Morgan Stanley

Topics in Wealth Strategies:

Concentrated Position Toolkit

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Executive Summary

Concentrated positions create opportunities and present significant challenges. Both the opportunities and challenges rest with the numerous techniques that could be implemented with regard to a concentrated position

The concentrated position toolkit assists in curating and navigating an expansive suite of specialized resources to address concentrated positions. The intention is to present a framework (stage of company, ownership, stakeholder emphasis and risk) for the constituents within the concentrated position ecosystem to identify and distinguish potential considerations (control, planning, liquidity and investment) by grouping strategies (ISOs, GRAT, QSBS, Collars) according to their similarities, differences and impact

The sequential process organizes types of decisions so that each subsequent decision may complement those made prior and leads to the creation of integrated, holistic and customized solutions. Through this process one, some or many decisions may be implemented in combination so they should be compatible and reinforce each other. Managing a concentrated position is an ongoing repeatable process rather than a one-off static initial set of decisions

CONTROL

Is the concentrated position eligible in that it is owned outright and is either not subject to vesting requirements, or has satisfied any applicable vesting requirements

Techniques used by companies to compensate participants include:

- ISOs – Incentive Stock Options
- NQSOs – Non-Qualified Stock Options
- RSUs – Restricted Stock Units
- RSAs – Restricted Stock Awards

PLANNING

If eligible, is the concentrated position appropriate to be used in trust, tax and estate planning:

- GRAT – Grantor Retained Trust
- CRUT – Charitable Remainder Unitrust
- Pooled Income Fund
- DAF – Donor Advised Fund

LIQUIDITY

If eligible, consider whether the concentrated stock is subject to selling restrictions and what tax consequences may apply:

- QSBS – Qualified Small Business Stock
- 10b5-1 – Pre-set Selling Plan

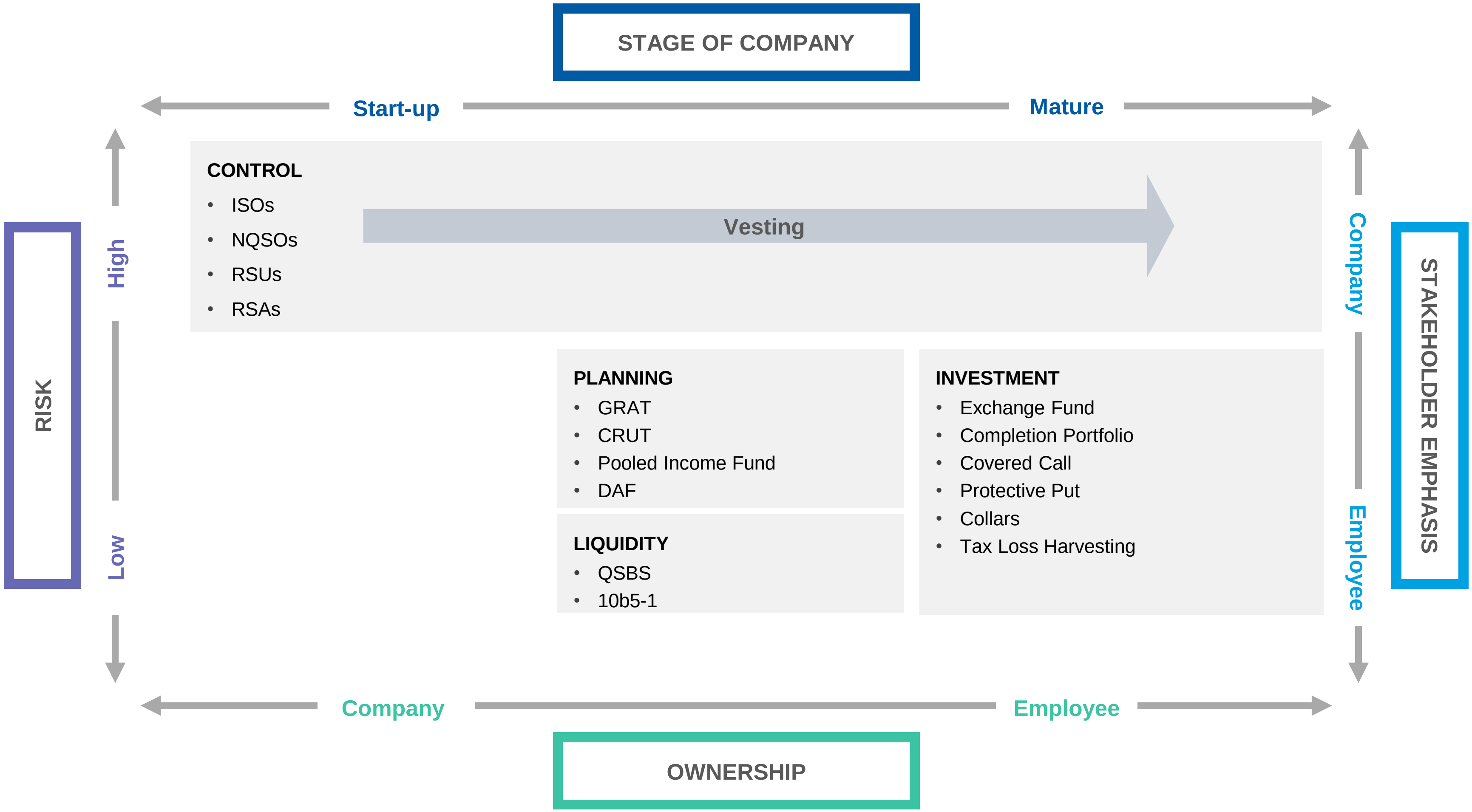
INVESTMENT

If eligible, how much risk through market exposure is preferred when considering how large the concentrated position might be relative to other assets:

- Exchange Fund
- Completion Portfolio
- Covered Call
- Protective Put
- Collars
- Tax Loss Harvesting

1. Please see “Considerations and Strategies for Concentrated Positions” for a pictorial representation

Considerations and Strategies for Concentrated Positions



1. Please see “Executive Summary” for descriptions

Incentive Stock Options (ISOs)

WHAT IS IT?

A form of incentive compensation that allows participants to buy shares of company stock at a predetermined price (also referred to as the "strike price" or "exercise price") for a specified period of time

WHAT TO CONSIDER

CONTROL

- No ownership until exercised so do not receive dividends or voting rights before exercise
- The equity compensation plan may include accelerated vesting and ownership if the company is sold

LIQUIDITY

- Options become exercisable as they vest, typically according to a vesting schedule
- Participants must have sufficient liquidity to pay strike price when options are exercised and held (Cash Exercise) or can engage in alternate strategy (depending on the terms of the company's equity plan) such as:
  - Cashless exercise (Participants net cash): where all shares are sold immediately upon exercise and the cash proceeds are used to cover the exercise cost
  - Sell-to-Cover (Participants net shares): where just enough shares are immediately sold upon exercise to cover the exercise cost
- Exercising and holding an ISO increases participants' Alternative Minimum Tax (AMT) taxable income by the difference between the fair market value of the stock at exercise and strike price and may result in additional federal income tax due

INVESTMENT

Diversification

- Concentration in one stock

Risk

- Of no value if fair market value remains below strike price or are not exercised prior to expiration date
  - The value of ISOs becoming exercisable for the first time during any calendar year cannot exceed $100,000, with the value being determined by the number of options vesting multiplied by the exercise price, and any excess over the $100,000 are taxed as Non-qualified stock options

TAX IMPLICATIONS

Next Page

1. Participant stock is typically prohibited from any form of hedging and (at times) for certain participants the ability to pledge. All contingent on the Corporate Trading Policy

Incentive Stock Options (ISOs) (continued)

WHAT IS IT?

A form of incentive compensation that allows participants to buy shares of company stock at a predetermined price (also referred to as the "strike price" or "exercise price") for a specified period of time

WHAT TO CONSIDER

TAX IMPLICATIONS

Transaction Initiation

- No tax when ISOs are awarded

Federal Income Tax

- Generally, no ordinary income when exercised and held, but the amount subject to an AMT adjustment is the difference between the fair market value of the stock at exercise and strike price
- A disqualifying disposition creates different tax consequences and may result in federal ordinary income (see below)

Capital Gains

- When the stock is sold, there is federal long-term capital gain or loss treatment if the shares are sold more than two years after award date and one year after exercise date (a qualifying disposition
  - A disqualifying disposition occurs if these requirements are not met and results in all or a portion of the shares being taxed as federal ordinary income (see above)
  - It is the responsibility of the employee to determine if taxes should be prepaid to avoid penalties

Cost Basis

- In a qualifying disposition there is a dual cost basis at sale for federal income tax and AMT purposes
  - Basis of the acquired shares for regular tax purposes is the exercise price
  - Basis of the acquired shares for AMT purposes is the exercise price paid for the stock increased by the amount AMT was increased due to the earlier exercise of the ISO
- In a disqualifying disposition in the year of exercise, generally AMT exposure is not triggered and the value above the exercise price is federal ordinary income in addition to possible federal capital gains

Gift and Estate Tax

- When options are exercised and shares are held, gifting and other estate planning strategies are possible

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Incentive Stock Options (ISOs)

