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

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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

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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

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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

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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

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Two StockOpter® Programs

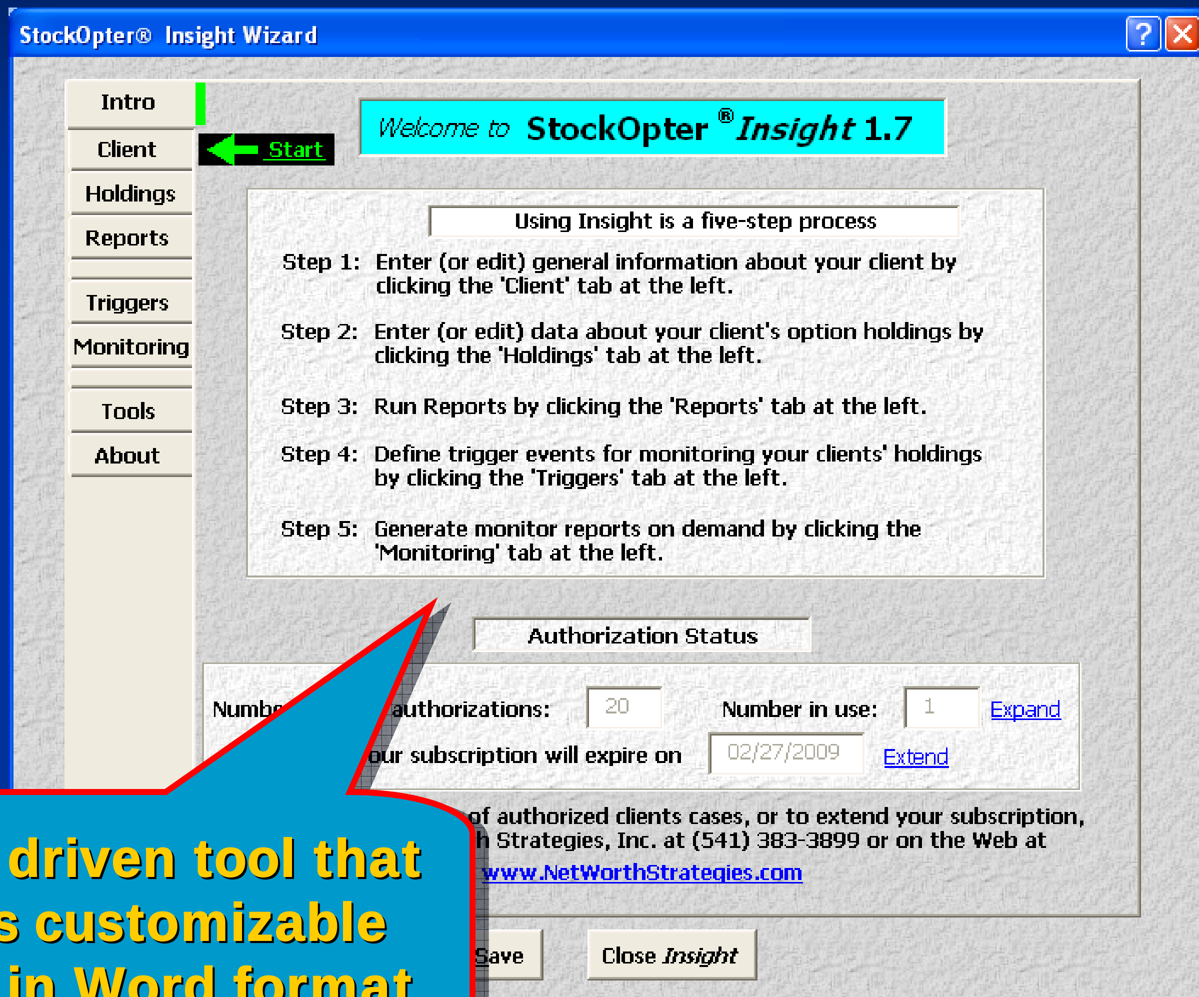
StockOpter® Insight
Equity Compensation Portfolio Analysis Software

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



A menu driven tool that creates customizable reports in Word format

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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

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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)

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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

