Glossary of Relevant Terms and Abbreviations for Executive Compensation

ABA. Abbreviation for *American Bar Association.* An association that oversees the legal profession in the United States.

Accounting Principles Board (APB). A board convened in 1959 by the American Institute of Certified Public Accountants (AICPA) to determine and publish accounting principles. This group was terminated in 1973 and replaced by the Financial Accounting Standards Board (FASB). All opinions of the APB remain in effect unless superceded by FASB announcements.

Accredited Investors. Sophisticated investors who, under the securities laws, can buy private placements and unregistered securities. Individuals fit into this category if they have certain wealth and income characteristics, such as a net worth (alone or with a spouse) of $1 million.

Accrued Compensation Expense. Incurred and charged expense but not yet paid. This expense would be reflected on the balance sheet and will show on the income statement.

Accumulated Funding Deficiency. With respect to the minimum funding standards of ERISA, this refers to the surplus of all charges to a funding standard account for total plan years over total credits to the account for a designated number of years. If less, the surplus of all charges on an alternative minimum funding standard account for such plan years will be over the total credits to such account for a designated number of years.
Failure to make minimum contributions on a covered plan will result in an accumulated funding deficiency. Plans must adhere to a minimum funding standard for a plan year if it does not have an accumulated funding deficiency at the end of a year.

Actuarial Assumptions. This entails an actuary's prediction of unclear future measures that will have an impact on pension cost. Examples include life expectancy, investment returns, inflation, and mortality rates.

Actuary. Mathematician employed by a life insurance company or consulting firm to calculate life-insurance premiums, reserves, policy dividend payments, insurance, pension amounts, pension balances, annuity rates, using mortality rates and other risk factors obtained from experience. These experience tables of mortality are based on mortality and life insurance claims.

ADEA. Abbreviation for *Age Discrimination in Employment Act of 1967 (Amended 1978, 1986 and 1990)*.

ADR. Abbreviation for *American Depositary Receipt.*

Affiliate. An individual in a position to influence corporate policies. Includes directors, officers, 10% or more owners and members of families that own more 10%, and close associates of these groups. The term also applies to people who live in the same household. An affiliate has restrictions and reporting requirements on company stock sales under Rule 144. Also known as a "control person."

AFL-CIO. Voluntary federation of America's labor unions formed in 1955 by the merger of the American Federation of Labor and the Congress of Industrial Organizations to give America's working class a voice and power in bringing about economic and social reforms.

Age Discrimination in Employment Act (ADEA) of 1967 (Amended 1978, 1986 and 1990). Makes non-federal employees age 40 and over a protected class relative to their treatment in pay, benefits, and other personnel actions. The 1990 amendment is called the *Older Workers Benefit Protection Act*.

Agency Theory. A theory of motivation that depicts exchange relationships in terms of two parties: agents and principals. According to the theory, both sides of the exchange will seek the most favorable exchange possible, and will act opportunistically if given a chance. As applied to executive compensation, agency theory would place part of the executive (agent) to act in the best interests of the shareholders (principals), rather than in the executive's own self-interests.

Agent. Individual authorized by another person, called the principal, to act in the latter's behalf in transactions involving a third party. In a corporation the agent is management, the principal is the board (who is elected by the owners). Agents (management) have three basic characteristics: (1) they act on behalf of and are subject to the control of the principal (board or shareholders); (2) they do not have title to the principal's (shareholders') property; and (3) they owe the duty of obedience to the principal's (board's) orders.

Aggregate Exercise Price. A term used in connection with stock option awards to reflect the relative size of the option award. This measure equals the number of stock options awarded at the fair market value on the date of the award multiplied by the number of stock options. For example, a stock option award of 1,000 options at an exercise price of the then fair market value of $40 per share has an aggregate exercise price of $40,000.

American Institute of Certified Public Accountants (AICPA). The AICPA is the national, professional organization for all Certified Public Accountants. Its mission is to provide members with the resources, information, and leadership that enable them to provide valuable services in the highest professional manner to benefit the public as well as employers and clients.

Alternative Minimum Tax (AMT). An alternative method of calculating income tax liability that requires the taxpayer to include in his or her taxable income a number of "tax preference" items that are deductions under the regular income tax rules. The AMT rates start at 26% (28% at higher income levels). You compare your AMT to the regular tax owed and pay the higher amount to the government.

Upon the exercise of Incentive Stock Options (ISOs), the excess of the fair market value of the option shares over the option exercise price, while not taxable for the regular income tax liability calculation, is a tax preference item that must be taken into account in your AMT calculation. No AMT applies when you sell the stock in the year of exercise. If you do have AMT, you will have an AMT credit that will reduce the taxes you owe in future years.

AMEX. Abbreviation for *American Stock Exchange.*

AMT. Abbreviation for *Alternative Minimum Tax.*

AMT Credit. If you owe AMT for your *ISO* exercise, all or a part of the excess of the amount of your AMT liability over your regular tax liability for that year could generate a tax credit. It is applied against your regular taxes in one or more later years.

The calculation is not simple and requires a tax professional. The credit could be available to you if exercising *ISOs* instead of other tax events triggered the AMT you paid in prior years. Tax items that trigger AMT because they result in an exclusion of income for regular tax purposes rather than a deferral of taxation -- such as payment of state taxes -- do not result in tax credits.

If you are eligible for a tax credit resulting from the exercise of your ISOs, that credit may be applied directly against your tax liability in years in which your regular tax liability exceeds your AMT liability. The AMT tax credit can only be used to reduce your regular tax liability by the amount it exceeds your AMT liability for each year. The balance of the credit carries forward and may be used in subsequent years.

American Depositary Receipt (ADR). Receipt for the shares of a foreign-based corporation held in the care of a U.S. bank and entitling the shareholder to all dividends and capital gains of the stock. Instead of buying shares directly on the foreign stock exchange, ADR shareholders buy shares in the U.S. in the form of an ADR. ADRs are available on hundreds of stocks on numerous exchanges. The SEC requires limited disclosure for ADRs. ADRs are also called *American Depositary Shares*.

American Option. An option contract that may be exercised at any time between the date of purchase and the expiration date of the option.

American Stock Exchange (AMEX). An open-auction market similar to the NYSE where buyers and sellers compete in a centralized marketplace. The Amex typically lists small to medium cap stocks of younger or smaller companies. Until 1921 it was known as the New York Cumulative Exchange. The AMEX merged with NASDAQ in the late 1990s.

Analyst. Person in a brokerage house, bank trust department, or mutual fund group who studies a number of companies and makes buy or sell recommendations on the securities of particular companies and industry groups. Most analysts specialize in a particular industry, but some investigate any company that interests them, regardless of its line of business. Some analysts have considerable influence, and can affect the price of a company's stock when they issue a buy or sell recommendation. Some critics report that analysts for brokerage houses affiliated with large investment banks are less critical due to fear that that a negative report may damage a relationship with a large investment-banking client.

Annual Incentive. A lump-sum payment (cash, stock, etc.) made in addition to base salary for a fiscal year, based on achievement of performance target goals.

Annual Meeting. Once a year meeting where the managers of a company report to stockholders on the years' results and the board of directors stand for election for the next year. The chief executive officer usually comments on the outlook for the coming year end, with other senior executives, answers questions from shareholders. Stockholders can also request that all those owning stock in the company vote resolutions on corporate policy on. Stockholders unable to attend the annual meeting may vote for directors and pass on resolutions through the use of proxy material, which legally is mailed, to all shareholders of record.

Annual Report. A publication that is issued yearly by all publicly held corporations and freely available to all shareholders. It reveals the company's assets, liabilities, revenues, expenses, and earnings for the past year, along with other financial data. This is often accompanied by a glossy presentation of the company's achievements and philosophy, but it is the accounting information that is required by law to allow investors to gauge the financial health of the company.

Annuity. Form or contract sold by life insurance companies that guarantees a fixed or variable payment to the annuities at some future time, usually retirement. In a fixed annuity the amount will ultimately be paid out in regular installments varying only with the payout method elected. In a variable annuity, the payout is based on a guaranteed number of units, unit values and payments depend on the value of the underlying investments. All capital in the annuity grows tax deferred. Key considerations when buying an annuity are the financial soundness of the insurance company, the returns it has paid in the past, and the levels of fees and commissions paid to insurance salespeople.

Applicable Federal Rate (AFR). If you are receiving or making payments for a loan or installment sale, but little or no interest is stated on the contract, the IRS assumes a rate of interest based on the published applicable federal rate. For instance, if an employee received a loan repayable over 5 years, and the interest rate charged to the employee was less than the AFR, then the IRS would determine the amount of Imputed Interest which will be equal to the AFR less the interest rate of the loan. See also Imputed Interest.

Appreciation. Increase in value of an asset (typically the price of publicly traded stock).

Appreciation Rights. The award of cash based on the increase in the economic value of a company's shareholder interests.

Arbitrage. A technique used by alert traders, now aided by sophisticated computer programs, to profit from minute price differences for the same security on different markets. For example, if a computer monitoring markets notices that ABC stock can be bought on a New York exchange for $10 a share and sold ona London exchange at $10.12, the arbitrageur or a special program can simultaneously purchase ABC stock in New York while selling the same amount it in London, thus pocketing the difference.

Arm's Length Transaction. An exchange between parties who are independent of each other, and who are acting in their own best interests.

Articles of Incorporation. Document filed with a U.S. state by the founders of a corporation. After approving the articles, the state issues a certificate of incorporation: the two documents become the Charter that gives the corporation its legal right to exist. The Charter includes such information such as the corporation's legal name, business purpose, amount of authorized shares, and number and identity of its directors. The corporation's powers derive from the laws of the state and the provisions of the Charter. Rules governing the internal management of the company are set forth in the Bylaws, which are drawn up by the founders.

Attestation. An affidavit or declaration of share ownership by which an option holder exercising an option by a stock swap can avoid surrendering a physical stock certificate for the shares used to exercise the option.

Audit Report. Often called the accountant's opinion, it is the statement of the accounting firm's work and its opinion of the corporation's financial statements, especially if they conform to the normal and generally accepted practices of accountancy.

Average. Arithmetic mean of reported compensation data: sum of the values divided by the number of cases.

Balance Sheet. A financial statement that shows total assets, total liabilities, and owners' equity. Also referred to as a statement of financial position.

Bargain Element. Represents the difference between the option exercise price (i.e., what you pay to purchase stock) and the market price of stock at the time of exercise. Also referred to as the option "spread."

Barone-Adesi and Whaley Value. The value provided by a method for pricing tradable call options on dividend-paying stock. Uses the stock price, the exercise price, the risk-free interest rate, the time to expiration, the expected standard deviation of the stock return, and the dividend yield. Developed by Giovanni Barone-Adesi and Robert E. Whaley.

See Giovanni Barone-Adesi and Robert E. Whaley, 1987, Efficient Analytic Approximation of American Option values, *Journal of Finance* 42, 301--320.

Base Salary. A major element of compensation. The basic compensation that an employer pays for work performed. Tends to reflect the value of work itself and typically ignore differences in individual contributions.

Basis. Cost of stock for calculating your gains or losses for tax purposes. For equity compensation, the basis includes the costs plus any compensation income reported (e.g., amount for ordinary income tax on NQSO spread). To calculate your capital gains, subtract your basis from the amount realized on the sale of stock. If you sell stock through a broker, the Form 1099-B will report the entire amount received that you use to determine the capital gain or loss.

Bear. An investor who believes a stock or the overall market will decline. A bear market is a prolonged period of falling stock prices, usually by 20% or more.

Bearish. A viewpoint or person that anticipates a price decline, referring either to an individual security or to the entire market.

Bear Market. Any market in which prices are in a declining trend, usually accompanied by a drop in stock prices of 20% or more.

Benchmarking. A company's use of information about other firms in the same industry used for comparisons and to set standards and goals.

Beneficial Owner. As used for most purposes under the federal securities laws, a beneficial owner of stock is any person or entity with sole or shared power to vote or dispose of the stock. This SEC definition is intended to include a holder who enjoys the economic benefits of ownership although the shares may be held in another name. For example, one spouse is generally deemed the beneficial owner of shares held by the other spouse.

Best Pay Practices. Compensation practices that allow employers to gain preferential access to superior human resources talent, which in turn influence the strategies the organization adopts.

Beta. A mathematical measure of the sensitivity of rates of return on a stock compared with the broader stock market. Higher betas indicate higher stock price volatility. In specific, a coefficient measuring a stock's relative VOLATILITY. The beta is a covariance of the stock in relation to the rest of the stock market. The Standard & Poor's 500 Stock Index has a beta coefficient of 1. Any stock with a higher beta is more volatile than the market, and any with a lower beta can be expected to rise and fall more slowly than the market. A conservative investor whose main concern is preservation of capital should focus on stocks with low betas, whereas one willing to take high risks in an effort to earn high rewards should look for high-beta stocks.

Binomial Option Pricing Model. This is a model for pricing stock options. It can be shown that the Black-Scholes value is a special limiting case of the Binomial Option Pricing Model. Fundamental to the Binomial Option Pricing Model is the idea that stock price movements are well approximated by assuming the stock price can only move to two possible values in a short interval of time. The first step is to construct a price tree that describes the probability of future stock price movements.

Blackout Period. A period of time prior to the release of annual or quarterly financial information by a publicly held company during which the "insiders" are restricted relative to trading the company's stock.

Black-Scholes Model. The formula incorporates both the intrinsic value (the spread in the option) and the time value of the option (the term of the option) to determine the option's total market value. For example, in general, an option grows in value the more the option is in the money and decreases in value the more the option is out of the money. Furthermore, in general, the option is worth more the longer the period to expiration of the option term (e.g., a 10-year option is worth more than a five-year option, all other factors being equal).

The Black-Scholes option valuation model is based on a mathematical equation that must hold true. In summary, the price of the stock option is equal to:

(A) The product of (i) the price of the stock and (ii) a stochastic variable which is based on the volatility of the stock and the time left to expire on the option,

(B) Less the product of (i) the present value of the exercise price of the stock option and (ii) a stochastic variable based on the volatility of the stock and time left to expire on the option.

BLS. Common abbreviation for Bureau of Labor Statistics.

Blue Sky Laws. A popular name for various state laws enacted to protect the public against securities fraud. The term is believed to have originated when a judge ruled that a particular stock had about the same value as a patch of blue sky.

Board of Trustees. A group of people responsible for the oversight of a non-profit organization

Bureau of Labor Statistics (BLS). The Bureau of Labor Statistics is the principal fact-finding agency for the Federal Government in the broad field of labor economics and statistics. BLS is a major source of compensation data. It also publishes the Consumer Price Index.

All of the Bureau's programs meet statutory responsibilities assigned to the Bureau or the Department of Labor. The legislation that established the Bureau in the late 1800s (found in 29 U.S.C. I) states that "The general design and duties of the Bureau of Labor [Statistics] shall be to acquire and diffuse among the people of the United States useful information on subjects connected with labor, in the most general and comprehensive sense of that word, and especially upon its relation to capital, the hours of labor, the earnings of laboring men and women, and the means of promoting their material, social, intellectual, and moral prosperity."

