

# Non-Qualified Stock Option Basics

## For U.S. Employees

A stock option is not the same as a share of 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 a Non-Qualified Stock Option (NQSO)

**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 (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												
<b>EXERCISE AND HOLD (CASH EXERCISE)</b>	<b>EXERCISE AND SELL* (SAME DAY SALE OR CASHLESS EXERCISE)</b>	<b>SELL TO COVER*</b>												
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 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
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\*This option is only possible if the company is publicly traded or if there is a secondary market for company stock.

## NQSO Taxation Table

	At Exercise	Sell After Holding Shares for One Year or Less	Sell After Holding Shares for More Than One Year
<b>Exercise and Hold</b>	Difference between the fair market value (FMV) at exercise and the grant price is taxed as ordinary income and subject to federal, state and local income taxes in addition to payroll taxes.	Difference between the FMV at exercise and the sale price is taxed as a short-term capital gain or loss.	Difference between the FMV at exercise and sale price is taxed as a long-term capital gain or loss.
<b>Exercise and Sell</b> (same day sale or cashless exercise)	Difference between the FMV at exercise and the grant price is taxed as ordinary income and subject to federal, state and local income taxes in addition to payroll taxes		Not applicable.
<b>Sell-to-Cover</b>	Difference between the FMV at exercise and the grant price is taxed as ordinary income and subject to federal, state and local income taxes in addition to payroll taxes.	Difference between the FMV at exercise and the sale price is taxed as a short-term capital gain or loss.	For received net shares, difference between the FMV at exercise and sale price is taxed as a long-term capital gain or loss.

### Disclosures:

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