MANAGING A CONCENTRATED EQUITY POSITION

Strategies for protecting and diversifying highly concentrated holdings.

RAYMOND JAMES®

Diversifying a Highly Concentrated Position Can Help Reduce Your Risk.

One common aspect of wealth management is having too much of your wealth concentrated in one asset or, simply put – too many eggs in one basket.

Often, the very asset that helped create significant wealth is the one that poses the biggest risk to your future financial security. Highly concentrated positions may come as a result of:

- The sale of a closely held business for shares of a publicly traded company
- Stock and option incentives from your employer
- A large inheritance comprised of a significant position in a single security
- Long-term fundamental investing

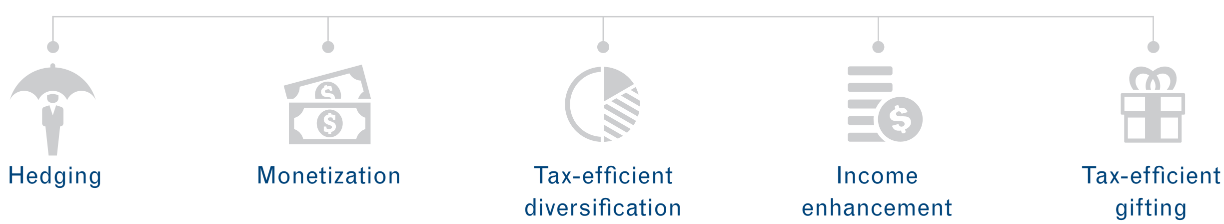
While each of these scenarios can create wealth within a family, they can also lead to the accumulation of a disproportionately large concentration of net worth in one security. This type of concentrated equity position can add significant risk and volatility to your portfolio, since price changes in the security can have a major effect on the overall wealth and future financial security of you and your family.

You may find that managing a concentrated equity position poses a myriad of complex issues, including taxes triggered by the sale of the stock, emotional attachment to the stock, bullish sentiments on the stock's future or concerns about insider status in the case of company employees. These issues have been known to immobilize an investor from taking appropriate action to neutralize risks related to the concentrated stock position.

Your Raymond James financial advisor is trained to help you objectively assess the pros and cons of carrying such a large position in your portfolio, and help you determine an appropriate strategy to mitigate concentration risks.

This brochure provides an overview of various strategies designed to help you manage a highly concentrated position within the context of your overall portfolio. Of course, as with all investment decisions, you should consult with your financial and tax advisors to help you determine the most suitable course of action based on your individual circumstances.

CONCENTRATED EQUITY STRATEGIES:



Diversification and strategic asset allocation do not ensure a profit or protect against a loss. Investments are subject to market risk, including possible loss of principal.

HEDGING

A hedging strategy will allow you to retain the stock position and any ownership rights through options and other types of derivative securities. This approach also can help protect against downside risk by allowing you to specify the amount of risk you're willing to accept. You may then control that risk for a fixed premium.

PROTECTIVE PUTS

One common way to hedge the downside risk of a large holding is to buy "put" options. A put option gives you the right to sell the underlying stock at a predetermined strike price on or before a specified maturity date. This can provide you with protection in the event that your stock trades below the predetermined strike price.

This strategy limits potential losses while preserving upside potential. However, this strategy can be expensive. Contracts must be renewed continually, and you can lose the full premium in a short period of time. This strategy raises the breakeven price on the underlying security by the amount of the put premium.

LOW COST COLLARS

Collaring the stock position is one strategy that can be used to offset some of the costs associated with purchasing protective puts. A collar involves the purchase of a protective put and the sale of a covered call. When selling a call option you receive an upfront premium, and are obligated to sell the stock at a predetermined strike price. If the stock appreciates above the strike price, it may be sold, thus limiting your potential upside in the stock and triggering capital gains taxes. You can use the premium received from selling the call to pay for some, or all, of the premium required to purchase the protective put. Collaring can hedge downside risk in a stock without incurring the full cost associated with a protective put.

Be aware that collars executed in the listed options market may incur significant transaction costs since they involve multi-leg option strategies.

