Employee Equity 101 for PE-backed companies

A guide to help employees understand their ownership incentive awards

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In this course we'll cover:

Equity Basics

Everything you need to know about equity: Who can have it, how it works, what happens when you leave a company, and more.

Equity types: LLCs

Everything you need to know from profits interest units, options to acquire capital interests, and phantom equity.

Equity types: Corporations

Everything you need to know about stock options and restricted stock.

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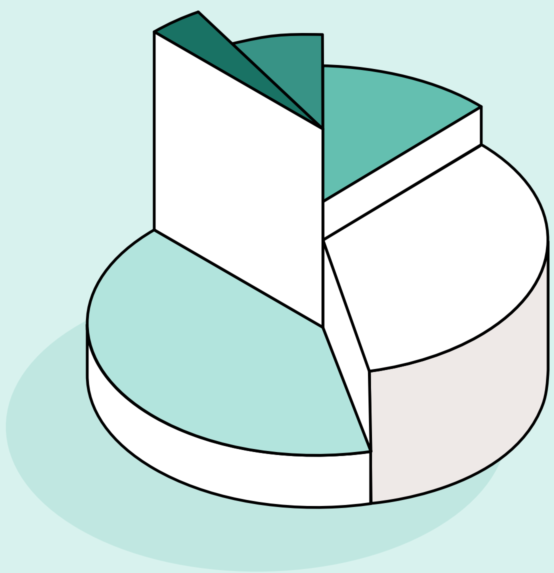
Equity basics

What is equity anyway?

Equity (noun):

An ownership stake in a company

When issued by a company, equity is a type of compensation on top of your base salary.



Why should I care about equity?

Because you may benefit from it financially.

Private equity firms typically hold companies for 3–5 years, selling their holdings after increasing their value.

If you hold equity in your company, you could participate in that profit when your company:

- increases in value
- hits certain performance benchmarks, or
- changes ownership

Why do PE sponsors encourage their portfolio companies to give equity?

Several reasons:

To attract good employees

Companies know offering equity helps get talented people to work for them.

To retain good employees

Equity incentivizes employees to stay with the company to get their full benefits.

To align incentives between the company and its employees

It gives employees more reasons to care more about overall company success, work toward a common goal, and grow the value of the company.

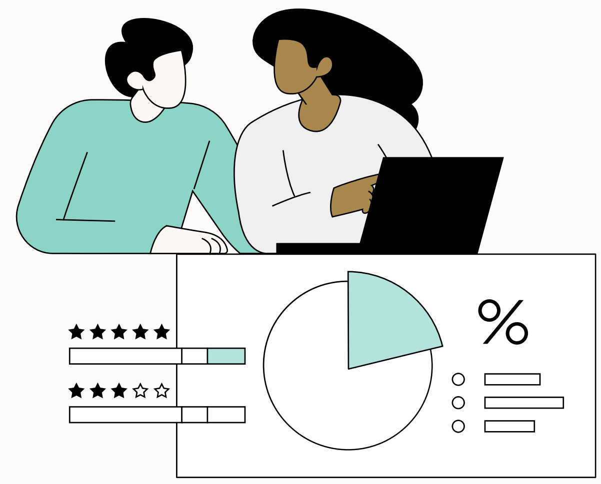
Who can have equity?

Equity ownership is a unique benefit and form of compensation that is not available everywhere but is becoming more common.

Equity holders can include anyone involved with corporations or LLCs, including companies that are owned by a private equity firm.

This includes:

- Management teams
- Employees at all stages
- Company founders
- Investors
- Advisors



When do I get equity?

Companies or private equity firms may offer equity at several points:

- Companies often give equity at the time an employee is hired, as an additional incentive on top of their salary.
- They may also “**refresh**” an employee’s equity by giving additional equity at regular intervals.
- Private equity firms may award equity to certain managers or other employees of a company that they have acquired.

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Equity basics

Do I own my equity immediately?

Usually employees have to meet certain conditions before they earn equity rights. This is called “**vesting.**”

There are three main types of vesting:

Time-based vesting
This incentivizes employees to remain with the company while growing the business

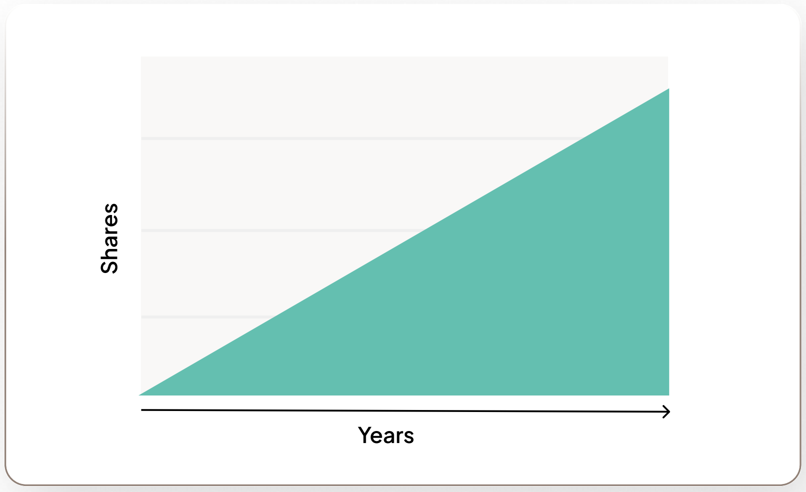
Performance-based vesting
This incentivizes employees to work toward shared company goals and achieve performance milestones

Hybrid vesting
A combination of the above two—remain with the company for some time, and also hit certain performance milestones

How does time-based vesting work?

Most equity agreements have a **time-based vesting schedule.** That means you take ownership of your shares based on how long you've worked for the company.

Think of it like getting ownership of your company a little at a time, the longer you work there.

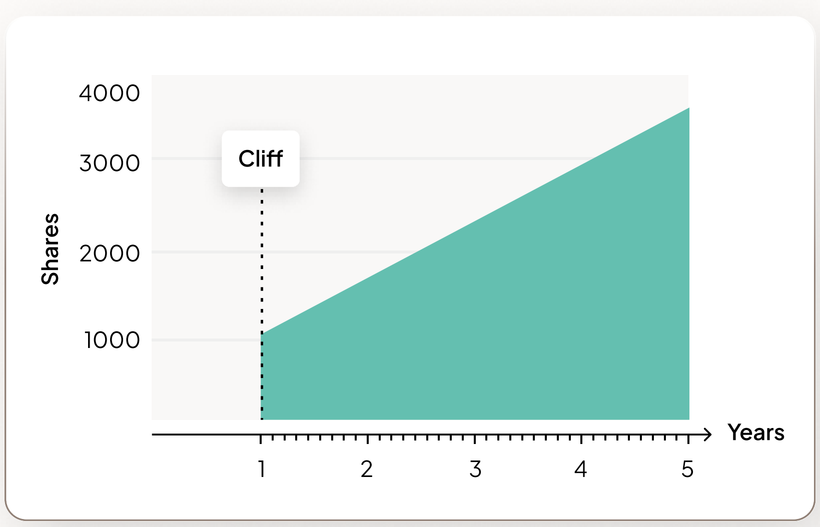


So I start owning equity from day one?

Not exactly—in a **time-based vesting structure,** companies want to make sure you remain at the company for some time before your equity vests.

One common structure is the "**one-year cliff**"—you receive 25% of your equity after one year, but in that first year you don't own any equity yet.

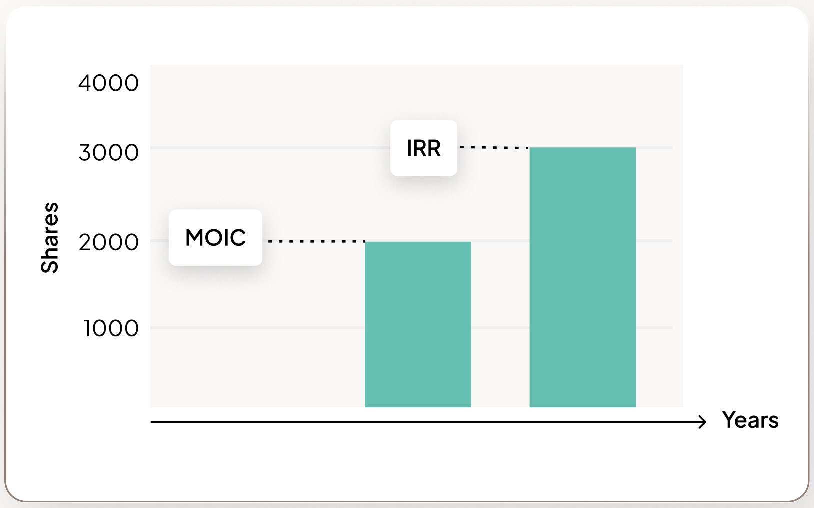
After your first year, your equity would typically vest ton a month-by-month basis.



