



Stock Options Presentation

April 25, 2002

IEEE Engineering Management Society

I enjoyed very much speaking to the group last night. I hope you'll have me back at some time in the future as it sounded like there are many investing and financial planning topics that are of interest to the group.

Please sign up for my monthly *MoneyMinute* email. I've had many compliments on the content. You can signup on my website or just send me an email request. Your email will never be given out or used for any other purpose.

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For *MoneyMinute* details and a sample of previous *MoneyMinute* emails:

<http://www.feesonly.com/moneyminute.html>.

Regards,

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Stock Options



Employee Stock Options

IEEE Engineering Management Society

Investor's Capital
Management
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What are *YOUR* Goals?

- Stock Options can help you attain your goals. Write these down:
 - Goals
 - Dreams
 - Pipe Dreams

Option Planning

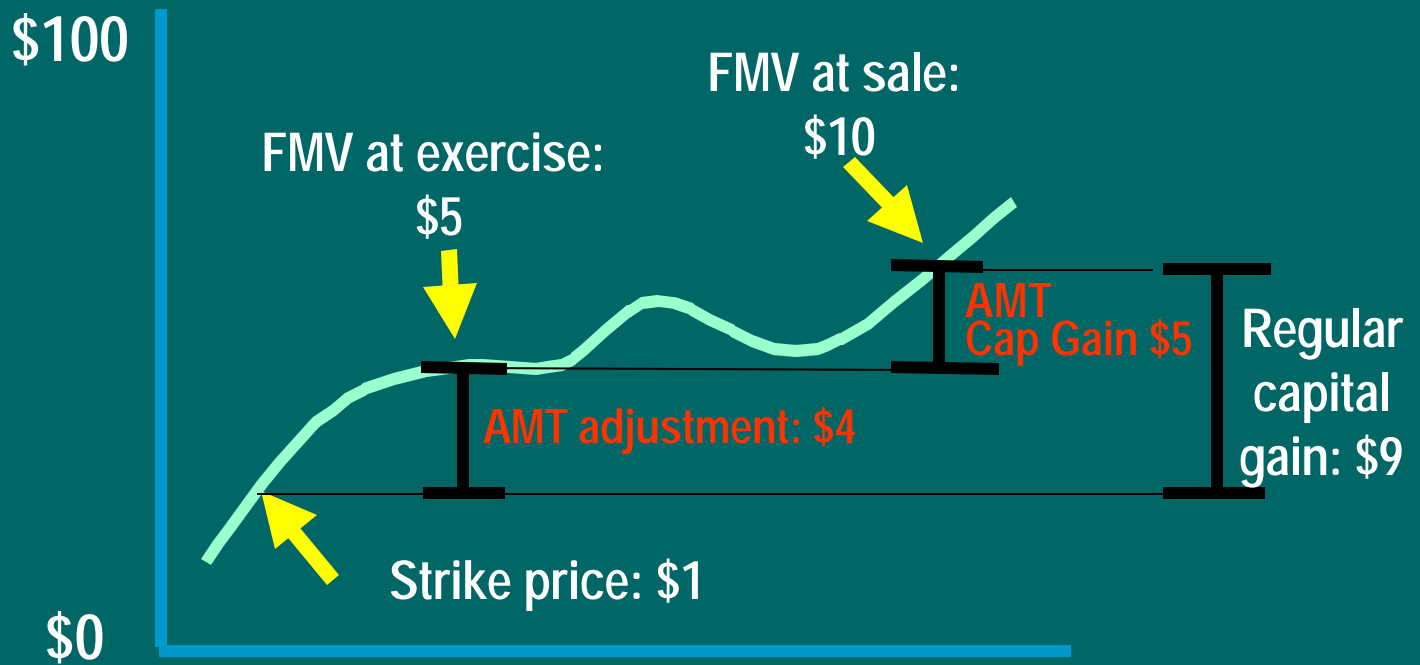
- It can be complicated
- Typical Mistakes
- Strategies may require analysis
- Diversification

Option Terminology & Fundamentals

- Grant (# shares, expiration, etc)
- Strike/Exercise Price
- Vesting Schedule
- Exercising
 - *Paying for the Option Exercise*
- Selling
- The bargain element/free money

