

DQD of ISO in same year at a different price:

Follow these steps to model the implications of a same-year disqualifying disposition to eliminate AMT:

1. On the BaseCase, click on Add for new ISO
2. Title the grant as Phantom – DQD ISO#X where X is the ISO number that contains exercised options
3. Enter the same grant date and expiration date as the original grant
4. Enter the original grant (exercise) price. (Note: if using in conjunction with the SWAP white paper, use the original not the revised exercise price)
5. Click Add Grant
6. In the BaseCase sheet, go to row titled, “# of vested & unexercised options,” for the Phantom grant. Enter a formula setting the cell in column B equal to the cell corresponding to the “Disqualifying disposition” in column C.
7. Enter the expected stock price for disqualification in the row titled, “Transaction stock price override.”
8. Go to the original grant that contains the options being exercised. Enter the FMV at exercise in the row titled, “Transaction stock price override.”
9. In the row titled, “# of qualified options to exercise,” enter a formula as follows:
=[# of options exercised] – [cell ref corresponding to Disqualifying disposition in the Phantom Grant]
10. Perform a goal seek to set the row titled, “Alternative Minimum Tax” to zero by changing the row titled “Disqualifying disposition” for the Phantom grant

The result will be the conversion of some of the AMT adjustment triggered by the original exercise into ordinary income in the Phantom grant.