OPTIONS CONSIDERATIONS

While one or more hedging alternatives may be appropriate to help decrease the risk associated with a concentrated position, it is important to remember that options themselves incur risk and are not suitable for all investors.

Options may be executed in the listed or over-the-counter ("OTC") markets. Often, investors with larger positions (greater than $1 million) who meet certain net worth requirements can benefit from the customization of the OTC market. However, OTC options are exposed to the credit risk of the counterparty on the trade. When purchasing a put option, make sure to choose a strike price below the Lowest Qualified Benchmark* ("LQB") to avoid a deemed sale or end the holding period.

You should obtain a copy of a current Options Disclosure Document from your financial advisor or from the address on the back cover of this brochure before choosing these types of strategies. Supporting documentation for any claims (including claims made on behalf of our options programs or our options expertise), comparisons, recommendations, statistics or other technical data is available upon request.

*In most cases, the LQB is the highest strike price available on an option market that is less than the current price of the underlying stock.

FEES

Fees vary by transaction and are generally 3% or less. The size, duration and structure of the collar impact the fee, which is built into the structure and may affect the calculated floor and/or ceiling values of the OTC collar.

Sample OTC Collar Transaction	
Number of shares	100,000
Current price	$50
Total value	$5,000,000
Put (floor) price	85% ($42.50)
Call (ceiling) price	110% ($55.00)
Net premium*	0% ($0)
TERM	12 MONTHS

SHARE DELIVERY

Closing Price	Client's Value	Client's Total Value	Value Protected	Profit Participation
$25	$42.50	$4,250,000	$1,750,000	$0
$37.50	$42.50	$4,250,000	$500,000	$0
$42.50	$42.50	$4,250,000	$0	$0
$50	$50	$5,000,000	$0	$0
$51	$51	$5,100,000	$0	$100,000
$55	$55	$5,500,000	$0	$500,000
$75	$55	$5,500,000	$0	$500,000

This example is for illustrative purposes only and does not reflect the performance of any specific investment.

*Net premium may vary based on the terms of the structure.

SELECTED U.S. COMPANIES DECLARING BANKRUPTCY: 1987 – PRESENT

Adelphia Communications

Bank of New England

Bethlehem Steel

Boston Chicken

Burlington Industries

Charter Medical

Circuit City Stores

Columbia Gas Systems

Conseco

Delphi Corporation

Delta Airlines

Drexel Burnham Lambert

Eastern Airlines

Enron

Federated Dept. Stores

Financial Corp. of America

Fruit of the Loom

General Motors

Global Crossing

IndyMac Bancorp, Inc.

Kmart

Lehman Brothers Holdings, Inc.

Magellan Health Services

Montgomery Ward

Nortel Networks

Pacific Gas & Electric

Polaroid

Refco Inc.

Rockefeller Center Properties

Spiegel

Sunbeam

Texaco

Texas American Bancshares

Tribune Company

Tropicana Entertainment, LLC

UAL (United Airlines)

Washington Mutual, Inc.

Winn-Dixie Stores

WorldCom

The table above is meant for illustrative purposes only and not designed to represent a complete list of all bankruptcies. Source: bankruptcydata.com

MONETIZATION

Monetization is a way of generating cash from a stock position. As an alternative to the outright sale of a concentrated position, there are other techniques that may be more appropriate from a tax-planning perspective, so be sure to consult your tax professional to determine which, if any, are appropriate for your individual circumstances.

OUTRIGHT SALE

The most obvious method to reduce the risk of a concentrated position is to simply liquidate a portion of the stock and use the proceeds to invest in a more diverse group of securities. However, selling outright may result in significant capital gains taxes related to the low cost-basis of the stock. Selling shares and paying the subsequent taxes may be the most immediate and appropriate action for your portfolio, so keep in mind that you should avoid basing the decision to sell exclusively on the impact of taxes.

AFFILIATE TRANSACTION PLANS (10b5-1 PLANS)

10b5-1 plans offer a valuable solution for executives who often find they are prohibited from executing trades in their employers' stocks for as many as nine months of the year. These periods are often referred to as the "Blackout Periods."

Rule 10b5-1 creates an affirmative defense to charges of insider trading for an executive transacting in his or her company's stock.