How does performance-based vesting work?

Some equity is performance-based, meaning it is triggered by the company or when the employee meeting certain performance criteria.

For private equity-backed companies, it is common for management teams to have performance-based vesting tied to metrics like **multiple on invested capital (MOIC)** and/or **internal rate of return (IRR).**

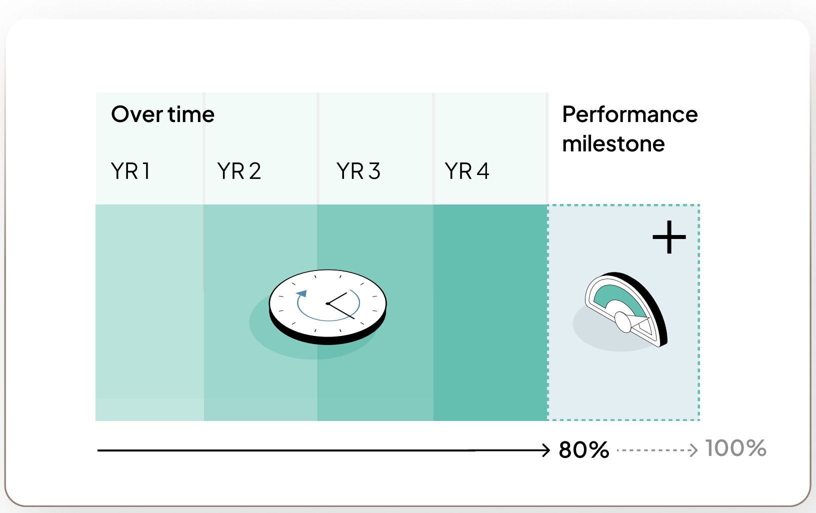


What is a hybrid vesting schedule?

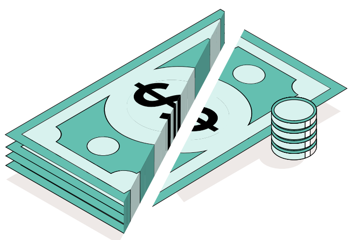
A hybrid vesting schedule has a combination of both time-based and performance-based conditions.

For example, your vesting schedule may be split into five "tranches" or segments. You may have four tranches of vesting that are tied to time, and one tranche that is tied to a specific performance milestone that must be met.

If that performance milestone is never met, you could still vest the four time-based conditions but you would not vest the performance-based condition. Eighty percent (four out of five) of your equity would then vest.



Do I have to pay for equity?



It depends on the type of equity you receive.

If you receive stock options or options to acquire interests, you have to pay to exercise those options.

If you receive Restricted Stock Units, Profits Interest Units, or Phantom Equity, typically no payment is required.

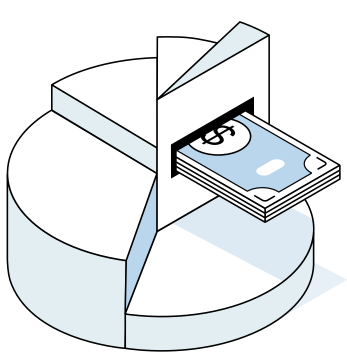
We'll go into more detail later.

How much is my equity worth?

When you receive an equity grant, it will typically be based on the company's value at the time of grant, allowing you to benefit from the company's growth in value over time. Equity issuers inform recipients of this initial value at the time of the grant.

That initial value is derived from an independent third-party valuation, or assessment of the company's value. This is known as the **Fair Market Value (FMV)**, and can change over time as the company develops.

When can I cash out my equity?



You could realize a potential profit from your equity in a few different ways:

- If your company undergoes a change in ownership
- If you or the company hit certain goals or benchmarks
- If your company goes public
- If your company enables the selling of equity, known as a secondary transaction

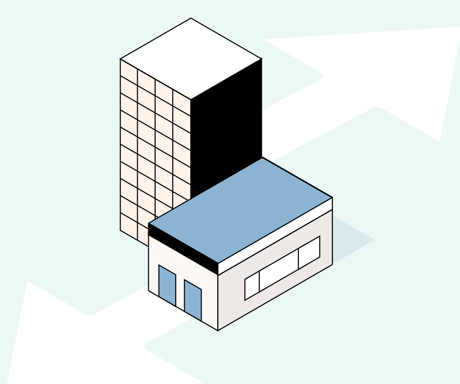
What happens to my equity if I leave the company?

It depends on the type of equity, the terms of the agreement between you and the company, and the reason for your departure.

Your shares may be forfeited at termination, you may be able to hold on to them, or your company may buy back your shares from you.

Your equity agreement will have more information on termination clauses.

A word about private equity firms and equity types



Private equity firms own companies with various types of business structures, mainly **corporations** or **Limited Liability Companies (LLCs).**

LLCs are the most common business structure owned by private equity firms, because of their legal protections, tax advantages, and flexibility.

In this guide we'll discuss equity types for both types of legal entities.

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Equity types

In this guide: Equity explained

In this guide you'll find sections on equity types typically granted to employees in LLCs and corporations backed by private equity, including:

- Profits interest units
- Options to acquire capital interests
- Phantom equity
- Stock options
- Restricted stock

Select your equity type to learn more.

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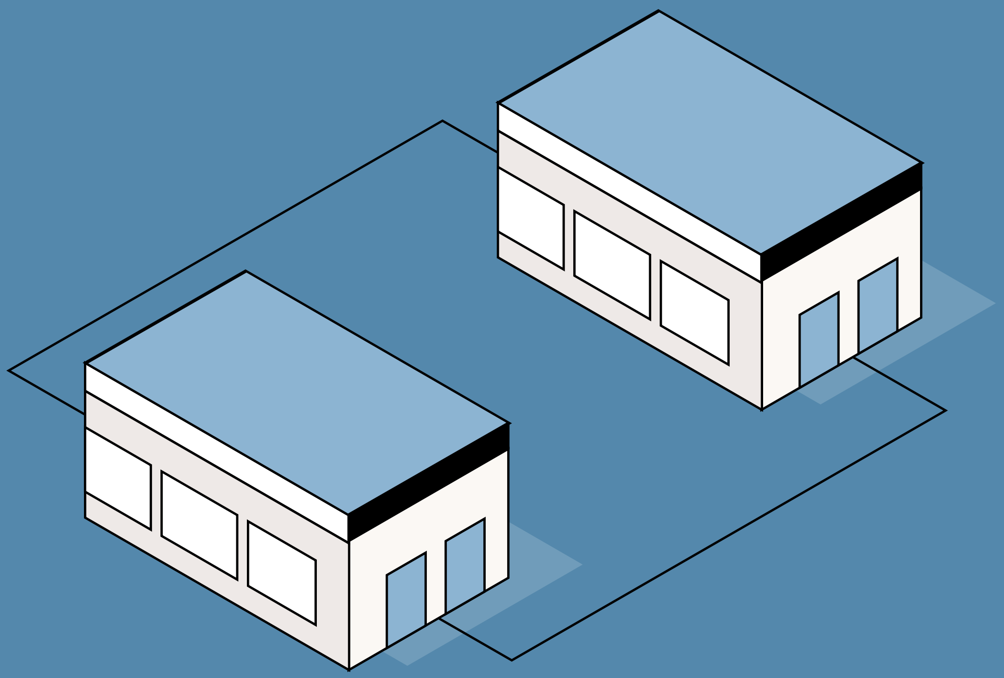
Equity types: LLCs

Different types of equity for LLCs



What are the different types of equity for LLC employees?

