

Maximizing the Perceived Value of Equity Compensation

An Executive Whitepaper

November 16, 2006

Prepared by:

Net Worth Strategies, Inc.
2762 NW Crossing Drive
Suite 200
Bend, OR 97701

877-728-5964

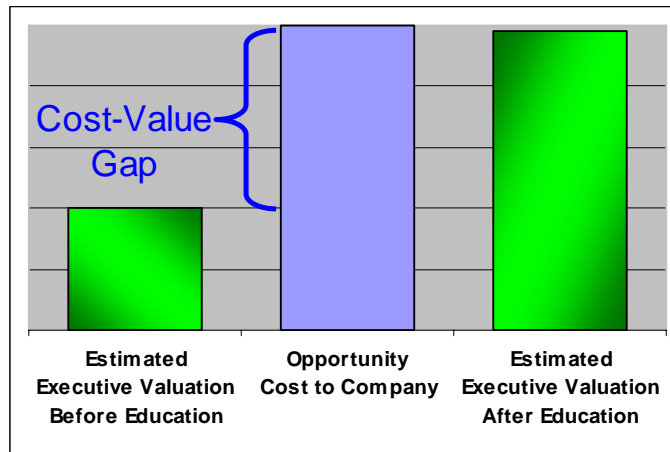
<http://www.EquityCompensationEducation.com>
<mailto:Info@NetWorthStrategies.com>

Maximizing the Perceived Value of Equity Compensation

I: Executive Summary

The Cost-Value Gap and the Case for Personalized Education

Recent research conducted by faculty at the University of Illinois and Michigan State University finds that, on average, executives value their stock option holdings at 40% of the opportunity cost to the company. More important, however, is their finding that this “cost-value” gap can be closed by employing a short but effective personalized equity education program. The chart below illustrates the opportunity cost of equity compensation and compares it to executive perceptions before and after a personalized education program.



In light of mandatory option expensing and increased shareholder scrutiny, don't companies have a responsibility to take action to close this cost-value gap? As an example, if the opportunity cost to the company is \$50 million, while company executives value their holdings at only \$20 million, shouldn't the company invest in a brief education program to bring the value more in line with the cost?

The Business Case for Personalized Education

A unique characteristic of an education program that can best close the cost-value gap is that it is personalized to each participant. This is achieved by providing participants with an individual analysis (see *Appendix B* for a sample) that is delivered and reviewed at either a group or 1-on-1 workshop with an equity compensation planning specialist. The payoff from personalized equity compensation education comes from the following three areas.

- **Improved retention of key personnel.** As all corporate officers know, the cost and pain of losing even one of your best and brightest can be staggering. Few executives are actively seeking outside employment, but executive search firms are actively seeking them. Although money may not be the primary reason they would take a position elsewhere, most are unwilling to take a financial step backward. It will therefore be difficult for other companies to match the accumulated value of equity compensation that has been granted over a number of years. Consequently,

Maximizing the Perceived Value of Equity Compensation

if your key people have embraced the full value of their holdings these recruitment discussions are likely to be short lived.

- **Increased motivation of key personnel and alignment with corporate objectives.** Executives who understand and have embraced the upside potential of their holdings, and the importance to their financial goals, are more likely to dedicate themselves to driving earnings and avoiding actions that might jeopardize the stock price. In addition, personalized equity compensation education provides a forum for leadership to engender commitment to long term growth and profitability.
- **Responsibility to owners for the full value from their investment in equity compensation.** As a result of accounting scandals and new regulations, shareholders and groups that represent them have placed a spotlight on the dilution and Income Statement impact of equity compensation programs. To date, the focus has been on the cost side of the equation. As shareholders come to understand the cost-value gap, however, they are likely to focus on the value side as well. Particularly since the cost to close the gap is relatively small.

The cost of a personalized education program including executive and staff time is a small fraction of the increase in perceived value. Yet, a recent research project conducted by the National Center of Employee Ownership found that over half of companies surveyed provide no education on the value of their stock option programs. It is likely these companies either do not understand that a cost-value gap exists or do not have the resources to develop and deliver a personalized education program. The education program cited in the Perceived Value Research has been designed and packaged to address the cost-value gap and minimize the work load impact on staff. This program is called StockOpter Personalized Education and is available through a number of financial services companies.

Assessing the “Cost-Value Gap” at Your Company

The research cited above indicates that the cost-value gap is universal. The extent to which a cost-value gap exists in any particular company can be easily established with a simple assessment. The details of the assessment program are described in *Section IV* of this white paper.

Table of Contents

I: Executive Summary	2
The Cost-Value Gap and the Case for Personalized Education.....	2
The Business Case for Personalized Education.....	2
Assessing the “Cost-Value Gap” at Your Company	3
II: Summary of Research Results.....	5
Research from the University of Illinois and Michigan State University	5
Study of Perceived Value Estimates by Stock Plan Professionals	6
NCEO Study of the Perceived Value of Stock Options:.....	7
III: Business Case	8
Retention of Key Personnel	8
Increased Motivation of Key Personnel	8
Shareholder Support of Equity Compensation Program.....	10
Improved Employee Attitude	10
Increasing Option Holding Periods.....	10
Sample Business Case (Case Study).....	11
IV: Cost-Value Gap Assessment.....	12
V: StockOpter® Personalized Education	13
Background	13
Characteristics of Effective Equity Compensation Education	13
Mechanics of StockOpter® Personalized Education	14
Program Components:	15
Program Phases and Tasks:	16
Appendix A: Glossary of Terms as Used in this Paper	18
Appendix B: Sample Personal Equity Compensation Profile.....	20
Appendix C: Sample Report of Perceptions Before/After Education....	21

II: Summary of Research Results

This section summarizes three research projects that support the business case for personalized equity compensation education.

1. **Employees' Perceived Value of Their Stock Option Holdings: How Training Affects the Cost-Value Gap.** This is a research project conducted by three business school professors from the University of Illinois and Michigan State University.
2. **A study of the Forfeit Value[®] and Upside Leverage** estimated by stock plan professionals who attended the 2006 annual conference of the National Association of Stock Plan Professionals (NASPP). Their estimates are compared against the calculated values for each of these metrics.
3. **A study conducted by the National Center of Employee Ownership (NCEO)** aimed at discovering the ramifications of the Perceived Value research cited above.

Research from the University of Illinois and Michigan State University

Employees' Perceived Value of Their Stock Option Holdings: How Training Affects the Cost-Value Gap

Summary of Preliminary Findings

An ongoing research project conducted by the authors examines how employee stock option recipients perceive the value of their option holdings and explores implications of an educational training program as a mechanism for improving recipients' perceived value of their options. The data used in the study was obtained under a confidentiality agreement with Net Worth Strategies, Inc. (NWSI), a national leader in equity compensation planning services, from their employee stock-option training programs at five client sites during the period September 2004 through March 2006.

The study analyzes the value that employees would forfeit from their current employee stock option holdings if they terminated their employment (Forfeit Value). The focus of the study is on the potential difference between an employee's perception of the Forfeit Value and the corresponding value as calculated using the Black-Scholes formula (Cost), and on how an educational training program affects that difference.

Based on our analysis to date, we have identified the following preliminary findings:

- Before training, the majority of employee stock option recipients in the sample (158 of 210, 75%) perceive the Forfeit Value of their stock option holdings to be less than the Cost. The median ratio of perceived Forfeit Value to Cost is 0.396, representing a statistically significant discount as well as an economically significant one. While these results vary across participating firms, the majority of the recipients in each firm initially discount their perceived Forfeit Value relative to Cost (with a statistically significant discount for the majority of the five firms).
- Completing the stock option education and planning program (which explains stock option fundamentals and clearly articulates the value of the recipients' own option holdings) significantly increases recipients' perceived Forfeit Values. These results are based on the subsample of recipients

Maximizing the Perceived Value of Equity Compensation

who completed an optional post-training survey, and also vary across participating firms (with the greatest difference in perceived value observed for the firms for which the before-training discount was largest).

