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# Your non-qualified (NQ) stock options

Reporting the exercise and related sale of shares on your 2019 tax return

## A step-by-step tax guide

This document provides information about US federal income tax reporting requirements that may apply when you exercise a non-qualified (NQ) stock option and subsequently sell the shares. Generally, exercising a stock option and selling the resulting shares results in both ordinary (compensation) income and a capital gain or loss that should be considered when completing your income tax returns.



### HELPFUL TIP:

The income related to the option exercise should be included in the Form **W-2** you receive from your employer or **1099-MISC** from the company if you are a non-employee. Any capital gain or loss amount may also be reportable on your US Individual Income Tax Return (Form 1040), Schedule D and Form 8949 in the year of sale.



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## STEP ONE

# Gather the required tax documents

Documents provided by:

Your employer	E*TRADE® *	IRS **
Form(s) <b>W-2</b> or <b>1099-Misc</b> for current and/or past years	Form <b>1099-B</b> for the current year	IRS Form <b>1040</b>
Your exercise and trade confirmation(s) or similar document(s) you received from your employer when you acquired the shares that were sold	Stock Plan Transactions Supplement	IRS Form <b>1040 Schedule D: Capital Gains and Losses</b>
		IRS Form <b>8949</b> Sales and Other Dispositions of Capital Assets

\* Available through the E\*TRADE Tax Center at [etrade.com/tax](https://etrade.com/tax)

\*\* Available at [irs.gov](https://irs.gov) or by calling 800-TAX-FORM



### HELPFUL TIP:

You can visit the Employee Stock Plan Gains & Losses page on [etrade.com](https://etrade.com) to find, print, and/or download important information about securities sold in your Stock Plan account. Just log on to your account, then navigate to **Stock Plan > My Account > Gains and Losses**.



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# Stock Plan Transactions Supplement

We created an informational document to assist with the review of stock plan transaction information that may need to be considered as part of your 2019 tax reporting. The Stock Plan Transactions Supplement provides information like adjusted cost basis and adjusted gain/loss that may be needed to prepare your income tax return. It will be available in mid-February at [etrade.com/tax](https://etrade.com/tax).



## Stock Plan Transactions Supplement

This document provides you with additional information about your 2019 Stock Plan Transactions that is not reported to the IRS on your Form 1099-B.

**John Smith**  
Account number ending in: XXXX

Reporting Period: January 1, 2019 - December 31, 2019

Download Date: 01/03/2020

Symbol	Qty.	Date Acquired	Date Sold or Disposed	Total Proceeds	Cost Basis	Adjustment Amount (Ordinary Income)	Adjusted Cost Basis	Adjusted Gain (Loss)	Capital Gains Status	Covered/ Non-Covered	Grant Type	Grant Number
JSK	68	05/13/2009	03/15/2019	\$8,897.80	\$4,925.72	---	---	\$3,972.08	Long	Non-Covered	ISO	SO1038584
JSK	5	11/25/2012	05/07/2019	\$655.60	\$433.76	\$0.00	\$433.76	\$221.85	Long	Covered	ISO	SO1038584
JSK	5	11/25/2012	03/15/2019	\$654.25	\$0.00	\$510.30	\$510.30	\$143.95	Long	Non-Covered	PSA	PS136586
JSK	10	11/25/2012	02/23/2019	\$1,355.50	\$0.00	\$1,020.60	\$1,020.60	\$334.90	Long	Non-Covered	RSU	RS176468
JSK	10	11/25/2012	05/07/2019	\$1,311.20	\$0.00	\$1,020.60	\$1,020.60	\$290.60	Long	Non-Covered	RSU	RS176468
JSK	32	10/02/2016	02/12/2019	\$3,975.04	\$3,432.91	\$605.81	\$4,038.72	(\$63.68)	Short	Covered	ESPP	--
JSK	100	11/25/2012	02/23/2019	\$13,595.00	\$0.00	\$10,309.00	\$10,309.00	\$3,286.00	Short	Non-Covered	PSA	PS136586

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## STEP TWO

# Assemble your transaction details

You will likely need the following information for each exercise and sale of shares. If you made a single sale that included shares purchased as the result of different exercises, you would need this information for each group of shares. The steps below will help assist you with this process. Please note that not all of the items below may apply to you.

