

Modeling Stock Swaps with StockOpter® Pro

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StockOpter® Pro does not inherently handle stock swap exercises. However, there is a workaround to approximate this method of financing a stock option exercise.

To model a situation in StockOpter® Pro in which a client has the ability to finance option exercises via stock swaps, perform the following steps which are illustrated in the exhibits following the instructions:

1. Leave the shares being used to fund the swap in the original grant as if nothing has happened to them. The reason for this is that those shares will retain their original cost basis and holding period (you may need to note the additional holding period requirement in the option name field if the option exercised was an Incentive Stock Option (ISO)). Exhibit 1 shows the grants in their original form with one unexercised ISO and one lot of mature shares (met ISO holding period requirements) from a previous ISO exercise. Exhibit 2 is exactly the same as Exhibit 1 except that the name field (cell B35) of grant 2 has been changed to remind the user that these ISO shares are required to be held for one year after the swap date (7-1-07) to receive capital gain treatment. Note that if the shares being used to fund the swap are only a portion of shares being currently modeled in a grant block within the program, it will be easier to track the history of this transaction if the swap shares are separated into their own grant.
2. Then reduce the number of options in the grant being exercised via swap by the number of shares used to finance the swap. This way you end up with the net “gain” shares obtained in the swap exercise. Also reduce the strike price on the option being exercised to zero since no cash is being used to exercise the option. This will correctly model no cash being spent to exercise the option. In addition, it will correctly model the income implications since the entire value of the “gain” shares received will be includible in income (or AMT for ISOs). This is true since no cash was paid for the “gain” shares. (This will necessitate separating the options being exercised via swap into their own grant if an entire grant is not being exercised via the swap.) See Exhibit 3 for the modifications to the option grant in preparation for the swap.
3. Then exercise the (reduced) option grant in full. No strategies are required in the grant containing the shares used to fund the swap. What you are now left with in Exhibit 4 are the following two grants:

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- a. One grant of 900 shares which represent the gain shares with a regular cost basis of zero and an AMT cost basis of the market value of the stock on the date of the swap.
 - b. A second grant with 100 shares which represent the exchange shares that have a carryover basis for regular tax and AMT but are subject to the holding period requirements of an ISO as of the date of the swap.
4. If reloads are a feature of the swap provision, you can model those by inserting a new grant with the equivalent number of options as the shares you used to execute the swap. The remaining terms of the reload will be dictated by the plan. See Exhibit 5 as an example of the inclusion of a reload grant.

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Exhibit 1

	A	B	C	D	E	F
1	Pre-Swap Holdings		2007	2008	2009	2010
2	ACME == Est. stock price (12/31)		\$10.00	\$10.80	\$11.66	\$12.60
3	ACME == Est. per share dividend (12/31)		\$0.00	\$0.00	\$0.00	\$0.00
4	<<ISO Grants>>					
5	ISO #1 -- Name/ID:	ISOs \$1 10				
6	Date of grant / Owner / Company	01/01/2000	Client		ACME	
7	Grant expiration date	01/01/2010				
8	Transaction stock price override					
9	# of unvested options (12/31)	0	0	0	0	0
10	Exercise price	\$1.00				
11	Vesting schedule (1/1)					
12	# of options available for exercise (1/1)		1,000	1,000	1,000	1,000
14	# of qualified options to exercise					
15	Disqualifying disposition					
18	# of vested & unexercised options	1,000	1,000	1,000	1,000	1,000
20	# of shares available for sale as qualified		0	0	0	0
21	# of shares to sell (qualified)					
22	# of exercised & unsold shares (12/31)		0	0	0	0
29	Average per share AMT adjustment before sale		0.00	0.00	0.00	0.00
35	ISO #2 -- Name/ID:	Mature Shares				
36	Date of grant / Owner / Company	01/01/2000	Client		ACME	
37	Grant expiration date	01/01/2010				
38	Transaction stock price override					
39	# of unvested options (12/31)	0	0	0	0	0
40	Exercise price	\$1.00				
41	Vesting schedule (1/1)					
42	# of options available for exercise (1/1)		0	0	0	0
44	# of qualified options to exercise					
45	Disqualifying disposition					
48	# of vested & unexercised options		0	0	0	0
50	# of shares available for sale as qualified		100	100	100	100
51	# of shares to sell (qualified)					
52	# of exercised & unsold shares (12/31)	100	100	100	100	100
59	Average per share AMT adjustment before sale	5.00	5.00	5.00	5.00	5.00

