Morgan Stanley

What are Non-qualified Stock Options?

An employee stock option gives you the right to purchase a specific number of shares of your company's stock at a specific price — the *grant* or *strike* price — within a specific time period. The grant price is typically the market value of the stock at the time your company granted you the options. For tax purposes, employee stock options are classified as either Incentive Stock Options (ISOs) or Non-qualified Stock Options (NQSOs). The primary difference between the two lies in their tax treatment.

As the service provider for your company stock option plan, Morgan Stanley keeps track of your stock option grants and provides you with online access to your stock options—and help when you need it.

Q. What is a Non-Qualified Stock Option?

A. A non-qualified stock option does not qualify you for preferential tax treatment. You will pay ordinary income tax on the difference between the grant price and the Fair Market Value of the stock at the time you exercise the option.

Q. What does it mean when an option vests?

A. Vesting is when you have met the required service period and may exercise the option to purchase stock. You are not required, however, to exercise your options as soon as they vest. Your stock option vests on a schedule determined by your company. Your vesting schedule is contained in your grant agreement and may also be viewed on StockPlan Connect, the Morgan Stanley website for stock plan participants.

Q. What exercise methods are available?

A. Morgan Stanley offers several ways to exercise your stock options:

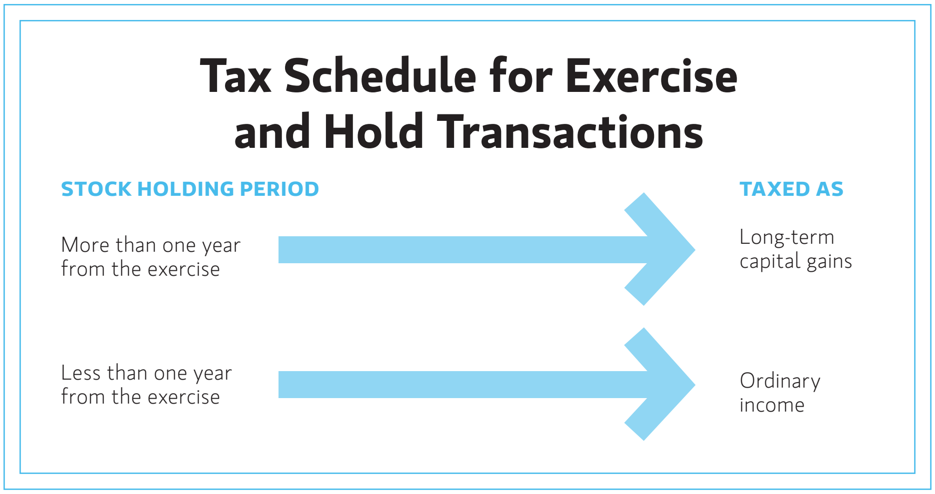
- **Same Day Sale/Exercise & Sell All:** The goal of this type of exercise is to acquire cash, rather than shares of stock. You are not required to make an upfront payment for exercising your options. Rather, option costs, applicable taxes, and fees are paid with the proceeds of the sale. You receive the net proceeds in cash. This exercise can be placed either as a market or limit order.
- **Sell to Cover:** The goal of this exercise is to acquire stock without paying for the shares out-of-pocket. With a sell to cover exercise, you sell only enough shares to cover the option costs, fees, and applicable taxes. You receive the remaining balance in shares of stock. This exercise can only be placed as a market order.
- **Exercise and Hold/Cash:** With an exercise and hold, you use your personal funds to cover the option cost, fees, and applicable taxes. If you exercise 100 options, for example, you would pay for and receive 100 shares of your company stock.

Q. What is a Market Order?

A. A Market Order is an order to sell the shares acquired from your stock option exercise at the current market price. Morgan Stanley will place the order immediately upon receiving your request to exercise.

Q. What is a Limit Order?

A. A Limit Order is an order to sell shares at a specified price. When the stock price reaches the limit established, your order is submitted for execution. All orders that are placed with a limit price will be good until cancelled (GTC) and will expire one year from the order entry date. A cancellation of an existing GTC limit order can occur for other reasons including, but not limit to: (i) your instruction to cancel; (ii) pursuant to your Company's plan rules or (iii) the GTC order has expired.



Q. How do I exercise an option?

A. You may exercise your options on StockPlan Connect. We make it easy for you to track and exercise your stock options, and select between proceeds distribution methods online. Note that if you do not exercise your stock options before the expiration date, they will expire with no value. Please refer to your company's specific plan details.

Q. How and when can I receive my sales proceeds?

A. You can exercise your stock options through StockPlan Connect. Morgan Stanley offers several choices for proceeds delivery:

- **Deposit into a Morgan Stanley account:** If you are a current Morgan Stanley brokerage client, we will deposit cash or shares directly into your brokerage account on the settlement date. If you do not currently have a brokerage account with Morgan Stanley, we will open a limited purpose account for you. Your proceeds should be available to you three business days after the trade date (to account for a three-day "settlement" period that applies to all stock market transactions).
- **Check via regular mail:** If you choose this method, Morgan Stanley will mail your sales proceeds. You should receive your proceeds within 8–10 business days from the trade date.
- **Check via overnight delivery:** Morgan Stanley can send your proceeds via overnight delivery, for a fee. You should receive the proceeds of your sale in the form of a check four days after your trade date (to account for a three-day "settlement" period that applies to all stock market transactions).
- **U.S. Dollar wire:** Morgan Stanley can wire your proceeds to your bank on the Settlement Date for a fee. Wire transfers are in U.S. dollars.
- **Foreign currency wire:** Morgan Stanley can wire your proceeds to your bank in your local currency for a fee. You should receive the proceeds 4–5 business days after the trade date.
- **Foreign currency check:** Morgan Stanley can send you a check in your local currency for a fee. You should receive the proceeds 10–15 business days after the trade date.

Q. What are the tax consequences of exercising a Non-qualified Stock Option?

A. The type of exercise impacts your income tax liability.

- **Exercise and Holds:** The difference between the grant price and the fair market value at exercise is reported as ordinary income. This will establish your new cost basis for the acquired shares. If you hold the stock for one year from exercise date, upon selling the stock, the difference between your cost basis and sale price is treated as long-term capital gain. If you sell your stock prior to the one-year anniversary of the exercise date, the difference between the sale price and the cost basis is treated as short-term capital gain.
- **Same Day Sales:** The difference between your sale price and the grant price is reported as ordinary income. Please discuss all tax considerations with your tax advisor.

Q. Who do I call if I have questions about my employee stock options?

A. Call the Morgan Stanley Service Center at +1 866-722-7310 (U.S. participants) or +1 801-617-7435 (non-U.S. participants).