Concentrated Positions

MANAGING AND DIVERSIFYING YOUR PORTFOLIO HOLDINGS

STIFEL

About Stifel

Stifel is a full-service investment firm with a distinguished history of providing securities brokerage, investment banking, trading, investment advisory, and related financial services to individual investors, institutions, corporations, and municipalities. Established in 1890 and headquartered in St. Louis, Missouri, Stifel is one of the nation's leading firms.

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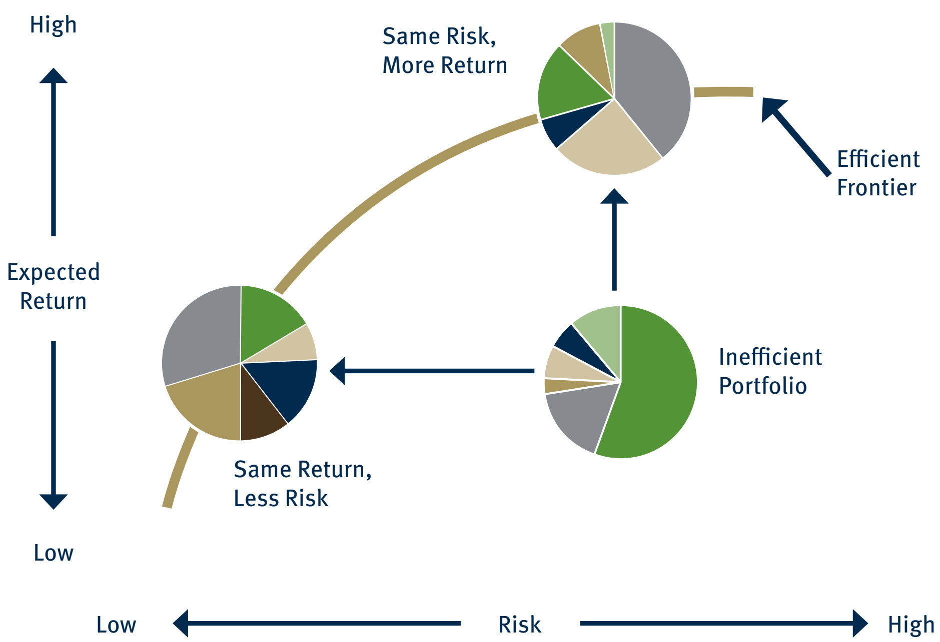
Introduction

A concentrated position is a specific holding or type of holding that makes up a substantial part of your portfolio. Your portfolio may be concentrated in a specific stock, capitalization (i.e., small, mid, or large cap), business sector, or geography. Having a concentrated position in your portfolio exposes you to higher volatility, lower liquidity, and more risk than ownership of a diversified portfolio.

Large individual positions are built and acquired every day through equity compensation, employer retirement plans, business sales, and inheritances. Sometimes concentrated positions are accumulated by accident, while other times it happens due to emotional attachment, restrictions on selling the stock, or avoidance of the potential tax liability.

Consider diversifying your concentrated position if you have a long time horizon, low risk tolerance, low tax costs, high stock volatility, or high spending needs. The goal of diversification is to create an efficient portfolio. An efficient portfolio is one that is designed to maximize return while minimizing risk. The first step toward achieving an efficient portfolio is determining the appropriate level of risk for an investor's time horizon, financial goals, and tolerance for portfolio volatility. The next step is creating a portfolio that is designed to generate the maximum return possible given that particular level of risk. This is accomplished through proper diversification. See the chart below, where the inefficient portfolio represents a portfolio with a concentrated position and the efficient portfolios (located on the Efficient Frontier) represent portfolios that are properly diversified.



Stifel can help you manage your concentrated position. Although the optimal solution depends heavily on your individual circumstances, the following descriptions give you an overview of the range of strategies available to you.

Reasons To Consider Diversifying

Long Time Horizon

Low Risk Tolerance

Low Tax Costs

High Stock Volatility

High Spending Needs

Diversification Strategies

A number of strategies are available to successfully diversify your concentrated position. Some are simple, while others are complex, and not all strategies make sense in every situation. There are four major factors to consider when comparing diversification strategies: timing of liquidity, mitigation of risk, minimization of cost (administrative and tax), and retention of control. Here are some of the strategies you may want to consider for managing your concentrated position:

- Sell Stock (immediately or gradually) and Reinvest
- Hedging and Monetizing Investment Alternatives
- Borrow Against the Position
- Exchange Funds

Four Factors To Consider

Timing of Liquidity

Mitigation of Risk

Minimization of Cost

Retention of Control

Sell Stock and Reinvest

Sell Immediately

You can immediately sell shares of your concentrated position and reinvest the proceeds into a properly diversified portfolio. This strategy allows you to sell the stock today and minimize your market risk. The downside is the potential for a high tax burden generated by the sale. Consider utilizing this strategy after inheriting a concentrated position with a step-up in cost basis.