StockOpter® 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

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Cash Out Valuation

StockOpter® Cash-Out Values

Current FMV	$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)

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Black Scholes Valuation

StockOpter® 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

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Forfeit Valuation

StockOpter® 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

StockOpter® 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%	2,7[illegible]2,016	34.3%	927,798	77.1%
$44.06	20.0%	2,449,368	58.4%	3,583,[illegible]7	32.1%	1,469,621	58.4%
$52.88	20.0%	3,640,068	48.6%	4,669,8[illegible]	30.3%	2,184,041	48.6%
$63.45	20.0%	5,067,0[illegible]	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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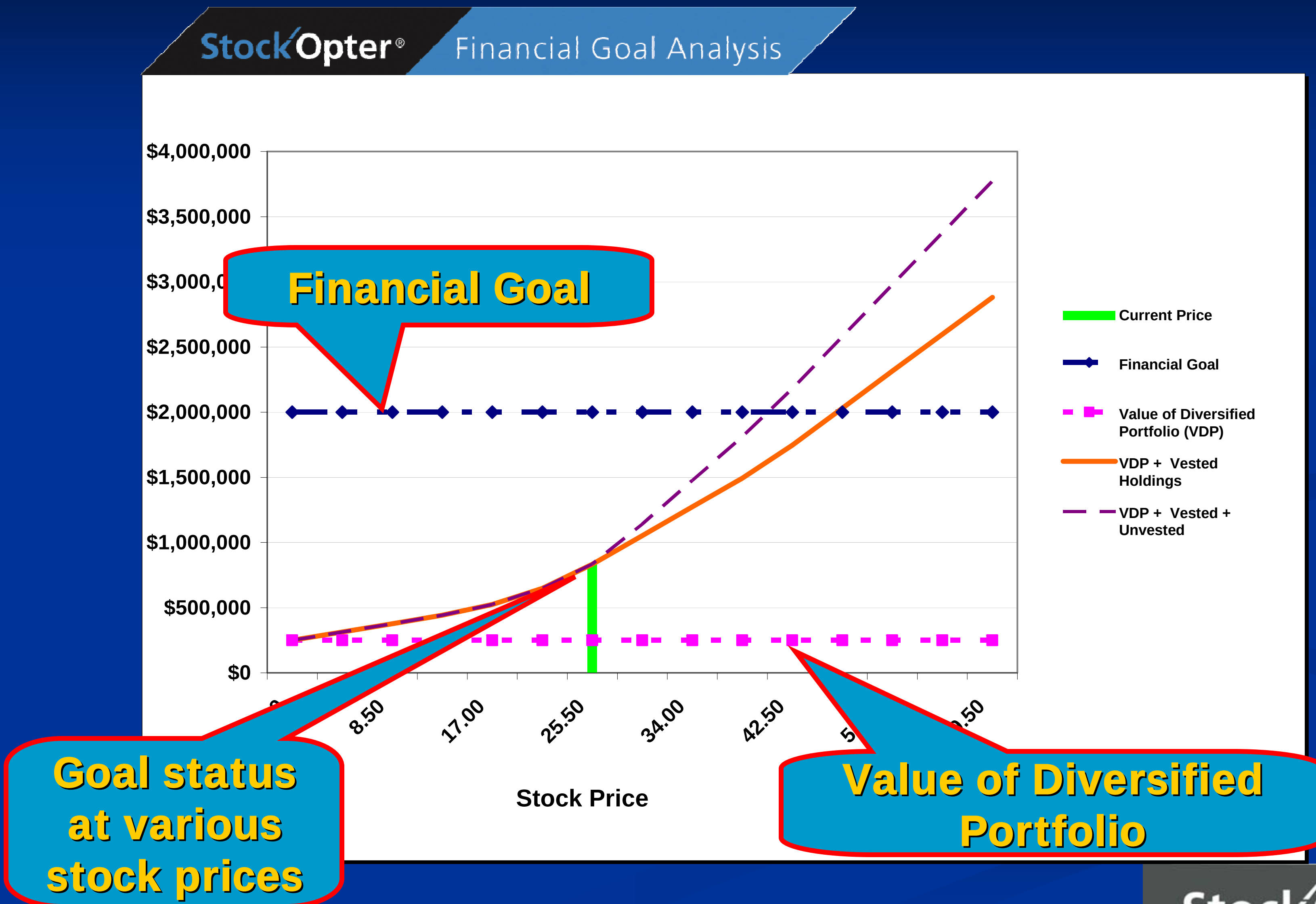
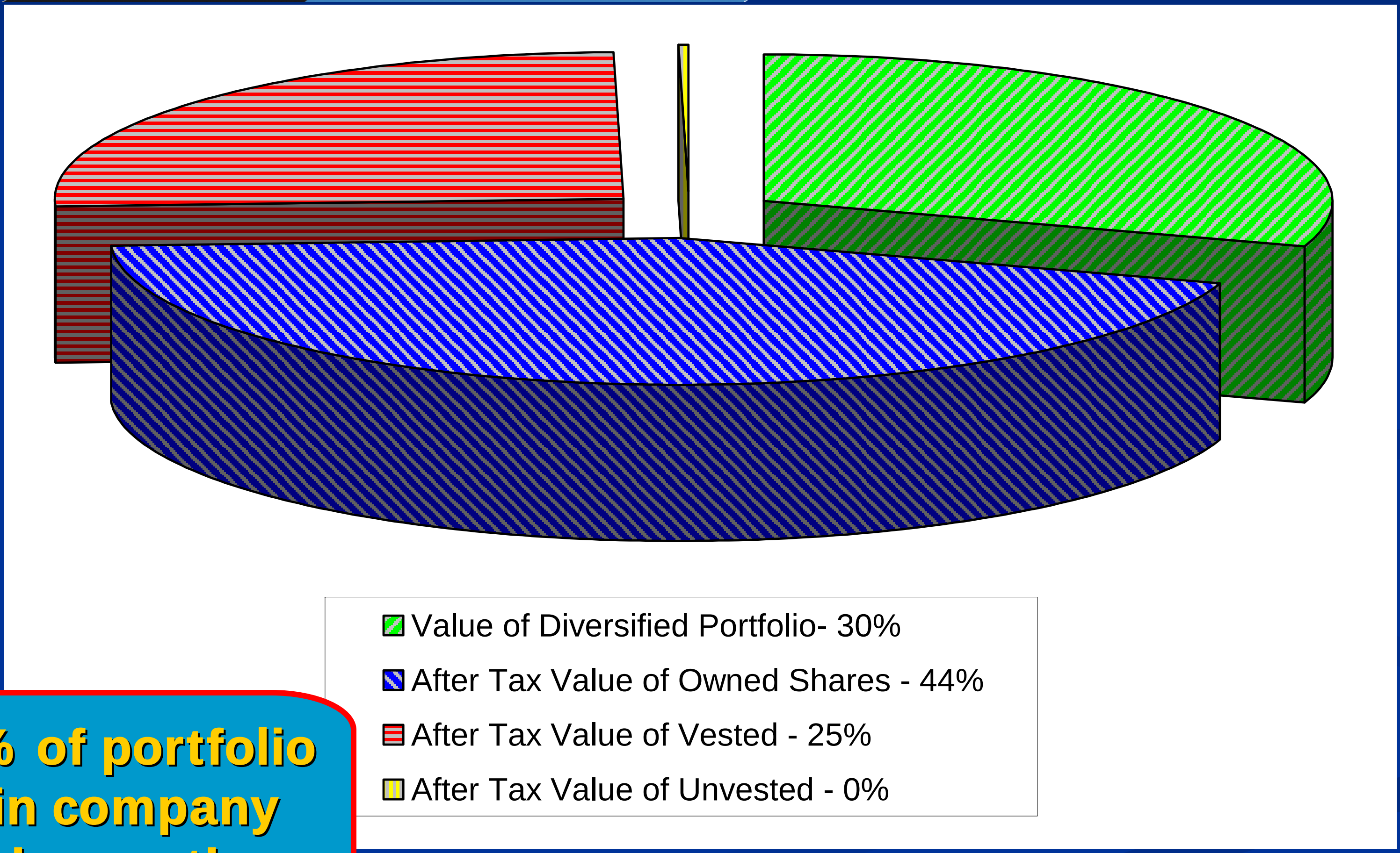
Financial Goals