- After training, there is no longer significant evidence of a median discount in recipients' perceived Forfeit Values relative to the Cost. This suggests that investments in particular types of employee training can significantly decrease the cost-value gap and increase the incentive benefit of employee stock options.
- There is evidence that training also improves recipients' confidence in their financial decision-making concerning their option holdings.

The study also examines a number of other related issues such as whether recipients' perceived Forfeit Values are affected by their risk aversion, wealth concentration, or prior experience with employee stock options. For further information contact the authors or access the full working paper at:

<http://www.equitycompensationeducation.com/Resources/Files/SSRN-id906020.pdf>

Authors:

Anne M. Farrell
Assistant Professor of Accountancy
University of Illinois at Urbana-Champaign
<mailto:amf@uiuc.edu>

Susan D. Krische
Assistant Professor of Accountancy
University of Illinois at Urbana-Champaign
<mailto:krische@uiuc.edu>

Karen L. Sedatole
Associate Professor of Accounting
Michigan State University
<mailto:sedatole@bus.msu.edu>

Study of Perceived Value Estimates by Stock Plan Professionals

At the 2006 annual conference of the National Association of Stock Plan Professionals, Net Worth Strategies repeated a study that it conducted at the 2004 and 2005 conferences. Results from the earlier conferences are summarized in the Perceived Value research conducted by Farrell, Krische, and Sedatole. At all three conferences, the studies were conducted by a contest held at the Net Worth Strategies exhibit booth. At the 2006 conference four different contests were held. For two of them, participants were asked to estimate the Forfeit Value[®] of a sample set of option and restricted stock grants. At the other two, they were asked to estimate the percentage increase in value (intrinsic) with a 20% increase in stock price. The median values of their estimates are compared with the calculated values in the table below.

Contest	Estimated Median Value	Calculated Median Value
Forfeit Value [®] 1	\$352,000	\$557,848
Forfeit Value [®] 2	\$752,000	\$1,235,000
Leverage 1	50%	70.2%
Leverage 2	48%	74.4%

In summary, experts in equity compensation also underestimate the value of equity compensation holdings even though they understand valuation models and the leverage inherent in stock options.

Maximizing the Perceived Value of Equity Compensation

NCEO Study of the Perceived Value of Stock Options:

This study was conducted by the National Center for Employee Ownership in September 2006 and was sponsored by Ameriprise Financial. There were two groups of participants: 1) 103 executives and stock plan professionals of companies who issue stock options, 2) 70 Stock plan service providers such as equity compensation consultants, stock plan administrators, and financial advisors. Participants received an email with the following text:

A recent research report has found that executives dramatically undervalue (by 60% on average) their employee stock options relative to the Black-Scholes value of those options. Of greater importance, the research found that this “*cost-value gap*” was generally eliminated by providing executives with personalized education on the time value of their stock option holdings. The full research report can be found at: <http://www.equitycompensationeducation.com/Resources/Files/SSRN-id906020.pdf>

Since companies must book and expense options based on Black Scholes or another approved valuation method, the existence of a “*cost-value gap*” raises important questions regarding the viability and effectiveness of stock option programs in fulfilling their stated purpose of motivating and retaining key employees.

Summary Conclusions:

1. 70% of both company participants and service providers said the research referenced in the email above seemed credible.
2. 82% of the company respondents indicated they would expect similar results at their company.
3. 52% reported that their companies provide no training that would help their executives to understand the value of their option holdings.
4. The participants were asked to indicate the extent to which they felt different parties would be interested in closing the cost-value gap through education. The following table shows the percent of respondents that thought each party would have a high level of interest in closing the gap (4 or 5 on a 1 to 5 scale).

Human Resources Executive	75%
Chair of Compensation Committee	63%
Corporate Officer	56%
Stock Plan Administrator	52%

The full report on this NCEO study can be found at:

http://www.equitycompensationeducation.com/Resources/Files/PVSO_Full_Survey_Results_10-3-06.pdf

III: Business Case

Retention of Key Personnel

Key personnel retention is a function of a number of factors such as: opportunity for advancement, job satisfaction, company outlook, etc. The retentive power of equity compensation, however, is a function of the value the employee perceives they would leave on the table if they took a job elsewhere. This equity compensation “forfeit value”, unlike the other retention factors, can be quantified and its actual value as explained in the research cited above is generally significantly higher than the employee perceives. The challenge then for management is to maximize the perceived value and to ensure that it is continually refreshed in the minds of their key people. The table below is based on the research data set and shows the perceived Forfeit Value[®] of four sample executives before and after participating in personalized education where this concept is explained in detail.

	Year of Earliest Grant	Perceived Forfeit Value [®]	
		Before Education	After Education
Executive A	2000	300,000	900,000
Executive B	1997	250,000	1,200,000
Executive C	1996	500,000	1,770,000
Executive D	1996	700,000	1,200,000

Visualize the discussion that takes place when an executive search firm calls on Executive C as an example. The discussion is likely to be quite different if the executive asks “can your client offer an equity compensation package valued at \$1.7 million” as contrasted with \$500,000. The \$1.7 million value is likely to be problematic for the recruiting company to match as it is, in this case, the accumulated value of grants since 1996. The recruiting company would likely have to significantly compromise their compensation program if they were to offer recruited employees a package that matched the accumulated value of an employee who had been contributing for 10 years or more. Even if the employee has other motivations for accepting the offer, it is unlikely that she will want to suffer a significant setback in her accumulated wealth.

Increased Motivation of Key Personnel

Most companies state in their 10K filings that motivation of key employees to contribute to the long-term success of the enterprise (and thus the appreciation of the stock price) is a primary reason for offering equity compensation. The motivational value of equity compensation comes from an alignment of the executive’s personal fortunes with those of the company. It stands to reason that increasing the perception of the upside potential of equity compensation holdings would therefore increase the motivational value of the equity compensation program. This upside leverage can be dramatically illustrated by helping the executive to understand the impact of a 20% stock price increase on their personal wealth. The following table illustrates that a 20% increase in stock price results in a 145 percent increase in the intrinsic value of option holdings. Even with the addition of

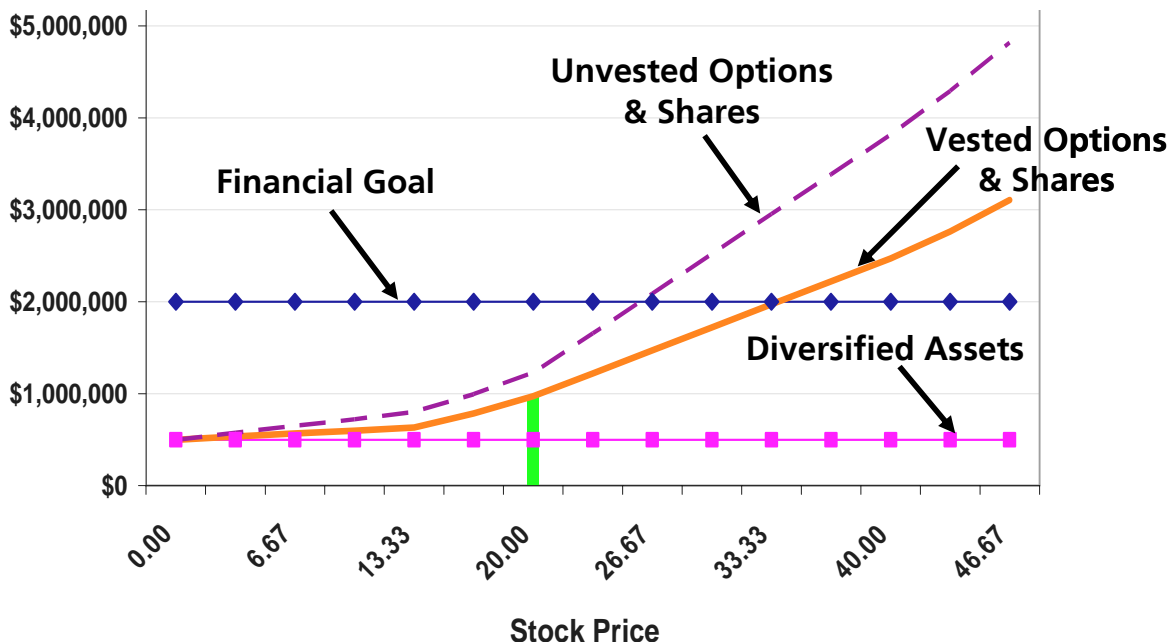
Maximizing the Perceived Value of Equity Compensation

restricted shares (RSP) the upside leverage is still 74%.