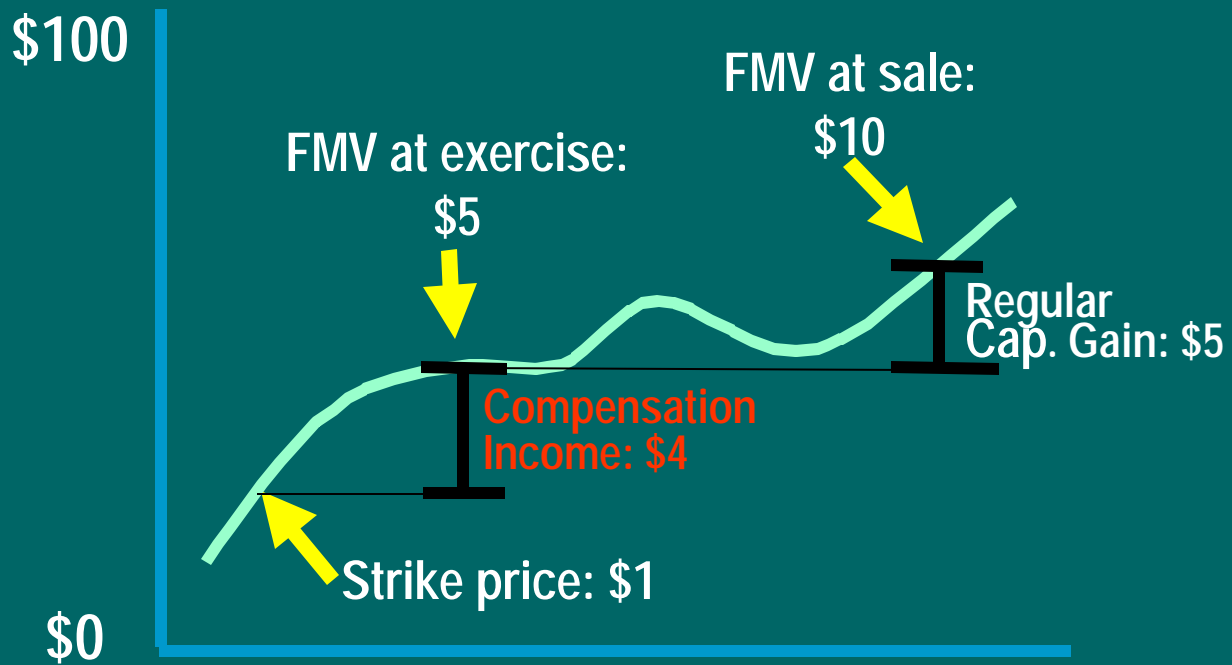
ISOs

Tax Consequences



NQSOs

Tax Consequences



Option Mistakes

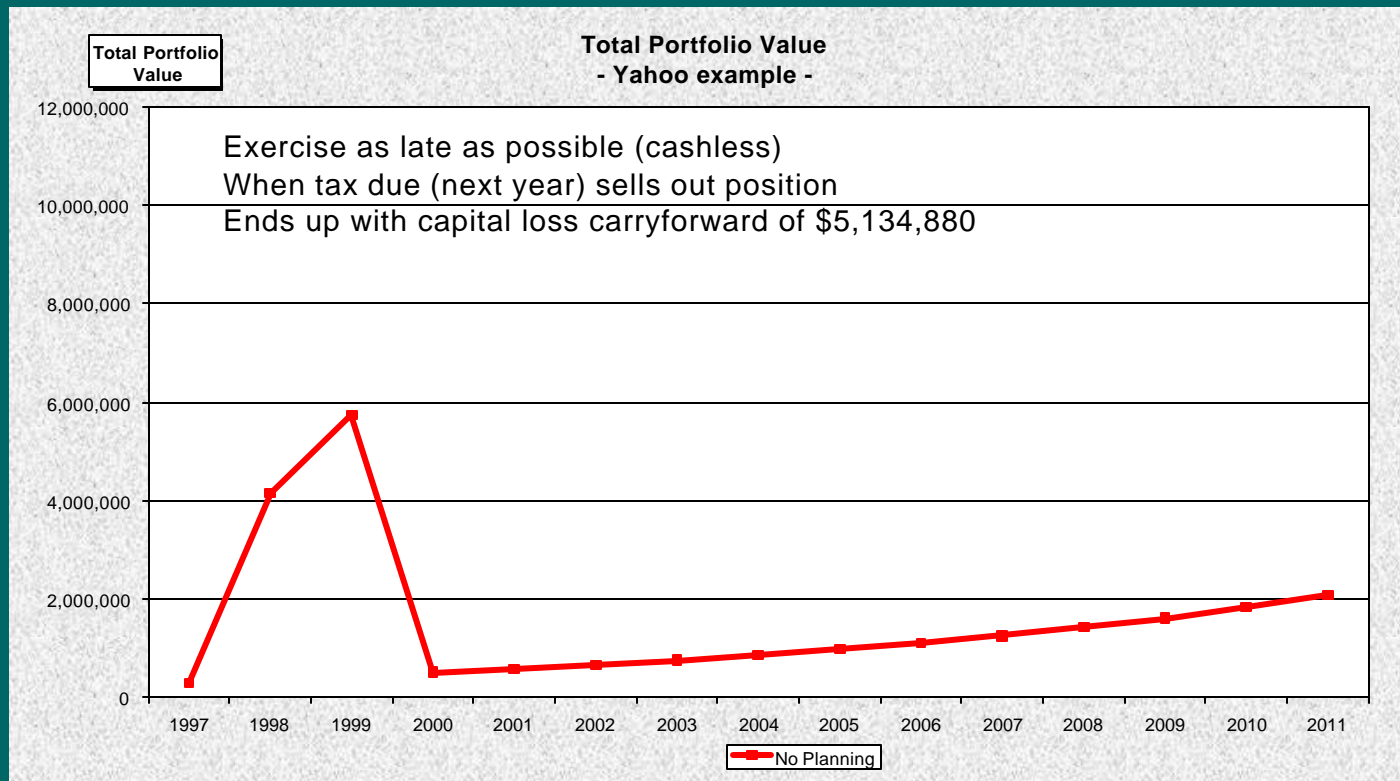
- Not having a goal in mind
- Expecting an unattainable stock price
- Paying too much attention to taxes
- Holding for Long-term gains
 - For ISO, hold for long-term only when analysis shows exceptional profit potential

Option Mistakes

- Too much Alternative Minimum Tax (AMT)
 - Analyze, then plan your selling strategy.
- You exercise, then the stock tanks
 - Exercise early in the year, be ready to disqualify ISOs
- Too much margin usage
 - Use margin for short-term purposes only.

