

StockOpter[®]

Equity Compensation Solutions

***Attracting & Retaining
Executives with
Equity Compensation***

Using

StockOpter[®] Insight

Equity Compensation Portfolio Analysis Software

StockOpter[®] Pro

Equity Compensation Strategy Modeling Software

Company Highlights

- Net Worth Strategies, Inc: Founded 1998, located in Bend, OR
- Leader in equity compensation planning solutions:
 - Software: StockOpter® Insight & StockOpter® Pro
 - Advisor Education Programs
 - Back-office Planning Assistance
 - Corporate Equity Compensation Education
- Software Customers: advisors from nearly every major financial advisory firm

Equity Comp is Big Money

- 11,500 publicly traded companies offer employee equity programs
- 15% of outstanding shares held as options
- 12+ million individuals hold employee stock options
- 500,000+ highly compensated executives have options or restricted stock
- 80% of executive compensation in form of equity

Common Misconceptions

- Maximizing equity compensation value is just luck so getting assistance or creating a strategy is unnecessary
- One should exercise / sell when:
 - Options expire or employment is terminated
 - Money is needed
 - Stock price target is met
- Taxation can be avoided
- Stock Options are being replaced by Restricted Stock Grants so managing them is unnecessary

Truths About Equity Comp

- Careful planning and professional assistance facilitates better decisions & reduces costly mistakes
- Exercise / sell decisions should be based on:
 - Remaining time value / leverage not stock price alone
 - Financial goals not just cash flow requirements
 - Level of concentration in company stock and options
- Taxes are unavoidable but they can be managed
- Although many companies have changed their equity comp. programs recently, outstanding option or SAR grants still require timely action

The StockOpter® Process for *Facilitating Diversification Decisions*

- **Step 1: StockOpter® Portfolio Analysis**

- Determines “*when*” to exercise / sell by quantifying value, leverage and risk

- **Step 2: StockOpter® Strategy Modeling**

- Address “what-if” questions and optimize for tax and cash flow efficiency

Two StockOpter® Programs

StockOpter® Insight
Equity Compensation Portfolio Analysis Software

Creates a personalized report focusing on the investment reason for diversification.

StockOpter® Pro
Equity Compensation Strategy Modeling Software

Models tax and cash flow efficient strategies when the client is ready to take action.

StockOpter® Insight

StockOpter® Insight Wizard

Intro
Client ← Start
Holdings
Reports
Triggers
Monitoring
Tools
About

Welcome to **StockOpter® Insight 1.7**

Using Insight is a five-step process

- Step 1: Enter (or edit) general information about your client by clicking the 'Client' tab at the left.
- Step 2: Enter (or edit) data about your client's option holdings by clicking the 'Holdings' tab at the left.
- Step 3: Run Reports by clicking the 'Reports' tab at the left.
- Step 4: Define trigger events for monitoring your clients' holdings by clicking the 'Triggers' tab at the left.
- Step 5: Generate monitor reports on demand by clicking the 'Monitoring' tab at the left.

Authorization Status

Number of authorizations: Number in use: [Expand](#)

Your subscription will expire on [Extend](#)

of authorized clients cases, or to extend your subscription,
h Strategies, Inc. at (541) 383-3899 or on the Web at
www.NetWorthStrategies.com

A menu driven tool that creates customizable reports in Word format

StockOpter® Portfolio Analysis

- Establishes a decision framework that facilitates timely and prudent action
- Required input:
 - Grant data and vesting schedule
 - Financial assumptions
- Should be discussed with a financial advisor to interpret the data
- Needs to be updated periodically

Sample Option Holder

- Financial Goal: **\$2,000,000**
- Diversified Portfolio Value: **\$250,000**
- Company: **NASDAQ** (hypothetical)
- Current Stock Price: **\$25.50**
- Estimated Stock Volatility: **40%** (annual report)
- Income Tax Rate: **40%** (combined state & fed)
- Stock Options:
 - 1 - ISO: **20,000 vested**
 - 3 – NQSOs / SARs: **70,000 vested & 45,000 unvested**
- Shares:
 - **15,000 shares held** (cost basis: \$300K)

