

Dear <<Client Name>>

This is your *StockOpter® Personal Equity Compensation Profile* report. Used in conjunction with a one-on-one review session, it is designed to provide you with unique and insightful perspectives on your equity compensation portfolio. This information will provide you with a foundation for making timely and prudent decisions regarding your employee stock options and company stock holdings.

This report was created on <<Today>> using the financial assumptions that you provided (Appendix A) and your grant data provided by the company (Appendix B). It contains the following sections:

- **Stock Option Valuation:** This section provides a number of perspectives on the value of your current employee stock option (ESO) portfolio including: *In-The-Money Value*, *Cash-Out Value*, *Black-Scholes Value* and your estimated *Forfeit Value®*.
  - At the assumed price of <<Current Price>> for <<Ticker>> stock
  - Your estimated *Forfeit Value®* is currently: <<Forfeit Value>>
- **Investment Risk/Reward:** This section will show you how different stock prices affect the value of your equity compensation portfolio. It will also illustrate the upside and downside leverage in your holdings.
- **Personal Risk/Reward:** This section provides an evaluation of your equity compensation holdings in relationship to your financial goals. It also provides an analysis of the risk inherent in current position.
- **Decision Framework:** This section will help you establish a framework for making informed decisions about when option exercises should be considered.

After our review session, please let me know if you would like to discuss your personal tax situation and identify the most appropriate strategy for you to pursue.

Sincerely,

<<Advisor Name>>

Tel: <<Advisor Phone>>

Email: <<Advisor Email>>

## I. Stock Option Value for <<Client Name>>

This section summarizes your current option holdings in <<Ticker>> and is divided into 4 sections, each of which looks at the current value of your stock option portfolio in a slightly different way. The four valuation methods are: 1) In-the-money value, 2) Cash-out value, 3) Black-Scholes value and its related time value, and 4) Forfeit value.

### In-The-Money Value of All Options

The table below shows the gross value (before tax) you would realize from exercising and selling your options, or the difference between the current "fair market value" (FMV) per share (the current stock price) and your exercise price times the number of options. This amount is called the "in-the-money" (ITM) value or "intrinsic" value. The table shows this value for both vested and unvested options. You cannot realize the value from your unvested options until they vest.

#### StockOpter® In-the-Money Values

<<ITM Value>>

### Cash-Out Value of Vested Options

The table below estimates what you can realize from your vested options at the given FMV. The "Potential Tax" column is computed by applying your estimated marginal income tax rate of <<Income Tax Rate>> shown in Appendix A. Your "cash-out" value for each vested grant is determined by subtracting your potential tax burden from your ITM value. The cash-out value for any vested Incentive Stock Options (ISOs) is computed as if they are sold at the time of exercise.

#### StockOpter® Cash-Out Values

<<Cashout Value>>

**Black-Scholes / Time Value of All Options**

In this section of the report, we explore two unique values of your Employee Stock Options: “Black-Scholes Value” and “Time Value”. These values can be used to help you make better decisions about when to consider exercising any given stock option. The Black-Scholes value represents the total value of a stock option and the Time Value represents the theoretical potential using the following basic formula:

$$\text{Black-Scholes Value} = \text{In-The-Money Value} + \text{Time Value}$$

There are four key assumptions that must be made in order to calculate the Time Value of your options:

- **The expiration date:** The greater the time until expiration, the greater the Time Value of the option.
- **The strike price:** Time Value decreases as your option’s in-the-money value increases.
- **The volatility of the stock:** An option whose price is highly volatile (fluctuates substantially) will have a greater Time Value than an option with low volatility because this reflects an increased potential upside.
- **The risk-free rate of return:** An option’s value is enhanced by the ability to use the capital for some other investment, so the higher the risk-free rate of return, the higher the Time Value of the option.

Time Value is an important metric in determining when to exercise options because, as the Time Value decreases, so does the value of holding the option. In-the-money options with a low TV may be good candidates for diversification. The table below calculates your Black-Scholes and Time Values.

