

**Stock Options Analysis**

**for  
Sample Client Name**

**10/20/2001**

**Prepared by  
Advisor Name  
Advisor Company**

## Inputs

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### Client Data

Client Name:	Sample Client Name
Account Number:	not required
Address:	Address 1 Address 2
City:	City
State:	KS
Zip Code:	36589-0000
Phone:	555-555-5099
Fax:	555-555-5089
E-mail:	Client@email.com

### Goals

Immediate Needs:	Cash Now
Cash Needed Now:	\$30,000
Plan Diversification Strategy?:	Yes
Risk Tolerance:	Moderate

### Income Tax

Filing Status:	Joint
Ordinary Income:	\$100,000
Adjustments to Income:	\$5,000
Personal Exemptions:	2
Deductions:	\$20,000
State Tax Rate:	9.30%

### AMT

Preferences Items:	\$2,000
Itemized Deductions:	\$16,000
Carry Forward Credit:	\$5,000

### Stock

Ticker Symbol:	BRE
Stock Price:	\$100.00
Dividend Rate:	2.6%
Classification:	Large Capital Growth Avg
Mean:	15.00%
Standard Deviation:	25.00%

### Portfolio

Risk Free Rate:	4.00%
Classification:	Custom Defined
Mean:	10.00%
Standard Deviation:	12.00%

<b>Opportunity Cost:</b>	8.00%
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## Inputs

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### Other Stock Holdings

#### Non-Restricted

Non-qualified Plans: \$0

Cost Basis of Non-qualified Plans: \$0

Qualified Plans: \$0

Cost Basis of Qualified Plans: \$0

Restricted: \$0

Stock Options							
<u>Grant</u>	<u>Type</u>	<u>No. of</u> <u>Options</u>	<u>Grant</u> <u>Date</u>	<u>Expiration</u> <u>Date</u>	<u>Grant</u> <u>Price</u>	<u>Options</u> <u>Exercised</u>	<u>Shares</u> <u>Held</u>
A1	ISO	2,500	1/1/1992	1/1/2002	\$18.00	0	0
A2	NSO	1,000	1/1/1994	1/1/2004	\$26.00	0	0
A3	NSO	2,000	1/1/1995	1/1/2005	\$35.00	0	0
A4	NSO	2,000	1/1/1996	1/1/2006	\$28.00	0	0
A5	ISO	2,000	1/1/1992	1/1/2002	\$15.00	800	500
A6	NSO	2,000	1/1/1999	1/1/2009	\$35.00	0	0
A7	NSO	2,000	1/1/2000	1/1/2010	\$40.00	0	0
<b>Totals:</b>		<b>13,500</b>				<b>800</b>	<b>500</b>