Rule 10b5-1 says that, so long as the plan is adopted at a time when the executive has no material, non-public information, the executive is protected from insider trading liability even if he or she has material, non-public information at the time the transaction actually occurs.

Please be aware, corporations will frequently have restrictions on the sale of their own stock by insiders that may far exceed the restrictions discussed above.

Rule 10b5-1 plans can be used to buy or sell stock, exercise stock options, or facilitate other transactions in an executive's stock including certain hedging and monetization strategies. One of the key features of these plans is that they can be tailored to each individual's specific set of circumstances. This allows an executive to define the number of shares or dollar values, prices at which executions can occur and the timing of transactions over the course of the plan.

Raymond James has several plan templates that can be used for various transactions by corporate insiders. Your financial advisor can help you determine the inputs that best fit your objectives and facilitate the execution of a 10b5-1 plan.

VARIABLE PREPAID FORWARD

A variable prepaid forward ("VPF") is another common technique for monetizing a large stock position that addresses some of the common concerns associated with an immediate sale. A VPF provides similar protection to a collar, but with the added benefit of an immediate cash payment. A VPF is an agreement to sell a variable number of shares at a specified future date (typically one to three years) in exchange for an upfront cash payment. This cash advance is normally between 70% and 90% of the stock's current market value and is determined based on factors such as the stock position, size, interest rates, volatility, duration and structure.

It is important to note that VPFs protect against losses related to downside movement in the stock price (at an amount equal to the initial cash payment) but may also limit potential upside in the stock. At the contract's expiration, you're responsible for delivering a specific number of shares (or the cash equivalent) as determined by the stock price at maturity. Taxes are generally deferred until the contract expiration date. Seek counsel from your tax advisor about your specific situation because tax considerations may impact this strategy.

Potential benefits of a VPF include the ability to:

- Invest initial proceeds in other holdings to diversify your portfolio
- Maintain limited upside in the performance of the concentrated stock
- Continue to receive current dividends
- Maintain your voting rights
- Potentially defer capital gains taxes associated with the eventual sale

Fees charged in a VPF vary by transaction and are generally 3% or less. Factors such as the size, duration and structure of the VPF impact this fee, which is built into the discount on the upfront payment.

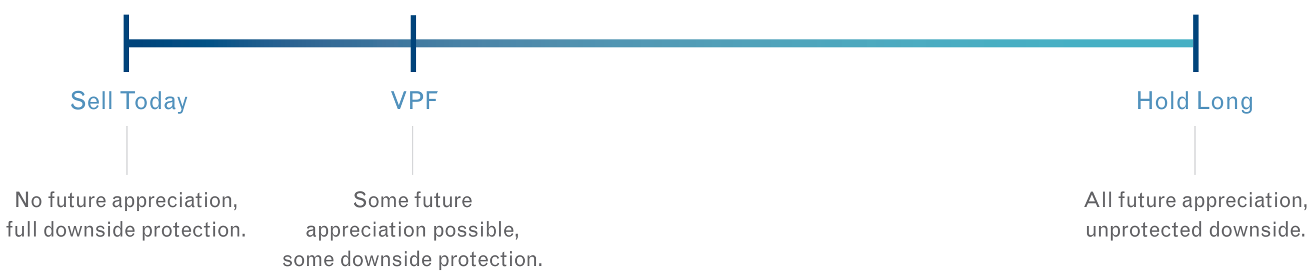
Sample VPF Transaction	
Number of shares	100,000
Current price	$50
Total value	$5,000,000
Put (floor) price	100% ($50)
Call (ceiling) price	120% ($60)
Upfront payment	85% ($4,250,000)
TERM	24 MONTHS

SHARE DELIVERY

% Change	Stock Price	Shares Delivered	Shares Retained	Net Value Retained by Client
-50%	$25	100,000	0	$0
-25%	$37.50	100,000	0	$0
-15%	$42.50	100,000	0	$0
-10%	$45	100,000	0	$0
-5%	$47.50	100,000	0	$0
0%	$50	100,000	0	$0
5%	$52.50	95,238	4,762	$250,000
10%	$55	90,909	9,091	$500,000
15%	$57.50	86,957	13,043	$750,000
20%	$60	83,333	16,667	$1,000,000
30%	$65	84,615	15,385	$1,000,000
50%	$75	86,667	13,333	$1,000,000

This example is for illustrative purposes only and does not reflect the performance of any specific investment. The Net Value Retained by Client column equals the product of the shares retained and the assumed stock price at maturity.