Concentration

StockOpter® Concentration Analysis



70% of portfolio is in company stock or options

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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	

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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

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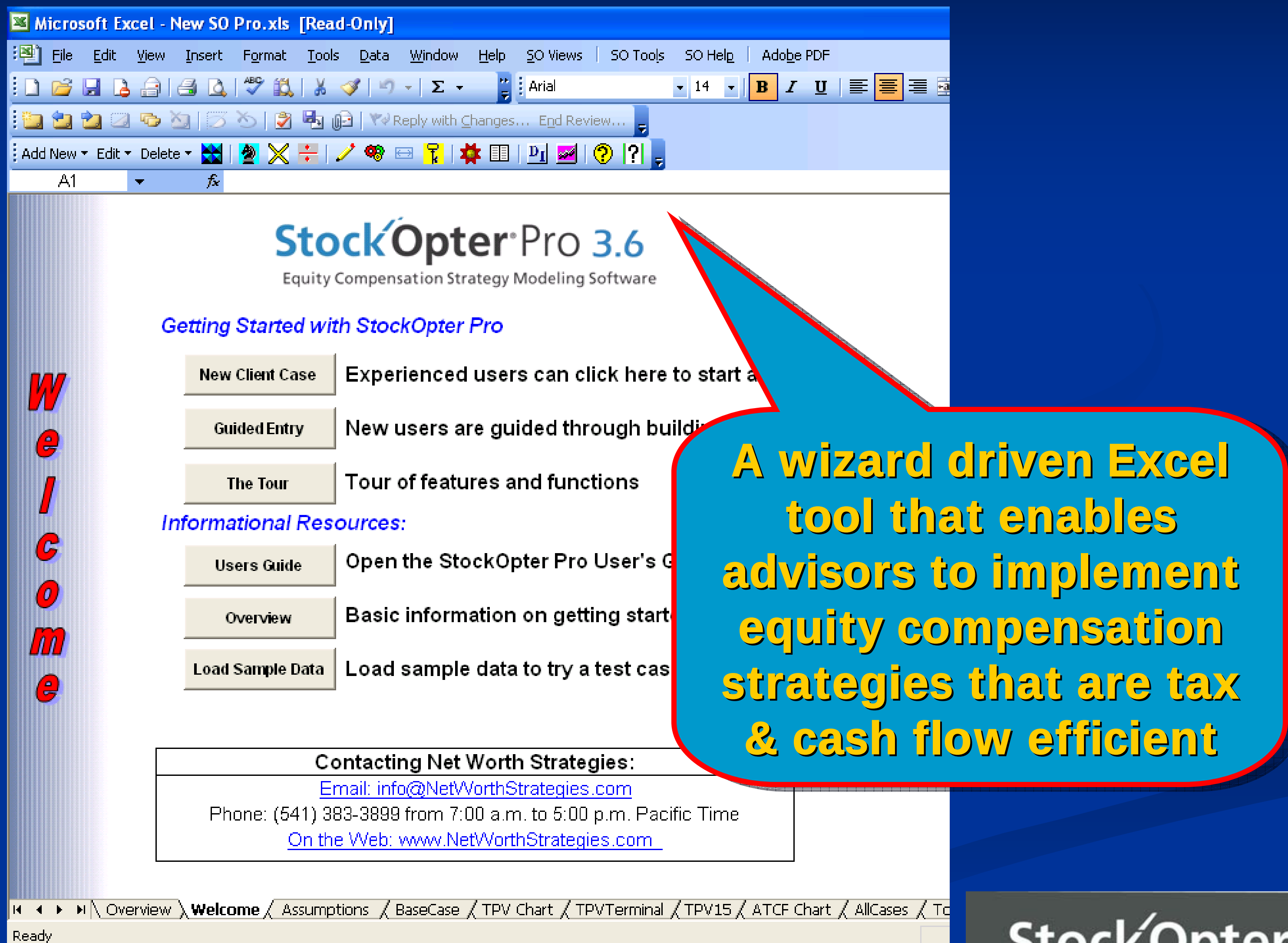
StockOpter® Pro



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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