Portfolio Analysis Segments

- Valuation:
 - In-the-money Value
 - Cash-out Value
 - Black Scholes, Time and Forfeit Values
- Leverage
- Financial Goals
- Concentration
- Decision Metrics

In-the-Money Valuation

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In-the-Money Values

Current FMV	\$25.50			Vested		Unvested		Total	
Grant ID	Grant Type	Expiration Date	Strike Price	# of Options	ITM Value \$	# of Options	ITM Value \$	# of Options	ITM Value \$
I1999	ISO	04/01/09	\$15.3670	20,000	202,660	0	0	20,000	202,660
N2001	NQ	04/01/11	\$40.2345	25,000	0	0	0	25,000	0
N2003	NQ	04/01/13	\$20.5500	30,000	148,500	0	0	30,000	148,500
S2005	SAR	04/01/15	\$25.2500	15,000	3,750	15,000	3,750	30,000	7,500
N2007	NQ	04/01/17	\$27.0510	0	0	30,000	0	30,000	0
Grand Total				90,000	354,910	45,000	3,750	135,000	358,660

ITM Value = Current FMV (Fair Market Value) – Grant Price x # of shares

Cash Out Valuation

Current FMV		Cash-Out Values					
\$25.50		Vested					
Grant ID	Grant Type	Expiration Date	Strike Price	# of Options	ITM Value \$	Potential Tax \$	After Tax Value \$
I1999	ISO	04/01/09	\$15.3670	20,000	202,660	81,064	121,596
N2001	NQ	04/01/11	\$40.2345	25,000	0	0	0
N2003	NQ	04/01/13	\$20.5500	30,000	148,500	59,400	89,100
S2005	SAR	04/01/15	\$25.2500	15,000	3,750	1,500	2,250
N2007	NQ	04/01/17	\$27.0510	0	0	0	0
Grand Total				90,000	354,910	141,964	212,946

**Cash Out Value = ITM Value – Potential Tax
(calculated by applying income tax rates)**

Black Scholes Valuation

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Time & Black-Scholes Values

Current FMV	\$25.50			Vested		Unvested		Total	
Grant ID	Grant Type	Expiration Date	Strike Price	Time Value \$	BSV \$	Time Value \$	BSV \$	Time Value \$	BSV \$
I1999	ISO	04/01/09	\$15.3670	17,492	220,152	0	0	17,492	220,152
N2001	NQ	04/01/11	\$40.2345	101,770	101,770	0	0	101,770	101,770
N2003	NQ	04/01/13	\$20.5500	222,477	370,977	0	0	222,477	370,977
S2005	SAR	04/01/15	\$25.2500	184,098	187,848	184,098	187,848	368,196	375,696
N2007	NQ	04/01/17	\$27.0510	0	0	409,277	409,277	409,277	409,277
Grand Total				525,837	880,747	593,375	597,125	1,119,212	1,477,872

**Black Scholes Value =
Time Value + ITM Value**

**Compare to ITM
Value of \$358,660**

Forfeit Valuation

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Time & Black-Scholes Values

Current FMV	\$25.50			Vested		Unvested		Total	
Grant ID	Grant Type	Expiration Date	Strike Price	Time Value \$	BSV \$	Time Value \$	BSV \$	Time Value \$	BSV \$
I1999	ISO	04/01/09	\$15.3670	17,492	220,152	0	0	17,492	220,152
N2001	NQ	04/01/11	\$40.2345	101,770	101,770	0	0	101,770	101,770
N2003	NQ	04/01/13	\$20.5500	222,477	370,977	0	0	222,477	370,977
S2005	SAR	04/01/15	\$25.2500	184,098	187,848	184,098	187,848	368,196	375,696
N2007	NQ	04/01/17	\$27.0510	0	0	409,277	409,277	409,277	409,277
Grand Total				525,837	880,747	593,375	597,125	1,119,212	1,477,872

