# Nonqualified Stock Option Timeline

### GRANT 9/1/01

"Thanks for working here! You can buy 100 shares at \$2 a share through 9/1/05" Stock presently trading at \$2 a share

#### **EXERCISE**

9/1/02 Employee buys 100 shares at \$2 a share Stock is trading at \$5 a share

#### SALE OF STOCK 6/1/07

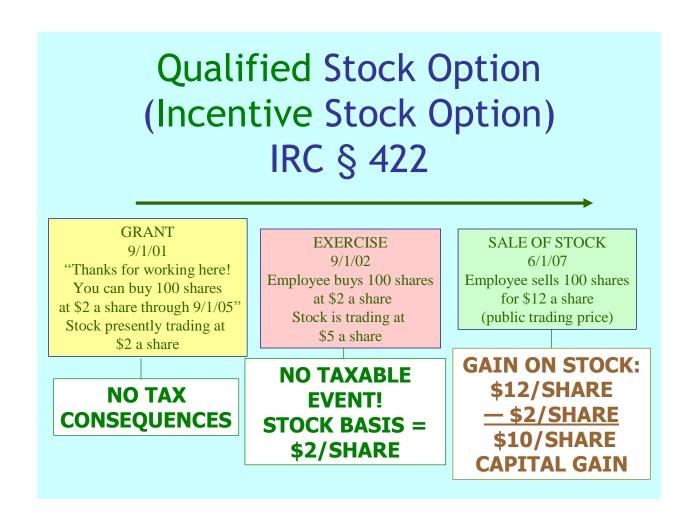
Employee sells 100 shares for \$12 a share (public trading price)

## NO TAX CONSEQUENCES

TAXABLE EVENT!
\$3/SHARE "SPREAD"
IS COMPENSATION
INCOME
ORDINARY
INCOME

### GAIN ON STOCK: \$12/SHARE

— \$5/SHARE \$7/SHARE CAPITAL GAIN



#### ISOs - Section 422

- Employee must retain stock for specified periods
- Exercise price cannot be less than FMV at grant
- Limit on value of stock covered by ISOs (\$100K per employee per exercise year)
- Potential problems with alternative minimum tax (AMT) — IRC § 56(b)(3)