A VPF is an alternative to an outright sale and holding long



TAX-EFFICIENT DIVERSIFICATION

Diversifying a concentrated stock position can help you reduce your risk. While some diversification techniques may trigger immediate tax liabilities, there are some strategies that can be used to provide diversification in a tax-efficient manner.

EQUITY EXCHANGE FUNDS

An exchange fund can be a viable alternative for diversification without having to sell shares outright. With an exchange fund, you contribute shares of your concentrated stock into a broadly diversified fund and receive a pro rata share of ownership in the fund. A major benefit of exchange funds, in addition to increased diversification, is that contributions are not treated as a sale, and you do not incur capital gains taxes. However, you still face the risk of loss should the other stocks in the pool decline in value, so be aware that diversification does not ensure a profit or protect against a loss.

Also note that exchange funds are offered as private placements and are not registered under the Investment Company Act of 1940. Therefore, they have strict net-worth requirements that must be met. Your financial advisor must be aware of your investable net worth and other important information before this strategy can be evaluated or recommended. Other considerations you should discuss with your financial advisor include your investment time frame, the liquidity of exchange fund shares, the objectives and actual holdings within a particular fund and the eligibility of your particular stock.

MANAGED ACCOUNT SOLUTIONS

Another technique for diversifying a highly concentrated position is to engage a professional portfolio manager to manage a specific strategy tailored to your individual objectives. Your Raymond James financial advisor can help you develop a strategy aligned with your needs.

SECURITIES-BASED LENDING[1]

Securities-based lending enables you to use your investment portfolio as collateral to access a revolving line of credit. This strategy allows you to access funds and receive any dividends, interest or capital appreciation that accrues in the account without having to liquidate your portfolio. However, if you have an outstanding loan balance and the portfolio used to secure that loan declines in value, you may have to post additional collateral or repay all or part of the loan. The lending institution may also liquidate all or part of your portfolio to cover losses.

[1] A securities based line of credit may not be suitable for all clients. The proceeds from a Securities Based Line of Credit cannot be used to purchase or carry margin securities. Borrowing on securities based lending products and using securities as collateral may involve a high degree of risk. Market conditions can magnify any potential for loss. If the market turns against the client, he or she may be required to deposit additional securities and/or cash in the account(s) or pay down the loan. The securities in the pledged account(s) may be sold to meet the collateral call, and the firm can sell the client's securities without contacting them. The interest rates charged are determined by the market value of pledged assets and the net value of the client's Capital Access account. Securities Based Line of Credit provided by Raymond James Bank. Raymond James & Associates, Inc. and Raymond James Financial Services, Inc. are affiliated with Raymond James Bank, N.A., a federally chartered national bank.

BORROWING ON MARGIN[2]

Another way to leverage your large stock position to purchase other securities for diversification purposes without having to sell the stock outright is to margin securities. In this scenario, you borrow cash from a broker to purchase other securities, using your concentrated stock as collateral. You are charged an interest rate on the loan based on the amount you borrow.

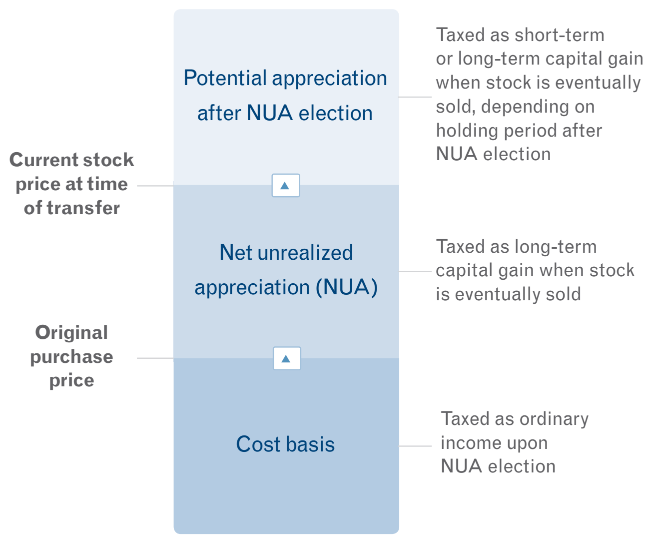
This strategy may be appropriate in some cases, but it involves a high degree of risk and may be more effective when used in combination with other techniques described in this brochure.

