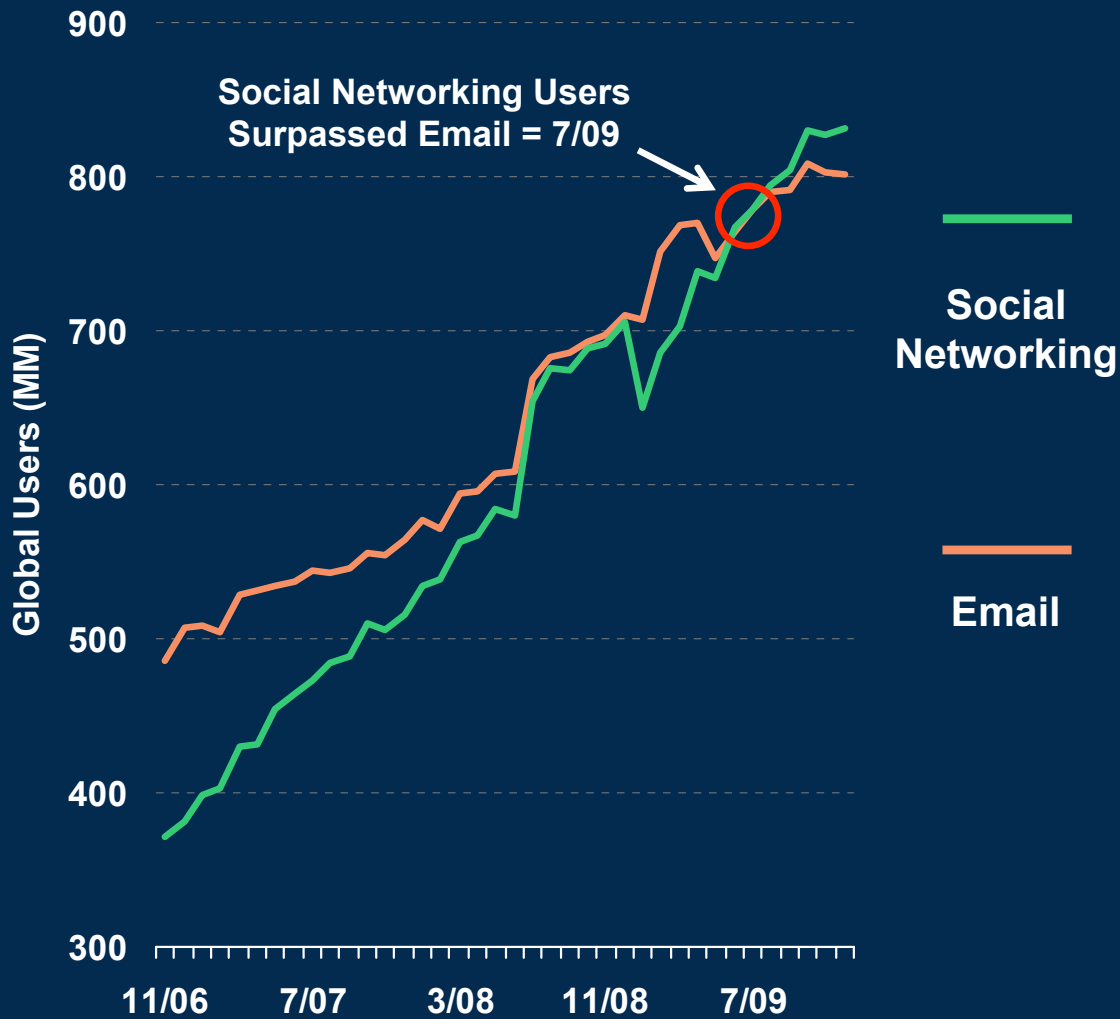
Rakuten's Online Commerce Revenue, Desktop vs. Mobile, 2004-2009



