

# Employee stock options

## Frequently asked questions



Wealth  
Management

### What are employee stock options?

An employee stock option gives you the right to purchase your company's common stock at a specified price for a specified period of time. Employee stock options are a widely used form of incentive and compensation for valued employees of publicly traded companies.

### Who receives employee stock options?

Your company values you as an employee who contributes to the short- and long-term profitability of the company. By granting you employee stock options, your company gives you the opportunity to share in the financial success, which is achieved through your efforts.

### Why are employee stock options a valuable benefit?

The company has granted you the right to purchase company stock at a set grant price. At any time the company's current stock price is greater than your grant price, your vested employee stock options have ascertainable monetary value. If you exercise—or purchase—at such a time, you realize gains either “on paper” or monetarily, depending upon the type of exercise you choose.

### What is the difference between an incentive stock option and a non-qualified stock option?

**Incentive stock option (ISO)** — This is an employee stock option granted

only to employees of the company. Tax withholding on the gain is not required at the time of exercise.

**Non-qualified stock option (NQSO)** — This is an employee stock option granted to employees and non-employees of the company. Tax withholding on the gain is required at the time of exercise.

### Where can I get information about my employee stock options?

Every year you should receive a package from your company including an optionee activity status report. This report shows the current status of your employee stock options, including how many shares are vested, and how many employee stock option shares can be purchased (are exercisable). This report is also available on an as requested basis.

### When can I exercise my employee stock options?

The shares granted to you become exercisable over a certain period of time as described in your grant agreement. As the employee stock options vest, they become exercisable, which means you may purchase the shares of common stock the option(s) represent.

### How can I exercise my employee stock options?

Your stocks will have a vesting schedule, which is the set schedule at which granted employee stock option shares become available for exercise.

When you are ready to exercise your right to purchase your vested stock options, you may simultaneously purchase and sell the stock (same-day sale) through the cashless exercise program or purchase your stock with a check (cash exercise program). The difference is for the same day sale, the sale proceeds are used to pay the cost of the employee stock option plus any required tax withholding and for the check sale, the cost of the employee stock option shares plus any required tax withholding is paid by your personal check. We recommend you consult with your personal tax advisor prior to exercising any employee stock options.

### What are some key terms to know?

The grant date is when the grant is made, and the grant price—or price per share at which the employee stock option shares can be exercised—is determined. The settlement date happens three business days following the day shares are sold on the open market and taxable compensation is the amount reported by your company on the W-2/1099 form as ordinary income.

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