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Certified Equity Professional Exam Review

SAMPLE SLIDES

These slides are a sample of the deck of over 125 that you will be able to place in your CEP Binder for use during the exam. You will also receive an index for the slides (both by slide number and alphabetical)

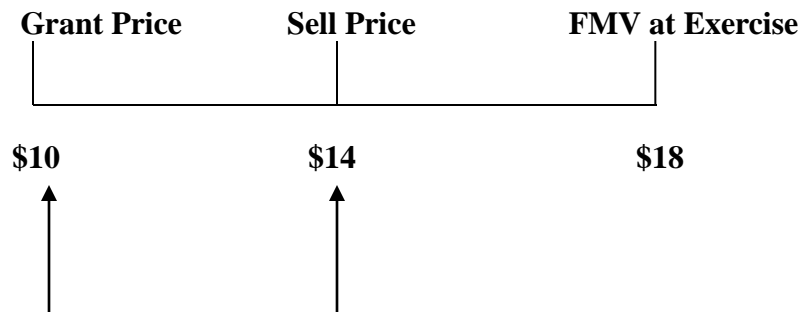
Stock Options – How they work?

- When an individual (the “optionee”) is granted a compensatory stock option, that individual receives a contract right to purchase shares in a corporation for a fixed term at a fixed price – in most cases, the fair market value of the stock on the date the option was granted. Companies typically grant options to employees, consultants, or other persons associated with the company to encourage their retention and participation in the success of the company.
- Companies generally adopt stock option plans that permit grants of both incentive stock options (ISOs) and non-statutory stock options (NSOs).
- Under the New York Stock Exchange’s corporate governance listing standards, **the compensation committee of a listed company is responsible for making recommendations to the board of directors with respect to the company’s “Section 16 officers” (other than the CEO)**, including compensation plans and equity plans, such as a stock option plan. Compensation for other employees may be set, but need not be set, by this same committee.
- To ensure there is no dilution or enlargement of either the number of shares of stock authorized for issuance under the plan or the individual equity interests of optionees, stock options are normally adjusted for stock splits, reverse stock splits, or any other changes that increase or decrease the number of outstanding securities. A stock split occurs on a designated “record date”. On that date, all outstanding shares of record will be adjusted according to the split ratio. Grants and exercises of stock options that occur between the record date and the “payable date” must be adjusted to reflect the post-split conditions.

Incentive Stock Options (ISOs)

- A statutory option, subject to the technical requirements prescribed in Section 422 of the code. ISOs may only be granted to employees of the issuing company (including employees of its parent and subsidiary corporations).
- Statutory requirements for ISOs are:
 - The option exercise price must be no less than the fair market value of the shares (as determined by the board of directors in good faith) on the date of the grant. ISO grants can not be made at a discount.
 - The option must be granted within 10 years after the plan is adopted.
 - The option, by its terms, cannot be exercisable for a period longer than 10 years after the date of grant.
 - The option may be granted only to a person who is an employee of the company (or its parent or subsidiary) on the date of the grant.
 - The option must be exercised by the employee no later than three months after termination of employment (except in case of disability, after which an ISO can be exercised for up to one year, or death, for which there are no time limits for exercise by the estate), subject to the above stated requirement that the option cannot be exercisable for a period longer than 10 years after the date of the grant.
 - The option, by its terms, cannot be transferable (other than by will or laws of descent). During the employee's lifetime it can be exercised only by the employee.
 - If an option is granted to a more than 10% shareholder of the company, its parent, or subsidiary, the exercise price can be no less than 110% of fair market value at the date of grant, and the option cannot be exercised for a period longer than five years after the date of grant. (This does not factor into the 100K Rule since the grant date fair market value is used for that calculation, and not the grant price).