NET UNREALIZED APPRECIATION

Because employer savings plans have grown significantly over the last decade as a means to meet retirement goals, it is not uncommon for employees to have a substantial amount of employer stock in their qualified retirement plans. When employees leave the company, many are willing to conduct a direct rollover of all qualified plan assets into a traditional IRA.

However, there may be a greater tax advantage to not including employer stock in your IRA rollover. In this scenario, you'll be required to pay income taxes on the stock, but the taxes due will be applied only to the cost basis of the stock. The remaining untaxed value, called net unrealized appreciation (NUA), is deferred until you sell the stock at a later time – and then taxed only at capital gains rates. NUA is a tax treatment available to a Lump Sum distribution event. The entire plan must be distributed out in a single tax year following a "triggering" event. If the cost basis of the employer stock is much lower than the current market value, exposing the stock to taxes now may be more advantageous in the long run than eventual distributions taxed at ordinary income tax rates. While this strategy does not result in immediate diversification, it can be used effectively in combination with other techniques to help diversify your holdings.[3]

Tax treatments of employer stock positions for which NUA treatment is selected



[2] A margin account may not be suitable for all investors. Borrowing on margin and using securities as collateral involves a high degree of risk, and an investor can lose more funds than he or she deposited in the account. Market conditions can magnify any potential for loss. If the market turns against the investor, he or she may be required to deposit additional securities and/or cash in the account. The securities in the account may be sold by the firm to meet the margin call, and the firm can sell the investor's securities without contacting them. An investor is not entitled to choose which securities or other assets in his or her account are liquidated or sold to meet a margin call. The firm can increase its maintenance margin requirements at any time and is not required to provide an investor advance written notice. An investor is not entitled to an extension of time on a margin call. The interest rates charged are determined by the amount borrowed. Please visit sec.gov/investor/pubs/margin.htm for additional information.

[3] Changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax provisions of the issues presented herein, we are not qualified to render advice on tax or legal matters. Before making any investment decision please consult a tax professional to evaluate the tax consequences of any prospective investment.

INCOME ENHANCEMENT

An income enhancement strategy may allow you to increase the income generated by your stock position. Oftentimes, clients who own concentrated positions benefit from a regular income stream in the form of quarterly dividend payments. An income enhancement strategy can increase the cash flow received from your stock position, or create cash flows for a stock that does not pay a current dividend.

COVERED CALLS

You can increase the income generated by a large stock position by selling covered calls. When you sell a call option, you receive an upfront cash premium and are obligated to sell the stock at a predetermined price (the strike price). If the stock appreciates above the strike price, it may be sold, thus limiting your potential upside in the stock and triggering capital gains taxes. It is important to note that the income earned from a covered call option provides limited downside protection up to the value of the income received. However, this strategy does not typically provide protection from significant downward price movements.

MANAGED ACCOUNT SOLUTIONS

A professional portfolio manager can manage a covered call writing strategy for you with the goal of generating additional income on your stock position. These programs have position minimums and other requirements that must be met. Your financial advisor can help you determine whether or not this is the proper solution for you.

TAX-EFFICIENT GIFTING

Some methods for reducing concentrated equity risk can also help you leave a long-standing, meaningful legacy. Consider these ways to achieve philanthropic or generational transfer goals while reducing your tax obligation.

CHARITABLE REMAINDER TRUSTS

A charitable remainder trust ("CRT") allows for the donation of an asset – in this case, a portion of your concentrated stock position – to a donor-controlled trust. The trustee can then sell the stock and reinvest the proceeds in a diversified portfolio, and you will continue to receive a stream of income for the duration of your lifetime or a set number of years. When this period expires, the remaining assets in the trust become the property of the selected charity.

