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Employee Stock Purchase Plans (ESPPs) allow employees of public companies to purchase stock at a minimum of a 15% discount (usually) using payroll deductions.
Requirements of IRC 423

1. Stockholders must approve plan within 12 months of adoption

2. Discount cannot exceed 15% and offering period cannot exceed 27 months

3. All plan participants must have “equal rights and privileges”

4. Part time, seasonal, highly-compensated, new or employees that own at least 5% of the company can be excluded

5. Employees cannot purchase more than $25,000 per year in stock
Operation of ESPP

Employees make payroll contributions during offering period

*Contributions are returned in the case of employee withdrawal or termination

Contributions are used to purchase shares at minimum of 15% discount

Transfer of shares reported on IRS Form 3922
# Tax Benefits of ESPPS

<table>
<thead>
<tr>
<th><strong>Employee</strong></th>
<th><strong>Issuer</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>No income on purchase of discounted shares</td>
<td>No withholding required</td>
</tr>
</tbody>
</table>

**Disqualifying Disposition:**
Compensation income is spread at exercise with remainder a capital transaction

**Qualifying Disposition:**
Compensation income is lesser of spread at date of grant or amount realized on sale less price paid

**Disqualifying Disposition:**
Employer deducts amounts equal to compensation income recognized

**Qualifying Disposition:**
No employer deduction

Form 3922 reporting required
Carver Edison enables public companies to increase stock plan participation by providing interest-free ESPP loans and customized financial education to employees.
## Loan Terms

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Interest Rate</strong></td>
<td><strong>0%</strong></td>
</tr>
<tr>
<td><strong>Fees</strong></td>
<td><strong>$0</strong></td>
</tr>
<tr>
<td>Collateral</td>
<td>Enough Shares To Repay Loan</td>
</tr>
<tr>
<td>Plan Administration</td>
<td>Existing Service Provider</td>
</tr>
<tr>
<td>Loan Administration</td>
<td>Carver Edison working with Plan Administrator</td>
</tr>
</tbody>
</table>
Private Letter Ruling Highlights

1. Purchasing ESPP shares using loan proceeds will not prevent plan from meeting 423(b)

2. Use of interest-free loan proceeds to purchase shares will not cause the plan’s discount to exceed 15%

3. Purchasing ESPP shares using interest-free loan proceeds will not prevent the plan from having “equal rights and privileges”

4. Excluding executives from loan features (Sarbanes-Oxley) will not prevent the plan from having “equal rights and privileges”
CARVER | EDISON

88.24%
Employee ROI

Contribution: $1,000
Stock Price: $10
Discount: 15%
Long Term Shares: 188.24

Old ESPP

17.65%
Employee ROI

Contribution: $1,000
Stock Price: $10
Discount: 15%
Long Term Shares: 117.65
CONTACT US

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