Potential Future Stock Price	Incremental Change	Based on Current Portfolio of Vested and Unvested Options & Shares					
		Stock Option ITM Value	Incremental Change	Share & RSP Value	Incremental Change	Option, Share & RSP value	Incremental Change
\$8.19	-20.00%	\$0	0.00%	\$229,320	-20.00%	\$229,320	-20.02%
\$10.24	-20.00%	\$0	0.00%	\$286,720	-20.00%	\$286,720	-20.00%
\$12.80	-20.00%	\$0	-100.00%	\$358,400	-20.00%	\$358,400	-39.56%
\$16.00	-20.00%	\$145,000	-65.68%	\$448,000	-20.00%	\$593,000	-39.64%
\$20.00		\$422,500		\$560,000		\$982,500	
\$24.00	20.00%	\$1,038,100	145.70%	\$672,000	20.00%	\$1,710,100	74.06%
\$28.80	20.00%	\$1,782,100	71.67%	\$806,400	20.00%	\$2,588,500	51.37%
\$34.56	20.00%	\$2,674,900	50.10%	\$967,680	20.00%	\$3,642,580	40.72%
\$41.47	20.00%	\$3,745,950	40.04%	\$1,161,160	20.00%	\$4,907,110	34.72%
\$49.77	20.00%	\$5,351,258	42.85%	\$1,393,560	20.00%	\$6,744,818	37.45%

As discussed in the *Section II* of this report, both executives and stock plan professionals dramatically underestimate the upside leverage in stock options.

Another means of increasing the motivational value is by showing the executive the importance to their personal financial goals of driving company performance. The following chart illustrates the effect of increasing stock price on the achievement of personal goals. The after-tax value of vested and unvested company options and shares are plotted incrementally to the executive's other retirement assets as a function of changes in the stock price. Seeing the explicit impact of long term stock price appreciation on the achievement of personal financial goals is likely to increase motivation to drive company performance.



Maximizing the Perceived Value of Equity Compensation

Shareholder Support of Equity Compensation Program

The mandatory expensing of stock options, accounting scandals, the focus on CEO pay packages, and the back dated pricing investigations have shareholders skeptical of equity compensation programs and the value of them to shareholders. This has resulted in pressure to reduce the size and frequency of option grants. Companies who have proactively closed the cost-value gap could use it as a selling point for shareholder authorization of additional equity compensation shares.

Improved Employee Attitude

Since the market downturn at the beginning of this decade, many companies have been struggling with sour attitudes by executives who feel that their underwater options are worthless. Many options, however, are far from worthless. Consider the example of an executive who holds options with the following fact pattern:

- Number of options – 10,000
- Expiration date – six years from today
- Current market value – 77
- Exercise price – 92
- Stock volatility 35%

Although these options are \$15 “under water” they have a Black-Scholes value of \$263,937. The previously cited research indicates that most executives would significantly undervalue these options without explicit knowledge of the Black-Scholes value, and with that knowledge would increase their valuation to something approaching the Black-Scholes value.

The research also found evidence that training also improves recipients’ confidence in their financial decision-making concerning their option holdings. In response to the question “I am confident I can make timely and tax efficient decisions regarding my option holdings” the average executive increased their response on a 1 to 5 scale from 3 before education to 4 afterwards.

It is reasonable to think that executives who understand the full value and potential of their equity compensation holdings and who are confident in their ability to make timely and tax efficient decisions regarding them are more likely to have a positive and forward looking attitude about their company and its equity compensation programs.

Increasing Option Holding Periods

Executives who do not understand the concept of option time value may have a tendency to exercise early. The Insight Ratio[®] that is part of the personalized report and education program provides guidance on the optimum time to exercise. This is usually later in the life

Maximizing the Perceived Value of Equity Compensation

of the option than would otherwise be the case. Also, options have a stronger retention value than held shares because in most cases the executive will lose the time value of them upon resignation. Whereas with held shares, these can be taken with the executive and in most cases can be liquidated immediately.

Sample Business Case (Case Study)

In September of 2006, a Fortune 500 Financial Services Company conducted a StockOpter® Personalized Education program for 116 of their highest level executives and professionals. Following is a summary of the results of this engagement presented on a per executive basis:

- Average increase in perceived Forfeit Value® = ***\$268,000***
- Median increase in perceived option leverage = ***42%***
- Increase in confidence in ability to make timely and tax efficient decisions regarding their equity compensation = ***33%***
- Average cost of program (including staff time) = ***\$400*** per participant

Bottom line, the cost of this program was about ***0.0015 (0.15%)*** of the improvement in perceived Forfeit Value®.

Maximizing the Perceived Value of Equity Compensation

IV: Cost-Value Gap Assessment

Do you wonder if these results would be experienced at your company? Here is a no cost, turn key approach that will allow you to determine the size of the cost-value gap at your company.

1. Send an email (a sample is available) to 10 of your executives asking them to estimate their forfeit value (the value they would lose if they voluntarily terminated their employment) and the upside leverage of their employee stock options (the percentage change in value given a 20% change in stock price).
2. Forward the responses to assessment@networthstrategies.com and attach a grant summary for each executive. Typically this requires no more than 30 minutes of time
3. Using this data, we will calculate the Forfeit Value[®] (using the Black-Scholes formula) and the upside leverage for each executive and provide you with a summary comparing the estimated to the calculated values. The following table is a sample of this "Assessment" using the data from the case study cited in the Business Case in *Section III*.

	Estimated Value	Calculated Value	% change
Average (mean) Forfeit Value [®]	\$715,389	\$1,049,167	47%
Median Forfeit Value [®]	\$400,000	\$627,500	57%
Average (mean) upside leverage	67%	134%	100%
Median upside leverage	55%	97%	75%

After you receive the assessment, an easy next step is to conduct a pilot education session for the executives who participated in the assessment. These participants would receive a Personal Equity Compensation Profile (see *Appendix B*) and attend a 1 hour workshop. Using surveys administered before and after the workshop, a summary of the participant's perceived values and an evaluation of the usefulness of the program to them would be prepared (see *Appendix C*). Consequently, with little cost or effort, you can determine if there would be a big payoff from the education program and if it will be well received by your executive team.

To arrange a "Cost-Value Gap Assessment" at your firm, email Bill Dillhoefer at <mailto:assessment@networthstrategies.com> or call 541-383-3899.

V: StockOpter® Personalized Education

Background

The traditional ways of providing employees with information about their equity compensation (i.e. plan/grant documents, summary statements, online access, seminars, stock plan staff assistance, etc.) do not reinforce the retention and motivation power of your program nor do they help employees make prudent decisions. By contrast, StockOpter® Personalized Education is designed to ensure that your key employees understand and appreciate the Forfeit Value® and upside leverage in their grants so as to maximize retention and motivation. This program is also designed to provide participants with a decision making frame work and access to planning expertise that will help them to maximize the wealth building capacity of their grants.

Characteristics of Effective Equity Compensation Education

There are three characteristics of StockOpter® Personalized Education that differentiate it from other equity compensation information and/or education programs. The following characteristics are crucial to achieving the results produced by this program.

