

# Glossary



## 144

SEC Rule 144 is a means by which restricted and control securities may be sold in compliance with federal law and regulations. Rule 144 requirements depend on who owns the security, the length of time it has been owned, and how it was acquired. Rule 144 applies to the resale of restricted securities as well as to restricted and nonrestricted securities sold by control persons. To sell the security, some or all of these requirements must be met:

- The issuer must be in compliance with SEC-reporting requirements.
- A holding period of one year must be met by the shareholder. However, a control person may sell unrestricted securities without regard to the holding period. Volume restrictions still apply.
- The amount of stock sold in any three-month period cannot exceed the volume limitations, which are the greater of 1% of the outstanding shares or the average weekly trading volume for the four calendar weeks preceding the filing of a Form 144 notice. A Form 144 notice must be filed in certain transactions.
- The stock must be sold in a broker's transaction or a transaction with a market maker. Solicitation of purchasers is prohibited.

## 144K

Securities have this restriction if the securities are restricted but the stock owner is not an affiliate of the company, and the securities were acquired from the company or an affiliate of the company more than two years ago. Customers can sell this type of stock without having to satisfy most of the requirements of Rule 144.

## 145

Sets forth conditions for selling securities that are the result of an SEC-registered merger or consolidation. Non-affiliates are not subject to resale restrictions. Affiliates of the selling company who do not become affiliates of the acquiring company are subject to volume restrictions and public information

requirements for the first year, but do not have to file Form 144. During the second year, the only requirement is for the company to be current in all SEC reporting. Affiliates of the acquiring company must abide by all 144 requirements except the minimum holding period.

## 701(g)(3)

Rule permitting the sale of unregistered securities in the open market, provided that the shares were issued under a company benefit plan or compensation agreement prior to a company going public. An owner of these securities who is not considered an affiliate of the issuer may sell shares under Rule 701(g)(3) without having to satisfy Rule 144 requirements. The shares cannot be sold until 90 days after the company goes public. However, certain Rule 701 paperwork needs to be completed by the stock owner in order to have the restricted legend removed and to release proceeds from the sale. Affiliates must satisfy all the requirements of Rule 144, other than the one-year holding period.

## Account Certification (Activation)

The process of verifying tax identification information. Fidelity uses Form W-9 for U.S. citizens and Form W-8 for nonresident aliens and foreign entities.

## Alternative Minimum Tax (AMT)

A separate tax system, complementary to the federal income tax system. The AMT system attempts to make sure that anyone who benefits from certain tax advantages will pay at least a minimum amount of tax.

## Average High and Low for the Day

This is a fair market value option that means your stock option plan takes the average of the highest and lowest trading price of your company stock for the day and uses that average to calculate the:

- Taxable gain
- Withholding taxes for nonqualified stock options
- Alternative minimum tax (AMT) for incentive stock options

## Blackout Period

A certain time frame when privileges to exercise or sell your shares may be restricted. Refer to your plan rules for more information.

## Capital Gains Tax

A tax on a positive return on an investment resulting from the sale price of a security being higher than the purchase price.

## Capital Loss

A negative return on an investment resulting from the sale price of a security being lower than the purchase price.

## Cashless Exercise (Exercise and Sell)

The exercise of the option and sale of the underlying shares take place simultaneously, so the broker uses the proceeds of the sale to pay the company for the exercise price and any tax withholding. The optionee receives the remaining cash, less any brokerage commission and fees.

## Commission

The fee paid to a broker for executing a trade based on the number of shares traded or the dollar amount traded.

## Control Persons, Insiders, or Affiliates

Officers, directors, policy-making executives, major shareholders (generally owners of 10% or more of outstanding shares), and other people who are in a position to directly or indirectly control the management of the company. This includes spouses, family members who live with the control person, and other entities affiliated with control persons, as defined in Rule 144. Securities trading by a control person of the issuer is subject to restrictions, regardless of whether the security is restricted. A control person must complete Rule 144 documentation and comply with Rule 144 when selling control securities.

## Distribution Method

The method by which the value of your restricted stock is to be distributed to you: cash to brokerage account, shares to brokerage account, or via payroll.