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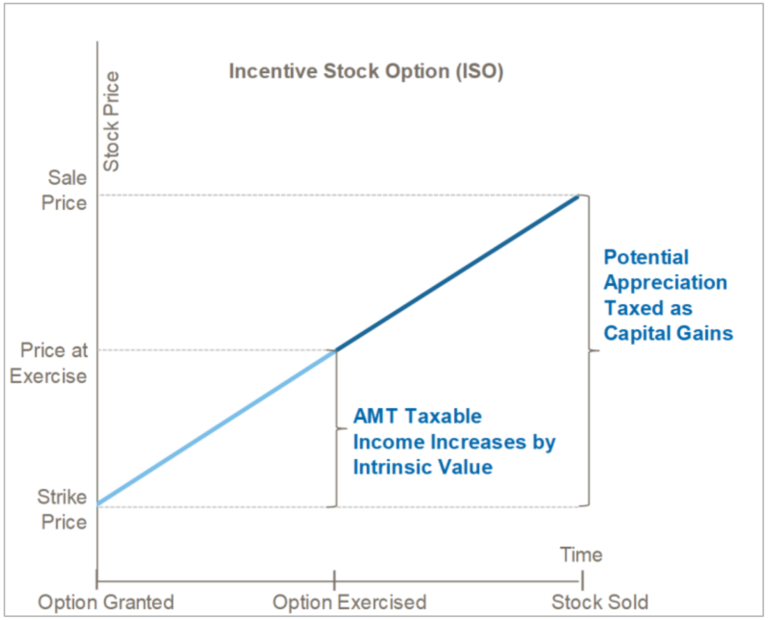
HYPOTHETICAL ILLUSTRATION: EXERCISE VESTED IN-THE-MONEY OPTIONS AND HOLD STOCK

The following illustrates a bullish scenario in which the stock price continues to increase over time



An ISO may qualify for more favorable tax treatment than a NQSO if certain requirements are met. Exercising an ISO increases one's AMT taxable income by the ISO's intrinsic value and may result in additional tax due if AMT exceeds the regular tax. If stock price at the time of sale is greater than strike price, the entire appreciation may be taxable as federal long term capital gains if certain holding period requirements are met. One may receive federal tax credit upon sale for the additional AMT paid in the year ISOs are exercised

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Non-Qualified Stock Options (NQSOs)

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WHAT TO CONSIDER

CONTROL

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- The equity compensation plan may include accelerated vesting and ownership if the company is sold

LIQUIDITY

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  – Sell-to-Cover (Participants net shares): where just enough shares are immediately sold upon exercise to cover the exercise cost

INVESTMENT

Diversification

- Concentration in one stock

Risk

- Of no value if fair market value remains below strike price or are not exercised prior to expiration date

TAX IMPLICATIONS

Transaction Initiation

- Generally, no tax when NQSOs are awarded

Federal Income Tax

- Ordinary income and employment taxes at time of exercise and amount subject to tax is the difference between the fair market value of the stock and the exercise price
  - NQSOs are subject to mandatory federal income tax withholding of 22% minimum

Capital Gains

- When stock is sold, the difference between the fair market value at exercise and sale is a capital gain and taxed. The holding period commences on date of exercise and are subject to short-term capital gains tax if the holding period is less than or equal to one year and long-term capital gains tax if holding period is greater than one year

Cost Basis

- Fair market value at time of exercise

Gift and Estate Tax

- When options are exercised and shares are held, gifting and other estate planning strategies are possible

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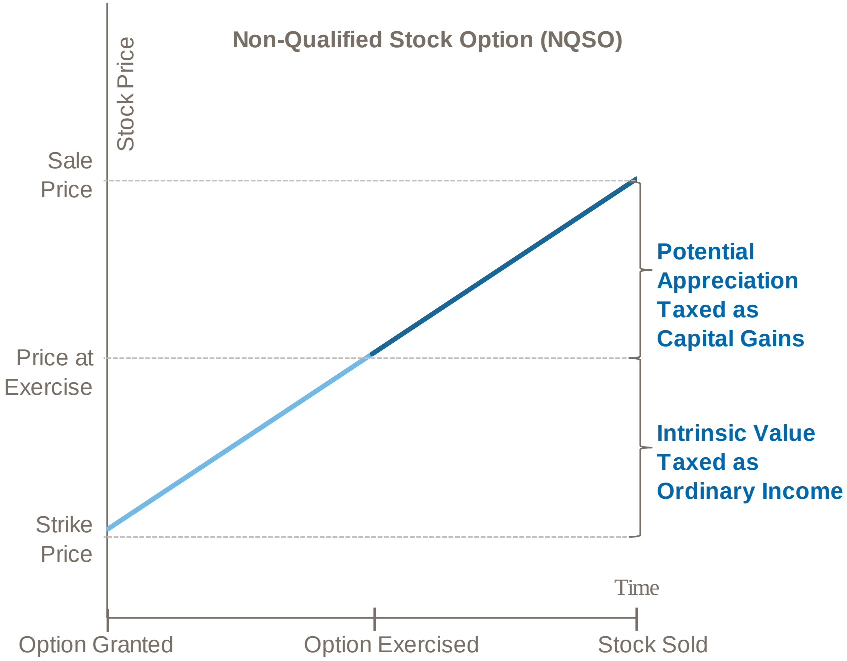

Upon the exercise of a NQSO, the intrinsic value of the option is generally treated as compensation and creates federal tax consequences of ordinary income and employment taxes. The cost basis of the acquired stock is the market price at the time of exercise. Thus, if stock price appreciates after option exercise and prior to the ultimate sale, such appreciation is taxed as capital gains

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Restricted Stock Units (RSUs)

WHAT IS IT?

A form of incentive compensation structured as an unsecured promise from the company to deliver shares of stock (or cash equivalent) to a participant in the future subject to vesting requirements

WHAT TO CONSIDER

CONTROL

- No ownership until award vests so do not generally receive dividends or voting rights
- The equity compensation plan may include accelerated vesting and ownership if the company is sold

LIQUIDITY

- Vesting requirements are typically met by passage of time, no exercise is needed

INVESTMENT

Diversification

- Concentration in one stock

Risk

- May not vest
- Decline in stock price

TAX IMPLICATIONS

Transaction Initiation

- No tax when RSUs are awarded

Federal Income Tax

- Federal ordinary income is determined at the time the award is settled (generally when the award vests) and is based on the fair market value of the underlying shares at the time the award is settled
- Employment taxes are determined at the time the award vests and are based on the fair market value of the underlying shares at the time the award vests

Capital Gains

- If the award is settled in stock, when stock is sold, the difference between the fair market value at vesting and at sale is a federal capital gain or loss and taxed
  - Short-term capital gains tax if the holding period is less than or equal to one year and long-term capital gains tax if holding period is greater than one year

Cost Basis

- Fair market value at time of settlement

Gift and Estate Tax

- Once award is settled gifting and other estate planning techniques are available

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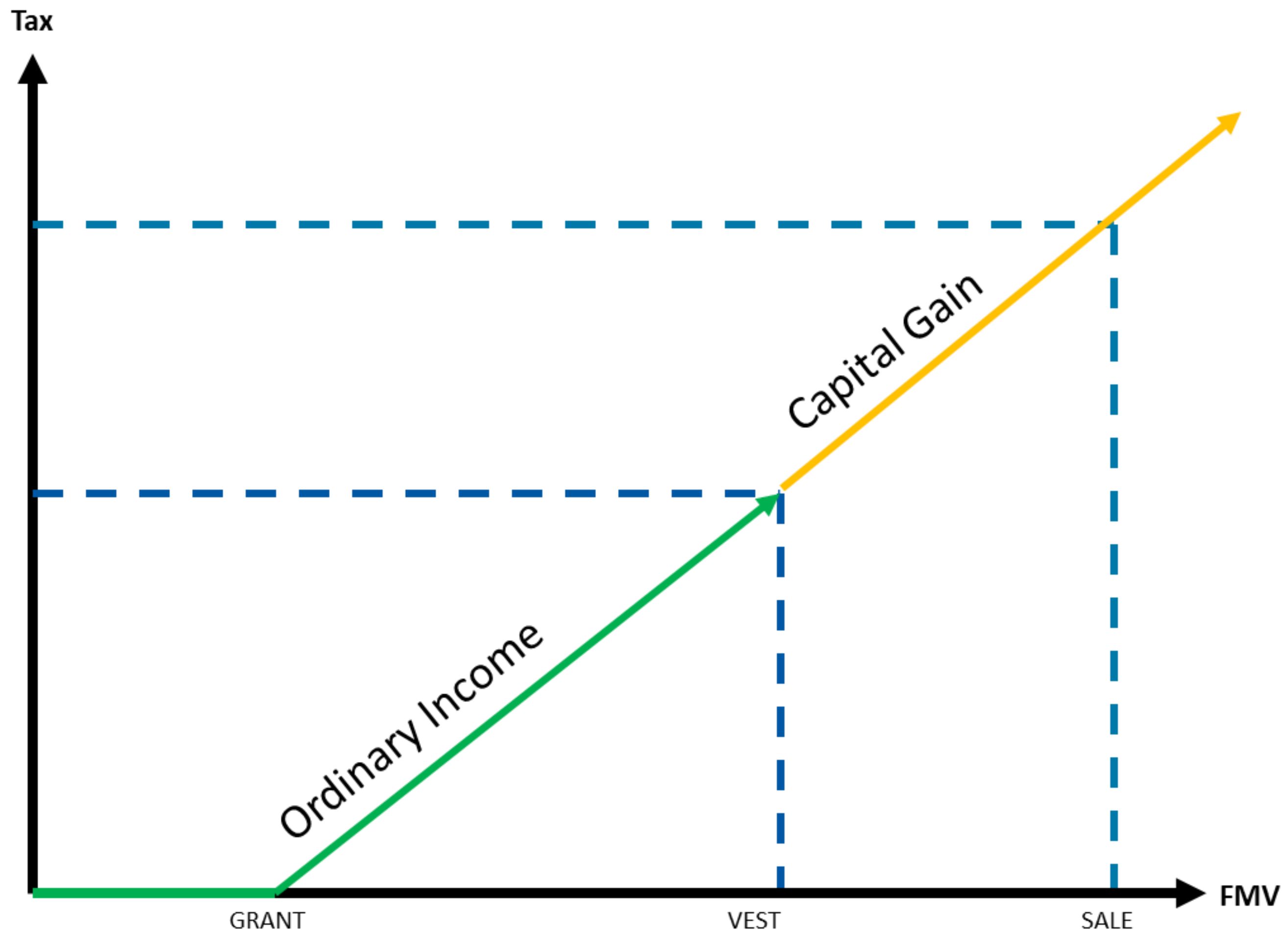

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Restricted Stock Awards (RSAs)

WHAT IS IT

A form of incentive compensation structured as a grant of company stock to a participant subject to vesting requirements and transfer restrictions

WHAT TO CONSIDER?

