

Incentive Stock Option Basics

For U.S. Employees

A stock option is not the same as a share of common stock. A stock option is a right to buy a set number of shares of the company's stock at a set price (the "exercise price") within a fixed period of time.

The Lifecycle of an Incentive Stock Option (ISO)

**1****GRANT**

Stock options awarded at Exercise Price (can also be called Strike Price or Grant Price).

**2****VESTING**

Vesting is the required period of time stock options must be held before they can be exercised and the underlying shares can be purchased.

**3****EXERCISE**

A stock option is exercised when you pay the Exercise Price to receive the company stock. A stock option may be worth exercising if the current stock price (also known as the fair market value or FMV*) is more than the exercise price.

**4****TAXATION**

The federal income tax treatment of your stock option will depend on the timing and manner in which they are exercised and when the resulting shares are sold (see below for more details).

**5****TRACKING**

You can keep track of your options and shares from previously exercised options on your equity management platform.

*When private, a company's FMV is based on the company's valuation; when public, it is based on the stock price.

Choices for Exercising Your Stock Options

1	2	3												
EXERCISE AND HOLD (CASH EXERCISE)	EXERCISE AND SELL* (SAME DAY SALE OR CASHLESS EXERCISE)	SELL TO COVER*												
When you exercise your options with cash and receive the full number of shares from the exercise of your options, so you may benefit from any potential future increases in stock value.	When you exercise your options and immediately sell your shares. You will receive the net proceeds in cash after option exercise costs, taxes, commissions and fees. You may use the proceeds from the stock sale to cover the purchase price, tax withholding (if applicable) and additional fees.	When you exercise your stock options and sell enough shares to cover the option exercise costs, taxes, commissions and fees. You then receive the remaining shares.												
<table border="1"> <thead> <tr> <th>PAY IN</th> <th>RECEIVE</th> </tr> </thead> <tbody> <tr> <td>Cash</td> <td>Shares</td> </tr> </tbody> </table>	PAY IN	RECEIVE	Cash	Shares	<table border="1"> <thead> <tr> <th>PAY IN</th> <th>RECEIVE</th> </tr> </thead> <tbody> <tr> <td>Cash from stock sale proceeds</td> <td>Cash</td> </tr> </tbody> </table>	PAY IN	RECEIVE	Cash from stock sale proceeds	Cash	<table border="1"> <thead> <tr> <th>PAY IN</th> <th>RECEIVE</th> </tr> </thead> <tbody> <tr> <td>Cash from stock sale proceeds</td> <td>Shares</td> </tr> </tbody> </table>	PAY IN	RECEIVE	Cash from stock sale proceeds	Shares
PAY IN	RECEIVE													
Cash	Shares													
PAY IN	RECEIVE													
Cash from stock sale proceeds	Cash													
PAY IN	RECEIVE													
Cash from stock sale proceeds	Shares													

*This option is only possible if the company is publicly traded or if there is a secondary market for company stock.

ISO Taxation Table

	At Exercise	Sell in Two Years Or Less from Grant or One Year or Less from Exercise (Disqualifying Disposition)	Sell More Than Two Years from Grant AND One Year from Exercise (Qualifying Disposition)
Exercise and Hold	Difference between grant price and FMV at exercise is generally included for purposes of alternative minimum tax calculations.	Difference between the grant price and the lesser of (1) FMV at exercise or (2) the sale price is taxed as ordinary income and subject to federal, state and local income taxes. Any additional gain is taxed as a capital gain.	Difference between the grant price and sale price is taxed as a long-term capital gain or loss.
Exercise and Sell	Difference between the grant price and the sale price is taxed as ordinary income and subject to federal, state and local income taxes.		Not applicable.
Sell to Cover	<p><i>For shares immediately sold:</i> Difference between the grant price and the sale price is taxed as ordinary income and subject to federal, state and local income taxes.</p> <p><i>For received net shares:</i> Difference between grant price and FMV at exercise is generally included for purposes of alternative minimum tax calculations.</p>	Difference between the grant price and the lesser of (1) FMV at exercise or (2) the sale price is taxed as ordinary income and subject to federal, state and local income taxes. Any additional gain is taxed as a capital gain.	For received net shares, difference between the grant price and sale price is taxed as a long-term capital gain or loss.

Disclosures:

Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors do not provide tax or legal advice. Individuals should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving legal matters.

Tax laws are complex and subject to change. The information contained herein is based on the tax laws in effect as of 3/10/22. Morgan Stanley assumes no responsibility to update this information in the event of such change(s) in tax law. You should speak with your tax advisor about whether there have been any changes to these laws.