



High Value Stock Option Planning - The Value Explained

High Value Stock Option Planning is designed to meet the need for a higher level of service demanded by high net worth option holders. It is an interactive, iterative process that is designed to help you to make decisions that are consistent with your life goals. This process demands the intense involvement of both client and professional.

As a business executive, you are practiced at planning and execution. You are also skilled at decision-making and delegation. If your employee stock options represent a significant portion of your wealth, then you should view yourself as the CEO of your personal stock option enterprise. As with your day-to-day business activities, you will need both a strategic plan and operational capability to assure the success of this enterprise. You will also want to employ a personal CFO (financial advisor) to provide expertise, suggest alternative strategies, run analysis, and implement your decisions.

If you were starting a new business, you would spend several months developing and refining your business plan. You would likely start by defining your vision and goals. Then, you would develop a strategy for achieving your goals and develop financial projections to quantify the results. As the plan matures, you would probably tweak and tune strategies, assumptions and projections until finally you had a plan you could confidently implement. Designing a plan for your employee stock options may not be quite as complex as developing a business plan, but it does require the same type of involvement, analysis and decision making. The pay off for this personal effort is the confidence and peace of mind you will achieve from knowing you have developed a winning plan for the financial future of you and your family.

Like any business endeavor, successful capitalization of your employee stock options has strategic and tactical elements. You, as CEO, are the final decision maker as only you have responsibility for all facets of the strategy. Your CFO provides strategic support by defining alternative strategies and providing relevant analysis of the trade-offs. Once the strategy has been established, tactical decisions and implementation may be delegated with the CEO stepping back to the role of review and approval. As conditions change, the CEO and CFO must be alert to the need to redefine the strategy. This process is the essence of what we call High Value Stock Option planning (HVSOP).

Strategy development

In order to develop a successful strategy, you need to start with a clear goal or vision. The central question is how much wealth are you trying to create, and for what purpose/s? As an example, assume that financial independence was a key goal for your and your family and

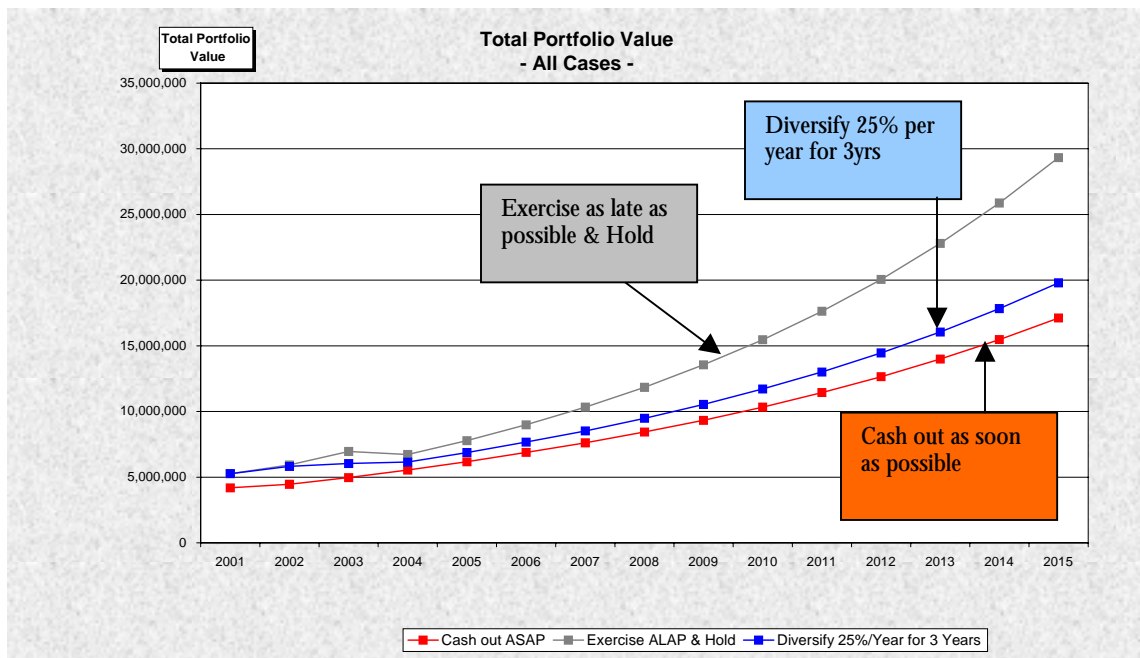
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Getting the Most from Your Employee Stock Options