There are generally three main types of equity awards that employees receive from an LLC:

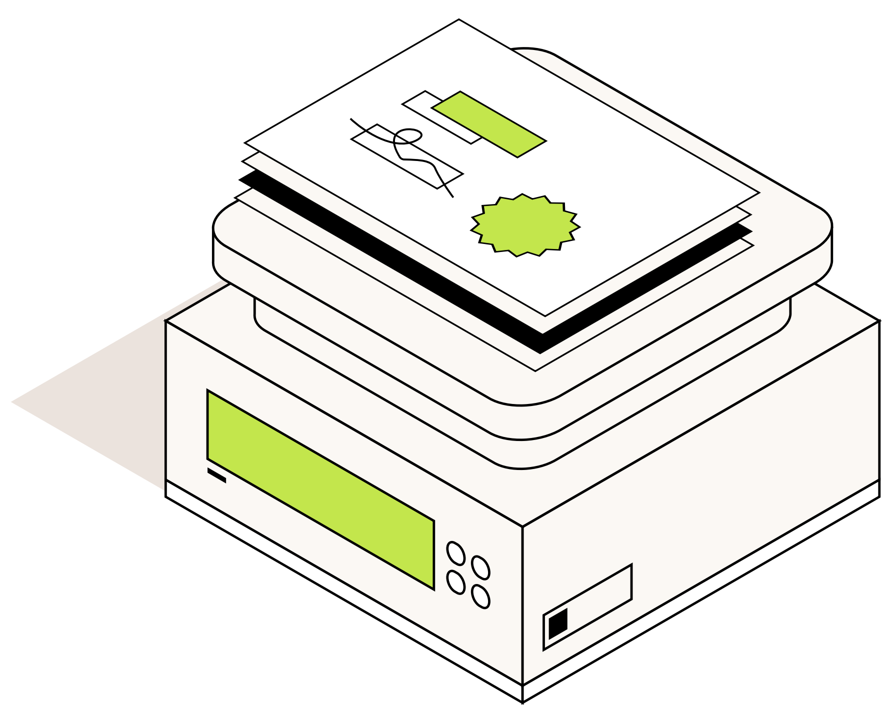
1. **Profits interest units**

   May also be called management incentive units, incentive units, or employee incentive units

2. **Options to acquire capital interests**

3. **Phantom equity**

   May also be called unit appreciation rights, appreciation rights, or synthetic equity



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Profits interests units

What is a profits interest unit?

Profits interest units (PIUs) are the most common equity type for LLCs.

A profits interest is an equity stake in an LLC's future economic growth. For example, if a company is sold for a higher value than it had when the equity was granted, the holder owns a percentage of that growth in value.

The idea is that recipients of this type of equity will be incentivized to help the company grow in value, since they may personally profit from that growth.

What establishes the value of my PIUs?

Companies hire external auditors at regular intervals to calculate the value of the company. You will know the current value of the company at the time equity is granted to you.

This number is called the **threshold value** or **hurdle value** and is specified in your profits interest grant.

If the company is acquired, the equity holder may receive a percentage of the difference between the threshold value and the acquisition price (once debt and other considerations are taken into account).

In this way, the PIU holder benefits from the growth of the company during the time they held equity.

Where can I see my profits interests?

If your company manages equity with a tool like Carta, you can keep track of your equity at every stage:

- Seeing the offer from your company
- Accepting the offer
- Keeping track of what has vested
- Keeping track of the value of your holdings
- Receiving tax documents

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Example: PIUs

Here's a simplified example of how it works...

👋 **Meet Dan**

Dan is a manager at a transportation company, Autumn. He has worked there for seven years.

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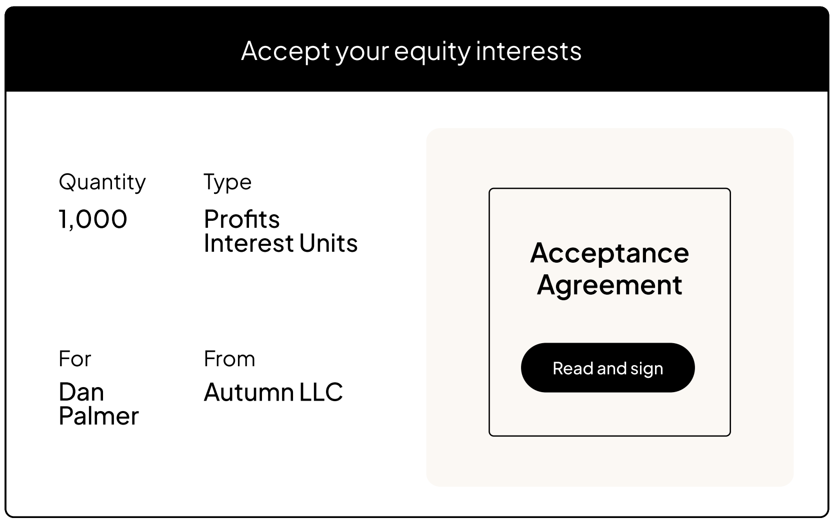
Dan is granted 1,000 profits interest units, which represents 1% of the company.

Dan receives a notification and signs on to his dashboard to review the equity offer.



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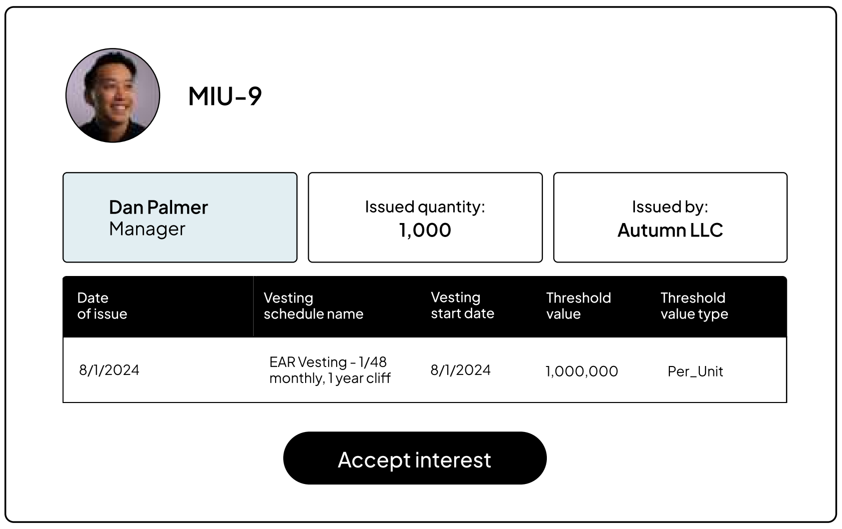
The dashboard also informs Dan of other key details of his equity offer:

- The issue date
- The vesting schedule (his units will be fully vested in four years, with a one-year cliff)
- The threshold value of the company ($1 million on the date of the grant)



