



What are 3M Non-Qualified Stock Options?

Non-Qualified Stock Options (NSO) are a type of employee compensation that 3M uses for certain employees to encourage loyalty and tie performance to what may be an increasing share value over the 10-year exercise time period. The employee pays ordinary income tax on the difference between the grant price and eventual exercise price.

For Example:

3M grants an option at the current value of \$200 per share. The employee doesn't pay tax when granted the option. The employee has 10 years to exercise the option. Assume the share price increases to \$250. At the time of exercise, the employee must include the \$50 per share gain as ordinary income, like wages. Once the option is exercised (stock is purchased) the employee can choose to retain or immediately sell the shares. The exercise is the employee's opportunity to purchase shares of 3M stock at the discounted grant price. If the employee/retiree doesn't exercise within the expiration period, the options become worthless.

Be Careful:

According to Todd Gillingham, Landmark Wealth Management Group Partner and Wealth Advisor, "Appreciated non-qualified stock options are often used by 3M employees to help fund college, a cabin or new home, and retirement. The share price is the primary consideration when deciding to exercise an option, followed by the income tax consequences. The income tax liability is obviously important and sometimes complicated so, if needed, we introduce our clients to an income tax expert to ensure there are no surprises. Unfortunately, the most difficult aspect of guiding our 3M clients on their financial journey is death. Non-qualified stock options are particularly treacherous if left to the probate process, which requires a mandatory exercise of all options within two years of the employee or retiree's date of death."

For more information about the 3M Non-Qualified Stock Options in the context of your particular financial situation, please contact Landmark Wealth Management Group at 651-779-9720.

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