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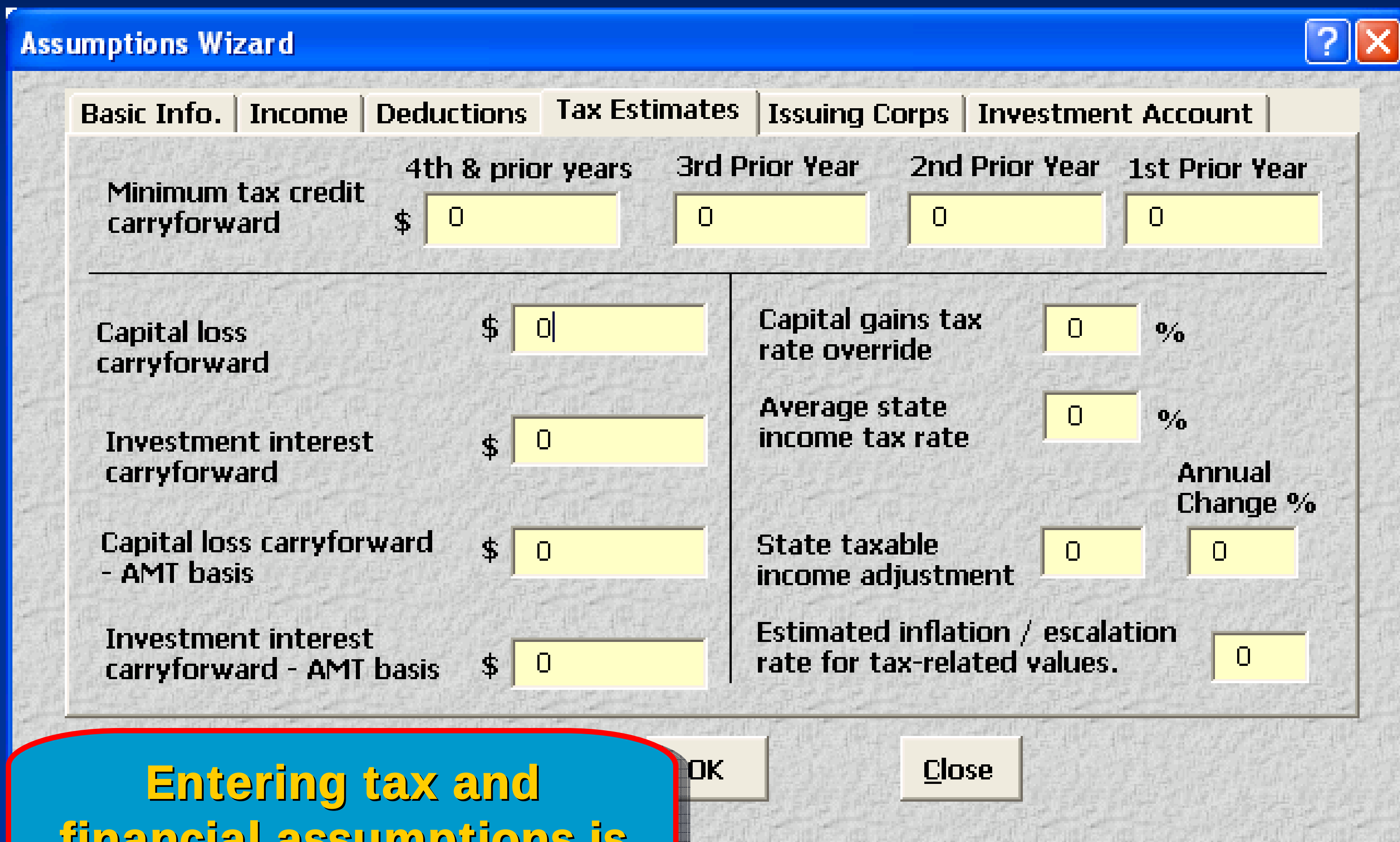
