



Personal Equity Compensation Profile

REPORT PRESENTATION GUIDE

This document provides guidance on effective client presentations of the Personal Equity Compensation Profile (PECP) report from StockOpter® Insight. For each section of the PECP this document will suggest key points to make, concepts to focus on and areas or topics to avoid. It is not designed to be a “script,” but rather a framework around which to develop an informative and motivating delivery of the PECP to the option holder.

June 13, 2007

Overview:

- The Personal Equity Compensation Profile (PECP) report provides a framework for discussing a client's equity compensation holdings (stock options and restricted shares). It enables individuals to make timely and prudent diversification decisions by providing them with solid rationale for doing so.
- This report should not be delivered to a client without explanation. Its concepts are powerful but subtle and must be clearly articulated. We highly recommend that you carefully read and study the report before reviewing it with the client. Detailed white papers on all the concepts contained in the PECP can be found at: www.networthstrategies.com/Support/Docs/insight.html
- The PECP is a snap shot in time that looks at the value, leverage and risk in a client's equity compensation position. It is not meant to be a "what-if" analysis. That is the function of StockOpter[®] Pro (visit: www.networthstrategies.com/StockOpter/index.html)
- Since the variables that go into this report change substantially over time, updates should be provided periodically. Quarterly updates are recommended because things can change substantially in 3 months and an update takes only minutes to produce. At a very minimum, clients should get an updated PECP on an annual basis.
- This report does not attempt to predict the future, it is a means of interpreting the present in order to establish a framework to make decisions on when to exercise and sell.

Cover Letter:

This initial section of the PECP provides the individual with the following information:

- A description of the purpose of the report (see above).
- An overview of the sections of the report.
- A summary of the client's estimated Forfeit Value[®] at an assumed stock price.
- An offer to model the tax and cash-flow ramification of various diversification strategies.

Key Points and Concepts to Address at this Time

- This report serves as a framework for having a rational discussion about ones equity compensation holdings.
- This discussion will enable the client to decide whether to exercise and sell at this time.

Section I: ESO Portfolio Value

This section summarizes the valuation of the client’s stock options using four methods: 1) In-the-Money Value, 2) Cash-Out Value, 3) Black-Scholes and Time Value, and 4) Forfeit Value®.

In-the-Money Value of All Options

StockOpter® In-the-Money Values									
Current FMV	\$24.00			Vested		Unvested		Total	
Grant ID	Option Type	Expiration Date	Strike Price	# of Options	ITM Value	# of Options	ITM Value	# of Options	ITM
1ISO98	ISO	03/01/08	\$17.55	25,000	161,250	0	0	25,000	161,250
2NQ00	NQSO	03/01/10	\$41.82	40,000	0	0	0	40,000	0
3NQ02	NQSO	03/01/12	\$19.65	30,000	130,500	0	0	30,000	130,500
4NQ04	NQSO	03/01/14	\$20.11	30,000	116,700	20,000	77,800	50,000	194,500
5SAR06	NQSO	03/01/16	\$23.15	10,000	8,500	40,000	34,000	50,000	42,500
Grand Total				135,000	416,950	60,000	111,800	195,000	528,750

Key Points and Concepts for In-the-Money (ITM) Value Table

- This table shows the gross value (before tax) the individual would realize from exercising and selling their stock options.
- On a grant by grant basis it lists all the components of the client’s option portfolio: grant type, expiration date, strike price, the number of options that are vested and unvested, and the respective ITM values.
- The ITM value is the most simplistic way to look at option valuation and it is easy for the client to understand.
- ITM value is the current fair market value (FMV) of the stock minus the strike (grant) price times the number of options in the grant.
- The vested options can currently be exercised. The unvested options cannot be exercised at the present time.
- The ITM value accounts for the cost to exercise the options but not for the taxes.

Other Points

- This type of valuation does not help determine which grants to exercise and sell or the practical reasons why.
- You probably don’t have to spend too much time explaining this table, since many clients understand the ITM concept and are provided this information from the company. However, the StockOpter® ITM value table provides a clear and concise overview of the components and basic value of a client’s stock option position.