1. **Personalization:** Every participant receives a personalized analysis of their equity compensation holdings called the “Personal Equity Compensation Profile” (see *Appendix B*). This report is created by merging grant data supplied by the company electronically and a few personal assumptions gathered using a website (for an example go to <http://www.scsproviders.com/NWSI>). The Personal Equity Compensation Profile quantifies five key concepts for each participant. These concepts are:
 - The Forfeit Value® of their grants (the value they forfeit if they were considering terminating their employment)
 - The upside leverage in their equity compensation holdings (the percentage change in total value resulting from a 20% change in stock price)
 - The stock price at which their financial goal is achieved
 - Their degree of concentration in company stock and options
 - Their “Insight Ratios®” (a metric that facilitates timely decisions by quantifying the remaining potential of each stock option)
2. **Interactive:** The Personal Equity Compensation Profile reports are typically distributed to program participants at a live workshop conducted by an equity compensation planning specialist. A 1-hour workshop is used to explain the concepts embodied in each participant’s report in detail. Concepts such as *in-the-money value*, *cash-out value*, *time value*, *leverage* and *taxation*¹ are explained in simple-to-understand terms using a hypothetical employee and set of grants while each employee follows along with their own report. The workshops can be

¹ See Appendix A for descriptions of these terms

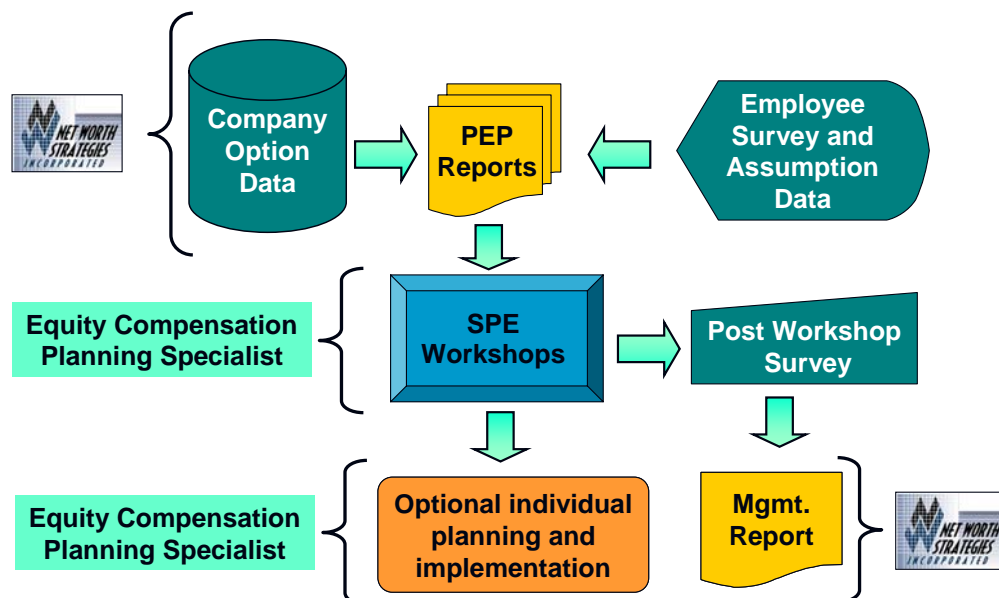
Maximizing the Perceived Value of Equity Compensation

delivered to groups of any size (including 1-on-1), but smaller audiences facilitate interactivity. The workshops can also be conducted via webinar or conference call if the participants are geographically dispersed.

3. **Reinforcement:** The concepts illustrated in the Personal Equity Compensation Profile and explained in the workshop are reinforced in a variety of ways to maximize the effectiveness of this education program.
 - A simple questionnaire is administered at the end of the workshop asking participants to quantify their new perceptions of their Forfeit Value[®] and upside leverage. This survey serves to reinforce the key concepts but it is also used to create a "Management Report" that quantifies the updated value perceptions. (*Appendix C* contains a sample of this report).
 - Since equity compensation is an ongoing and dynamic program given the addition of new participants/awards and changing grant types, so too is StockOpter[®] Personalized Education. To address these ongoing program changes key employees are provided with updated reports and refresher workshops that coincide with their annual grants. This acts to insure that the retention and motivation power of your equity compensation program remains top-of-mind with your key employees.
 - After the workshop, participants can optionally meet 1-on-1 with a financial advisor who can help them to: 1) interpret their Personal Equity Compensation Profile, 2) monitor their decision criteria, 3) model the effects of various diversification strategies, and 4) implement any decisions.

Mechanics of StockOpter[®] Personalized Education

The following diagram illustrates the mechanics of StockOpter[®] Personalized Education. Although the program necessarily involves a number of steps, it has been designed to be implemented with a minimum amount of effort and time on the part of the company.



Maximizing the Perceived Value of Equity Compensation

StockOpter® Personalized Education is an offering from Net Worth Strategies, Inc. and is generally delivered by a financial services firm such as Ameriprise Financial, First Tennessee Bank, Merrill Lynch, Fidelity Investments, Shapiro Financial Security Group etc. Net Worth Strategies customizes the education content of the program to the company's requirements and then creates the Personal Equity Compensation Profiles, trains the specialist conducting the workshop and produces the Management Report. The financial services firm conducts the workshops and provides specialists for optional 1-on-1 meetings with participants. This approach facilitates the delivery of a custom equity compensation education program to companies of any size and geography for a low per-person cost.

Program Components:

A StockOpter® Personalized Education program generally spans multiple weeks and consists of the following 4 components:

- Personal Option Profile Creation: The company simply provides Net Worth Strategies with grant data and directs participants to go to a website to confirm their enrollments in the program (participation and program effectiveness is maximized when the invitation letter comes from the CEO). The grant data should include the vesting schedule and is typically provided in Excel format. The enrollment website (see sample at <http://www.scsproviders.com/NWSE>) consists of the following 6 sections and takes only about 10 minutes to complete:
 1. Overview of the program and a sample Personal Equity Compensation Profile
 2. Review of the data privacy policy stating that the survey and assumption data they provide here will be kept confidential
 3. Input of enrollment information: name, id, and email address
 4. Completion of equity compensation survey (3-6 questions on attitudes and perceptions)
 5. Input of personal financial assumptions including: value of diversified portfolio, financial goal, tax rates and number of shares held outright (default values are determined by the company)
 6. Selection of a workshop (group or 1-on-1) from a drop down menu

The enrollment website is typically open for approximately 2 weeks. Selected participants that do not visit the enrollment website still receive a Personal Equity Compensation Profile using default assumptions and they are contacted individually to schedule them for a workshop. After the enrollment window/website closes the reports are created, reviewed for accuracy, printed, bound, sealed in individual envelopes and then shipped in bulk to the company coordinator for distribution at the workshops. This process takes between 5-8 business days so the workshops generally begin about 2 weeks after enrollment closes.

Maximizing the Perceived Value of Equity Compensation

- Equity Compensation Education: The Personal Equity Compensation Profile reports are distributed at the workshop and the equity compensation planning specialist conducting the session takes the participants thru the concepts. This is done using a hypothetical employee while the participants follow along with their reports. The workshop usually covers additional topics such as taxation, plan features (i.e. swaps and reloads), decision criteria and the availability of additional assistance. At the end of the workshop the participants are asked to complete another equity compensation survey and a program questionnaire. The equity compensation survey is used to create the management report (see below) and the program questionnaire provides the presenting specialist with feedback on the presentation.
- Management Report Creation: The Management Report (*Appendix C*) is created using the equity compensation survey data that is collected before the workshop (using the enrollment website) and after the workshop (on a form at the back of the Personal Equity Compensation Profile). The forms are sent to Net Worth Strategies where the data is merged and a comparison of the before and after result are tabulated. The report is then sent to the program sponsors and explained by Net Worth Strategies and/or the participating advisory firm. The management report quantifies improvements in attitudes and the increases in perceived Forfeit Value[®] and upside leverage compared to the actual values contained in each participant's Personal Equity Compensation Profile. This report provides feedback on how employees view your equity compensation program and allows management to make appropriate enhancements going forward.
- Optional 1-on-1 Participant Consultations: The concepts that are contained in the report and explained in the workshop often lead to other questions that are best addressed 1-on-1. Employees will need to make a series of timely decisions regarding exercising vested grants and diversifying held shares. They will also need to consider taxes, cash-flow requirements and reinvestment alternatives. To address these needs participants can meet 1-on-1 with an equity compensation planning specialist to discuss their situation. These meetings are entirely optional and may involve a fee depending on the scope of work involved.