CONTROL

- Ownership at award date so may receive dividends and voting rights
- The equity compensation plan may include accelerated vesting and ownership if the company is sold

LIQUIDITY

- Vesting requirements are typically met by passage of time, no exercise is needed

INVESTMENT

Diversification

- Concentration in one stock

Risk

- May not vest
- Decline in stock price

TAX IMPLICATIONS

Transaction Initiation

- Generally, no federal tax when RSAs are awarded

Federal Income Tax

- Federal ordinary income and withholding taxes is determined by multiplying the fair market value on the date of vest times the quantity of shares vesting

Capital Gains

- When stock is sold, the difference between the fair market value at vesting and at sale is a federal capital gain or loss and is subject to tax
  - Short-term capital gains tax if the holding period is less than or equal to one year and long-term capital gains tax if holding period is greater than one year

Cost Basis

- Fair market value at time of vesting

Gift and Estate Tax

- Once award vests or restrictions lapse, gifting and other estate planning techniques are available

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Restricted Stock Awards (RSAs)

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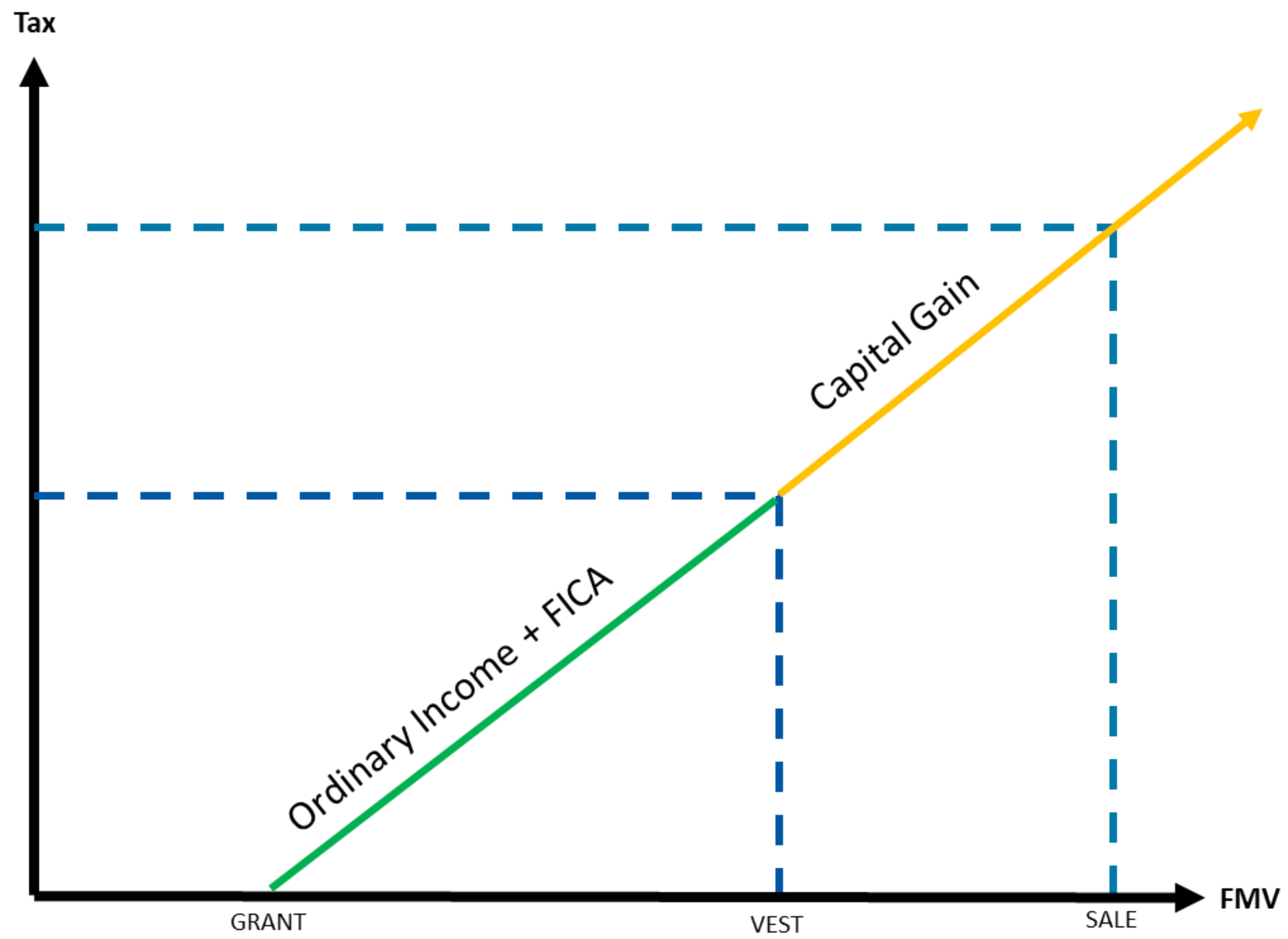

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Grantor Retained Annuity Trust (GRAT)

WHAT IS IT?

An irrevocable trust into which an individual (grantor) transfers assets and receives a fixed annuity payment, made at least annually, for a specified term of years. At the end of the term, the remaining trust assets will pass to the remainder beneficiaries designated in the trust document

WHAT TO CONSIDER

CONTROL

- Trustee will have stock ownership with dividend and voting rights while assets are in trust
- Ownership of stock used to make annuity payments will revert to grantor
- Ownership of stock remaining in the trust at the end of the term of years will pass to the remainder beneficiaries

LIQUIDITY

- Annuity payments may be paid in kind (in stock) so the stock does not need to be sold
- Grantor is responsible for and needs liquidity to pay trust taxes

INVESTMENT

Diversification

- A concentrated position is well suited for a GRAT. Generally, it is beneficial to create a GRAT for each concentrated position

Risk

- GRAT fails and beneficiaries do not receive any remaining interest and grantor does not benefit from cost of establishing the trust

TAX IMPLICATIONS

Transaction Initiation

- No income tax when trust is created
- Can be structured to create little or no taxable gift when trust is created

Federal Income Tax

- During term of the GRAT, the grantor is treated as the owner of the trust property for federal income tax purposes and therefore taxed on all trust income

Capital Gains

- If GRAT assets are sold within the trust, the grantor is responsible for any capital gains taxes

Cost Basis

- During the specified term of years, cost basis is that of grantor
- At the end of term of years, the beneficiaries who receive the remaining trust assets will assume the grantor's basis in the property for federal income tax purposes

Gift and Estate Tax

- If the grantor survives term of years, then at such time, the remaining trust assets will pass to the trust remainder beneficiaries free of federal estate and gift taxes
- If the grantor dies before the end of the term of years, some or all of the remaining trust property will be includible in their estate and may be subject to federal estate tax

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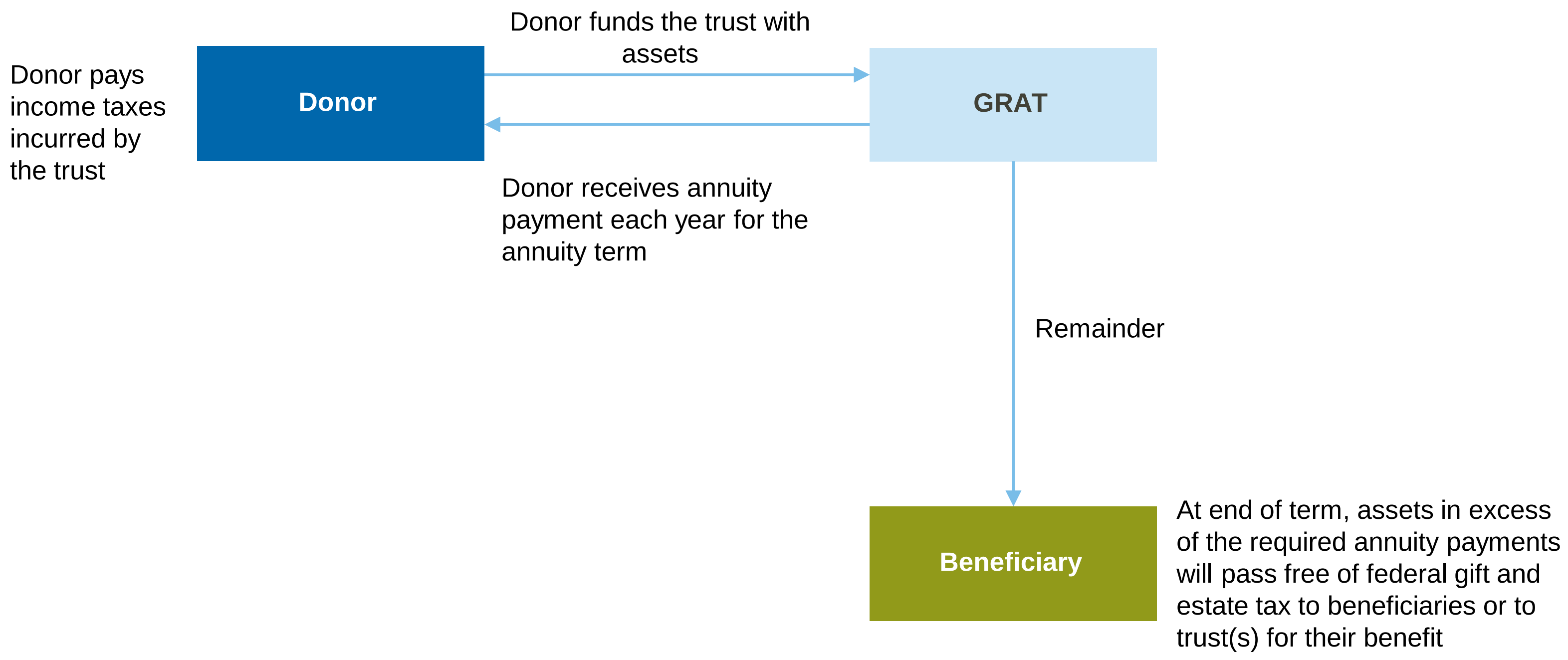

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Charitable Remainder Unitrust (CRUT)

WHAT IS IT?

