Brighton Jones™

Perspectives

NAVIGATING STOCK PLANS

Live a richer life.

If you've got equity, you probably have questions.

Stock options and stock grants are common in the compensation packages of our clients. And from our conversations, we realized that it doesn't matter how knowledgeable clients are about stock or the technical workings of stock options, since that information is available on the web or from the HR department. What matters most when we talk about equity compensation—what to do with it and when—is their personal situation right here, right now.

Like so many of the conversations we have with our clients, it isn't so much about value as it is about values. What drives these decisions is where you are in your life, the specifics of your financial situation, and your goals and aspirations for the future. Working with you within that context will inform our recommendations.

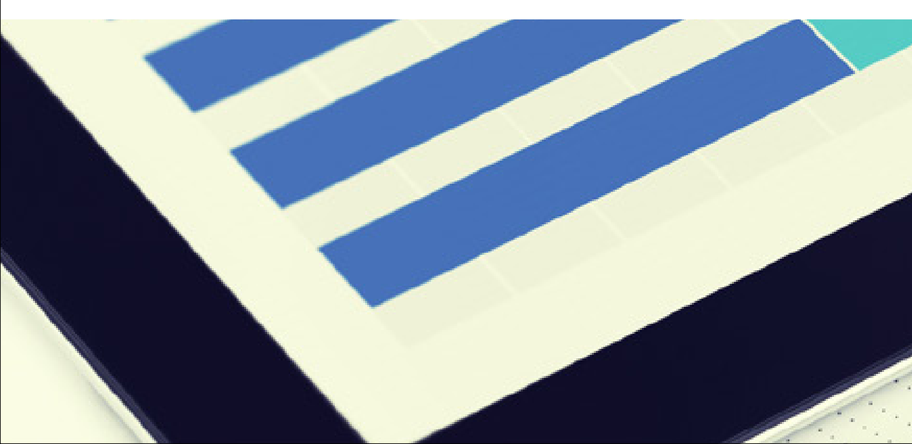
Things to know and questions to ask.

If you read the previous page, then you already know the answer to your question is, "It depends." That being said, it can be helpful to understand some of the jargon and concepts that come up when you're talking about equity compensation, including taxes.

Employee Stock Options (ESO) are simply the option, but not the requirement, to buy company stock at a pre-set price. Incentive Stock Options (ISO) are different from Non-Qualified Stock Options (NQ). ISOs have the potential for favorable capital gains tax treatment, but to get it you have to accept more risk by incurring out-of-pocket costs and satisfying holding period requirements. Once you hear about ISOs and Non-Quals, you're likely to hear someone mention the Alternative Minimum Tax (AMT), Qualifying Disposition, or maybe an Employee Stock Purchase Plan (ESPP). At some point, someone usually mutters TMI (too much information).

You'll want to understand any restrictions specific to your equity. The vesting period—when you are allowed to actually sell stock or exercise your options—is the most important thing to know. If you're a company executive or early investor with an IPO in your future, you'll want to understand the lockup period for your holdings. It's typically a 180-day restriction on transactions. Often shares earned, granted, or purchased prior to an IPO are "restricted" with a legend that must be removed before a sale can take place, which typically requires legal counsel.

Tax can be unavoidable, so the ultimate goal should be to understand the most efficient tax strategies available to you and any risks that go along with them. In all cases, you should consult an expert, like Brighton Jones, to discuss your unique situation. Brighton Jones has an integrated team of experienced and credentialed professionals, including in-house CFPs and CPAs, who can provide proactive investment, financial and tax planning strategies within the context of your overall life plan.



What is my holding period?

- The holding period starts on the date that shares are purchased or received as compensation. It includes weekends and holidays. In order to receive long-term capital gains tax treatment, shares must be held for 12 months except in the case of shares resulting from ISOs. Shares resulting from ISOs must be held for 12 months from the date of exercise and 24 months from the grant date to be considered a Qualified Disposition and receive long-term capital gains tax treatment.

Can I pre-pay tax?

- In certain instances, yes. Filing an 83b election allows you to use the price on the grant date (rather than the vesting date) to calculate tax owed. This applies to stock grants, and can be a beneficial tax strategy.

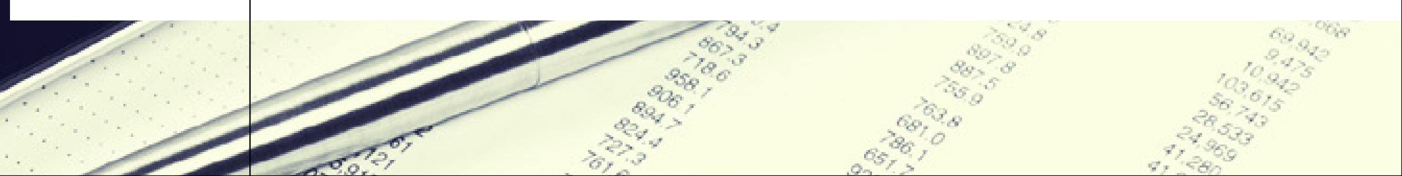
Can I exercise my options before I want to sell? What tax would I owe if I did?