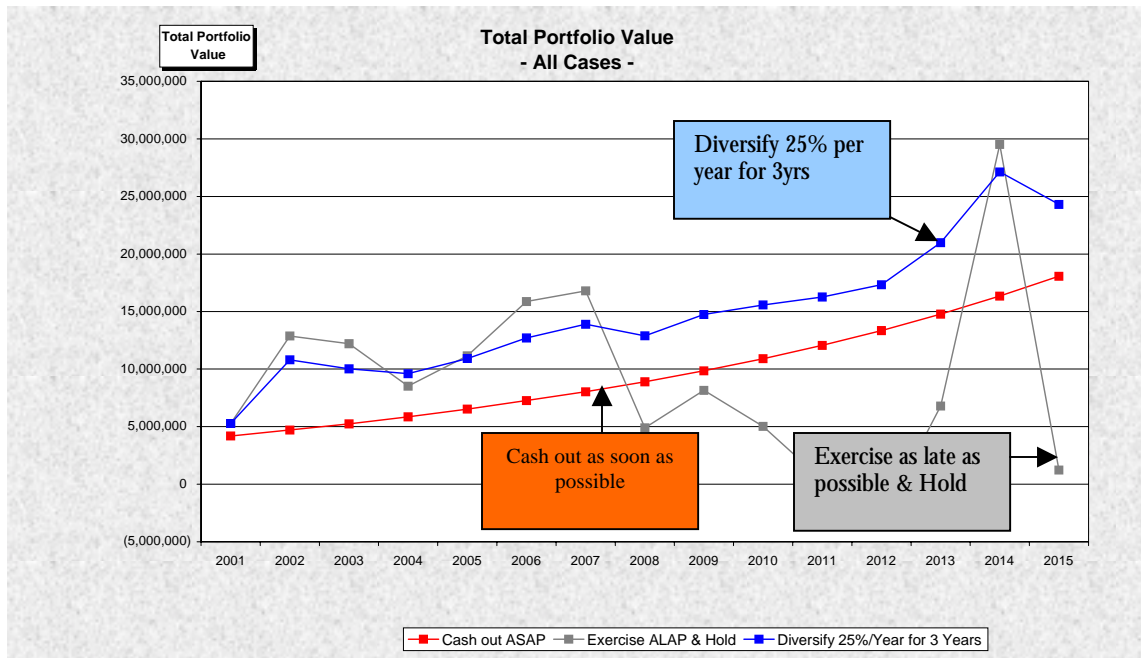
that you decided that you need \$5 Million to fund it. In this case, securing the last \$2 Million required to fund your goal would probably be more important to you than accumulating \$2 Million in excess of your goal. As illustrated in appendix A, holding a significant portion of ones wealth in options or shares in a single company is a risky proposition. Imagine how you would feel if you had your objective within your grasp, only to see it slip away due to business downturns or market declines outside of your control. Over the past couple of years this occurred all too frequently. Therefore, your strategy should establish a plan for exercising, selling, and/or hedging the options over time in order to secure your goal.

The challenge of stock option planning is that there are an unlimited number of possible strategies, and the best strategy is a function of personal goals, assumptions, risk tolerance, plan requirements, and SEC regulations. Your goals will need to be achieved within the context of such things as insider trading rules, company imposed equity holding requirements, and your desire to hold shares in your company's stock. The following chart is a sample illustration for three different strategies. For each strategy, it shows the value of the unexercised and exercised options plus reinvested cash proceeds from the sale of shares (Total Portfolio Value or TPV). Remember, these are three of an unlimited number of strategies.



In the chart above we assumed that the option stock would appreciate by 12% per year. But, note the dramatic change in results for these same three strategies if we assume the option stock performs over the next 15 years as Apple stock has performed (year to year change in price) over the past 15 years.

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As this example graphically illustrates, the uncertainty of future returns make a hold-until-expiration approach very risky. Further, this demonstrates the importance of planning around your goals and expectations and, through an interactive, iterative process establishing a plan with an acceptable balance between risk and reward.

Like developing a business plan, stock option planning is a dynamic process of:

1. Defining assumptions
2. Postulating strategies
3. Evaluating the projected financial results
4. Refining assumptions and strategies

You can, and probably should, employ others to run the numbers, suggest alternative strategies, and provide expert opinion. But, only you can decide on the final set of assumptions and strategies. This is true for two reasons:

1. **Most of the assumptions are a function of your personal views, desires and goals.** Changes in any of these assumptions can have a profound impact on the strategies. Such changes give rise to a requirement for frequent review and update of the plan. Following is a partial list of assumptions that illustrates this point.
 - Projected price of option stock
 - Projected return on reinvested cash proceeds from option liquidation
 - Projected growth of non-option income (earnings, rents, dividends, etc.)
 - Retirement date
 - Unusual income or taxation events
 - Desired lifestyle funding or other cash requirements
 - Likelihood of voluntary or involuntary separation

Getting the Most from Your Employee Stock Options

Most of us do not walk around with these assumptions in our heads. As with developing a business plan, the assumptions evolve through an iterative process of thought and analysis.

- 2. You and your family are taking the risks, and will be the ones to reap the rewards.** Only through interactive consideration of alternative strategies based on your assumptions can you confidently decide on the strategy that will best serve your goals. Again, you can delegate the detailed task of developing the alternatives to be considered. But as CEO of your personal wealth enterprise, you cannot delegate the final decision.