Program Phases and Tasks:

The tasks required to implement StockOpter[®] Personalized Education are divided into three phases:

- **Phase 1: Organization, Design and Development**
 - Organization meetings to identify company objectives, equity compensation education requirements, project timeline and staff requirements (officers within the company need to be involved to support and promote the program for maximum effectiveness)
 - Design, development, review and approval of Personal Equity Compensation Profile template (sample grant data is provided to Net Worth Strategies to create a "test" report)

Maximizing the Perceived Value of Equity Compensation

- Identification of program participants
- Workshop scheduling
- Design, development, review and approval of the engagement website for gathering personal assumptions, survey data, and workshop enrollments
- **Phase 2: Invitation, Enrollment and Report Creation**
 - Formal invitations (generally distributed by letter and email) sent to participants from the program sponsor (CEO is best) explaining the purpose of the program and how to enroll
 - The program website opens and the enrollment process begins (enrollees are emailed a confirmation)
 - The program website closes so that the profiles can be created
 - Final grant data provided to NWSI
 - Asserted data values provided to NWSI (Stock Price, Volatility, etc.)
 - Reports created, proofed, printed, bound and mailed to company contact (reports should not be distributed prior to the workshops because this will reduce attendance)
- **Phase 3: Workshop Delivery and Management Report Creation**
 - Workshop reminders are sent out to encourage attendance
 - Workshops are conducted
 - The equity compensation surveys and program questionnaires are completed by participants at the workshop, turned in to the presenter and forwarded to Net Worth Strategies
 - The Management Report is created by Net Worth Strategies and reviewed with the program sponsor

For more information on the StockOpter® Personalized Education contact Net Worth Strategies at 877-728-5964 or visit <http://www.EquityCompensationEducation.com>.

Appendix A: Glossary of Terms as Used in this Paper

Cost-Value Gap: The difference in value between the opportunity cost of an option calculated using the Black-Scholes formula, and the value of the option as perceived by and employee.

Opportunity Cost: As defined in the University of Illinois, Michigan State research, when firms issue employee stock options they “incur an opportunity cost equal to the market value of an unrestricted stock option (estimable with, e.g., Black-Scholes)”. In other words, the opportunity cost is the amount the company would have received if it sold unrestricted options to outside investors in lieu of granting those options to employees.

Option Value: Option value is found via a formula such as Black-Scholes or using a numerical method such as the Binomial model. For the purposes of this paper, we use the Black-Scholes value as the option value.

Black-Scholes Value: The present value of an option calculated using the Black-Scholes formula. Key variables used in calculating the value of an employee’s options are the expiration date of the option and the estimated future volatility of the stock price. These variables can easily be adjusted on an individual basis to reflect personal knowledge (such as a planned termination date) or beliefs.

Full Value: As used in this paper, full value is equivalent to the Black-Scholes value.

Forfeit Value[®]: The equity compensation value an employee forfeits if they were to leave the company today. It is the total of the Black Scholes value of the unvested options + the time value of the vested options + the gross value of any restricted shares.

Time Value: The portion of the Black Scholes value that is not currently in-the-money value (Time value = Black Scholes value – in-the-money value). The more time to expiration of the option, the larger the time value. As time passes, the time value decreases until it reaches zero at the expiration date.

In-the-Money Value: Also referred to as “Intrinsic Value”. It is the “Fair Market Value” of the stock minus the strike or exercise price times the number of shares (ITMV = FMV - Strike * Shares)

Cash-out Value: Also referred to as the “After Tax Value”. It is the In-the-Money value minus the potential tax (calculated by applying the combined state and federal rates).

Upside Leverage: The percentage change in total value given a 20% change in stock price. Stock options have leverage because a given percent increase in the strike price results in a larger increase in the in-the-money value of the option. Restricted or held shares have no leverage.

Maximizing the Perceived Value of Equity Compensation

Degree of Concentration: The percentage of an individual's investments held in company stock or options.

Insight Ratio[®]: A metric quantifying the remaining theoretical potential of a stock option. It is calculated by dividing the Time Value by the Black Scholes Value.

Appendix B: Sample Personal Equity Compensation Profile



Personal Equity Compensation Profile

for
Sandra L. Sample

Provided by:



StockOpter[®]
Equity Compensation Solutions

Ownership Matters™

Dear Sandra L. Sample,

This is your Personal Equity Compensation Profile report. Used in conjunction with the *StockOpter® Personalized Education Workshop*, 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 **9/28/2006** 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*®.
 - Using a presumed price of \$22.00 for NASDAQ stock, your "Stock Option Forfeit Value®" is: **\$1,170,861**
- ◆ **Company Stock Holdings:** This section provides information on Restricted Stock Grants, company stock holdings and your estimated total *Forfeit Value*®.
 - Using a presumed price of \$22.00 for NASDAQ stock, your "Total Forfeit Value®" (includes all stock-based awards) is: **\$1,555,861**
- ◆ **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.
 - If the price of NASDAQ stock should increase by 20%, the value of your employee stock options would increase by **85.71%**
- ◆ **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.
 - Assuming a price of \$22.00 for NASDAQ stock, **69.00%** of your investment assets are comprised of company stock and options.
- ◆ **Decision Framework:** This section will help you establish a framework for making informed decisions about when option exercises should be considered.

If after the *StockOpter® Personalized Education Workshop* you would like to discuss your *Personal Equity Compensation Profile* in detail we can schedule a one-on-one consultation. We can also meet to assess your personal tax situation and identify the most appropriate strategy for you to pursue.

Sincerely,

Equity Compensation Planning Specialist
Phone Number
Email Address

I. Stock Option Value for Sandra L. Sample

This section summarizes your current option holdings in **NASDAQ** and is divided into 4 sections, each of which look 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											
Current FMV	\$22.00			Vested		Unvested		Total			
Grant ID	Grant Type	Expiration Date	Strike Price	# of Options	ITM Value	# of Options	ITM Value	# of Options	ITM		
1 ISO 1998	ISO	10/01/08	\$15.25	40,000	270,000	0	0	40,000	270,000		
2 NQ 2000	NQ	01/01/10	\$41.00	40,000	0	0	0	40,000	0		
3 NQ 2002	NQ	01/01/12	\$20.00	40,000	80,000	0	0	40,000	80,000		
4 NQ 2003	NQ	01/01/13	\$13.00	30,000	270,000	10,000	90,000	40,000	360,000		
5 SAR 2004	SAR	01/01/14	\$20.00	20,000	40,000	10,000	20,000	30,000	60,000		
Grand Total						170,000	660,000	20,000	110,000	190,000	770,000

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 **40.0%** 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							
Current FMV	\$22.00	Vested					
Grant ID	Grant Type	Expiration Date	Strike Price	# of Options	ITM Value	Potential Tax	After Tax Value, Vested
1 ISO 1998	ISO	10/01/08	\$15.25	40,000	270,000	108,000	162,000
2 NQ 2000	NQ	01/01/10	\$41.00	40,000	0	0	0
3 NQ 2002	NQ	01/01/12	\$20.00	40,000	80,000	32,000	48,000
4 NQ 2003	NQ	01/01/13	\$13.00	30,000	270,000	108,000	162,000
5 SAR 2004	SAR	01/01/14	\$20.00	20,000	40,000	16,000	24,000
Grand Total						264,000	396,000

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 that would otherwise be invested in the stock for some other investment. Thus, 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: 40.0%

Risk Free Rate: 5.0%

Time stamp: 9/28/2006 5:29:10 PM

Current FMV		\$22.00		Vested		Unvested		Total	
Grant ID	Grant Type	Expiration Date	Strike Price	Time value	BSV	Time Value	BSV	Time value	BSV
1	ISO	10/01/08	\$15.25	102,861	372,861	0	0	102,861	372,861
2	NQ	01/01/10	\$41.00	122,807	122,807	0	0	122,807	122,807
3	NQ	01/01/12	\$20.00	335,189	415,189	0	0	335,189	415,189
4	NQ	01/01/13	\$13.00	150,162	420,162	50,054	140,054	200,216	560,216
5	SAR	01/01/14	\$20.00	199,858	239,858	99,929	119,929	299,787	359,787
Grand Total				910,878	1,570,878	149,983	259,983	1,060,861	1,830,861

Forfeit Value®

The forfeit value of your stock options could be viewed as the opportunity cost associated with leaving your company. This Forfeit Value® 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.