## Executive Summary

Date of Analysis: 10/20/2001  
 Stock Price: \$100.00

### Current Options Holdings

Vested Available Options: 10,300  
 Non-vested Options: 2,400  
 Total: 12,700

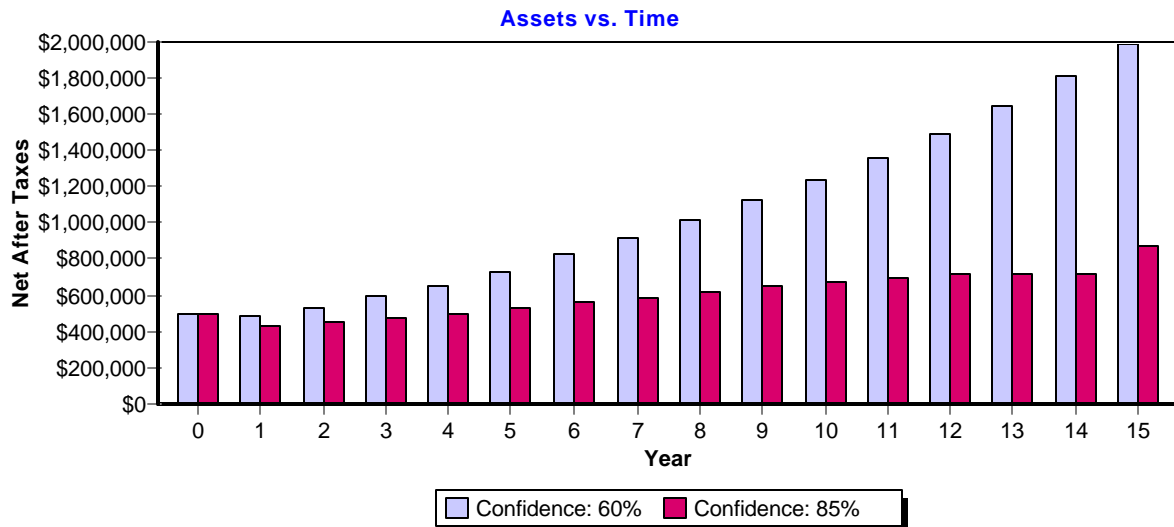
### Current Valuation

If all Options are Exercised and Sold Today, the Cash Generated:  
 Assuming a Stock Price of \$100.00: \$424,518  
 Assuming a Stock Price of \$80.00: \$312,645  
 Assuming a Stock Price of \$120.00: \$536,390

**Cash Generated for Immediate Needs:** \$30,000

### Diversification Strategy

Selected Strategy: Optimum at 80%  
 Exercise this Year: 7,170  
 Sell this Year: 4,000  
 Sell One Year Later: 0



### Net Assets in Year 15

Mean Value: \$2,900,368  
 Probability of Exceeding \$1,987,011: 60%  
 Probability of Exceeding \$868,151: 85%

The following options will expire within 12 months:

Grant Number	Vesting Date	Number Vesting
A1	1/1/1992	2,500
A5	1/1/1992	1,200

## Current Valuation

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Current value of your options is shown at three different price points. Both the intrinsic value and the time value of your options are shown. The time value is based on the Black-Scholes valuation.

### Options

Granted:	13,500
Already Exercised:	800
Non-vested:	2,400
Vested Available:	10,300

<b>Stock Price:</b>	\$100.00	\$80.00	\$120.00
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### Vested Available

Number:	10,300	10,300	10,300
Market Value:	\$1,030,000	\$824,000	\$1,236,000
Intrinsic Value:	\$756,000	\$550,000	\$962,000
Time Value:	\$35,980	\$36,888	\$35,613
Total Black-Scholes Value:	\$791,980	\$586,888	\$997,613

### Non-vested Options

Number:	2,400	2,400	2,400
Market Value:	\$240,000	\$192,000	\$288,000
Intrinsic Value:	\$149,000	\$101,000	\$197,000
Time Value:	\$25,555	\$26,600	\$25,049
Total Black-Scholes Value:	\$174,555	\$127,600	\$222,049

\*Intrinsic value is equal to the Market Value minus the Exercise Cost.

## Exercise Sell Strategies

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### **Net Value of Vested Available Options if Exercised and Sold Today**

Cashless:	No
Percentage Exercised:	100%
Percentage Sold:	100%
Number of Vested Available Options:	10,300
Number of Options Exercised:	10,300
Number of Options Sold:	10,300

Stock Price:	\$100.00	\$80.00	\$120.00
Gross Proceeds:	\$1,030,000	\$824,000	\$1,236,000
Exercise Cost:	\$274,000	\$274,000	\$274,000
Marginal Taxes (incl. AMT):	\$280,776	\$200,230	\$361,322
State Tax:	\$44,196	\$32,529	\$55,863
Medicare Tax:	\$6,510	\$4,596	\$8,424
Total Taxes:	\$331,482	\$237,355	\$425,610
Net Value of Vested Available:	\$424,518	\$312,645	\$536,390
Balance Shares in Hand:	0	0	0

## Exercise Sell Strategies

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### Exercise and Sell Just Enough Options to Cover all Costs

Percentage Exercised: 100%  
Number of Vested Available Options: 10,300  
Number of Options Exercised: 10,300

