

The Highlights of Your NEWCO Stock Option Plan

Discussion Draft
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NEWCO Stock Option Plan...Sharing in the wealth you help create

As a participant in the NEWCO Stock Option Plan, you share in the success you help create—the increasing price of NEWCO Stock.

WHAT IS A STOCK OPTION?

A stock option is a risk-free opportunity to receive the increase in the price of a share of NEWCO stock—no matter how high the market price climbs. The higher it goes, the more valuable your stock options become.

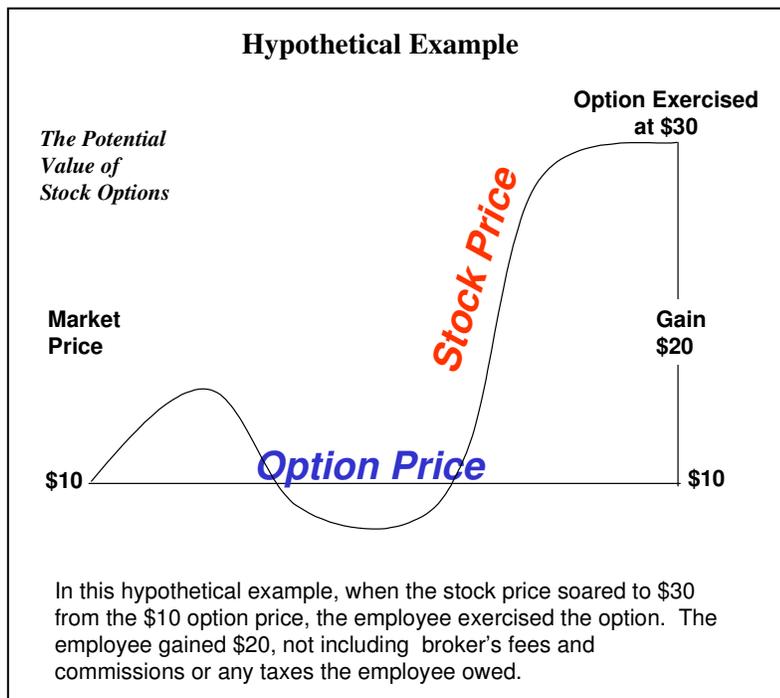
The stock option award you receive will show the option price—the price of NEWCO stock on the day the stock option award was made.

For every dollar the price NEWCO stock goes above the option price, you have the opportunity to gain that value (adjusted for fees and taxes). If you obtain NEWCO stock, its price can go down or up.

WHEN CAN I TAKE ADVANTAGE OF MY STOCK OPTIONS?

[TIME/years, months] after the date of your award, you can take advantage of [%] of your stock options from the award. [PERCENT] of the remaining options from the award become available (also called “vested”) on each of the [TIME] anniversaries of the award date. That means 100% of the options are vested by the [TIME] anniversary. You have the right to turn your vested stock options into cash or NEWCO stock —that’s called “exercising your options.”

As long as the market price of NEWCO stock when you exercise is higher than the option price, you can make money. If the market price is not higher, there is no gain so you cannot use your stock options—but you do not lose any money.



By remaining a NEWCO employee, you can use your stock options as they become vested—up to the date they expire (vesting and expiration dates are shown on your stock option award). If you leave NEWCO, any stock options that are not vested are cancelled on your last day of employment—you lose the right to exercise them. And any vested stock options must be used within the time limit described on the stock option award.

This is only a general summary of how the NEWCO Stock Option Plan works. More details, including information about the amount you pay in brokers' fees, commissions, and income withholding taxes, will be provided. This summary does not address various taxes, securities, or work-related laws. NEWCO encourages you to consult your own financial and tax advisors before making decisions regarding your stock options.

[Additional disclaimers?]

HOW DO I TAKE ADVANTAGE OF MY STOCK OPTIONS?

You will receive instructions regarding how to convert your vested stock options to cash or NEWCO stock. During the time available to exercise your options, it is up to you to determine when you wish to do so. When you decide, you have three choices:

1. **CASHLESS EXERCISE WITH CASH PAYOUT.** The stock option administrator will use the vested options you want to exercise and pay its own money for the stock at the option price. Almost immediately, the administrator will sell all that stock at the current market price and keep part of the cash for reimbursement of the money it spent as well as for fees and withholding taxes. You will receive the remaining amount in cash—all without using your cash.
2. **CASHLESS EXERCISE WITH NEWCO STOCK PAYOUT.** The stock option administrator will follow all the steps described above, except it will sell only enough of the stock (at the current price) for reimbursement of the money it spent as well as for fees and withholding taxes. You will receive the remaining amount in NEWCO stock based on the current market price—all without using your cash. Of course, your stock is subject to all the risk of the stock market—the price may go up or down.
3. **CASH EXERCISE WITH NEWCO STOCK PAYOUT.** With this choice, you use your cash to turn your vested stock options into NEWCO stock that you own. You also pay all the fees and withholding taxes. You receive one share of NEWCO stock for each option you exercise. Of course, the stock is subject to all the risk of the stock market.

Stock...At-a-Glance

What is stock?

Stock is a measure of ownership. If one person owned all the stock, that person would own the entire company. But many companies divide the ownership of the company into shares and sell them to a variety of people and organizations—all called *shareholders*. These shareholders pay their money to own stock because they believe the company will run its business well, sell its products and services at a profit and grow. The company uses the money shareholders pay for the stock to help run the business. When the company is successful—as compared to other investments available to shareholders—the stock price tends to go up. However, many other economic factors contribute to stock price. When the company is not as successful as shareholders expect, the stock price can go down.

What is a stock market?

In general terms, the stock market is like an auction. There are shareholders offering to sell stock and there are investors looking to buy stock. But sellers and buyers must agree on the price—which can change minute by minute. There are several stock markets throughout the world. NEWCO's stock is currently [describe exchange or method]. Although all transactions are done by computer, only people who are brokers—licensed by the government—are allowed to conduct the buying and selling of stock.

What can you do to help push up the stock price?

The more you help NEWCO run its business effectively, keep current customers happy and get new ones, create sought-after services, and hold down expenses, the more likely the stock price will go up. As a NEWCO employee—and especially now that you have stock options—you should be asking your team members, your team leader, and yourself, “What can we do to help increase the price of NEWCO stock?”

A FEW WORDS ABOUT TAXES...When you make money, the government usually taxes it. This applies to the stock options you use. Under current U.S. law, U.S. taxpayers are not taxed on stock options until they are used. When they are used (exercised), the dollar amount gained is taxable. That gain is the difference between the option price and the market price of the stock when you exercise. This amount is treated as income to you. Tax on this amount is withheld (income taxes and Social Security) whether you end up with cash or stock. The IRS requires NEWCO to report this taxable amount on your W-2 statement. If you request a stock payout, when you later sell the stock it will be treated as either a short- or long-term capital gain or loss. Tax laws are complicated and NEWCO cannot provide tax advice. Please contact a tax advisor or the IRS for more information. This information does not apply to what are called incentive stock options.