An irrevocable trust into which an individual (grantor) transfers assets and the trust makes a fixed unitized payment (expressed as a percentage of trust assets), made at least annually, to the grantor and/or family members for a specified term. At the end of the specified term, the remaining trust assets will pass to the charity/ies designated in the trust document's provisions

WHAT TO CONSIDER

CONTROL

- Ownership is held by the trustee while the assets are in trust
- Ownership of stock used to make unitrust payments will pass to the grantor or other noncharitable beneficiaries
- Ownership of stock remaining in the trust at the end of the trust term will pass to the charity/ies

LIQUIDITY

- Payment term can last for life of grantor and/or family members or for a fixed number years not exceeding twenty
- Each payment from the CRUT is based on a fixed percentage of the annually revalued trust assets so the payments from the CRUT will fluctuate from year to year
- The grantor receives the annual payment stream and the charity/ies receive the remainder interest at the end of the trust term

INVESTMENT

Diversification

- As a split-interest trust, the CRUT should be invested in a diversified portfolio
- The CRUT is a tax-exempt entity so a concentrated position contributed can be sold in the trust and capital gains deferred over all or a portion of the trust term

Risk

- Trust assets decline in value so annual payments and remainder interest are reduced

TAX IMPLICATIONS

Transaction Initiation

- If the grantor creates the CRUT during lifetime, the grantor will receive a federal charitable gift tax deduction and may receive a federal charitable income tax deduction, each being equal to the value of the property transferred to the CRUT less the present value of grantor's/family's payment stream

Federal Income Tax

- The accrued CRUT taxes are allocated annually to the income beneficiary to the extent of the distribution received

Capital Gains

- When a concentrated stock is transferred to a CRUT and is sold, the capital gain is deferred

Cost Basis

- The cost basis for the concentrated stock contributed to the trust is that of the grantor. For assets purchased by the trust, the cost basis is determined by the trust's investment

Gift and Estate Tax

- At the end of the trust term, the remaining assets in the trust may not be included in grantor's federal taxable estate and go to one or more charities
- If the grantor creates the CRUT at death, the grantor's estate will receive a federal charitable estate tax deduction for the present value of the remainder interest

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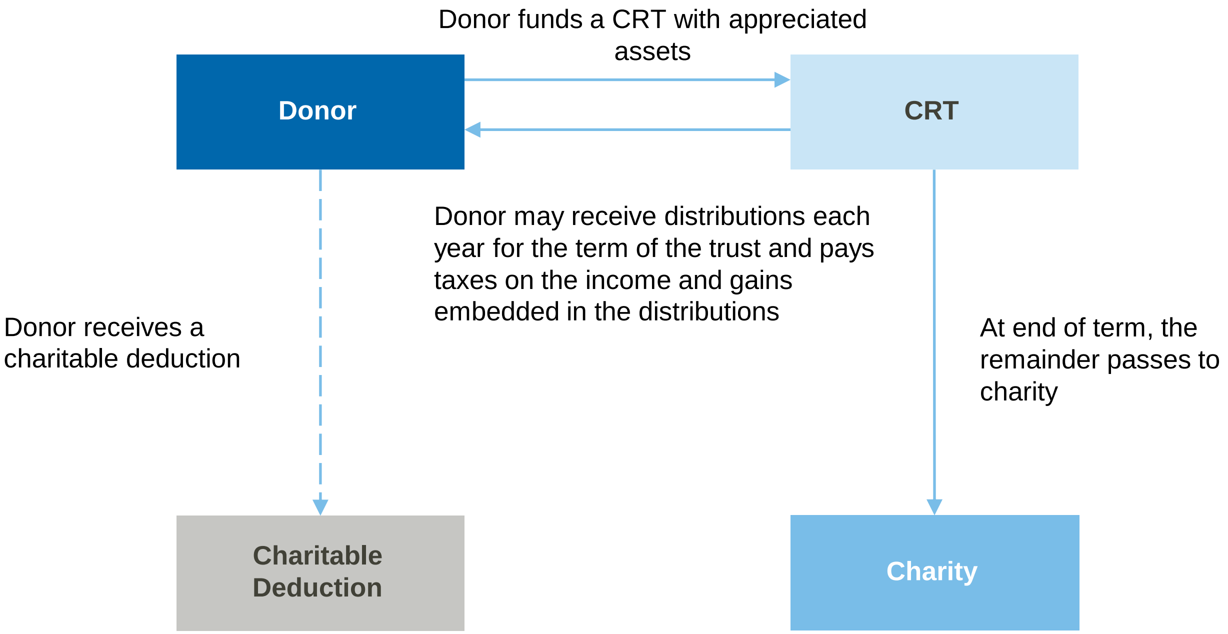

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Pooled Income Fund

WHAT IS IT?

A trust established by a public charity into which a donor irrevocably transfers assets and the trust makes a distribution of income (based on units of participation in the trust), made at least monthly, to the donor and/or other income beneficiaries designated by the donor for their lifetimes(s). Upon the death of the life of the donor or last surviving income beneficiary the remaining assets pass to the designated charity/ies

WHAT TO CONSIDER

CONTROL

- The donor irrevocably surrenders ownership of contributed assets. The donor may not direct the investments although they may direct distribution of the assets to approved charity/ies

LIQUIDITY

- Payment term will last for the life of the donor or last surviving income beneficiary designated by the donor
- Each payment from the pooled income fund will fluctuate based on performance of investments
- Designated income beneficiary/ies receive(s) monthly payment stream and the charity/ies may receive the remainder

INVESTMENT

Diversification

- The pooled income fund should be invested in a diversified portfolio
  - The pooled income fund is prohibited from holding tax-exempt securities
- There are generally no capital gains recognized when gifting appreciated assets to a pooled income fund

Risk

- Assets can decline in value so recurring income distributions may decrease

TAX IMPLICATIONS

Transaction Initiation

- Donor will receive a federal charitable gift tax deduction and receive a federal income tax deduction equal to the present value of the charitable remainder interest

Federal Income Tax

- Income beneficiary/ies are generally subject to ordinary income tax on the distributions received

Capital Gains

- When a concentrated stock is transferred into a pooled income fund and is sold, a capital gain is generally not recognized if the asset was a long-term capital asset

Cost Basis

- Transferring lower cost basis assets allows those assets to be sold without the donor (and potentially the pooled income fund) recognizing capital gain

Gift and Estate Tax

- Depending on who the donor designated as the income beneficiary/ies, a portion of the transferred assets may be included in the donor’s federal taxable estate at the donor’s death. If so, generally the donor’s estate will be entitled to a charitable deduction that may offset taxes

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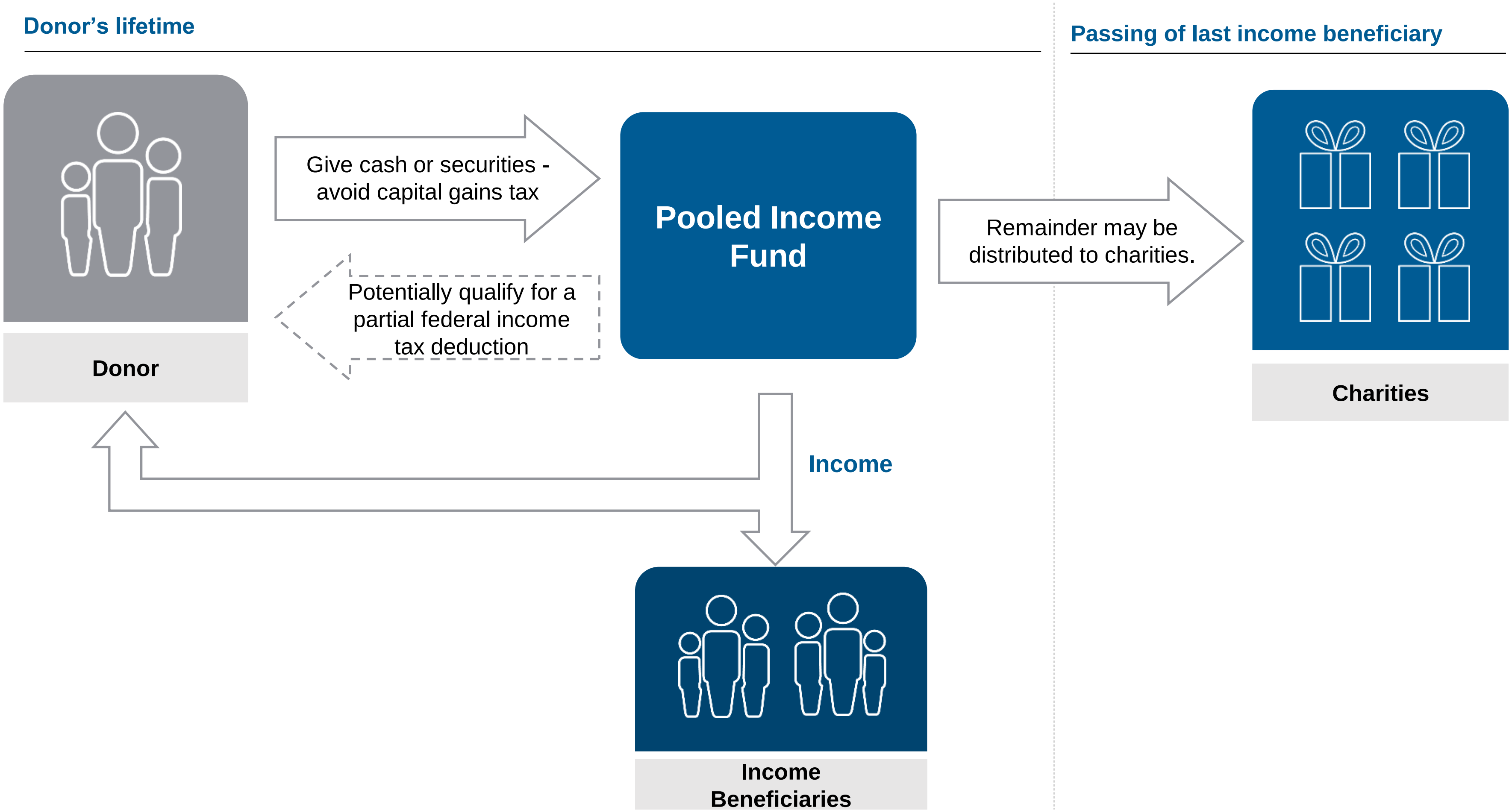

