

Applied Insights: Tax Economics

Case Study:
Non-Qualified Options—
Minimizing Future Tax Liability



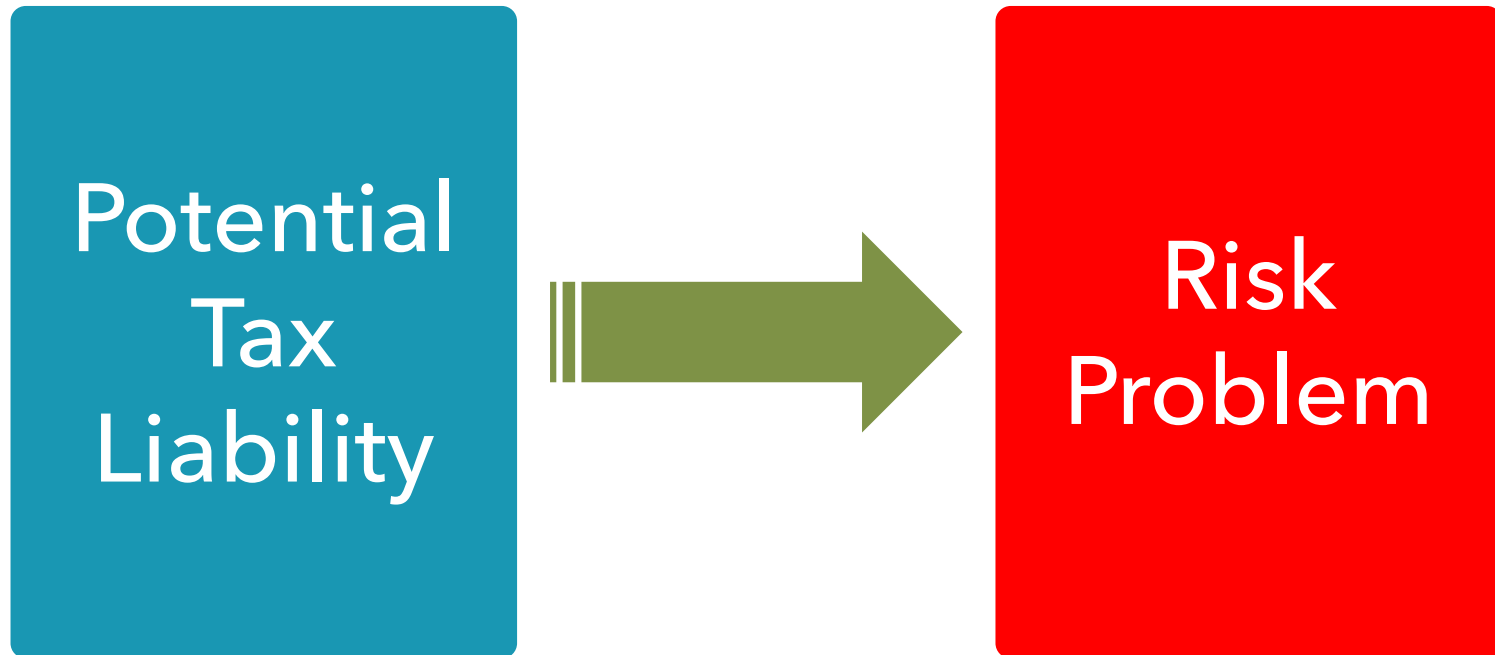


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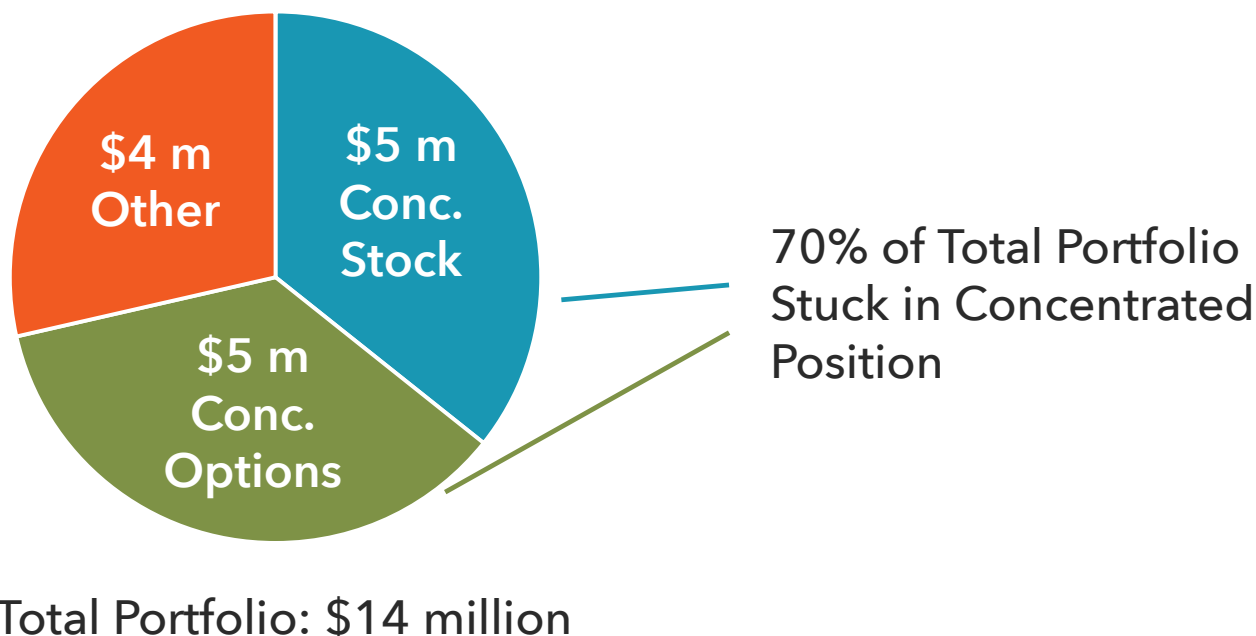
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The Challenge of Concentrated Positions



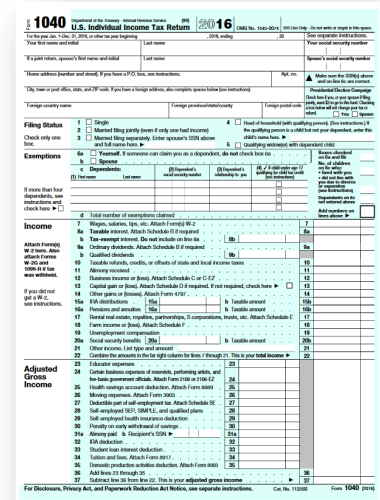
Illustrative Example

- Client, a former CEO, holds \$5 million of a **single stock** and \$5 million of **non-qualified options** in the same stock
- Additional \$4 million **liquid assets**