Cash-Out Value of Vested Options

Current FMV		Vested						Cash out Value, Vested
Current FMV	\$24.00	Option Type	Expiration Date	Strike Price	# of Options	ITM Value	Potential Tax	
1ISO98	ISO	03/01/08	\$17.55	25,000	161,250	56,438	104,813	
2NQ00	NQSO	03/01/10	\$41.82	40,000	0	0	0	
3NQ02	NQSO	03/01/12	\$19.65	30,000	130,500	45,675	84,825	
4NQ04	NQSO	03/01/14	\$20.11	30,000	116,700	40,845	75,855	
5SAR06	NQSO	03/01/16	\$23.15	10,000	8,500	2,975	5,525	
Grand Total					135,000	416,950	145,933	271,018

Key Points and Concepts for Cash-Out Value Table

- This table estimates the after-tax values generated by exercising and selling the client's vested stock options at the given "Fair Market Value" of the stock (Current Stock Price).
- The "Cash-Out" or "After Tax" value is the estimated amount available for diversification today for the vested options (only those options that are vested can be exercised and sold).
- After Tax Value = ITM Value minus Potential Tax.
- The potential tax is calculated by applying the estimated combined federal and state tax rate shown in Appendix A.
- The after tax value *does not* take into account AMT or other special tax situations.

Other Points

- Like the In-the-Money valuation, the Cash-Out valuation does not help determine which grants to exercise and or sell or the practical reasons why.
- The actual tax consequences from exercising and selling stock options can be significantly different so further analysis may be required (StockOpter® Pro can be used for this purpose).

Black-Scholes / Time Value of All Options

StockOpter® Time & Black-Scholes Values									
Current FMV				Vested		Unvested		Total	
Grant ID	Option Type	Expiration Date	Strike Price	Time value	BSV	Time Value	BSV	Time value	BSV
1ISO98	ISO	03/01/08	\$17.55	27,897	189,147	0	0	27,897	189,147
2NQ00	NQSO	03/01/10	\$41.82	116,961	116,961	0	0	116,961	116,961
3NQ02	NQSO	03/01/12	\$19.65	210,980	341,480	0	0	210,980	341,480
4NQ04	NQSO	03/01/14	\$20.11	270,325	387,025	180,216	258,016	450,541	645,041
5SAR06	NQSO	03/01/16	\$23.15	125,595	134,095	502,382	536,382	627,977	670,477
Grand Total				751,758	1,168,708	682,598	794,398	1,434,356	1,963,106

Forfeit Value®

Key Points/Concepts for Black-Scholes Table

- Options, even underwater options, have a value other than the ITM value. This value is called "Time Value" and is a function of:
 - Time to Expiration:** The more time until expiration the more value there is to holding the option. The concept is that it is essentially a "free loan" of the strike price until the option is exercised. The holder has "effective" control of a set amount of shares but has paid nothing until exercise.
 - In-the-Money Value:** The higher the current stock price is relative to the strike price, the less Time Value (or leverage) remains in the option. As potential is realized the additional upside is reduced.
 - Volatility of the Stock:** The higher the volatility, the greater the Time Value. This is because there is greater upside potential within a given time frame for a volatile stock.
 - The Risk Free Rate of Return:** An options value is enhanced by the ability to use the capital that would have otherwise be invested in the stock for some other investment. Thus, the higher the risk free rate or return, the higher the Time Value.
- The time value of an option can be computed using a number of methodologies. However, we use the most widely accepted and commonly used methodology; known as the Black-Scholes Model. It provides a method for quantifying the total value of an employee stock option.
- The Black-Scholes value (BSV) is the Time Value + the ITM value so the BSV is generally greater than the ITM value.

- The relationship between the Time Value and the BSV illustrates the risk / reward trade-off of holding an option. The Insight Ratio[®] shown later in the report quantifies this relationship.
- This table also illustrates the client's "**Forfeit Value**[®]". This is the theoretical value the option holder would give up if they were to leave their current employer. It is larger than just the ITM value of the unvested options because it takes Time Value into consideration. The Forfeit Value[®] is the sum of the Time Value of vested options + BSV of unvested options.
- The client's "**Total Forfeit Value**[®]" in equity compensation is calculated by adding the current value of any unvested Restricted Stock Awards to the stock option Forfeit Value[®].

Other Points

- The Black-Scholes Value and the Time Value are not a guarantee or even a prediction of future value of a stock option. These values reflect the "Present Value" of an option.
- Avoid getting into too much detail regarding the Black-Scholes formula. Let the client know it is a widely accepted standard for valuing options that allows you to quantify the potential value. Later in the report they will be shown a framework for using this value as a framework for making better exercise decisions.
- As indicated in the "Disclosures" section of the PECP, the Black-Scholes methodology which was designed for market traded options has inherent limitations for valuing employee stock options which may overstate their value.