Blue Chip. Common stock of a nationally known company that has a long record of profit growth and dividend payments and a reputation for quality management, products, and services. Examples of blue chip stocks include IBM, General Electric, and DuPont. Blue chip stocks typically are relatively high priced and low yielding.

Board of Directors. The governing body of a corporation, as elected by the stockholders. Among other things, the Board of Directors has the power to appoint the corporation’s officers, to appoint committees, to issue shares of stock, to grant stock options, and to adopt stock plans.

Bonus Plan. An annual program established to regulate the funding and distribution of annual or short-term cash bonus payments. Also referred to as short-term incentive plan.

Book Value (BV). The value of the net assets as represented on the balance sheet. Typically refers to shareholders' equity or plant and equipment net of depreciation.

Book Value Plan. Typically, the employer sells restricted stock to eligible employees at a price determined by book value. The sale or transfer of the stock to other than the employer is prohibited. At a future date, usually termination or retirement, the employer agrees to buy back the stock form the employee at the then book value of the stock as the purchase price. Many publicly held companies offer these plans so that the executive award is not subject to the vagaries of stock market fluctuations that do not always reflect the attainment of fundamental corporate financial goals. Similarly, multidivisional companies may wish to relate incentive awards for certain line executives. Also referred to as a *Formula Plan.*

Book Value Stock Option (BVSO). Options whereby the exercise price is based on a formula such as book value.

Book Value Stock (BVS). Stock whereby the exercise price is based on a formula such as book value.

Broad-banding. A compensation strategy that collapses salary grades or classes into a few salary bands. The bands are usually 70-150% wide and encompass numerous occupational groups at a comparable organizational level. The use of broad-bands are often used to support skill/competency – based or influenced pay programs. The effect of broad-banding is that it shifts the focus from vertical to horizontal career movement and places more responsibility for salary administration at the manager level.

Budget. A budget is a plan or a schedule that a businessperson seeks to meet. Moreover, a budget is a standard against which managers' actual expenditures, revenue, or profit are evaluated.

"Burn" Rate. Term that represents the percentage of options a company grants per year of either the total number of options authorized or shares outstanding.

Buy-Sell Agreement. A buy-sell agreement is an arrangement between two or more parties that obligates one party to buy the business and another party to sell the business upon the death, disability, or retirement of one of the owners.

Bylaws. Rules governing the management of an organization which are usually drawn up at the same time of the incorporation. The charter is concerned with such broad matters as the number of directors and the number of authorized shares. The bylaws, which usually can be amended by the directors themselves, cover such points as the election of directors, the appointment of executive and finance committees, the duties of officers, and how share transfers may be made.

Cafeteria Benefit Plan. A benefit plan in which employees have a choice as to the benefits they receive within some dollar limit. Usually a common core benefit package is required (e.g., specific minimum levels of health, disability, retirement, and death benefit) plus elective programs from which the employee may elect a set dollar amount. Additional coverage may be available through employee contributions. Also referred to as a Flexible Benefit Plan.

Call Option. A call option or "call" is a derivative security giving the holder the right to buy the underlying securities at a fixed price. An employee stock option is a type of call option in that you have the right to buy the stock at a fixed price for a set number of years (see "Put Option").

Holders of concentrated stock positions sometimes sell call options against their shares to generate cash. Of course, if the stock is above the call price at expiration, the holder will either have to hand over the stock or pay the difference between the market and call strike price. Many companies do not allow employees to sell calls against their stock, as this could force them to sell shares during a blackout period.

Capital. Permanent money invested in a business. Also can mean the long-term assets of a company.

Capital Asset Pricing Model (CAPM). A model used to evaluate a publicly held stock. The underlying principle of the model is that investors demand a return that equals the risk-free rate of return plus a nominal risk premium for equity investment times the risk factor (Beta) of the particular stock. In other words, higher investor risk requires higher investor return.

Capital Gain (Loss). Profit (or loss) from the sale of a capital asset, such as stock received upon exercise of options. Capital gains may be short-term (held 12 months or less) or long-term (held more than 12 months). Capital losses are used to offset capital gains to establish a net position for tax purposes. Only $3,000 of net capital losses can be deducted in any one year with the remaining balance carried over to future years indefinitely.

The long-term capital gains tax rate is generally 20%. If you are in the 15% tax bracket for regular tax purposes, then your rate is only 10%. Lower long-term capital gains tax rates (18% and 8%, respectively) apply for sales after December 31, 2000, where the stock has been held for more than five years.

If you are in a tax bracket higher than 15%, your five-year holding period for this purpose does not start to run until January 1, 2001. The 18% rate will apply only to gains on stock you purchase after 2000, or stock received on exercise of options granted after 2000.

Short-term capital gains are taxed at the same rates as wages and other ordinary income. When you have multiple securities transactions, additional rules on netting them apply.

Note that you must file a Schedule D, Capital Gains and Losses, with your federal IRS 1040 tax return for any tax year in which you sell stock, regardless of whether you have a capital gain.

Capital Loss Limitation. Net long-term capital losses and net short-term capital losses may be used to offset up to $3,000 of your ordinary income. To reach the net amounts to determine deductibility, you need to total all capital gains and losses. Amounts over $3,000 can be carried forward to future years until all of the net capital losses are used.

Carried Interest. Total shares in which the owner or option holder has an interest or financial stake in the appreciation of the value of the company.

Cash Balance Pension Plan. A defined benefit plan that maintains individual employee accounts like a defined contribution plan.

Cash Flow. Total funds that are generated internally for investment and working capital. Cash flow is often calculated operating profits (e.g., profits before interest, taxes, depreciation, and amortization).

Cash-less Exercise/Same Day Sale. A transaction in which an option holder exercises a stock option and simultaneously sells some or all of the shares, with a portion of the sale proceeds delivered to the company by the broker to pay the exercise price.

Cash Surrender Value. The amount that an insurance policyholder is entitled to receive when he or she discontinues coverage. Policyholders are usually able to borrow against the surrender value of a policy from the insurance company. Loans that are not repaid will reduce the policy's death benefit.

Certified Public Accountant (CPA). An accountant who has met specified professional requirements established by the AICPA and local state societies. A key service provided by CPAs is the performance of independent audits of financial statements for publicly traded companies.

CEO. Common abbreviation for "Chief Executive Officer."

CFO. Common abbreviation for "Chief Financial Officer."

Chairman. Sometimes referred to as Chairman of the Board. A member of a corporation's board of directors who presides over its meetings and who is the highest ranking officer in the corporation. The chairman may or may not have the most actual executive authority in a company.

Change in Control (CIC) of Ownership Agreement. A contractual agreement that specifies certain guarantees to the covered executive when ownership of the company changes as specified by a CIC trigger. This is sometimes referred to "Change of Control of Ownership", although CIC is the prevalent term.

Charitable Remainder Trust. Involves the irrevocable transfer of assets, such as company stock, to a trust. The income stream from the assets goes to an individual or individuals (can include the transferee of the assets), and a qualified charity receives the assets at the expiration of the trust period.

The contributor of the assets receives a charitable tax deduction at the time of the transfer, equal to the present value of the charity's remainder interest. The transferred property will escape federal estate tax, as it is removed from the donor's estate.

Cheap Stock. Stock options granted to employees at too low an exercise price relative to a planned IPO offering price. The SEC will require an IPO company to take an earnings charge as a compensation expense for part of the spread between the exercise price and the offering price. IPO companies routinely receive comments from (and negotiate with) the SEC on cheap stock issues before the SEC approves the registration statement (i.e., S-1) and before the companies can go public.

Chicago Board of Trade (CBOT). Formed in 1948 as a central marketplace for the midwestern grain trade, the CBOT is now the oldest and largest futures exchange in the world

Chicago Board Options Exchange (CBOE). Founded in 1973, the CBOE was established for the trading of call options on listed stock. Today it is the second largest securities exchange in the country and the largest options exchange in the world.

Chief Executive Officer (CEO). The CEO is an officer of a company principally responsible for its activities and performance. The CEO usually holds the additional title of Chairman of the Board, President, and/or Chief Operating Officer.

Chief Financial Officer (CFO). The CFO is an executive officer who is responsible for handling funds, signing checks, keeping financial records, and financial planning for the company. The CFO is in charge of accounting, finance, budgeting, tax, and cash management functions of a company. The CFO is

Chief Operating Officer (COO). The COO is an officer of a company principally responsible for day-to-day management. The COO reports to the CEO, and mist likely will not sit on the board.

Civil Rights Act. Title VII of the Civil Rights Act of 1964 prohibits discrimination in terms and conditions of employment (including benefits) that is based on race, color, religion, sex, or national origin.

Civil Rights Act of 1991. Reestablishes the standards for proving discrimination that had been in general use before the 1989 Supreme Court rulings. Allows jury trials and damage awards.

Classified Board. A corporate board structure where only a portion of the board of directors is elected each year, usually to discourage takeover attempts.

Claw-back. Option grant provision that requires option holder to pay back to the company any exercise gains if they go to work for a direct competitor within x months of the exercise. These provisions have gained in popularity and seem to be legal based on recent court victories by IBM.

Cliff Vesting. All or a large portion of a grant vests at once and then the remainder, if any, vests on a monthly or quarterly schedule (assuming the option holder is still employed). For example, 0% would vest at the grant date, 50% at one year, and then the remainder monthly over the next three years.

Closing Price. The last price paid for a security on any trading day.

COBRA. Common abbreviation for *Consolidated Omnibus Budget Reconciliation Act.*

Code. Abbreviation for "*Internal Revenue Code*."

Coefficient of Correlation or "r". Measures the strength of a relationship between the independent and dependent variables in a *Regression* (e.g., an element of compensation and revenues). This figure of merit ranges from –1 to 1. A correlation of 0 denotes that there is no relationship between the independent and dependent variables. A correlation of –1 denotes that there is a perfect inverse relationship, and a correlation of +1 denotes that there is a perfect positive relationship.

Coefficient of Determination or "r^2". Measures the ability of the regression to explain the variance in a regression. It is equal to the square of the *Coefficient of Correlation.*

COLA. Abbreviation for "*Cost of Living Adjustment*."

Common Stock. Units of ownership of a corporation. Common stockholders are typically entitled to vote on the selection of directors and other matters. Distinguished from "preferred stock," which generally has more favorable dividend and liquidation rights, although more limited voting rights.

Combination Plan. An award with two (or more) separate components, all of which can be exercised. Each part of the award is actually a separate grant, and compensation cost is measured and recognized for each grant.

Compa-Ratio. An index that helps assess how managers actually pay employees in relations to the mid-point of the pay range established for jobs. It estimates how well actual practices correspond to intended policy.

Compensable Factors. Job attributes that provide the basis for evaluating the relative worth of jobs inside an organization. A compensable factor must be work related, business related, and acceptable to the parties involved.

Compensation. All forms of financial returns and tangible services and benefits employees receive as part of an employment relationship. Compensation elements include salary, bonus, long-term incentive, health and welfare benefits, pension entitlements, and perquisites.

Compensation Committee. At many public companies, a committee of the Board of Directors, generally made up of outside directors, that is responsible for executive compensation matters, including stock plans. The committee's report on executive compensation appears in the proxy statement each year.

Compensation Objective.

Compensation Market Objective.

Compensation Philosophy.

Competency. Basic units of knowledge and abilities employees must acquire or demonstrate in a competency-based plan in order to successfully perform the work, satisfy customers, and achieve business objectives.

Compression. Very narrow Pay Differentials among jobs at different organization levels as a result of wages for jobs filled form the outside increasing faster than the entire pay structure.

Consolidated Omnibus Budget Reconciliation Act (COBRA). COBRA is a federal law requiring employers with more than 20 employees to offer terminated or retired employees the opportunity to continue their health insurance coverage for 18 months at the employee's expense. Coverage may be extended to the employee's dependents for 36 months in the case of divorce or death of the employee.

Control Stock. Stock held by Affiliates that must be sold under Rule 144. Stock can be acquired by open market purchases or option exercises.

Constructive Receipt. Refers to when compensation is taxable to the employee. The recipient has control over and access to the payment.

Constructive Sale. Tax term that allows the IRS to re-characterize as a sale a transaction that eliminates the risk of loss and the opportunity for gain. This concept, which first appeared in the 1997 Taxpayer Relief Act, eliminated certain viable long-term stock hedging strategies, such as short against the box and many equity swaps. Properly structured equity collars and prepaid forwards do not trigger constructive sale treatment, although the IRS could issue additional regulations.

Constructive Termination.

Consumer Price Index (CPI). An index published by the Bureau of Labor Statistics (BLS), U.S. Department of Labor. The CPI measures the changes in prices of a fixed basket of goods and services purchased by a typical average family.

COO. Common abbreviation for "Chief Operating Officer."

Corporate Governance. The relationship between the shareholders, directors and management of a company, as defined by the corporate charter, bylaws, formal policy and rule of law.

Corporate Owned Life Insurance (COLI). An insurance policy by which an organization is the beneficiary. Should the executive die while covered, the company pays a comparable noninsured sum to selected survivors. Policy loans associated with the insurance are accessible to the organization.

Cost-less Collar. Hedging strategy used for high-value, concentrated stock positions, now more technically referred to as a "zero premium collar" for legal reasons.

You purchase put options and sell call options on your stock through a securities firm experienced with these transactions. This essentially locks in the trading range upside and downside (i.e., the "collar"). It is "cost-less" to an individual in that no net out-of-pocket costs result from the totaling of the prices of puts and calls.

This strategy allows you to hold the stock after an option exercise for long-term capital gains, and minimizes the risks of stock price fluctuations. The hedged position can be monetized with a loan (if not a senior executive, director, or affiliate. However, the strategy has uncertain legal and tax ramifications, it is prohibited by many companies, and you give up the benefit of future price increases beyond the collar price.

Cost of Living Adjustment (COLA). Across-the-board wage and salary increases or supplemental payments based on changes in some index of prices, usually the Consumer Price Index (CPI). If included in a union contract or an employment agreement, COLA adjustments will automatically increase compensation levels for the life of the contract/agreement.

Council of Institutional Investors. Founded in 1985, the Council of Institutional Investors (CII) is "an organization of large public, Taft-Hartley and corporate pension funds formed to address investment issues that affect the size or security of plan assets."

*CPI. Common a*bbreviation for “Consumer Price Index.”

Credited Service. A length of employment prior to or subsequent to the effective plan date that is recognized as service for plan purposes. This would include such issues as determination of benefit amounts, benefits entitlement and/or vesting.

Cumulative Voting. A method of stock voting that permits shareholders to cast all votes for one candidate. A voting system that gives minority shareholders more power, by allowing them to cast all of their board of director votes for a single candidate, as opposed to regular or statutory voting, in which shareholders must vote for a different candidate for each available seat.

Current Ratio. Current assets divided by current liabilities. This ratio measures liquidity as it measures a company’s ability to pay current liabilities from current assets.

CUSIP. CUSIP is the trademark for a system that uniquely identifies securities trading in the United States. It was developed in the late 1960's by The American Bankers Association as a way to standardize the identification and tracking of securities. The CUSIP number consists of nine digits -- the first six identify the issuer and 7-9 identify the issue.