### Step 2a. Purchase date

This is the date you exercised the option. Purchase date is displayed as Date Acquired on **Box 1b** of Form **1099-B**.<sup>1</sup> This information is also included in the Stock Plan Transactions Supplement under the “Date Acquired” column. Tax software may ask for “Date option exercised” or “Date of acquisition.”



#### WHERE TO FIND IT:

On your **1099-B** from E\*TRADE in mid-February at [etrade.com/tax](http://etrade.com/tax).

2019 FORM 1099-B: PROCEEDS FROM BROKER AND BARTER EXCHANGE TRANSACTIONS OMB NO. 1234-5678

The information provided below is in accordance with Federal tax regulations and the IRS instructions that govern our reporting requirements. You should review this information carefully when completing your Form 8949 and Schedule D. There may be instances where our reporting requirements will not be consistent with your particular tax accounting position or elections. For these reasons, the IRS requires us to provide you with this reminder: **Taxpayers are ultimately responsible for the accuracy of their tax returns.**

**Covered Long-Term Gains or Losses on Gross Proceeds**  
Report on Form 8949, Part II with Box D checked

Box 6: Gross Proceeds      Box 5: Box Not Checked (Covered Security)      Box 3: Basis Reported to the IRS      Box 2: Type of Gain or Loss – Long-Term

The 1099-B data referenced by a Box Number is reported to the IRS. The additional information not referenced by a Box Number is not reported to the IRS, but may be helpful to complete your return.

Security Description CUSIP (Box 1a)	Quantity Sold	Date Acquired (Box 1b)	Date Sold or Disposed (Box 1c)	Proceeds (Box 1d)	Cost or Other Basis (Box 1e)	Accrued Market Discount (Box 1f)	Wash Sale Loss Disallowed (Box 1g)	Gain/Loss Amount	Additional Information
DemoCorp INC CUSIP: 037237123	62.00000	01/21/2014	01/30/2019	\$11,315.42	\$8,039.31	\$0.00	\$0.00	\$3,276.11	
	71.00000	07/21/2015	01/30/2019	\$7,563.60	\$7,563.60	\$0.00	\$0.00	\$1,729.08	
<b>Subtotals</b>	<b>133.00000</b>			<b>\$20,608.10</b>	<b>\$15,602.91</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$5,005.19</b>	
<b>2 ITEMS – TOTAL</b>				<b>\$20,608.10</b>	<b>\$15,602.91</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$5,005.19</b>	

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### Step 2b. Sale date

This is the date you sold the shares. You should have received a trade confirmation from E\*TRADE for this transaction. Sale date is displayed as “Date Sold or Disposed” on **Box 1c** of Form **1099-B**.<sup>1</sup> The information is also included in the Stock Plan Transactions Supplement under the “Date Sold or Disposed” column.



#### WHERE TO FIND IT:

On your **1099-B** from E\*TRADE in mid-February at [etrade.com/tax](https://etrade.com/tax).

Copy B for recipient  2nd TIN Notice  FATCA Filing Requirement  Telephone Number: (800) 387-2331

2019 FORM 1099-B: PROCEEDS FROM BROKER AND BARTER EXCHANGE TRANSACTIONS OMB NO. 1234-5678

The information provided below is in accordance with Federal tax regulations and the IRS instructions that govern our reporting requirements. You should review this information carefully when completing your Form 8949 and Schedule D. There may be instances where our reporting requirements will not be consistent with your particular tax accounting position or elections. For these reasons, the IRS requires us to provide you with this reminder: **Taxpayers are ultimately responsible for the accuracy of their tax returns.**

**Covered Long-Term Gains or Losses on Gross Proceeds**  
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Security Description CUSIP (Box 1a)	Quantity Sold	Date Acquired (Box 1b)	Date Sold or Disposed (Box 1c)	Proceeds (Box 1d)	Cost or Other Basis (Box 1e)	Accrued Market Discount (Box 1f)	Wash Sale Loss Disallowed (Box 1g)	Gain/Loss Amount	Additional Information
DemoCorp INC	62.00000	01/21/2014	01/30/2019	\$11,315.42	\$8,039.31	\$0.00	\$0.00	\$3,276.11	
CUSIP: 037237123	71.00000	07/21/2015	01/30/2019	\$7,563.60	\$7,563.60	\$0.00	\$0.00	\$1,729.08	
<b>Subtotals</b>	<b>133.00000</b>			<b>\$20,608.10</b>	<b>\$15,602.91</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$5,005.19</b>	
<b>2 ITEMS – TOTAL</b>				<b>\$20,608.10</b>	<b>\$15,602.91</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$5,005.19</b>	

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### Step 2c. Amount paid for the stock you sold

This is your exercise price. Shortly after exercising, you should have received a confirmation of exercise or similar document from your employer. Your exercise price is also displayed as the cost basis for the security on **Box 1e** of Form **1099-B** and on the Stock Plan Transactions Supplement under the “Cost Basis” column. Tax software may ask for “Exercise price paid.”