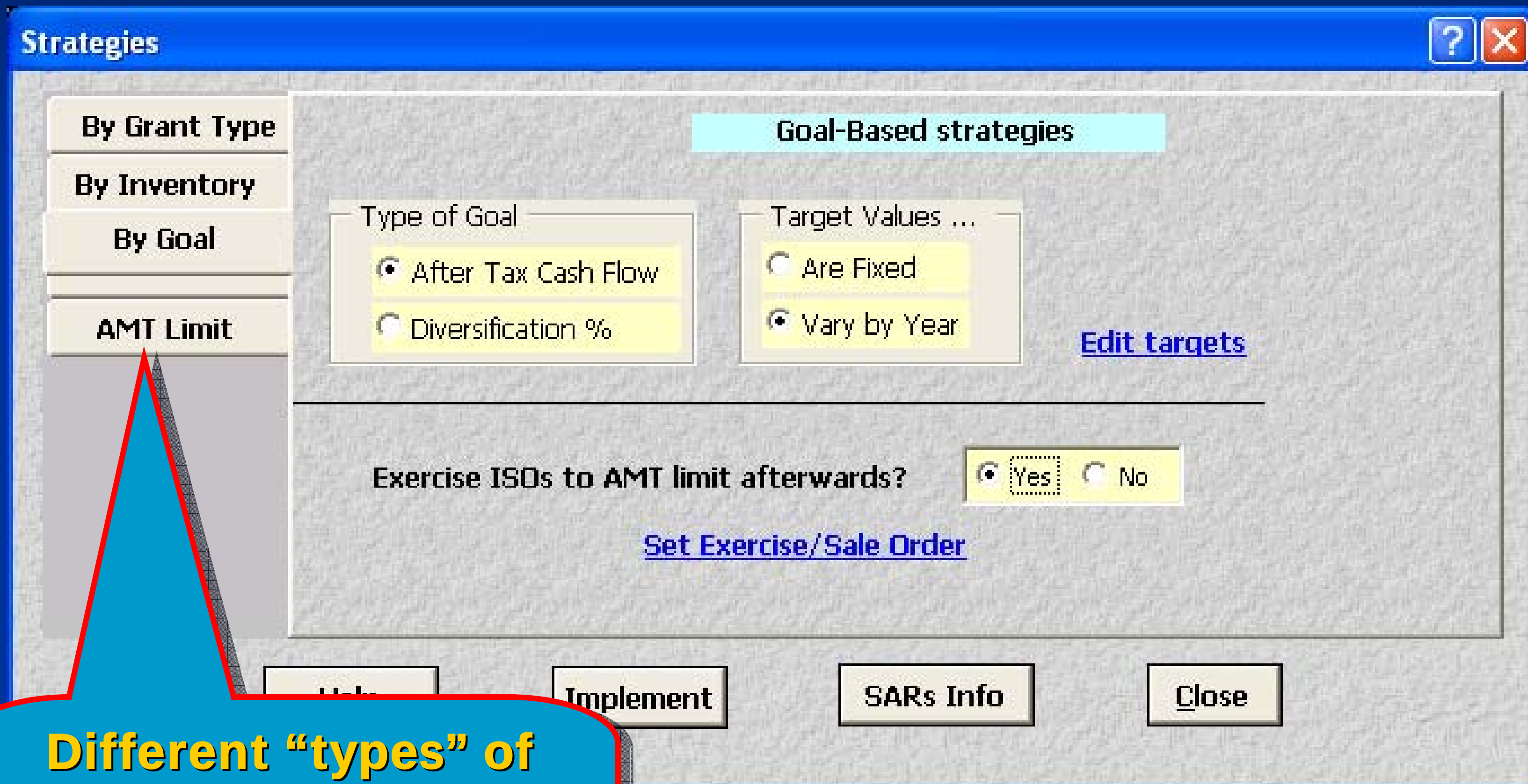
Entering Assumptions