Section II: Investment Risk/Reward

StockOpter®		Leverage Analysis					
Based on Current Portfolio of Vested and Unvested Options							
Potential Future Stock Price	Incremental Change	ITM Value	Incremental Change	Black-Scholes Value	Incremental Change	Cash-out value	Incremental Change
\$9.83	-20.0%	\$0	0.0%	\$352,262	-36.2%	\$0	0.0%
\$12.29	-20.0%	\$0	0.0%	\$552,156	-35.5%	\$0	0.0%
\$15.36	-20.0%	\$0	-100.0%	\$855,545	-34.6%	\$0	-100.0%
\$19.20	-20.0%	\$41,250	-92.2%	\$1,308,775	-33.3%	\$26,813	-92.2%
\$24.00		\$528,750		\$1,963,106		\$343,688	
\$28.80	20.0%	\$1,272,750	140.7%	\$2,685,146	36.8%	\$827,288	140.7%
\$34.56	20.0%	\$2,165,550	70.1%	\$3,612,015	34.5%	\$1,407,608	70.1%
\$41.47	20.0%	\$3,236,600	49.5%	\$4,783,697	32.4%	\$2,103,790	49.5%
\$49.77	20.0%	\$4,841,100	49.6%	\$6,249,725	30.6%	\$3,146,715	49.6%
\$59.72	20.0%	\$6,781,350	40.1%	\$8,063,037	29.0%	\$4,407,878	40.1%

Key Points and Concepts for Leverage Analysis Table

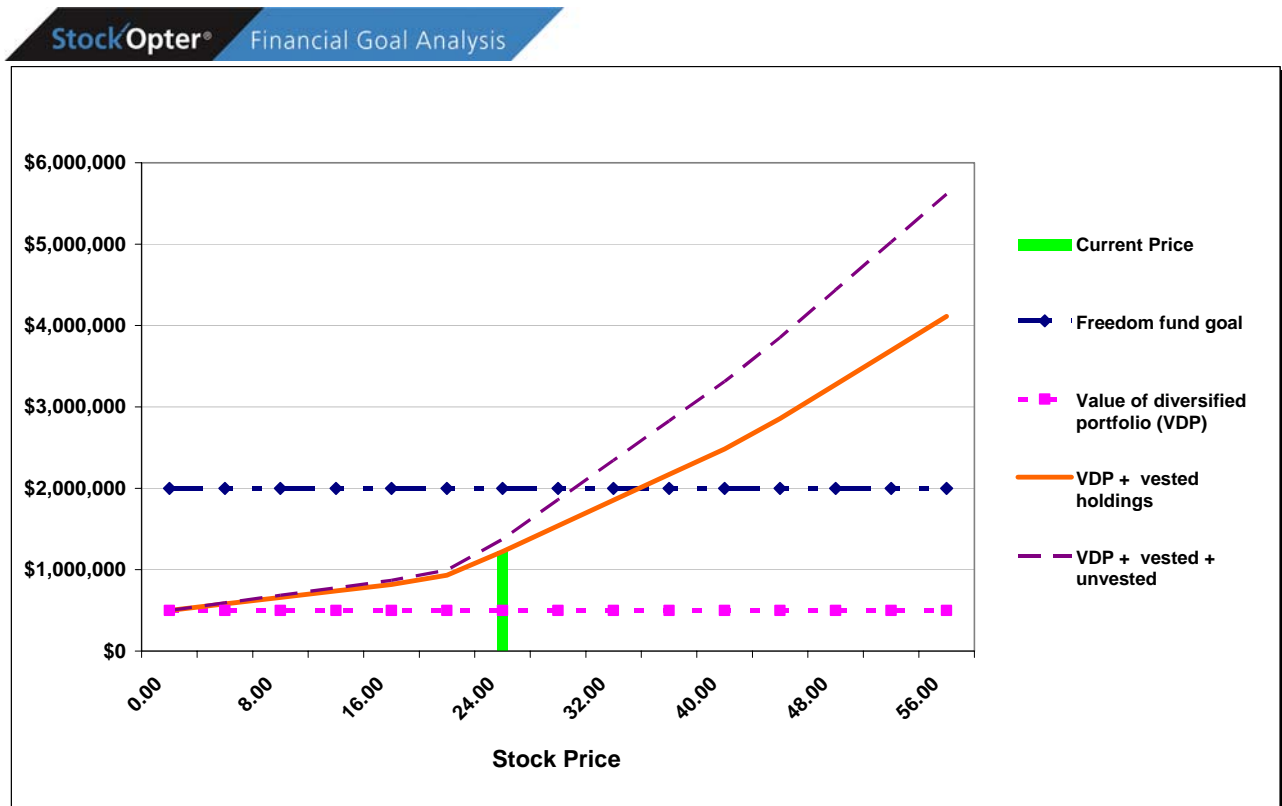
- This table demonstrates the leverage inherent in an option portfolio.
- It highlights the dramatic impact moderate stock price changes can have on the value of the options. Point out the positive and negative incremental changes in ITM value that are caused by a 20% change in stock price.
- This “Leverage” is a two-edged sword because it impacts the option values on both downside and upside stock price movements.
- The theory of the “diminishing return” of leverage is observed by the decreases in incremental changes (of the increases) in option values as the stock price increases and the option gets more ITM. The deeper in-the-money an option is, the less upside leverage or potential it has.
- An option portfolio is inherently more volatile than the underlying stock.