#### WHERE TO FIND IT:

On your confirmation of exercise from your employer (if applicable). If your employer provides this document to E\*TRADE, you can access it on *etrade.com* under **Stock Plan > My Account > Stock Plan Confirmations**.

Exercise Details		
Exercise Date: <b>01/04/2019</b>	Exercise Type: <b>Cash Exercise</b>	Registration:
	<b>Grant 1</b>	
Grant Date	<b>01/01/2016</b>	
Grant Number	<b>PS12345</b>	
Grant Type	<b>Nonqual</b>	
Grant Price	<b>\$10.00</b>	
Exercise Market Value	<b>\$72.85</b>	
Shares Exercised	<b>25</b>	
Shares Issued	<b>25</b>	
Total Gain	<b>\$1,571.25</b>	
Taxable Gain	<b>\$0.00</b>	
Gross Proceeds	<b>\$0.00</b>	
Total Price	<b>\$250.00</b>	
Comission/Fee	<b>\$0.00</b>	
Taxes Withheld	<b>\$0.00 (Tax Rate / Taxable Gain)</b>	
Medicare	<b>\$0.00 (2.4% / \$0.00)</b>	
Federal	<b>\$0.00 (25.0% / \$0.00)</b>	
Social Security	<b>\$0.00 (4.2% / \$0.00)</b>	

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### Step 2d. Adjustment to cost basis

You may need to identify how much of the compensation income reported on your Form(s) W-2 is attributable to the stock you sold in order to calculate your cost basis for those shares. Cost basis for shares acquired through an exercise includes the amount paid for the stock plus the difference between the fair market value at exercise and the exercise price.

On the W-2 or 1099 MISC, the compensation income for the shares sold is combined with your wages and other compensation in the year of purchase and/or sale.

Because it may be difficult to determine how much of the income in Box 1 of Form **W-2** is attributable to the stock you sold, your employer may have given you a separate statement detailing this information or may have listed this income separately for you in **Box 14**. This information can also be found in the Stock Plan Transactions Supplement under “**Adjustment Amount (Ordinary Income)**.” If you engaged in more than one transaction during the year, you would need to know this amount for each separate transaction. Tax software may ask for “Compensation income” or “Ordinary income.”



#### WHERE TO FIND IT:

1. In Box 14 of your W-2 from your employer (if included).

2. On the Stock Plan Transactions Supplement on [etrade.com/tax](https://www.etrade.com/tax) in mid-February.

1 - Social Security info		2 - Federal state info	
9	Verification code	10	Dependent care benefits
Suff.	11 Nonqualified plans	12a	See instructions for box 12
	13 Statutory employee Retirement plan Third-party sick pay	12b	
	14 Other	12c	
		12d	

sample documents

Reporting Period: January 1, 2019 - December 31, 2019

Symbol	Qty.	Date Acquired	Date Sold or Disposed	Total Proceeds	Cost Basis	Adjustment Amount (Ordinary Income)	Adjusted Cost Basis
JSK	68	05/13/2009	03/15/2019	\$8,897.80	\$4,925.72		
JSK	5	11/25/2012	05/07/2019	\$655.60	\$433.76	\$0.00	\$433.76
JSK	5	11/25/2012	03/15/2019	\$654.25	\$0.00	\$510.30	\$510.30
JSK	10	11/25/2012	02/23/2019	\$1,355.50	\$0.00	\$1,020.60	\$1,020.60
JSK	10	11/25/2012	05/07/2019	\$1,311.20	\$0.00	\$1,020.60	\$1,020.60
JSK	12	10/02/2016	02/12/2019	\$3,075.04	\$3,072.91	\$505.81	\$3,078.72



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### Step 2e. Sale proceeds

Your sale proceeds are the amount received from the sale of shares, less any applicable fees, commissions, or taxes. This amount is displayed in **Box 1d** of Form **1099-B** and is also included in the Stock Plan Transactions Supplement under "Total Proceeds." Tax software may ask for "Gross proceeds from the sale."



