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Personalized Wealth Management

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NONQUALIFIED STOCK OPTIONS (NSOS)

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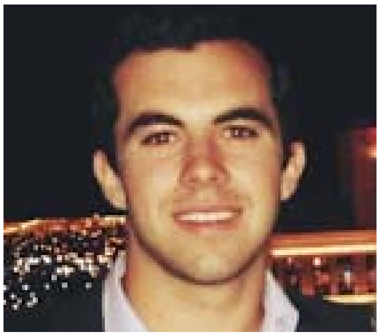

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"While the tax treatment of NSOs can be complex, understanding the implications and key features provides significant benefits to the employee."

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.

Features:

- NSOs are the most common form of stock options.
- They are called nonqualified because they do not qualify for special favorable tax treatment under the tax code (unlike ISOs).
- They can be granted to everyone: employees, officers, directors, and consultants.

Tax Treatment:

- Grant
  - ◊ The granting of NSOs is not a taxable event.
- Vesting
  - ◊ The vesting of NSOs is not a taxable event.
- Exercise
  - ◊ The spread between the exercise price and FMV at time of exercise is taxed as compensation income to the employee.
  - ◊ Tax withholding is required from the company when you exercise the options, including federal/state income taxes, Social Security and Medicare Taxes.
  - ◊ The income and withholding taxes will appear on Form W-2.
- Sale
  - ◊ When you sell the shares, you pay capital gains tax on any appreciation over the stock's value at exercise. Whether you pay long-term or short-term rates depends on your holding period. Your holding period starts the day after exercise.

NSO Taxation Example

- You receive NSOs that have an exercise price of $12 and a FMV value at date of exercise of $18. Assume that you sell the stock more than 1 year after exercise for $26.
  - ◊ Ordinary income at exercise on W-2 = $6 ($18 - $12)
  - ◊ Long-term capital gain when you sell = $8 ($26 - $18)

We recommend consulting with your employer to determine if you're eligible to make an 83(b) election on your NSOs, which can have significant tax benefits.