Forfeit Value =
Time Value of
Vested + BSV of
Unvested



Forfeit Value®
\$1,119,212

Vs. ITM
Value of
Unvested:
\$3,750

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Leverage

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Leverage Analysis

Based on Current Portfolio of Vested and Unvested Options

Potential Stock Price	Incremental Change	Option Value \$	Incremental Change	Black-Scholes Value \$	Incremental Change	After Tax Value \$	Incremental Change
\$10.44	-20.0%	0	0.0%	244,334	-38.5%	0	0.0%
\$13.06	-20.0%	0	-100.0%	397,368	-37.2%	0	-100.0%
\$16.32	-20.0%	19,060	-81.1%	632,466	-35.6%	11,436	-81.1%
\$20.40	-20.0%	100,660	-71.9%	981,384	-33.6%	60,396	-71.9%
\$25.50		358,660		1,477,872		215,196	
\$30.60	20.0%	873,130	143.4%	2,020,078	36.7%	523,878	143.4%
\$36.72	20.0%	1,546,330	77.1%	2,772,016	34.3%	927,798	77.1%
\$44.06	20.0%	2,449,368	58.4%	3,585,927	32.1%	1,469,621	58.4%
\$52.88	20.0%	3,640,068	48.6%	4,669,827	30.3%	2,184,041	48.6%
\$63.45	20.0%	5,067,068	39.2%	6,010,126	28.7%	3,040,211	39.2%

A 20% increase in stock price yields a 143.4% increase in ITM value

A 20% decrease in stock price yields a 71.9% decrease in ITM value

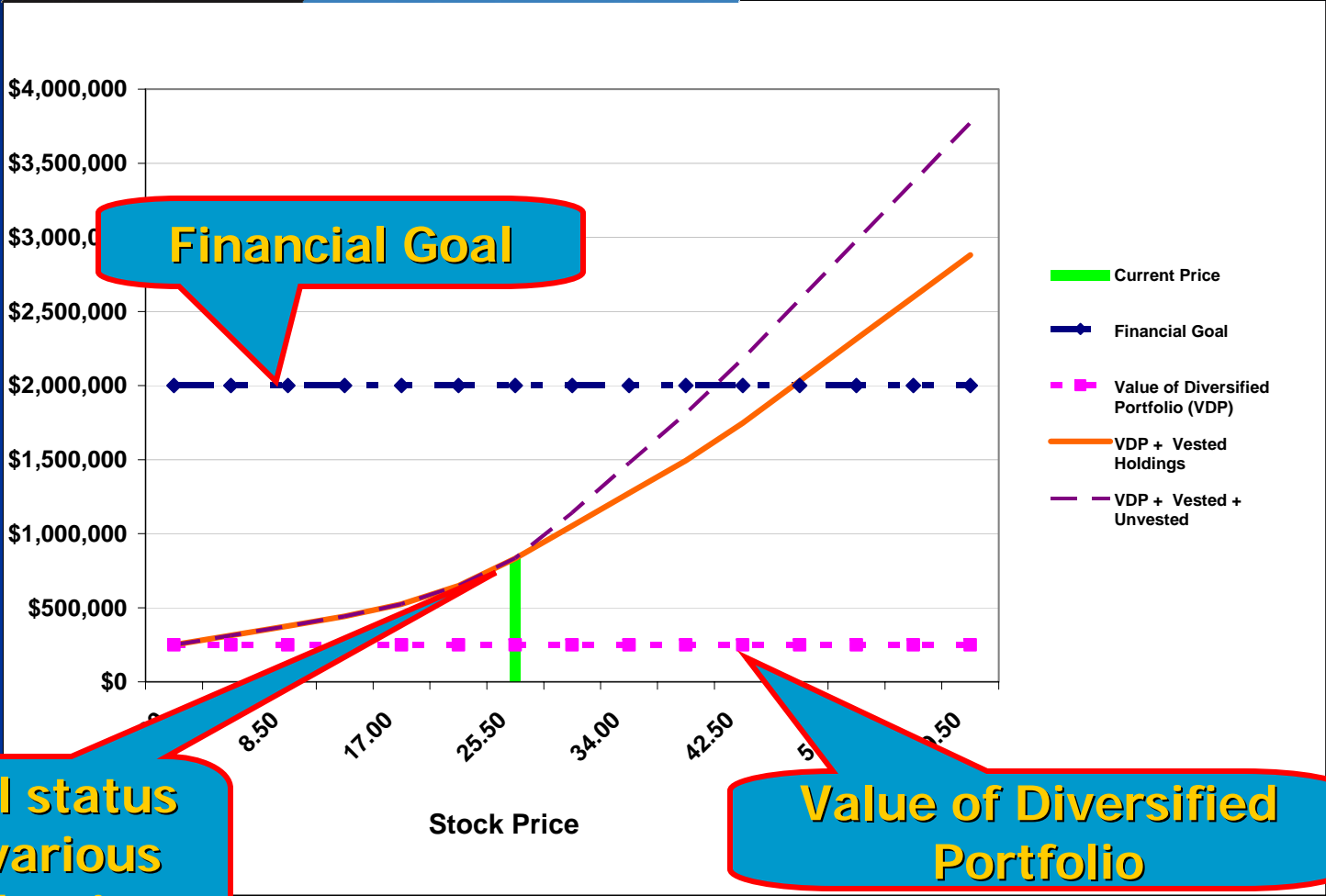
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Financial Goals