- Yes, you can exercise and hold your options, provided you're not in a lock-up following an IPO where generally all transactions are prohibited. You're taxed on option exercises the same regardless of whether you hold the shares or sell them (Exercise & Sell vs. Exercise & Hold); the difference between the exercise cost and fair market value—a.k.a. the Intrinsic Value—is income to you.

  A potential benefit of an Exercise & Hold strategy is that any appreciation of the shares after the exercise is assessed at capital gains rates, which can be favorable if you meet long-term holding period requirements. An important factor to note is that with an Exercise & Hold transaction you have to come out-of-pocket for the cost of the options and the tax owed. Whereas with an Exercise & Sell transaction a portion of the sale proceeds covers the cost of the options and tax withholding—also referred to as a "cashless exercise."

Can gifting to charity help me avoid paying tax?

- Yes, for shares not options. Gifting shares to charity completely avoids capital gains tax. By gifting shares rather than gifting cash from a sale of shares, you avoid realizing and paying tax on a capital gain, and you're still eligible for a tax deduction for the full fair market value of the shares. Tax deductibility is subject to certain limitations, so consult your tax advisor to review your situation.



When it's time to exercise.

Before you make a move to exercise options or sell shares, you'll want to take care of some logistical matters and be clear on any restrictions that might exist.

Who is the Transfer Agent holding the equity, what's their process, and how will proceeds be delivered?

- Transfer Agents (i.e. Computershare, American Stock Transfer Company, BNY Mellon, etc.) are trust companies, banks, or similar financial institutions. They maintain records of investors, account balances, transactions, issue (and cancel) certificates, process investor mailings, and deal with any associated issues on behalf of the company.

How is tax assessed and reported from any sales or option exercises?

- How tax is assessed is going to depend on the type of equity and manner of disposition. Activity will be reported on a 1099 issued by the Transfer Agent.

Know the lockup period for your holdings.

- As mentioned earlier, there may be restrictions in place that dictate when you're allowed to exercise or sell shares around an IPO—and it's also possible these will be waived or amended by the underwriter.

Know your company's policy for transacting.

- Most companies will restrict employees with non-public information from transacting in the weeks leading up to earnings announcements. You can obtain information on your company's restrictions from the general counsel's office.

Understand the process for exercising your options or removing the legend from restricted shares.

- The process by which an insider executes sales and option exercises can vary. Often shares earned, granted, or purchased prior to a public filing are "restricted" with a legend, and having that legend removed is required before a sale can take place. This often requires a legal opinion, which can take some time to procure.

- Also, certain insiders are required to file forms with the SEC prior to executing sales or options; this also requires pre-clearance from counsel.

If appropriate, set up an account where you can get automatic approval for sale.

- It may be necessary to open an account or otherwise put authorizations in place in order to transact. This legwork can be done well in advance of a public offering or trading window.

The bigger picture.

When it comes to evaluating and making strategic decisions about your equity holdings and other investments, we think it's best to do it in the context of your overall financial plan. An understanding of that broader landscape helps inform decisions about such things as the best time to sell or how much liquidity you need.

Investing in your future

What are your long-term goals? Knowing where you're heading is the best way to get started on a plan. How much do you need to save? How much can you afford to spend? Brighton Jones uses a customized "Vocational Freedom Analysis" to help you create a dynamic plan geared specifically to your goals and objectives. Retirement should be a time to embrace life and do what you enjoy most—travel with your family, spend more time being active outdoors or simply take time for yourself. For every one of our clients we want to define a point where the portfolio can replace a paycheck whether or not they continue to work. What would you do with that kind of "vocational freedom"?

Strategic investment plan

It's important to have an investment philosophy. What's yours? At Brighton Jones we believe that markets are an ally, not an adversary. Our investment approach is guided by enduring principles that apply consistently to all aspects of our portfolio management process. Starting with a detailed Cash Needs Analysis we define risk capacity and create an individualized investment plan for you. Our disciplined approach to investing protects your cash needs and positions your portfolio for long-term growth.

Managing a complex financial picture

You have complex needs and risks to address. Our holistic approach to wealth management defines each and creates a multi-faceted plan to address your individual circumstances and goals. Weaving together investment planning, tax planning, insurance, estate planning, retirement planning, company benefits, education funding, and any other financial decision you might be faced with, Brighton Jones creates a unique plan for you. And because we don't sell any products, you can be assured that any advice we give is truly in your best interest.

What will your legacy be?

We work with clients to focus on "Vocational Freedom" but it doesn't stop there. Planning a legacy is a complex path that involves estates, wealth transfer, and philanthropy. At the end of the day, what matters most is that your assets work for you and leave the mark you intend. At Brighton Jones we work diligently to make sure that you accomplish your legacy in the most efficient and tax effective way possible.

Brighton Jones™

Wealth management you can understand.
And that understands you.

Built on years of expertise creating personalized financial solutions, our approach is fueled by a deep understanding of the people we serve. We sit on the same side of the table as our clients and speak the same language. This creates a partnership that thrives on transparency, accountability, and collaboration, and results in a comprehensive investment philosophy focused on protecting what you've earned and putting it to work so that you can live a richer life.

Whether you have a specific question, or are just curious about how we might be able to help you, please call or visit brightonjones.com.

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