Other Points

- Based on historical performance, it is likely that the stock price could change dramatically over the life of their grants (generally 10 years). To illustrate the effect that this could have on their value, point out the cash out values produced by a 40% increase and a 40% decrease in stock price.

Section III: Personal Risk/Reward

Financial Goal Analysis



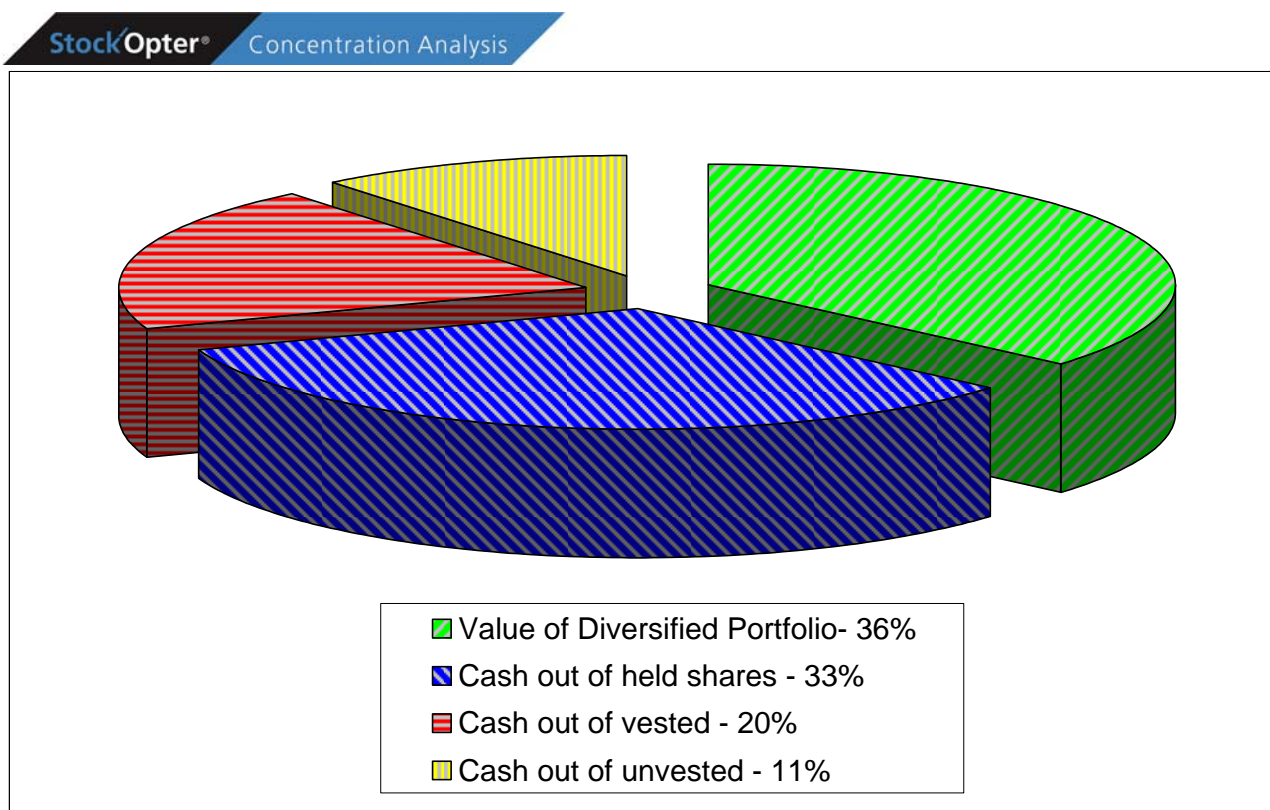
Key Points and Concepts for Financial Goal Chart