Please note that CUSIP numbers are a trademark of the American Bankers Association .

Davis-Bacon Act of 1931. Requires most federal contractors to pay wage rates prevailing in the area where the work is performed.

Dead Hand Poison Pill. An anti-takeover device designed to prevent the acquisition of a company even if a majority of shareholders favor the acquisition. Dead hand poison pills can only be removed by incumbent directors or their chosen successors.

Deemed Sale. Technique that allows you to take advantage of the lower capital gains rule for stock held more than five years by resetting the holding period start date and tax basis to the beginning of 2001, when this provision on five-year holdings went into effect. Lower long-term capital gains tax rates (18% and 8%, depending on your tax bracket) apply for sales after December 31, 2000. If you are in a tax bracket higher than 15%, your five-year holding period for this purpose does not start to run until January 1, 2001.

This strategy involves the factious selling of an asset at its current value, buying it back at the same price, and paying the appropriate taxes on the sale without actually going through the process of doing it. The deemed sale is treated as having occurred on January 2, 2001, for securities, and January 1, 2002, for all other assets.

DEF 14A. A SEC document sent by publicly listed corporations to their shareholders providing material information on corporate matters subject to vote at the annual meeting. Also referred to as the Proxy Statement.

Deferred Compensation. Earned compensation that is payable in the future. May include contributions to retirement plans.

Deferred Compensation Program. Provide income to an employee at some future time as compensation for work performed now.

Defined Benefit Pension Plan. A pension plan that promises to pay a specified amount to each person who retires after a set number of years of service. Such plans pay no taxes on their investments. In almost all cases, the employer makes all contributions to this plan.

Defined Contribution Pension Plan. Pension plan that specifies the employer's contribution based on a formula that includes such factors as age, length of service, employer's profits, and compensation levels. FASB Statement No. 87 does not deal with these types of plans except for disclosure requirements. The pension expense is the amount funded each year.

De Minimis Benefit. Services that an employer provides to employees that are considered too minimal to be subject to taxable income.

Department of Labor (DOL). The DOL is full department in the U.S. executive branch, and is responsible for the administration and enforcement of over 180 federal statutes. These legislative mandates and the regulations produced to implement them cover a wide variety of workplace activities for nearly 10 million employers and well over 100 million workers. In specific, the DOL protects workers' wages, health and safety, employment and pension rights; equal employment opportunity; job training, unemployment insurance and workers' compensation programs; and free collective bargaining. It also collects, analyzes and publishes labor and economic statistics.

Depository Trust Company (DTC). The Depository Trust Company (DTC) is the world's largest securities depository with more than $10 trillion worth of securities in custody. In 1995, DTC processed $41 trillion of securities through its book-entry settlement system. DTC is a national clearing house for the settlement of trade in corporate and municipal securities and performs securities custody-related services for its participating banks and broker-dealers. Members of the financial industry own the DTC and by their representatives who are its users. DTC is 35.1% owned by the New York Stock Exchange on behalf of the Exchange's members. It is operated by a separate management and has an independent board of directors. It is a limited purpose trust company and is a member of the Federal Reserve.

Derivative Security. An option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege at a price related to an "Equity Security," or similar securities with a value derived from the value of an equity security.

Dilution. Refers to the effect that the grant of stock options has upon the other shareholders of a company. Each time an option is granted, an existing shareholder's ownership interest in the company is potentially reduced. This reduction occurs because at exercise, the value of the stock is greater than the cash paid to exercise the option, which, in effect, results in a transfer of economic value from existing shareholders to the option holder.

Institutional investors in a public company such as pension plans and mutual funds generally oppose new stock option plans. This opposition includes proposals to increase the number of shares available for plan option grants if the dilution from all company plans exceeds 15%-25%, depending upon the company, the industry, and the plan's other terms. For older companies in mature industries, institutional investors may be concerned about dilution even if it is under 10%. Another type of dilution is voting dilution, if not all shares have the same voting rights.

Direct Compensation. Pay received directly in the form of cash (e.g., salary and annual bonus).

Director. Person elected by shareholders, usually during an annual meeting, to serve on the Board of Directors of a corporation. The directors appoint the president, vice president and all other operating officers. Directors decide, among other matters, if and when dividends shall be paid.

Directors and Officers Liability Insurance (D&O). Professional liability coverage for legal expenses and liability to shareholders, bondholders, creditors or others due to actions or omissions by a director or officer of a corporation or nonprofit organization.

Disclosure. The reporting the details of a transaction in the notes to the financial statement or in other documents filed with the SEC. Companies sometimes attempt to lessen the level of disclosure by not putting it in the Summary Compensation Table, but in a narrative disclosure or as a footnote to the table.

Discounted Cash Flow (DCF). Present value of future expected cash flow. The discount rate is an important factor in this analysis. The accuracy and validity of a DCF analysis diminishes with the time horizon of the analysis because the discount rate and/or the future cash flow will be more likely to deviate from actual amounts.

Discount Stock Option. Just the opposite of premium options, discount stock options have an exercise price *below* market value at the time of grant. They are often used when cash compensation is to be deferred by converting it into stock options.

Discretionary Bonus. An informal incentive award not based on a performance-related formula or specific measurable criteria.

Disqualifying Disposition (Incentive Stock Options). A sale, gift, or exchange of ISO shares within two years from the grant date or one year from the exercise date. Upon a disqualifying disposition, the employee recognizes taxable ordinary income, and the company is entitled to claim a deduction equal to the excess of the fair market value on the exercise date or the sale price, whichever is lower, over the exercise price.

Dividend. The payment designated by the Board of Directors to be distributed pro rata among the shares out-standing. For preferred shares, the dividend is usually a fixed amount. For common shares, the dividend varies with the fortunes of the company and the amount of cash on hand, and may be omitted if business is poor or if the directors determine to withhold earnings to invest in plants and equipment. Sometimes a company will pay a dividend out of past earnings even if it is not currently operating at a profit.

Dividend Equivalent Rights. The right to be credited with additional shares under a stock option or other stock award for the value of dividends that the company has paid on its shares while the option or award is being held.

DOL. Abbreviation for "*Department of Labor*."

Dollar Cost Averaging. A system of buying securities at regular intervals with a fixed dollar amount. Under this system investors buy by the dollars worth rather than by the number of shares. If each investment is of the same number of dollars, payments buy more shares when the price is low and fewer when it rises. Temporary downswings in price benefit investors if they continue periodic purchases in both good times and bad and the price at which the shares are sold is more than their average cost.

Double Trigger. A term used in connection with a change in control of ownership, and how that together with a subsequent event, such as termination of the employee by the company or termination by the employee for good reason, might trigger accelerated vesting of a stock option. A *double* trigger means that vesting won't occur until the second event takes place.

Dow Jones Industrial Average (DJIA). The Dow Jones Industrial Average (DJIA) is an index used to measure the performance of the U.S. financial markets. Introduced on May 26, 1896 by Charles H. Dow, it is the oldest stock price measure in continuous use. Over the past century "the Dow" has become the most widely recognized stock market indication in the U.S. and probably in the entire world.

The 30 stocks included in today's Dow are listed on the New York Stock Exchange, except for Microsoft and Intel, and are all large blue-chip companies that reflect the health of the U.S. economy. All but a handful of these have major business operations throughout the rest of the world, thus providing some insight into the economic well being of the global economy.

The Dow has been repeatedly updated over the decades to reflect changes in Corporate America. From the original 12 stocks used in 1896 it was increased to 20 stocks in 1916 and then 30 stocks in 1928. The most recent modification occurred on November 1, 1999 when Home Depot, Intel, Microsoft, SBC replaced Chevron, Goodyear, Sears, Union Carbide, respectively. Intel and Microsoft, which both trade on the Nasdaq stock market, are the first Dow 30 components that are not listed on the New York Stock Exchange since the Dow Jones Industrial Average was created in 1896.

Though it is only the un-weighted average of 30 stock prices, over the long run the DJIA's tracking of market movements has closely paralleled more broadly based capitalization-weighted indexes like the New York Stock Exchange Composite, the Standard & Poor's 500 and the Wilshire 5000. In 1896 the Dow was computed as the sum of the prices of 12 stocks divided by the number of stocks. Since then the divisor has been adjusted to compensate for stock splits and other distributions that would create distortions in the average that did not reflect a change in value of the stocks. The value of the adjusted divisor as of November 1, 1999 was 0.20435952. Its current value is printed in the Wall Street Journal every day.

Due Diligence. An investigation into the financial, legal and business affairs of a company undertaken by the underwriters and their counsel prior to a public offering by the company.

Early Exercisable Options. Options that are immediately exercisable (i.e., early), but which typically do not start vesting until six months to a year after grant. The underlying shares received at exercise are "restricted" and subject to a repurchase right by the company at the exercise price until they are vested. Early exercise starts the capital gain clock ticking for a later resale. No gains are realized on the spread from the option exercise until vesting or until a Section 83(b) election is filed.

Availability of this feature is becoming common among pre-IPO company stock plans and is sometimes referred to as "reverse vesting."

Earnings Before Interest and Taxes (EBIT). This is all profits (operating and non-operating) before deducting interest and income taxes.

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). EBITDA is looking at the cash flow of a company. By not including interest, taxes, depreciation and amortization we can see clearly the amount of money a company is bringing in. This is especially useful when a company wants to takeover another company because the EBITDA would cover any loan payments needed to finance the takeover.

Earnings Per Share (EPS). Net Income for the fiscal year divided by the total number of shares outstanding, with adjustments for common stock equivalents.

EBIT. Abbreviation for *Earnings Before Interest and Taxes.*

EBITDA. Abbreviation for *Earnings before Interest, Taxes, Depreciation, and Amortization.*

EBP. Abbreviation for *Excess Benefit Plan.*

Economic Indicator. A key statistic in the overall economy that may be used as a yardstick to predict the performance of the stock market.

Economic Profit. A calculation of profits that exceed the expected return to shareholders. Normally calculated by subtracting the cost of capital from an adjusted profit number. Many variations of the calculation exist.

Economic Value Added (EVA). A concept copyrighted by Stern Stewart & Co. EVA is net operating profit minus an appropriate charge for the opportunity cost of all capital invested in an enterprise. As such, EVA is an estimate of true "economic" profit, or the amount by which earnings exceed or fall short of the required minimum rate of return that shareholders and lenders could get by investing in other securities of comparable risk.

EDGAR - Electronic Data Gathering, Analysis and Retrieval System. The system through which companies electronically file reports and registration statements with the SEC. This requires converting the paper or word-processing document to be filed into a universal ASCII format, a process known as "EDGAR-izing" the document. The public through the SEC's Web site on the Internet can then access the filings.

EEOC. Abbreviation for "*Equal Employment Opportunity Commission.*"

Emerging Issues Task Force (EITF). Organization affiliated with FASB that address new and emerging accounting issues. The EITF was formed in 1984 in response to the recommendations of the FASB's task force on timely financial reporting guidance and an FASB Invitation to Comment on those recommendations. Task Force members are drawn primarily from public accounting firms but also include representatives of large companies and major associations of preparers, such as the Financial Executives Institute and the Institute of Management Accountants. The chief accountant of the Securities and Exchange Commission attends Task Force meetings regularly as an observer with the privilege of the floor. The FASB director of research and technical activities, is chairman of the Task Force. Make-up of the Task Force is designed to include persons in a position to be aware of emerging issues before they become widespread and before divergent practices regarding them become entrenched. Therefore, if the group can reach a consensus on an issue, usually that is taken by the FASB as an indication that no Board action is needed. If no consensus is possible, it may be an indication that action by the FASB is necessary.

Employee Benefits. That part of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments (e.g., life insurance, pension, workers' compensation, vacation).

Employee Retirement Income Security Act of 1974 (ERISA). An act regulating private employer pension and welfare programs. The act has provisions that cover eligibility for participation, reporting, and disclosure requirements, establish fiduciary standards for the financial management of retirement funds, and establish the Pension Benefit Guaranty Corporation to insure pension plans against financial failures.

ERISA preempts many similar state laws and is administered by the Pension and Welfare Benefits Administration (PWBA). Under the statute, employers must fund an insurance system to protect certain kinds of retirement benefits, with premium payments to the federal government's *Pension Benefit Guaranty Corp.* Pension plans must meet a wide range of fiduciary, disclosure and reporting requirements. Employee welfare plans must meet similar requirements. PWBA also administers reporting requirements for continuation of health-care provisions, required under the *Comprehensive Omnibus Budget Reconciliation Act of 1985 (COBRA).*

Employee Stock Ownership Plan (ESOP). An ESOP is a special form of tax qualified defined contribution retirement plan. ESOPs are special in two respects – they are typically issued in the form of the employer's common or convertible preferred stock and they are typically purchased with a loan. ESOPs differ from most compensation arrangements because they are tax-qualified plans for large groups of employees rather than management-oriented plans. Unlike most other broad-based compensation arrangements, however, ESOPs invest in and generally distribute to employees the employer's stock. There are two types of ESOPs – non-leveraged and leveraged.

With regard to a non-leveraged ESOP, the employer may either contribute shares (treasury shares or newly issued shares) or cash to the ESOP. If the employer contributes cash, the ESOP trustee will use the cash to buy shares on the open market or newly issued shares from the employer. The contributed or purchased shares are allocated to the employee's accounts by the end of the ESOP's fiscal year.

With regard to a leveraged ESOP, a company borrows money from a financial institution using its stock as collateral for the loan. Principal and interest loan repayment are tax deductible. With each loan repayment, the lending institution releases a certain amount of stock being held as security. The stock is then placed into an Employee Stock Ownership Trust (ESOT) for distribution at no cost to all employees. The employees receive the stock upon retirement or separation from the company. TRASOPs and PAYSOPs are variants of ESOPs.

Employee Stock Purchase Plan (ESPP). A type of broad-based stock plan which permits employees to use payroll deductions accumulated over a 3, 6, 12-month, or longer purchase period to acquire stock from the company, generally at a 15% discount. A popular type of ESPP is also known as a "Section 423 plan," after the applicable tax code section governing this type of plan.

Employment Agreement. A legal agreement between a company and an executive that specifies total remuneration arrangements and terms for specific duties under set conditions, for a stipulated period of time.

EPS. Abbreviation for *Earnings Per Share.*

Equal Employment Opportunity Commission (EEOC). A commission of the federal government charged with enforcing the provision of the Civil Rights Act of 1964 and the EPA of 1963 as it pertains to sex discrimination in pay.

Equal Pay Act (EPA) of 1963. An amendment to the Fair Labor Standards Act of 1936 prohibiting pay differentials on jobs which are substantially equal in terms of skills, efforts, responsibility, and working conditions, except when they are the result of bona fide seniority, merit, or production-based systems, or any other job-related factor other than gender.

Equity Collar. Hedging strategy used for high-value, concentrated stock positions. You purchase put options and sell call options on your stock through a securities firm experienced with these transactions. This essentially locks in the trading range upside and downside (i.e., the "collar"). The collar can be structured so that the premium received for the sale of the call and the money paid for purchase of the put net each other out. The hedged position can be used as collateral for a loan (if not a senior executive, director, or other Affiliate).