Factor	Impact of Strategy
Liquidity	Permits immediate, proper diversification
Risk	Mitigates market risk associated with concentrated positions
Cost	Locks in gain – tax costs may be significant, depending on cost basis
Control	Retain full control of after-tax proceeds

Example:

Uncle Harry bought stock in 1935 for $50,000, and it's worth $5 million at his death. You inherit the stock with a cost basis of $5 million due to the step-up rules. Looking to properly diversify your portfolio, you sell all the stock immediately when the market price and your cost basis are both $5 million. You have fully liquidated the position, minimized your market risk, and reinvested in a diversified portfolio without incurring any additional taxes.

Sell Gradually

A similar strategy is to sell shares of your concentrated position gradually and reinvest the proceeds over time. This strategy allows you to search for opportunities to minimize the costs associated with diversifying your concentrated position. The downside is that by holding the concentrated position for a longer period of time, you are subjecting yourself to unnecessary risk. Consider utilizing this strategy when you have a large unrealized gain within your concentrated position, but you anticipate opportunities to offset the gain in the near future. You need to be comfortable shouldering the risk that the stock price may drop if you choose to utilize this strategy.

Factor	Impact of Strategy
Liquidity	Permits proper diversification gradually over time
Risk	Eventually mitigates market risk associated with concentrated positions – continued risk until sufficiently diversified
Cost	Spread the gain over time – opportunity to minimize tax liability
Control	Control timing of sales to minimize cost and then select investments to ensure proper diversification – retain full control of after-tax proceeds

Example:

You acquire a large position of your lifelong employer's stock through equity-based compensation. Before retiring, you decide it's time to think about diversifying your portfolio. Because your cost basis in the stock is $250,000 and the current market value is $500,000, selling the stock immediately would result in a high tax burden. You also own two real estate properties, both of which are for sale. Your anticipated unrealized loss on these properties is $200,000. The year after retirement, one of the properties is sold, allowing you to realize a $150,000 loss. Prior to year-end, you realize a $150,000 gain from the sale of a portion of your stock. Two years after retirement, the other property is sold, allowing you to realize the remaining $50,000 loss. Prior to year-end, you realize a $50,000 gain from the sale of another portion of your stock. The remaining stock seems to fit into your diversified portfolio. You have effectively minimized the cost of diversification by spreading the gain over multiple tax years in which you were able to realize losses. NOTE: Results can vary greatly depending on the fluctuation of the stock price (i.e., market risk).

Ask your Stifel Financial Advisor for additional information about selling your stock and reinvesting into a diversified portfolio. Before taking any action, also consult your legal and tax professionals.

Hedging and Monetizing Investment Alternatives[1]

You can enter into hedging (risk-reducing) and/or monetizing (income-producing) alternatives to help you manage your concentrated position. You may want to explore these alternatives in more detail if your goals include protecting your position from price declines, generating additional income, setting price targets at which to sell your position, or creating liquidity. These strategies include (but are not limited to):

- Selling covered equity call options
- Buying protective put options
- Creating a collar (cashless or monetizing)
- Creating a short sale
- Engaging in a prepaid variable forward sale

These are complex strategies that have both financial and tax implications. Ask your Stifel Financial Advisor for additional information about hedging and monetizing investment alternatives. Before taking any action, also consult your legal and tax professionals.

Borrowing Against the Position[2]

Another diversification strategy is to borrow on margin, or use your stock as collateral, against your concentrated position. Generally, you can borrow 100% of the current market value of your stock positions if margin-eligible positions are purchased. Alternatively, you can withdraw 50% of the market value as a cash loan. The above percentages are dependent upon the stock meeting certain minimum qualifications, and the amount borrowed/withdrawn will be subject to a competitive interest rate. The allowable margin percentage may be reduced for accounts with a high margin concentration (subject to risk management approval). This strategy allows you to maintain 100% of your concentrated position, participating in returns and dividends, while still diversifying your portfolio by purchasing other stocks with the loan proceeds. This requires no out-of-pocket cash and generates no tax liability. The downside of borrowing against your stock is the increased market risk from holding the concentrated position and the interest costs incurred by borrowing against the stock. Furthermore, you can be forced to contribute outside assets or required to sell securities if your account falls below the margin requirement. The margin requirement is set by Stifel and is based on the equity of the account. Consider margining your concentrated position when interest rates are low and you anticipate your return will exceed the interest you pay to the brokerage firm.