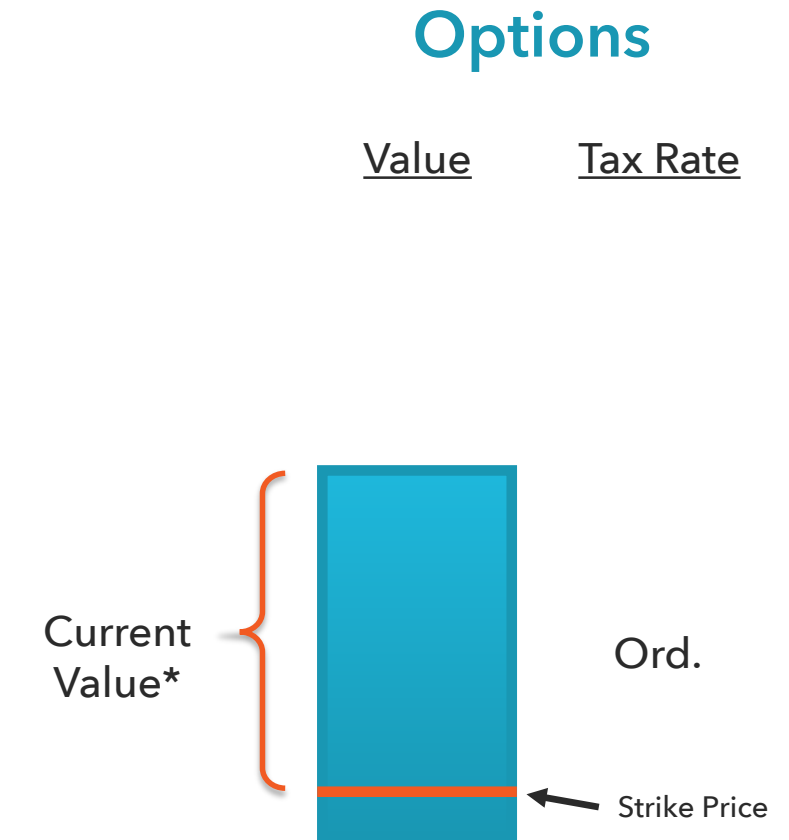
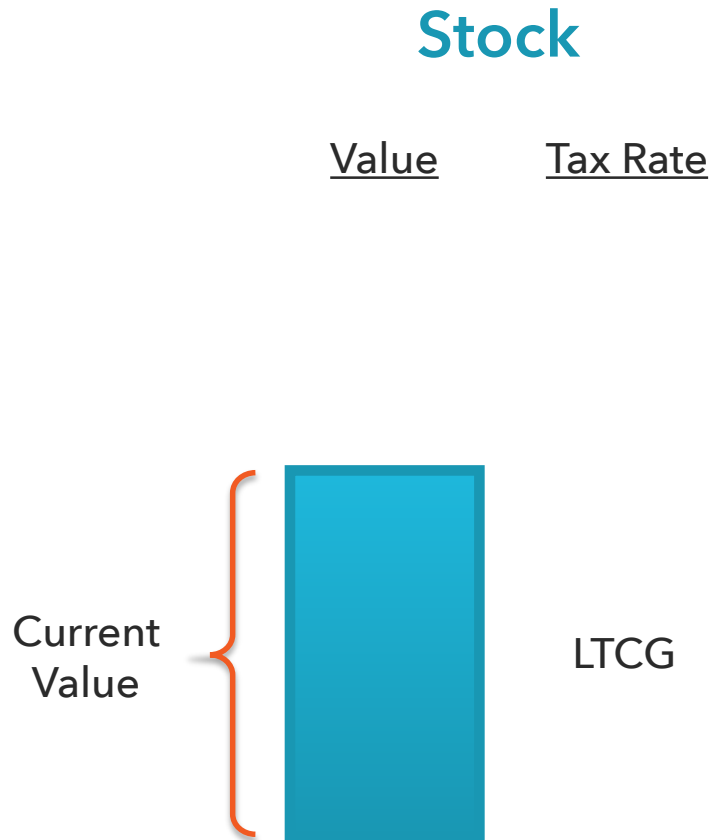


How to Fix the Risk (Tax) Problem

- Obvious risk problem from concentrated position
- Advisor wants to know what to recommend to client
- Factors that drive decision
 - Tax treatment of non-qualified options
 - Cost basis of stock (assume \$0)
 - Option pricing
 - Intrinsic value
 - Time value
 - This situation: stock price of \$70 and strike price of \$10