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Example: PIUs

Example: Dan
Manager at a
transportation company

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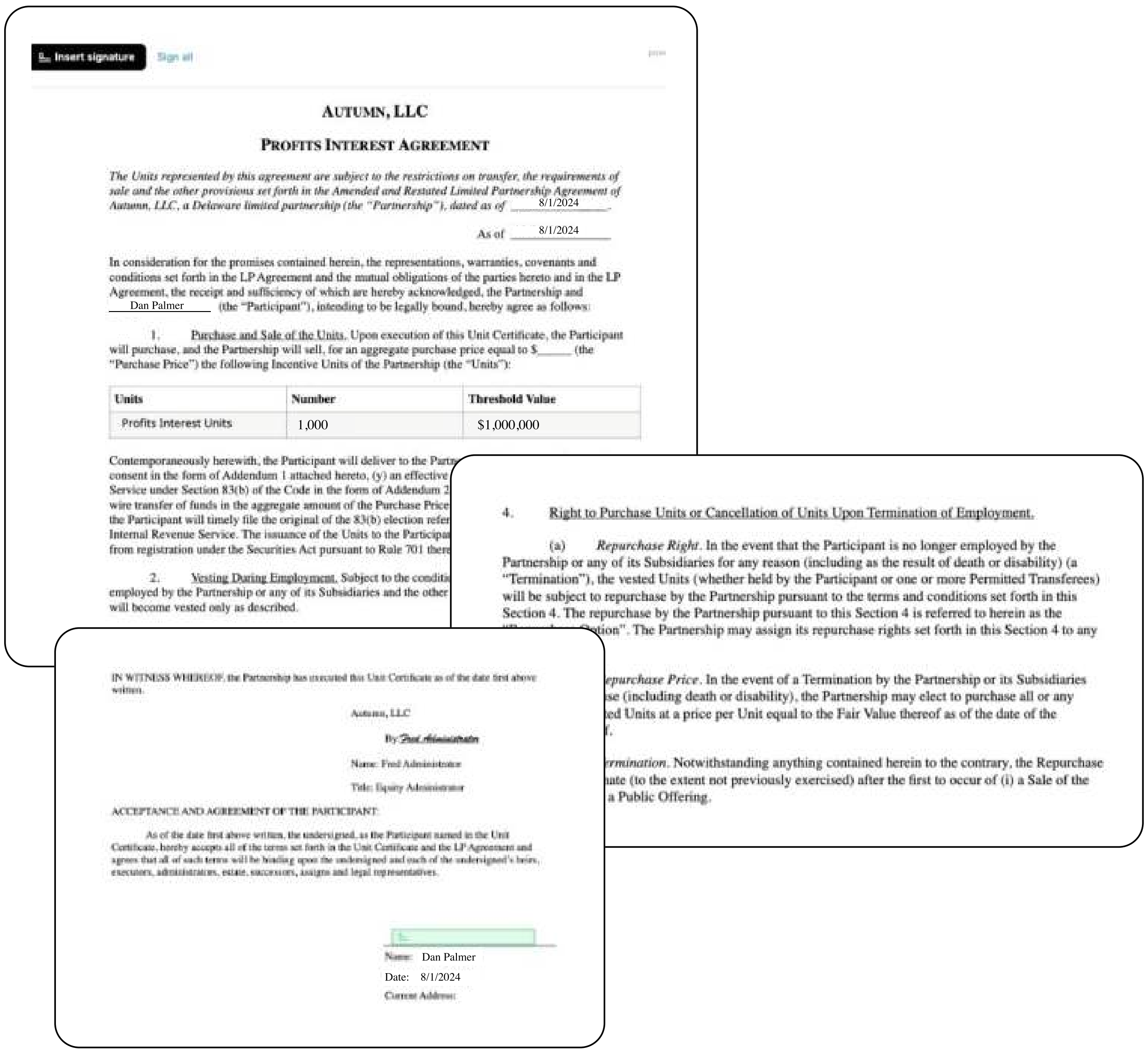
The dashboard shows Dan the complete equity agreement, which is automatically produced by Carta once the company enters in the relevant details. This includes all the specifics of their award, what happens at termination, and more.



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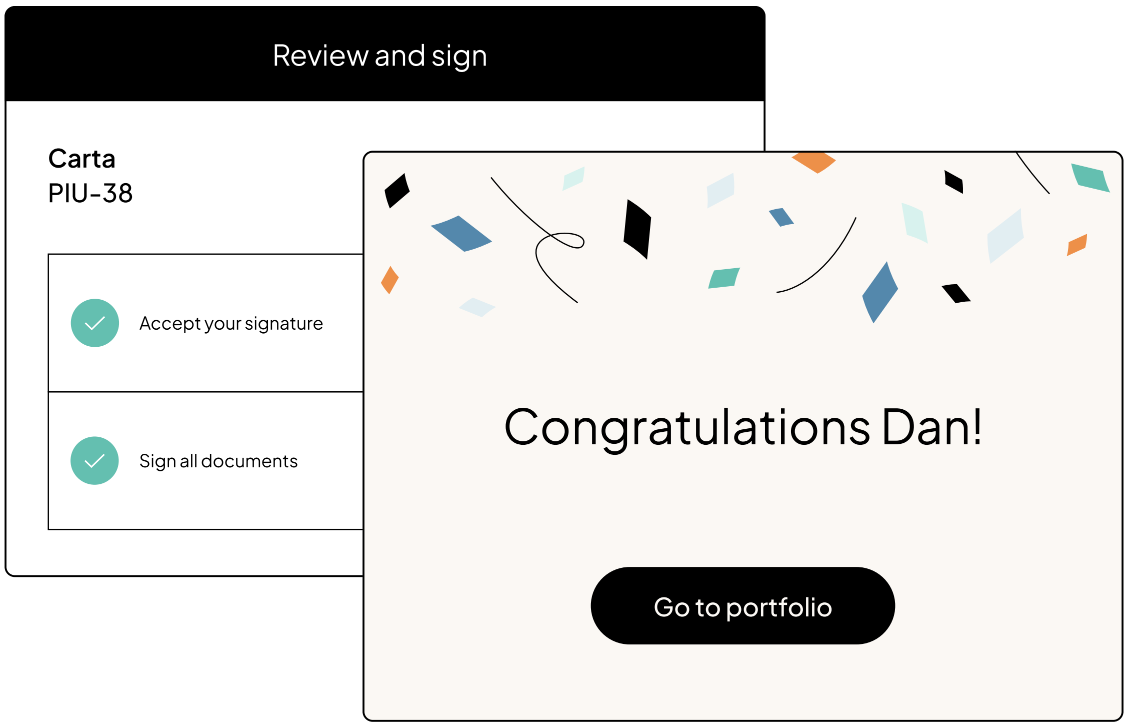
After reviewing, Dan digitally signs the offer.

It's official—Dan now holds a stake in the company's future profits from this day onward. 🎉



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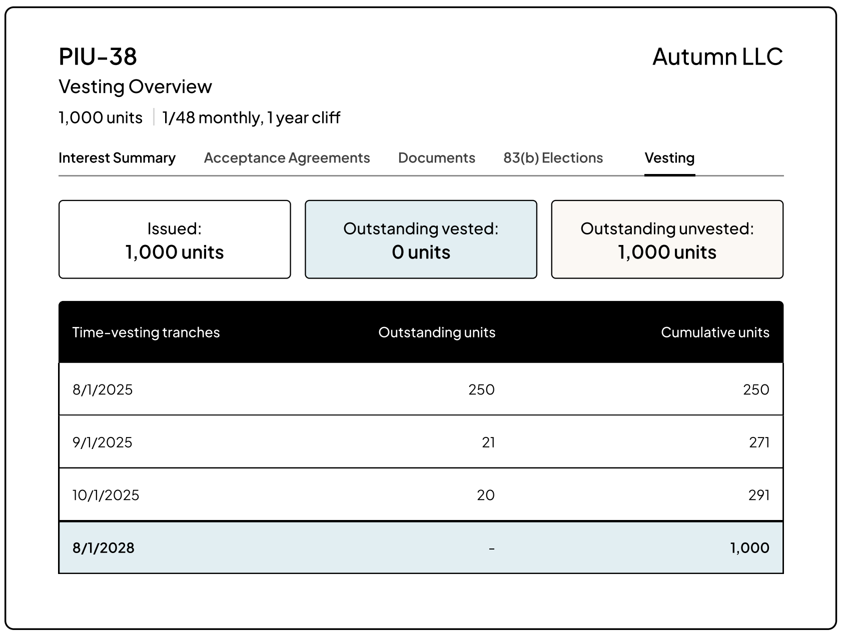
Example: PIUs

Example: Dan
Manager at a
transportation company

5

A key element of the agreement is the vesting schedule: This shows exactly when and how much equity Dan will own. On the dashboard he can see that 25% of his units will vest one year after he accepts the award, and that his units will vest incrementally month-by-month until he is fully vested after four years.