**Volatility:** <<Volatility>>      **Risk Free Rate:** <<Risk free rate>>      **BSV Date:** <<Now>>

**StockOpter**<sup>®</sup> Time & Black-Scholes Values  
 <<BSV/Time Value>>  
**Forfeit Value**<sup>®</sup>

The forfeiture value of your stock options can be viewed as the opportunity cost associated with leaving your company. This Forfeit Value<sup>®</sup> includes not only the ITM value of your unvested options, but also their Time Value. As a result, your Forfeit Value is the sum of the remaining Time Value of your vested options and the full Black-Scholes Value (i.e., ITMV + TV) of your unvested options. Your Total Forfeit Value<sup>®</sup> also includes the current value of any unvested restricted stock awards.

**Forfeit Value<sup>®</sup> Calculations:**

- Vested and Unvested Stock Options: <<Forfeit Value>>
  - Unvested Restricted Stock Awards <<Gross RSP Value>>
- Total Forfeit Value<sup>®</sup> of Your Equity Compensation:** <<Total Forfeit Value>>

## II. Investment Risk/Reward for <<Client Name>>

An important dynamic for you to understand about your equity compensation is the leveraged nature of an option. This leverage will make the values reviewed in Section I of this report, inherently more volatile than the value of your employer's stock.

The following table shows your stock option ITM value (vested and unvested), the value of your held and restricted shares and the total value of all of these for hypothetical stock prices that are illustrated in 20% increments above and below the current fair market value (FMV). The row without an increment shows the current FMV. The Incremental Change is the percent that each value calculation is above or below the prior level. This quantifies the risk/reward leverage inherent in your company stock and option portfolio

<<Leverage>>

\* By convention, the leverage for stock options whose price is at or below the strike price (at the money or underwater) is assumed to be 100%.

Depending on the details of your options, a 20% change in your company's stock price can result in a significantly higher percentage gain or loss in your option portfolio. This is due to the leverage in the options. Also worth noting is the fact that, generally speaking, as the FMV of the stock rises further above the strike prices of your various option holdings, the relative percentage change of the option portfolio grows increasingly similar to the percentage change in the stock value. This trend represents the declining leverage of the option portfolio as the cost of exercising becomes a smaller percentage of the value of the stock.

### III. Personal Risk/Reward for <<Client Name>>

#### Financial Goal Analysis

This section is designed to provide you with a personal context about the role your options play in achieving your financial goals. Conceptually, your financial goal is achieved when you have secured, in a low risk investment portfolio, the amount of money required to meet the needs of you and your family. If this "*Freedom Fund Goal*" is already secured, then you can afford to take more risk with your options (like holding them until expiration).

Based on input you have provided, the following chart shows the current status of your *Freedom Fund Goal* in relation to your company stock and option holdings. The two horizontal lines are respectively your financial goal and the *Value of your Diversified Portfolio (VDP)*. For this analysis, your *VDP* value does not change as a function of your company stock price because they are unrelated. This chart is a snap-shot of your current status, as indicated by the vertical green line on the chart. It also shows alternative stock prices, but it is not intended to predict the appreciation or depreciation in the value of your company's stock. It is solely designed to provide you with perspectives related to various stock prices. The line titled "*VDP + Vested Holdings*" adds the "cash out" value of your held company shares and vested options to the *Value of your Diversified Portfolio* at these alternative hypothetical prices. The line titled "*VDP + Vested + Unvested Holdings*" adds the theoretical "cash out" value of unvested options and restricted stock to the former giving a perspective on the total estimated after-tax value that would be realized at a given price for your company's stock.

### Concentrated Position Analysis

Even if your Financial Goal has been reached, you may still be at risk if your retirement assets are highly concentrated in company stock and options. The chart below shows the asset allocation of the *Value of your Diversified Portfolio*, the cash-out values of your vested and unvested options and restricted stock awards (RSAs), and the cash-out value of your <<Ticker>> stock holdings. The relationship between your cash-out values and the *Value of your Diversified Portfolio* represents the degree to which your wealth is concentrated in your company stock. If you are in a highly concentrated position, declines in your company's stock price can have a devastating impact on your total wealth.

