UNDERSTANDING EMPLOYEE STOCK PURCHASE PLANS

Participating in an employee stock purchase plan (ESPP) can be an important part of your overall financial strategy. Understanding what these plans are, including some of the tax ramifications, can help you make the most of this important benefit.

THE BASICS – HOW DOES AN ESPP WORK?

ESPPs enable you to invest in your company by purchasing shares of your company’s stock, usually at a discount, through automatic deductions from your paycheck. ESPP shares are yours as soon as the stock purchase is completed, you can hold onto the shares as part of your portfolio or sell them at your discretion.

**Enrolling in Your Company’s Program:** You participate in your company’s ESPP by enrolling in your company’s Employee Stock Purchase Plan.

- You will be able to specify your contribution during the enrollment period
- Your contribution will be deducted from your paycheck, either in dollar or percentage terms, most deductions are in the range of 1–10% of your net pay
- Not all earning (i.e., salary, bonus, commissions, etc.) are eligible for contribution
- There are limits on the maximum contribution you are allowed to make and possibly on the number of shares you will be allowed to purchase. (The Internal Revenue Service also has limits with regard to the value of shares you can purchase)
- Information on the limitations and structure of your plan may be contained in your company’s plan documentation

**Offering/Purchase Period:** An offering period is a predetermined length of time during which after-tax contributions will be collected for the plan via a payroll deduction. There may be more than one day in the offering period on which shares will be purchased, by your company, on your behalf.

**Periodic Stock Purchases:** The funds collected via automatic payroll deduction are accumulated through the end of each purchase period to then be used, by your company, to purchase shares on your behalf. Under most plans, the purchase price is set at a discount (at the company’s discretion) of up to a maximum of 15% for qualified plans. Some companies also offer a “look back” provision, which compares the share price at the beginning and end of the purchase period and uses the lower to calculate your purchase price.

**EXAMPLE:**

**$1,000 CONTRIBUTION WITH A 15% DISCOUNT ON THE PURCHASE AND A “LOOK-BACK” PROVISION**

<table>
<thead>
<tr>
<th>Share Price</th>
<th>Potential Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market value at start of offering period:</strong> $20</td>
<td>Without a look-back provision:</td>
</tr>
<tr>
<td></td>
<td>Purchase price: $21.25 (15% discount off $25)</td>
</tr>
<tr>
<td></td>
<td>Number of shares purchased: 47</td>
</tr>
<tr>
<td><strong>Market value at the end of the offering period</strong></td>
<td></td>
</tr>
<tr>
<td>(also known as the purchase date): $25</td>
<td>With a look-back provision:</td>
</tr>
<tr>
<td></td>
<td>Purchase price: $17 (15% discount off lower price of $20)</td>
</tr>
<tr>
<td></td>
<td>Number of shares purchased: 58</td>
</tr>
</tbody>
</table>

**Flexibility to Choose:** Most plans allow you to modify your contribution levels even while the offering period is underway. Some plans allow participants to suspend their enrollment, meaning that no further withholdings will be made, but the contributions accrued will still be used to purchase shares on the purchase date. You may withdraw from your plan at any time after enrollment, but before the close of the offering period. Withdrawing from your ESPP will allow you to recover your contributions; however, interest is not paid on any withdrawn funds. Each plan is unique, however, so please consult your plan document for details.

*Not all ESPP plans are the same. Please refer to your company’s plan documents for specific details on your plan.*
IMPORTANT TAX CONSIDERATIONS FOR ESPP SALES

Tax treatment depends on, among other things, the type of ESPP (qualified vs. non-qualified) your company offers. For advice on your personal financial situation, please consult a tax advisor.¹

KNOW THE TYPES OF EMPLOYEE STOCK PURCHASE PLANS
The two types of ESPPs, as shown below, are primarily differentiated in terms of how the gain on disposition (either by gift or sale) is taxed, that is ordinary income vs. capital gain. If you are unaware of the type of plan your company offers, see your company’s ESPP plan document for details.

<table>
<thead>
<tr>
<th>ESPP Type</th>
<th>Description</th>
</tr>
</thead>
</table>
| Qualified       | Qualified ESPPs are governed by Section 423 of the Internal Revenue Code.  
                    | **Taxation at Purchase:**  
                    | Where the purchase of stock is made with after-tax dollars the purchase itself is not a taxable event, even though that purchase is at a discount from current market value.  
                    | **Taxation at Disposition:**  
                    | Assuming you dispose (via gift or sale) of the shares at a profit, some portion of your gain will be considered ordinary income. This amount depends upon whether or not you meet certain holding period requirements. The holding period requirement is two years from the grant date (typically, the first day of the offering period) AND one year from purchase date.  
                    | **Disposing before the end of the holding period:**  
                    | If you dispose (either by gift or sale) of your shares before the end of the holding period, it is considered a “disqualifying disposition.” The ordinary income that needs to be reported, even if you do not have a profit on your disposition, is equal to the difference between the market value of the shares on your purchase date and the price at which you purchased the shares.  
                    | **Disposing after the end of the holding period:**  
                    | If you dispose (either by gift or sale) of your shares after the holding period requirement has been met, it is considered a “qualifying disposition.” Any gain on the sale will be taxable as ordinary income. Ordinary income is equal to the lesser of the actual gain on the sale, or 15% of the fair market value on the grant date. Any further gain would be taxable as long-term capital gain (traditionally, capital gains tax rates have been lower than the rate at which ordinary income is taxed). Any loss on the sale of shares will be treated as long-term capital loss.  
                    | Assuming you are an employee of the company, any ordinary income resulting from a qualified ESPP should be included on your W-2 as determined by your employer.  
| Non-Qualified   | An ESPP that is not qualified under Section 423 of the Internal Revenue Code has no IRS holding period requirement and any discount received is a taxable event as of the date of purchase. Ordinary income will be calculated on the purchase date as the difference between the value of the shares on the purchase date and the purchase price. This amount will be treated as wages, subject to tax withholding and should be included on your W-2 as determined by your employer.  
                    | When you sell the shares, any additional gain or loss will be taxed as capital gains/losses.   |

Please consult your own tax advisors for advice relating to your specific situation.