Donor Advised Fund (DAF)

WHAT IS IT?

A separate fund or account established by a public charity into which an individual (donor) gifts assets. While the DAF manages the assets, the donor may recommend how much and to which charitable beneficiary/ies the asset may be given over time

WHAT TO CONSIDER

CONTROL

- The donor irrevocably surrenders ownership of contributed assets though the donor may make recommendations regarding the investments and distribution of the assets to approved charity/ies

LIQUIDITY

- A concentrated position donated to a DAF may receive a federal income tax deduction and alleviate cash outflow that would be needed to pay taxes if donor instead sold the assets

INVESTMENT

Diversification

- The charity managing the DAF has a fiduciary duty of care with respect to its investments and therefore may need to sell concentrated positions

Risk

- The timing and sale strategy undertaken by the charity managing the DAF with respect to a concentrated position may not be consistent with the wishes of the donor or company

TAX IMPLICATIONS

Transaction Initiation

- The donor will receive a federal charitable gift tax deduction and may receive a federal charitable income tax deduction

Federal Income Tax

- Donor may receive a federal income tax charitable deduction based upon the fair market value or the donor’s cost basis of the assets donated, depending on the type of asset donated, subject to limitations based on adjusted gross income
  - Any excess deduction may be carried over for use in the following five years subject to further adjusted gross income limitations

Capital Gains

- The DAF is a tax-exempt entity so the sale of the concentrated position does not generate capital gains tax

Cost Basis

- Potential federal income tax charitable deduction may be based on the fair market value or the donor’s cost basis depending on the type of property donated

Gift and Estate Tax

- Contributions to a DAF are not included in the donor’s federal taxable estate

Donor Advised Fund (DAF)

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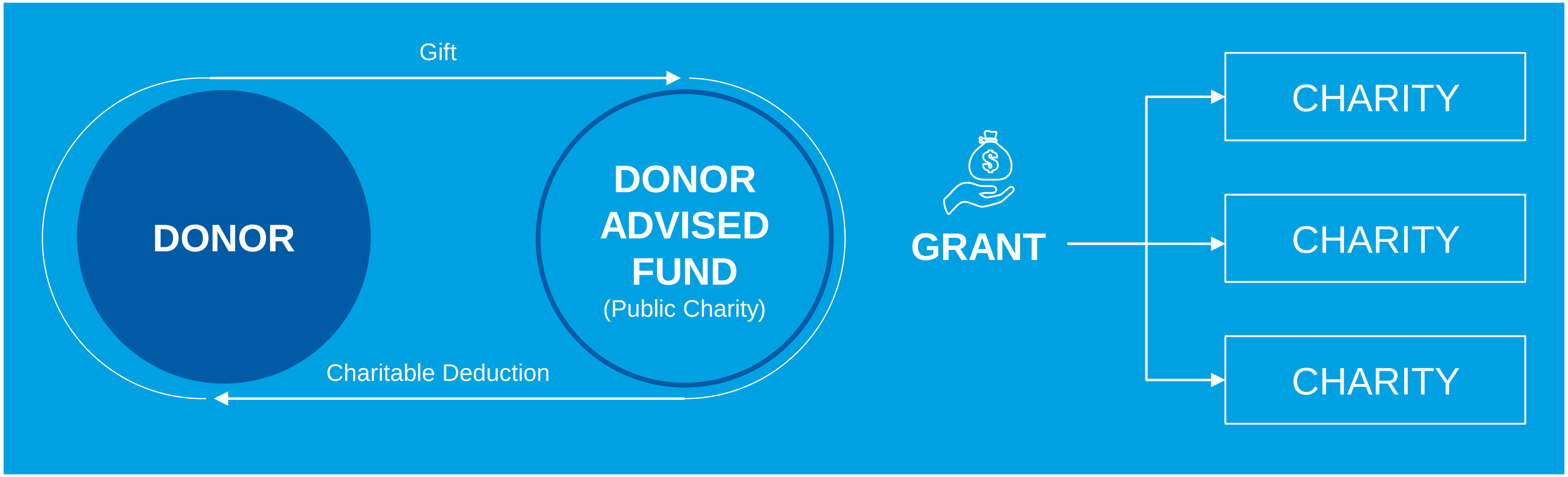

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Qualified Small Business Stock (QSBS)

WHAT IS IT?

QSBS generally allows the owner/seller to exclude from gross income a portion of the capital gain if all of the following apply:

- The stock is: acquired at original issue and held more than five years
- The issuing company is: a domestic C corporation, has $50 million or less in assets at formation, operates an active business

WHAT TO CONSIDER

CONTROL

- May be owned directly or indirectly by an allowed pass-through entity including: partnership, S Corporation, regulated investment company and common trust fund

LIQUIDITY

- To realize full tax benefits, the stock must adhere to specific criteria
- The owner may rollover the stock to another qualified small business stock

INVESTMENT

Diversification

- Concentration in one stock

Risk

- Over the five year holding period, the company assets may appreciate beyond $50 million or the stock value may decline

TAX IMPLICATIONS

Transaction Initiation

- There is no federal income tax on the purchase of QSBS stock

Federal Income Tax

- Generally, QSBS rules should not have ordinary income effects, as they provide an exclusion for an amount that generally would constitute a capital gain

Capital Gains

- If GRAT assets are sold within the trust, the grantor is responsible for any capital gains taxes
  - Federal
    - If qualified, may exclude 50, 75, or 100 percent of capital gain depending on date of acquisition (non-excludable portion of gain is taxed at a special 28% plus a potential 3.8% net investment income tax)
    - Gain that may be excluded is the greater of $10 million or 10 times the aggregate adjusted basis of the stock issued by the corporation and disposed of by the taxpayer
  - State
    - It is important to check state rules because some states provide a modified QSBS gain exclusion and other states do not recognize federal QSBS treatment (instead state capital gain tax rules will apply

Cost Basis

- Value at primary issue

Gift and Estate Tax

- Gifting QSBS during life or at death results in the recipient being treated as having acquired the stock in the same manner as the transferor and having held the stock for the same period as the transferor

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- The stock is: acquired at original issue and held more than five years
- The issuing company is: a domestic C corporation, has $50 million or less in assets at formation, operates an active business

QSBS Date Acquired	Percent Exclusion of the Capital Gain from Gross Income (1)
On or before February 17, 2009	50%
February 18, 2009 to September 27, 2010	75%
September 28, 2010 or later	100%

1. Non-excludable portion of gain is taxed at a special 28% rather then the generally applicable 15% and 20% federal long-term capital gain rates; a 3.8% federal net investment income tax may also apply

10b5-1 Plan

WHAT IS IT?

A pre-set diversification plan for executives' shares that specifies amounts, prices and dates for securities to be sold

WHAT TO CONSIDER

CONTROL

- If an executive holds Material Non-Public Information (MNPI), decisions on amounts, prices and dates must be delegated to another person who does not possess MNPI
- In the absence of MNPI, the executive sets parameters for periods to sell, the number of shares and price while the Issuer might have specific allowable time periods to sell (i.e. earning periods)
- Plans may be used for sales, monetization strategies, exercise of options

LIQUIDITY

- Facilitates legal sale of concentrated positions according to holder's specifications within the company's allowable time periods

INVESTMENT

Diversification

- Reduces risk of holding a concentrated position

Risk

- Plan modifications can be changed though changing it might weaken the benefit of affirmative defence
- Plan must comply with Section 13, Section 16 and Rule 144 (may not be applicable for non-affiliate)

TAX IMPLICATIONS

Transaction Initiation

- There is no tax when a plan is put in place

Federal Income Tax

- Determined by type of position sold and time

Capital Gains

- Depending on the type of position, the cost basis might be the fair market value at vesting, exercise or primary issue (when selling shares, the cost basis assigned to the shares sold is determined by the first in/first out method given the various cost bases of shares)

Cost Basis

- Fair market value at time of settlement

Gift and Estate Tax

- Concentrated positions may have restrictions that limit their use in estate planning. For example, with Rule 144, there may be volume limitations that limit the number of shares that can be transferred

10b5-1 Plan

WHAT IS IT?