Factor	Impact of Strategy
Liquidity	Permits some diversification without selling stock or generating tax liability
Risk	High market risk – if stock price drops, requirement to contribute shares/cash or liquidate positions (can lose more than what is in the account)
Cost	Competitive interest rate on margin balance
Control	Retain full control of concentrated position and margin balance – if stock price drops, some degree of control is lost

Example:

You have $500,000 of stock with low cost basis. Instead of selling the stock and realizing a large gain, you put the stock on margin and borrow against the position. Before any purchases, the stock makes up 100% of your portfolio. You borrow $500,000 from Stifel to purchase $500,000 of margin-eligible securities without contributing other assets to this account. The position now only accounts for 50% of your portfolio. This effectively reduces your market risk if the price of the stock drops. The best way to implement this strategy is to invest $100,000 in five different margin eligible/blue chip stocks (or even $50,000 in ten stocks). You can utilize any dividends that may be generated from these stocks to pay down the margin loan and to offset the interest being charged. This account now has a market value of $1,000,000 subject to the $500,000 margin loan used to purchase the additional securities. Therefore, the equity of the account is only 50% of the total account value ($1,000,000 market value - $500,000 loan).

Ask your Stifel Financial Advisor for additional information about borrowing on margin and how it may help you pursue certain goals. Before taking any action, also consult with your legal and tax professionals.

If you are thinking about diversifying your portfolio by investing in something other than securities (such as real estate), inquire about securities-based lending through a Stifel Pledged Asset (SPA) Line of Credit through Stifel Bank & Trust.

Lending services are provided by Stifel Bank & Trust. Unless otherwise specified, references to Stifel may mean Stifel Financial Corp. and/or any of its wholly owned subsidiaries, including Stifel, Nicolaus & Company, Incorporated, Member SIPC & NYSE, and Stifel Bank & Trust, Member FDIC. Unless otherwise specified, products purchased from or held by Stifel are not insured by the FDIC, are not deposits or other obligations of Stifel Bank & Trust or its affiliates, are not guaranteed by Stifel Bank & Trust or its affiliates, and are subject to investment risk, including possible loss of the principal.

Exchange Funds

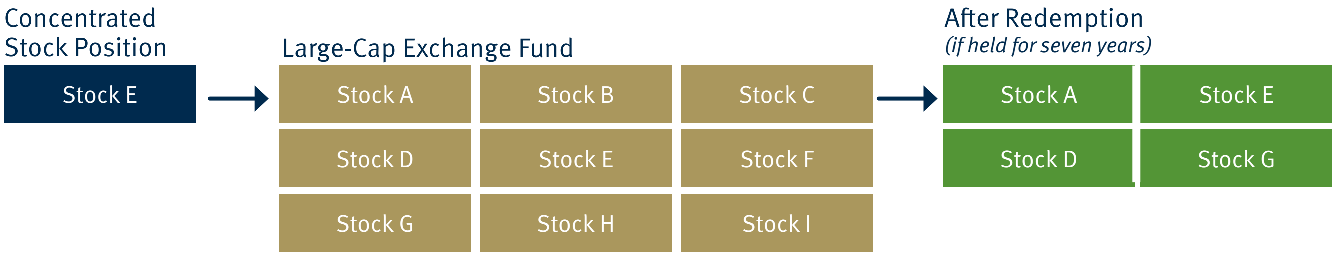
An exchange fund is a limited partnership that provides an alternate solution to the common problem of concentrated positions and lack of diversification. This strategy can be especially useful if your concentrated position is restricted, limiting your diversification options. In exchange for your contribution of concentrated shares, you receive an interest in a partnership that holds a diversified portfolio, comprised of other low-cost-basis equity positions exchanged into the fund by other investors. This strategy provides diversification without incurring immediate capital gains taxes. Tax deferral is achieved by structuring the exchange fund to hold a maximum of 80% of the assets in stocks and securities. The remaining 20% of the portfolio must be made up of qualified investments, such as real estate investments. The downside is that you must remain in the fund for at least seven years to receive a diversified redemption of the equity positions with maximum tax deferral. Other ongoing tax considerations (such as annual K-1s) must be considered as well.

Factor	Impact of Strategy
Liquidity	Permits immediate diversification, but less liquidity
Risk	Immediately mitigates market risk associated with concentrated positions
Cost	Defer taxable gains – increased management fees – premature withdrawals result in penalties
Control	Cannot leave fund without penalty for seven years

Example:
A $50,000 investment in stock ten years ago is now worth $1,000,000. The position has grown to be a very high allocation of your overall portfolio. You diversify your market risk by contributing the $1,000,000 position to an exchange fund. You receive exchange fund shares equal in value to $1,000,000 (ignoring any commissions). You now own the performance of the exchange fund portfolio, not the one stock. If, after seven years, you choose to redeem the exchange fund position, you will receive a diversified basket of stocks equal to the current market value of your exchange fund position. The cost basis of this diversified basket of stocks is approximately $50,000, the original cost basis of your concentrated position. You paid no capital gains throughout the process of contributing or redeeming the exchange fund, and you will not realize capital gains until you sell the stocks you received.