PIU-38 Autumn LLC
Vesting Overview
1,000 units | 1/48 monthly, 1 year cliff

Interest Summary | Acceptance Agreements | Documents | 83(b) Elections | Vesting

Issued: 1,000 units | Outstanding vested: 0 units | Outstanding unvested: 1,000 units

Time-vesting tranches	Outstanding units	Cumulative units
8/1/2025	250	250
9/1/2025	21	271
10/1/2025	20	291
8/1/2028	-	1,000

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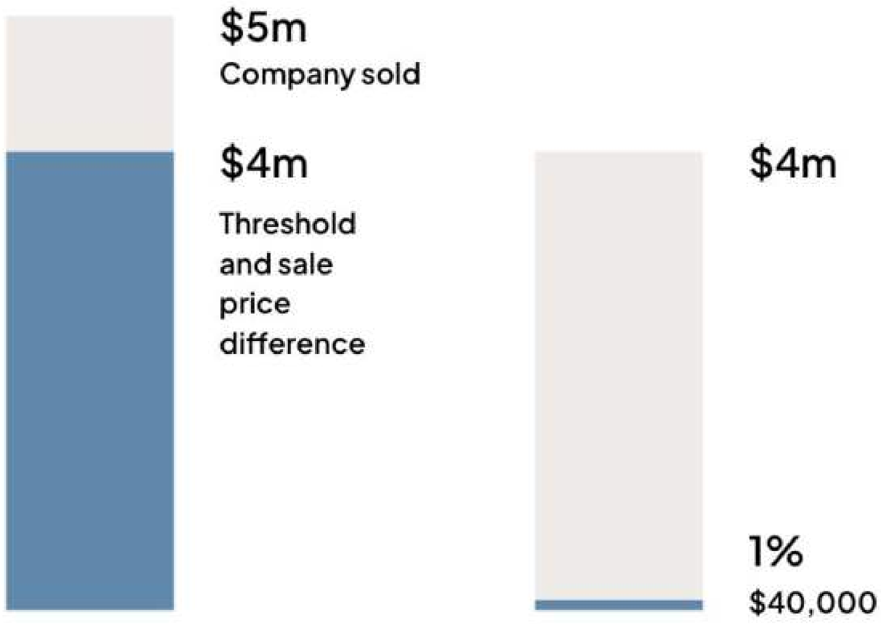
Five years after the grant date, the company is sold for $5 million.

Dan would be paid 1% of $4 million (the difference between the threshold value of $1 million and the sale price of $5 million), or $40,000.*



*Simplified example: Does not take into account debt or other distribution preferences.

What other factors can affect the payout?

Calculating the payout can depend on other factors, such as the presence of other shareholders who may have preferred distribution rights. In these cases, a PIU holder's distribution of profits may have to "**wait**" until other shareholders receive preferred payments.

Any debt held by the company would also affect the distribution of profits, since it would have to be paid out first.

Is an acquisition the only way to receive a PIU payout?

No.

Profits interests can be structured to distribute profits to holders annually or at regular intervals, though this is less common.

Do I have to pay for my PIUs?

No.

Unlike some other common forms of employee equity (like stock options), employees typically do not have to pay to receive PIUs.

This makes them an especially attractive form of equity for LLC employees.

Do I have to pay taxes on my PIUs?

No taxes are owed when you receive PIUs, assuming they are appropriately structured.

However, LLCs are "**pass-through entities**" that pass taxes through to partners or members. If the company is running profitably, this could result in a tax burden.

In a **liquidity event,** such as the sale of the company that results in a cash payout to the PIU holder, that payout is generally taxed at a capital-gains tax rate instead of higher ordinary income tax rates, if qualifications are met.

What other steps should I take to minimize taxes?

Filing an 83(b) election with the IRS **within 30 days** of a PIU grant is generally recommended to avoid unfavorable tax treatment.

By filing an 83(b) election, recipients essentially elect to be taxed on the date the equity is granted instead of the date the equity vests. This may potentially be tax-advantageous as the value of the equity on the date of grant is considered to be zero.

If an 83(b) election isn't made within 30 days, the award could be taxed upon vesting. At that point the equity could have greater value, leading to greater taxes.

Are there other tax implications of PIUs?

As LLC partners, PIU holders are no longer considered W-2 employees for tax purposes, as the IRS takes the view that they cannot be both employees and partners of the same entity.

This means wages will be paid in the form of a **"guaranteed payment"** on a Schedule K-1 tax form. The company no longer withholds taxes, and the partner must file self-employment taxes and withhold/pay their own quarterly taxes.

Does this change in employment status apply to me?

Yes, unless your company has set up your PIU with a workaround—a **separate holding company structure** that allows a holder to continue being an employee of the company.

For any type of equity, it's a good idea to consult a tax expert for guidance on potential tax implications.

My PIU has a “catch-up” provision—what does that mean?

Profits interests generally apply only to the growth in company value that occurred after the grant date.

However, companies may structure PIUs with a **catch-up provision** that enables holders to benefit from the previous growth in company value, before the grant date. This effectively changes the threshold value and enables a potentially larger payout.

What if I leave the company?

At termination unvested units will be forfeited. The company typically has the right to repurchase vested units, typically for the fair market value at termination. PIUs can be structured in a variety of ways; your PIU agreement will have details about what happens in case of termination.

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Options to acquire capital interests

What is an option to acquire a capital interest?

An **option to acquire a capital interest** in an LLC is similar to a stock option in a corporation: A company grants the employee a contractual right to purchase capital interests, once certain conditions are met, at a price set at the time of the grant.

Do I have to pay for the option?

Yes—you would purchase the capital interests at the strike price, or current value of the equity at the time the grant is made.

Purchasing units is called exercising the option.

You don't have to purchase units if you don't want to —it's your choice.

When can I exercise my options (purchase shares)?

Companies that offer options to acquire capital interests typically make them exercisable if one of three conditions are met:

- Under certain circumstances of employment termination
- The company converts into another form of legal entity, which may include converting from an LLC to a C-corp
- The company undergoes a change of control.

Why can I only purchase shares at certain times?

Options to acquire units are generally not designed to be exercised while the holder is still working for the LLC.

Reason: They are not an ideal asset to hold while still employed at an LLC, since they require the holder to become a member of the LLC— that means they start receiving **K-1s** instead of W2s and are required to file self-employment tax returns, without the same tax advantages as other forms of LLC equity.

How are options to acquire capital interests taxed?

The employee is taxed at ordinary income tax rates once they exercise their option to acquire capital interests and purchase units at the strike price.

The tax is based on the difference between the strike price at time of grant and the Fair Market Value of the company at time of exercise. This is also known as the “**spread**” or “**delta.**”

If and when they eventually sell the interests, capital gains taxes apply on the spread between the price at exercise and the price paid out per share.

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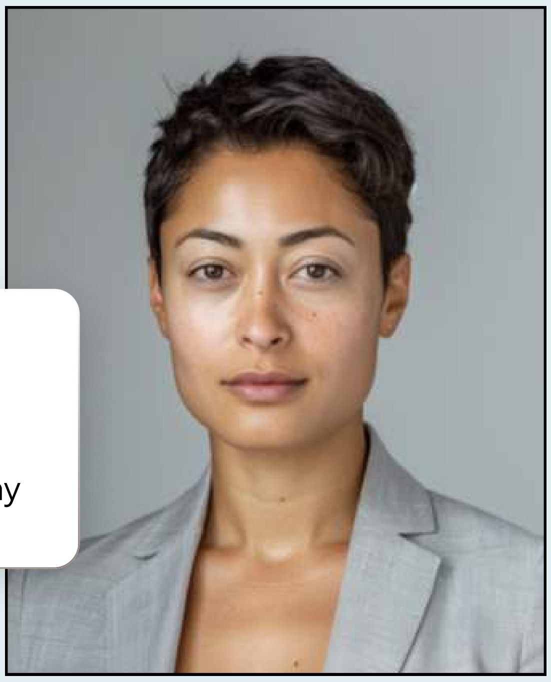
Example: Options to acquire capital interests

Here's a simplified example of how it works...



👋 **Meet Roberta**

Roberta is an engineering director for a software company

1

She receives an option to acquire 4,000 units of options to acquire capital interests at a strike price of $8 per unit.

Interest summary

Interest Summary | Acceptance Agreements | Documents | 83(b) Elections | Vesting

4,000 units	0 units	4,000 units
Issued quantity	Outstanding vested quantity	Outstanding unvested quantity

Strike price	$8

2

In the dashboard she can see her vesting schedule, which shows that her units begin to vest after a one-year "**cliff**" and monthly after that, until she is fully vested after four years.