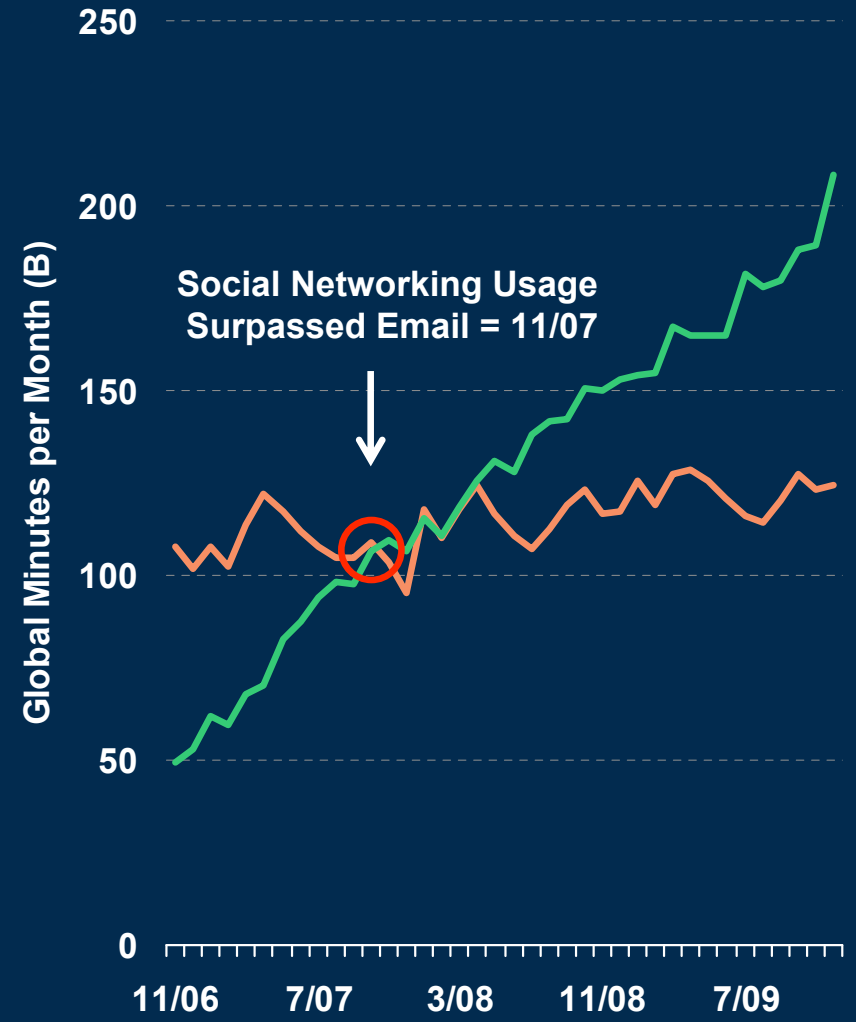
*Communications –
Share Shift to Sharing*

Communications – Social Networking > Email Usage...

Global Users*, 11/06 – 12/09



Global Time Spent, 11/06 – 12/09



*‘Cloud Computing’ –
Consumer First, Enterprise Next*

Consumers Have Been Clouding for Awhile... Enterprises Moving to the Cloud - Why Now?

- **Home Users Ahead of Enterprise Users** - Quality of home based computing has been evolving at faster pace than enterprise computing for years and cloud-based connectivity has become so pervasive that enterprises are finally being forced to play catch up.
- **Consumers Expect Easy-to-Use 24x7 Connectivity and Want the Same at Work** - Wireless device (smartphone / tablet) adoption has empowered consumers to expect (and demand) cloud-based high-speed wireless connectivity 24x7.
- **Recession-Spending Delays Helped Underlying Markets Develop** - Recession-related technology spending delays from 2007 to 2009, in effect, allowed cloud-based services to evolve / develop / mature to levels that are more 'enterprise-ready.'
- **Less Concern about Security Issues** - Cloud-based security concerns have abated somewhat as enterprises realize the difference in risk profile between internal and external environments is lower than they once believed.