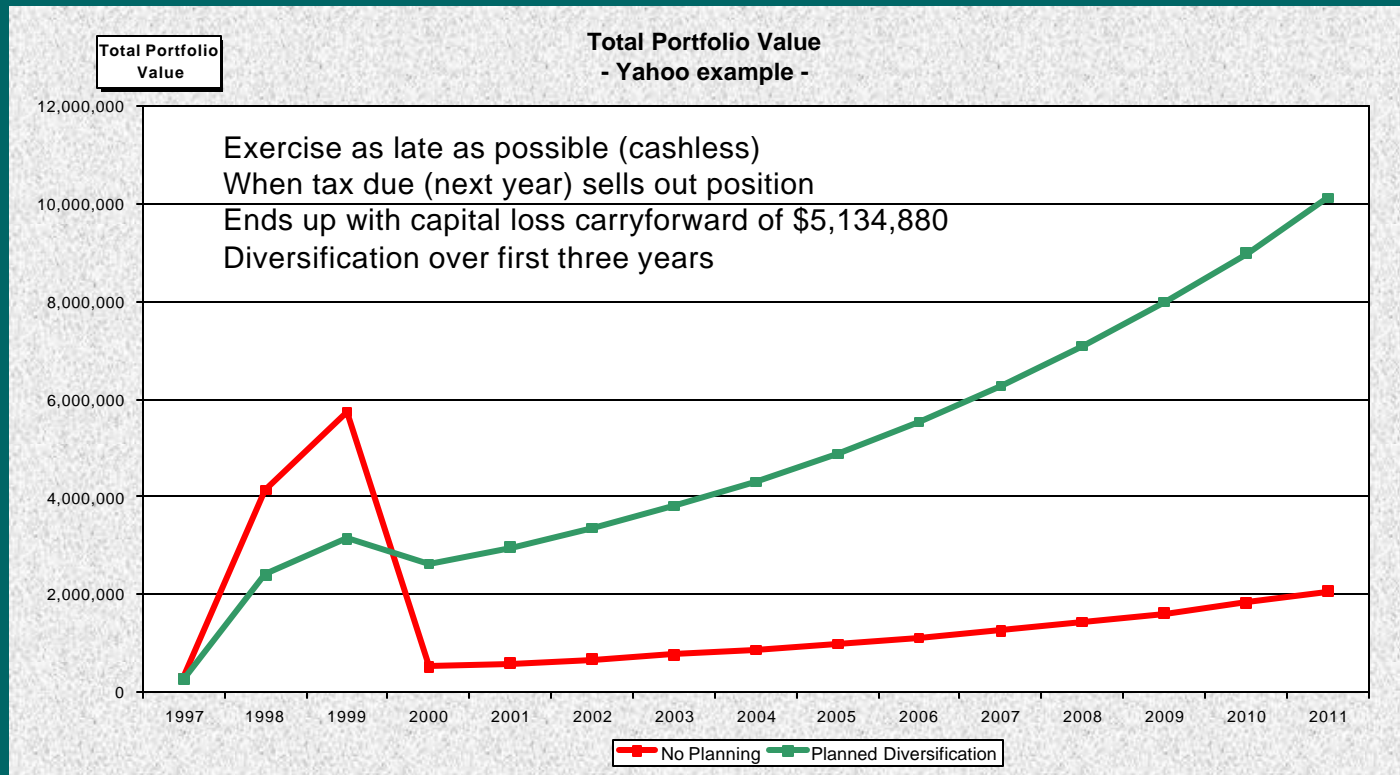
Yahoo

not diversified



Yahoo

diversified, **not diversified**



Diversification Strategies

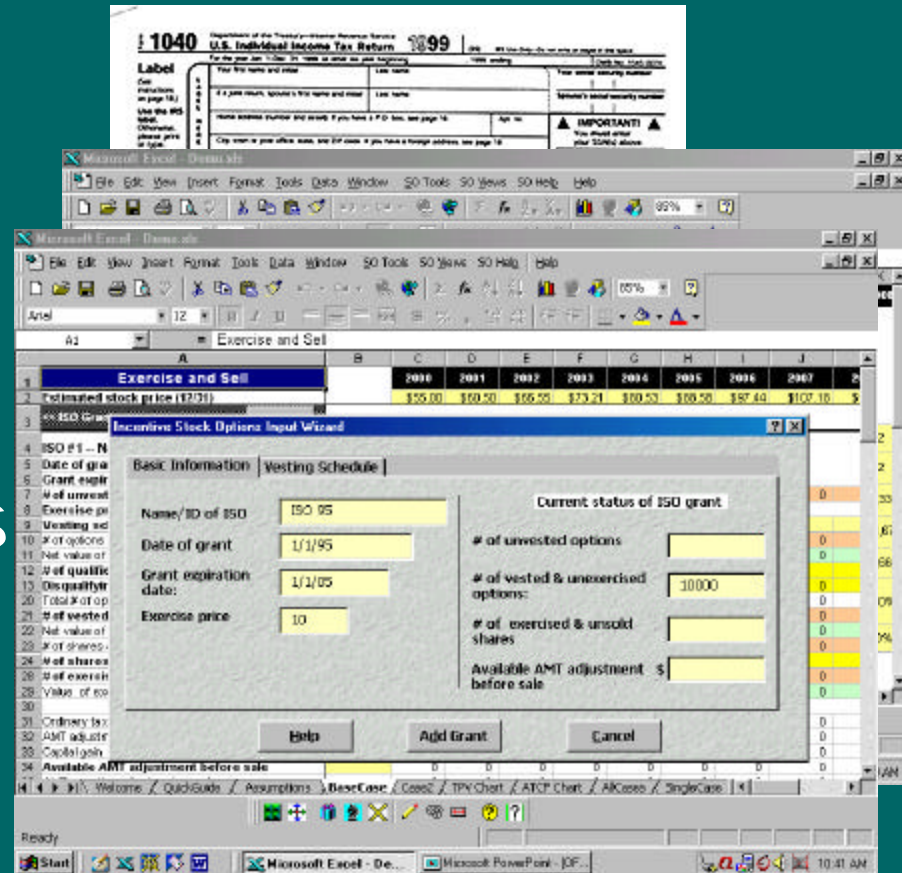
- Consider various selling strategies to:
 - *Reduce or avoid AMT*
 - *Maximize long-term after-tax cash flows*
 - *Maximize annual after-tax cash flows*

