

# What Is a Stock Appreciation Right?

## Global Stock Plan Services

Stock Appreciation Rights (SARs) entitle the participant to a payment in cash or shares equal to the appreciation in the company's stock over a specified period. Similar to employee stock options, SARs gain value if your company's stock price rises. However, unlike stock options, you are not required to pay the exercise price, and may just receive the amount of any increase in price, deliverable in cash or stock upon exercising, depending on your company's plan guidelines.

As the service provider for your company's Stock Appreciation Rights plan, Morgan Stanley keeps track of your awards and provides you with online access to your SARs — and provides assistance when you need it.

### Q. What is a SAR?

**A.** A SAR gives the participant the right to receive a cash or equivalent stock share amount equal to the appreciation on a specified number of shares of company stock over a specified time. A stock-settled SAR (SSAR) pays out the appreciation in the form of stock. The participant then has the option of keeping the stock or immediately selling the stock for cash. A cash-settled SAR (CSAR) pays out the appreciation in the form of cash.

### Q. What does it mean when a SAR vests?

**A.** When a SAR vests, it becomes available to exercise. When you choose to exercise, you will receive in either cash or stock (depending on your plan rules) the “spread,” or difference between the grant price and the fair market value (FMV) of your company's stock on the date of exercise.

### Q. How do stock-settled SARs work?

**A.** SSARs are similar to stock options. They are granted at a set price, and they have a

vesting period and an expiration date. Once a SSAR vests, it can be exercised at any time prior to its expiration. Taxes are due at the time of exercise.

Let's consider a hypothetical example: Suppose you are granted a SSAR in the amount of 1,000 shares when your company's FMV is \$10 a share. At the time you decide to exercise your vested SSAR, your company's stock FMV is \$25. You will have a gain of \$15,000 (\$25 value at exercise minus the \$10 value at grant, multiplied by the number of SSARs exercised). Your \$15,000 profit is then divided by the \$25 FMV price, resulting in 600 gain shares. You will owe income and employment taxes on the gain amount of \$15,000, which will result in shares being either withheld or sold from the 600 shares to cover your taxes and any applicable fees. The remaining net shares are yours to hold or sell.

### Q. How do I exercise a stock-settled SAR?

**A.** You may exercise your SSARs on Stock-

Plan Connect, the Morgan Stanley website for stock plan participants. StockPlan Connect allows you to track and exercise your SSARs, and request proceeds. Note that if you do not exercise your SSARs before the expiration date, they will expire with no value. Please refer to your company's specific plan details.

### Q. What exercise methods are available for SSARs?

**A.** Morgan Stanley offers two ways to exercise your SSARs, depending on your company's plan rules:

- **Exercise to Receive Cash Proceeds:** The goal of this type of exercise is to acquire cash, rather than shares of stock. The exercise is done in two parts: First, you acquire the shares. Next, shares are withheld or sold to cover your taxes and applicable fees which results in your net share amount. Finally, the net shares are sold on the open market and you receive cash proceeds for the sale. This exercise can be placed as a market order.

- **Exercise to Receive Shares (“Net Exercise”):** The goal of this exercise is to acquire and hold stock. With a Net Exercise, the FMV at exercise determines the number of shares that must be sold or withheld to cover your tax obligation and applicable fees. The net share balance will be deposited into your Morgan Stanley retail brokerage account. This exercise can be placed as a market order. You have the option to sell these shares for cash proceeds at a later date.

**Q. How and when can I receive my sales proceeds for my stock-settled SARs exercises?**

**A.** Morgan Stanley offers several choices for proceeds delivery, determined by your company:

- **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 (this can take up to 24 hours to appear in the account).
- **Check via regular mail:** Morgan Stanley will mail a check containing your sales proceeds. You will receive your proceeds within 8 – 10 business days from the trade date.
- **Check via overnight delivery:** For a fee, Morgan Stanley can send your proceeds via overnight delivery. You will receive a check for the proceeds of your sale four days after your trade date (to account for a three-day “settlement” period that applies to all stock market transactions).
- **Wire transfer:** For a fee, Morgan Stanley can wire your proceeds to your bank three business days following the trade date. Wire transfers are in US dollars.

- **Foreign currency wire:** For a fee, Morgan Stanley can wire your proceeds to your bank in your local currency. You will receive the proceeds 4 – 5 business days after the trade date.

- **Foreign currency check:** For a fee, Morgan Stanley can send you a proceeds check in your local currency. You will receive the proceeds 10 – 15 business days after settlement.

**Q. How do cash-settled Stock Appreciation Rights work? (CSARs)**

**A.** CSARs function similarly to SSARs. They are granted at a set price, and they have a vesting period and an expiration date. Once a CSAR vests, it can be exercised at any time prior to its expiration. Taxes are due at the time of exercise.

Let’s consider the same hypothetical example. You are granted a CSAR of 1,000 shares of your company’s stock. FMV is \$10 a share. At the time you elect to exercise your vested CSARs, the FMV of your company’s stock is \$25. You have a gain of \$15,000 (\$25 FMV at exercise minus the \$10 value at grant, multiplied by the number of CSARs). You will owe income and employment taxes on the \$15,000 gain. The tax amount and any applicable fees will be deducted from the \$15,000 gain and the remaining amount will be paid out to you.

**Q. How do I exercise a cash-settled SAR?**

**A.** You may exercise and track your CSARs on StockPlan Connect. Upon exercising your CSARs, on StockPlan Connect will notify your employer of the transaction details so payout can be coordinated through payroll or your company specific process.

Note that if you do not exercise your CSARs before the expiration date, they will expire with no value.

**Q. How and when do I receive the proceeds of my cash-settled SARs exercises?**

**A.** CSARs are paid out to you by your company via their payroll system or your company specific process. Please consult with your plan administrator for specific information regarding your payout.

**Q. What are the tax consequences of exercising a SAR?**

**A.** When you exercise a SAR, the spread between your exercise price and the FMV is your gain, which is ordinary income. The gain is taxed at ordinary income rates. In addition, FICA and Medicare are withheld. The ordinary income amount is included on your year-end W-2 from your company. If you exercise a SSAR and hold the shares, you will need to report any short or long term gain or loss resulting from subsequently selling these shares. Please discuss all tax considerations with your tax advisor.



**Q. Who do I call if I have questions about my SARs?**

**A.** Call the Morgan Stanley Service Center at 800-367-4777 (toll-free) or 801-617-7414 or your company’s plan administrator.