## Disqualifying Disposition

When beneficial tax treatment is waived due to selling shares without waiting the IRS mandated time frame for special tax treatment. You can see the date in which you would be able to sell the shares without acquiring a disqualifying disposition on your brokerage account lots page.

- For incentive stock options (ISOs)—one year from the date of exercise or two years from the date the stock options were granted.
- For qualified employee stock purchase plans (ESPPs)—one year from the purchase date and more than two years from the offering period.

## Employee Stock Purchase Plan (ESPP)

A type of stock plan that allows employees to purchase shares of company stock via accumulated payroll deductions, sometimes at a discount.

## Enrollment Period

The period of time, predetermined by your employer, when an eligible employee is able to enroll in the Employee Stock Purchase Plan.

## Estimated Proceeds

This is an estimate of the cash or share proceeds from an exercise or sell order. This estimate shows all proceeds after any estimates for costs or taxes are deducted.

Actual cash proceeds at time of order execution may be different.

## Exercise

Allows you to capture the value between the grant price and the current trading price of your company stock, paying out in either cash or shares depending on exercise methods allowed by the company.

## Exercise and Hold

A form of stock option exercise in which you exercise your option to acquire shares of your company stock and hold the stock. When you do this, you need to have funds available in order to pay the exercise cost and required tax withholdings.

Funds must be available through cash on deposit in your Fidelity Account®, or, if you have been approved for margin, available margin to borrow against other securities in your Fidelity Account.

## Exercise and Sell (Cashless Exercise)

A form of stock option exercise in which you exercise your option to acquire shares of your company stock and sell the stock immediately. The cash proceeds from the sale are used to pay the exercise cost, required tax withholding, and brokerage commissions and fees. You receive the remaining net cash proceeds in your Fidelity Account. This form of exercise does not require you to provide cash for the exercise.

## Exercise and Sell to Cover

The exercise of options and sale of stock sufficient to cover the total exercise cost. You hold the remaining shares in the account.

## Exercise Date

The date you make an action with your stock options and start the process to receive either cash or shares.

## Exercise Price

The price per share that you must pay to your company to exercise the stock option. The exercise price is also known as the grant price.

## Expiration Date

The last date that you are able to exercise your stock options. After this date your options have no value.

## Fair Market Value (FMV)

The value of your company stock at the time of exercising your options. Fair market value is specified in your employer's stock option plan and is used to determine the amount of gain that is treated as compensation for federal income tax purposes.

In your plan documents and under your grant information, the process used for fair market value by your company is stated. The fair market value will be one of the following:

- Prior business day's close
- Average high and low for the day
- Real-time price
- Today's close

## Fidelity Account®

Most stock plans deposit shares or cash into this account and, from this point, assets can be distributed to fit your needs. This is a nonretirement brokerage account, with trading and cash management features that help you monitor and manage your stock plan.

## Grant

Each new option or stock award given is a different grant that contains an amount of stock or options determined by your company.

## Grant Agreement

Document issued by the company setting forth the number of shares, grant/exercise price, vesting schedule, and other terms of the stock awards.

## Grant ID

The identification number that is assigned to each grant in order to differentiate between awards.

## Grant Price

The price per share that you must pay to your company to exercise the stock option. The grant price may also be referred to as the exercise price.

## Grant Type

Whether a stock option grant is a tax-advantaged incentive stock option (ISO) or a nonqualified stock option (NSO).

## Holding Period

This refers to the amount of time that stocks or options must be held before they can be sold or exercised. The holding period requirements are described in the plan documents.

## In the Money

A stock option is "in the money" when the current market price of your company stock is above the grant price.

## Incentive Stock Option (ISO)

A stock option is the opportunity, granted to you by your company, to purchase a certain number of shares of your company's common stock at a pre-established grant price over a defined period of time.

ISOs meet the IRS requirements for special tax treatment. With ISOs, you do not have to pay regular income taxes at the time you exercise your stock options if you hold your shares the later of one year from the date of exercise or two years from the date the stock options were granted (the waiting period).

- If you decide to sell your stock option shares after the waiting period, you will be subject to a capital gains tax on the difference between the sale price and the grant price.
- If you sell your shares prior to or on the one-year anniversary of the date on which the shares were granted, the shares you sell are subject to a disqualifying disposition, which means that, generally, you will be required to pay income tax on the difference between the fair market value at the time you exercise the stock options and the grant price.
- If you exercise the stock options prior to the two-year anniversary of the date on which the stock options were granted, hold them, and then sell them between the one-year and two-year anniversary on which the stock options were granted, you pay short-term capital gains on the difference between the fair market value on the date you sold the shares and the grant price.