Using your data and assumptions, the current Forfeit Value® of your options is: **\$1,170,861**

II. Company Stock Holdings for Sandra L. Sample

Restricted Stock Awards

Your company has a Restricted Stock Award (RSA). RSAs are grants of company stock subject to a variety of restrictions to ownership that may include period of employment, performance of the company/division or personal performance. Because you do not own this stock when it is first granted, you are not taxed on the value. However, when the stock vests you will recognize compensation income equal to the fair market value (FMV) of the stock at the time of vest less the amount you paid for the stock (if any). Your RSAs and related values are shown in the table below.

StockOpter®		Restricted Stock Values			
Current FMV	\$22.00				
Grant ID	Grant Type	# of shares	Gross value	Potential Tax	After Tax Value
6 RSA 2005	RSA	7,500	165,000	66,000	99,000
7 RSA 2006	RSA	10,000	220,000	88,000	132,000
Grand Total		17,500	385,000	154,000	231,000

The "Gross Value" column represents the current value of each grant. It is calculated by multiplying the FMV by the number of shares. RSAs are taxable upon vesting so the tax upon vesting is based on the FMV at that time. The "Potential Tax" column is determined using your estimated marginal income tax rate (unless 83(b) was elected in which case your tax rate will be the capital gain rate). The "Potential Tax" is computed by subtracting your "Per Share Basis" (the amount you paid for the stock) from the "Current FMV" multiplied by your estimated marginal income tax rate. Your "Projected After-tax Value" for each grant is determined by subtracting your "Potential Tax" burden from the "Gross Value".

StockOpter®		RSA Tax Liabilities						
Potential share price >>		\$14.08	\$17.60	\$22.00	\$26.40	\$31.68		
Year	# of shares vesting	Tax liability for that share price					Shares required to 'sell to cover'	Net shares after 'sell to cover'
2007	5,000	28,160	35,200	44,000	52,800	63,360	2,000	3,000
2008	5,000	28,160	35,200	44,000	52,800	63,360	2,000	3,000
2009	5,000	28,160	35,200	44,000	52,800	63,360	2,000	3,000
2010	2,500	14,080	17,600	22,000	26,400	31,680	1,000	1,500

A tax liability will be owed in the year that a grant vests. This liability is based on the amount you have paid for the stock (which is typically zero) and your estimated marginal income tax rate of **40.0%**. The following table shows the tax liability you will owe in each upcoming year based on your current vesting schedule at various potential stock prices. The stock prices used in this table represent two 20% increments up and down from current FMV. The number of shares you would need to "sell to cover" your tax liability and the number of shares remaining after a "sell to cover" are shown in the last two columns. You should notice that the number of shares needed to cover your tax liability does not change as a function of the stock price.

One planning opportunity you may consider is called an 83(b) election. If you make an 83(b) election at the time of grant (must be made within 30 days of grant), your tax liability is set as of the grant date. You would recognize compensation income of the FMV times the number of shares at the time of grant. Any subsequent appreciation would qualify for capital gain treatment (long-term if held for more than 1 year). Please bear in mind that you owe this tax despite the fact that you do not own the shares. If you forfeit these shares before they vest, you are not entitled to a tax deduction or loss. Planning should be scheduled as soon as you become aware that you will be receiving stock under a restricted stock plan. Please consult your plan documents or your corporate Human Resources department for further guidance on the availability of this election.

Total Forfeit Value[®]

The Forfeit Value[®] of your stock options is an estimate of the value you would leave behind if you were to leave the employ of your company. This amount is not the in-the-money value of your vested options because you would be able to exercise your vested options. However, by exercising your vested options early, you will lose the remaining Time Value of those options. In addition, you will forfeit the entire value of your unvested holdings, including your restricted stock. Therefore, your Total Forfeit Value[®] is the sum of the Time Value of your vested options, the total Black-Scholes Value of your unvested options and the Gross Value of your restricted stock.

Your options have the following Forfeit Value[®]: \$1,170,861

Your restricted shares have the following Forfeit Value[®]: \$385,000

The current estimated total Forfeit Value[®] of your equity compensation: \$1,555,861

Owned Shares

In addition to your RSAs, you have indicated that you own shares outright (without restrictions) in your company. These may have come from prior exercises, vested Restricted Stock grants or purchases on the open market. We have included these shares in calculating your cash out value in the next section of this report. The following is a summary of the shares you have indicated you own:

StockOpter [®] Owned Shares Value	
Current FMV	\$22.00
# of shares	20,000
Gross Value	\$440,000
Basis	\$300,000
Taxable Gain	\$140,000
Potential Tax	\$21,000
Cash out value of owned shares	\$419,000

III. Investment Risk/Reward for Sandra L. Sample

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

		Based on Current Portfolio of Vested and Unvested Options, RSAs, and Owned Shares					
Future Stock Price	Incremental Change	Option ITM Value	Incremental Change	Share & RSA Value	Incremental Change	Option, Share & RSA Value	Incremental Change
\$9.01	-20.0%	\$0	0.0%	\$337,875	-20.0%	\$337,875	-20.0%
\$11.26	-20.0%	\$0	-100.0%	\$422,250	-20.0%	\$422,250	-26.1%
\$14.08	-20.0%	\$43,200	-84.5%	\$528,000	-20.0%	\$571,200	-39.1%
\$17.60	-20.0%	\$278,000	-63.9%	\$660,000	-20.0%	\$938,000	-41.2%
\$22.00		\$770,000		\$825,000		\$1,595,000	
\$26.40	20.0%	\$1,430,000	85.7%	\$990,000	20.0%	\$2,420,000	51.7%
\$31.68	20.0%	\$2,222,000	55.4%	\$1,188,000	20.0%	\$3,410,000	40.9%
\$38.02	20.0%	\$3,173,000	42.8%	\$1,425,750	20.0%	\$4,598,750	34.9%
\$45.62	20.0%	\$4,497,800	41.8%	\$1,710,750	20.0%	\$6,208,550	35.0%
\$54.74	20.0%	\$6,230,600	38.5%	\$2,052,750	20.0%	\$8,283,350	33.4%

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.

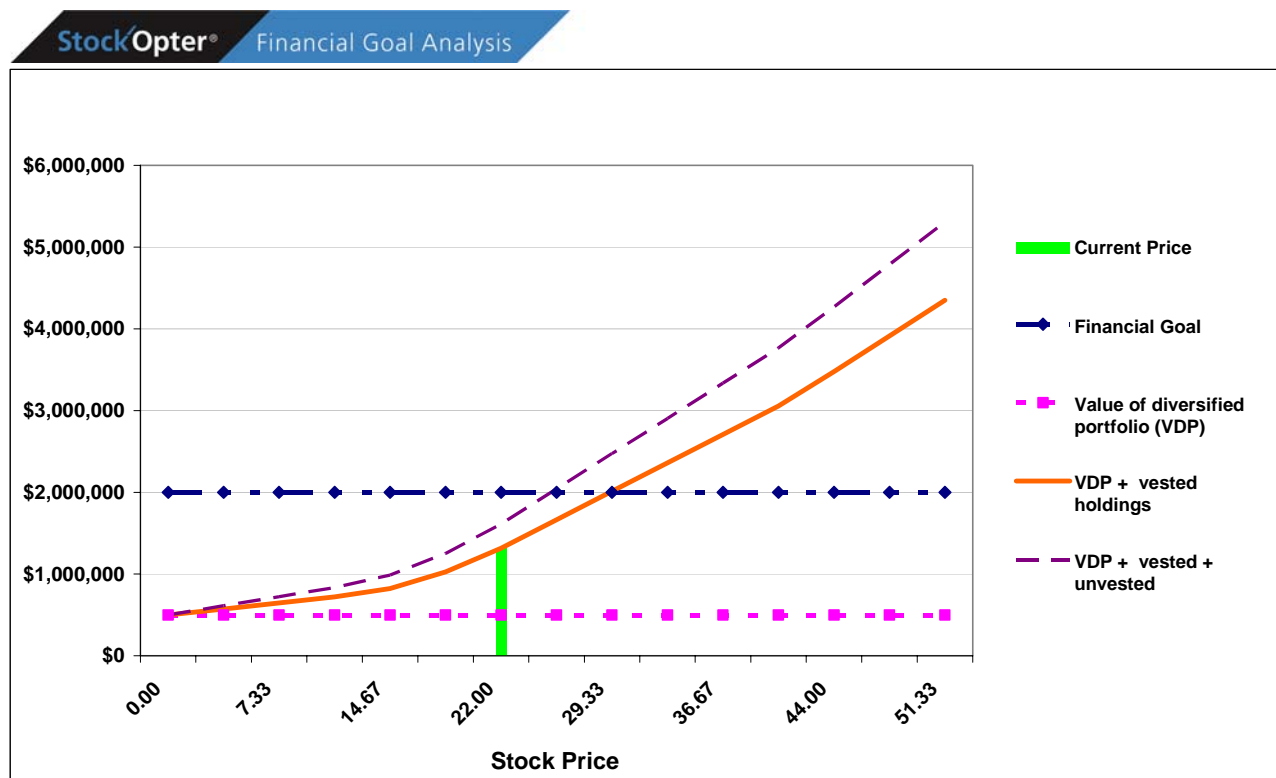
The incremental change in the value of your share and RSA portfolio remains the same as the incremental change in the price of the company stock. The value of your combined options, shares and restricted grants will also show incremental changes of greater than 20% but less than that of your options. This blended portfolio has less upside leverage but also less downside risk.