This strategy allows you to hold the stock after an option exercise for long-term capital gains, minimizes the risks of stock price fluctuations, finances the cost of the put (zero-cost collar), or brings in more or less cash than the cost of the put. However, it has uncertain legal and tax ramifications, it is prohibited by many companies, and you give up the benefit of future price increases beyond the collar price.

Equity Security. An ownership interest in a company. Common and preferred stock are types of equity securities. Equity securities can be distinguished from "debt securities," such as bonds, and from "derivative securities," such as stock options.

ERISA. Abbreviation for *Employee Retirement Income Security Act of 1974.*

ERISA Excess Plan. A type of pension plan for key executives to restore benefits that were reduced by the enactment of ERISA. The company makes up the difference between what an executive accrues under the company pension plan and the amount he or she is allowed to receive under ERISA restrictions.

ESOP. Abbreviation for *Employee Stock Ownership Plan.*

European Option. A stock option that may be exercised only on its expiration date.

EVA. Abbreviation for *Economic Value Added.*

Evergreen Agreement. An agreement that does not expire. The agreement is usually automatically renewed if not canceled by a certain date each year.

Evergreen Stock Option Reserve. An employee stock plan funding mechanism that authorizes annual increases (generally expressed as a percentage of outstanding common stock) to the number of shares available for stock grants and awards.

Excess Benefit Plan. See *ERISA Excess Plan.*

Ex-Dividend. A synonym for "without dividend." The buyer of an ex-dividend stock is not entitled to the next dividend payment. Dividends are payed on a set date to all those shareholders recorded on the books of the company as of a previous date of record.
For example, a dividend may be declared as payable to stockholders of record on a given Friday. Since three business days are allowed for delivery of stock in a regular transaction on the New York Stock Exchange, the Exchange would declare the stock "ex-dividend" as of the opening of the market on the preceding Wednesday. That means anyone who bought it on or after that Wednesday would not be entitled to that dividend. When stocks go "ex-dividend", the stock tables include the symbol "x" following the name.

Executive Perquisite. Special benefits made available to top executives (and sometimes other managerial employees). May be taxable income to the executive. Company-related perquisites may include company-paid club memberships, first-class air travel, use of corporate aircraft, company car, home computer, cellular phone, and other amenities related to work. Personal perquisites include such items as low-cost loans for various reasons, personal tax planning and legal counsel. Since 1978, the IRS has required companies to value these special benefits and require executives to pay tax on the imputed income associated with the benefit. Companies have resisted the IRS in this regard. In addition, some companies gross-up executives for the additional taxes imposed by this imputed income.

Exercise. Represents the act of acquiring the underlying securities subject to a stock option by paying the "Exercise Price."

Exercisable. Describes options that, through the passage of time or the meeting of specified performance targets, have "vested" and may now be exercised by the option holder. Options often become exercisable in increments over time. In some option plans at pre-IPO companies you can exercise unvested options, subject to a company repurchase right under a vesting-like schedule.

Exercise Period. The date or dates specific stock options are available for exercise.

Expatriate. Employee assigned outside of the their base country for any period of time in excess of one year.

Face Value. Refers to the number of shares times the share price. For example, 100 shares at $50 per share have a face value of $5,000.

Fair Labor Standards Act of 1936 (FLSA). FLSA establishes minimum wage, overtime pay, record-keeping and child labor standards that affect over 100 million full- and part-time workers in the private sector and in federal, state and local governments. FLSA applies to enterprises that have employees who are engaged in interstate commerce, producing goods for interstate commerce, or handling, selling or working on goods or materials that have been moved in or produced for interstate commerce.

FLSA prescribes standards for wages and overtime pay, which affect most private and public employment. The act is administered by the Wage and Hour Division of the Employment Standards Administration. It requires employers to pay covered employees the federal minimum wage and overtime of one-and-one-half-times the regular wage. It prohibits certain types of work in an employee's home. It restricts the hours that children under 16 can work and forbids their employment in certain jobs deemed too dangerous. The Wage and Hour Division also enforces the workplace provisions of the *Immigration and Nationality Act* that apply to aliens authorized to work in the U.S.

Fair Market Value (FMV). For tax purposes, it is the price, based on the current market value determined by supply and demand, or a valuation method, for which a buyer and seller would willingly undertake a transaction. You need to know the fair market value to determine the amount of income to report for the exercise of options and sale of the stock.

For a public company, the stock market sets the fair market value, which could be the average trading price for the day. With a private company, the fair market value measure is more subjective. It could be based on a recent round of financing or set by an outside valuation company.

Fair Value. The amount in which an asset could be brought or sold in a current transaction between willing parties, that is, other than in a forced liquidation sale. Quoted market prices in active markets are the best evidence of fair value and are to be used as the basis for measurement, if available, If quoted market prices are not available, the estimate of fair value is based on the best information available. The estimate of fair value considers prices for similar amounts and the results of valuation techniques to the extent available. Examples of valuation techniques include the present value of estimated future cash flows using a discount rate commensurate with the risks involved, option-pricing models, matrix pricing, option-adjusted spread models, and fundamental analysis.

Family Medical Leave Act (FMLA) of 1993. Entitles an eligible employee to receive unpaid leave up to 12 weeks per year for specified family or medical reasons, such as caring for ill family members or adopting a child.

FAS. Abbreviation for "*Financial Accounting Statement*."

Federal Insurance Contributions Act (FICA). Represents the source of social security contribution withholding requirements. The FICA payments are made equally be the employer and employee.

Federal Unemployment Tax Act (FUTA). FUTA came into existence over 60 years ago to guarantee financing for a national employment security system. The idea was that employers would pay the cost of administering the new unemployment compensation system along with a national job placement system to help them recruit new workers and to get laid off workers and unemployment compensation claimants into new jobs as quickly as possible. FUTA is administered by the DOL.

Financial Accounting Standards Board (FASB). The FASB is an organization that develops accounting standards on a wide range of financial topics, including stock compensation. Since 1973, the Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports. These accounting standards are officially recognized as authoritative by the Securities and Exchange Commission (Financial Reporting Release No. 1, Section 101) and the American Institute of Certified Public Accountants (Rule 203, Rules of Conduct, as amended May 1973 and May 1979).

The FASB is part of a structure that is independent of all other business and professional organizations. Before the present structure was created, financial accounting and reporting standards were established first by the Committee on Accounting Procedure of the American Institute of CPAs (1936-59) and then by the Accounting Principles Board, also an arm of the AICPA (1959-73). Pronouncements of those predecessor bodies remain in force unless amended or superseded by the FASB.

FICA. Abbreviation for "*Federal Insurance Contributions Act*."

Financial Accounting Statement No. 123 (FSA 123). An accounting rule effective for fiscal years that end on or after December 15, 1996.

Requires companies to estimate the dollar value of their stock-based compensation and either (a) disclose the value in a financial statement footnote or, at the company's option, (b) recognize that value as compensation expense on the income statement.

Financial Statements. The balance sheet, income statement, statement of changes in financial position, statement of changes in owners' equity accounts, and notes thereto.

Fiscal Year. Any consecutive 12-month period of financial accountability for a corporation or government. For example, because of the Christmas rush many department stores find it easier to wind up their yearly accounting on January 31 instead of December 31. Fiscal year is often abbreviated FY with a date. For example, FY May 31 means that the company's fiscal year goes from June 1 to May 31 of the following year.

Fixed Accounting. An award of stock-based employee compensation for which vesting is based solely on an employee's continuing to render service to the employer for a specified period of time, that is, an award that does not specify a performance condition for vesting. FAS 123 uses the term "fixed award" in an somewhat different sense than APB Opinion 25 uses the same or similar terms because it distinguishes between fixed awards and variable awards, while FAS 123 only distinguishes between fixed awards and performance awards.

Fixed Award. See Fixed Accounting.

Fixed Grant Guidelines. Under these guidelines, a company determines grant size according to a set number of shares or a set percentage of shares outstanding rather than a value for the shares granted.

FLSA. Abbreviation for "*Fair Labor Standards Act of 1936*."

FMLA. Abbreviation for *"Family Medical Leave Act of 1993."*

Forgivable Stock Option Exercise Loan. Company extends full-recourse loan to employee (or secures third party financing) for purchase of company stock. Loan must be repaid upon voluntary termination and may be forgiven based on future company service and/or performance.

Formula Plan. A plan in which both the recipients and the number of shares to be granted are set by the terms of the plan itself rather than being left to the discretion of the compensation committee. The most prevalent form of a Formula Plan is the Book Value Plan.

Form 1099-B. Form from a broker showing how much you received from securities sales, such as the proceeds from a cash-less exercise. You will use this amount, along with your tax basis, to calculate your gain or loss for tax purposes on Schedule D.

Form 1099-MISC. Tax form that non-employees (e.g., consultants, independent contractors) receive that reports income/compensation, similar in concept to the Form W-2 for employees. For non-employees, withholding does not apply when you exercise your NQSOs. The spread at exercise is compensation for services. Thus, self-employment tax, along with state and federal income tax, applies when you file your tax return.

Form 144. Form 144 is the notice of sale required when an executive officer, director or other affiliate of a company is selling that company's stock. It must be filed with the SEC at the time an order is placed with a broker to sell the stock. Form 144 is not required if both the number of shares does not exceed 500 *and* the aggregate sale price does not exceed $10,000.

Form 3. The initial form filed with the SEC, the issuer and the issuer’s stock exchange pursuant to Section 16(a) (defined below) of the Securities Exchange Act of 1934 by all directors, officers, and holders of 10% or more of any class of equity securities of the issuer. Form 3 details the direct and indirect holdings of the issuer’s stock as well as the number of options, warrants, rights, and convertible stock or bonds.

Form 3 must be filed within ten calendar days after a person becomes a Section 16 insider, whether or not the insider owns any shares.

Form 4. Periodic form filed with the SEC, the issuer and the issuer's stock exchange when there has been a non-exempt change in an insider's ownership of company stock, such as a purchase, sale or option exercise. Form 4 must be filed by the insider by the tenth calendar day of the month after the month in which the change took place.

Form 5. Year-end form filed with the SEC, the issuer and the issuer's stock exchange to report certain transactions exempt from Form 4 reporting and any changes not previously reported by the insider on Form 3 or Form 4. Form 5, if required, must be filed within 45 days after the end of the issuer's fiscal year.

Form 8-K. A report required to be filed with the SEC to publicly disclose certain material corporate events, such as a change in control, a significant acquisition, a bankruptcy, or a change in the company's fiscal year or accounting firms.

Form 10-K. Annual report required to be filed with the SEC within 90 days after the end of the fiscal year. The 10-K includes a description of the company's business and properties, the audited financial statements, and management's discussion and analysis (MD&A) of the financials. The 10-K must be signed by a majority of the Board of Directors.

Form 10-Q. Quarterly report required to be filed with the SEC with 45 days after the end of each of the first three fiscal quarters. Form 10-Q is less comprehensive than the Form 10-K annual report and does not require that financial statements be audited. It covers the specific quarter and the year to date.

Form S-1. A "Registration Statement" under the Securities Act of 1933 that a company files with the SEC to register its stock for sale. Form S-1 is generally the form used by a private company that is "going public." It contains the "Prospectus," along with a number of exhibits and other information about the company. The SEC staff reviews the Form S-1 and provides comments that must be resolved with the staff before the public offering can go forward.

Form S-3. A shorter form of Registration Statement than the Form S-1 that can be used by certain already-public companies to sell additional shares. It is also the form most often used to cover re-sales of "Restricted Securities" by selling stockholders.

Form S-4. A form of Registration Statement used when a company is issuing its shares in connection with a merger or acquisition.

Form S-8. A very brief form of Registration Statement filed with the SEC to register shares to be issued under a stock plan. Does not require filing of the Prospectus.

Formula Plan. A plan in which both the recipients and the number of shares to be granted are set by the terms of the plan itself rather than being left to the discretion of the compensation committee.

Formula Value Stock. Simulated stock, also called phantom shares, used to measure the performance of companies or business units that do not have publicly traded shares. The value of the stock is determined by a formula.

Founders' Stock. A pre-IPO stock grant.

Fundamental Research. Analysis of industries and companies based on such factors as sales, assets, earnings, products or services, markets and management. As applied to the economy, fundamental research includes consideration of gross national product, interest rates, unemployment, inventories, savings, etc.

Funding Formula. The performance level required, as defined by the board, for bonuses to be paid and the percentage of profits above the threshold that will go toward bonuses.

FUTA. Abbreviation for *"Federal Unemployment Tax Act.*"

Going Public. When a privately held company first offers its shares to the investing public; also known as an IPO or "Initial Public Offering."

Golden Bungee. Refers to executive "severance" benefits after a change in control of ownership while the executive agrees to stay with the new organization and receive additional pay in various forms.

Golden Handcuffs. Refers to compensation and benefits that could be lost upon voluntary termination of the executive.

Golden Hello. See *Sign-on Bonus.*

Golden Parachute. An employment agreement that assures compensation and benefit payments in the event of a change of control of ownership. One or several events are necessary to trigger parachute payments. IRS Code Sections 280G and 4999 limit deductibility and govern amounts subject to 20% excise tax and corporate tax deductions.

Grant. The issuance of an award under a stock plan, such as a stock option or shares of restricted stock.

Grant Date. The date on which a stock award is granted. That is, the grant date is the date at which an employer and employee have a mental understanding of the terms of a stock-based compensation award. The employer is obligated on the grant date to issue equity instruments or transfer other assets to employees usually subject to vesting requirements. Awards made under a plan that is subject to shareholder approval. These awards are not granted until that approval is obtained unless approval is essentially a formality. For example, management and the board of directors control enough votes to approve the plan.

Grant Multiple. The multiple of aggregate stock option award (options shares times option exercise price) to salary.

Grant Price. This is the price per share at which a stock option is granted and that must be paid in order to exercise the stock option. The grant price is typically the fair market value of the stock on the date of grant. Also known as the *Exercise Price* or *Strike Price.*

Hedging. As it relates to employee stock options, these transactions are ways to protect your option gains without the full tax consequences of exercising and selling the stock. Various hedging strategies may allow you to exercise the options, hold the stock to get long-term capital gains, and protect your stock from large price swings. Holders of large concentrated stock positions with a low cost basis also enter into these type of transactions to defer the tax consequences of sale, minimize their risk of price declines, and even borrow against their hedged position (i.e., monetize it) to create liquidity and diversify.

These strategies include buying put options, a short sale against the box (i.e., selling borrowed stock and later delivering option stock you do hold to close out short position), and zero premium collars (i.e., buy put and sell call options). All of these transactions involve complicated and unresolved legal and tax rules, and may be prohibited by your company.

Hold. Refers to an exercise transaction where the option holder holds the shares received upon exercise (rather than sell them for the cash).

Immaculate Option Exercise. A form of cash-less exercise in which the option exercise price is paid by instructing the company to withhold from the total number of shares issuable upon an option exercise a number of shares equal to the exercise price. The otion holder is left with just the number of shares equal to the option "spread." As a result of the advent of broker-assisted "Cash-less Exercise/Same-Day Sale" programs, and concerns over the potential for a negative accounting charge, the immaculate exercise has fallen out of favor.