Examples of Diversification Strategies

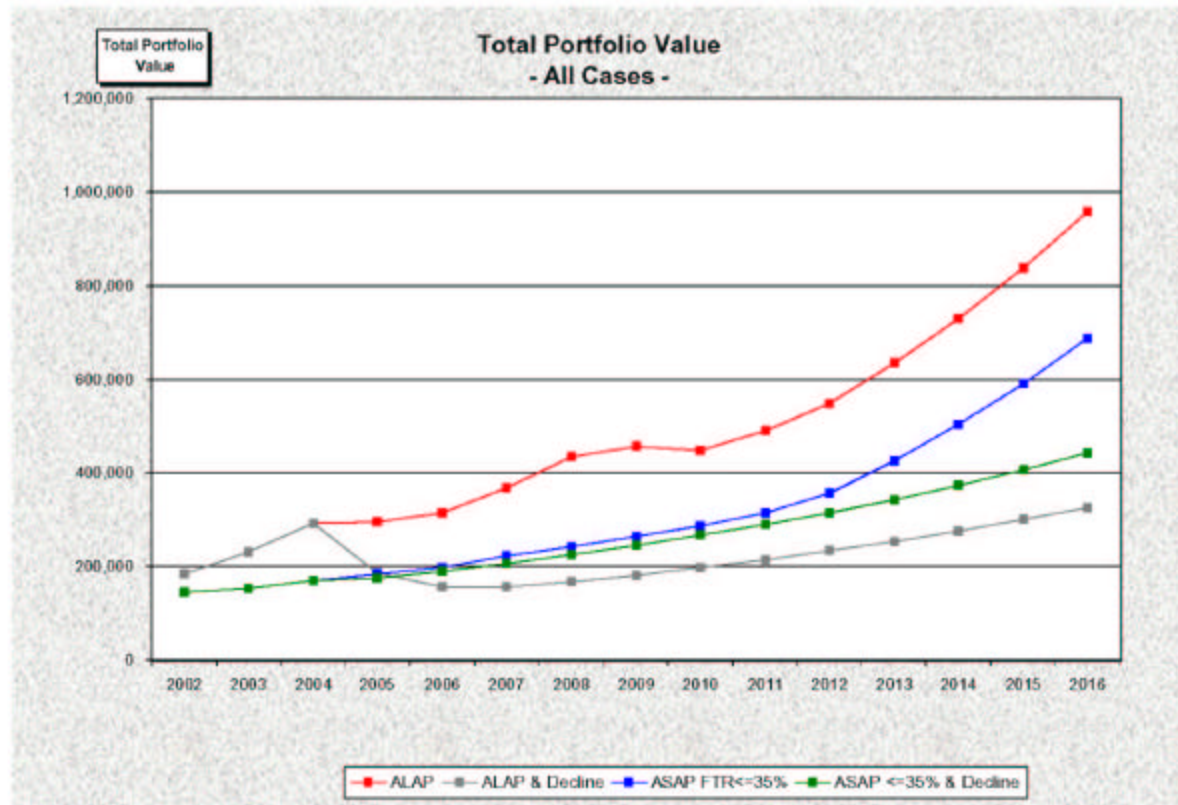
- Scheduled liquidation, e.g.,:
 - *Exercise & sell 1/8 of vested stock options each quarter*
 - *What does this accomplish?*
- Sell enough to secure your goal and let the rest ride.

Option Modeling

- Data gathering
- Basic assumptions
- Option data
- Your Goals



Option Modeling Sample



Your Financial Goals

- Stock Options can help you attain your: Goals, Dreams, Pipe Dreams
 - What stock price is required to make the goal?
 - Is it attainable?
 - What *strategy* should you use to maximize success?

Summary

Option Planning Benefits

- Avoids Big Mistakes
- Analyzes Various Strategies
- Moves Stock Option Management from Guesswork to Informed Decision Making

Resources

- Books
 - *Consider Your Options* (Thomas)
 - *Stock Options* (Pastore)
- Web sites
 - StockOpter.com (FAQs)
 - NCEO.org
 - fpanet.org
 - MyStockOptions.com
 - www.fairmark.com
 - aaii.com

Disclaimer

Strategies for managing stock options and wealth are extremely complicated and unique to each individual's financial and tax situation. The materials presented in this workshop are intended as a general guidance to a wide variety of people without addressing unique circumstances. Legal accounting, financial, and other competent professionals should be contacted to address your unique situation.

If nothing else,
remember this:

"Holding a single
stock *can* make you
rich... *Diversification*
is what keeps you
rich."

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