#### WHERE TO FIND IT:

On your **1099-B** from E\*TRADE in mid-February at [etrade.com/tax](https://etrade.com/tax).

Copy B for recipient  2nd TIN Notice  JERSEY CITY, NJ 07303-0484  
 FATCA Filing Requirement Telephone Number: (800) 387-2331

**2019 FORM 1099-B: PROCEEDS FROM BROKER AND BARTER EXCHANGE TRANSACTIONS** OMB NO. 1234-5678

The information provided below is in accordance with Federal tax regulations and the IRS instructions that govern our reporting requirements. You should review this information carefully when completing your Form 8949 and Schedule D. There may be instances where our reporting requirements will not be consistent with your particular tax accounting position or elections. For these reasons, the IRS requires us to provide you with this reminder: **Taxpayers are ultimately responsible for the accuracy of their tax returns.**

**Covered Long-Term Gains or Losses on Gross Proceeds**  
 Report on Form 8949, Part II with Box D checked

Box 6: Gross Proceeds      Box 5: Box Not Checked (Covered Security)      Box 3: Basis Reported to the IRS      Box 2: Type of Gain or Loss – Long-Term

The 1099-B data referenced by a Box Number is reported to the IRS. The additional information not referenced by a Box Number is not reported to the IRS, but may be helpful to complete your return.

Security Description CUSIP (Box 1a)	Quantity Sold	Date Acquired (Box 1b)	Date Sold or Disposed (Box 1c)	Proceeds (Box 1d)	Cost or Other Basis (Box 1e)	Accrued Market Discount (Box 1f)	Wash Sale Loss Disallowed (Box 1g)	Gain/Loss Amount	Additional Information
DemoCorp INC CUSIP: 037237123	62.00000	01/21/2014	01/30/2019	\$11,315.42	\$8,039.31	\$0.00	\$0.00	\$3,276.11	
	71.00000	07/21/2015	01/30/2019	\$7,563.60	\$7,563.60	\$0.00	\$0.00	\$1,729.08	
<b>Subtotals</b>	<b>133.00000</b>			<b>\$20,608.10</b>	<b>\$15,602.91</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$5,005.19</b>	
<b>2 ITEMS – TOTAL</b>				<b>\$20,608.10</b>	<b>\$15,602.91</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$5,005.19</b>	

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## STEP THREE

# Report your ordinary income

Typically, any ordinary income resulting from your exercise or sale of shares should already be included in Box 1 of your Form **W-2** or Box 7 of your 1099-MISC and may also be separately detailed in **Box 14**.<sup>1</sup> You can also refer to “**Adjusted Cost Basis**” in the Stock Plan Transactions Supplement for information about any applicable ordinary income for shares sold.



### WHERE TO FIND IT:

1. In Box 14 of your W-2 from your employer (if included).
2. On the Stock Plan Transactions Supplement on [etrade.com/tax](https://etrade.com/tax) in mid-February.

Form W-2, 2019, showing Box 14 circled in white. The form includes fields for wages, taxes, and benefits. Box 14 is labeled 'Other' and is circled in white.

sample documents

## Stock Plan Transactions Supplement

This document provides you with additional information about your 2019 Stock Plan Transactions that is not reported to the IRS.