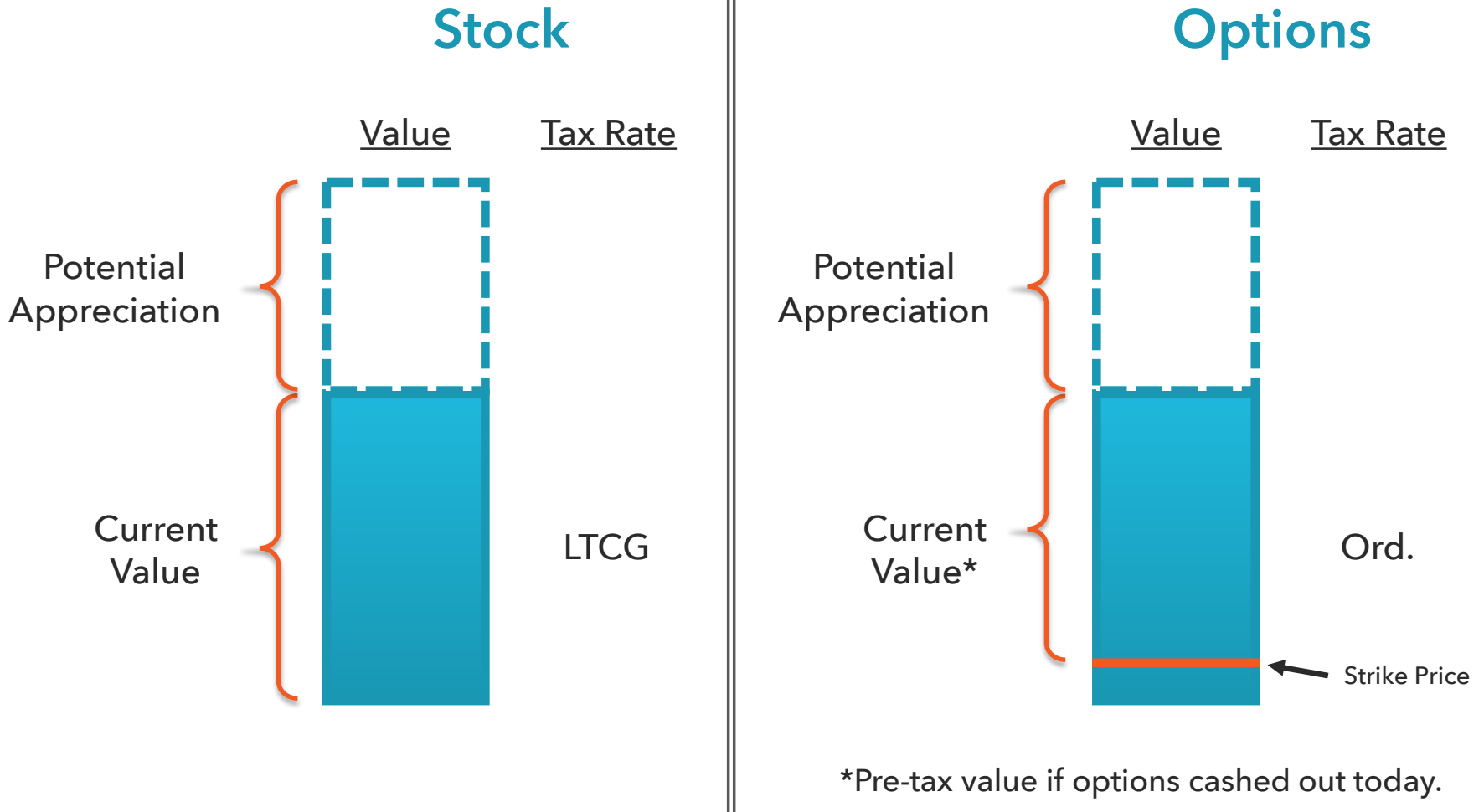


Stock vs. Options