## IV. Decision Framework for <<Client Name>>

Your equity compensation portfolio has a number of moving parts that can change rapidly and dramatically affect the value of your holdings. In this section, a few of the most common issues that lead to action are discussed. These “key decision criteria” include events such as; future vesting events, expiration, and values such as; your company’s stock price, your Financial Goal status, and your Insight or VaR Ratios. After reviewing these events and values for your equity compensation portfolio, you may consider taking action or just monitor these events and values until the event draws closer or the value is more appropriate.

### Future Vesting Events and Option Expiration

For planning purposes, it is useful to know when your options or restricted stock will vest giving you the opportunity to exercise and/or sell. The table below shows vesting by month through the end of next year and annually thereafter.

#### StockOpter® Option Vestings

<<UpcomingVest>>

The expiration dates of your stock options are one of the most critical events to monitor. As expiration approaches, the Time Value of your option declines and your planning alternatives diminish substantially. If you wait until the last minute and your stock declines before you take action, you may lose the opportunity for substantial wealth accumulation. It may be wise to consider a phased diversification strategy several years prior to expiration. The expiration dates for your grants are listed in the first section of this report and in Appendix B.

### Financial Goal Percentage

Your “Financial Goal Percentage” may be an important value to monitor because it indicates where you currently stand in achieving your overall financial goal. This percentage is calculated by dividing your *Total Cash-Out Value* (vested options & owned shares) plus the *Value of your Diversified Portfolio* by your *Financial Goal*.

The value of your *Total Cash-Out Value* plus the *Value of your Diversified Portfolio* is <<TCOVFFS>> and the ratio of this amount to your *Financial Goal* of <<Freedom Fund Goal>> is: <<Freedom Fund Percentage>>

### Stock Price

The price of your stock is the single most important determinant of the value of your employee stock options. However, using stock price as sole determinant of when to take action ignores the concept of Time Value. While stock price determines the in-the-money value, it is the Time Value that provides you with unique insight into the theoretical potential each option grant. Generally, when you exercise an employee stock option before expiration, you will be foregoing the remaining Time Value.

### Key Ratios

This final section is designed to help you create a decision-making framework that is unique, relevant and easy to understand. With this in mind, the table below contains the Insight Ratios® for each of your grants.

- Insight Ratio<sup>®</sup>:** This ratio is the Time Value divided by the Black-Scholes Value for each vested option. Consequently your Insight ratios represent the remaining theoretical potential in each grant. As your options approach expiration or increase in in-the-money value the Time Value of your option will decrease thereby lowering the Insight Ratio<sup>®</sup>. An option with a low Insight Ratio<sup>®</sup> means that most of its value is in-the-money value. A ratio of 5% says that 95% of the total theoretical value has currently been realized and that the ITM value is at risk by continuing to hold the option.

**Current Stock Price:** <<Current Price>>

**Volatility:** <<Volatility>>

**Risk Free Rate:** <<Risk Free rate>>

**BSV Date:** <<Now>>

<<KeyRatios2>>

If you are like many option holders, you are asking yourself, "At what ratio level should I exercise my options?" Unfortunately, there is no single rule to follow. You need to take into consideration your planning horizon and risk profile and upcoming cash flow needs are a good indicator of these. The more time you have before you need to fund major expenses such as retirement or college, the longer you can wait prior to taking action on your stock options. The following table is only a guide for establishing your decision framework.