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Financial Goal Analysis



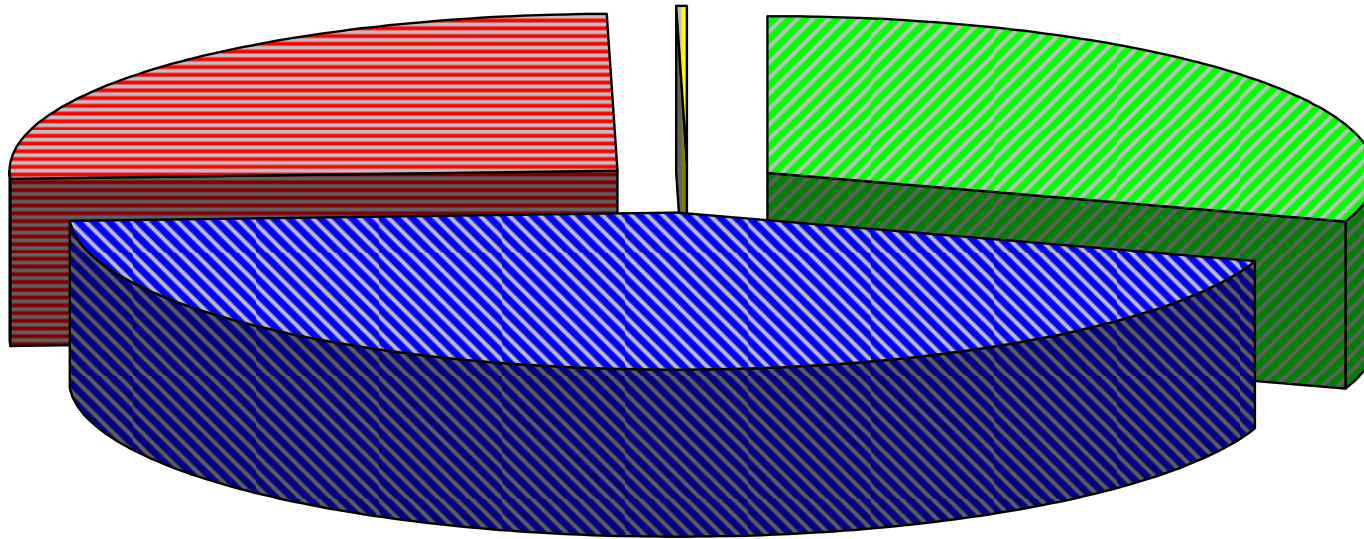
Goal status at various stock prices

Value of Diversified Portfolio

Concentration

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Concentration Analysis



- Value of Diversified Portfolio- 30%
- After Tax Value of Owned Shares - 44%
- After Tax Value of Vested - 25%
- After Tax Value of Unvested - 0%

**70% of portfolio
is in company
stock or options**

Decision Metrics

92.05% of grant's theoretic potential has been achieved

StockOpter®		Insight Ratios					
Grant ID	Grant Type	Expiration Date	Strike Price	ITM Value \$	Time Value \$	BSV \$	Insight Ratio®
I1999	ISO	04/01/09	\$15.3670	202,660	17,492	220,152	7.95%
N2001	NQ	04/01/11	\$40.2345	0	101,770	101,770	100.00%
N2003	NQ	04/01/13	\$20.5500	148,500	222,477	370,977	59.97%
S2005	SAR	04/01/15	\$25.2500	3,750	184,098	187,848	98.00%
N2007	NQ	04/01/17	\$27.0510	0	0	0	N/A
Grand Total					354,910	525,837	880,747

Insight Ratio Factors

- Terminating employment?
- Bullish on company growth prospects?
- Concerned with negative leverage?
- Close to achieving a financial goal?
- Concentrated position?
- Upcoming cash-flow requirements?