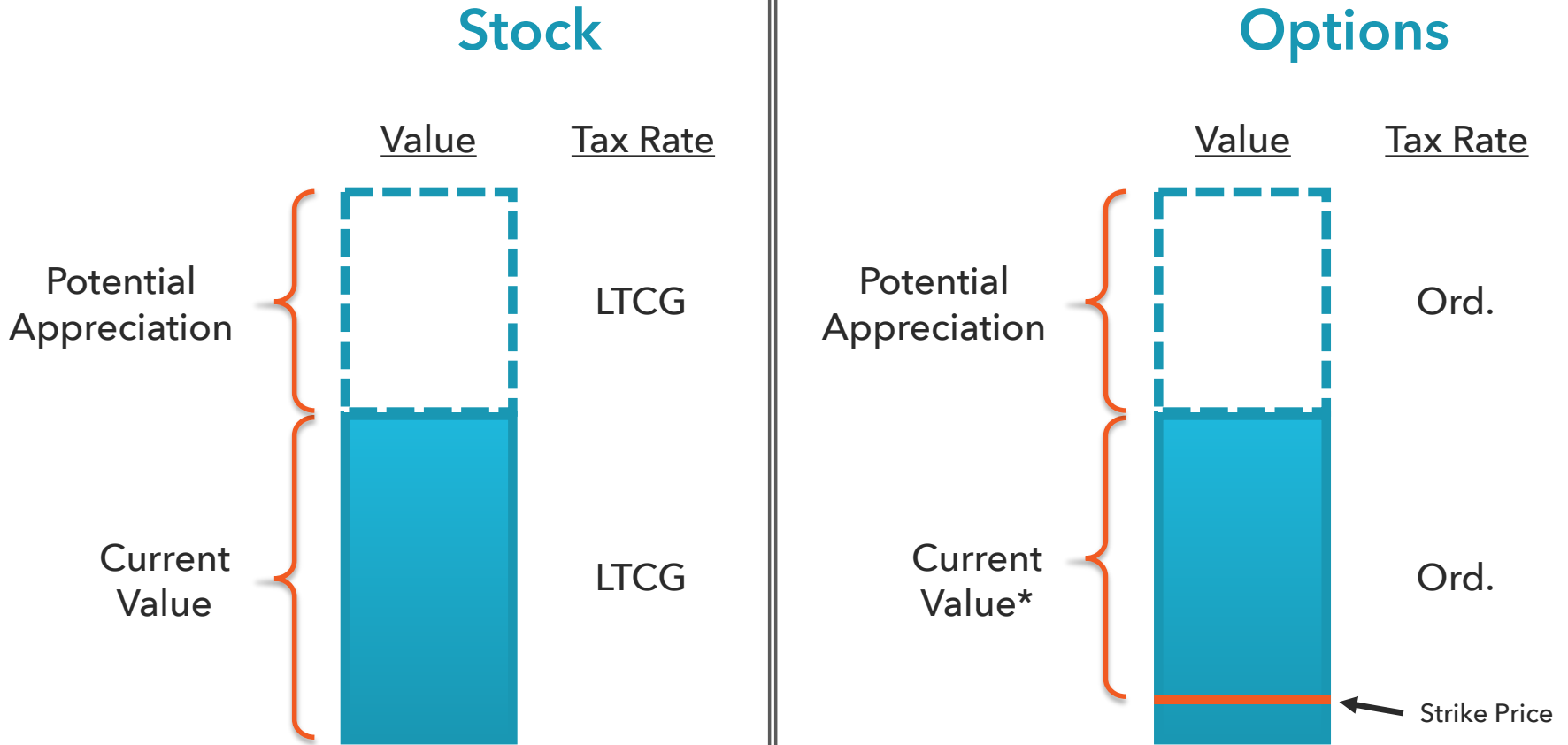


*Pre-tax value if options cashed out today.