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Exhibit 2

	A	B	C	D	E	F
1	Pre-Swap Holdings		2007	2008	2009	2010
2	ACME == Est. stock price (12/31)		\$10.00	\$10.80	\$11.66	\$12.60
3	ACME == Est. per share dividend (12/31)		\$0.00	\$0.00	\$0.00	\$0.00
4	<<ISO Grants>>					
5	ISO #1 -- Name/ID:	ISOs \$1 10				
6	Date of grant / Owner / Company	01/01/2000	Client		ACME	
7	Grant expiration date	01/01/2010				
8	Transaction stock price override					
9	# of unvested options (12/31)	0	0	0	0	0
10	Exercise price	\$1.00				
11	Vesting schedule (1/1)					
12	# of options available for exercise (1/1)		1,000	1,000	1,000	1,000
14	# of qualified options to exercise					
15	Disqualifying disposition					
18	# of vested & unexercised options	1,000	1,000	1,000	1,000	1,000
20	# of shares available for sale as qualified		0	0	0	0
21	# of shares to sell (qualified)					
22	# of exercised & unsold shares (12/31)		0	0	0	0
29	Average per share AMT adjustment before sale		0.00	0.00	0.00	0.00
35	ISO #2 -- Name/ID:	Exchange Shares 7-1-07				
36	Date of grant / Owner / Company	01/01/2000	Client		ACME	
37	Grant expiration date	01/01/2010				
38	Transaction stock price override					
39	# of unvested options (12/31)	0	0	0	0	0
40	Exercise price	\$1.00				
41	Vesting schedule (1/1)					
42	# of options available for exercise (1/1)		0	0	0	0
44	# of qualified options to exercise					
45	Disqualifying disposition					
48	# of vested & unexercised options		0	0	0	0
50	# of shares available for sale as qualified		100	100	100	100
51	# of shares to sell (qualified)					
52	# of exercised & unsold shares (12/31)	100	100	100	100	100
59	Average per share AMT adjustment before sale	5.00	5.00	5.00	5.00	5.00

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Exhibit 3

	A	B	C	D	E	F
1	Pre-Swap Holdings		2007	2008	2009	2010
2	ACME == Est. stock price (12/31)		\$10.00	\$10.80	\$11.66	\$12.60
3	ACME == Est. per share dividend (12/31)		\$0.00	\$0.00	\$0.00	\$0.00
4	<<ISO Grants>>					
5	ISO #1 -- Name/ID:	ISOs \$1 10				
6	Date of grant / Owner / Company	01/01/2000	Client		ACME	
7	Grant expiration date	01/01/2010				
8	Transaction stock price override					
9	# of unvested options (12/31)	0	0	0	0	0
10	Exercise price	\$0.00				
11	Vesting schedule (1/1)					
12	# of options available for exercise (1/1)		900	900	900	900
14	# of qualified options to exercise					
15	Disqualifying disposition					
18	# of vested & unexercised options	900	900	900	900	900
20	# of shares available for sale as qualified		0	0	0	0
21	# of shares to sell (qualified)					
22	# of exercised & unsold shares (12/31)		0	0	0	0
29	Average per share AMT adjustment before sale		0.00	0.00	0.00	0.00
35	ISO #2 -- Name/ID:	Exchange Shares 7-1-07				
36	Date of grant / Owner / Company	01/01/2000	Client		ACME	
37	Grant expiration date	01/01/2010				
38	Transaction stock price override					
39	# of unvested options (12/31)	0	0	0	0	0
40	Exercise price	\$1.00				
41	Vesting schedule (1/1)					
42	# of options available for exercise (1/1)		0	0	0	0
44	# of qualified options to exercise					
45	Disqualifying disposition					
48	# of vested & unexercised options		0	0	0	0
50	# of shares available for sale as qualified		100	100	100	100
51	# of shares to sell (qualified)					
52	# of exercised & unsold shares (12/31)	100	100	100	100	100
59	Average per share AMT adjustment before sale	5.00	5.00	5.00	5.00	5.00