- This chart places the client's company stock and options in the context of their overall financial situation.
- The lower horizontal line represents the value of the non-company investments or the "diversified portfolio" and the upper horizontal line represents value of their financial goal (assumptions provided by the client or advisor).
- This chart is a "snap shot" at a point in time, much like a balance sheet. It shows the after-tax value of the client's portfolio (diversified portfolio plus held stock and options) at different stock prices. The solid diagonal line represents vested option value and the dashed line represents unvested option and restricted share value.
- By drawing a vertical line from where the option lines (vested and unvested) cross the financial goal line you can see at what stock price the client's goal is reached.

Other Points

- The range of stock prices shown on the X-axis is probably relevant for only a 2-3 year period and client goals change over time, so this chart, like all of the others, needs to be refreshed periodically.
- This chart is also useful in determining whether a particular goal is either too high or too low. Additionally, if a financial goal assumption is not input this chart will facilitate identification of a reasonable mid-term goal.

Concentrated Position Analysis



Key Points and Concepts for Concentration Analysis Chart

- The purpose of this graph is to help the client understand and evaluate their comfort level in relation to their degree of concentration in their employer's stock and options. How much concentration is too much? That will depend on the client's personal situation and their tolerance for risk.
- Use this chart to get a better understanding of the client's personal situation and their risk tolerance. Be aware that like the Financial Goal Analysis chart above, the cash-out (after-tax) value of "Unvested" includes any restricted shares input.

Value at Risk Analysis (VaR)

Key Points and Concepts for VaR Section

- Value at Risk is an industry accepted statistical method for measuring portfolio risk. It is just another way to assess the risks being taken by the employee in terms of both company stock and options.
- It is calculated using the same stock volatility percentage that is used in the Black-Scholes calculation.
- VaR measures the size of potential loss that could be incurred over a certain time frame at a specified probability. For StockOpter[®] Insight this is 30 days and 5%.
- Note that the 5% refers to the probability of a loss and not the amount of loss.

Other Points

- Don't get into too much detail about VaR because it is both difficult to explain and difficult for the client to understand.
- Point out the size of the loss in relationship to the total value of the company stock and vested options as reported in this section and then move on.
- Three detailed white papers on VaR can be found at:
www.networthstrategies.com/Support/Docs/insight.html

Section IV: Decision Framework

This section of the PECP addresses a variety of issues that should be taken into consideration when determining whether to exercise and sell stock options. These “key decision criteria” include:

- **Future Vesting Events:** The table in this section shows vestings by month through the end of next year and annually thereafter. This is important because only vested options can be exercised and sold.
- **Expiration Dates:** According to a study conducted by Fidelity Investments in 2002 close to 1 million employees let their in-the-money options expire over a 3 year period. Additionally, if the client waits until expiration to exercise and the stock price declines before they take action; substantial wealth accumulation can be lost.
- **Financial Goal Percentage:** This ratio indicates where the client stands in achieving a financial goal. It is calculated by dividing their Total Cash-Out Value plus the Value of their Diversified Portfolio by their Financial Goal. Clients who have already or have nearly achieved their financial goal can afford to take more risk with their options.
- **Stock Price:** Although stock price is the single most important determinant of option value, using it as the only decision factor is not prudent. This is because it ignores the concept of time value which provides insight into remaining theoretical value of the grant.
- **Concentration:** This decision factor is illustrated in the Personal Risk/Reward Section and it is a good indication of risk. Clients who are highly concentrated in company stock and options (50% or more) will be seriously affected by declines in company stock prices.
- **Key Ratios:** The two ratios described below are powerful metrics in determining whether a particular option should be exercised.

