

CASE STUDY
DIVERSIFYING COMPANY STOCK

PROBLEM

Chris, a 65-year-old entrepreneur married to Michelle, 64, would feel at peace of mind if he could set aside an additional \$10 million in a diversified portfolio to ensure his financial independence. However, \$20 million of his assets consists of company stock, which Chris assumes have a zero cost basis. Chris is reluctant to sell any shares for fear of paying capital gains taxes. Moreover, Chris can only sell shares during an “open window” because he’s still a company insider.

SOLUTION

A detailed examination uncovered a substantial number of high cost basis shares that were ideal candidates for liquidation. A 10b-5 plan expanded the opportunities for Chris to sell during “closed windows.”

DISCUSSION

The process involved:

- Considering derivative strategies to generate liquidity from the shares without selling them—a strategy that was later rejected due to high transaction costs
- Uncovering \$10 million in high-cost basis company shares—enough that Chris could liquidate \$10 million in shares without any tax consequences—through a painstaking manual examination of Chris’ brokerage statements and stock option exercise history
- Segregating that \$10 million, which was suitable for sale, from zero-cost basis shares appropriate for charitable giving
- Setting up a 10b-5 plan during an open window, which would allow Chris to sell shares during closed windows if they reached a certain price

Chris is able to diversify his portfolio, and approach his goal of an additional \$10 million of diversified investments, without paying taxes. He feels freed to use his remaining stock to make charitable contributions.