If this appears to meet your purpose, ask your Stifel Financial Advisor for additional information. Before taking any action, also consult your tax and legal professionals.

All exchange fund investments vary in risk, and private placements require sophisticated investors with higher accreditations. Please refer to the fund's private placement memorandum before considering an investment.



Charitable Giving Strategies

Numerous charitable giving strategies are available to help you achieve your philanthropic goals. The strategies discussed here will help you maximize your benefits while helping others. Consider utilizing these strategies to reduce the cost of one of the diversification strategies discussed herein.

Donating Appreciated Stock to Charity

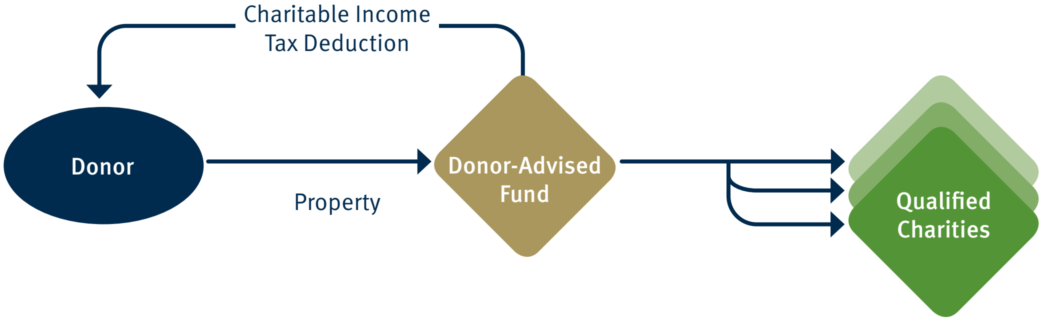
A simple, yet often overlooked, strategy is to make your annual charitable gifts or pledges with long-term equity positions rather than cash. This approach completely avoids taxable capital gains and generates an itemized deduction for the current market value of the stock on the date of the gift.

Charitable Gift Funds

Charitable gift funds are the newest and most popular form of advanced charitable giving. These funds are set up as sponsoring organizations that provide you with an immediate benefit for the promise to make a charitable gift in the future. Charitable gift funds were created to function much like charitable trusts, but for smaller donation amounts with reduced set-up time and lower administrative costs. Two types of charitable gift funds are available: **Donor-Advised Funds** and **Pooled Income Funds**.

Donor-Advised Funds

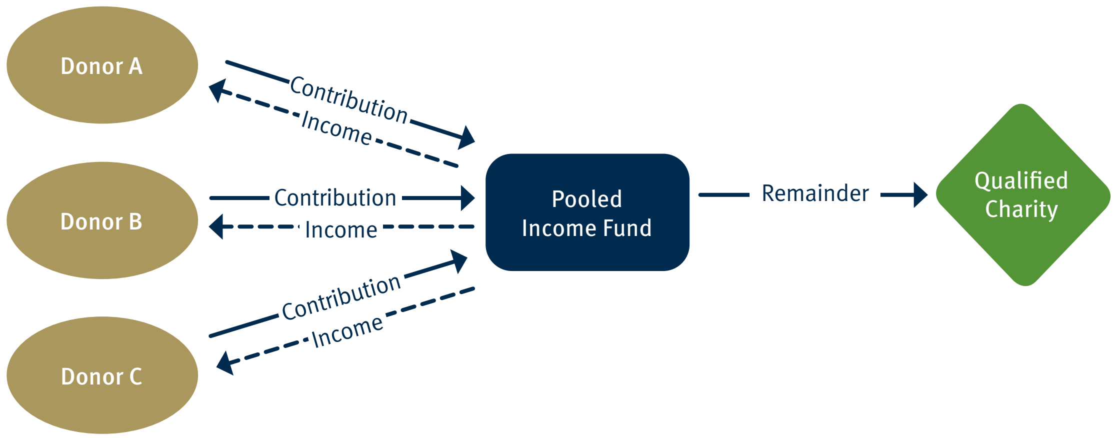
A Donor-Advised Fund (DAF) accepts donations, monitors and maintains individual accounts for donors, and makes grants to qualified charities now and in the future. Contributing to a DAF essentially creates a separate account that earmarks the entire account balance (contributions and earnings) for charitable giving. A DAF is not a charity itself; instead, it is a discrete fund or account within a public charity (the sponsor). A DAF is easy to establish and cost effective. You benefit by receiving an immediate dollar-for-dollar charitable deduction equal to the current market value of the property contributed and you completely avoid any taxable capital gain (if you contribute appreciated property). Furthermore, anything contributed to a DAF reduces your estate and minimizes your estate tax liability. The downside is that anything you contribute to a DAF is considered an irrevocable gift. This means that once you make a contribution, the DAF has legal control over it. However, you, or your representative, retain the ability to make investment and distribution recommendations. Often, a DAF can be set up as a dynasty charitable giving vehicle, appointing your heirs as successor advisors.