IV. Personal Risk/Reward for Sandra L. Sample

Financial Goal Analysis

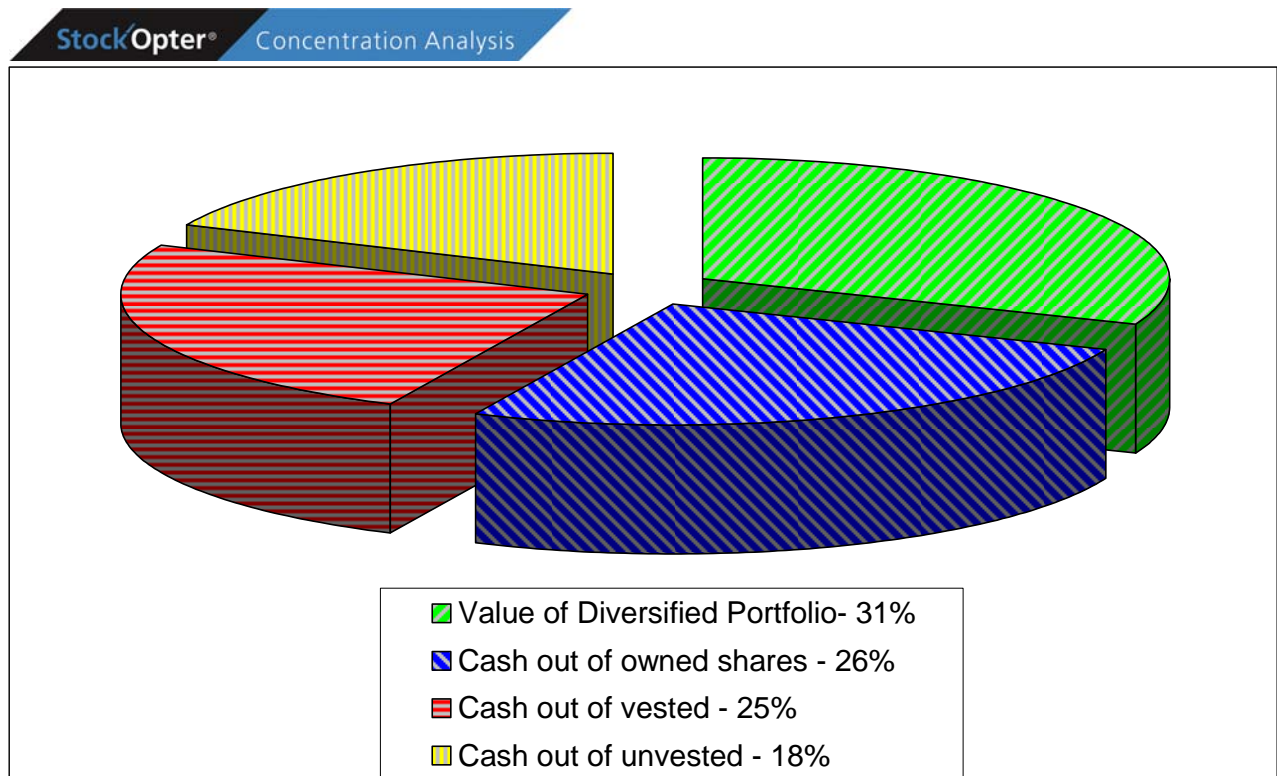
This section is designed to provide you with a personal context about the role your options play in achieving your financial goals. Your financial goal is achieved when you have secured, in a low risk investment portfolio, the amount of money required to meet the needs of you and your family. If your Financial Goal is already secured, then you can afford to take more risk with your options (like holding them until expiration). On the other hand, if your Goal is not secured, and particularly if you are approaching retirement, you may want to secure the In-the-money-value (ITMV) of your options.

Based on input you have provided, the following chart shows the current status of your Financial Goal in relation to your company stock and option holdings. The two horizontal lines are respectively your 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 this is not a future projection of wealth accumulation. Rather, this is a snap-shot of your current status, as indicated by the vertical green line on the chart, which also includes hypothetical values assuming alternative prices for your company’s stock. This analysis is in no way intended to represent potential future appreciation or depreciation in the value of your company’s stock. It is solely designed to provide you with perspectives related to the current stock price. 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 **NASDAQ** 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.



Value at Risk Analysis

In an attempt to further identify and convey the risk in your company stock and option position, we have adopted the Value at Risk (VaR) methodology used by many financial institutions to determine their exposure to negative economic events. VaR is computed using the same volatility of **40.0%** used in the Black-Scholes calculations. Using this methodology, under normal market conditions there is a 5% chance that you could lose **\$471,115** or more of the total in-the-money value of your company stock and vested options of **\$1,100,000** during the next 30 days. Please pay close attention to the phrasing "under normal conditions" and "or more". VaR methodology generally cannot provide an estimate for the size of losses in those scenarios where the VaR threshold is exceeded. It is possible that you could lose the entire cash-out value of your vested, in-the-money options and stock.

V. Decision Framework for Sandra L. Sample

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				
Current FMV	\$22.00	Based on current FMV		
Vesting Period	# of Options	ITM Value	Potential Tax	After Tax Value, Unvested
Jan-07	20,000	110,000	44,000	66,000

StockOpter® RSA Vestings				
Current FMV	\$22.00	Based on current FMV		
Vesting Period	# of shares	Gross Value	Potential Tax	After Tax Value, Total
Jan-07	5,000	110,000	44,000	66,000
2008	5,000	110,000	44,000	66,000
2009	5,000	110,000	44,000	66,000
2010	2,500	55,000	22,000	33,000

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 ratio of your *Total Cash-Out Value* plus the *Value of your Diversified Portfolio* of \$1,315,000 to your *Financial Goal* of \$2,000,000 is: 65.75%

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. The table below shows two ratios that are highly correlated so you may consider selecting just one as your primary focus for building a decision-making framework.

- Insight Ratio®:** 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®. An option with a low Insight Ratio® 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.
- VaR Ratio:** This ratio is the Time Value divided by the VaR (value at risk) for each vested option. It is a comparison of the theoretic potential (Time Value) to the theoretic risk of the option at the current time. The lower the TV/VaR percentage, the more compelling is the argument for diversifying the option. For example, a ratio of 25% means that the theoretic risk is 4 times as large at the theoretic potential. Please note, while the value of this ratio could be infinitely large, a 1,000% ceiling has been asserted.