Stock Price:	\$100.00	\$80.00	\$120.00
Percentage Sold:	52.00%	56.00%	49.00%
Gross Proceeds:	\$532,516	\$464,101	\$600,938
Exercise Cost:	\$274,000	\$274,000	\$274,000
Marginal Taxes (incl. AMT):	\$222,540	\$164,860	\$280,220
State Tax:	\$29,465	\$20,644	\$38,294
Medicare Tax:	\$6,510	\$4,596	\$8,424
Total Taxes:	\$258,516	\$190,101	\$326,938
Net Proceeds:	\$0	\$0	\$0
Balance Shares in Hand:	4,975	4,499	5,292
Value of Shares in Hand:	\$497,484	\$359,899	\$635,062

## Cash Now Custom Strategies

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### Assumptions

Number of Vested Available Options:	10,300
*Zero AMT:	No
Cash Needed:	\$30,000

\*Zero AMT is the method of exercising as many ISOs as possible without incurring Alternative Minimum Tax.

This table shows which grants to exercise/sell to meet the immediate needs.

<u>Grant</u>	<u>Type</u>	<u>Options</u>	<u>Grant Price</u>	<u>Options to Exercise</u>	<u>Options to Sell</u>	<u>Held Shares</u>	<u>Balance Options</u>
A1	ISO	2,500	\$18.00	0	0	0	2,500
A2	NSO	1,000	\$26.00	0	0	0	1,000
A3	NSO	2,000	\$35.00	0	0	0	2,000
A4	NSO	2,000	\$28.00	0	0	0	2,000
A5	ISO	1,200	\$15.00	530	530	0	670
A6	NSO	1,000	\$35.00	0	0	0	1,000
A7	NSO	600	\$40.00	0	0	0	600
Totals:		10,300		530	530	0	9,770



## Cash Now Custom Strategies

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### Assumptions

Number of Vested Available Options:	10,300
Zero AMT:	No
Cash Needed:	\$30,000

**Stock Price:** \$100.00

### Tax Calculations

Ord. Taxable before Options:	\$69,200
Ord. Tax before Options:	\$12,780
AMT Tax due before Options:	\$0
Total Tax due before Options:	\$8,320
Ord. Taxable from Options:	\$45,086
Ord. Taxable with Options:	\$114,286
Ord. Tax with Options:	\$25,330
Ord. Marginal Tax from Options:	\$12,550
Ord. Marginal Tax Rate:	27.00%
AMT Taxable from Options:	\$0
AMT Tax Tentative before Options:	\$20,042
AMT Tax:	\$0
Available Credit:	\$5,000
Total Tax with Options:	\$20,330
Carry Forward Credit:	\$0
Marginal Tax with Options:	\$12,010

### Cash Flow

Options Sold for Cash:	530
Option Exercised for Diversify:	\$0
Options Sold for Diversify:	\$0
Exercise Cost:	\$7,956
Marginal Taxes (incl. AMT):	\$12,010
State Tax:	\$3,076
Medicare Tax:	\$0
Total Taxes:	\$15,086
Max Exchange Shares Usable:	79
Exchange Shares Used:	0
Exchange Shares Value:	\$0
Cash Needed after Exchange Shares:	23,042
Cash from Sold Options:	\$53,042
Cash Generated:	\$30,000
Cash Shortfall:	\$0
Balance Cash Required:	\$0
Remaining Vested Options:	9,770
Intrinsic Value:	\$710,914
Black-Scholes Value:	\$746,832
Shares in Hand:	0
Value of Shares in Hand:	\$0

## Diversify Strategy Table

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### Assumptions

Strategy:	Optimum at 80%
Confidence:	75%
Stock Price:	\$100.00
Options to Diversify:	9,770
Cashless:	Yes
*Zero AMT:	No
Evaluation Year:	15
Stock Mean:	15.0%
Stock Std Dev:	25.0%
Portfolio Mean:	10.0%
Portfolio Std Dev:	12.0%

\*Zero AMT is the method of exercising as many ISOs as possible without incurring Alternative Minimum Tax.

