Morgan Stanley

Glossary

Employee Stock Purchase Plans

Common terms used with Employee Stock Purchase Plans (ESPP)

$25K LIMIT RULE
The $25,000 limit applies to qualified Section 423 plans. The current Internal Revenue Service's rule states that an ESPP participant may not purchase more than $25,000 worth of stock in a calendar year. This calculation is based on the Fair Market Value (FMV) at grant.

BLACKOUT PERIOD
A period, usually before the release of annual or quarterly financial information, during which insiders — or other designated employees — of a public company are restricted from trading in Company stock. Please refer to your Company's insider trading policy for details.

CAPITAL GAIN
Profit resulting from the sale of a capital asset, such as stock. Capital gains may be short-term (held for 12 months or less) or long-term (held for more than 12 months).

CAPITAL LOSS
Loss resulting from the sale of a capital asset, such as stock.

DISCOUNT
The amount the purchase price is reduced. Purchase price is typically reduced 5 – 15% from the FMV as designated by your plan document.

DISQUALIFYING DISPOSITION
A sale, gift or transfer of shares acquired through a 423 ESPP within two years from the Grant Date and one year from the Purchase Date. A Disqualifying Disposition (DD) is a taxable event, and the gain (the difference between the purchase price of the stock and the FMV at the time of purchase) is taxed to the participant as ordinary income and reported as compensation on Form W-2.

EMPLOYEE STOCK PURCHASE PLAN (ESPP)
A type of broad-based stock plan which permits employees to use payroll deductions, accumulated over a specific purchase period, to acquire stock from the Company, generally at a discount.

FAIR MARKET VALUE (FMV)
The value of the Company stock, as defined by your specific plan documents.

HOLDING PERIOD
Some qualified ESPPs require that shares are held for a period of time before they can be sold or transferred. The holding period begins on the purchase date. The duration is defined in the Company's Plan. (e.g., six months).

LIMITED PURPOSE BROKERAGE ACCOUNT
An account that exclusively houses shares purchased through the ESPP. A limited purpose account operates differently than a retail brokerage account in that only the ESPP shares can be held in the account.

LOOK BACK
Some qualified Section 423 plans use a look back feature to determine the discounted purchase price. Depending on the Company's Plan, the Purchase Price is calculated between 85% – 95% of the FMV on either the offering date or the purchase date, whichever is lower.

NASDAQ
National Association of Securities Dealers Automated Quotation system.

NYSE
New York Stock Exchange.

OFFERING DATE
Is usually the first day of the offering period in an ESPP. This date applies for all employees participating in the plan.

OFFERING PERIOD
The period during which payroll deductions are accumulated in an ESPP. Shares are typically purchased under the plan at the end of the offering period (the exercise or purchase date), or at the end of a shorter purchase period that is part of a longer offering period. (See Purchase Period).

OPEN ENROLLMENT PERIOD
The period preceding the Offering Period when you can enroll in the ESPP.

OTC
Over the Counter (which could be NASDAQ or another automated stock exchange).

PURCHASE DATE
The date on which employee contributions are used to purchase stock.

PURCHASE PERIOD
Period during which employees' contributions are collected to purchase stock.

PURCHASE PRICE
The amount paid to purchase shares under the ESPP. Using your contributions, shares may be purchased at a discount from the FMV at the start of the Offering Period or the FMV on the Purchase Date, depending on provisions under the Company Plan.

QUALIFYING DISPOSITION
A transfer (e.g., a gift or a sale) of ESPP shares after the required holding periods of two years from the grant date and one year from the purchase / exercise date. You may have both ordinary income and capital gain when you dispose of your shares after the holding period. It's important to consult with a Tax Advisor when filing taxes.

SECTION 423
This section of the Internal Revenue Code provides the requirements for tax-qualified ESPPs. Under a tax-qualified stock purchase plan, company stock is purchased at a price that is discounted below the stock's fair market value. Employees enrolled in their company's tax-qualified stock purchase plan will elect the after-tax amount they wish to have withheld from their paychecks to purchase their company's stock. The stock purchased within the plan will not be taxed until the employee sells their shares. Under Section 423, there are different tax implications depending on how long the shares are held from the Purchase Date until they are sold. Both ordinary income tax withholding and capital gain / loss may apply and therefore individuals should seek advice from their tax advisor when filing their taxes.

TAXABLE COMPENSATION
The amount reported by the Company on your W-2 as ordinary income.

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

© 2015 Morgan Stanley Smith Barney LLC. Member SIPC.

CRC1069501 CCG04084 CS 8089179 01/15