Taking Action

- After deciding to take action based on your StockOpter[®] Portfolio Analysis....
- Address “what-if” questions and optimize for tax and cash flow efficiency with StockOpter[®] Strategy Modeling to:
 - Model the after-tax cash flow effects of different exercise and sell / hold strategies
 - Identify tax optimization opportunities
 - Compare and contrast strategies using different stock price growth assumptions

StockOpter® Pro

Microsoft Excel - New SO Pro.xls [Read-Only]

File Edit View Insert Format Tools Data Window Help SO Views SO Tools SO Help Adobe PDF

Arial 14 B I U

StockOpter® Pro 3.6
Equity Compensation Strategy Modeling Software

**W
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Getting Started with StockOpter Pro

- New Client Case** Experienced users can click here to start a
- Guided Entry** New users are guided through building
- The Tour** Tour of features and functions

Informational Resources:

- Users Guide** Open the StockOpter Pro User's G
- Overview** Basic information on getting start
- Load Sample Data** Load sample data to try a test cas

Contacting Net Worth Strategies:

Email: info@NetWorthStrategies.com
Phone: (541) 383-3899 from 7:00 a.m. to 5:00 p.m. Pacific Time
On the Web: www.NetWorthStrategies.com

Overview \ **Welcome** \ Assumptions \ BaseCase \ TPV Chart \ TPVTerminal \ TPV15 \ ATCF Chart \ AllCases \ Tc

Ready

A wizard driven Excel tool that enables advisors to implement equity compensation strategies that are tax & cash flow efficient

StockOpter[®] Strategy Modeling

- Illustrating Diversification:
 - Comparing diversification rates & stock prices to an alternative investment
- Illustrating Cash Flow:
 - Illustrating the effects of exercising & selling
 - Determining exercise and tax costs
- Illustrating Taxation:
 - Tax effects of exercising (AMT & Ordinary)
 - Holding ISOs to get capital gains rates

Entering Assumptions

Assumptions Wizard [?] [X]

Basic Info. | Income | Deductions | Tax Estimates | Issuing Corps | Investment Account

	4th & prior years	3rd Prior Year	2nd Prior Year	1st Prior Year
Minimum tax credit carryforward	\$ 0	0	0	0
Capital loss carryforward	\$ 0		Capital gains tax rate override	0 %
Investment interest carryforward	\$ 0		Average state income tax rate	0 %
Capital loss carryforward - AMT basis	\$ 0		State taxable income adjustment	0 Annual Change %
Investment interest carryforward - AMT basis	\$ 0		Estimated inflation / escalation rate for tax-related values.	0

OK Close

Entering tax and financial assumptions is done using this wizard

Applying Strategies

The screenshot shows a software window titled "Strategies" with a blue header bar containing a help icon and a close button. On the left, a vertical menu lists four options: "By Grant Type", "By Inventory", "By Goal", and "AMT Limit". The "AMT Limit" option is highlighted with a red arrow pointing to a blue callout box. The main content area is titled "Goal-Based strategies" and contains two sections. The first section, "Type of Goal", has two radio buttons: "After Tax Cash Flow" (selected) and "Diversification %". The second section, "Target Values ...", has two radio buttons: "Are Fixed" and "Vary by Year" (selected). To the right of these sections is a blue link labeled "Edit targets". Below these sections is a question: "Exercise ISOs to AMT limit afterwards?" with "Yes" (selected) and "No" radio buttons. Below this question is another blue link labeled "Set Exercise/Sale Order". At the bottom of the window are four buttons: "Help", "Implement", "SARs Info", and "Close".