This table shows which options to exercise now, to sell now and to sell in one year. It also lists the year in which to exercise/sell the remaining options. The Net After Tax values are shown for the year 15 at the indicated confidence level.

<u>Grant</u>	<u>Type</u>	<u>Options To Diversify</u>	<u>Exp Yr</u>	<u>Exer Now</u>	<u>Sell Now</u>	<u>Sell One Yr</u>	<u>Options Unsold</u>	<u>Exer Yr</u>	<u>Sell Yr</u>	<u>Net After Taxes</u>
A1	ISO	2,500	0	2,500	0	0	2,500	0	14	\$504,099
A2	NSO	1,000	2	0	0	0	1,000	1	1	\$112,851
A3	NSO	2,000	3	2,000	2,000	0	0	0	0	\$187,245
A4	NSO	2,000	4	2,000	2,000	0	0	0	0	\$207,410
A5	ISO	670	0	670	0	0	670	0	14	\$139,012
A6	NSO	1,000	7	0	0	0	1,000	7	7	\$123,417
A7	NSO	600	8	0	0	0	600	8	8	\$73,629
<b>Totals:</b>		<b>9,770</b>		<b>7,170</b>	<b>4,000</b>	<b>0</b>	<b>5,770</b>			<b>\$1,347,663</b>

## Diversify: Cash Flow and Taxes

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### Assumptions

Strategy:	Optimum at 80%		
Stock Price:	\$100.00	Stock Mean:	15%
Options to Diversify:	9,770	Stock Std Dev:	25%
Cashless:	Yes	Portfolio Mean:	10%
Zero AMT:	No	Portfolio Std Dev:	12%
Confidence:	75%	Evaluation Year:	15

### Tax Details

Ord. Taxable before Options:	\$69,200
Ord. Tax before Options:	\$12,780
AMT Tax due before Options:	\$0
Total Tax due before Options:	\$8,320
Ord. Taxable from Options:	\$319,050
Ord. Taxable with Options:	\$388,250
Ord. Tax with Options:	\$123,249
Ord. Marginal Tax from Options:	\$110,469
Ord. Marginal Tax Rate:	30.00%
AMT Taxable from Options:	\$261,950
AMT Tax Tentative before Options:	\$181,860
AMT Tax:	\$58,611
Available Credit:	\$5,000
Total Tax with Options:	\$181,860
Carry Forward Credit:	\$63,611
Marginal Tax with Options:	\$173,540

### Cash Flow

Options Sold for Cash:	530
Options Exercised for Diversify:	0
Options Sold for Diversify:	0
Exercise Cost:	\$189,000
Marginal Taxes (including AMT):	\$173,540
State Tax:	\$20,809
Medicare Tax:	\$3,973
Total Taxes:	\$198,322
Max Exchange Shares Usable:	1,890
Exchange Shares Used:	0
Exchange Shares Value:	\$0
Cash Needed after Exchange Shares:	\$387,322
Cash from Sold Options:	\$453,000
Cash Generated:	\$65,678
Cash Shortfall:	\$0
Balance Cash Required:	\$0
Remaining Vested Options:	2,600
Intrinsic Value:	\$175,000
Black-Scholes Value:	\$193,309
Shares in Hand:	3,170
Value of Shares in Hand:	\$317,000

## Diversify: Multi Year View

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### Assumptions

Strategy:	Optimum at 80%	Stock Mean:	15.0%
Stock Price:	\$100.00	Stock Std Dev:	25.0%
Options to Diversify:	9,770	Portfolio Mean:	10.0%
Cashless:	Yes	Portfolio Std Dev:	12.0%
Zero AMT:	No	Confidence:	75%
Evaluation Year:	15		

This table lists the number of options to exercise/sell in each year for the selected diversification strategy. It is suggested that the diversification strategy be revisited at least annually.