Because this charitable trust is itself a tax-exempt entity, donating shares to a CRT enables you to avoid capital gains taxes on the sale of the shares you gift. Plus, the transaction may result in a charitable income and estate tax deduction.

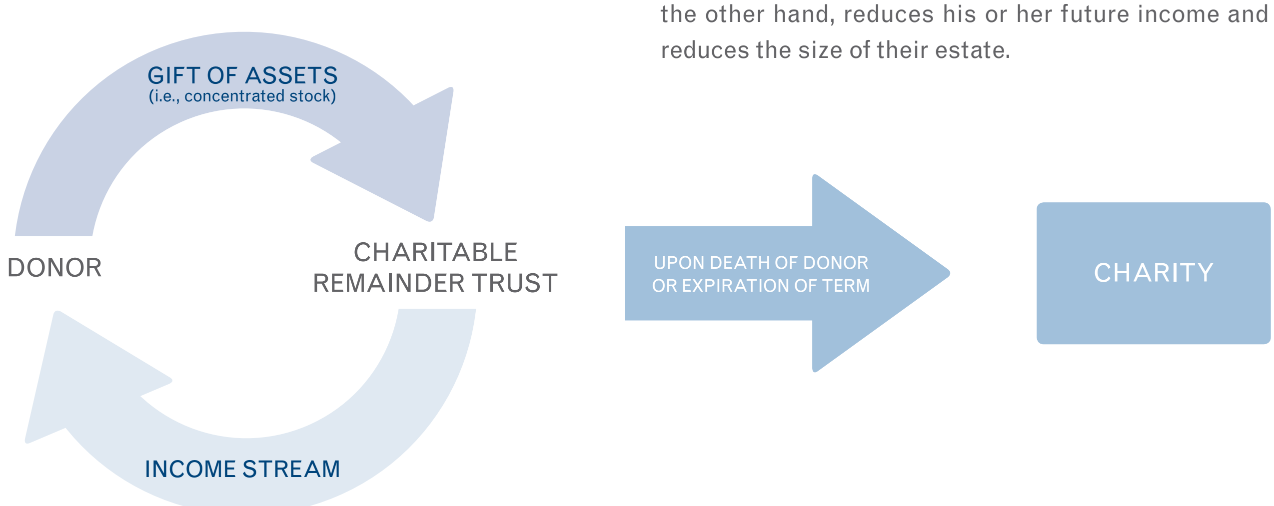
POOLED INCOME FUNDS/ CHARITABLE GIFT ANNUITIES

These programs provide the benefits of establishing a CRT without the upfront cost, ongoing management responsibilities or owner control. You deposit the stock into a charitable fund, receive an income tax deduction and receive a fixed or variable stream of income over your lifetime. The principal is left to the qualifying charity of your choice.

GIFTING TO FAMILY MEMBERS

Another way to manage a concentrated personal investment in a single security is to give some of the stock to family members or trusts. The annual gift exclusion rule allows you to gift up to a predefined maximum value per beneficiary – free of any gift or generation-skipping transfer taxes. This value can change over time, so it's important to review current gifting limits with your financial and tax advisors.

Furthermore, the lifetime transfer tax exemption allows for even larger gifts to be made. While the cost basis in the stock carries over to the beneficiary, he or she also receives all existing and future income and appreciation. The person gifting the securities, on the other hand, reduces his or her future income and reduces the size of their estate.



THE VALUE OF PROFESSIONAL ADVICE

While a large concentration in a low cost-basis stock position is one of those "good problems to have," over-concentration can pose significant risk to the future financial security of your family. A professional financial advisor can help you make decisions regarding what may be your family's largest asset. They can also provide access to ongoing research on individual companies to help you make prudent investment decisions.