Imputed Interest. Interest the IRS assumes has been paid on a loan if the stated interest is below a minimum interest rate (the Applicable Federal Rate).

Incentive Stock Option (ISO). A stock option that has met certain tax requirements that entitles the option holder to favorable tax treatment. Such an option is free from regular tax at the date of grant and the date of exercise (when a nonqualified option would become taxable). If two holding period tests are met (two years between grant date and sale date and one year between the exercise date and sale date), the profit on the option qualifies as a long-term capital gain rather than ordinary income. If the holding periods are not met, there has been a "disqualifying disposition."

Indexed Stock Option. Options that have an exercise price which may fluctuate *above* or *below*-market-value at grant, depending on the company's stock price performance relative to a specified index or the movement of the index itself. Indexed options differ from performance options in that the exercise price of indexed options typically remains variable until the option is exercised.

Indexed-Priced Stock Option. Stock options with an exercise price that is adjusted periodically to a stock index (e.g., the Standard & Poor’s 500 Stock Index).

Individual Retirement Account (IRA). An individual pension fund that anyone may open with a bank. An IRA permits investment of contributed funds through intermediaries like mutual funds, insurance companies, and banks or directly in stocks and bonds through stockbrokers. Because it is intended for retirement, money in an IRA enjoys many tax advantages over traditional investments, but may not be withdrawn early without heavy penalty fees.

Initial Public Offering. The process of "Going Public."

Insider. An Inside is an officer, director or principal shareholder of a publicly owned company and members of his or her immediate family. This category may also include other people who obtain nonpublic information about a company and owe a duty not to use it for personal gain.

Insider Trading. Trading in a company's securities by company insiders or others with access to material, non-public information.

Insider Trading & Securities Fraud Enforcement Act of 1988. This is federal legislation that greatly increased the penalties for trading on material inside information.

Installment Exercise. A form of stock option exercise right that can be executed at certain times and with certain limits during its term.

Institutional Investor. Organizations whose primary purpose is to invest their own assets or those entrusted to them by others. The most common are employee pension funds, insurance companies, mutual funds, university endowments, and banks.

Internal Equity. Refers to the pay relationships among jobs or skill levels within a single organization and focuses attention on employee and management acceptance of those relationships. It involves establishing equal pay for jobs of equal worth and acceptable pay differentials for jobs of unequal worth.

Internal Revenue Service (IRS). U.S. agency charged with collecting nearly all federal taxes, including personal and corporate income taxes, social security taxes, and excise, estate and gift taxes. The IRS administers the rules and regulations that are the responsibility of the U.S. Treasury Department and investigates and prosecutes (through the U.S. Tax Court) tax illegalities.

Intrinsic Value. This is the difference between the Exercise Price and or Strike Price of an option and the market value of the underlying security.

Investment Advisers Act of 1940. This act which falls under the SEC regulates investment advisers. With certain exceptions, this Act requires that firms or sole practitioners compensated for advising others about securities investments must register with the SEC and conform to regulations designed to protect investors. Since the Act was amended in 1996, generally only advisers who have at least $25 million of assets under management or advise a registered investment company must register with the Commission.

Investment Bank. Also known as underwriters, investment banks serve as middlemen between corporations issuing new securities and the buying public. Normally one or more investment banks buy the new issue of securities from the issuing company for a negotiated price. The company walks away with this new supply of capital, while the investment banks form a syndicate and resell the issue to their customer base and the investing public. Investment banks perform a variety of other financial services, such as merger and acquisition advice and market analysis.

Investment Company. A company or trust that uses its capital to invest in other companies. There are two principal types: the closed end and the open end, also known as a mutual fund. Shares of closed-end investment companies, most of which are listed on the NYSE, are readily transferable in the open market and are bought and sold like shares of stock. Capitalization of these companies remains the same unless action is taken to change, which is rare. Open-end funds sell their own new shares to investors, stand ready to buy back their old shares, and are not listed. Open-end funds are so called because their capitalization is not fixed; they issue more shares as people want them.

Investment Company Act of 1940. This act which falls under the SEC regulates the organization of companies, including mutual funds that engage primarily in investing, reinvesting, and trading in securities and whose own securities are offered to the investing public. The regulation is designed to minimize conflicts of interest that arise in these complex operations. The Act requires these companies to disclose their financial condition and investment policies to investors when stock is initially sold and, subsequently, on a regular basis. The focus of this Act is on disclosure to the investing public of information about the fund and its investment objectives, as well as on investment company structure and operations. It is important to remember that the Act does not permit the SEC to directly supervise the investment decisions or activities of these companies or judge the merits of their investments.

IRC. Abbreviation for *Internal Revenue Code.*

Irrevocable Trust. Trust that cannot be changed or terminated by the one who created by the one who created it without the agreement of the beneficiary of the trust.

IRS. Common abbreviation for *Internal Revenue Service.*

ISO. Common abbreviation for *Incentive Stock Option.*

Job Evaluation. The process for determining the relative worth of a position within an organization based on the factors valued by the organization. The end result of job evaluation process is the assignment of jobs to some form of pay hierarchy.

Job Family. A collection of jobs that with common skills, occupational qualifications, technology, working conditions, etc. Often a job family represents increasingly complex levels of a job.

Joint and Survivor Annuity. Most pension plans must offer this form of pension plan payout that pays over the life of the retiree and his or her spouse after the retiree dies. The retiree and his or her spouse must specifically choose not to accept this payment form.

Junior Stock. Junior stock has limited or no voting stock or dividend rights, and is convertible into regular common stock if performance goals (or other stated event such an initial public offering) are met.

Labor-Management Reporting and Disclosure Act. This act deals with the relationship between a union and its members. It safeguards union funds, requires reports on certain financial transactions and administrative practices of union officials, labor consultants, etc. The Office of Labor-Management Standards administers the act, which is part of the Employment Standards Administration. . This act is also known as the *Landrum-Griffin Act.*

LCN. Abbreviation for *Local Country National.*

Legend. A notice on a stock certificate that the shares represented by that certificate are "Restricted Securities."

Leverage. Any means of increasing value and return by borrowing funds or committing less of one's own. For corporations, it refers to the ratio of debt (in the form of bonds and preferred stock outstanding) to equity (in the form of common stock outstanding) in the company's capital structure. The more long-term debt there is, the greater the financial leverage. Shareholders benefit from this financial leverage to the extent that the return on the borrowed money exceeds the interest costs of borrowing it. The market value of the company rises and so do its shares. Because of this effect, financial leverage is popularly called "trading on the equity." For individuals, leverage can involve debt, as when an investor borrows money from his broker "on margin" and so is able to buy more stock than he otherwise could. If the stock goes up, he repays the broker the loan amount and keeps the profit himself. By borrowing money he has achieved a higher return on his investment than if he had paid for all the stock himself. Rights, warrants, and option contracts also provide leverage, not through debt but by offering the prospect of a high return for little or no investment.

Leveraged Stock Option. Often used after the restructure of a corporations, the company will match some multiple of stock options to the employee's purchase of fixed number of shares (e.g., company provides 4 options for over 1 share purchased).

Liquidity. (1) How easily an asset can be converted into cash. For example, money in an account that can't be withdrawn for ten years is not very liquid. (2) The ability of the market in a particular security to absorb a reasonable amount of buying or selling at reasonable price changes. Liquidity is one of the most important characteristics of a good market.

Limited Offering. Sales of securities exempt from registration pursuant to certain exemptions that limits the size of the offering and the number of purchasers.

Limited Stock Appreciation Right (LSAR). Similar to a SAR, but only exercisable in the case of a change in control or up to a certain value. Usually granted in tandem with a stock option.

Listed Stock. The stock of a company that is traded on a securities exchange. The various stock exchanges have different standards for listing. Some of the guides used by the New York Stock Exchange for an original listing are national interest in the company and a minimum of 1.1 million shares publicly held among not less than 2,000 round-lot stockholders. The publicly held common shares should have a minimum aggregate market value of $18 million. The company should have net income in the latest year of over $2.5 million before federal income tax and $2 million in each of the preceding two years.

Living Trust. A trust created by a person during his or her lifetime.

Local Country Nationals (LCNs). Citizens of countries in which a U.S. foreign subsidiary is located. LCNs compensation is tied to either local wage rates or to the rate of U.S. expatriates performing the same job. Each practice of paying LCNs has different Internal Equity and External Equity implications.

Lock-Up. An agreement between investment bankers and the companies that they bring public. This agreement restricts the resale of shares owned by founders, employees, and venture capitalists immediately after the IPO. Typically lasts for 180 days, but could last for a shorter or longer period.

Long-Term Incentive (LTI) Plan. A program providing for a payout of incentive awards based on a performance period of more than one year. Long term incentive plans include but are not limited to stock options, stock option appreciation rights, phantom stock, performance unit, performance share plans, and restricted stock. Eventual payment depends on achievement of goals.

Look-Back Feature. Provision in an Internal Revenue Code Section 423 employee stock purchase plan (ESPP). The purchase price (with or without a discount) is based on the *lower* of the market price at the beginning or end of the purchase period (a typical plan purchase period might run for six months). For example, for a plan with a look-back feature and a 15% discount, if the stock price is $10 at the beginning of the purchase period and goes up to $20 at the end, your purchase price is just $8.50 ($10-15%).

Margin. The amount paid by the customer when using a broker's credit to buy or sell a security. Under Federal Reserve regulations, the initial margin required since 1934 has ranged from 40% of the purchase price up to 100%. Since 1974 the current rate of 50% has been in effect.

Market Share. Sales of a particular product or product line as a percentage of total sales of the product or product line.

Materiality. An important constraint underlying the reporting of accounting information: it relates to how large an item is in terms of dollar amount. Accounting standards do not need to be applied to items that are considered to be immaterial. With regard to insider trading, material information relates to information that if disclosed may cause the market value to change.

Mean. The sum of a set of data reported divided by the number of observations. Also referred to as the Average.

Measurement Date. When the “fair value” of a stock-based employee award is known and fixed. According to current FASB rules, this is the first date on which the stock award can be measured. It is the first date on which both the number of shares and the option or purchase price are known.

Median. The median is the middle value of a variable in a distribution of numbers. Thus, the median of (1, 2, 3, 10, and 100) is 3. The mean (or average) of these values is 23.2. The median is generally preferred to the mean as a measure of "typical" values since extreme values (very high or very low) will tend to skew the mean.

Medical Savings Account (MSA). The general concept of a medical savings account is for an employer, or the government in the case of Medicare, to enable an insured individual to obtain and pay for a high deductible catastrophic health insurance policy. The employer or the government would pay a fixed premium to the catastrophic insurance company, and the insured individual would share the cost of the premium. The difference between what the employer or government would customarily pay for traditional coverage, and the premium of the catastrophic health insurance coverage would be put into an individual's MSA for his or her qualified medical expenses.

The Health Insurance Portability and Accountability Act of 1996 created a four-year experimental MSA program, effective January 1, 1997, allowing a maximum of 750,000 individuals in businesses with fifty or fewer employees as well as self-employed and uninsured individuals to receive favorable tax treatment for the MSA.

Mega-Grant. An exceptionally large stock award. The *Aggregate Exercise Price* of $10
million, or greater.

Merger. A combination of two or more corporations.

Minimum Value. An amount attributed to an option that is calculated without considering the expected volatility of the underlying stock. Minimum value may be computed without using a standard option-pricing model and a volatility of zero. It also may be computed as (a) the current price of the stock reduced to exclude the present value of any expected dividends during the option's life minus (b) the present value of the exercise price. Different methods of reducing the current price of the stock for the present value o the expected dividend payments, if any, may result in different computed minimum values.

Minimum Value Stock Valuation Model. A model that estimates the value of a stock option; it considers the same factors as the Black-Scholes Model, with the exception of (a) the stochastic estimation of future stock price, and (b) the volatility of the stock. This model is defined as the current stock price less the present value of (1) expected dividends, and (2) exercise price.

Monetize. To convert illiquid value such as stock option spread to cash. See *Hedging*, *Cost Less Collar*, and *Zero Premium Collar*.

Mutual Fund. A portfolio of stocks, bonds, or other securities administered by a team of one or more managers from an investment company who make buy and sell decisions on component securities. Capital is contributed by smaller investors who buy shares in the mutual fund rather than the individual stocks and bonds in its portfolio. The return on the fund's holdings is distributed back to its contributors, or shareholders, minus various fees and commissions. This system allows small investors to participate in the reduced risk of a large and diverse portfolio that they could not otherwise build themselves. They also have the benefit of professional managers overseeing their money who have the time and expertise to analyze and pick securities.

There are two types of mutual funds: open and closed ended. Shares in closed-end funds, some of which are listed on the New York Stock

Exchange, are readily transferable in the open market and are bought and sold like other stock. These funds do not accept new contributions from investors, but only reinvest the return on the existing portfolio. Open-end funds sell their own new shares to investors, stand ready to buy back their old shares, and are not listed on exchanges. Open-end funds are so called because their capitalization is not fixed; they issue more shares as people want them. Many open-ended funds allow contributors extra perks, such as the ability to write checks with their portion.

Naked Option. Sometimes called an uncovered option, a naked option is one whose seller does not maintain an equivalent position in the underlying security. For example, the owner of a call has the option to buy the underlying stock from the writer of the call. However, if the writer does not own that stock the option is naked. When the holder decides to exercise his option, the writer will be forced to buy the stock on the open market, and then resell it at the lower strike price. This will result in a loss for the writer. For obvious reasons, writing naked options is risky and must be done in a margin account.

Named Executive Officers (NEOs). The five highest paid executive officers, whose prior fiscal year compensation is, reflected in the “Summary Compensation Table” in a publicly held company’s annual proxy statement, pursuant to SEC disclosure requirements.

National Association of Securities Dealers (NASD). An association of securities broker/dealers, including all of the major brokerage firms as members. The NASD establishes uniform practices in the securities industry for trading in the over-the-counter market in order to protect investors. The "NASDR" is the regulatory arm of the NASD.

NASDAQ. The National Association of Securities Dealers Automated Quotation is a global intranet providing brokers and dealers with price quotations on traded over-the-counter. Unlike the NYSE auction market where orders meet on a trading floor, NASDAQ orders are paired and executed on a computer network. Level I service provides the best bid and offer (BBO) in a given security without identifying the market maker. Level II service provides the BBO and identifies the market maker. Level III service allows registered market makers to compete and trade by entering their own bids and offers.

National Market System. A national market system was mandated by the Securities Act Amendments of 1975, the most important federal securities legislation since the 1930s. Nine markets -- the American, Boston, Cincinnati, Chicago, New York, Pacific, and Philadelphia and NASD over-the-counter market -- are linked electronically by computers. This allows traders at any exchange to seek the best available price on all other exchanges that a particular security is eligible to trade on. The national market system also includes a consolidated electronic tape, which combines last-sale prices from all markets into a single stream of information.

New York Stock Exchange (NYSE). Oldest (established in 1792) and largest securities exchange in the U.S. The NYSE marketplace blends public pricing with assigned dealer responsibilities. Aided by advanced technology, public orders meet and interact on the trading floor with a minimum of dealer interference. The result is competitive price discovery at the point of sale. Liquidity in the NYSE auction market system is provided by individual and institutional investors, member firms trading for their own accounts, and assigned specialists. The NYSE is linked with other markets trading listed securities through the Intermarket Trading System (ITS).