1. Donor contributes property (cash, securities, real estate, etc.) to Donor-Advised Fund.
2. Donor receives immediate dollar-for-dollar income tax deduction.
3. DAF distributes funds to charities.

Pooled Income Funds

A Pooled Income Fund (PIF) is another irrevocable charitable giving strategy that frontloads your charitable deduction. A PIF groups your contributions with other donor contributions in a common investment fund. Upon contributing to a PIF, you receive a partial charitable deduction and income stream for life. The charitable deduction is based on your life expectancy and anticipated income stream. Your annual income is determined by calculating your portion of the actual income earned by the fund. Upon your passing, the PIF donates the remaining value of the account to the charity of your choice.

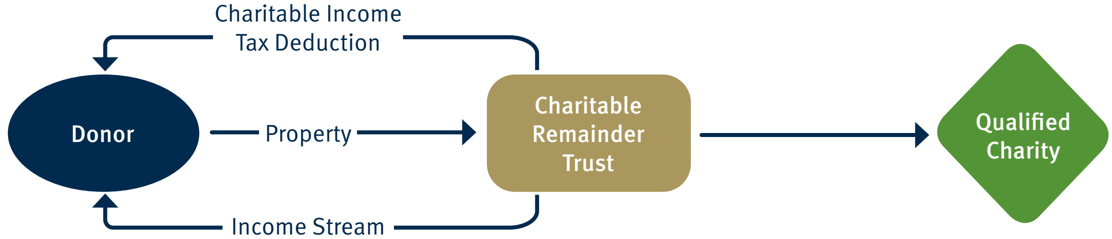


Charitable Trusts (CRATs, CRUTs, CLATs, CLUTs)

Charitable trusts are tax-exempt trusts that accept donations and provide donors with an immediate charitable deduction. These trusts provide more control and flexibility than charitable gift funds, but at a higher cost. While there are technically no minimums, trusts are generally utilized for larger donation amounts because of the increased set-up cost and ongoing administrative costs associated with operating trusts.

Charitable Remainder Trusts

A Charitable Remainder Trust (CRT) can be funded with a concentrated position and provides an income stream to the donor or their beneficiaries for life or for a term of years. You receive a partial charitable deduction based on your life expectancy and anticipated income stream and you defer taxable capital gains (if you contribute appreciated property). This technique provides you with a supplemental income source and ultimately reduces the size of your taxable estate. Furthermore, you have the ability to set the level of income paid out of the trust (within reasonable IRS guidelines). The difference between a Charitable Remainder Annuity Trust (CRAT) and a Charitable Remainder Unitrust (CRUT) is in how annual income payments are determined. Annuities are a fixed dollar amount, while unitrusts are a fixed percentage amount, revalued annually based on the balance of the trust.



1. Donor transfers property to trust and receives immediate income tax deduction.
2. During trust term, income is paid to the donor.
3. After term of trust ends, property remaining in trust is distributed to qualified charity.

Wealth Replacement Trusts

A Wealth Replacement Trust can improve the effectiveness of your Charitable Remainder Trust. Creating an Irrevocable Life Insurance Trust (ILIT) and using all or a portion of your income stream from the CRT to make premium payments for a life insurance policy held by the ILIT can help you replace wealth in your estate.

Grantor

1. You transfer highly appreciated long-term stock to the trust.
   - You removed the stock from your estate.
   - You receive an immediate income tax deduction.