Tactical decision making and implementation

Once your strategy is established, tactical decisions need to be made regarding actions to be taken contemporarily. These actions should achieve the following partial list of potential objectives:

1. Generate the cash flow for consumption or diversification called for in your strategy
2. Minimize the current and long term tax burden
3. Capitalize on opportunities permitted under your company's stock plan such a swap and reload provisions
4. Comply with SEC regulations and company policy regarding insider trading
5. Consider the opportunities for insiders to diversify afforded by SEC rule 10b5-1
6. Comply with company policy regarding share holding requirements
7. Reduce the risk of concentrated stock positions

You will probably lean heavily on your CFO in formulating and implementing these tactical decisions as he or she has the expertise, experience, and analytical tools to produce optimum results. As illustrated by the following examples, the opportunities for short-term savings and long-term wealth building are substantial. As you can see in the table below, by following a tax efficient plan, a significant cash flow savings is achieved in the initial years. This in turn generates a significant increase in Total Portfolio Value over time.

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Case Sheet:			Diversify 20%/YR @ 10% - Optimized	Case Sheet:			Diversify 20%/YR @ 10% - Not Optimized
Year	After Tax Cash Flow	Total Portfolio Value		Year	After Tax Cash Flow	Total Portfolio Value	
2001	2,256,096	11,280,161		2001	1,805,997	9,032,173	
2002	2,180,357	11,428,497		2002	1,706,658	9,052,559	
2003	2,603,307	12,414,925		2003	1,684,325	9,202,538	
2004	1,624,989	11,900,969		2004	2,203,628	10,072,695	
2005	295,060	13,005,331		2005	251,061	11,008,774	
2006	325,437	14,215,731		2006	275,355	12,033,271	
2007	352,847	15,537,179		2007	299,762	13,152,972	
2008	385,476	16,981,170		2008	326,376	14,375,468	
2009	418,020	18,557,544		2009	355,214	15,711,330	
2010	456,457	20,280,635		2010	387,034	17,170,764	
2011	470,914	22,137,441		2011	400,138	18,744,308	
2012	510,521	24,161,839		2012	433,710	20,459,875	
2013	553,599	26,369,091		2013	470,224	22,330,397	
2014	600,450	28,776,031		2014	509,936	24,370,140	
2015	651,406	31,400,543		2015	553,127	26,594,257	

Summary

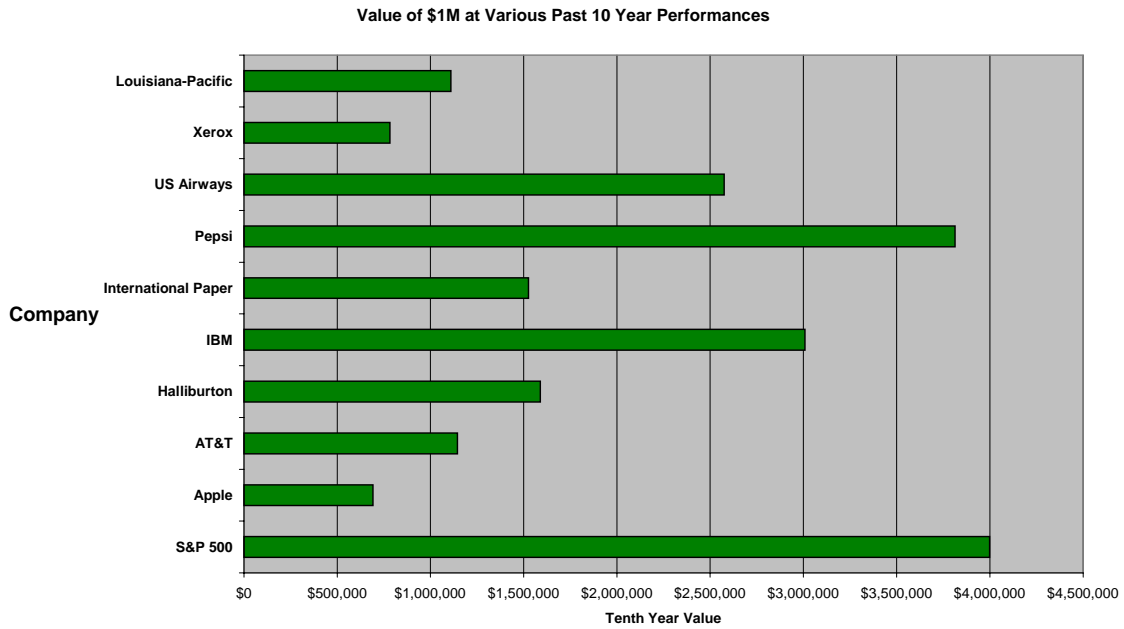
To get the most from your options you need to employ the same executive skills that earned you this high leverage component of your compensation package. Specifically,

- Recruitment of an advisor who has the expertise, experience and tools to support your decision process
- Periodic involvement in establishing assumptions and reviewing alternative strategies
- Decision making based on the analysis but in the context of your goals and beliefs and ultimately based upon your creativity in decision making.

As we all learned in grade school, “you will get out of it what you put into it”. Best wishes for your success in this important venture.

Getting the Most from Your Employee Stock Options

Appendix A



The chart above shows the returns of several companies that have under-performed the S&P 500 over the past ten years. It demonstrates the fundamental value of diversifying. Certainly, another consideration is the opportunity cost of early liquidation. This may be another important component in your considerations.

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