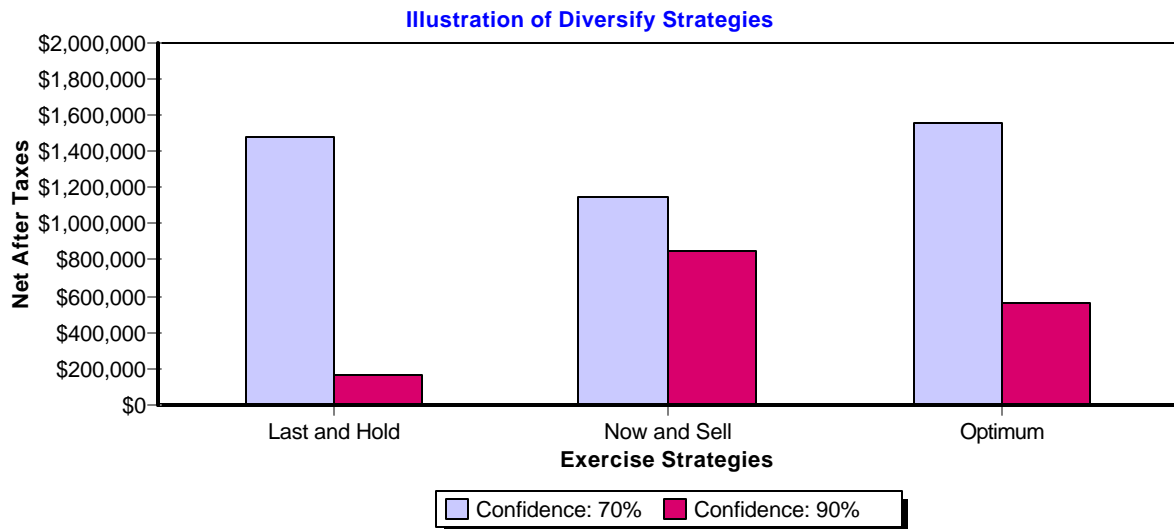
Grant		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
1	Exer	2,500															
1	Sell															2,500	
2	Exer		1,000														
2	Sell		1,000														
3	Exer	2,000															
3	Sell	2,000															
4	Exer	2,000															
4	Sell	2,000															
5	Exer	1,200															
5	Sell	530														670	
6	Exer								1,000								
6	Sell								1,000								
7	Exer									600							
7	Sell									600							

## Diversify: Comparison of Standard Strategies

### Assumptions

Strategy:	Optimum at 80%	Confidence:	75%
Stock Price:	\$100.00	Stock Mean:	15.0%
Options to Diversify:	9,770	Stock Std Dev:	25.0%
Cashless:	Yes	Portfolio Mean:	10.0%
Zero AMT:	No	Portfolio Std Dev:	12.0%
Evaluation Year:	15		

This graph illustrates the range of net assets in year 15 for the given strategies.



### Interpretation

For the Now and Sell strategy:

There is a 70% confidence the net assets will exceed: \$1,148,921  
 Correspondingly, there is a 30% risk the net assets will be less than: \$1,148,921