There are several reasons investors hesitate to diversify the risk exposure of a single stock, such as:

- **Taxes –** The outright sale of a low cost-basis position can lead to a large tax liability. However, taxes are only one consideration when making a financial decision, and should be weighed alongside the risk of volatility and significant losses in the stock. Try not to "let the tax tail wag the investment dog." Consult with your tax advisor when considering changes in strategy, and be aware that changes in tax laws may occur at any time and could have a substantial impact upon your situation. A tax professional should be consulted for expert advice on the taxation consequences of the strategies discussed in this brochure.
- **Dividend income –** When the dividends from a large stock position provide a significant source of income for a family, it can be difficult to look past that fact and consider selling the stock. The dividend yield on a stock, however, is only one component of its total return and risk profile. Consider that a few days of negative performance in the stock price can lose much more value for the holder than an entire year's worth of dividend payments. The dividend is also not guaranteed and can be cut with no advance notice. You may be able to position your portfolio to provide the same level of income for your family without taking on the risk associated with a highly concentrated single stock.

- **Behavioral finance biases –** Individual investors often make investment decisions based on emotional biases and misconceptions that can lead to unfounded behaviors and actions. Once you better understand these biases, you may be more willing to realign your risk-return balance. It's difficult to overcome issues like these, which is why the perspective of a professional financial advisor is invaluable. Informed, objective counsel can help clarify your choices and help you devise more suitable solutions.

Common behavioral finance biases:

- *Overconfidence – If you hold a concentrated stock that has appreciated over time, you may expect this pattern of appreciation to continue. This sense of confidence may cause you to focus solely on the stock's positive return and underestimate or ignore the risks. Take the time to review your risk tolerance and explore the investment strategies that may help to reduce the downside risk of a single-stock position.*

Please note, changes in tax laws or regulations may occur at any time and could substantially impact your situation. While we are familiar with the tax provisions of the issues presented herein, as Financial Advisors of Raymond James we are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

- *Anchoring – You may target a price above where the stock is currently trading as the point at which you are determined to reduce your concentration risk. However, that limit price may represent a recent high for the stock, and there may be no fundamental reason for the stock to trade back up to that high price. Should the stock trade down further, you will continue to participate in downside price movements.*
- *Mental accounting – If you're like many investors, you may categorize various parts of your personal wealth into different buckets. Single-stock concentrations may be viewed separately from other investments, and you may also segregate retirement plans, bank accounts, insurance policies, etc. You should actually incorporate all of these assets into a comprehensive review of your risk-return profile. This is especially true if you are employed by the company in which you own a stock concentration.*

CUSTOMIZED SOLUTIONS

Due to the complexities involved in the strategies covered in this brochure, it's important that you work with your financial advisor and tax professional to determine if the strategies you employ are suited for your long-term objectives and risk tolerance.

Keep in mind that these strategies are not "all-or-nothing" decisions. You and your advisor may determine that a single technique or combination of strategies can be used to reduce the risks associated with your concentrated holding. Your financial advisor and the team of support specialists at Raymond James are qualified to help you evaluate your alternatives and create a customized solution.

STRATEGIES FOR CONCENTRATED EQUITY POSITIONS

Hedging
- Protective Puts
- Low Cost Collars
- Options Considerations

Monetization
- Outright Sale
- Staged Selling
- Variable Prepaid Forward

Tax-efficient diversification
- Equity Exchange Fund
- Managed Account Solutions
- Securities-Based Lending
- Margin Borrowing
- NUA Strategy

Income enhancement
- Covered Calls
- Managed Account Solutions

Tax-efficient gifting
- Charitable Remainder Trust
- Pooled Income Fund
- Charitable Gift Annuity
- Gifting to Family Members

NEXT STEPS

You and your financial advisor should address the following questionnaire together to help you determine which solutions may be most appropriate for your situation. This questionnaire is a general guide and does not represent all the factors that should be considered before making a decision to use the strategies described in this brochure. Your advisor can help you consider the individual risk factors of each strategy within the context of your specific financial situation.

Bring the completed questionnaire to your next meeting with your financial advisor. He or she will help you to explore which solutions may be most appropriate for you.

LIFE WELL PLANNED.

Options involve risk and are not suitable for all investors. When appropriate, options should comprise a modest portion of an investor's portfolio. Prior to buying or selling an option, a person must receive a copy of "Characteristics and Risks of Standardized Options," also known as the options disclosure document (ODD). Copies of the ODD are available from your financial advisor.

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER

880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863

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