NYSE-assigned dealers, known as specialists, are responsible for maintaining a fair and orderly market in the securities assigned to them. Most trading, however, is conducted by brokers acting on behalf of customers, rather than by dealers trading for their own account. For this reason, the NYSE is often described as an agency auction market. The interaction of natural buyers and sellers determines the price of an NYSE-listed stock.

Nonqualified Deferred Compensation Plan (NQDCP).

Nonqualified Stock Option (NQSO). An employee stock option not meeting the IRS criteria for ISOs (incentive stock options) and therefore triggering a tax upon exercise. This type of option requires withholding of state and federal income tax, Medicare, and FICA/FUTA on the excess of the fair market value over the exercise price on the exercise date.

NQDCP. Abbreviation for *Nonqualified Deferred Compensation Plan.*

NQSO. Abbreviation for *Nonqualified Stock Option.*

NYSE Composite Index. In 1966, the NYSE established the NYSE Composite Index to provide a comprehensive measure of the market trend for the benefit of many investors who are concerned with general stock market price movements. The indexes consist of a Composite Index of all common stocks listed on the NYSE and four subgroup indexes -- Industrial, Transportation, Utility, and Finance.

The indexes are basically a measure of the changes in aggregate market value of NYSE common stocks, adjusted to eliminate the effects of capitalization changes, new listings and de-listings. The market value of each stock is obtained by multiplying its price per share by the number of shares listed. The aggregate market value, which is the sum of the individual market values, is then expressed relative to a base point market value. The base value was set at 50.00 on December 31, 1965 because this figure was reasonably close to the actual average price of all common stocks at that time.

The arithmetic procedure in calculating the index is shown in the following simplified example: Year-end total market value of common stocks, $5,943.5 billion, divided by adjusted base market value, $901.9 billion, multiplied by 50.00 equals the index, 329.51 at year-end.

Every measure of changes in stock prices - index or average - must frequently be adjusted to reflect only movements resulting from auction market activity and eliminate the influence of corporate actions. Any change in the capitalization of an individual issue or of all issues in aggregate is dealt with in this index by making a proportionate change in the market value of the base figure.

Occupational Safety and Health Act (OSH Act). The OSH Act administered by the Occupational Safety and Health Administration (OSHA). Safety and health conditions in most private industries are regulated by OSHA or OSHA-approved state systems. Employers must identify and eliminate unhealthful or hazardous conditions; employees must comply with all rules and regulations that apply to their own workplace conduct. Covered employers must maintain safe and healthful work environments in keeping with requirements of the law. Effective OSHA safety and health regulations supersede others originally issued under these other laws: the *Walsh-Healey Act,* the *Service Contract Act*, the *Contract Work Hours and Safety Standards Act*, the *Arts and Humanities Act* and the *Longshore and Harbor Workers' Compensation Act*.

Off-Hours Trading. Trading that takes place after the close of the regular session. On June 13, 1991, the NYSE introduced off-hours trading in the form of two post-4:00 p.m. crosses. Crossing Session I introduced a 5:00 p.m. cross in individual stocks at the NYSE regular day closing price; Crossing Session II facilitates the crossing of portfolios until 5:15 p.m.

Omnibus Stock Plan. A long-term incentive plan that provides the flexibility to use a number of long-term incentive vehicles, such as stock options, stock appreciation rights, restricted stock, performance shares, and performance units. A list of performance measures is included in such a plan.

Option Deferral. An election by an employee to receive all or a portion of their compensation (or fees) in stock options. Company directors, for example, might be able to choose to get some or all of their fees in unrestricted common shares, stock options, restricted stock, or a combination.

Optionee. A person who has been granted a stock option. Also referred to as an “Option Holder.”

Option Holder. A person who has been granted a stock option. Also referred to as an “Optionee.”

Option Spread. The amount by which the value of an option grant, at the time of exercise, exceeds its value at the time it was awarded. The spread is determined by multiplying the number of shares exercised by the amount by which the market price per share on the date of exercise exceeds the option’s stock price per share. Also referred to as Intrinsic Value.

Out of the Money. A term used to describe an employee stock option when the current market price is below the option exercise price. When an option is out-of-the-money, it would cost more than the underlying stock is worth to exercise the option. Such options are also described as being "underwater."

Outside Director. A board member who is not a current employee, nor a former employee.

Over the Counter. A market, including NASDAQ, in which securities transactions are conducted through a computer network connecting dealers in stocks and bonds, rather than on the floor of an exchange.

Ownership Guidelines. Requirements at some companies that executives, directors, and key employees own a specified amount of company stock so that their financial interests are clearly aligned with those of shareholders. The most commonly used guidelines require stock ownership with a value based on some multiple of salary (e.g., 3x salary). A minority of companies expresses ownership as a specific number of shares. The guidelines are tiered by position so that the CEO has the highest-level ownership requirement.

Pay Differential. Pay differences among levels within the organization, such as the difference in pay between adjacent levels in career path, between supervisors and subordinates, and between executive and non-executive employees.

Penny Stocks. Low-priced issues, often highly speculative, selling at less than $1 a share. Frequently used as a term of disparagement, although some penny stocks have developed into investment-caliber issues.

Performance Accelerated Restricted Stock Award Plan (PARSAP). Also known as performance-accelerated restricted stock ("PARS") and time-accelerated restricted stock award plans ("TARSAPs"). Grants of restricted stock or restricted stock units that may vest early upon attainment of specified performance objectives. Otherwise, a time-vesting schedule would remain in effect.

Performance Condition or Performance Award. FASB Definition. An award of stock-based employee compensation for which vesting depends on both (a) an employee's rendering services to the employer for a specified period of time, and (b) the achievement of a specified performance target. A performance condition may pertain to either to the performance of the enterprise as a whole or to some part of the enterprise, such as a division.

Performance Share. Grants of actual shares of stock or "phantom stock" whose payment is contingent on performance as measured against predetermined objectives over a multi-year period of time; same as performance units except that the value paid fluctuates with stock price changes as well as performance against objectives. Payout may be settled in cash or stock.

Performance Stock Option. Options that have some aspect of their vesting or exercise price subject to specified performance criteria.

Options with performance vesting provisions generally become exercisable at or near the end of the option term, regardless of performance, to secure favorable accounting treatment.

Performance Unit. Cash earned by an executive at the end of a long-term performance period if certain pre-established financial objectives are achieved. Similar to performance shares, except that payments are not related to stock price and units are earned on the basis of internal financial performance measures.

Perquisites. See *Executive Perquisites.*

Permanent Discount Purchase Plan. A stock purchase plan that enables employees to purchase restricted stock at a set dollar discount from the then current market price of the stock. The discount is usually significant relative to the market price at the date of purchase. If the employee subsequently wishes to sell the stock, the employer has a right to repurchase the shares at the then market price, less the original discount.

Phantom Stock Award. A type of incentive grant in which the recipient is not issued actual shares of stock on the grant date but receives an account credited with a certain number of hypothetical shares. The value of the account increases or decreases over time based on the appreciation or depreciation of the stock price and the crediting of phantom dividends. Payout may be settled in cash or stock.

Poison Pill. A device designed to prevent a hostile takeover by increasing the takeover cost usually through the issuance of new preferred shares that carry severe redemption provisions.

Pooling of Interests . A merger accounting method where the balance sheets of the two merging companies are combined line by line without a tax impact.

Preferred Stock. A type of stock that pays a fixed dividend regardless of corporate earnings, and which has priority over common stock in the payment of dividends. However, it carries no voting rights, and should earnings rise significantly the preferred holder is stuck with the same fixed dividend while common holders collect more. The fixed income stream of preferred stock makes it similar in many ways to bonds.

Pregnancy Discrimination Act of 1978. An amendment to Title VII of the Civil Rights Act. It requires to extend to pregnant employees or spouses the same disability and medical benefits provided other employees or spouses of employees.

Premium Priced Stock Option. Options that have an exercise price *above* market value at the time of grant.

Present Value (PV). Value today of a future payment, or stream of payments, discounted at some appropriate compound interest – or discount rate. The present value method, also called the discounted cash flow method, is widely used to compare alternative investments of cash flow streams.

Price Earnings (P/E) Ratio. A popular measure for comparing stocks selling at different prices in order to single out over or undervalued issues. The P/E ratio is simply the price per share divided by the company's earnings per share. However, P/E is not always an accurate guide to a stock's quality. Some people tend to think that a stock is inflated and drastically overvalued if its price is many times its earnings. Yet that same stock may be quite accurately valued to reflect the company's rapid growth and potential for high future earnings. When comparing P/Es it is therefore important to choose stocks in the same industry which are likely to face the same earnings prospects.

Price Index. Overall measure of how much prices have increased over a period of time. Prices are expressed as some percentage of the prices prevailing during a base period.

Primary Offering. An offering of un-issued securities.

Principal Stockholder. An investor that either (a) owns 10 percent or more of an entity's common stock or (b) has the ability, directly or indirectly, to control or significantly influence the entity.

Private Placement. Sales of securities not involving a public offering pursuant to certain exemptions.

Program Trade. Program trading is defined as a wide range of portfolio trading strategies involving the purchase or sale of 15 or more stocks having a total market value of $1 million or more.

Prospectus. A document that is disclosed to potential investors of publicly traded companies. The prospectus forms the heart of a "Registration Statement" filed with the SEC. Potential purchasers may be the investing public, in the case of the initial public offering, or the company's employees, in the case of a stock plan. According to the comic strip Dilbert, "prospectus" is actually a Latin word meaning "close your eyes and open your mouth."

Proxy. Refers either to (1) a person, such as a member of management, who is designated by a stockholder to vote on behalf of the stockholder at a meeting, or (2) a signed card or other document that designates such a person. Corporate matters are typically voted on via proxy because it would be impossible to assemble all of the stockholders at one time to vote in person.

Proxy Battle. Strategy used by an acquiring company in a hostile takeover attempt whereby the acquirer challenges the target company's management and solicits support from the target company's shareholders for proposals that would effectively give the acquiring company control of the target without having to pay a premium.

Proxy Fight. Strategy used by an acquiring company in a hostile takeover attempt whereby the acquirer challenges the target company's management and solicits support from the target company's shareholders for proposals that would effectively give the acquiring company control of the target without having to pay a premium.

Proxy Statement. Information document that the SEC requires to be provided to stockholders before they vote by proxy on corporate matters. The proxy statement contains biographical information on the members of the Board of Directors, the top five executive officers' salaries, bonus and stock compensation as well as any proposals from management or stockholders to be acted upon at the meeting. Also referred to as DEF14A or PRE14A.

Prudent Man Rule. An investment standard that dictates the type of security, or specific securities, in which a fiduciary/trustee may invest money. Generally, it implies that a fiduciary/trustee may invest in a security only if it is one that a prudent man of discretion and intelligence would buy.

Put Option. A put option or "put" is a derivative security giving the holder the right to sell securities at a fixed price (see "Call Option").

A protective put strategy allows holders of concentrated stock positions to have protection against share price drops. By purchasing a put, if the stock price is below the strike price at expiration, the holder will receive a payment for the difference. For example, the current market price per share is $50, and a put is purchased with a $35 downside strike price. At expiration, when the price is $30, a $5 cash payment will be made.

Public Utility Holding Company Act of 1935. Interstate holding companies engaged, through subsidiaries, in the electric utility business or in the retail distribution of natural or manufactured gas are subject to regulation under this Act. These companies, unless specifically exempted, are required to submit reports providing detailed information concerning the organization, financial structure, and operations of the holding company and its subsidiaries. Holding companies are subject to SEC regulations on matters such as structure of their utility systems, transactions among companies that are part of the holding company utility system, acquisitions, business combinations, the issue and sale of securities, and financing transactions.

Pyramid Exercise. A type of "Stock Swap" option exercise in which a small number of previously owned shares is surrendered to the company to pay a portion of the exercise price, for which a slightly larger number of option shares may be purchased. The newly purchased shares are then immediately surrendered back to the company to pay additional amounts of the exercise price, and so on until the full option price has been paid and the option holder is left with just the number of shares equal to the option "spread." With the advent of broker-assisted "Cash-less Exercise/Same Day Sale" programs, pyramiding has fallen out of favor.

Qualifying Disposition. Transfer (e.g., gift, sale) of ISO or ESPP shares after the required holding periods of two years from the grant date or one year from the purchase/exercise date.

Qualified Plan. The general meaning of a Qualified Plan is that it meets qualifications under the applicable IRS Code. A plan where the employer can take a tax deduction with respect to an accrual of a yet unpaid benefit. For example, a qualified defined benefit pension allows a company to take a tax deduction for the accrual of a pension benefit.

Qualified Stock Option (QSO). A stock option that meets the requirements established by IRS Code Section 422. A QSO is also referred to as an ISO.

Rabbi Trust. A non-qualified fund for holding deferred compensation tax-free until either the company gives up the right to recall the money, the beneficiary collects, or the funds are made available to the general creditors of the company in the event of a bankruptcy.

Record Date. The date set by the Board of Directors for the transfer agent to close the company's books to further changes in registration of stock in order to identify the stockholders entitled to receive the next dividend or to vote at an upcoming meeting. A stockholder must officially own shares as of the record date in order to receive the dividend or vote at the meeting.

Record Owner. The "Stockholder of Record" of shares of stock, which may be different from the "Beneficial Owner" of those shares.

Registration. Before a company may make a public offering of new securities, the securities must be registered under the Securities Act of 1933. A registration statement is filed with the SEC by the issuer. It must disclose pertinent information relating to the company's operations, securities, management and purpose of the public offering. Before a security may be admitted to dealings on a national security exchange, it must be registered under the Securities Exchange Act of 1934. The company issuing the securities must file the application for registration with the exchange and the SEC.

Registration Statement. A disclosure document filed with the SEC to register shares of stock for sale to the public. Forms S-1, S-2, S-3, and S-8 are common types of registration statements. Form S-8 is used for employee benefit plans. Companies and individuals to resale stock that they already own instead of using Rule 144 can use form S-3.

Regression. A common statistical approach used to determine the relationship between pay and factors that may affect pay such as revenue size, number of employees, etc. The most common type of regression is a single regression that reviews

Regulation T. Federal Reserve Board regulations governing the extension of credit by broker/dealers, including their participation in cash-less exercise/same-day sale transactions.

REIT. Real Estate Investment Trust, an organization similar to an investment company in some respects but concentrating its holdings in real estate investments. The yield is generally liberal since REITs are required to distribute as much as 90% of their income.

Reload Stock Option (RSO). A replacement stock option granted by some companies to option holders upon a "Stock Swap." The number of reload shares granted is equal to the number of shares delivered to exercise the option plus, in some cases, any shares withheld for tax withholding obligations. The exercise price of the new option is the current market price; the option generally expires on the same date that the original option would have.

Repricing. The exchange of previously granted, now "out-of-the-money" stock options for lower-priced options at the current market price. The actual exchange can be structured in different ways and ratios of old-to-new stock options. Companies that do this will face shareholder wrath and an earnings charge but believe it restores the employee retention value of stock options.