Key Ratios:

Insight Ratio® (Time Value / Black-Scholes Value): This ratio is the Time Value divided by Black-Scholes value for each vested grant. It is a comparison of the theoretic potential (Time Value) to the theoretic total value of the option at the current time. This ratio can be used to help the client determine when the value of holding the option is low compared to exercising and selling. The lower the TV/BSV percentage, the more compelling is the argument for taking action. For example, a ratio of 5% means that 95% of the theoretical value has currently been realized.

VaR Ratio (Time Value / Value at Risk): This ratio is the Time Value divided by the Value at Risk for each vested grant. It is a comparison of the theoretic potential (Time Value) to the theoretic risk of the option at the current time. The lower the TV/VaR percentage, the more compelling is the argument for diversifying the option. For example, a ratio of 25% means that the theoretic risk is 4 times as large at the theoretic potential.

StockOpter® Insight & VaR Ratios

Grant ID	Option Type	Expiration Date	Strike Price	ITM Value	Time value	VaR	VaR Ratio	BSV	Insight Ratio®
1ISO98	ISO	03/01/08	\$17.55	161,250	27,897	106,399	26.22%	189,147	14.75%
2NQ00	NQSO	03/01/10	\$41.82	0	116,961	0	1000.00%	116,961	100.00%
3NQ02	NQSO	03/01/12	\$19.65	130,500	210,980	127,678	165.24%	341,480	61.78%
4NQ04	NQSO	03/01/14	\$20.11	116,700	270,325	116,700	231.64%	387,025	69.85%
5SAR06	NQSO	03/01/16	\$23.15	8,500	125,595	8,500	1000.00%	134,095	93.66%
Grand Total				416,950	751,758	359,277		1,168,708	

Key Points/Concepts for Key Ratio Table

- This table provides a framework for making decisions by boiling down the concepts of time value, leverage and risk into two ratios (Insight Ratio & VaR Ratio).
- These ratios help clients make informed decision based on risk/reward trade-offs and not just stock price.
- Focus on the **Insight Ratio®** (TV/BSV) because it is easier for the client to understand. The **VaR Ratio** (TV/VaR) serves to confirm the risk reward perspective of the "Insight Ratio".
- Holding grants with low Insight Ratios® (less than 10%) is risky because there is much more downside risk than upside potential. Exercising grants with high Insight Ratios® (greater than 50%) means foregoing a large amount of theoretical potential.

Other Points

- There is no "right" trigger point for either of these ratios. Factors such as the client's planning horizon and risk profile are key considerations. Additional issues, such as particular cash flow needs (i.e. – funding college or retirement) or company politics surrounding sales of company shares may also influence exercise/sale decisions. The table below has some general rules of thumb for the key ratios.

Planning Horizon / Risk Profile	VaR Ratio	Insight Ratio®
Short / Conservative	Less than 150%	Less than 50%
Medium / Moderate	Less than 100%	Less than 30%
Long / Aggressive	Less than 50%	Less than 10%

- Only vested grants will have values in the Key Ratio table. If the ratios are zero either no options in that grant are vested or a dividend assumption was entered (for info on dividends see white paper at: www.networthstrategies.com/Support/Docs/insight.html).
- Until a grant is In-the-Money & vested it will not have a VaR.

Wrapping Up

Summary Points to Make in Closing

- The Personal Equity Compensation Profile is only a snap shot in time and the client may not immediately understand and accept its concepts right away so setup a schedule to provide them with an updated report on a regular basis.
- Depending on the client's situation (approaching retirement, leaving the company, or grants with low Insight ratios) they will need updates either monthly, quarterly, semi-annually or at the very minimum, annually.
- You may also want to establish an "Option Policy Statement" with the client at this time. This report also created by StockOpter Insight will allow you to document key events and values that will signal the need to take action or do planning.
- As mentioned earlier, this report establishes a framework for discussing the client's equity compensation position so it is important to thoroughly understand the details of their program as well as their goals, plans, and concerns. It is a good idea to get copies of the Plan and Grant documents from the client to verify issues such as black out periods and the status of the grants upon retirement.

Other Points

- Upon completion of a PECP review the client may decide to take action on a particular grant, but could have questions regarding tax and cash flow issues (e.g. AMT effects of exercising and holding an ISO). StockOpter Pro or a consulting engagement can be used to answer these "what-if" questions. Contact us at 541-383-3899 or visit www.networthstrategies.com for more information.