A pre-set diversification plan for executives' shares that specifies amounts, prices and dates for securities to be sold

Without a 10b5-1 Plan – hypothetical access to 4 windows a year

Blackout | Blackout | Blackout | Blackout

But certain events can result in trading windows being closed…

Blackout

Trading Prohibited During Window Periods When Key Employees or Insiders Are in Possession of Material Non-public Information

Sales could happen within a 10b5-1 Plan even during regular quarterly or special blackouts

10b5-1
Adopted

Trading Permitted Pursuant to Terms of Plan

Waiting Period

1. The above illustrations are based on hypothetical conditions and are not representative of any specific company or company stock
2. Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized
3. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy
4. Please refer to important information, disclosures and qualifications at the end of this material

Exchange Fund

WHAT IS IT?

Pooled special-purpose vehicle that offers concentrated stock owners the ability to diversify their investments by exchanging concentrated stock positions for shares of a diversified portfolio

WHAT TO CONSIDER

CONTROL

- Exchange fund retains dividends and voting rights

LIQUIDITY

- Share holdings may be redeemed in whole or part usually on a monthly or daily basis depending on fund rules and early redemptions may be subject to fees
  - During the first seven years following a shareholder's final exchange fund contribution, stocks contributed by a redeeming shareholder are generally distributed first
  - After seven years following the shareholder's final exchange fund contribution, a redeeming shareholder generally may elect to receive a diversified basket of securities
- There may be the potential to borrow using the exchange fund as collateral and benefit from its diversified portfolio

INVESTMENT

Diversification

- Concentration in one stock is exchanged for exposure in a diversified portfolio potentially resulting in reduced exposure to significant loss and variability in return
- Each exchange fund invests at least 20% in non-securities/illiquid investments and identifies stocks in an investable universe that may be considered for inclusion

Risk

- High minimum investments result in sustained market exposure and other shareholders' contributions and redemptions may impact the portfolio positioning

TAX IMPLICATIONS

Transaction Initiation

- Concentrated shares are exchanged for fund shares without triggering a taxable event

Federal Income Tax

- Non-securities/illiquid investments may result in pass through income/losses and the issuance of K-1s

Capital Gains

- With a redemption, when the stock/proportional share of the diversified portfolio is sold, the difference between the fair market value at sale and cost basis is a capital gain and taxed
- Determination of short/long-term capital gain is not based on the amount of time in the exchange fund rather it is based on the holding period determined by the shares originally contributed. Short-term capital gains tax rate applies if the holding period is less than or equal to one year and long-term capital gains tax rate applies if holding period is greater than one year

Cost Basis

- Same as the aggregate cost basis of the concentrated shares originally contributed

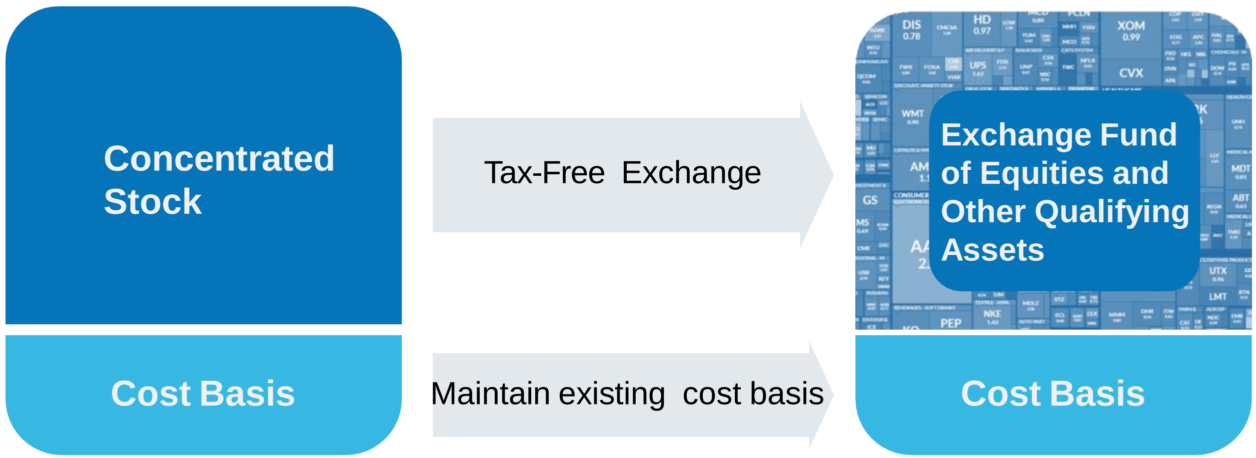
Gift and Estate Tax

- Exchange Funds may be used in estate planning

Exchange Fund

WHAT IS IT?

Pooled special-purpose vehicle that offers concentrated stock owners the ability to diversify their investments by exchanging concentrated stock positions for shares of a diversified portfolio



Completion Portfolio

WHAT IS IT?

Construct a risk-managed portfolio around a concentrated stock holding, choosing investments that will provide exposure that aligns with a benchmark while offsetting risk exposure

WHAT TO CONSIDER

CONTROL

- Retain stock ownership with dividend and voting rights

LIQUIDITY

- Additional liquidity is needed to create and invest the completion portfolio
- There is the potential to borrow against the concentrated stock position to access liquidity
- Concentrated stock position may be sold over time and overarching risk exposures re-examined

INVESTMENT

Diversification

- Risk of concentration in one stock is maintained though in combination with completion portfolio transforms into that of a specific benchmark

Risk

- Designation of additional funds for the completion portfolio expose more monies to the targeted benchmark
- To offset risk, the completion portfolio may have its own concentrated holdings

TAX IMPLICATIONS

Transaction Initiation

- If the completion portfolio is funded through the sale of assets, there may be tax consequences

Federal Income Tax

- Generally, will not have ordinary income tax effects beyond dividends, as portfolio transactions generate capital gains

Capital Gains

- Incurred with sale of securities as the completion portfolio manages evolving risk over time
- Short-term capital gains tax rate applies if the holding period is less than or equal to one year and long-term capital gains tax rate applies if holding period is greater than one year

Cost Basis

- Owner’s original cost basis applies

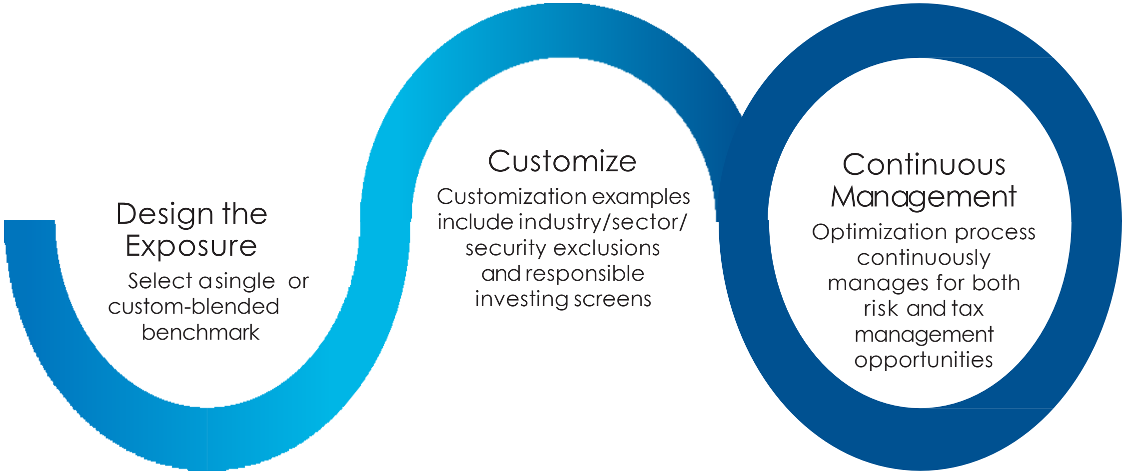
Gift and Estate Tax

- Concentrated positions may have restrictions that limit their use in estate planning
- Completion portfolios are specific to concentrated positions and may (not) be good candidates for estate planning

Completion Portfolio

WHAT IS IT?

- Construct a risk-managed portfolio around a concentrated stock holding, choosing investments that will provide exposure that aligns with a benchmark while offsetting risk exposure



Covered Call

WHAT IS IT?

A strategy to potentially generate cash flow where an investor sells a call option against an underlying stock position and receives a premium by agreeing to sell the stock position at the call strike price if the option is exercised

WHAT TO CONSIDER

CONTROL

- Investor maintains ownership of the stock with dividend and voting rights unless assigned

LIQUIDITY

- Investor receives a premium
- The investor can seek to unwind the short call position on a listed exchange subject to market liquidity

INVESTMENT

Potential Benefits

- May enable the investor to potentially generate cash flows from the premium received on the sale of the call option
- May be used as an alternative selling strategy where the investor potentially sells the underlying stock position at the call strike

Risk / Considerations

- The investor forgoes potential upside price appreciation above the call strike
- The investor is exposed to depreciation in the underlying stock
- The investor may be required to deliver the underlying stock position at the call strike price
- There are associated costs to roll the option to future periods before expiration

TAX CONSEQUENCES

Gift and Estate Tax Consequences

- Concentrated positions may have restrictions that limit their use in estate planning
- Covered call options are specific to concentrated positions and may (not) be good candidates for estate planning

Options carry a high level of risk and are not appropriate for all investors.
Before engaging in the purchase or sale of options, clients should understand the nature and extent of their rights and obligations and be aware of the risks involved, including, without limitation, the risks pertaining to the business and financial condition of the issuer of the underlying security/instrument. Options investing, like other forms of investing, involves tax considerations, transaction costs and margin requirements that can significantly affect clients' potential profits and losses. Clients should not enter into options transactions until they have read and understood the Disclosure Document and discussed transaction costs with the Financial Advisor or Private Wealth Advisor. A copy of the ODD is also available online at: http://www.theocc.com/about/publications/publication-listing.jsp

Covered Call

WHAT IS IT?