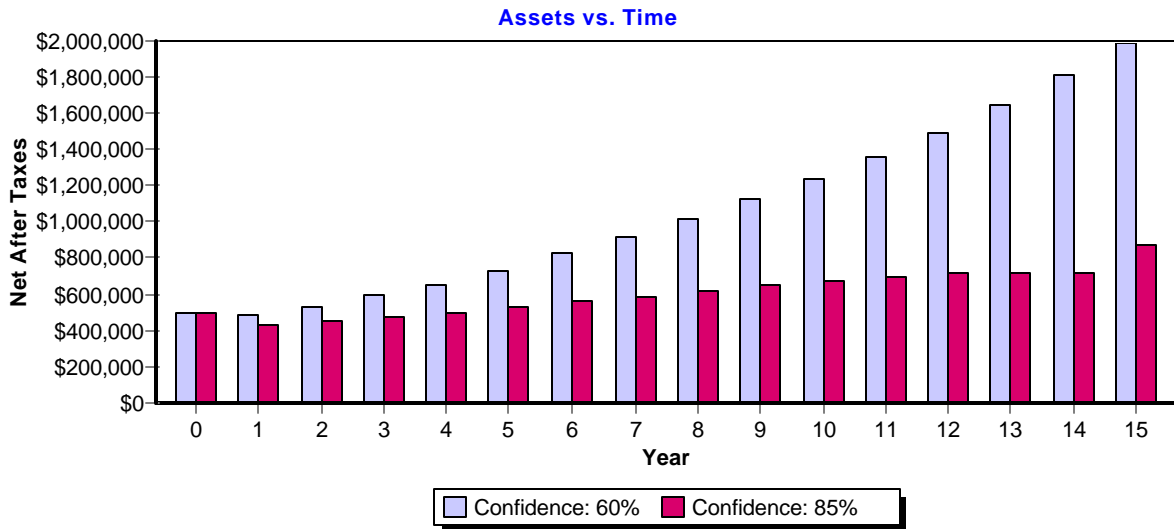
There is a 90% confidence the net assets will exceed: \$845,085  
 Correspondingly, there is a 10% risk the net assets will be less than: \$845,085

## Diversify: Net Assets vs. Time

### Assumptions

Strategy:	Optimum at 80%	Stock Mean:	15.0%
Stock Price:	\$100.00	Stock Std Dev:	25.0%
Options to Diversify:	9,770	Portfolio Mean:	10.0%
Cashless:	Yes	Portfolio Std Dev:	12.0%
Zero AMT:	No	Evaluation Year:	15

This graph shows the net value of all assets versus time. It assumes a full liquidation in the year of calculation.



### Interpretation

There is a 60% confidence that net assets will exceed higher bars.  
Correspondingly, there is a 40% risk that net assets will be less than these bars.

There is a 85% confidence that net assets will exceed higher bars.  
Correspondingly, there is a 15% risk that net assets will be less than these bars.

## Diversify: Strategies at Different Risk Levels

This data has been derived by an optimization search to find the strategy that maximizes your Net After Taxes in year 15 for a range of risk levels.

### Assumptions

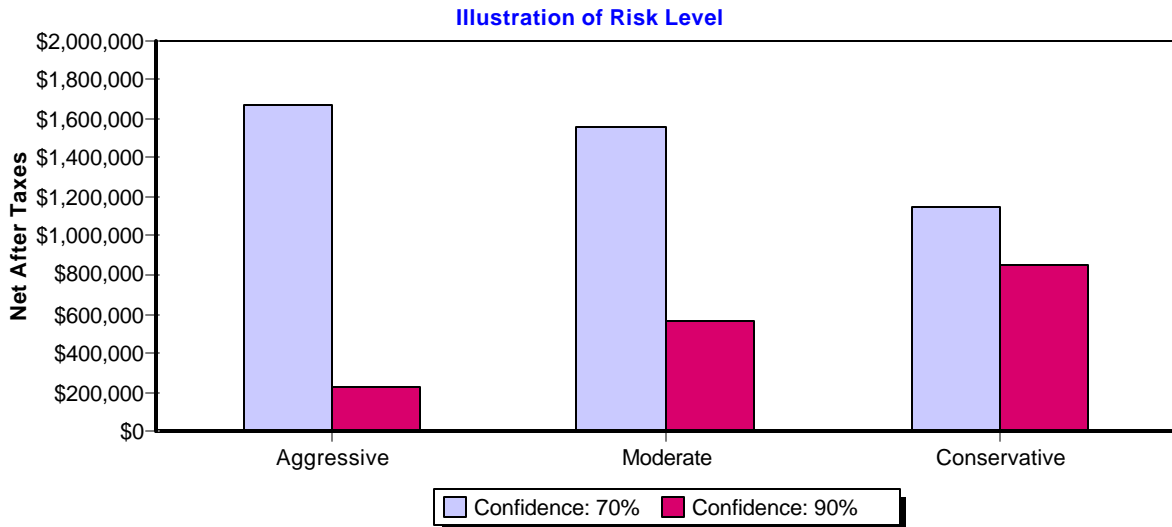
Stock Price:	\$100.00	Stock Mean:	15.0%
Conservative Confidence:	90%	Stock Std Dev:	25.0%
Moderate Confidence:	80%	Portfolio Mean:	10.0%
Aggressive Confidence:	70%	Portfolio Std Dev:	12.0%

Net After Taxes Maximized in Year 15.

