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MOORS & CABOT
INVESTMENTS

Introduction to Concentrated Stock Hedging

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Concentrated Stock Strategies (Zero-Premium Collars, Variable Pre-Paid Forward Contracts) Moors & Cabot specializes in negotiating and structuring transactions which can:

1. Reduce and manage equity risk.
2. Provide tax-deferred liquidity.
3. Allow retention of ownership and upside in equity positions.
4. Retain the dividend for the client.

Clients with concentrated stock positions greater than $2 million typically dislike the fluctuation of their net worth with movement stock. Ironically, these clients are now most fearful of what made them wealthy in the first place– having much of their portfolio performance of a single stock. Clients who hold restricted or unregistered shares may also be precluded from selling stock due to legal or regulatory restrictions. Investors who hold these "frozen" stock positions often find hedging strategies attractive because they overcome many of the roadblocks that may exist with an outright sale of stock.

Two strategies in particular address many of the investment needs and objectives of these high-net-worth investors: a **"zero-premium collar"** and a "**pre-paid variable forward contract."** Each strategy reduces downside price risk and allows continued participation in stock. It can be structured so that the client will not incur *any* out-of-pocket cost.

In a **zero-premium collar**, an investor enters into a contract to receive "stock protection" in exchange for limiting his upside in the stock during the term of the contract. The collar allows the client to reduce and manage his price risk, and provides overall stability for his portfolio. Although the client's potential upside in the stock will be limited, many investors agree that a cap on upside potential well above the current price is a reasonable consideration for the security and peace of mind of gaining downside price protection.

A **pre-paid variable forward contract** can be utilized for clients who are interested in generating tax-deferred liquidity from their hedged stock position. This liquidity may be used for diversified portfolio, to fund an insurance purchase, or to reduce current debt. The client may receive a one time tax-deferred payment of approximately 75% to 90% of the value of his stock position. This up-front payment does *not* require periodic interest payments, and the client will retain complete ownership and control of his stock during the term of the transaction*, including the receipt of the dividend* if any.

Moors & Cabot has a team of five professionals ready to educate the advisor and the client on these concentrated stock strategies. Moors & Cabot helps the advisor and client identify a suitable strategy and then "shops" that strategy throughout Wall Street to secure the most aggressive pricing for the client's benefit.

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Introduction to Concentrated Stock Hedging *(continued)*

Disclosures to Concentrated Stock Hedging

Contract Specifications:

These transactions are binding, contractual agreements with a specified maturity. However, in practice, counterparties are typically willing to terminate early or renegotiate the original contract and terms. The counterparty is not required to change any terms of the contract; their willingness to do so is determined on a case-by-case basis, and may be subject to additional costs and expenses.

These transactions can generally be settled in cash or in stock. Investors should specify in their original contract which delivery alternative they prefer. These transactions can be customized for any number of shares and any specific maturity date.

Institutional counterparties generally require investors to have a minimum net worth of $2-$5 million for these transactions.

Hedging transactions are neither FDIC guaranteed nor insured by any government agency. He "stock protection" referenced in this presentation refers to the put option purchased by the client. Clients are general creditors of the Counterparty which executes their transaction.

Important Considerations:

Options are not suitable for all investors.

Contract Moors & Cabot's Wealth Management Group at 999 Vanderbilt Beach Road, Naples, FL 34108 for a current options disclosure documents, "Characteristics and Risks of Standardized Options." This document discusses potential risks with options issued by the Options Clearing Corporation ("OCC"), which are typically listed on an exchange. It may not discuss the additional risks of privately negotiated option contracts, and investors should be aware of potential risks with their counterparty, including credit risk, possible restrictions on stock transfer, and foreign jurisdictional requirements.

Taxes, fees and commissions do have a direct material impact on the options strategies, may reduce the effectiveness of some strategies, and may result in the investor not achieving his or her investment objectives. Please note that additional taxes, fees, and commissions may have a direct material impact on the renegotiation of any options strategy.

The examples presented above do not take into account the tax consequences or the impact on holding period. Investors should always seek professional tax advice before engaging in any of these strategies. Moors & Cabot, Inc. does not provide tax advice. The example shown above had been calculated for illustrative purposes only. Clients should rely on details provided in their final trade documents before execution.

All information contained herein is qualified in its entirety by the information contained in a final confirmation of other materials to be prepared in connection with any transaction. Additional information is available upon request.

The information contained herein has been prepared from sources believed to be reliable, but is not guaranteed by us and is not a complete summary of all available data. Options are not be suitable for all investors and there are significant risks inherent in the use of options, even when options are used for hedging purposes. Moors & Cabot, Inc. Does not provide legal, tax or accounting advice and the information contained herein should not be construed as such.

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