Current Stock Price: \$22.00

Volatility: 40.0%

Risk Free Rate: 5.0%

Time stamp: 9/28/2006 5:29:10 PM

StockOpter®		Insight & VaR Ratios								
Grant ID	Grant Type	Expiration Date	Strike Price	ITM Value	Time value	VaR	VaR Ratio	BSV	Insight Ratio®	
1	ISO 1998	ISO	10/01/08	\$15.25	270,000	102,861	156,051	65.92%	372,861	27.59%
2	NQ 20000	NQ	01/01/10	\$41.00	0	122,807	0	1000.00%	122,807	100.00%
3	NQ 2002	NQ	01/01/12	\$20.00	80,000	335,189	80,000	418.99%	415,189	80.73%
4	NQ 2003	NQ	01/01/13	\$13.00	270,000	150,162	117,038	128.30%	420,162	35.74%
5	SAR 2004	SAR	01/01/14	\$20.00	40,000	199,858	40,000	499.64%	239,858	83.32%
Grand Total					660,000	910,878	393,090		1,570,878	

You need to take into consideration your planning horizon and risk profile. 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	VaR Ratio	Insight Ratio®
Short / Conservative	Less than 150%	Less than 50%
Medium / Moderate	Less than 100%	Less than 30%
Long / Aggressive	Less than 50%	Less than 10%

Additional Resources

The report and the accompanying workshop 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 assistance from a financial advisor who specializes in equity compensation planning. Here are a few of the many reasons you may want to enlist the assistance of an 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 10%.
- 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 *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 *Personal Equity Compensation 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 *Personal Equity Compensation 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 **40.0%** for **NASDAQ** 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

Issuing Corporation Information and Black-Scholes Model Assumptions:

Ticker symbol of corporate stock: _____ NASDAQ
 Current share price of corporate stock: _____ \$22.00
 Dividend of corporate stock: _____ \$0.00
 Risk-free rate of return: _____ 5.0%
 Est. Volatility of corporate stock: _____ 40.0%

Tax Rate Assumptions:

Est. Fed/State income tax: _____ 40.0%
 Est. Fed/State cap gains rate: _____ 15.0%

Portfolio Status Report Assumptions:

Financial Goal: _____ \$2,000,000
 Value of Diversified Portfolio: _____ \$500,000
 Number of owned shares: _____ 20,000
 Cost basis of owned shares: _____ \$300,000

Appendix B: Grant Summary

StockOpter®		Grant Summary						
Grant ID	Type	Date of Grant	Strike Price	Expiration Date	Vested Shares	Vesting date	Shares Vesting	
1	ISO 1998	ISO	10/01/98	\$15.25	10/01/08	40,000	N/A	N/A
2	NQ 2000	NQ	01/01/00	\$41.00	01/01/10	40,000	N/A	N/A
3	NQ 2002	NQ	01/01/02	\$20.00	01/01/12	40,000	N/A	N/A
4	NQ 2003	NQ	01/01/03	\$13.00	01/01/13	30,000	N/A	N/A
4	NQ 2003	NQ	01/01/03	\$13.00	01/01/13	0	01/01/07	10000
5	SAR 2004	SAR	01/01/04	\$20.00	01/01/14	20,000	N/A	N/A
5	SAR 2004	SAR	01/01/04	\$20.00	01/01/14	0	01/01/07	10000
6	RSA 2005	RSA	01/01/05				N/A	N/A
6	RSA 2005	RSA	01/01/05	\$0.00	N/A	0	01/01/07	2500
6	RSA 2005	RSA	01/01/05	\$0.00	N/A	0	01/01/08	2500
6	RSA 2005	RSA	01/01/05	\$0.00	N/A	0	01/01/09	2500
7	RSA 2006	RSA	01/01/06	\$0.00			N/A	N/A
7	RSA 2006	RSA	01/01/06	\$0.00	N/A	0	01/01/07	2500
7	RSA 2006	RSA	01/01/06	\$0.00	N/A	0	01/01/08	2500
7	RSA 2006	RSA	01/01/06	\$0.00	N/A	0	01/01/09	2500
7	RSA 2006	RSA	01/01/06	\$0.00	N/A	0	01/01/10	2500

Appendix C: Survey Questions for Sandra L. Sample

The following questions address your knowledge of and attitudes towards your employee stock options and other equity compensation if any. These questions correspond to the survey you completed electronically during the enrollment process.

Your responses will be kept confidential and only aggregate data will be reported from the data you supply here. Please complete this survey, detach it and seal it in the accompanying envelope for collection.

	Strongly Agree				Strongly Disagree
1. My stock options and other equity compensation, if any, encourage me to work harder to contribute to the financial performance of the company.	5	4	3	2	1
2. My stock options and other equity compensation, if any, encourage me to continue my employment with the company.	5	4	3	2	1
3. I am confident that I can make timely and tax efficient decisions regarding my stock options and company stock.	5	4	3	2	1
4. If the price of the company stock were to increase 20%, the value of my stock option holdings would increase by about...					%
5. Of my total investment assets, my company stock and option holdings are about...					%
6. If I were to leave the company today, the total equity compensation value that I would forfeit, in U.S. dollars, would be about...					\$

**Appendix C: Sample Report of Perceptions Before/After
Education**

StockOpter® Personalized Education

ABC Company *Summary Findings*

This report is for evaluation purposes only and contains representative but hypothetical data. For more information contact Net Worth Strategies at 877-728-5964.

This report summarizes the results of the survey that was administered before and after the StockOpter® Personalized Education workshop. The information represented below is a comparative illustration of the participants’ attitudes and understanding of their equity compensation holdings before and after the program.

ABC Company Participants: 125

Section 1: Attitudes

The first section of the survey addressed the attitudes the participants had towards their company stock and options. The participating employees were asked the following three questions before and after the program:

1. My equity compensation (stock options, restricted stock, etc.) encourage me to work harder to contribute to the financial performance of the company.
2. My equity compensation encourages me to continue my employment with the company.
3. I am confident that I can make suitable, timely and tax efficient decisions regarding my equity compensation awards.

Attitude Question Averages Before and After StockOpter® Personalized Education

Question	Before	After
1: Work Harder	3.93	4.19
2: Increase Loyalty	3.52	4.04
3: Decision Confidence	2.96	3.78

Rating Scale: 1= Strongly Disagree - 5= Strongly Agree

Section 2: Understanding

The second section of the survey asked participants to answer the following quantitative questions before and after the program. This was done asking the following three questions:

1. *Forfeit Value*®: If I were to leave the company today, the value of my equity compensation I would forfeit would be about what amount?
2. *Upside Leverage*: If the price of the company's stock were to increase 20%, the value of my option holdings would increase about what percentage?
3. *Concentration*: Of my total investment assets, my total equity compensation and company stocks are about what percentage?

Below we analyze participant responses two ways. First, by reporting the average responses and then by reporting the distribution of responses.

Averages:

Average Values	Before	After
<i>Forfeit Value</i> ®	\$25,200	\$275,300
<i>Upside Leverage</i>	33%	136%
<i>Concentration</i>	12%	42%

Population Distributions:

Pre-Program to Actual	Forfeit Value®	Post-Program to Actual
% of population	Description of Result	% of population
0%	Correctly estimated Forfeit Value®	86%
7%	Overestimated Forfeit Value®	5%
3%	Underestimated by a factor less than 2x	5%
12%	Underestimated by a factor between 2x – 3x	4%
27%	Underestimated by a factor between 3x – 4x	0%
51%	Underestimated by a factor over 4x	0%
100%		100%

Pre-Program to Actual	Upside Leverage	Post-Program to Actual
% of population	Description of Results	% of population
0%	Correctly estimated leverage	74%
12%	Overestimated leverage	9%
9%	Underestimated by a factor less than 2x	11%
19%	Underestimated by a factor between 2x – 3x	6%
25%	Underestimated by a factor between 3x – 4x	0%
35%	Underestimated by a factor over 4x	0%
100%		100%

Pre-Program to Actual	Concentration	Post-Program to Actual
% of population	Description of Results	% of population
20%	Correctly estimated concentration	80%
35%	Overestimated Concentration	10%
15%	Underestimated by a factor less than 2x	10%
20%	Underestimated by a factor between 2x – 3x	0%
10%	Underestimated by a factor between 3x – 4x	0%
0%	Underestimated by a factor over 4x	0%
100%		100%