

PaineWebber

Cashless Option Exercise Program

How to File Your Tax Forms After Exercising a Stock Option*

What has to be reported?

If you exercised a stock option in 1999 using the PaineWebber Cashless Option Exercise Program, you have taxable compensation income that will be reported to you and the IRS on Form W-2. At the same time, you may have experienced a difference between the market value used to calculate your option profit and the amount reported on your PaineWebber Form 1099-B, which should be reported by you on Schedule D of your Form 1040.[†] This guide will help you to properly report these events on your 1999 federal income tax forms.

What documents are necessary to complete your tax forms?

You should have the following documents handy as you complete your tax forms:

- Stock Option Information Statement
- W-2 Wage and Tax Statement
- IRS Form 1040
- PaineWebber Trade Confirmation Form
- IRS Form Schedule D: Capital Gains and Losses
- PaineWebber Form 1099-B

Have questions about your W-2 Wage and Tax Statement?

Call your Payroll Center.

Have questions about your Stock Option Information Statement?

Call the Corporate Stock Plan Administrator.

Have questions about PaineWebber Trade Confirmation and Form 1099-B?

Call your PaineWebber Financial Advisor.

* This information is applicable if you have exercised an option and immediately sold the stock.

[†] For those who have exercised their options and have held the underlying stock, please refer to Ernst & Young's A Guide to Managing Your Company's Stock Options for more information. For a complimentary copy of this guide, available exclusively through PaineWebber, call your PaineWebber Financial Advisor.

Please note that PaineWebber and its employees do not give tax or legal advice. We suggest that you review the information and requirements discussed in this guide with your personal tax and legal advisors to determine the best course of action for your personal situation.

A Step-by-Step Guide to Filing Your Tax Forms After Exercising a Stock Option

The following example and sample forms can help you complete your tax forms.

The example is based on a base salary of \$50,000 and an exercise of 750 shares of stock at the option price of \$31.875 per share, and sale of resulting shares at a selling price of \$71.50.

Step 1

Find the amount of taxable income that resulted from your option exercise on your **Stock Option Information Statement**. (See **B**.)

Step 2

Note that amount **B** is included in the total reported in Box 1 of your **W-2 Wage and Tax Statement**. (See **C**.) Income taxes withheld are also included on your **W-2**.

Step 3

Enter the amount from Box 1 of your W-2 Wage and Tax Statement on Line 7 of Form 1040. (See **D**.)

Step 4

Using the **Trade Confirmation Form** and the **Stock Option Information Statement**, report the difference in **Schedule D** (as shown in sample). Find the amount sold (**E**), the commission (**F**), other fees (**H**), and net amount due (**I**), on your **Trade Confirmation**. (Other fees include SEC fee, postage, and handling charges.)

Part I of Schedule D: First, write in amounts (**A + B**) and **I** as shown below. Second, enter in column (f) the difference between columns (d) and (e). (See **J**.) Third, write “750 Shares XYZ Common Stock” in column (a). (See **K** and “Shares Exercised” as shown in your **Stock Option Information Statement**.) Finally, enter the date of purchase and sale in columns (b) and (c). (Date of purchase and date of sale are the same.) (See **L** and **M**.) Note: Your adjusted cost basis is the sum of the Option Cost (**A**) plus the Taxable Income (**B**) shown on your **Stock Option Information Statement** and included in your **Form W-2**.

Step 5

Repeat this process for each sale. This example only shows one sale. If you have made more than one sale, add all the amounts in column (d) on **Schedule D**. Write the total on Line 3 as shown above at **N**.

Step 6

Compare the amount **N** with amount **O** on your **Form 1099-B** from PaineWebber. These amounts must match. (Federal Income Tax withheld is reported on your **W-2**.)

Step 7

Complete the remainder of **Schedule D** and report appropriately on **Form 1040**.

Stock Option Information Statement

Stock Option Plan

Information Statement on Option Exercise/Sale of Resulting Shares

Exercise Date: 12/13/99

Information Summary

Date of Grant	Shares Exercised (a)	Option Price (b)	Market Value (c)	Total Sale Price (a x c) (less)	Total Option Price (a x b) (equals)	Taxable Income
3/23/90	750	31.875	71.500	\$53,625.00	\$23,906.25	\$29,718.75
Totals	750			\$53,625.00	\$23,906.25 A	\$29,718.75* B

*This amount represents your taxable income and will be included in earnings shown on your W-2 statement. Save this statement for tax-reporting purposes.

W-2 Wage and Tax Statement

C. Employer's name, address and Zip code

OMB No. 1545-0008 FORM W-2 Wage and Tax Statement 1999

1 Wages, tips, other compensation \$79,718.75		2 Federal income tax withheld	
3 Social security wages C		4 Social security tax withheld	
b. Employer's Identification Number	d. Employee's Social Security no.	9. Advance EIC Payment	5 Medicare wages and tips
13		14 Other	e. Employee's name, address and Zip code
10 Dependent care	11 Nonqualified plans	12 Benefits included	15 Deceased Pension Plan
16 State	Employer's State I.D. number	17 State wages, tips, etc.	18 State income tax
		20 Local wages, tips, etc.	21 Local income tax

Copy B to be filed with employee's FEDERAL tax return.

This information is being furnished to the Internal Revenue Service

Dept. of the Treasury Internal Revenue Service

16-0331690

Form 1040 Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 \$79,718.75
8a Taxable interest income (see page 15). Attach Schedule B if over \$400 8a D

Trade Confirmation Form

PaineWebberConfirmation

Page 1 of 1

PaineWebber, Inc.

Account Number
Your Financial Advisor

We confirm the following transaction

Trade Activity		Trade Date		Date Processed		Payment Date/ Settlement Date	
SOLD		12/13/99		12/13/99		12/16/99	
Reference No.	Quantity/ Face Value	Description	Price	Gross Amount	Commission/ Mark-up	Accrued Interest	Other Total Amount
12345	750	UNSOLICITED	71½	\$53,625.00 E	\$75.00 F		\$5.55 H \$53,544.45 I

Schedule D

SCHEDULE D

(Form 1040)

Department of the Treasury Internal Revenue Service

▶ Attach to Form 1040 ▶ See Instructions for Schedule D (Form 1040).
▶ Use lines 20 and 22 for more space to list transactions for lines 1 and 9.

OMB No. 1545-0074

1999

Attachment Sequence No. 12

Name(s) shown on Form 1040

Your social security number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-3)	(e) Cost or other basis (see page D-3)	(f) Gain or (LOSS) FOR ENTIRE YEAR Subtract (e) from (d)		
1 750 Shares XYZ Common Stock	12/13/99	12/13/99	53,544 45	53,625 00	(80 55)		
K	L	M	I	A + B	J		
2 Enter your short-term totals, if any, from line 21.....		2					
3 Total short-term sales price amounts. Add column (d) of lines 1 and 2.....		3	N 53,544 45				

Form 1099-B

PaineWebber

1999 Consolidated Form 1099

Account Number
Tax Identification Number

Your Financial Advisor

Form 1099-B Proceeds From Broker & Barter Exchange Transactions (OMB No. 1545-0715)

Line #	Category	Amount
1a	Date of Sale	12/13/99
1b	Cusip number	369604103
2	Stocks, bonds, etc., reported to IRS (gross proceeds less commissions)	\$53,544.45 O
3	Bartering	
4	Federal income tax withheld	
5	Description	See Details

PaineWebber

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