Disqualifying Disposition of an ISO



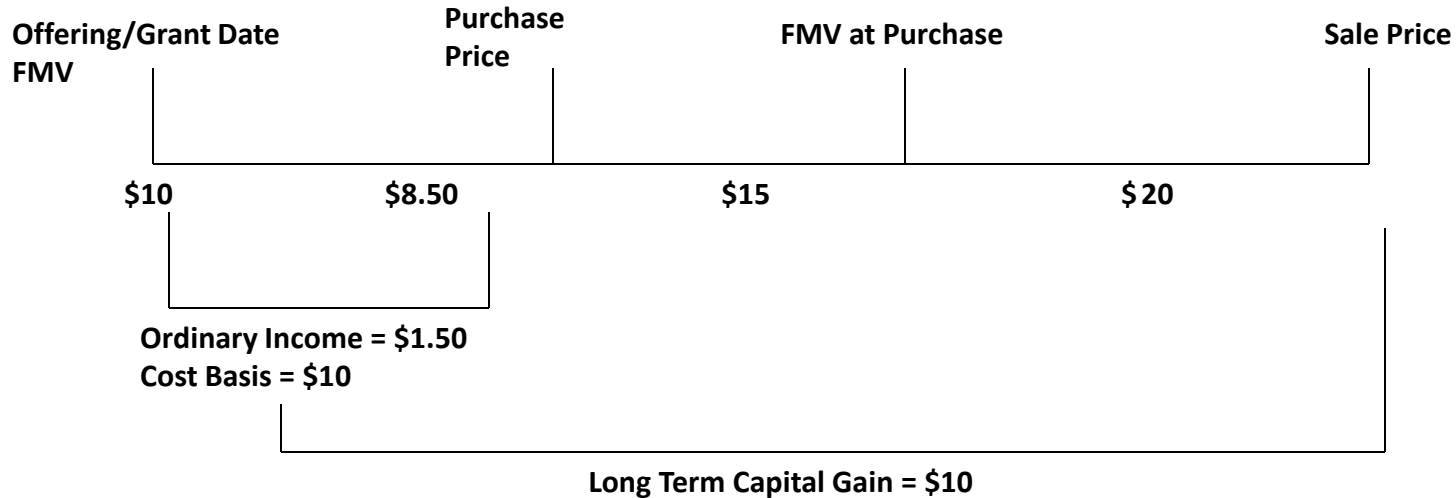
\$4 Compensation Income

- If the shares are sold for more than participant paid for them but less than the shares were worth at the time they exercised their options, the entire gain is compensation income, which should be included in their Form W-2. They also need to report the sale on Schedule D, but since their basis will be equal to the selling price, they will not have a gain or loss

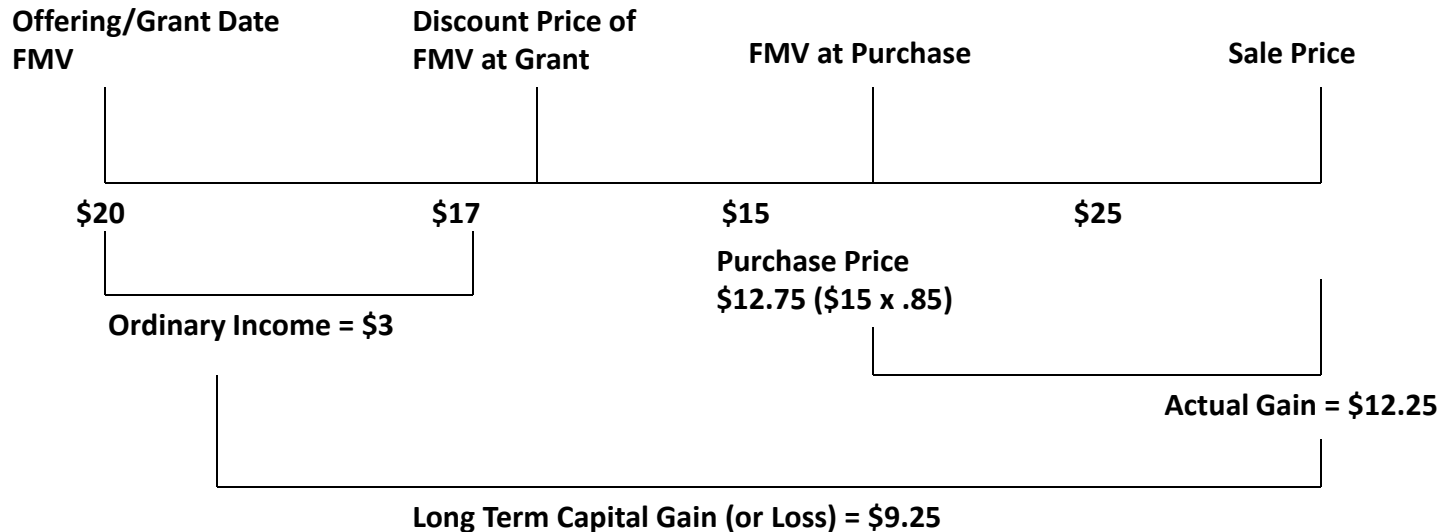
ESPP - Statutory Requirements for Section 423 Plans