A strategy to potentially generate cash flow where an investor sells a call option against an underlying stock position and receives a premium by agreeing to sell the stock position at the call strike price if the option is exercised

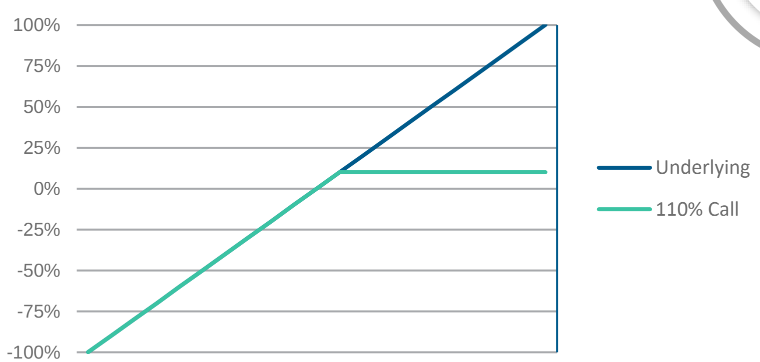
POTENTIAL BENEFITS

- May enable the investor to potentially **generate cash flows** from the premium received on the sale of the call option
- May be used as an **alternative selling strategy** where the investor potentially sells the underlying stock position at the call strike price

SOME RISKS / CONSIDERATIONS

- The investor may be required to **deliver the underlying stock position** at the call strike price
- The investor **forgoes potential upside** price appreciation above the call strike price
- Potential **tax consequences** of delivering the stock position at the time of an exercised call
- There are associated costs to roll the option to future periods before expiration

POSITION VALUE AT MATURITY*



*Does not include 5% premium

HYPOTHETICAL TERMS

- Underlying Shares: XYZ stock
- Stock Reference Price: $100.00
- Call Option Strike Price: $110.00 (110%)
- Call Premium: $5.00 (5.00%)
- Potential Max Gain: $15.00 (Stock Price appreciates to Call Strike Price, $5.00 Call Premium received)
- Potential Max Loss: $95.00 (Stock Price depreciates to $0.00, less $5.00 Call Premium received)
- Breakeven Price: $95 (Stock Price depreciates, plus $5.00 Call Premium received. Call expires worthless.)

Protective Put

WHAT IS IT?

A hedging strategy where an investor pays a premium in exchange for the right, but not the obligation, to sell a stock and / or fund at a specified price on a future date

WHAT TO CONSIDER

CONTROL

- Investor maintains ownership of the stock with dividend and voting rights unless exercised

LIQUIDITY

- The investor pays a premium for the put option
- The investor can seek to sell the put position on a listed exchange subject to market liquidity

INVESTMENT

Potential Benefits

- May allow an investor to protect against a decline in an equity position, while retaining potential upside price appreciation
- May provide downside protection below the put option strike

Risk / Considerations

- The investor is exposed to depreciation in the underlying stock from the initial level down to the put strike price
- The investor may lose the full premium if the option expires worthless
- The investor may have to purchase additional options if stock price increases and therefore current protection becomes inadequate

TAX CONSEQUENCES

Gift and Estate Tax Consequences

- Concentrated positions may have restrictions that limit their use in estate planning
- Put options are specific to concentrated positions and may (not) be good candidates for estate planning

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Before engaging in the purchase or sale of options, clients should understand the nature and extent of their rights and obligations and be aware of the risks involved, including, without limitation, the risks pertaining to the business and financial condition of the issuer of the underlying security/instrument. Options investing, like other forms of investing, involves tax considerations, transaction costs and margin requirements that can significantly affect clients' potential profits and losses. Clients should not enter into options transactions until they have read and understood the Disclosure Document and discussed transaction costs with the Financial Advisor or Private Wealth Advisor. A copy of the ODD is also available online at: http://www.theocc.com/about/publications/publication-listing.jsp

Protective Put

WHAT IS IT?

A hedging strategy where an investor pays a premium in exchange for the right, but not the obligation, to sell a stock and / or fund at a specified price on a future date

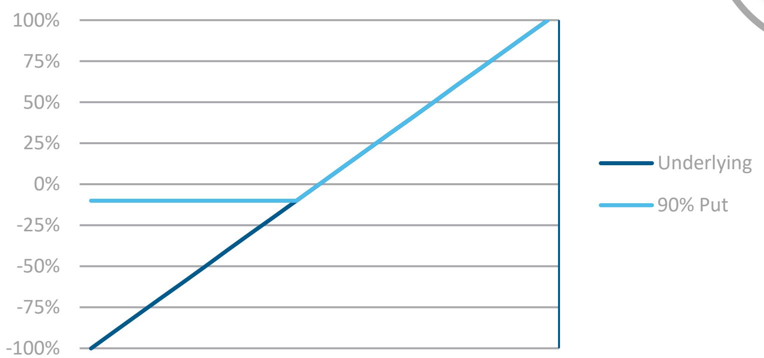
POTENTIAL BENEFITS

- May allow an investor to **protect against a decline** in an equity position, while retaining potential upside price appreciation
- May provide **downside protection** below the put option strike price

SOME RISKS / CONSIDERATIONS

- The investor **pays a premium** for the put option
- The investor is exposed to **depreciation** in the underlying stock from the initial level down to the put strike price

POSITION VALUE AT MATURITY*



*Does not include 5% premium

HYPOTHETICAL TERMS

- Underlying Shares: XYZ stock
- Stock Reference Price: $100.00
- Put Option Strike Price: $90.00 (90%)
- Premium: $5.00 (5.00%)
- Potential Max Gain: Strategy maintains the benefits of any stock price appreciation minus the cost of the put option
- Potential Max Loss: $15.00 (Stock Price depreciates to Put Strike Price, Put expires worthless)
- Breakeven Price : $105 (Stock Price appreciates, Put expires worthless)

Collars

WHAT IS IT?

A hedging strategy where an investor pays a premium to purchase a put option for downside protection and simultaneously sells a call option to fund some or all of the put premium

WHAT TO CONSIDER

CONTROL

- Investor maintains ownership of the stock with dividend and voting rights unless the call is assigned or the put is exercised

LIQUIDITY

- It can be structured as a credit, debit or zero premium
- The investor can seek to unwind the collar positions on a listed exchange subject to market liquidity

INVESTMENT

Potential Benefits

- May allow an investor to protect against a decline in an equity position, while retaining limited upside price appreciation
- May provide downside protection below the put option strike.
- Potentially lowers upfront cost when compared to outright put purchase

Risk / Considerations

- The investor forgoes potential upside price appreciation above the call strike
- The investor is exposed to depreciation in the underlying stock from the initial level down to the put strike price
- The investor may be required to deliver the underlying stock position at the call strike price
- The investor may pay or receive a net premium for the collar

TAX CONSEQUENCES

Gift and Estate Tax Consequences

- Concentrated positions may have restrictions that limit their use in estate planning
- Collars are specific to concentrated positions and may (not) be good candidates for estate planning

Collars

WHAT IS IT?

A strategy to potentially generate cash flow where an investor sells a call option against an underlying stock position and receives a premium by agreeing to sell the stock position at the call strike price if the option is exercised

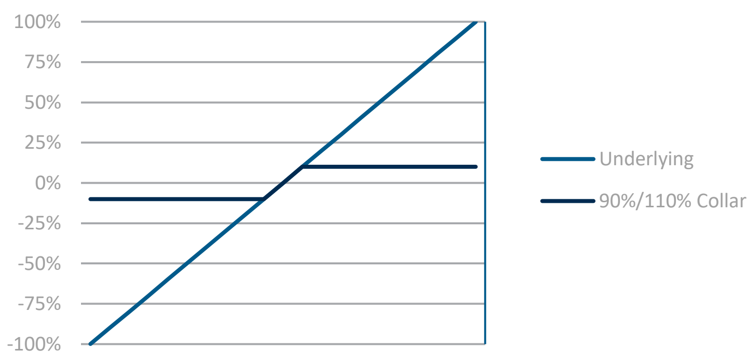
POTENTIAL BENEFITS

- May allow an investor to **protect against a decline** in an equity position, while retaining limited upside price appreciation
- May provide **downside protection** below the put option strike price
- Potentially lowers upfront cost when compared to outright put purchase

SOME RISKS / CONSIDERATIONS

- The investor **forgoes potential upside** price appreciation above the call strike price
- The investor may **pay or receive a net premium** for the collar
- The investor is exposed to **depreciation** in the underlying stock from the initial level down to the put strike price
- The investor may be required to **deliver the underlying stock position** at the call strike price

POSITION VALUE AT MATURITY



HYPOTHETICAL TERMS

- Underlying Shares: XYZ stock
- Stock Reference Price: $100.00
- Put Option Strike Price: $90.00 (90%)
- Put Premium: +$5.00 (5.00%)
- Call Option Strike Price: $110.00 (110%)
- Call Premium: -$5.00 (-5.00%)
- Net Premium: $0.00 (0.00%)
- Potential Max Gain: $10.00 (Stock Price appreciates above Call Strike Price, delivers Stock at $110.00)
- Potential Max Loss: $10.00 (Stock Price depreciates below Put Strike Price, delivers Stock at $90.00)
- Breakeven Price: $100 (Call Option Premium paid and Put Option Premium received nets to $0)

Tax-Loss Harvesting

WHAT IS IT?