3. You receive lifetime income from trust.

4. You gift a portion of trust income to purchase life insurance.

Charitable Remainder Trust

2. Trustee sells stocks and reinvests proceeds in income-producing assets. There is no immediate capital gains tax.

Irrevocable Life Insurance Trust

5. Gift to trust is tax free using Crummey powers.
6. Trustee uses gift to pay insurance premium.

During your lifetime

After your death

Charity

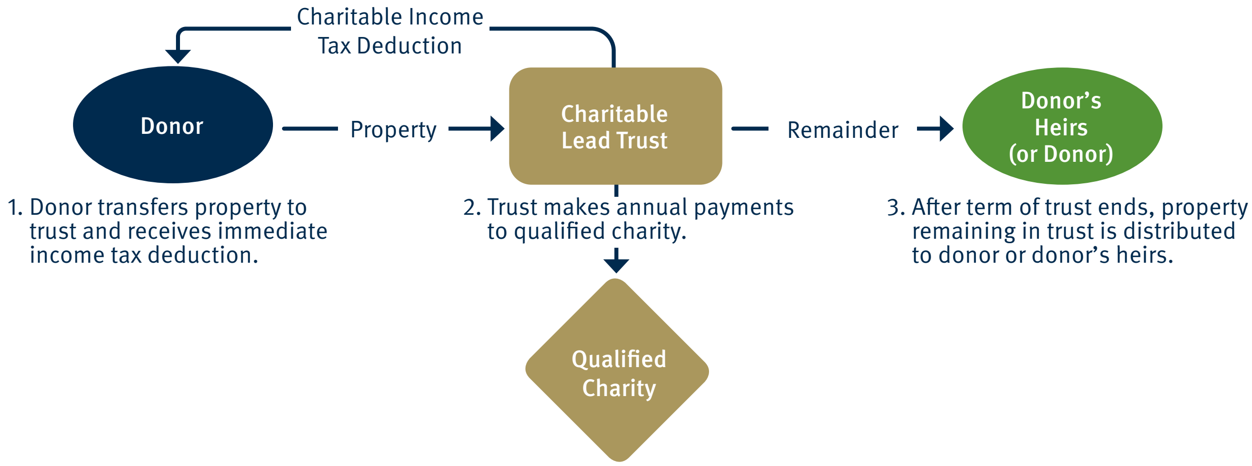
7. When you die, remainder of trust goes to charity.

Beneficiaries

7. When you die, trustee distributes life insurance proceeds to beneficiaries.

Charitable Lead Trusts

A Charitable Lead Trust (CLT) is often described as the opposite of a Charitable Remainder Trust. This strategy gives the trust's annual income to charity, and the remainder goes to your beneficiaries. You can choose to set up your CLT as a grantor or non-grantor trust to alter your tax benefits. The initial charitable deduction is based on the present value of the estimated income stream to charity. Like CRTs, the difference between a Charitable Lead Annuity Trust (CLAT) and a Charitable Lead Unitrust (CLUT) is once again based on how annual income payments are determined.



Charitable Gift Annuities

A charitable gift annuity (CGA) is another charitable technique that can assist you in diversifying a concentrated position. A CGA is similar to a CRAT in that the donor makes a charitable donation in exchange for an annuity, giving rise to income and estate tax benefits. However, no trust is established for a CGA. Instead, the charity receiving the donation issues the annuity to the donor. CGAs are easier to establish and administer than a CRAT and may provide greater tax benefits in certain circumstances. Often, a donor who is making a relatively small charitable gift and places a high priority on simplicity will prefer a CGA.

Other Strategies

This document does not encompass all diversification strategies available. Depending on the concentrated position you've accumulated, the size and location of this position in relation to your overall portfolio, and your specific income and estate tax situation, other strategies may be available (and may be more beneficial) to you. Discuss your individual circumstances with your Stifel Financial Advisor to determine if one of the strategies discussed in this document will work for you or if alternate strategies, such as Private Foundations, Net Unrealized Appreciation, Family Limited Partnerships, or Grantor Retained Trusts, would be more appropriate. Before taking any action, also consult your legal and tax professionals.