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Exhibit 4

	A	B	C	D	E	F
1	Post-Swap Holdings		2007	2008	2009	2010
2	ACME == Est. stock price (12/31)		\$10.00	\$10.80	\$11.66	\$12.60
3	ACME == Est. per share dividend (12/31)		\$0.00	\$0.00	\$0.00	\$0.00
4	<<ISO Grants>>					
5	ISO #1 -- Name/ID:	ISOs \$1 10				
6	Date of grant / Owner / Company	01/01/2000	Client		ACME	
7	Grant expiration date	01/01/2010				
8	Transaction stock price override					
9	# of unvested options (12/31)	0	0	0	0	0
10	Exercise price	\$0.00				
11	Vesting schedule (1/1)					
12	# of options available for exercise (1/1)		900	0	0	0
14	# of qualified options to exercise		900			
15	Disqualifying disposition					
18	# of vested & unexercised options	900	0	0	0	0
20	# of shares available for sale as qualified		0	900	900	900
21	# of shares to sell (qualified)					
22	# of exercised & unsold shares (12/31)		900	900	900	900
29	Average per share AMT adjustment before sale		0.00	10.00	10.00	10.00
35	ISO #2 -- Name/ID:	Exchange Shares 7-1-07				
36	Date of grant / Owner / Company	01/01/2000	Client		ACME	
37	Grant expiration date	01/01/2010				
38	Transaction stock price override					
39	# of unvested options (12/31)	0	0	0	0	0
40	Exercise price	\$1.00				
41	Vesting schedule (1/1)					
42	# of options available for exercise (1/1)		0	0	0	0
44	# of qualified options to exercise					
45	Disqualifying disposition					
48	# of vested & unexercised options		0	0	0	0
50	# of shares available for sale as qualified		100	100	100	100
51	# of shares to sell (qualified)					
52	# of exercised & unsold shares (12/31)	100	100	100	100	100
59	Average per share AMT adjustment before sale	5.00	5.00	5.00	5.00	5.00

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Exhibit 5

	A	B	C	D	E	F
1	Post-Swap & Reload Holdings		2007	2008	2009	2010
2	ACME == Est. stock price (12/31)		\$10.00	\$10.80	\$11.66	\$12.60
3	ACME == Est. per share dividend (12/31)		\$0.00	\$0.00	\$0.00	\$0.00
4	<< ISO Grants >>					
5	ISO #1 -- Name/ID:	ISOs \$1 10				
6	Date of grant / Owner / Company	01/01/2000	Client		ACME	
7	Grant expiration date	01/01/2010				
8	Transaction stock price override					
9	# of unvested options (12/31)	0	0	0	0	0
10	Exercise price	\$0.00				
11	Vesting schedule (1/1)					
12	# of options available for exercise (1/1)		900	0	0	0
14	# of qualified options to exercise		900			
15	Disqualifying disposition					
18	# of vested & unexercised options	900	0	0	0	0
20	# of shares available for sale as qualified		0	900	900	900
21	# of shares to sell (qualified)					
22	# of exercised & unsold shares (12/31)		900	900	900	900
29	Average per share AMT adjustment before sale		0.00	10.00	10.00	10.00
35	ISO #2 -- Name/ID:	Exchange Shares 7-1-07				
36	Date of grant / Owner / Company	01/01/2000	Client		ACME	
37	Grant expiration date	01/01/2010				
38	Transaction stock price override					
39	# of unvested options (12/31)	0	0	0	0	0
40	Exercise price	\$1.00				
41	Vesting schedule (1/1)					
42	# of options available for exercise (1/1)		0	0	0	0
44	# of qualified options to exercise					
45	Disqualifying disposition					
48	# of vested & unexercised options		0	0	0	0
50	# of shares available for sale as qualified		100	100	100	100
51	# of shares to sell (qualified)					
52	# of exercised & unsold shares (12/31)	100	100	100	100	100
59	Average per share AMT adjustment before sale	5.00	5.00	5.00	5.00	5.00
65	ISO #3 -- Name/ID:	7-1-07 Swap Reload				
66	Date of grant / Owner / Company	01/01/2000	Client		ACME	
67	Grant expiration date	01/01/2010				
68	Transaction stock price override					
69	# of unvested options (12/31)	0	0	0	0	0
70	Exercise price	\$1.00				
71	Vesting schedule (1/1)					
72	# of options available for exercise (1/1)		100	100	100	100
74	# of qualified options to exercise					
75	Disqualifying disposition					
78	# of vested & unexercised options	100	100	100	100	100
80	# of shares available for sale as qualified		0	0	0	0
81	# of shares to sell (qualified)					
82	# of exercised & unsold shares (12/31)		0	0	0	0
89	Average per share AMT adjustment before sale		0.00	0.00	0.00	0.00