Rescission. A rarely allowed, controversial practice that allows employees to cancel previous stock option exercises when the stock price later in the same year has dropped substantially from the market price at exercise. This wipes out the tax treatment based on the spread at exercise when the market price was much higher. The employee who chooses to rescind receives back the money paid at exercise in exchange for the stock. Both the SEC and FASB are examining this practice.

Restricted Securities. The term used under SEC Rule 144 for securities issued privately by the company, without the benefit of a registration statement. Restricted securities are subject to a holding period before they can be sold under Rule 144. The term is also commonly used to refer to any securities held by affiliates that must be sold under Rule 144, regardless of whether the stock is registered.

Restricted Stock Award. Grants of shares of stock subject to restrictions on sale and risk of forfeiture until vested by continued employment or by reaching a performance target. Restricted stock typically vests in increments over a period of several years. Dividends or dividend equivalent rights may be paid, and award holders may have voting rights, during the restricted period.

Return on Assets (ROA). A profitability ratio measured by net income divided by assets, This is equivalent to Return on Sales multiplied by capital turnover,

Return on Invested Capital (ROIC). Amount, expressed as a percentage, earned on a company's Total Capital. .

Return on Equity (ROE). A profitability ratio measured by net income divided by equity. This is equivalent to return on assets (ROA) multiplied by leverage (the ratio of assets to shareholders' equity).

Return on Sales (ROS). Net Income as a percentage of sales. ROS is a useful measure of overall operational efficiency when compared with prior periods or with other companies in the same line of business. It is important to recognize that ROS varies widely from industry to industry.

Reverse Vesting. A new technique (also known as "early exercise") found in stock option plans offered by pre-IPO companies. Under this type of arrangement, you would be allowed to immediately exercise options when they are granted, by paying the option price. For each option exercised you would receive a share of "restricted" stock, which is subject to a holding period (e.g., four years; 25% vests per year) that is based on the stock option plan's original vesting schedule. With reverse vesting, even though you have paid for the options, you do not own the stock free-and-clear until the shares are vested. Your company will usually hold the restricted stock in an escrow account until vested. The company retains a right to repurchase any unvested restricted stock, usually at the exercise price, if you leave.

To take advantage of reverse vesting, you should file an 83(b)-election form within 30 days of exercise. An 83(b) election allows you to pay tax on the fair market value at the time of exercise, rather than when the restrictions lapse (when vesting is complete). The objective of this election is to tax any appreciation that is realized after the exercise of options at the lower capital gains rate.

Revocable Trust. Money held for a beneficiary that a company retains the right to recall.

ROC. Abbreviation for *Return on Capital.*

ROE. Abbreviation for *Return on Equity.*

ROI. Abbreviation for *Return on Investment.*

ROS. Abbreviation for *Return on Sales.*

ROSE. Abbreviation for *Return on Shareholders' Equity.*

RSO. Abbreviation for *Reload Stock Option.*

Rule 10b-5. An SEC rule that prohibits trading by insiders on material non-public information. This is also the rule under which a company may be sued for false or misleading disclosure.

Rule 13d. SEC rule that requires holders of 5% or greater of a company's stock to disclose their security holdings and any changes in a Schedule 13d filing.

Rule 144. An SEC rule that applies to public re-sales of restricted securities, as well as all sales by affiliates. The requirements include:
(1) Current public information about the issuer,
(2) A one-year holding period for "Restricted Securities,"
(3) Unsolicited brokers' transactions,
(4) An amount limitation -- the greater of 1% of the outstanding stock or the average weekly trading volume may be sold during any three-month period, and
(5) A Form 144 filing.

Under Rule 144(k), a non-affiliate individual who has held restricted securities for at least two years can sell his or her stock without meeting Rule 144 conditions. The seller can't be an affiliate at any time in the three months prior to the sale. Before the sale, under Rule 144(k), the holder of the securities will need to have the restricted legend removed from the stock.

Rule 701. SEC registration exemption used for private company equity plans.

Same-Day Sale. Refers to a same-day exercise and sale transaction, which an option holder would execute with the assistance of a broker. In a same-day exercise and sale, the exercise of the option and sale of the underlying shares take place simultaneously. The broker uses the proceeds of the sale to pay to (a) the company the exercise price and any tax withholding and (b) the option holder the net-cash (less any brokerage commission/fees).

SAR. Abbreviation for *Stock Appreciation Right.*

Schedule 13D or 13G. Disclosure forms required to be filed with the SEC and the company by a shareholder or group of shareholders that owns more than 5% of a public company. Schedule 13G is a short-form version of the 13D and may generally (but not always) be used only by institutional investors.

SEC. Abbreviation for "*Securities and Exchange Commission*."

Section 16(a). Provision of the Securities Exchange Act of 1934 that requires company insiders to file periodic reports disclosing their holdings and changes in beneficial ownership of the company's equity securities. See Forms 3, 4, and 5.

Section 16(b). Provision of the Securities Exchange Act of 1934 that requires that any profit realized by a company insider from the purchase and sale, or sale and purchase, of the company's equity securities within a period of less than six months must be returned to the company. Section 16(b) is also known as the "short-swing profit" rule.

Section 162(m). The section of the IRC establishing tax regulations related to the $1 million cap on deductible business expense for "non-performance-based" compensation to a publicly held corporation's *Named Executive Officers.*

Section 423. The Internal Revenue Code section that regulates Employee Stock Purchase Plans.

Section 83(b) Election. A tax filing within 30 days of grant that allows employees given restricted stock to pay taxes on the grant date instead of on the date restrictions lapse. If an employee files the election, taxes are based on the fair market value on the grant date, with any future appreciation taxed as a capital gain. If the employee does not file an election, taxes are based on the fair market value on the date the restrictions lapse, which will be higher assuming the stock has appreciated in value.

For early exercise options, the election essentially says that you agree to recognize now as ordinary income for NQSOs and as an AMT item for ISOs any spread between the stock's fair market value and your exercise price. In this way, the future appreciation on the company's stock can be taxed at favorable long-term capital gains rates upon the sale of the underlying stock.

Secular Trust. A trust fund for holding deferred compensation. Differs from a rabbi trust in that contributions are taxable to recipient as they accumulate. The trust usually begins to pay out when the trust beneficiary retires. The trust assets are not subject to claims of creditors in the event of a bankruptcy.

Securities Act of 1933. Federal legislation enacted to protect potential purchasers of stock by requiring companies to register their public stock offerings and make full disclosure to purchasers. This act is often referred to as the "truth in securities" law, the Securities Act of 1933 has two basic objectives:

- Require that investors receive financial and other significant information concerning securities being offered for public sale; and
- Prohibit deceit, misrepresentations, and other fraud in the sale of securities.

Securities and Exchange Commission (SEC). The government agency responsible for the supervision and regulation of the securities industry and markets, as well as public securities offerings and the ongoing disclosure obligations of public companies.

Securities Exchange Act of 1934. With this Act, Congress created the Securities and Exchange Commission. The Act empowers the SEC with broad authority over all aspects of the securities industry. This includes the power to register, regulate, and oversee brokerage firms, transfer agents, and clearing agencies as well as the nation's securities self regulatory organizations (SROs). The various stock exchanges, such as the New York Stock Exchange, and American Stock Exchange are SROs. The National Association of Securities Dealers, which operates the NASDAQ system, is also an SRO. The Act also identifies and prohibits certain types of conduct in the markets and provides the Commission with disciplinary powers over regulated entities and persons associated with them. The Act also empowers the SEC to require periodic reporting of information by companies with publicly traded securities.

Security. Includes any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest, or participation in any profit-sharing agreement. Also includes collateral-trust certificate, pre-organization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a "security", or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

Self-funding/Self insurance. A health care benefit financing technique in which an employer pays claims out of an internally funded pool, as permitted under ERISA. Self-funded companies might or might not also be self-administered, meaning they perform the administrative tasks associated with the benefit as opposed to purchasing such services from an outside firm.

Sell Side. A broker/dealer who sells expertise in research, order execution or any other service to an individual or institution.

Sequential Exercise. The exercise of employee stock options in the order in which they were granted.

SERP. Abbreviation for *Supplemental Executive Retirement Plan.*

Seventy-fifth Percentile. Also referred to as the “third quartile,” “upper quartile,” or “Q3.” This represents the dividing point between the upper 25th percentile and the lower 75th percentile of reported data.

Shareholders’ Agreement. The document in an acquisition of a company (such as a Leveraged Buy Out) governing the purchase of equity, the terms of stock options, and buy back of stock. All owners sign the agreement, including outside investors, managers, and creditors.

Shareholder Proposal. .A recommendation or requirement, proposed by a shareholder holding at least $2,000 market value or 1% of the company's voting shares, that the company and/or its board of directors take action presented for a vote by other shareholders at the company's annual meeting.

Shareholder Value. Shareholder value is usually calculated as market capitalization – the stock price of stock multiplied by the number of shares. Changes in shareholder value reflect both dividends and appreciation of the stock. Shareholder value is also referred to as "shareholder wealth."

Shares Outstanding. The number of company shares currently held by shareholders, as tracked by the transfer agent.

Share Repurchase Plan. A program by which a corporation buys back its own shares in the open market. It is usually done when the common shares are undervalued. Since it reduces the number of shares and thus increases Earnings Per Share, it tends to elevate the market value of the remaining shares held by stockholders.

Short-Against-the-Box. A short sale by an investor who also owns the stock being sold is referred to as a sale "against the box," meaning it is a sale versus the broker's "box" position, not the stock in the account of the person short selling. Strategies of this type are generally referred to as "hedging" strategies.

In order to defer capital gain recognition until the next tax year, the short sale must be

(a) Covered before the end of January of the next year,

(b) The shares held must continue to be held for at least 60 days after the short is closed, and

(c) The shares held must not be otherwise protected from loss by an alternate hedge strategy.

Thus, the short is closed by buying back the stock (to cover) and, in order to get the favorable tax treatment, the owned stock is held for at least 60 days.

Short Sale. The sale of a security that is not owned by the seller at the time of the trade, necessitating the purchase or delivery some time in the future to "cover" the sale. Investors who believe the stock being sold will decline in value between the time it is sold short and the time it is covered use the strategy. By being able to cover at a price lower than the short sale price, the investor profits on the difference in price.

In order to sell short, the investor must borrow stock from a broker in order to meet the delivery requirements of the sale, which has potential risks.

Short-Swing Transaction. Any purchase and sale (or sale and purchase) of the issuer's equity securities by an insider within a period of less than six months. See "Section 16(b)" above.

Sign-On Bonus. A large amount of cash or stock granted at the time that an employment agreement is executed. Also referred to as a "Golden Hello."

Spin-Off. The separation of a subsidiary or division of a corporation from its parent by issuing shares in a new corporate entity. Shareowners in the parent receive shares in the new company in proportion to their original holding and the total value remains approximately the same.

Split. The division of the outstanding shares of a corporation into either a larger or smaller number of shares, without any immediate impact in individual shareholder equity. For example, a 3-for-1 forward split by a company with 1 million shares outstanding results in 3 million shares outstanding. Each holder of 100 shares before the split would have 300 shares worth less, although the proportionate equity in the company would stay the same. A reverse split would reduce the number of shares outstanding and each share would be worth more.

Spread. Depending on the context, refers either to (1) the difference between the bid and asked prices for an over-the-counter stock, or (2) the difference between an option's exercise price and the market price at the time of exercise (i.e., the profit component of the exercise).

Staff Accounting Bulletin (SAB). Reflects the SEC staff's views regarding accounting-related disclosure practices. They represent interpretations and policies followed by the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of the federal securities laws. SABs do not represent official position of the SEC.

Staggered Board. A corporate board structure where only a portion of the board of directors is elected each year, usually to discourage takeover attempts.

Stakeholders. All parties interested in the performance of a company. Stakeholders range from the owners of a company to the local taxing authorities, to company employees, and also to residents concerned about the company's impact on the environment

Standard Industrial Classification Code (SIC). Four-digit code used by the Securities and Exchange Commission to categorize and identify a company's type of business.

STI. Abbreviation for *Short-Term Incentive.*

Stock Appreciation Right (SAR). A contractual right, often granted in tandem with an option, that allows an individual to receive cash or stock of a value equal to the appreciation of the stock from the grant date to the date the SAR is exercised.

Stock Award. A grant of unrestricted common shares to one or more selected employees.

Stock Bonus Plan. A plan that provides for periodic awards of stock based upon the company's performance.

Stock Depreciation Right. A right that protects an stock option holder who exercises a stock option, from price declines for a specified period (normally the first six months) that he or she holds the stock. These types of plans are designed to protect the employee from price declines during mandatory holding period requirements for either tax or regulatory purposes.

The employer agrees to make a cash payment to the employee equal to the amount of any decline in the fair market value of the acquired stock from the date of exercise to the end of the six-month period. Also known as “stock indemnification right.”

Stock Dividend. A dividend paid in securities rather than cash. The dividend may be additional shares of the issuing company, or in shares of another company (usually a subsidiary) held by the company.

Stock Exchange. Organized marketplace in which members of the exchange, acting as agents (brokers) and as principals (dealers or traders) trade stocks, common stock equivalents, and bonds. Such exchanges have a physical location where brokers and dealers meet to execute orders to buy and sell securities. Each exchange sets it own requirements for membership.

Stock Grant. The issuance of stock with no restrictions or conditions.

Stock Option. A contractual right granted by the company, generally under a stock option plan, to purchase a specified number of shares of the company’s stock at a specified price (the exercise price) for a specified period of time (generally five or ten years). Assuming that the exercise price is the same as the market price of a share of the company’s stock on the grant date, the option will become more valuable if the market price goes up. The option effectively gives the option holder the right to buy stock in the future at a discount. This definition describes an "employee stock option," as distinguished from a "listed" or "exchange-traded" option.

Stock options come in several forms, including the ones listed below, each of which is defined separately in this glossary: Performance Stock Options, Premium Stock Options, Discount Stock Options, and Indexed Stock Options.

Stock Option Exercise Rescission. An agreement between a company and certain employees to “rescind” the previous exercise of a stock option. In the transaction, employees agree to return to the company shares acquired from an option exercise that occurred earlier in the same taxable year (plus any dividends received on those shares since exercise), and the company agrees to reimburse the employees for the previously remitted exercise price. The company then “reinstates” the previously exercised option according to the option’s original terms (i.e., the same number of shares, exercise price, vesting schedule, exercise term, etc.) The intent of the transaction is to treat the previous exercise as if it had never occurred for income tax purposes (including the “alternative minimum tax”). This will eliminate employee tax liabilities incurred earlier in the year when stock prices were high, but which cannot be funded from the sale of the underlying stock because of subsequent decline in stock price. A potentially negative consequence of the rescission is that the company loses the income tax benefit (or deduction) it would have otherwise received had the original exercise not been rescinded.

Stock Split. When a company increases the number ofshares outstanding by splitting existing shares. A 2-for-1 split means every stockholder gets two new shares for each one they own, and a 3-for-2 split means they get three shares for every two they own. The price of an individual share falls, but stockholders do not lose money because they are being given the equivalent number of new shares.

