THE QUICK & DIRTY GUIDE TO EMPLOYEE EQUITY

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Introduction

Your employee equity is a big part of your compensation plan. It's part of what makes working in a growth company environment worth it. Unfortunately, understanding your best options opens the door to an alphabet soup full of jargon and tax and selling strategies that can give you a headache.

You may not have time to do a deep dive into employment equity strategies. This guide can give you a bird's eye view of your equity compensation and a headstart on how to take full advantage of this important piece of your portfolio.

Making the most out of your employee equity is critical to your next phase of wealth - whether that's financial independence, early retirement, affording a house, paying for college, or knowing that your portfolio is growing into strong retirement income.

How to make the most of this guide

1. Check your type of employee equity. You may have more than one.
2. Review the basic terms & definitions on page 3.
3. Learn when to exercise & how to keep your taxes low from the strategy table.
4. Connect with a financial planner to ask about your specific situation.

Terms to Know

ALTERNATIVE MINIMUM TAX (AMT):

A parallel tax to standard income tax that allows fewer deductions and recognizes certain types of income such as exercising Incentive Stock Options.

EXERCISE:

Taking action on your right -- not obligation -- to buy or sell company stock at a specified price.

OPTIONS:

The right to buy a certain amount of company shares at a predetermined price for a specific period of time.

STRIKE PRICE:

The price at which the owner of an option can execute the contract.

STOCK PRICE:

The last price a share of stock was bought or sold for in the market -- or, a fair market value (FMV) of company shares based on recent transactions in private markets.

VESTING:

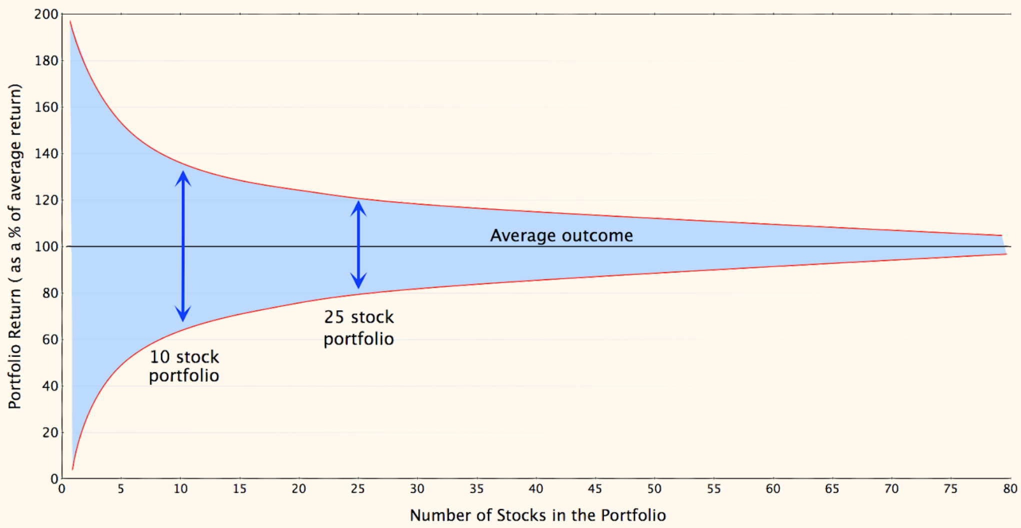
The conveyance to an employee of unconditional entitlement to a share -- in other words, the right to keep your shares even if you leave a company's employment.

Type	What is it?	Tax Implications	Best Time to Exercise
Nonqualified Stock Options (NQSOs)	You get the option, but are not required to buy stock. Your price is set on the date the option is granted. You can exercise the option over several years or need to when you leave the company.	Taxes are reported as ordinary income at exercise. Report the difference between the strike price and the stock price on exercise date.	Exercise your options close to expiration date OR if your employee equity is more than 10-20% of your portfolio, have valid need for cash, or don't think stock has upside.
Incentive Stock Options (ISOs)	The right, but not the obligation, to buy company shares at a given price. The ISO comes with an added tax benefit.	No taxes owed when options are granted or exercised and if you sell more than 2 years past the grant date and more than one year after exercise you only pay long term capital gains. Depending on your specific situation, you may have to pay the Alternative Minimum Tax (AMT).	Exercise strategy depends on specifics, but possibilities include the following: 1. Exercise and sell enough shares to buy options and pay your taxes. Keep the rest as ISOs. 2. You may exercise early if you have high confidence stock will increase over time. 3. Exercise gradually if you want to minimize AMT and start clock for long term capital gains treatment. 4. Exercise if your employee equity is more than 10-20% of your portfolio, have valid need for cash, or don't think the stock has upside.
Restricted Stock Units (RSUs)	Compensation in the form of company stock that vests over time.	Pay ordinary income tax on stock when vested. Once you own stock, then tax treatment of the sale is the same as any other stock you own.	Think of this as getting a cash bonus and buying company stock -- you're taxed on the bonus itself. Sell if your RSUs are more than 10-20% of your portfolio, have valid need for cash, or don't think stock has upside.
Employee Stock Purchase Plan (ESPP)	A way to buy company stock at up to a 15% discount using funds withheld from pay without reporting the income until you sell the stock	Typically pay ordinary income taxes on the discount and capital gains on any gains. Specific taxes depend on how long ESPP shares are held.	Sell when you hold too much company stock (exceeds 10-20% of total assets),you need cash for larger purchases, or don't think stock has upside.

ARE YOU TOO CONCENTRATED?

A single-stock portfolio presents investors with an inferior risk/reward profile.

- **The high uncertainty of an individual company stock diminishes its expected long-term growth**. Over the last 20 years, stocks with average volatility have lagged S&P-level returns by nearly three percentage points per year.
- There is a pronounced skew to single-stock returns. While the additional return potential for holding the right stock is substantial, **significant underperformance has been four times as likely.**
- Most individual stocks underperform. Within the Russell 3000 Index from 1983-2006:
    - 39% of stocks were unprofitable investments
    - 18.5% of stocks lost at least 75% of their value
    - 64% of stocks underperformed the Russell 3000
    - 25% of stocks were responsible for all of the market's gains



It can happen faster than you think.

If you hold more than 10-20% of your investable assets in your company stock, you own a concentrated position. Startup employees sometimes inadvertently end up with as much as 50-90% of their net worth in a single stock.

A fee-only fiduciary financial planner can help you learn how to reduce your risk in a concentrated position and diversify your portfolio to make the most of your employee equity.

Meet the Author

Robinson Crawford, CFP®

A great advisor prioritizes his clients' values and aspirations above all else. My job is to listen, understand, and work alongside you to ensure that your money works for you - not the other way around.

A little about me:

- Certified Financial Planner®
- BS, Computational Mathematical Sciences - Arizona State University
- 5+ years of financial planning experience
- Youngest of 4 siblings
- I speak workable Portuguese
- I love baseball, basketball, and sushi
- Featured by CNN Money, Money Magazine, and Quicken ZING
- Read my signed fiduciary oath

Take Action

Book a free 30-minute consultation with Robinson

Take a personal assessment

Read the Single Stock Dilemma Whitepaper