2023 · WHAT ISSUES SHOULD I CONSIDER REGARDING MY NON-QUALIFIED STOCK OPTIONS?

CODDINGTON WEALTH ADVISORS
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GRANT ISSUES

GRANT ISSUES	YES	NO
Do you need help understanding the options granted to you? If so, consider reviewing the company's stock plan, your grant agreement, and relevant forms used by the company (e.g., for exercising options and misc. elections).	☐	☐
Do you need help determining the tax implications at grant? Income tax is generally not due in the year of the grant, except in rare cases where the value of the option is readily ascertainable (e.g., if the option is traded on a securities exchange) or the option price is discounted.	☐	☐
Is the exercise price less than the FMV at the grant date? If so, you may have deferred compensation, subject to tax under the IRC §409A rules.	☐	☐
Are you subject to a vesting schedule? If so, consider the following: ■ Monitor the expiration of relevant time periods or the achievement of performance goals that trigger or terminate your exercise rights. ■ Note whether your options have an early exercise feature, and weigh the advantages and risks of exercising prior to vesting.	☐	☐
Will you be subject to clawback provisions?	☐	☐
Do you need to review how termination of your employment (voluntarily or involuntarily), disability, or death might affect your interests under your plan? Be aware of rights tied to your relationship with the company, and be sure to plan around any foreseeable changes.	☐	☐

EXERCISE ISSUES

EXERCISE ISSUES	YES	NO
Do you need help determining the value of your interests? If so, consider the following: ■ Compare the exercise price and the stock's current fair market value (FMV) to assess whether your options are "in the money" or "underwater." (continue on next column)	☐	☐

EXERCISE ISSUES (CONTINUED)

EXERCISE ISSUES (CONTINUED)	YES	NO
■ In addition to the potential bargain element and opportunity to share in any future stock appreciation, review the company's dividend policy. ■ Factor in a discount if the underlying shares are not marketable.		
Do you need to assess your employer's future equity value and long-term viability? If so, be mindful of becoming overly financially dependent upon your employer (as your sole source of earned income and a potentially large percentage of your net worth).	☐	☐
Do you need help determining the income tax implications of exercising vested options? If so, consider the following: ■ Ordinary income tax will be due on the bargain element (i.e., the spread between the exercise price and FMV at exercise) in the year of exercise, and you will be subject to payroll taxes and income tax withholding. ■ However, if you qualify for and timely make an IRC §83(i) election, you may be able to defer income tax for up to five years.	☐	☐
Are you permitted to early exercise and purchase stock before vesting? If so, consider the following: ■ Generally, dividends will be reported as wages until vesting, and ordinary income tax will not be due at exercise. ■ Ordinary income tax will be due on the bargain element (i.e., the spread between the exercise price and FMV at exercise) in the year of vesting, and you will be subject to payroll taxes and income tax withholding. ■ If you make an IRC §83(b) election within the deadline (filed with the IRS within 30 days of exercise, with notice to the company), you can accelerate the recognition of ordinary income to the year of early exercise. The IRC §83(b) election starts the capital gains holding period, and any future appreciation would be taxed as a capital gain. Future dividends will receive dividend tax treatment.	☐	☐
Do you lack the funds necessary to do a cash exercise? If so, consider whether there are viable and favorable alternatives, including borrowing, a cashless exercise, or a stock swap. Be aware of the tax consequences of these strategies.	☐	☐

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SHARE OWNERSHIP & SALE OF STOCK ISSUES	YES	NO
Do you own unvested shares due to an early exercise? If so, consider the following: ▪ You are treated like other shareholders and may receive any dividends, vote (to the extent your shares are voting shares), and request company financials. ▪ The shares may be subject to a repurchase right if your employment is terminated prior to vesting. The price is generally the lower of the exercise price or the FMV at repurchase.	☐	☐
Do you need help determining the basis of your shares? If so, your basis is generally the exercise (purchase) price plus any ordinary income reported as compensation at the time of exercise (or at vesting if you exercise early and make no IRC §83(b) election).	☐	☐
Do you need help understanding the tax consequences of the sale of shares acquired through your options? If so, consider the following: ▪ If you sell the shares within one year after the exercise date, you will recognize short-term capital gains or losses. ▪ If you sell the shares more than one year after the exercise date, you will recognize long-term capital gains or losses. ▪ When you exercise vested options, your holding period begins the following day. For early exercise, your holding period begins when the stock vests, unless you make an IRC §83(b) election within the deadline, which starts the holding period the day after the stock is transferred.	☐	☐
Does the company require preclearance or have blackout or window periods that might affect your ability to trade your shares?	☐	☐

MISCELLANEOUS ISSUES	YES	NO
Do you need to increase your withholdings (beyond any employer withholdings) or make estimated payments for taxes attributable to your options?	☐	☐
Do you need to evaluate your company stock position?	☐	☐
Do you need a plan to mitigate concentration risk?	☐	☐
Do you need help factoring in the risks of a stock price decline when considering whether to exercise and/or to make the IRC §83(b) election?	☐	☐
Do you need to address your options in your estate plan or in a pending divorce?	☐	☐
Do you need to consider any state-specific issues?	☐	☐
Do you have future financial goals that your options could help to achieve? If so, integrate an exercise and sale strategy into your overall plan, in coordination with your income and savings strategies.	☐	☐

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