- Options may be granted only to employees of the employer corporation or its designated parent or subsidiary corporations to purchase stock in any such corporation.
- The plan must be approved by the shareholders of the granting corporation within 12 months before or after the plan is adopted.
- Under the terms of the plan, no employee may be granted an option if such employee, immediately after the option is granted, owns stock having 5% or more of the voting power or value of all classes of stock of the employer or its parent or subsidiary corporations.
- Under the terms of the plan, if any options are granted to any employees, they must be granted to all employees of the corporation with the exception of any or all of the following:
 - Employees employed less than two years;
 - Employees whose customary employment is 20 hours or less per week;
 - Employees whose customary employment is for not more than 5 months in any calendar year; and
 - “Highly compensated” employees (as defined in Section 414(q) of the code, Highest paid 1% - not more than 250 employees)

ESPP Qualified Disposition of Shares



- Ordinary Income will be the lesser of 1) 15% (or the pricing discount) of the FMV on Date of Grant, Or 2) the actual gain.



Capital Gain (or Loss) Calculation = Sale Price – Ordinary Income – Purchase Price

Item 402 Sample Tables

Summary Compensation Table

| Name and Principal Position (a) | Year (b) | Annual Compensation | | | Long-term Compensation | | | |
|---------------------------------|----------|---------------------|----------------|------------------------------------|------------------------------------|--|-----------------------|---------------------------------|
| | | Salary (\$) (c) | Bonus (\$) (d) | Other Annual Compensation (\$) (e) | Awards | | Payouts | All other compensation (\$) (l) |
| | | | | | Restricted Stock Award(s) (\$) (f) | Securities underlying options / SARS (#) (g) | LTIP payouts (\$) (h) | |
| CEO | | | | | | | | |
| A..... | | | | | | | | |
| B..... | | | | | | | | |
| C..... | | | | | | | | |
| D..... | | | | | | | | |



Option / SAR Grants In Last Fiscal Year [Individual Grants]

| Name (a) | Number of securities underlying options / SARS granted (#) (b) | Percent of total options / SARS granted to employees in fiscal year (c) | Exercise or base price (\$/Sh) (d) | Expiration date (e) |
|----------|--|---|------------------------------------|---------------------|
| CEO... | | | | |
| A..... | | | | |
| B..... | | | | |
| C..... | | | | |
| D..... | | | | |

Column "l" Inclusions:

- Perquisites and other personal benefits.
- Tax "gross-ups" or other reimbursements.
- Preferential discounted stock purchases
- Amounts paid or accrued in connection with a termination or change in control of the company
- Company contributions to defined contribution plans
- The dollar value of any insurance premiums paid for life insurance for the benefit of an NEO
- The dollar value of any dividends or other earnings paid on stock option awards (where those amounts were not factored into the award's grant date fair value).