

# It Is Q3 - 2009: Do You Know How to Optimize Your Company Stock?

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## SNAPSHOT

**It has been a challenging two years for equities and that includes company stock and stock options held by executives. Here are just a few key issues you need to consider right now.**

### Be Prepared for the Last Trading Window of the Year.

**Y**OUR LAST OPPORTUNITY TO sell company shares this year will probably occur sometime after the release of your company's

and know how many and which shares you need to sell to meet your tax and cash flow requirements.

If you exercised Incentive Stock Options (ISOs) in 2009 and you are still holding the stock, the upcoming window will be your last chance to consider selling those shares in the

current tax year. You may be holding ISO shares until they qualify for long term capital gains treatment. But, you may want to consider a sale before year end if your company's share price has

third quarter earnings. When that window opens, you should be prepared

declined since the exercise date. The issue here is the alternative minimum

tax or AMT. The rules are complicated and we will advise our clients who exercised ISOs in 2009 to work with us and a qualified tax professional to estimate this year's tax liability based on a current share price.

You may need to use this final window of the year to sell company shares to manage capital gains or losses, or to meet cash flow needs. This is another area where it is important to coordinate any financial planning decisions with a CPA.

### Have You Considered a 10b5-1 Plan?

**I**F YOU WANTED TO SELL AT higher prices before the market decline last year, but could not due to insider trading restrictions, you may want to consider a 10b5-1 plan. These plans can be set up to sell specific numbers of shares at specific prices in the future, regardless of trading restrictions that apply at the times of the sales. You must not be aware of material inside information when the plan is established and the plan must meet a number of other requirements.

The good news is that it is generally easy to set up a plan. Find out if your company has a policy on 10b5-1 plans. For example, the company may require that a 10b5-1 plan be set up during a trading window.







## Understand the Net Unrealized Appreciation (NUA) Rules.

**M**ANY EXECUTIVES ARE not aware that they have a cost basis for capital gains purposes in their 401(k) company stock. You need to take this in to consideration before you transfer in or out of company stock in your 401(k). NUA is a timely topic given the current volatility in the stock market and the high number of people who are changing jobs.

You can elect NUA if you receive company stock as part of a lump sum distribution from your 401(k) on separation from service (before age 55 a 10% penalty applies on the cost basis only), disability, death, or attainment of age 59½. This applies to shares attributable to employer and pre-tax employee contributions.

After-tax employee contributions are handled a bit different; the lump sum rule and the penalty prior to age 55 do not apply.

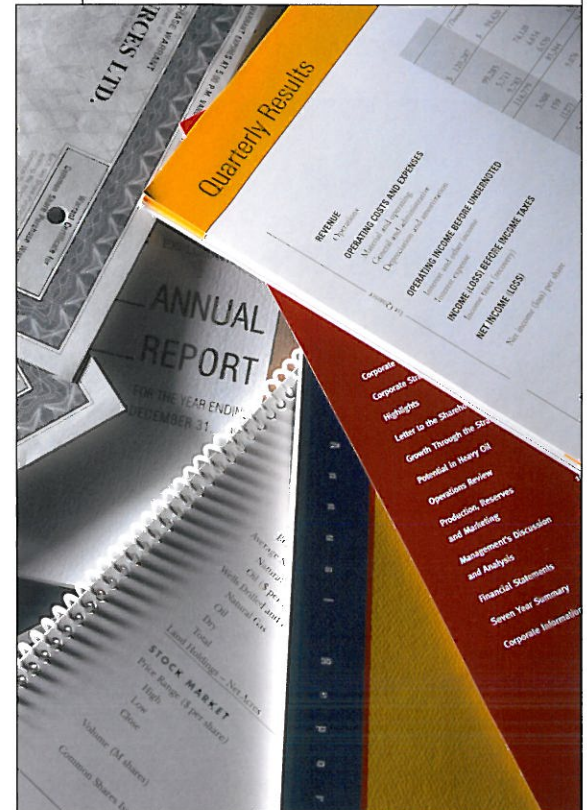
You must pay regular income taxes, and any penalties, on your cost basis in the year the company stock is distributed. When the stock is ultimately sold, you pay long term capital gains taxes on any appreciation that occurred while the stock was in the plan and short or long term capital gains taxes on any appreciation that occurred after the date of the distribution. NUA treatment is lost on any company stock that is transferred or rolled over to an IRA.

Your 401(k) plan administrator is a good place to start if you want to know how NUA applies to your specific 401(k) plan. Make sure you involve your qualified tax professional before you make this election.

## Know How Your Company Stock Plans Work.

**A**S AN EXECUTIVE, A SIGNIFICANT portion of your compensation is probably in the form of company stock. Because of today's lower prices, stock and stock option awards you receive now may prove to be very valuable later on. If you would like a better understanding of the financial planning opportunities inherent in your company stock plans, we can help. At MKA, we have over 35 years experience working with executives,

with a particular focus on retirement, deferred compensation and stock option and company stock financial planning. Please call Mike McMath at 781-939-6090 or e-mail Mike at [mmcmath@mkaplanners.com](mailto:mmcmath@mkaplanners.com) if you have any questions. **MKA**



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