**John Smith**  
Account number ending in: XXXX

Reporting Period: January 1, 2019 - December 31, 2019

Symbol	Qty.	Date Acquired	Date Sold or Disposed	Total Proceeds	Cost Basis	Adjustment Amount (Ordinary Income)	Adjusted Cost Basis	Adjusted Gain (Loss)	Cost Gain/Share
JSK	68	05/13/2009	03/15/2019	\$8,897.80	\$4,925.72	---	---	\$3,972.08	Long
JSK	5	11/25/2012	05/07/2019	\$655.60	\$433.76	\$0.00	\$433.76	\$221.85	Long
JSK	5	11/25/2012	03/15/2019	\$654.25	\$0.00	\$510.30	\$510.30	\$143.95	Long
JSK	10	11/25/2012	02/23/2019	\$1,355.50	\$0.00	\$1,020.60	\$1,020.60	\$334.90	Long
JSK	10	11/25/2012	05/07/2019	\$1,311.20	\$0.00	\$1,020.60	\$1,020.60	\$290.60	Long
JSK	32	10/02/2016	02/12/2019	\$3,975.04	\$3,432.91	\$605.81	\$4,038.72	(\$63.68)	Short
JSK	100	11/25/2016	02/23/2019	\$13,555.00	\$0.00	\$10,206.00	\$10,206.00	\$3,349.00	Short
JSK	88	12/06/2016	01/29/2019	\$12,779.36	\$10,078.55	\$1,778.57	\$11,857.12	\$922.24	Short
JSK	100	12/06/2016	02/12/2019	\$12,422.00	\$0.00	\$13,474.00	\$13,474.00	(\$1,052.00)	Short
				\$25,201.96	\$10,078.55	\$15,252.57	\$25,331.12	-\$129.76	



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## STEP FOUR

# Report your capital gains/losses

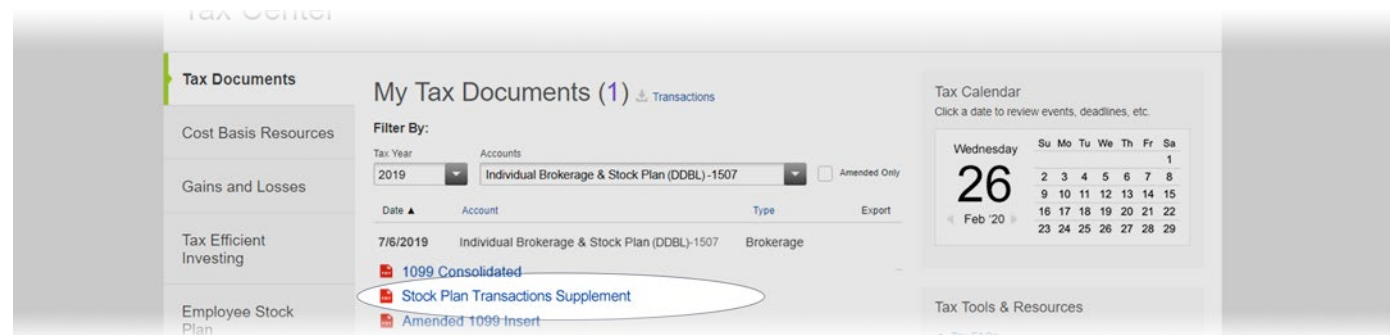
Any capital gain or loss resulting from the sale of shares from an exercise may also be reportable on your US Individual Income Tax Return (Form 1040), Schedule 1, Schedule D and Form 8949.

Cost basis and other information related to your transaction resulting in capital gain or loss are reported on IRS Schedule D and IRS Form 8949. You can download a copy of Form 8949 and instructions from the IRS website at [irs.gov/uac/About-Form-8949](https://www.irs.gov/uac/About-Form-8949). If you have any questions about the timing of ordinary income, your adjusted cost basis for your shares or your income tax return, consult your tax advisor. For additional information about your stock plan transactions that is not included on your 1099-B, including information that may impact your cost basis adjustments, refer to the E\*TRADE Stock Plan Transactions Supplement, which can be found at [etrade.com/tax](https://etrade.com/tax).



### WHERE TO FIND IT:

Stock Plan Transactions Supplement can be found under **Tax Documents** in mid-February at [etrade.com/tax](https://etrade.com/tax).





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### **A note about wash sales**

A wash sale occurs when an investor sells or trades stock at a loss and, within 30 days before or after the sale, acquires substantially identical securities in a fully taxable trade or acquires a contract or option to buy substantially identical securities.

If the sale is considered a wash sale, you will not be able to claim the loss from that sale. However, you may be allowed to increase your cost basis in your newly acquired shares by the amount of the loss that was disallowed. You will also be able to change the holding date for those newly acquired shares to reflect the holding date for the shares you sold, so that you are credited appropriately for the time you held those shares.

For more information on wash sales, see IRS Publication 550 or consult your tax advisor.



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### Frequently asked questions

**The income that my employer reported on Form W-2 does not equal the difference between my total exercise price and sales price. Did my employer report the wrong amount of income for my exercise on my Form W-2?**

Typically, the amount of income reported on your Form W-2 is the difference between your exercise price and the value of the stock on the date of exercise.<sup>1</sup> When determining the value of the stock, some employers use the closing or average price on the day the exercise occurred. Other employers use the closing price of the preceding day, while others may use the actual sales price. These could be the reason for any difference. For further information, contact your employer.