Entering tax and financial assumptions is done using this wizard

Applying Strategies



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

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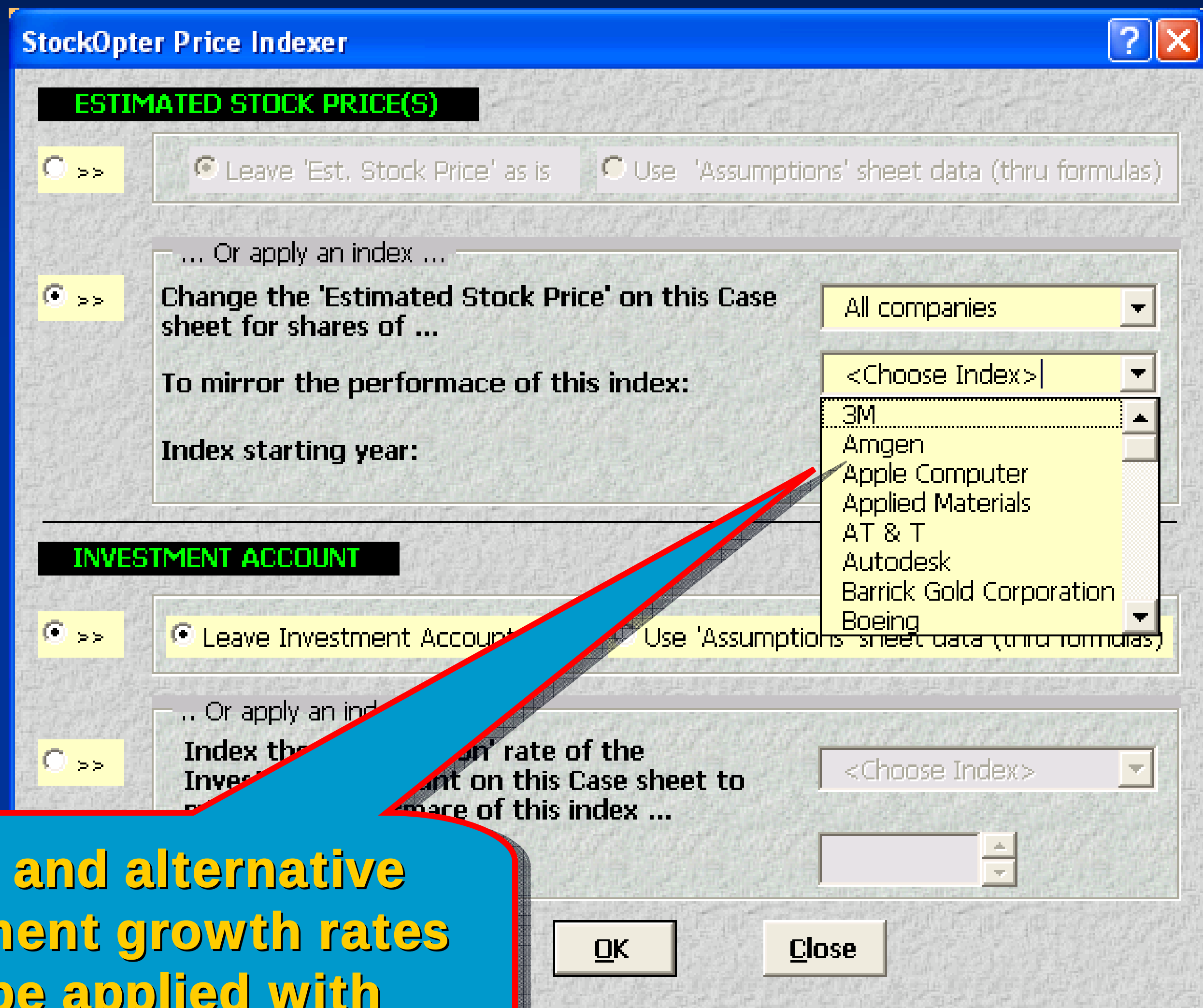
Applying Price Assumptions