*Technology –
What's Next...*

Mobile Connectivity

Drives New Ways to Do Old Things Faster / Better / Cheaper

- **More Connected** – Real-time connectivity / 24x7 / in palm of hand...
- **More Affordable** – Wi-Fi nearly ubiquitous in many developed markets...for many / 3G tiered pricing lowers adoption barrier...
- **Faster** – Near-zero latency for boot-up / search / connect / pay...
- **Easier to Use** – User Interface revolution + location awareness provide something for nearly everyone...
- **Fun to Use** – Social / casual gaming / reward-driven marketing...
- **Access Nearly Everything** – Music / video / documents / 'stuff' in cloud...
- **Longer Battery Life** – Hours of continuous usage...

Tom Friedman Said “The World is Flat”

It's also increasingly in the palm of your hand...

*Beyond Technology –
It's Complicated...*

Stock Market = Often a Leading Indicator of Economic Growth

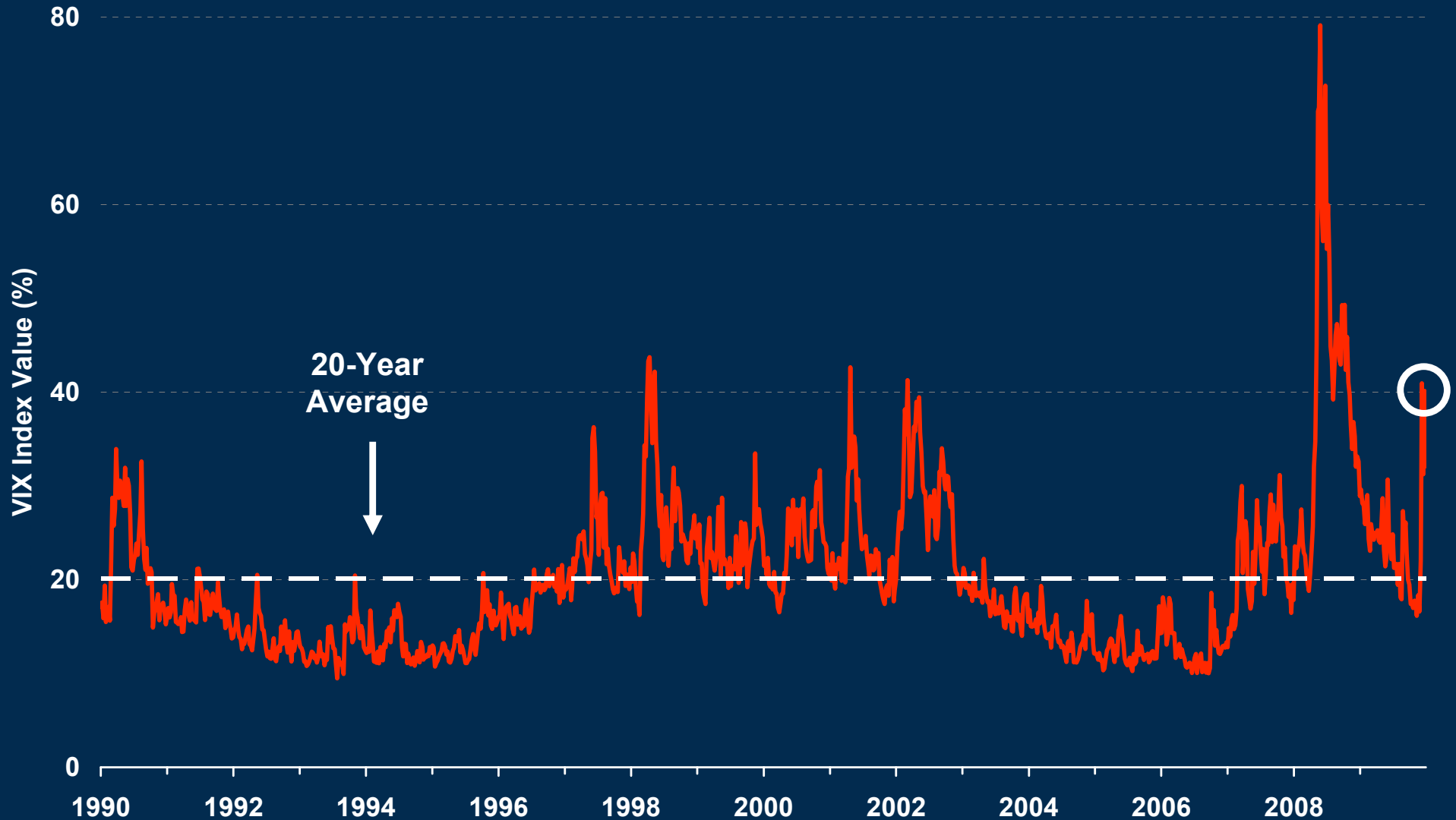
Recent Equity Weakness Reflects EU Sovereign Debt / Euro Value / China Real Estate Concerns