## Issuer (of an Option)

The company that grants stock options to an optionee.

## Net Value

The amount your options or shares are in the money. This is the value of your grants prior to taxes that may need to be withheld.

## Nonqualified Stock Option (NSO)

A stock option is the opportunity, granted to you by your company, to purchase a certain number of shares of your company's common stock at a pre-established grant price over a defined period of time.

NSOs do not meet certain IRS requirements that allow you special tax treatment. With NSOs, you are taxed when you exercise the stock options. You pay ordinary income taxes on the difference between the fair market value at exercise and the grant price (net value).

## Offering Period

The time period when your company collects your contributions from your paycheck and holds the money until it is time to purchase shares at the end of the offering period.

## Option Agreement

This document is reviewed before accepting a new grant that is a contract, between you and your company, that sets forth the terms and rules.

## Optionee

Anyone who has been granted stock options and still holds them.

## Out of the Money

A stock option is "out of the money" or "under water" when its grant price is above the current market price.

## Participant

An eligible employee who is taking part in an employer-provided equity compensation plan.

## Performance Award Plan

Typically, a grant of company shares or units in which the recipient's rights in the shares or units are contingent on the achievement of pre-established performance goals. Details of performance awards vary greatly based on company-defined rules.

## Plan Document

A client-supplied document that provides a legal description of the plan rules and how the plan functions.

## Prior Business Day's Close

This is a fair market value option that means your stock option plan uses your company stock's prior trading day's closing price to calculate the:

- Taxable gain
- Withholding taxes for nonqualified stock options
- Alternative minimum tax (AMT) for incentive stock options

## Purchase Date

Company-determined date after the offering period where your company takes all the money you have contributed through the employee stock purchase plan and buys as many shares of your company stock as possible. Sometimes this is done at a discount, depending on company rules.

## Purchase Price

The price paid to purchase the company's stock through the employee stock purchase plan on the purchase date.

## Real-Time Price

This is a fair market value option that means your stock option plan uses the market price for the stock at the time your exercise order executes to calculate the:

- Taxable gain
- Withholding taxes for nonqualified stock options
- Alternative minimum tax (AMT) for incentive stock options

## Restricted Stock Award (RSA)

A grant of company stock in which your rights to the stocks are restricted until the award vests, also known as a lapse in restrictions. Once the shares vest, they are deposited into your Fidelity Account and are yours to hold, sell, or transfer.

## Restricted Stock Unit (RSU)

A grant valued in terms of company stock that is restricted until the award vests. After the vesting requirement is satisfied, your company distributes shares or the cash equivalent.

## Share (Stock)

A unit of equity ownership in a company.

## Stock Appreciation Right (SAR)

An award that provides the holder with the ability to profit from the appreciation in value of a set number of shares of company stock over a set period of time.

## Stock Option

Gives you the right, but not the obligation, to purchase the stock of your company at a fixed price (the grant price) for a fixed period of time.

## Stock Option Netting

An option to elect to receive shares at the time of exercise to cover the option's cost and required tax withholding. This option will allow you to avoid using any of your own cash during the exercise, and there is no need to sell shares in order to cover costs and taxes.

## Stock Swap

A form of stock option exercise in which you exercise your option to acquire shares of your company stock by exchanging shares of a stock you currently own instead of cash to pay the exercise cost.

## Today's Close

This is one of the fair market value options that means your stock option plan uses the price for the stock as of the market close on the day your stock exercise order executes to calculate the:

- Taxable gain
- Withholding taxes for nonqualified stock options
- Alternative minimum tax (AMT) for incentive stock options

## Vesting

This refers to when the participant has earned the right of ownership and the options or restricted stock becomes available to sell. Vesting occurs after your company-designated time frame is met (also known as a vesting schedule).

## Vesting Schedule

The schedule of when, and to what extent, awards become available based on periods of time (options and restricted stock).

## Withholding Tax

The same taxes withheld from every paycheck: Social Security, Medicare, federal, and local income taxes.