In a reverse stock split, a company reduces the number of the shares outstanding by consolidating existing shares. A 1-for-5 reverse split for example, means for each five shares owned one receives a single new share instead. The price of the new shares is five times higher, but only to reflect the shortened supply. If a company's stock is trading at a very low price, this process makes the company look more attractive to investors.

Stock Swap. Also known as a "stock-for-stock" exercise. A form of cashless exercise transaction in which shares of company stock already owned are delivered, either physically or by "Attestation," in lieu of cash to pay for the exercise of stock options.

Stock Withholding. A cashless method of satisfying the withholding taxes due upon the exercise of a stock option by authorizing the company to withhold from the shares being exercised a number of shares equal to the taxes.

Street Name. Securities held in the name of a broker instead of a customer's name are said to be carried in "street name." This occurs when the securities have been bought on margin or when the customer wishes the security to be held by the broker.

Strike Price. Also known as the "exercise price" or "grant price," the strike price is the price per share at which a stock option is granted and that must be paid in order to exercise a stock option. The strike price is typically the fair market value of the stock on the date of grant.

Substantial Risk of Forfeiture. Tax term that applies when rights to compensation are conditioned upon future performance of services (e.g., working X years for a company) or the occurrence of some activity (e.g., reaching a performance or stock price goal). As relates to restricted stock and early exercise stock options, income is not recognized while the stock is subject to risk of forfeiture (e.g., vesting), unless a Section 83(b) Election is filed with the IRS within 30 days of when a grant is received or an option is exercised.

Summary Compensation Table.

Supplemental Executive Retirement Plan (SERP). A non-qualified (for purposes of taking corporate tax deduction) plan.

S&P 500. A capitalization weighted index of 500 stocks. Standard and Poor's 500 index represents the price trend movements of the major common stock of U.S. public companies. It is used to measure the performance of the entire U.S. domestic stock market.

Tax Basis. Cost of stock for calculating your gains or losses for tax purposes. For equity compensation, the basis includes the costs plus any compensation income reported (e.g., amount for ordinary income tax on NQSO spread).

To calculate your capital gains, subtract your basis from the amount realized on the sale of stock. If you sell stock through a broker, the Form 1099-B will report the entire amount received that you use to determine the capital gain or loss.

Tax Preference Items. Various tax breaks available under the regular income tax system that are added back to your income to determine Alternative Minimum Tax (AMT). Upon the exercise of Incentive Stock Options (ISOs), the excess of the fair market value of the option shares over the option exercise price is an item of tax preference that must be taken into account in your AMT calculation (unless stock sold in year of exercise). Without regard to the AMT calculation, the option spread is not included in the regular income tax liability calculation. Other preference items include state and local taxes, interest on second mortgage, and medical expenses.

TC. Abbreviation for Total Compensation.

TCC. Abbreviation for Total Cash Compensation.

Teachers Insurance and Annuity Association - College Retirement Equities Fund TIAA-CREF is the premier pension system among education and research institutions in the U.S and is the largest portable pension system in the world with $232 billion in total assets under management.

Technical Research. Analysis of the market and stocks based on supply and demand. The technician studies price movements, volume, trends and patterns, which are revealed by charting these factors, and attempts to assess the possible effects of current market action or future supply and demand for securities and individual issues.

Tender Offer. An offer to purchase outstanding shareholders' securities, usually made in an attempt to gain control of another company.

Testamentary Trust. A trust established by a will that takes effect upon death

Revocable Trust – A trust in which the creator reserves the right to modify or terminate the trust; Irrevocable Trust – A trust that may not be modified or terminated by the trustor after its creation

Third party administrator (TPA). An independent company or person who contracts with an employer to provide administrative functions associated with a benefit or benefits but does not assume or underwrite risk.

Tick. The tick is the direction in which the price of a stock moved on its last sale. An up-tick means the last trade was at a higher price than the one before it and a down-tick means the last sale price was lower than the one before it. A zero-plus tick means the transaction was at the same price as the one before, but still higher than the nearest preceding different price.

Ticker Symbol. A three or four letter abbreviation used to identify a security whether on the floor, a TV screen, or a newspaper page. Ticker symbols are part of the lore of Wall Street. They were originally developed in the 1800s by telegraph operators to save bandwidth. One-letter symbols were therefore assigned to the most active stocks.

Railroads were the dominant issues at the time, so they retain a majority of the one-letter designations.

Ticker symbols today are assigned on a first-come, first-served basis. Each marketplace -- the NYSE, the American Stock Exchange, and others -- allocates symbols for companies within its purview, working closely to avoid duplication. A symbol used for one company cannot be used for any other, even in a different marketplace.

Time Accelerated Restricted Stock Award (TARSAP). A restricted stock plan that combines both time-lapse and performance vesting restrictions while still allowing "fixed" accounting treatment. Under such an approach, the restricted stock will vest at the earlier of a stated period of time or upon the achievement of certain performance targets.

Top hat plan. A plan maintained by an employer primarily that provides deferred compensation for highly compensated employees or certain members of upper management.

Total Capital. Equal to common and preferred equity plus long term debt. Long term debt is debt due one or more years later.

Total Cash Compensation (TCC). Refers to the total of Salary and Bonus.

Total Compensation (TC). The complete pay package for employees including all forms of cash, stock, benefits, services, and in-kind payments. *Net Total Compensation* refers to *Salary, Bonus,* and *Long-Term Incentive.*

Total Reward System. Includes financial compensation, benefits, opportunities for social interaction, security, status and recognition, work variety, appropriate work load, importance of work, authority/control/autonomy, advancement opportunities, feedback, hazard-free working conditions, and opportunities for personal and professional development. An effective compensation system will utilize many of these rewards.

Transfer Agent. A transfer agent keeps a record of the name of each registered shareowner, his/her address, the number of shares owned, and sees that the certificates presented for transfer are properly cancelled and new certificates issued in the name of the new owner.

Transferable Stock Option. Options that provide by their terms that they may be transferred by the option holder, generally only to a family member or to a trust, limited partnership or other entity for the benefit of family members, or to a charity.

Traunch. A set of stock option as part of a larger grant. For example, if options vest in 25% blocks over four years, each 25%-block of options is a "traunch."

Treasury Stock. Stock reacquired by the issuing company and available for retirement or resale. It is issued but not outstanding. It cannot be voted and it pays or accrues no dividends. It is not included in any of the financial ratios measuring values per common share. Among the reasons treasury stock is created is (1) to provide an alternative to paying dividends, since the decreased amount of outstanding shares increases the per share value and often the market price, and (2) to provide for the exercise of stock options and warrants and the conversion of convertible securities.

Trigger. As relates to stock compensation, it is an event that causes change or acceleration in the stock grant. For example, some stock plans accelerate vesting upon shareholder approval, closing of merger, or new management (i.e., change in control). Other plans may require double trigger of merger, plus firing, demotion, or relocation.

Trust. A legal entity created by an individual in which one person or institution holds the right to manage property or assets for the benefit of someone else. Types of trusts include: Testamentary Trust – A trust established by a will that takes effect upon death; Living Trust – A trust created by a person during his or her lifetime; Revocable Trust – A trust in which the creator reserves the right to modify or terminate the trust; Irrevocable Trust – A trust that may not be modified or terminated by the trustor after its creation.

Trustee. An individual or institution appointed to administer a trust for its beneficiaries.

Trust Indenture Act of 1939. This act which falls under the SEC applies to debt securities such as bonds, debentures, and notes that are offered for public sale. Even though such securities may be registered with the SEC, they may not be offered for sale to the public unless a formal agreement between the issuer of bonds and the bondholder, known as the trust indenture, conforms to the standards of this act.

Underwater. A term used to describe an employee stock option when the current market price is below the option exercise price. When an option is underwater, it would cost more than the underlying stock is worth to exercise the option. For example, the exercise price is $25, while the stock market price is $15. In this situation, it would be cheaper to buy the stock on the open market than to exercise your options. Such options are also described as being "out-of-the-money."

Underwriter. An investment banking firm that actually buys the shares from the company in a public offering and then resells them (at a slightly higher price) to its customers.

Uniformed Services Employment and Reemployment Rights Act. Certain persons who serve in our armed forces have a right to reemployment with the employer they were with when they entered service. This includes those called up from the reserves or National Guard. The Veterans' Employment and Training Service administer these rights.

Unreasonable (or Excessive) Compensation. A potential tax issue in private companies. The IRS may challenge executive compensation in such organizations as excessive or unreasonable, and as a distribution of corporate profits rather than salary.

Unvested. Unvested stock options are options that have not vested and, therefore, are not exercisable.

Variable Accounting. As relates to stock compensation, it means that the grant of options is not a "fixed expense" according to guidelines from the Financial Accounting Standards Board (FASB). When it is a fixed expense the option grant has no impact on earnings, unless companies elect to disclose it beyond a footnote in their financial statement.

Variable accounting occurs when the exercise price at grant is not certain, such as with index or re-priced options. The grant thus must be expensed against company earnings in each quarter based on the spread between the exercise and market price of the stock.

Variable Annuity. A life insurance policy where the annuity premium (a set amount of dollars) is immediately turned into units of a portfolio of stocks. Upon retirement, the policyholder is paid accordingly to accumulated units, the dollar value of which varies according to the performance of the stock portfolio. Its objective is to enhance, through stock investment, the purchasing value of the annuity which otherwise is subject to erosion through inflation.

Variable Compensation. The portion of pay that is determined by performance. Typical variable compensation includes annual bonuses, options, and performance shares and units. Also referred to as “variable incentive pay.” This type of compensation is payable in cash or stock, or at, a certain period of time.

Variable Grant Guidelines. Under these guidelines, a company determines grant size according to a target dollar value rather than a target number of shares.

Variable Plan. See Variable Accounting.

Variable Stock Award Plan. A plan in which either the number of shares and/or the price at which they will be issued is not known on the grant date.

Variable Universal Life Insurance. A type of life insurance that combines a death benefit with a savings element that accumulates tax deferred at current interest rates. Under a variable universal life insurance policy, the cash value in the policy can be placed in a variety of sub-accounts with different investment objectives. The policyholder can transfer funds among the sub-accounts as he or she wishes. Fees are charged after a certain number of transfers.

Vesting Schedule. Schedule setting forth when, and to what extent, options become exercisable, or restricted stock or stock units are no longer subject to forfeiture (for example, 20% per year over five years). Schedule is usually based on passage of time and occasionally can be accelerated for meeting performance targets (e.g., company stock price hits X price and stays at that level for 60 days). In some option plans at pre-IPO companies you can exercise unvested options, subject to a company repurchase right under a vesting-like schedule.

Vesting Period. A waiting period after the award of a stock award prior to exercising an option.

Volatility. An amount expressed as a percentage of the stock price that reflects recent fluctuation of the stock price. The moving average of this parameter is used in certain option pricing models to calculate the fair value of options. Volatility is generally expressed as the annual standard deviation of the daily price changes in the security.

The volatility of a stock is the standard deviation of the continuously compounded rates of return on the stock over a specified period. That is the same as the standard deviation of the differences in the natural logarithms of the stock prices plus dividends, if any, over the period. The higher the volatility, the more the returns on the stock can be expected to vary – up or down. Volatility is typically expressed in annualized terms that are comparable regardless of the time period used in the calculation, for example, daily, weekly, or monthly price observations.

Volume. The number of shares or contracts traded in a security or an entire market during a given period. Volume is normally considered on a daily basis, with a daily average being computed for longer periods.

Voting Right. The common stockholders' right to vote their stock in the affairs of a company. Preferred stock usually has the right to vote when preferred dividends are in default for a specified period. The right to vote may be delegated by the stockholder to another person.

W-2. Form received from your employer that shows amounts of ordinary income you received and any amounts withheld. For stock options, it includes gains from NQSO exercises, gains from ISO exercises if you made a disqualifying disposition and amounts withheld for NQSOs.

W-8. Certificate of Foreign Status form required by the IRS to tell the payer, transfer agent, broker or other middleman that an employee is a nonresident alien or foreign entity that is not subject to U.S. tax reporting or backup withholding rules.

W-9. Request for Taxpayer Identification Number and Certification form required by the IRS to furnish the payer, transfer agent, broker or other middleman with an employee's social security or taxpayer identification number. The filing of this form will allow the employee not be subject to backup withholding because of under-reporting of interest and dividends on his or her tax return.

Waiting Period. A specified length of time after an option has been granted during which is cannot be exercised.

Warrants. Warrants are financial instruments that are usually given to financial backers, other corporations, and underwriters as part of a funding or business arrangement. In most respects, warrants are like a stock option. The rules governing their exercise and sale often attempt to reflect the "deal" that was struck between the investors and management. Warrants are often very complex and each round of warrants may have its own peculiar rules.

Wash Sale. Sell stock at a loss and buy same company's stock within 30 days before or after the sale. You cannot claim the loss on the sale. The disallowed loss and holding period from the old stock are added to the new stock's basis and holding period.

When Issued. A short form of when, as and if issued. The term indicates a conditional transaction in a security authorized for issuance but not as yet actually issued. All "when issued" transactions are on an "if" basis, to be settled if and when the actual security is issued and the exchange or National Association of Securities Dealers rules the transactions are to be settled.

Whole Life Insurance. A type of life insurance that offers a death benefit and also accumulates cash value, tax deferred at fixed interest rates. Whole life insurance policies generally have a fixed annual premium that does not rise over the duration of the policy. Whole life insurance is also referred to as "ordinary" or "straight" life insurance.

Wilshire 5000. A capitalization weighted index of all U.S.-headquartered companies (currently about 6800). The capitalization of the portfolio is the sum of the market capitalizations of all the companies.

Worker Adjustment and Retraining Notifications Act (WARN). WARN offers employees early warning of impending layoffs or plant closings. The DOL's Employment and Training Administration administer it.

World at Work. World at Work, formerly the American Compensation Association, is a global, not-for-profit professional association of more than 26,000 compensation, benefits and human resources professionals.

Founded in 1955, WorldatWork is dedicated to knowledge leadership in compensation, benefits and total rewards disciplines associated with attracting, retaining and motivating employees.

Yield. In general, the yield is the amount of current income provided by an investment. For stocks, the yield is calculated by dividing the total of the annual dividends by the current price. For bonds, the yield is calculated by dividing the annual interest by the current price. The yield is distinguished from the return, which includes price appreciation or depreciation.

Zero Premium Collar. Hedging strategy used for high-value, concentrated stock positions, previously referred to as a "cost-less collar" (the name was changed for legal reasons).

You purchase put options and sell call options on your stock through a securities firm experienced with these transactions. This essentially locks in the trading range upside and downside (i.e., the "collar"). It is "cost-less" to an individual in that no net out-of-pocket costs result from the totaling of the prices of puts and calls.

This strategy allows you to hold the stock after an option exercise for long-term capital gains, and minimizes the risks of stock price fluctuations. The hedged position can be monetized with a loan (if not a senior executive, director, or affiliate. However, the strategy has uncertain legal and tax ramifications, it is prohibited by many companies, and you give up the benefit of future price increases beyond the collar price.