Stock Market Volatility Implies Renewed Fear

Volatility Index (VIX) Recently Spiked Well Above 'Normal'

Chicago Board Options Exchange (CBOE) Volatility Index, 1990 – 2010 YTD



Uniquely Challenging Times

- **Debt Levels** – Many countries / consumers are over-levered...
- **European Union Challenges** – Sovereign debt levels in Greece / Spain / Portugal / Ireland / Italy unsustainably high, Euro down 19% vs. US Dollar YTD...
- **China Real Estate Supply / Demand Imbalance** – Urban home price to median income ratio at 8x (vs. USA's peak of 5x in 2005-06)...
- **Military Incidents** – North Korea vs. South Korea, Israel vs. Palestine, 'War on Terror'...
- **Rise in Government Involvement** – Regulation / taxation / fiscal expansion (economic stimulus) vs. fiscal tightening (austerity measures)...
- **Unnatural Disasters** – BP oil spill, Stock Market 'Flash Crash'...

Leverage Uber Alles –

Average Net Debt as % of GDP for Top 25 Countries = 55%

Rank	Country	2009 Net Debt Outstanding (\$B)	Y/Y	As % of World Total	Net Debt as % of GDP			2009 GDP (\$B)	Y/Y	As % of World Total	2009 Budget Surplus / Deficit (\$B)	As % of World Gross Deficit	2009 Unemployment Rate	Y/Y (pps)
					2009	2005	05-09 Change							
1	Japan	\$9,149	12%	26%	181%	162%	19%	\$5,049	-5%	9%	-960	33%	5%	+1
2	Italy	2,434	0	7	116	106	11	2,090	-5	4	-0	--	8	+1
3	Greece	374	8	1	111	99	12	338	-2	1	-27	1	9	+2
4	Belgium	454	0	1	98	92	6	461	-3	1	-1	0	8	+1
5	France	2,028	5	6	77	66	11	2,635	-2	5	-105	4	9	+2
6	Germany	2,423	1	7	75	68	7	3,235	-5	6	-16	1	7	+0
7	Austria	263	2	1	70	64	6	374	-4	1	-5	0	5	+1
8	India	854	-3	2	69	80	-12	1,243	6	2	31	--	--	--
9	UK	1,444	3	4	66	42	24	2,198	-5	4	-49	2	7	+2
10	Canada	870	-5	3	66	70	-4	1,319	-3	2	44	--	8	+2
11	Netherlands	503	-1	1	64	52	12	790	-4	1	4	--	4	+1
12	Argentina	178	-7	1	59	59	0	301	1	1	14	--	--	--
13	USA	7,811	23	23	55	37	17	14,266	-2	25	-1,438	50	9	+3
14	Poland	223	-11	1	53	47	6	423	2	1	26	--	--	--
15	Spain	757	20	2	53	43	10	1,438	-4	2	-125	4	18	+7
16	Norway	187	-17	1	51	45	6	369	-2	1	38	--	3	+1
17	Sweden	175	-5	1	44	51	-7	398	-4	1	9	--	8	+2
18	Brazil	650	-6	2	44	44	0	1,482	0	3	40	--	--	--
19	Switzerland	212	5	1	44	53	-9	484	-1	1	-10	0	4	+1
20	Denmark	125	7	0	40	38	3	308	-5	1	-8	0	3	+2
21	Turkey	219	-14	1	37	52	-15	594	-5	1	36	--	--	--
22	Australia	309	-3	1	34	36	-3	920	1	2	8	--	6	+1
23	Venezuela	95	11	0	27	27	0	353	-3	1	-9	0	--	--
24	China	609	7	2	13	18	-5	4,758	9	8	-38	1	--	--
25	Russia	92	-15	0	7	14	-7	1,255	-8	2	17	--	--	--
Top 1-25		\$32,438	0%	94%	55%	52%	3%	\$47,081	-3%	81%	\$2,790	97%	7%	+1
Global		34,632	8	100	68	66	2	57,937	-2	100	2,885	100	7	+2