Stock vs. Options

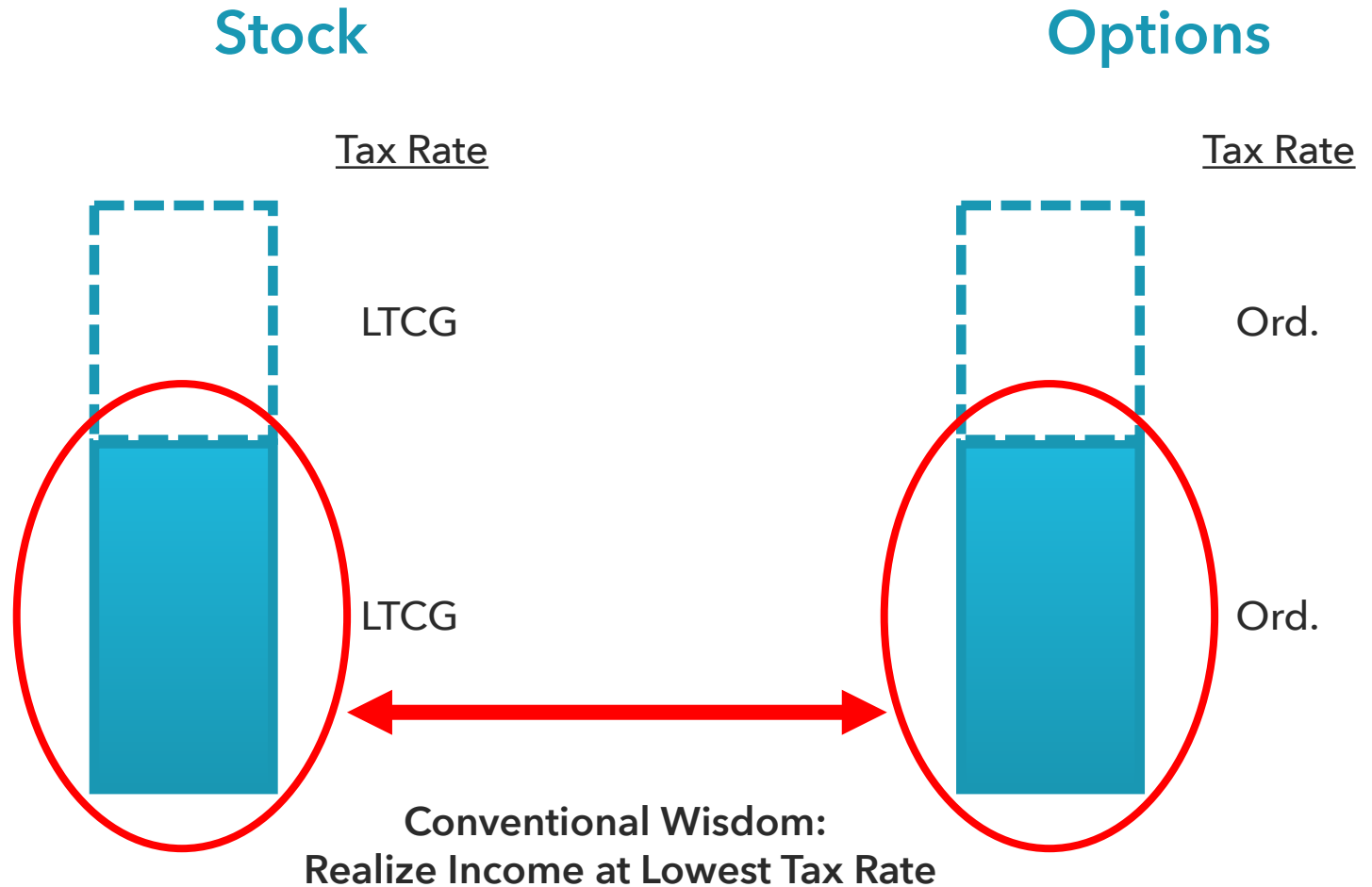


Stock vs. Options

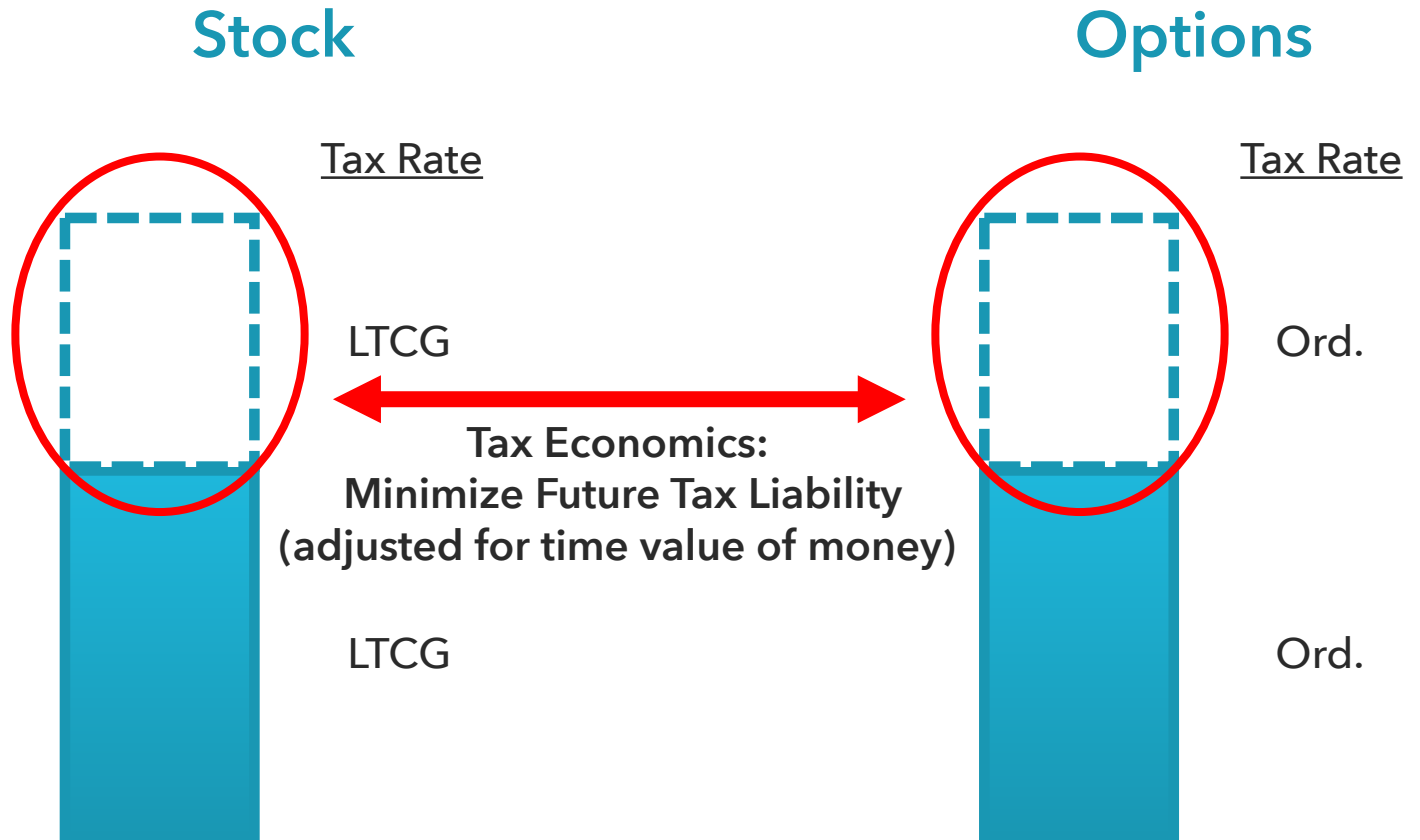


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Stock vs. Options



Stock vs. Options



Thank you

Send questions or comments to blog@aperiogroup.com.

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