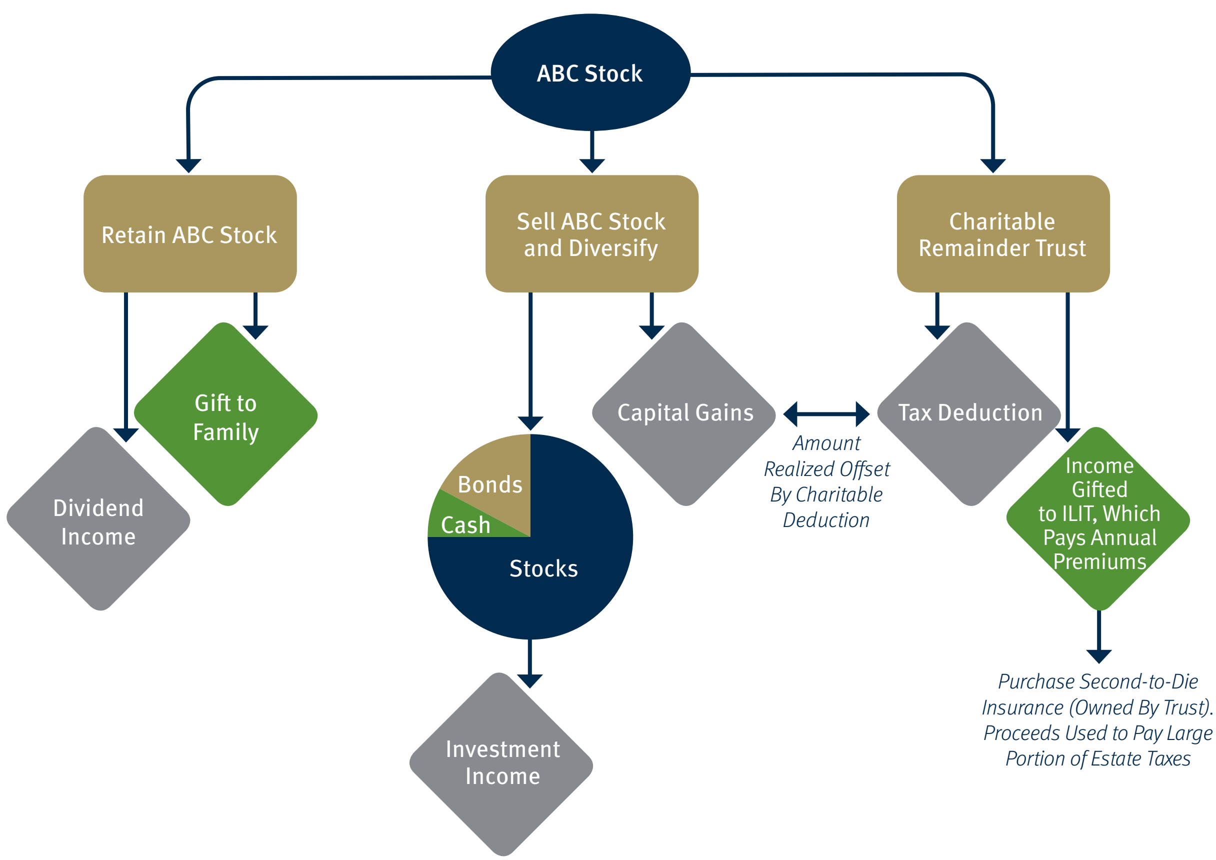
Combining Strategies

The diversification and charitable giving strategies discussed in this document are not exclusive of each other. In fact, investors with concentrated positions may benefit by combining multiple strategies to achieve varying goals. The following example illustrates a hypothetical way you may divide and manage your concentrated position.

Example:
After 40 years, you're thinking about retiring. You realize you've amassed 35,000 shares of your company's publicly traded stock valued at $3,500,000. Your cost basis for these shares is $350,000. You begin to worry and make an appointment with your Stifel Financial Advisor. After discussing the specifics of your situation, evaluating your risk tolerance, and preparing a financial plan, you develop a plan to diversify your concentrated position as follows:

- You hold 10% of the stock long term. After all, you worked at the company for 40 years, and you believe it will continue to be profitable and grow. This portion of the stock fits into the diversified portfolio suggested by your Stifel Financial Advisor, and any dividends that may be generated will contribute to your retirement income. Upon your passing, your heirs will inherit this stock with a stepped-up cost basis, completely avoiding any capital gains tax.
- You hold 65% of the stock with the intention of selling when opportunities present themselves. While awaiting these opportunities, you choose to engage in option or margin strategies for half of the shares to reduce your market risk.
- You contribute the remaining 25% to a Charitable Remainder Unitrust. This supports the charity of your choice at your passing, while providing you with a 5% income stream for life and current income tax benefits. The income stream may be used as retirement income or to fund an irrevocable life insurance trust.

After developing the plan, you schedule meetings with your tax and legal professionals to ensure they agree with the plan and to ask for their assistance in executing the plan. The illustration below represents your combined diversification strategy.

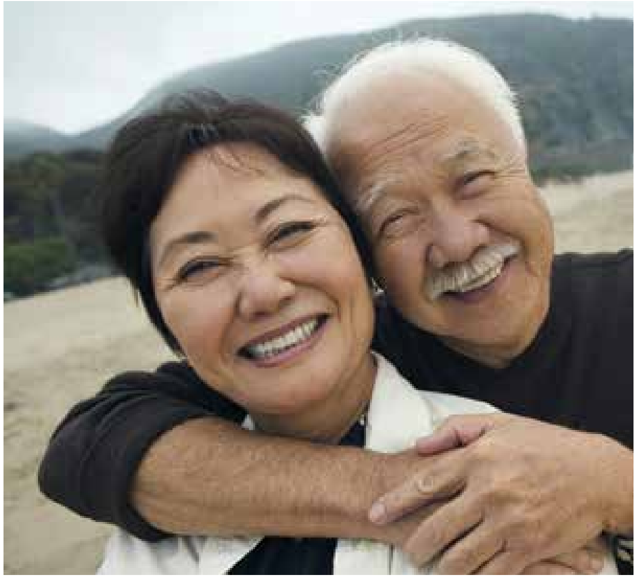


What Now?