America's Biggest Challenge – Entitlement Spending is the Future?

	F1997	F2001	F2005	F2009		
Revenue (\$B)	\$1,579	\$1,991	\$2,154	\$2,105		
Y/Y Growth	9%	-2%	15%	-17%		
Individual Income Taxes	\$737	\$994	\$927	\$915	1997 - 2009	
% of Revenue	47%	50%	43%	43%		
Social Insurance Taxes	\$539	\$694	\$794	\$891		Entitlement Revenue
% of Revenue	34%	35%	37%	42%		
Corporate Income Taxes	\$182	\$151	\$278	\$138		+65%
% of Revenue	12%	8%	13%	7%		
Other	\$120	\$152	\$154	\$161		
% of Revenue	8%	8%	7%	8%		
Expense (\$B)	\$1,601	\$1,863	\$2,472	\$3,518		
Y/Y Growth	3%	4%	8%	18%		
Entitlement	\$827	\$969	\$1,256	\$1,779	Entitlement Spending	
% of Expense	52%	52%	51%	51%		
Non-Defense Discretionary	\$228	\$346	\$497	\$420	+115%	
% of Expense	14%	19%	20%	12%		
"One-Time" Items	--	--	--	\$416		
% of Expense	--	--	--	12%		
Defense	\$271	\$305	\$495	\$661		
% of Expense	17%	16%	20%	19%		
Net Interest on Public Debt	\$244	\$206	\$184	\$187		
% of Expense	15%	11%	7%	5%		
Profit / Loss (\$B)	-\$22	\$128	-\$318	-\$1,413		
Profit Margin (%)	-1%	6%	-15%	-67%		

Note: Federal fiscal year ends in September of each year. Entitlement programs include Social Security, Medicare, Medicaid, Unemployment Insurance and other federal aids on housing / nutrition... "One-time" items in F2009 includes net expenditures related to TARP (Troubled Asset Relief Program), government take-over of Fannie Mae & Freddie Mac and ARRA (American Recovery & Reinvestment Act) programs. Source: White House Office of Management and Budget.

Disclosure Section...

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. Incorporated, and/or Morgan Stanley C.T.V.M. S.A. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. Incorporated, Morgan Stanley C.T.V.M. S.A. and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Mary Meeker.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictolicies.

Important US Regulatory Disclosures on Subject Companies

The following analyst or strategist (or a household member) owns securities (or related derivatives) in a company that he or she covers or recommends in Morgan Stanley Research: Mary Meeker - Amazon.com (common or preferred stock), eBay (common or preferred stock), Yahoo! (common or preferred stock). Morgan Stanley policy prohibits research analysts, strategists and research associates from investing in securities in their sub industry as defined by the Global Industry Classification Standard ("GICS," which was developed by and is the exclusive property of MSCI and S&P). Analysts may nevertheless own such securities to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.

