



# Glossary of Terms

## **83 (b) Election**

Applies to employer grants of stock. You have 30 days from the grant date to make the election. The election allows you to pay ordinary income tax upon receipt of the stock, rather than when it vests. Any appreciation thereafter is taxable at the more favorable capital gains tax rates.

## **Alternative Minimum Tax (AMT)**

A parallel tax system designed to capture some of the taxes that would have been paid without tax-advantaged investments such as incentive stock options.

## **Asset Allocation**

The division of a portfolio among various types of investments such as bonds, stocks and cash, each with its own risk/ reward characteristics.

## **Capital Gains Tax**

The tax paid on capital gains (when the sale price of an asset is greater than the price paid for it). Long-term capital gains tax refers to investments held for over 12 months before selling them.

## **Cashless Exercise**

An options exercise method where the holder borrows money from the sponsoring broker to execute the trade. The optionee then has all of the shares sold simultaneously, paying off the temporary loan and receiving the net cash proceeds. Also called a same day sale.

## **Cash Purchase & Hold Exercise**

An options exercise method where the employee uses cash to execute the purchase of the underlying shares of an option. Future capital appreciation will be taxable at the more favorable capital gains tax rates.

## **Cost Basis**

Refers to the price an investor pays to acquire shares of a stock, plus any income recognized due to the acquisition of such stocks.

## **Disposition**

Refers to the employee "disposing" of the stock by selling, exchanging, or gifting it.

## **Exercise**

To purchase employer shares granted from an option.

## **Expiration Date**

The last date on which a stock option can be exercised.

## **Grant Date**

The date when the employer has taken all the actions necessary to grant an employee options.

## **Grant Price**

The price at which an employee can exercise the option, once vested.

## **Incentive Stock Option (ISO)**

An option that meets certain rules for preferential tax treatment. If several conditions are met, the holder is not required to pay ordinary income tax upon exercise.

## **Nonqualified Stock Option**

(NQS) Options that are not eligible to receive preferential tax treatment. Recipient pays payroll taxes upon exercise, and gains upon the sale of the stock.

## **Option Grant Number**

The company's identifying number for each option granted.

## **Qualified Sale**

This refers to the sale of ISO's that meets the requirements to receive favorable capital gains treatment.

## **Re-pricing**

When a company resets the grant price of stock options that have already been granted.

## **Restricted Stock Plan**

A plan whereby the employer grants employer stock at no cost (or a substantial discount) that is subject to a vesting schedule.

## **Sell-to-Cover Exercise**

The exercise of an option with the simultaneous sale of enough of the exercised shares to cover the exercise price, taxes, and transaction costs.

## **Stock Option**

The right to purchase stock in the future at a fixed price.

## **Stock Split**

When a company takes their current shares of stock and divides them into more shares (ex: 2 shares for each 1 now issued). This is done to make a stock more affordable to investors.

## **Underwater (Out-of-the-money)**

Refers to options when the stock's current market price is below the grant price on the option. Example: an option priced at \$20 when the stock is trading at \$15.

## **Vested**

The portion of an employee's options that are eligible to be exercised.

## **Vested Date**

The first date that the option can be exercised.

## **Vesting Period**

The period of time required before any options can be exercised by employees.

## **Vesting Schedules:**

- **Cliff Vesting:** An all-or-none vesting option where the employee's options become vested on one date. Until that date, the options are considered 0% vested.

- **Performance Vesting:** One that is tied to predetermined goals set by the company, typically related to certain earnings or revenue targets.
- **Step Vesting:** When the percentage of options exercisable each year increases.
- **Straight Vesting:** When the percentage of options exercisable each year is the same.