**The 1099-B that I received from E\*TRADE does not reflect federal withholding for the purchase of my option shares. Is this an error?**

No, the withholding for the transaction should be included on the W-2 or 1099-MISC you received from your employer.

**What happens if I don't sell the stock on the same day I exercise it?**

Typically, for non-qualified stock options ordinary income is recognized at the time of exercise and a capital gain or loss is recognized at the time of sale.<sup>1</sup> If you sell your exercised shares within one year of exercise, your capital gain or loss is considered short term. However, if you hold the exercised shares for more than a year before selling them, the gain or loss is considered long term and long-term capital gains may be taxed at a lower rate.

The following example shows the potential implications of exercising non-qualified stock options and holding the resulting shares beyond the exercise date:



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EXAMPLE. An employee exercises 1,000 non-qualified stock options on July 15. His option price was \$10 per share (his total option price was \$10,000). The market value of the stock on the exercise date was \$15 per share. In the year he exercises the stock options, his Form W-2 would report \$5,000 of ordinary income ( $\$15 - \$10 = \$5 \times 1,000 \text{ shares} = \$5,000$ ).

### **Does the cost basis that appears on the Form 1099-B reflect all necessary adjustments?**

No, the cost basis that appears on Form 1099-B does not reflect any ordinary income adjustments that may apply because you recognized ordinary (compensation) income when you acquired or sold shares attributable to stock plan awards from your employer. As a result, **you may want to consider whether an adjustment to the cost basis is applicable** when you complete your tax return(s). For additional information on your cost basis and possible cost basis adjustments, refer to the Stock Plan Transactions Supplement available through E\*TRADE Securities. This can be found at [etrade.com/tax](https://etrade.com/tax). Please also consult your tax advisor to determine how to prepare and file your tax return.

## Need more information?

For more information regarding the possible tax implications of exercising your non-qualified stock options or selling the resulting shares contact your employer or your tax advisor. You can learn more about reporting exercises and the sale of resulting shares on your tax return at [irs.gov](https://irs.gov) (search for “stock options” or “Form 8949”). You can also find more tax resources in the E\*TRADE Stock Plan Tax Center at [etrade.com/stockplantax](https://etrade.com/stockplantax).



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**This information should not be construed as legal, accounting, or tax advice. You should review your personal circumstances with your legal, accounting, or tax advisor. E\*TRADE Financial Corporation, its subsidiaries and affiliates including E\*TRADE Financial Corporate Services, Inc. and E\*TRADE Securities LLC, and their employees do not provide legal, accounting or tax advice.**

1. In some circumstances, NQ options have a readily determinable value when granted and may be included in ordinary income in the grant year. For additional information or if you believe you have this type of NQ options, please consult a tax advisor.

The information contained in this document applies only to persons who are subject to tax in the US and it applies only to your US federal income tax return. The information applies to calendar year 2018 only. Transactions that occurred in other calendar years may need to be reported differently.

The information contained in this document assumes that any fees or commissions associated with the sale are deducted from the sales proceeds reported on Form 1099-B. E\*TRADE Securities LLC always deducts the fees and commissions from the sales proceeds reported on your Form 1099-B; consult a tax advisor if your broker did not.

The information contained in this document assumes that your employer has properly reported the income from your exercise and sale on your Form W-2. If your employer did not do this, or if you have any questions concerning the information on your Form W-2, you should consult your employer and/or tax advisor.

**The information published herein is of a general nature and has been summarized for presentation to a large audience. It is not a complete discussion of all aspects of the laws, rules, regulations, standards, and principles that govern how employee stock option information is reported on tax documents provided to you and how it should be reported on your tax return. The contents are neither designed nor intended to be relied upon, and should not be considered legal, accounting or tax advice. Your specific situation may involve circumstances that cause the laws, rules, regulations, standards, and principles described herein to apply differently. You should consult your own legal, accounting and tax advisors before deciding what, if any, course of action to take.**

This is not an offer to sell or a solicitation of an offer to buy securities, products or services, by any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation.

The E\*TRADE Financial family of companies provides financial services that include trading, investing, banking and managing employee stock plans.

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