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# It's your option

**Stock options boost income – for those who know the rules; new Edina firm offers advice**

**BY MARK ANDERSON**  
Staff Writer

For Dan Langworthy, the rationale for his new venture – Executive Capital, LLC – can be summed up in the story of

one very successful, very unlucky entrepreneur.

“This was a gentleman who founded a small spinoff from IBM in Rochester, and it did really well,” Langworthy explains. “They did a private placement, then went public, and we had talked about some things he could do to protect his position – almost all his wealth was tied up in the company. He said ‘come back when our share prices are at \$19, \$20.’ But they dropped instead – dramatically –

the company was sold, and his net worth dropped from \$8 million to less than a million.

“The thing that really strikes me about that is that he had it made. He had all the wealth he would have wanted at age 46, and he lost it.”

It's an extreme case, but Langworthy hopes it serves as a cautionary tale for legions of managers and executives who take company stocks, stock options and restricted grants as part of their compensation package.

The lesson is: Get some help and plan ahead.

Because of the arcane rules governing those equity awards from employers and the myriad planning factors that affect them, their value can gain or lose hundreds of thousands of dollars or more over a lifetime, depending on how they're exercised.

Langworthy says employees at the top of the corporate ladder usually have access to options-planning expertise, often through their company's investment bankers. But most employees are on their own to sort through those complex tax and wealth-planning choices.

“Our market is the mid to senior level of management, individuals who've worked at a company for 15 to 20 years, who've participated in the employee stock purchase plan, been granted stock options. But they're flying under the radar in terms of the services they have access to,” he says.

Financial advisers already provide many of those employees sound advice on how to save, invest and plan for their wealth accumulation, retirement and estate goals.

But Langworthy says few of those professionals have the staff or expertise that's required to plan for options in

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ways that maintain their value through different tax circumstances, stock price swings, job switches and retirement.

"We've talked to a lot of people about when they exercise their options, and half the time they say they sell when they need the cash or just before they mature," Langworthy said.

That lack of strategy is like throwing money away, though, said Joe Mayer, a principal at the Roseville-based accounting firm Olsen Thielen & Co.

"There are a lot of aspects to options, and that makes them more difficult to work with," Mayer said. "If you sell them right away, they're subject to ordinary tax rate. If you save them a few years you can take advantage of capital gains rates, but then you're getting into alternative minimum tax issues," which boosts the tax burden. "Their tax consequences are sneaky," Mayer said.

"Dan's program develops a planning tool for each client that helps them figure out when to act. I think it's unique, and it does a good job," Mayer said.

Equity awards are a staple of compensation packages at most public companies. They've long been offered to top executives, but they've been extended over the years to many mid-level and front-line employees. At Norwest, CEO Richard Kovacevich mandated stock gifts to all employees before the bank merged with Wells Fargo 10 years ago, Langworthy says.

A Harvard University study of the market concluded that 14 million American workers held stock options in 2003, and that number was growing.

Their value is obvious. They give employees a non-cash alternative way to com-

pensate employees, and simultaneously deliver a good company incentive, linking an employee's compensation to the success of the company.

They also give companies a negative tool for keeping employees on board, Langworthy said: "I call them golden handcuffs."

Although options offer considerable potential benefit as they accumulate, Langworthy says that unless the employee understands how to divest them in a savvy way, they lose much of the potential wealth and career, and the career flexibility that could provide.

The disincentive to leave an employer grows in these tough economic circumstances, when the value of stocks and options has declined.

But they still have value, which Langworthy said many people fail to recognize.

"I worked with an executive from UnitedHealth who was being recruited by another company. Her stock options were underwater, but we helped her show the recruiting company that those options still held time value," the likelihood that stock price would climb in the years before the options matured. "Because she could show that, the recruiters adjusted their offer up to account for that."

Langworthy hopes to repeat that successful outcome over and over at his company, which launched in early January.

Executive Capital will deliver full-service wealth management for executives, but Langworthy is developing a role as an adviser working with accountants, lawyers and employment recruiters in Minnesota and in Colorado.



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