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

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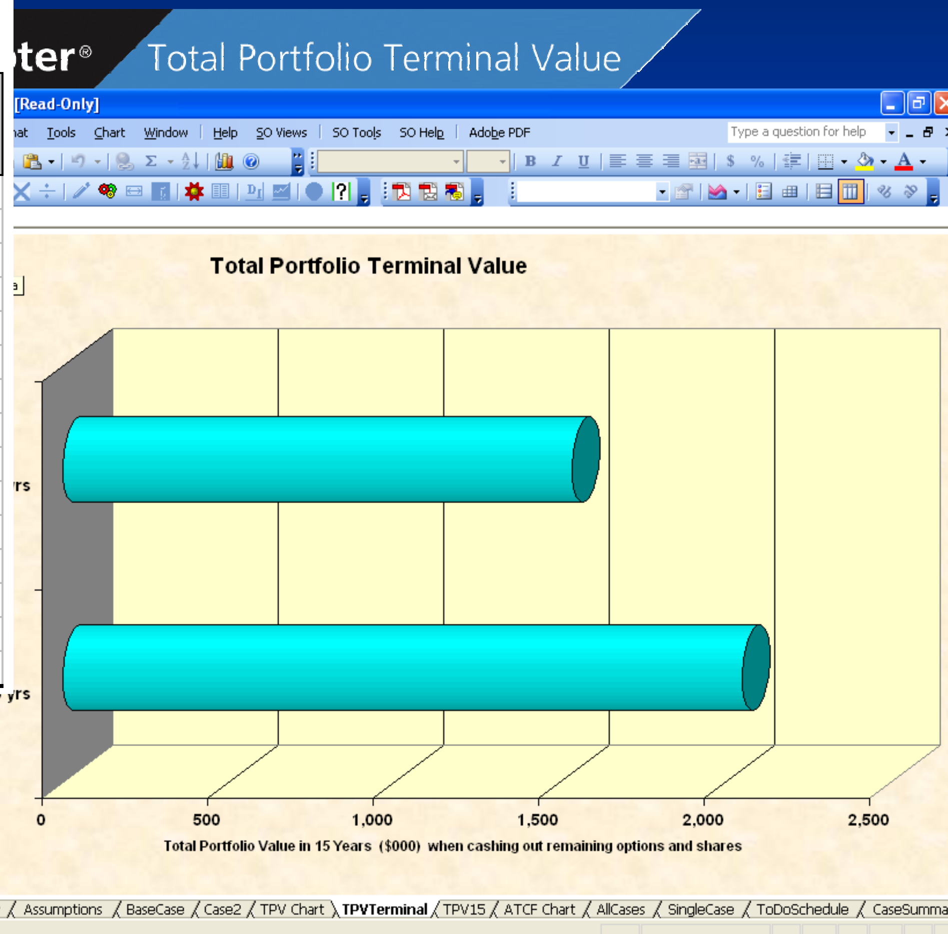
Illustrating Results

StockOpter® Case Summary

Case Sheet:		Diversify 10% per yr for 5 yrs
Year	After Tax Cash Flow	Total Portfolio Value
2005	63,386	617,694
2006	94,161	798,805
2007	120,322	962,252
2008	142,998	1,108,526
2009	151,801	1,232,002
2010	47,923	1,396,803
2011	49,066	1,565,662
2012	7,084	1,658,733
2013	51,687	1,845,401
2014	-161,470	1,613,918
2015	15,146	1,733,862
2016	28,523	1,862,193
2017	17,531	2,000,672
2018	18,737	2,149,461
2019	33,581	2,307,684

Case Sheet:		Diversify 25% per yr for 3 yrs
Year	After Tax Cash Flow	Total Portfolio Value
2005	140,851	562,831
2006	187,046	669,447
2007	198,075	732,677
2008	39,339	821,842
2009	35,717	907,553
2010	32,576	995,261
2011	31,451	1,086,257
2012	28,216	1,183,843
2013	31,311	1,284,718
2014	-84,333	1,236,309
2015	17,391	1,324,748
2016	18,587	1,419,573
2017	29,291	1,520,484
2018	21,407	1,629,270
2019	22,879	1,745,890



Charts and tables compare effects of various strategies

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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

		Diversify 10% per yr for			Diversify 25% per yr for 3			
1	**Tax Comparison 1**							
2		**2005**	**2006**	**Summary**	**2005**	**2006**	**Summary**	**Difference**
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	160,7				
77	Value of unvested options and restricted shares	98,600	133,400	133,4				
78	Value of vested options and unrestricted shares	455,709	504,689	504,6				
79	**TOTAL PORTFOLIO VALUE**	617,694	798,805	798,8				
80	Total after tax cash flow from all stock option activity	63,386	94,161	157,54				
81	Portfolio Diversification %	10%	20%		25%	50%		

Output comparing the tax effects of different strategies

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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

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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

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