As of April 30, 2010, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: Amazon.com, Blue Nile Inc, eBay, Google, GSI COMMERCE, Mercadolibre Inc., Netflix Inc, OpenTable Inc., Shutterfly Inc, Vistaprint N.V., WebMD Health Corp., Yahoo!.

As of April 30, 2010, Morgan Stanley held a net long or short position of US\$1 million or more of the debt securities of the following issuers covered in Morgan Stanley Research (including where guarantor of the securities): eBay, GSI COMMERCE, Yahoo!.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of Ancestry.com Inc., GSI COMMERCE, Netflix Inc.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Amazon.com, Ancestry.com Inc., eBay, Google, GSI COMMERCE, Netflix Inc.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Amazon.com, Ancestry.com Inc., Blue Nile Inc, Dice Holdings, Inc., Digital River Inc, drugstore.com, eBay, Google, GSI COMMERCE, Mercadolibre Inc., Netflix Inc, OpenTable Inc., TechTarget, Inc., Vistaprint N.V., WebMD Health Corp., Yahoo!.

Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from Amazon.com, eBay, Google.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Amazon.com, Ancestry.com Inc., Blue Nile Inc, Dice Holdings, Inc., Digital River Inc, drugstore.com, eBay, Google, GSI COMMERCE, Mercadolibre Inc., Netflix Inc, OpenTable Inc., TechTarget, Inc., Vistaprint N.V., WebMD Health Corp., Yahoo!.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Amazon.com, eBay, Google, Netflix Inc, OpenTable Inc..

...Disclosure Section...

An employee, director or consultant of Morgan Stanley is a director of WebMD Health Corp., Yahoo!.

Morgan Stanley & Co. Incorporated makes a market in the securities of Amazon.com, Ancestry.com Inc., Blue Nile Inc, Dice Holdings, Inc., Digital River Inc, drugstore.com, eBay, Google, GSI COMMERCE, Mercadolibre Inc., Netflix Inc, Overstock.com Inc, Shutterfly Inc, TechTarget, Inc., Vistaprint N.V., WebMD Health Corp., Yahoo!.

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of May 31, 2010)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1079	42%	358	42%	33%
Equal-weight/Hold	1111	44%	397	47%	36%
Not-Rated/Hold	13	1%	3	0%	23%
Underweight/Sell	349	14%	95	11%	27%
Total	2,552		764		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

...Disclosure Section...

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Citi Investment Research & Analysis (CIRA) research reports may be available about the companies or topics that are the subject of Morgan Stanley Research. Ask your Financial Advisor or use Research Center to view any available CIRA research reports in addition to Morgan Stanley research reports.

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC, Morgan Stanley and Citigroup Global Markets Inc. or any of their affiliates, are available on the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.

For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.

Each Morgan Stanley Equity Research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the Equity Research report on behalf of Morgan Stanley. This could create a conflict of interest.

...Disclosure Section...

Other Important Disclosures

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at www.morganstanley.com.

For a discussion, if applicable, of the valuation methods and the risks related to any price targets, please refer to the latest relevant published research on these stocks.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

The fixed income research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. Information on any securities/instruments issued by a company owned by the government of or incorporated in the PRC and listed in on the Stock Exchange of Hong Kong ("SEHK"), namely the H-shares, including the component company stocks of the Stock Exchange of Hong Kong ("SEHK")'s Hang Seng China Enterprise Index; or any securities/instruments issued by a company that is 30% or more directly- or indirectly-owned by the government of or a company incorporated in the PRC and traded on an exchange in Hong Kong or Macau, namely SEHK's Red Chip shares, including the component company of the SEHK's China-affiliated Corp Index is distributed only to Taiwan Securities Investment Trust Enterprises ("SITE"). The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

...Disclosure Section

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley MUFG Securities, Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Smith Barney Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of Morgan Stanley Research in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by the Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Morgan Stanley Private Wealth Management Limited, authorized and regulated by the Financial Services Authority, also disseminates Morgan Stanley Research in the UK. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities/instruments is available on request.

©2010 Morgan Stanley