Sell a concentrated stock position tax efficiently over time by simultaneously harvesting capital gains and losses in other investments to offset the capital gains and losses realized by selling or disposing the concentrated stock position

WHAT TO CONSIDER

CONTROL

- Stock ownership with dividend and voting rights

LIQUIDITY

- Additional investments may be needed to become a source of unrealized losses/gains
- Sale of concentrated stock over time as tax-loss offsets become available

INVESTMENT

Diversification

- Concentrated in one stock reduced over time through sales
- Diversified portfolio created over time using sales proceeds for purchases

Risk

- Over time there may be changes in tax rates and tax laws that may impact the efficacy of tax loss harvesting

TAX IMPLICATIONS

Transaction Initiation

- Only if capital gains are realized at the onset

Federal Income Tax

- Generally, will not have ordinary income effects, as transactions will generate a capital gain or loss

Capital Gains

- Portfolio manager identifies and realizes short-term losses to offset short-term gains and long-term losses to offset long-term gains in concentrated stock to mitigate taxes

Cost Basis

- Owner’s original cost basis applies

Gift and Estate Tax

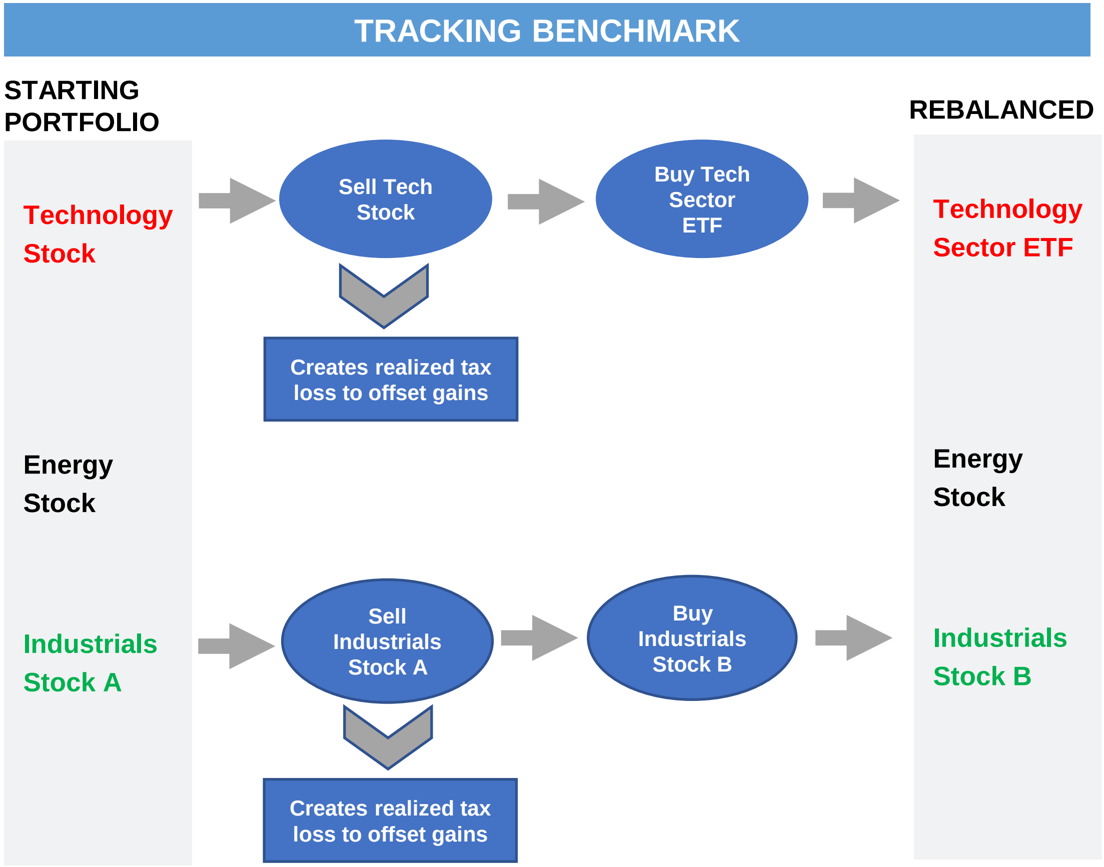
- Concentrated positions may have restrictions that limit their use in estate planning
- It may be more advantageous to use tax harvested assets with certain estate planning strategies so subsequent generations may benefit from high cost basis in positions

Tax-Loss Harvesting

WHAT IS IT?

- Sell a concentrated stock position tax efficiently over time by simultaneously harvesting capital gains and losses in other investments to offset the capital gains and losses realized by selling or disposing the concentrated stock position

USE	TO OFFSET
Short Term Losses	Short Term Gains
Long Term Losses	Long Term Gains
Leftover Losses, either Short or Long Term	Leftover Gains, either Short or Long Term
Remaining Losses	Excess losses may be carried forward for use in subsequent year until death



1. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material

Disclosures

This material was designed to illustrate the financial impact of a particular planning decision. It does not constitute a recommendation.

Caution: many estate techniques share the common risk of the loss of control of the assets once the gift of the assets is complete.

This material has been prepared for informational purposes only and is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Information and data contained herein have been obtained from multiple sources and Morgan Stanley Smith Barney LLC (“Morgan Stanley”) makes no representation as to the accuracy or completeness of the information and data from sources outside of Morgan Stanley. We have included information that we found to be pertinent for our purposes. We make no representation as to the completeness of the information, and information which you may find material for your own investment or planning purposes may not have been included. The information and data are subject to change at any time without further notice.

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Tax laws are complex and subject to change. This information is based on current federal tax laws in effect at the time this was written. Morgan Stanley Smith Barney LLC, its affiliates, employees and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice. Clients should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trust and estate planning and other legal matters.

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Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are appropriate only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing.

Past performance is not necessarily indicative of future performance.

Options Disclosures and Considerations

If you are considering options as part of your investment plan, your Morgan Stanley Financial Advisor or Private Wealth Advisor is required to provide you with the "Characteristics and Risks of Standardized Options" booklet from the Options Clearing Corporation.

Options carry a high level of risk and are not appropriate for all investors.

Certain requirements must be met to trade options through Morgan Stanley. Investing involves risks, including loss of principal. Hedging and protective strategies generally involve additionalcosts and do not assure a profit or guarantee against loss. With long options, investors may lose 100% of funds invested. Covered calls provide cash flow, downside protection only to the extentof the premium received, and limit upside potential to the strike price plus premium received. Spread trading must be done in a margin account.

Before engaging in the purchase or sale of options, clients should understand the nature and extent of their rights and obligations and be aware of the risks involved, including, without limitation, the risks pertaining to the business and financial condition of the issuer of the underlying security/instrument. Options investing, like other forms of investing, involves tax considerations, transaction costs and margin requirements that can significantly affect clients' potential profits and losses. The transaction costs of options investing consist primarily of commissions (which are imposed in opening, closing, exercise and assignment transactions) but may also include margin and interest costs in particular transactions. Transaction costs are especially significant in options strategies calling for multiple purchases and sales of options, such as multiple leg strategies, including spreads, straddles and collars. If a client is considering engaging in options trading, the Financial Advisor and Private Wealth Advisor are required to provide the client with the "Characteristics and Risks of Standardized Options" (ODD) booklet from the Options Clearing Corporation. Clients should not enter into options transactions until they have read and understood the Disclosure Document and discussed transaction costs with the Financial Advisor or Private Wealth Advisor. A copy of the ODD is also available online at: http://www.theocc.com/about/publications/publication-listing.jsp

The sale of the stock through an option assignment or the closing/expiration of an option position may produce a tax consequence. Certain in-the-money covered call writes are deemed 'unqualified' and carry certain tax consequences. Prior to entering into any proposed transaction, recipients should determine, in consultation with their own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of the transaction.

Morgan Stanley Smith Barney LLC and its affiliates do not provide tax or legal advice. To the extent that this material or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Supporting documentation for any claims (including any claims made on behalf of options programs or the options expertise of salespersons), comparisons, recommendations, statistics, or other technical data, will be supplied upon request.

There are many factors that an investor should be aware of when trading options including interest rates, volatility, stock splits, stock dividends, stock distributions, currency exchange rates, etc.

Annualized returns will not be calculated for holding periods less than 60 days.

If a secondary market in options becomes unavailable and prevents a closing transaction, the options writer's obligation would remain until expiration or assignment.

NOTE: This statement is not intended to enumerate all of the risks entailed in trading options. It is expected that you will read the booklet entitled "Characteristics and Risks of Standardized Options" (see www.theocc.com/components/doc/riskstoc.pdf). Please direct your attention to Chapter X, "Principal Risks of Options Positions."

Morgan Stanley Wealth Management would like to inform investors of the inherent risks of trading the following strategies.

- Bullish strategies have greater risk of loss in falling markets.
- Neutral strategies have greater risk of loss in volatile markets.
- Bearish strategies have greater risk of loss in rising markets.

Disclosures

Diversification does not assure a profit or protect against loss. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy.

Clients executing a 10b5-1 Plan (a "PDP") should keep the following important considerations in mind:

(1) PDPs should be approved by the compliance officer or general counsel of the company.
(2) A PDP may require a cessation of trading activities at times when lockups may be necessary to the company (i.e. secondary offerings, pooling transactions, etc.).
(3) A PDP does not generally alter the restricted stock regulatory requirements (e.g. Rule 144, Section 16, Section 13D) that may otherwise be applicable.
(4) PDPs that are modified or terminated early may weaken or cause you to lose the benefit of the affirmative defense.
(5) Public disclosure of PDPs (e.g., via press release) may be appropriate for some insiders.
(6) Most companies will permit PDPs to be entered into only during open window periods.
(7) Morgan Stanley, as well as some issuers, impose a mandatory waiting period between the execution of the PDP and the first sale pursuant to the PDP.

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The Donor Circular & Disclosure Statement describes the risks, fees and expenses associated with establishing and maintaining an MS GIFT account. Read it carefully before contributing.

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