Different "types" of exercise and sell strategies can be applied automatically

Applying Price Assumptions

ESTIMATED STOCK PRICE(S)

>> Leave 'Est. Stock Price' as is Use 'Assumptions' sheet data (thru formulas)

... Or apply an index ...

>> Change the 'Estimated Stock Price' on this Case sheet for shares of ...

To mirror the performance of this index:

Index starting year:

All companies

<Choose Index>

3M
Amgen
Apple Computer
Applied Materials
AT & T
Autodesk
Barrick Gold Corporation
Boeing

INVESTMENT ACCOUNT

>> Leave Investment Account Use 'Assumptions' sheet data (thru formulas)

.. Or apply an ind ...

>> Index the ... on rate of the Invest ... on this Case sheet to ...

<Choose Index>

OK Close

Stock and alternative investment growth rates can be applied with customizable indices

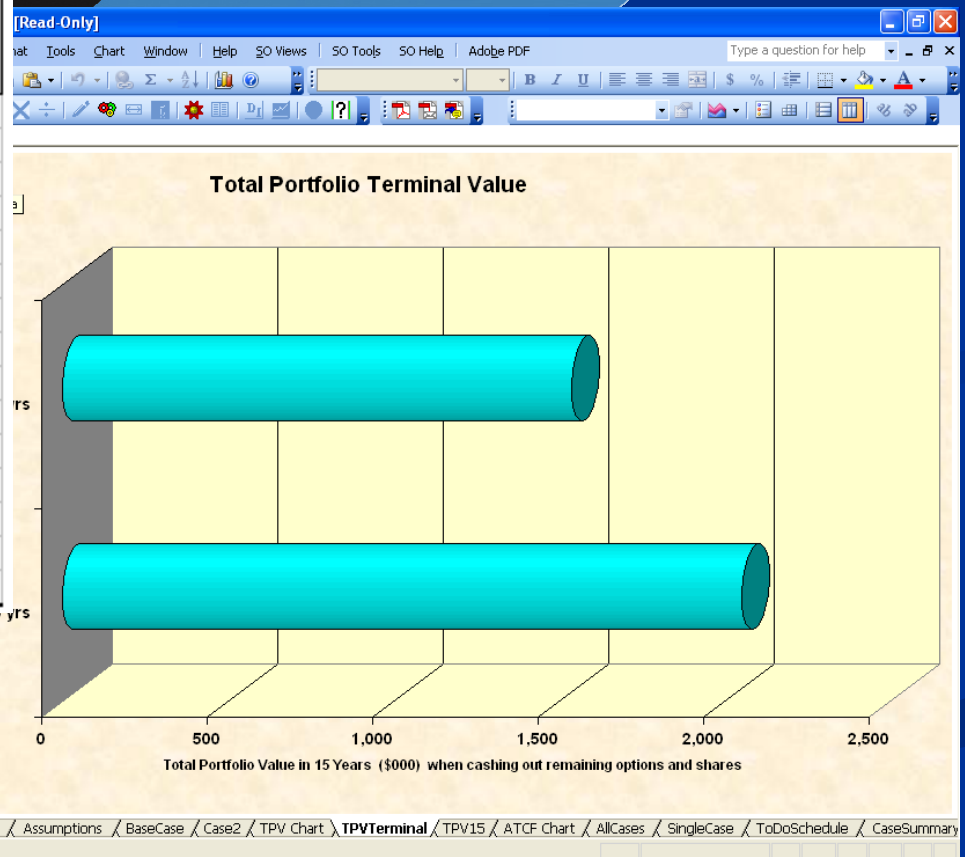
Illustrating Results

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Case Summary

Case Sheet: Diversify 10% per yr for 5 yrs			Case Sheet: Diversify 25% per yr for 3 yrs		
Year	After Tax Cash Flow	Total Portfolio Value	Year	After Tax Cash Flow	Total Portfolio Value
2005	63,386	617,694	2005	140,851	562,831
2006	94,161	798,805	2006	187,046	669,447
2007	120,322	962,252	2007	198,075	732,677
2008	142,998	1,108,526	2008	39,339	821,842
2009	151,801	1,232,002	2009	35,717	907,553
2010	47,923	1,396,803	2010	32,576	995,261
2011	49,066	1,565,662	2011	31,451	1,086,257
2012	7,084	1,658,733	2012	28,216	1,183,843
2013	51,687	1,845,401	2013	31,311	1,284,718
2014	-161,470	1,613,918	2014	-84,333	1,236,309
2015	15,146	1,733,862	2015	17,391	1,324,748
2016	28,523	1,862,193	2016	18,587	1,419,573
2017	17,531	2,000,672	2017	29,291	1,520,484
2018	18,737	2,149,461	2018	21,407	1,629,270
2019	33,581	2,307,684	2019	22,879	1,745,890

