

LIFE SPANS

THE BRIDGE DIVORCE STRATEGIES NEWSLETTER

INTERESTING INFO YOU CAN READ OVER A SINGLE CUP OF COFFEE!

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STOCK OPTIONS, PART 2: THE REVENGE

In [my last newsletter](#), I gave you what I hope is a good working overview of executive compensation such as stock options. I explained how this type of “payment” is purposely deferred, typically over a rolling period of several years, in order to incentivize the employee to stay with the company, and also help it grow, so that he or she can eventually cash in on its growth and heftier stock price.

That’s the last time I’ll say “he or she” in this article. In the majority of the cases I work on, it’s the husband who is the executive, and the wife is the “out spouse” who’s not been so munificently rewarded. Sad but true.

Quick recap: The husband will often be offered stock in the company at what’s called the “strike price”: a locked-in price-per-share that hopefully will be a profitable bargain in the future. The big lump of options granted (it’s not actually “stock” until you “exercise” it and effectively cash it in) typically vests in tranches, such as 25 percent per year over a term of four years. The executive is incentivized to hold onto those options and hopefully watch the stock price grow, in order to maximize the return when he exercises his options later.

BACK TO THE FUTURE

When it comes to divorce, Arizona, as you know, is all about community property. And this is where all of this executive compensation starts to get thorny. Is it community property? Certainly it’s a matter of timing, but it’s also a matter of definition. Options can be granted, as I’ve mentioned, as an incentive for future service. But they can also be granted as a reward for *past* service.

That’s a big difference. The divorcing husband will always argue that it’s for *future* service, that hasn’t yet been earned, and thus it will be his, post-divorce.

But what about that rolling schedule of 25 percent per year? What about the fluctuations in the stock market and the stock’s price? What if the whole package is, say, 32.6 percent vested at the date of division? How do you even calculate that?

This is where I—and a lot of math—come in. Not to make your eyes glaze over (okay, *specifically* to make your eyes glaze over! so you can see why I’m needed), there’s what’s known as the Black-Scholes valuation model, as well as the Hug, Nelson, and Miller protocols for valuating the community portion of an asset like this, as it pertains to past vs. future services. I’ve created some really intense models in Excel to help tease these out, in order to—and here’s the important part—*hand you a number that you can negotiate from*. I’ll often accompany my valuations with dead-simple graphs that a judge can instantly grasp!

This is important, because these packages are often worth tens, if not hundreds, of thousands of dollars. And if you’re busy working the legal aspects of the case, you’ve got your hands full already. And you certainly don’t want dollars this big flying under your radar. Are the options “in the money”? Are they “underwater”? What percentage was vested during the marriage? Should the value be locked at the date of separation? What if the parties were still co-habiting in order to contain expenses?

WHOSE CRYSTAL BALL IS BETTER?

And here’s another point. Consider the company in question. Is it some shaky startup? Or is it Amazon? The wife might not want any part of the former, but she sure would want to stake her claim in the latter. Remember: This isn’t about the stock price *now*, but rather the stock price—actually the difference between the then-current stock price and the originally-defined strike price—in the *future*.

I’ve said it before and I’ll say it again: There’s a ton at stake here. (I’m currently working on a \$7 million case as I write this, so I should know.) My services more than pay for themselves here, as they vault you from “hero” to “superhero” in your client’s eyes.

A RED-FLAG REVIEW™

For a limited time, I’d like to offer you, absolutely free and with zero obligation, 30 minutes of my expertise in which I will look at any proposed settlement you may have, and give it my professional sniff-test. I can see this stuff real fast. And if I find red flags, as I often do, you can return to your client and say, “I ran this past my financial expert and she saw some issues with this.” So you go from hero to super-hero, and your client can get better negotiating leverage.

And *then*, if you and your client think you’d like to actually engage me for my services, we can talk. I earn my reputation on ROI, and I think that this little loss-leader of mine will show you just how important timing can be.

So [contact my office](#) to book your Red-Flag Review™. You send your docs, I’ll take a look at them, and give you up to 30 minutes of my time, gratis, on the phone. If you’d like me to sign your NDA in advance, I’d be happy to. What are you waiting for?

THERE REALLY IS A FREE LUNCH

Given today’s Covid-19 environment, we are now offering online CLE, and will order lunch for the attorneys in your office who would like to participate from their remote locations. What a tasty way to learn things about the financial side of divorce that fly under your radar—and help you earn from one to three hours of CLE credit in the process!

Simply give us a call at (480) 378-2383 (or send an email to carma.hall@bridgefinancialstrategies.com) and say, “Hey! We’d love to take you up on that ingenious remote lunch-and-learn opportunity!” There’s no obligation. Call us today!

WHAT?? CHEAT ON YOUR CLIENTS’ TAXES??

Okay, I was purposely being cute here. Of *course* I’m not advocating that anyone cheat on anyone’s taxes. But I *would* like to offer you a taxes-in-divorce *cheat sheet*, absolutely free. It’s our latest 2021 edition, a handy little card you can keep in your desk drawer to help you with some quick, basic info about all kinds of important financial facts that pertain to divorce.

Want a copy? I’ll be happy to send you one. Simply give us a call at (480) 378-2383 (or send an email to carma.hall@bridgefinancialstrategies.com). Go for it!

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