The following are the immediate actions that correspond to the risk levels.

	<b>Confidence</b>	<b>Exercise Now</b>	<b>Sell Now</b>	<b>Sell in 1 Year</b>
Conservative	90%	9,770	6,600	3,170
Moderate	80%	7,170	4,000	0
Aggressive	70%	3,170	2,003	0

This graph shows the range in net asset value in year 15 for three different risk levels.



### Interpretation

For the Moderate Risk Diversification Strategy:

There is a 70% confidence the net assets will exceed: \$1,553,168  
 Correspondingly, there is a 30% risk the net assets will be less than: \$1,553,168

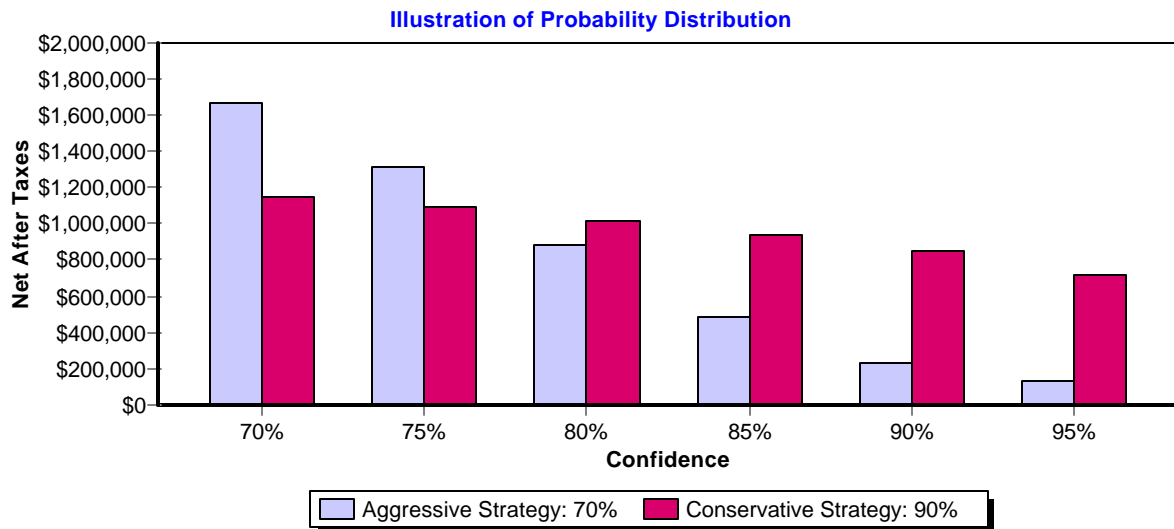
There is a 90% confidence the net assets will exceed: \$571,309  
 Correspondingly, there is a 10% risk the net assets will be less than: \$571,309

## Diversify: Probability Distribution vs. Risk Level

### Assumptions

Strategy:	Optimum at 80%	Confidence:	75%
Stock Price:	\$100.00	Stock Mean:	15.0%
Options to Diversify:	9,770	Stock Std Dev:	25.0%
Cashless:	Yes	Portfolio Mean:	10.0%
Zero AMT:	No	Portfolio Std Dev:	12.0%
Evaluation Year:	15		

This graph illustrates the probability distribution of net assets in year 15 for diversification strategies corresponding to an Aggressive risk level and a Conservative risk level.



### Interpretation

For the Aggressive Strategy:

There is a 70% confidence the net assets will exceed:	\$1,668,277
Correspondingly, there is a 30% risk the net assets will be less than:	\$1,668,277