Like the example on the previous page, you've probably started to worry about your concentrated position. You've read this document, you understand the problem, and now you know about some of the solutions available. But where do you go from here? Determining which of these solutions is appropriate for your circumstances requires an in-depth evaluation of your specific situation.

Discuss the details of your situation with your Stifel Financial Advisor. Using this information, he or she will work with the *Wealth Planning Department* to evaluate your risk tolerance and provide you with an Asset Allocation Report. This report shows you how your portfolio is currently allocated and outlines a properly diversified portfolio. The *Wealth Planning Department* can also work with your Stifel Financial Advisor to generate the Stifel Wealth Strategist Report® to analyze your financial situation now and in the future.

This report includes: Retirement Analysis (includes Monte Carlo), Social Security Optimization, Net Worth, Education Funding, Disability, Survivor, Long-Term Care, and Estate Analyses. Using this information, you can develop a plan to diversify your concentrated position with the help of your Stifel Financial Advisor. Before taking any action, also consult your legal and tax professionals.



Reports Available

Asset Allocation

Retirement Analysis (includes Monte Carlo)

Social Security Optimization

Net Worth

Education Funding

Disability

Survivor

Long-Term Care

Estate Analyses

[1] Options involve risk and are not suitable for all investors. There are risks involved in any option strategy, including the strategies discussed herein. In options, as in other areas of investing, informed investment decisions should be based on a thorough understanding and careful weighing of the risks and potential rewards of the particular strategy. Transaction and commission costs should be discussed with your Financial Advisor, and tax ramifications of buying or selling options should be discussed with your tax advisor before engaging in option transactions. Supporting documentation for any claims will be supplied upon request. Prior to buying or selling an option, a person must receive a copy of the Options Disclosure Document (ODD), titled "Characteristics and Risks of Standardized Options." A copy of the ODD is available from your Financial Advisor or from the company headquarters, Stifel, 501 North Broadway, St. Louis, Missouri 63102. A prospectus, which discusses the role of the Options Clearing Corporation, is also available upon request. Short-selling also incurs significant risk. Theoretically, securities sold short have unlimited risk.

[2] Borrowing on margin and using stocks as collateral involves a high degree of risk. Market conditions can magnify any potential for loss. Should the value of your account decline, it may become necessary to place additional cash or securities in your account. The securities in your account may be sold to meet the margin call, and Stifel can sell your securities without contacting you. The interest rates charged are determined by the value of the cash and securities in your account prior to initiating the loan. Please consult with your legal and tax professionals concerning your particular situation prior to borrowing on margin and review the Important Information Regarding Purchasing Securities on Margin, which is available on our web site, www.stifel.com/disclosures/margin-disclosure.

Keep in mind that while diversification may help spread risk, it does not assure a profit or protect against loss. Investing involves risk, including the possible loss of principal.

Do not rely solely on this information when making decisions with legal or tax consequences. Neither Stifel nor its Financial Advisors provide legal or tax advice and will not be held liable for any actions or suits based upon the information provided herein. Please consult your legal or tax professional if expert assistance is required.

Stifel Services

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Electronic Money Transfer
Bill Payment Services | Stifel Mobile
Stifel Access (Online account access)

College and Higher Education Planning
529 Plans | Education Savings Accounts

Common Stocks

Consulting Services

Corporate Executive Services
Cashless Stock Option Exercise
Control and Restricted Stock Transactions
Rule 10b5-1 Plans

Equity Line of Credit

Estate Planning

Exchange Traded Funds and Notes

Financial Planning

Fixed Income Investments | Certificates of Deposit
Collateralized Mortgage Obligations (CMOs)
Corporate Bonds | Government and Agency Securities
Municipal Bonds

Insurance | Business Owner Needs
Disability Insurance (Individual and Group)
Life Insurance (Individual and Business Policies)
Long-Term Care Insurance

Investment Advisory Programs

Investment Banking

IRAs | Traditional, Roth, and Rollovers

Lending Services | Mortgage Lending | Specialized Lending

Mutual Funds

Options

Preferred Stocks

Public Finance

Research

Retirement Planning

Retirement Plans | 401(k) Plans | 403(b) Plans
Profit Sharing Plans | Money Purchase Plans | SEP IRAs
SIMPLE IRAs | Defined Benefit Plans

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Tax Planning

Trust Services | Trust Management and Administration
Successor Trustee Appointments | Delaware Trust Services

Unit Investment Trusts

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