Planning Horizon / Risk Profile	Insight Ratio <sup>®</sup>
Short / Conservative	Less than 50%
Medium / Moderate	Less than 30%
Long / Aggressive	Less than 10%

## Additional Resources for <<Client Name>>

The *StockOpter® Personal Equity Compensation Profile* report and the accompanying review session were designed to give you a better understanding of the concepts, value and dynamics of your equity compensation portfolio, but they are only part of the process required to help you get the most out of your grants. You will need to make a series of decisions over time regarding exercising your vested options and diversifying your held shares and you will also need to consider taxes, cash-flow and reinvestment. Consequently, it is prudent to get periodic updates of your *StockOpter® Profile* from a financial advisor who specializes in equity compensation planning. Here are a few things you will want to discuss with equity compensation planning specialist:

- You are planning to exercise your options or selling some company shares in the next year to fund a major purchase.
- You are considering retiring in 5 years and your equity compensation will be a major source of funding.
- You have one or more Insight Ratios® that is less than 15%.
- You are considering exercising and holding an ISO grant for the 1 year period to get capital gain treatment.
- You would like assistance monitoring your “key decision criteria” such as upcoming vesting events, expiration dates, goal achievement percentage, stock price, or your Insight Ratios®.
- You are concentrated in company stock and options (more than 40%).
- You want to discuss your equity compensation situation on a regular basis (i.e. quarterly).
- Your company has made some changes to its equity compensation plan and you would like an independent perspective.

## Disclosures

Your *StockOpter® Personal Equity Compensation Profile* is based on the data and assumptions shown in Appendices A & B. This report is for illustration purposes only and you should not base your decisions solely on it. Nothing contained in your *StockOpter® Profile* should be construed as investment recommendations or advice. The financial calculations provided herein are to help you understand the value, risk, and potential of your equity compensation portfolio. The values and risks illustrated in your *StockOpter® Profile* in no way represent a guarantee that the portfolio will produce a particular result. Additionally, past performance of your company stock is no guarantee of future results.

The Black-Scholes Values (BSV) and the Time Values were calculated using an estimated volatility of <<Volatility>> for <<Ticker>> to illustrate its potential value. Any estimate of the future volatility of a stock price is uncertain. Therefore, there is no guarantee that the volatility used accurately illustrates the Time Value of your employee stock options. In addition, there are some inherent limitations to the Black-Scholes methodology for valuing employee stock options as opposed to market traded option. Because of these limitations, the Black Scholes may overstate the actual value of the employee stock option. To adjust for this over-valuation, it may be appropriate to consider discounting the BSV to reflect the restrictions inherent to employee stock options.

## Appendix A: Summary of Assumptions for <<Client Name>>

### *Issuing Corporation Information and Black-Scholes Model Assumptions:*

Ticker symbol of corporate stock: \_\_\_\_\_ <<Ticker>>  
 Current share price of corporate stock: \_\_\_\_\_ <<Current Price>>  
 Dividend used in BSV calculation: \_\_\_\_\_ <<Dividend>>  
 Risk-free rate of return: \_\_\_\_\_ <<Risk Free rate>>  
 Est. Volatility of corporate stock: \_\_\_\_\_ <<Volatility>>  
 BSV date use in calculations: \_\_\_\_\_ <<Now>>

### *Tax Rate Assumptions:*

Est. Fed/State income tax: \_\_\_\_\_ <<Income Tax Rate>>  
 Est. Fed/State cap gains rate: \_\_\_\_\_ <<Cap Gains Rate>>

### *Portfolio Status Report Assumptions:*

Financial Goal: \_\_\_\_\_ <<Freedom Fund Goal>>  
 Value of Diversified Portfolio: \_\_\_\_\_ <<Diversified Value>>  
 Number of owned shares: \_\_\_\_\_ <<Owned Shares>>  
 Cost basis of owned shares: \_\_\_\_\_ <<Cost basis Owned>>  
 Number of Restricted Shares: \_\_\_\_\_ <<Restricted Shares>>  
 Cumulative Purchase Price of Restricted Shares: \_\_\_\_\_ <<Cum Purchase Price>>

## Appendix B: Grant Summary for <<Client Name>>

<<Grant List>>