Vesting by Tranche

Time-vesting tranches	Outstanding units	Cumulative units
11/5/2020	1,000	1,000
12/5/2020	83	1,083
1/5/2021	83	1,166
2/5/2021	84	1,250
3/5/2021	83	1,333
//		
7/5/2023	84	1,750
8/5/2023	83	1,833
9/5/2023	83	1,916
10/5/2023	84	2,000

Example: Options to acquire capital interests

Example: Roberta
Engineering director
for a software company

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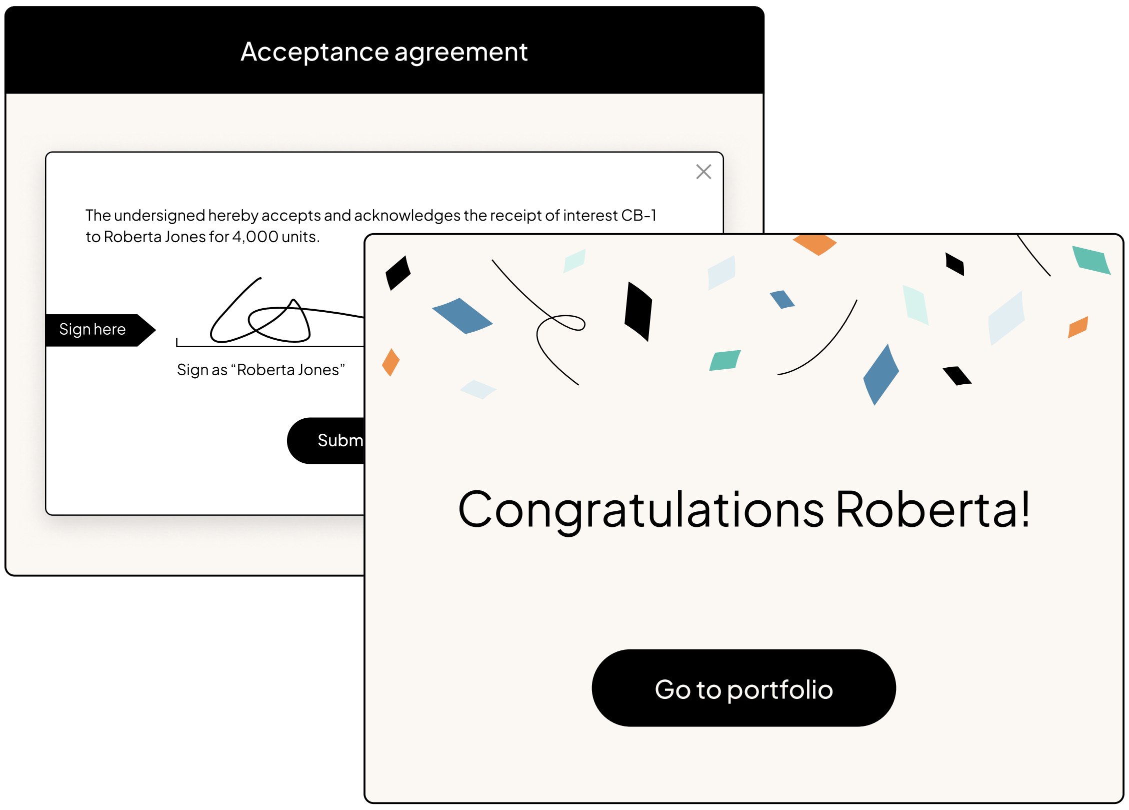
Roberta accepts her offer of options to acquire capital interests.



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After four years, Roberta's shares are fully vested. In that time, the Fair Market Value of the company has grown, from $8 to $12.

A few months later, Roberta decides to retire and leave the company. At that point she is eligible to exercises her options. She decides to purchase 4,000 units at $8 per unit, which was the strike price outlined in her equity agreement. She pays $32,000, for shares that now have a Fair Market Value of $48,000.

On her next tax return, Roberta pays income tax on the "spread" of $16,000 (the difference between the $32,000 purchase price and the $48,000 value of those units at the time of exercise).

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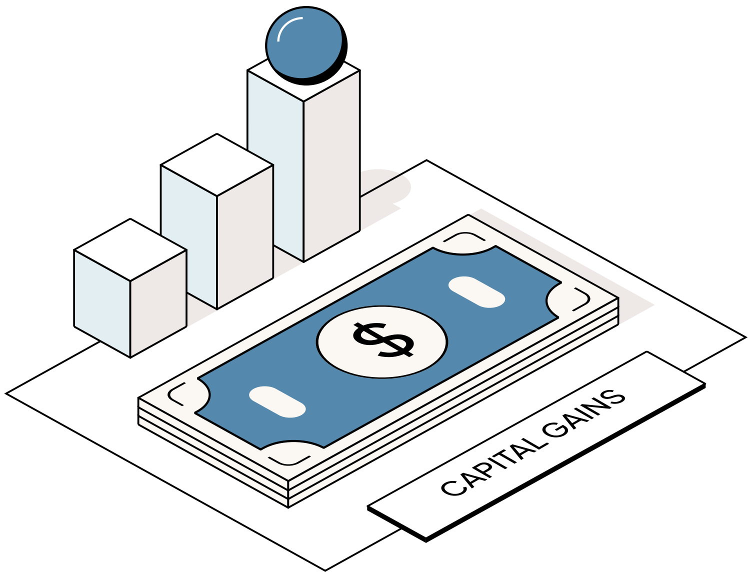
Example: Options to acquire capital interests

Example: Roberta
Engineering director
for a software company

5

A year later, the company is sold, in a deal that values the company at $16 per share.

Roberta sells her 4,000 units for a total of $64,000, and on her next tax return pays capital gains tax on the difference between the value of her units when they were exercised ($48,000) and the value of her units at sale ($64,000).



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Phantom equity

What is phantom equity?

Phantom equity is like a cash bonus when the company achieves a major milestone, such as being acquired. It is a flexible type of equity that companies can structure in a variety of ways—for example, it can:

- include a share of annual profits
- come from a set-aside pool of cash from a sale of the company, or
- pay out according the growth in company value from the time of the grant

Is phantom equity actually equity?

While no actual ownership of membership interests is involved (hence the term **"phantom"**), phantom equity gives employees a stake in the company's success and provides added incentive to help the company meet its goals.

For this reason, like other forms of equity, it can help attract and retain employees and align incentives among employees and the company.

Do I have to pay for phantom equity?

No.

Phantom equity typically is granted by the employer and does not require the holder to pay anything.

Do I remain an employee and continue to get W-2s?

Yes.

Phantom equity holders keep the same employee status for tax purposes, unlike some other forms of LLC equity.

How is phantom equity taxed?

Holders of phantom equity pay **ordinary income tax** at payout. This is in contrast to other forms of LLC equity, such as Profits Interest Units, which are taxed at lower capital gains rates.

- **At grant:** No taxes owed
- **Once vested:** No taxes owed
- **At payout:** Taxed as ordinary income

Do I have to stay with the company to benefit?

Yes.

Participants in phantom equity plans are generally required to remain employed with the company to benefit from any payouts.

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Example: Phantom Equity

Here's a simplified example* of how it works...

👋 **Meet Martin**

Martin is a marketing associate at a manufacturing company.

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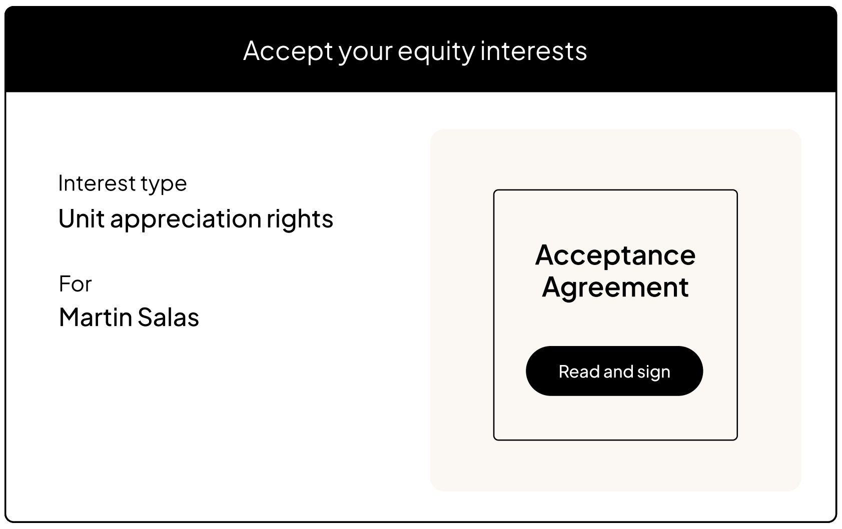
When he was hired his employer offered him a phantom equity agreement in the form of **"unit appreciation rights,"** which pay out according to a hybrid (time- and performance-based) vesting schedule.