GET DEDICATED SUPPORT WHEN YOU NEED IT.

Visit our Online Service Center at etrade.com/servicecenter or call us at 1-800-838-0908 anytime, Monday–Friday. From outside the U.S. or Canada, call +1-650-599-0125. One of our dedicated stock plan professionals will be happy to assist you.
4 EASY STEPS FOR SELLING YOUR SHARES
(For domestic stock plan participants)

Once ESPP shares have been purchased, you can either sell them at your discretion (outside of any company imposed trading blocks or black-out periods) or hold onto them as part of your investment portfolio.

If you sell your shares, your proceeds will be automatically deposited into your linked E*TRADE Securities brokerage account. You can then invest the funds through that account or access the proceeds through a variety of cash management options.

1. Log on to etrade.com and go to the Employee Stock Plans tab.
2. Go to the Trade tab, and then click the Sell Shares tab within.
3. Enter the number of shares you would like to sell (by purchase tranche). Then estimate your proceeds by simply clicking the Calculate button.
4. Review the details of your order with the preview screen and then click submit to enter the order.
5. We’ll send you an alert when your order executes. You can also track your order’s status on the View Orders screen.
CONSIDER YOUR OPTIONS WITH HELP FROM E*TRADE
(For domestic stock plan participants)

At E*TRADE, you’ll find the tools, calculators, and personalized guidance you need to make important decisions about your ESPP benefits. Plus, we give you an array of investment options and resources to help you make the most of your proceeds.

Powerful Options Calculators & Modelers
Estimate the value of your holdings, compare the impact of different transaction types, assess various tax scenarios, and more.2

Online Advisor
Use our professional tool to get a recommended investment solution targeted to your goals.

FREE Guidance & Advice
From experienced investment professionals who can help you create a plan, execute your strategy, and allocate your assets.

FREE Investing & Trading Education
Including live and on-demand web seminars, videos, and in-depth articles to help you invest with confidence.3

A Full Range of Investments
Trade stock and options and access more than 7,600 mutual funds, every ETF sold, and 30,000 bonds & fixed income products

Take Control of Your Retirement
With the Pain-Free, No Fee No Minimum IRA. Use our state-of-the-art Retirement QuickPlan tool or talk to a retirement planning specialist.

PLEASE READ THE IMPORTANT DISCLOSURES BELOW.
All Stock Plan assets and grants are subject to the terms of the plan and the grant documents. A change in your employment status may result in forfeiture of assets and may affect vesting periods and expiration dates. Values shown are for illustration purposes only and do not reflect deductions for applicable taxes, commissions and fees. Because there is no market for unrealized or unvested assets, these are hypothetical values based on the market price of unrestricted shares, and the value that you realize, if any, may be higher or lower. Your E*TRADE Securities LLC account statement is the only official record of your account.

Data shown on etrade.com is based on your company’s records. The company reserves the right to make corrections to this data. All awards shown are subject to the terms of the grants of such awards and of the plan under which the grants were made.

1. E*TRADE Financial Corporation and its affiliates do not provide tax advice, and you always should consult your own tax adviser regarding your personal circumstances before taking any action that may have tax consequences.

2. Online & in-person education is being provided to you for educational purposes only. No information presented constitutes a recommendation by E*TRADE Financial or its affiliates to buy, sell or hold any security, financial product or instrument discussed therein or to engage in any specific investment strategy. The content neither is, nor should be construed as, an offer, or a solicitation of an offer, to buy, sell, or hold any securities by E*TRADE Financial Corporation or its affiliates. Neither E*TRADE Financial Corporation nor its affiliates offer or provide any opinion regarding the nature, potential, value, suitability or profitability of any particular investment or investment strategy, and you are fully responsible for any investment decisions you make. Such decisions should be based solely on your evaluation of your financial circumstances, investment objectives, risk tolerance and liquidity needs. Neither E*TRADE Financial Corporation nor any of its affiliates is affiliated with the third party providing this content.

3. Investment recommendations are provided by representatives from E*TRADE Securities Portfolio management services are provided by E*TRADE Capital Management To help determine which guidance option may be right for you, please visit etrade.com/guidance for additional information about account minimums, commissions, fees, etc.

The E*TRADE Financial family of companies provides financial services that include trading, investing, related banking product and services to retail investors, and managing employee stock plans.

Securities products and services offered by E*TRADE Securities LLC, Member FINRA/SIPC.

Employee stock plan services are offered by E*TRADE Financial Corporate Services, Inc.

E*TRADE Financial Corporate Services, Inc., and E*TRADE Securities LLC are separate but affiliated companies.

© 2012 E*TRADE Financial Corporation. All rights reserved.

1211-EMPSTKP1-P61951

GET DEDICATED SUPPORT WHEN YOU NEED IT.
Visit our Online Service Center at etrade.com/servicecenter or call us at 1-800-838-0908 anytime, Monday–Friday. From outside the U.S. or Canada, call +1-650-599-0125. One of our dedicated stock plan professionals will be happy to assist you.