

FREQUENTLY ASKED QUESTIONS ABOUT YOUR OPTIONS

I hear a lot about Nonqualified Stock Options (NSOs) and Incentive Stock Options (ISOs). What is the difference between the two?

Nonqualified Stock Options (NSOs) are more traditional stock options that do not meet certain IRS requirements that allow you special tax treatment. With NSOs, you will pay ordinary income tax, social security tax and Medicare taxes equal to the difference between the fair market value when you exercise the stock options and the grant price.

Incentive Stock Options (ISOs) meet the IRS requirements for special tax treatment. With ISOs, *you do not have to pay regular income taxes at the time your exercise*, but you must hold your shares for at least one year from the date of exercise and two years from grant date. When you sell your shares after the required waiting period, you will be subject to a capital gains tax based on the difference between the sale price and the grant price.

Does William Blair & Company require me to open a margin account to perform a cashless option exercise?

No. As soon as your advisor executes your order regarding the exercise of your stock options he/she will forward a check to your company for the proceeds from the sale of stock less the cost of the stock, brokerage commissions and fees.

How long the does a stock exercise transaction take?

Once your William Blair & Company advisor receives your signed paperwork, your account can be established, your transaction can be processed, and the proceeds are generally in your account within 10 business days. To shorten the process, we suggest you open an account today even if you may not be exercising any options for some time.

What happens to my options if I leave my employer?

There are usually special rules in the event you leave your employer, retire, or pass away. See your employer's plan rules for details.

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William Blair & Company

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William Blair & Company

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Corporate &
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Option Exercising

OPTION EXERCISE OPPORTUNITIES

If you have been granted options through your company's stock option program and are ready to exercise, William Blair & Company can help you with your transaction with little or no cash outlay. Below is a summary of the choices you have regarding your options.

Option Opportunities

- Exercise your options and sell the stock (cashless option exercise)
- Exercise your options and hold the stock
- Hold your Stock Options

Exercise your options and sell the stock (cashless option exercise)

You may exercise your stock options to buy your company stock and sell the stock at the same time without using your own cash. This is referred to as a Cashless Option Exercise. The proceeds you receive from this transaction are equal to the net proceeds of the stock sale (# of shares x price per share) minus the grant price, any required tax withholding, brokerage commissions and fees. The advantage of the cashless option exercise is that your account receives the sales proceeds upon your exercise without any outlay of cash on your part. Just as an individual who exercises and holds the stock, you will be required to recognize ordinary income on the gain upon exercise of your options.

Example:

Let's assume you have an option to buy 1,000 shares of XYZ Corporation common stock at \$15 per share when the stock is currently trading for \$50 per share. If you were to execute a cashless option exercise, you would end up with \$35,000 (less taxes, brokerage commissions and fees) in your account, which can be reinvested or sent to you.

Market Price

1,000 shares at \$50 per share = \$50,000

Exercise Price

1,000 shares at \$15 per share = \$15,000

Net Difference = \$35,000*

*Prior to taxes, commissions, and fees

Exercise your options and hold the stock

To own shares of your company's stock to take advantage of ownership, such as voting privileges and dividends, you may choose to exercise your stock options and then hold the stock. Depending on the type of option, you may need to deposit cash or borrow funds on margin using securities in your William Blair & Company account as collateral to pay the option cost, brokerage commissions, fees and taxes.

Example:

Consider our previous example where you have the option to buy 1,000 shares of XYZ Corporation common stock at \$15 per share when the stock currently trades for \$50 per share. With your Company's stock-option-exercise program, you would pay \$15,000 to acquire the 1,000 shares. You would then take possession of \$50,000 worth of company stock, have voting rights, participate in market appreciation and be able to collect dividends, if offered, by the company. However, you would recognize \$35,000 (\$50,000 - \$15,000) as ordinary income on which you would have to pay tax.

Hold your stock options

You can choose to hold your current options until just prior to expiration. You will be able to take advantage of appreciation in your company's stock (assuming the stock price has increased) while deferring taxes to the period you exercise the options. Your investment professional can assist you with this easy process.

How to participate

1. When you are ready to exercise your options, complete and endorse the Exercise Notice that is part of the stock option agreement, which informs your William Blair & Company advisor the number of shares you wish to exercise.
2. Complete an executed (signed) stock power making the stock negotiable when received by William Blair & Company.
3. Copies of the proper documentation will be sent to your company, thereby starting the exercise process.
4. If shares need to be sold, your investment professional will execute the sales transaction and deposit the proceeds less the costs of the stock, brokerage commissions, taxes and fees into your William Blair & Company account.
5. A check will also be issued to your company for the amount of the shares plus any taxes withheld.