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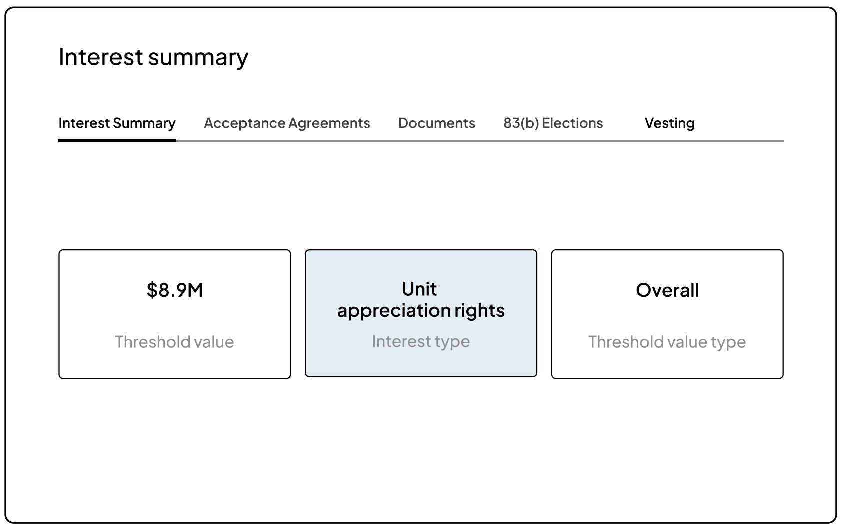
The offer notes that the threshold value—or the company's Fair Market Value at the time of the grant—is $8.9 million. That means Martin can benefit financially if the company grows in value from that amount, once he hits certain vesting milestones.



*This example reflects one type of phantom equity structure; structures may vary.

Example: Phantom Equity

Example: Martin
Marketing associate at a manufacturing company

3

The offer also details his two performance-based vesting conditions—his shares vest when the company 1) experiences a doubling or tripling of "**MOIC,**" or multiple on invested capital (a metric used by investors to gauge the growth of their company investments), or 2) when the company undergoes a change in control (sale).

Vesting Overview

Time-vesting tranches	Outstanding units	Cumulative units
3/14/2020	2,390	2,390
3/14/2021	2,390	4,780
3/14/2022	2,390	7,170

Tranches with performance vesting		Outstanding units
6	2.00x MOIC	3,983
7	3.00x MOIC	3,983
8	Change of control	3,983

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In the dashboard, Martin can review the full legal contract associated with his equity offer, which is automatically generated based on his company's inputs.

Autumn Sun LLC
2018. UNIT APPRECIATION RIGHTS PLAN

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the Autumn Sun LLC 2016 U.S. Unit Appreciation Rights Plan (the "Plan"). The purpose of the Plan is to encourage and enable the employees of Autumn Sun LLC, a California limited liability company (including any successor entity, the "Company") and its Subsidiaries, upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business, to align the interests of such individuals with the equity holders of the Company. It is anticipated that providing such persons with such a stake in the Company's welfare will assure a closer identification of their interests with those of the Company's equity holders, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"*Affiliate*" of any Person means a Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with the first mentioned Person. A Person shall be deemed to control another Person if such first Person possesses directly or indirectly the power to direct, or cause the direction of, the management and policies of the second Person, whether through the ownership of voting securities, by contract or otherwise.

"*Award Agreement*" means a written agreement setting forth the terms and provisions applicable to an award of Unit Appreciation Rights granted under the Plan. Each Award Agreement may contain terms and conditions in addition to those set forth in the Plan; *provided, however,* in the event of any conflict in the terms of the Plan and the Award Agreement, the terms of the Plan shall govern.

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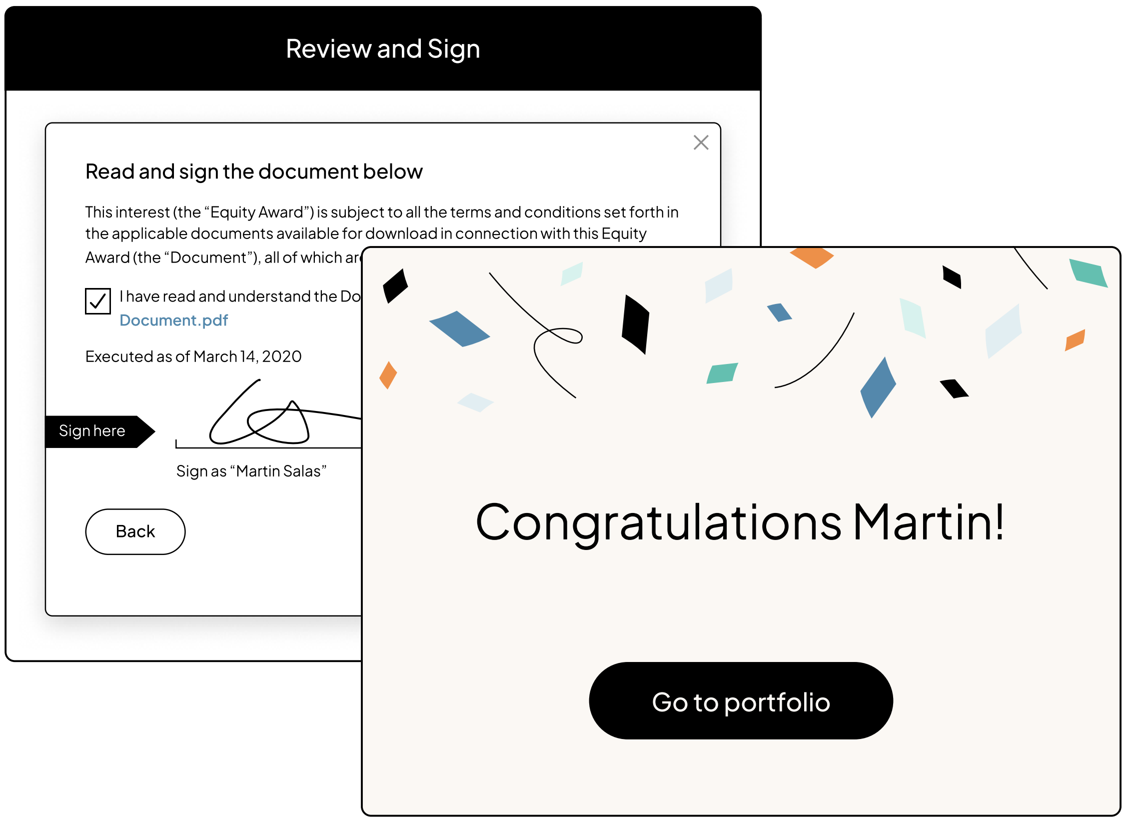
Example: Phantom Equity

Example: Martin
Marketing associate at a manufacturing company

5

Once he has reviewed the offer, Martin digitally signs the agreement to confirm his acceptance of the offer.



6

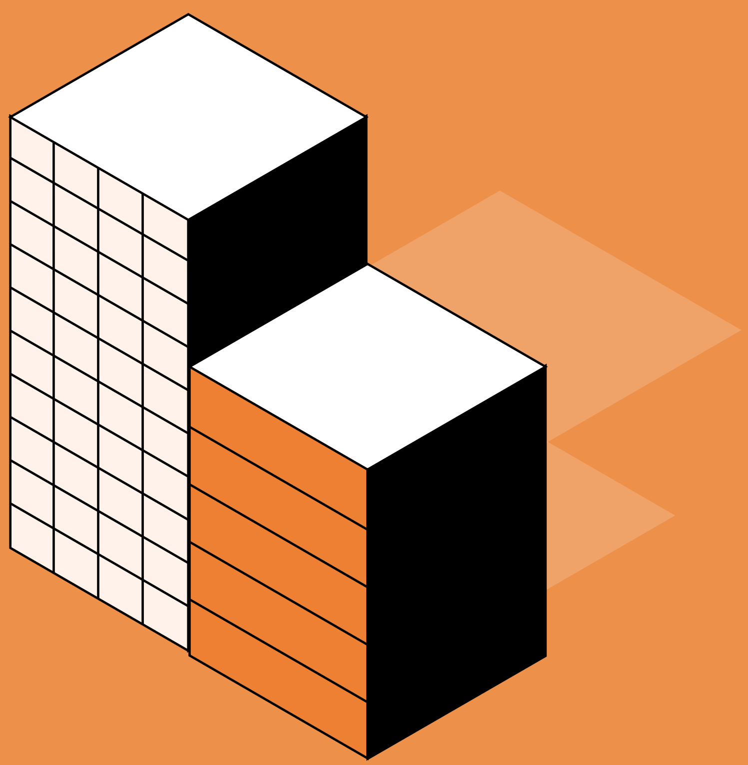
Five years after he accepts the equity offer, Martin's company is acquired for $12 million.