ter® Total Portfolio Terminal Value



Charts and tables compare effects of various strategies

Optimizing Alternatives

■ Tax Optimization:

- ISO disqualifying disposition analysis (determining if it is advantageous to sell the underlying stock prior to the 1 year holding period)
- Exercising ISOs up to AMT limit

■ Cash Flow Optimization:

- Achieving an after-tax cash flow amount
- Achieving an after-tax diversification percentage

Comparing Taxation Effects

StockOpter® Tax Comparison

1	Tax Comparison 1	Diversify 10% per yr for			Diversify 25% per yr for			Difference
		2005	2006	Summary	2005	2006	Summary	
2								
3	TAX CALCULATIONS							
4	Federal Income Tax Calculation							
18	Regular Federal Income Tax	68,392	84,165	152,557	111,248	131,224	242,472	(89,915)
19	AMT Calculation							
34	Tentative Minimum Tax	73,822	94,979	168,801	116,775	135,825	252,600	(83,799)
35								
36	Carryovers and intermediate calculations							
43	TMT / Regular Tax Differential	(5,430)	(10,814)	(10,814)	(5,528)	(4,601)	(4,601)	(6,213)
45	Minimum tax credit carryforward	4,500	4,500	4,500	4,500	4,500	4,500	0
50	Total Tax Calculation							
58	Total Tax	113,216	139,503	252,719	168,079	193,575	361,654	(108,935)
59	Total Tax Comparison							
60	Tax prior to stock option activity (from Assumptions)	64,811	69,881	134,691	64,811	69,881	134,691	0
61	Incremental taxes from all stock option activity	48,406	69,622	118,028	103,269	123,694	226,963	(108,935)
62	INVESTMENT ACCOUNT							
63	Annual dividends rate	1.00%	1.00%		1.00%	1.00%		
64	Capital gains distributions rate	2.00%	2.00%		2.00%	2.00%		
65	Appreciation rate	5.00%	5.00%		5.00%	5.00%		
66	Beginning year balance	0	63,386		0	140,851		
73	End of year balance	63,386	160,716	160,716	140,851	334,940	334,940	(174,224)
74								
75	TOTALS FROM STOCK OPTION ACTIVITY	2005	2006	Summ				
76	Value of investment account (12/31)	63,386	160,716	160,716				
77	Value of unvested options and restricted shares	98,600	133,400	133,400				
78	Value of vested options and unrestricted shares	455,709	504,689	504,689				
79	TOTAL PORTFOLIO VALUE	617,694	798,805	798,805				
80	Total after tax cash flow from all stock option activity	63,386	94,161	157,547				
81	Portfolio Diversification %	10%	20%		25%	50%		

Output comparing the tax effects of different strategies

Next Steps

- Alternatives for presenting the analysis:
 - Review the workbook with the client side-by-side or with a web-conference
 - Copy and paste relevant output into a Word document that explains the analysis
- Implementation: Exercise, Sell, & Reinvest
- Provide StockOpter® Portfolio updates on a quarterly basis to trigger subsequent action
- Conduct additional StockOpter® Strategy Modeling as required

Summary

- Assisting executives with equity compensation is an underserved & lucrative market
- The proven StockOpter[®] process consists of 2 steps:
 - Provide clients with a **StockOpter[®] Insight** Portfolio Analysis to establish a decision framework
 - Provide clients with a **StockOpter[®] Pro** Strategy Model to address what-if questions to optimize decisions
- Provide clients with a Portfolio update on a regular basis
- For complex cases use NWSI as your back-office
- For additional information & resources:
 - Web: www.networthstrategies.com
 - Call: 541-383-3899