His employee appreciation units entitle him to a percentage of the difference between the $8.9 million threshold value of this grant and the $12 million acquisition price, once all debts and other preferential payouts are made.

On his next personal tax return, Martin pays ordinary income tax on his total payout.

Equity types: Corporations

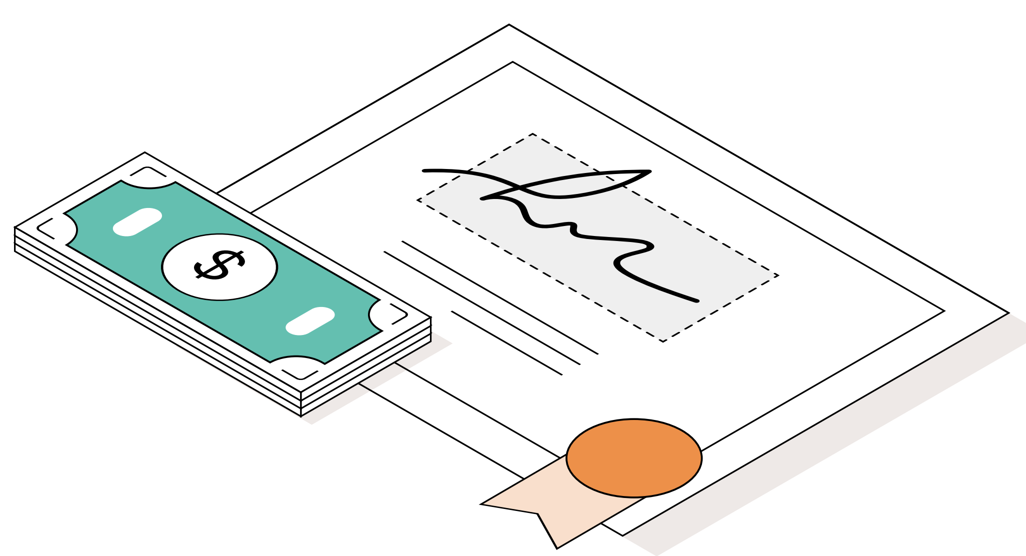
Different types of equity for Corporations



What are the different types of equity for employees of a Corporation?

If you work for a corporation, there are two main types of equity:

1. **Stock options (NSOs and ISOs)**
2. **Restricted stock (RSAs and RSUs)**



1

Stock options

What is a stock option?

Stock options are a form of equity compensation that allows an employee to buy a specific number of shares at a pre-set price.

Keep in mind that stock options themselves do not represent ownership. Only when you exercise your options and purchase shares do you actually own a piece of the company.

Do I have to buy the stock option?

No.

Stock options are just that—an option.

You don't have to purchase shares if you don't want to.
It's your choice.

However, choosing not to purchase shares means you would not own the equity.

Why should I want a stock option?

It's an opportunity to buy shares in a company that may become bigger and more valuable. You get to decide whether you believe the company might grow.

If it does grow, the shares you bought could be worth more than what you paid for them—and you could have a chance to sell those shares for a profit at some point in the future.

How much are my stock options worth?

When you are first granted the stock options, your company will tell you the strike price, or price at which you will have the right to buy shares. The strike price is based on independent third-party assessments of the company's value, for example from a process called a 409A valuation.

Companies conduct 409A valuations at regular intervals, so you can monitor the value of your stock options, whether your company's value is growing, and by how much.

How do I know the details of my stock options?

Stock option grants are how your company awards stock options. This document usually includes details about:

- The type of stock options you'll receive
- The number of shares you can purchase
- Your strike price
- Your vesting schedule

Do I keep stock options forever?

Your stock option grant should specify its expiration date. In general, stock options expire 10 years from the date you're granted them, or within a set period of time after you leave the company, whichever comes first.

When can I exercise my stock options?

You can exercise your options after they vest. For an initial grant of stock options, usually this means you can exercise 25% of your options after one year, and then gradually exercise more over time.

How are stock options taxed?

There are two types of stock options—Non-qualified Stock Options (NSOs) and Incentive Stock Options (ISOs).

Tax treatment will depend on which type you have.

Let's start with NSOs.

How are NSOs taxed?

NSOs are generally taxed twice—when you exercise (buy) them, and when you sell them.

When you exercise your NSOs, you will pay ordinary income tax on the **"spread,"** or the difference between your strike price (fixed purchase price) and the current fair market value (FMV) of those stock options.

When you sell your NSOs, you will pay capital gains tax on the difference between the price paid at exercise and the price when sold.

What taxes will I pay when I sell NSOs?

If you sell less than a year after exercising the options, you will pay short-term capital gains tax rates.

If you sell more than a year after exercising the options, you will pay the lower long-term capital gains tax rates.

Now let's talk about ISOs.

How are ISOs taxed upon exercise?

ISOs are a type of stock option that can qualify for special tax treatment. Unlike with NSOs, you only sometimes have to pay taxes when you exercise ISOs. (You still have to pay taxes when you sell shares received after exercising ISOs.)

For ISOs, instead of the spread being includable in ordinary income tax, it is included as income in something called the **alternative minimum tax (AMT)** calculation, which could trigger additional taxes owed when you file your tax return.

When you exercise an ISO, the spread is included in your AMT tax calculation. Your company does not withhold AMT on your behalf, so you're solely responsible.

For example, if you exercise 1,000 shares at $1 each when they're worth $5 each, you need to add $4,000 to your income when calculating AMT. Your regular tax calculation would not change.

AMT applies only if you bought ISOs and did not sell them in the same tax year. We recommend setting aside money any year when you've exercised incentive stock options to pay any year-end AMT obligations if this applies to you.

What taxes will I pay when I sell ISOs?

Upon sale, ISOs and NSOs are taxed the same way.

If you sell less than a year after exercising the options, you will pay short-term capital gains tax rates.

If you sell more than a year after exercising the options, will pay the lower long-term capital gains tax rates.

What if I leave the company?

Your option grant can expire after you leave the company—you may only have a short window of time, called a post-termination exercise period, to exercise your stock options after you leave.

If you don’t exercise your stock options before then, you’ll lose the opportunity to purchase them.

Keep in mind that this applies only to your unexercised stock options. If you exercise your stock options, you can hold on to those shares indefinitely.

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Equity types: Corporations

Here's a simplified example of how it works...

👋 **Meet Jasmine**

Jasmine is a software engineer at a technology company.

1

When she was hired, Jasmine received an offer of 4,000 non-qualified stock options at a strike price of $1 per share.

In her Carta dashboard, she can review her offer grant.

Accept your grant

Accepting a grant doesn't cost anything, nor does it obligate you to exercise options in the future—it just gives you the choice.

Review and accept your NSO grant

Grant ID	Option holder	Quantity	Vesting	Issue date
ES-230	Jasmine Starks	4,000 options	Jasmine Starks Vesting	12/30/2016

Accept

2

In her dashboard, she can view the actual contract, which is automatically generated based on the company's inputs. This allows her to know all the details of the offer before she accepts it.

RAIZE, INC.

EQUITY INCENTIVE PLAN

ADOPTED BY THE BOARD OF DIRECTORS: JANUARY 31, 2013
APPROVED BY THE STOCKHOLDERS: JANUARY 31, 2013

1. GENERAL.

(a) Eligible Stock Award Recipients. The persons eligible to receive Stock Awards are Employees, Directors and Consultants.

(b) Available Stock Awards. The Plan provides for the grant of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock Awards, and (v) Restricted Stock Unit Awards.

(c) Purpose. The Company, by means of the Plan, seeks to secure and retain the services of the group of persons eligible to receive Stock Awards as set forth in Section 1(a), to provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate, and to provide a means by which such eligible recipients may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Stock Awards.

2. ADMINISTRATION.

(a) Administration by Board. The Board shall administer the Plan unless and until the Board delegates administration of the Plan to a Committee or Committees, as provided in Section 2(c).

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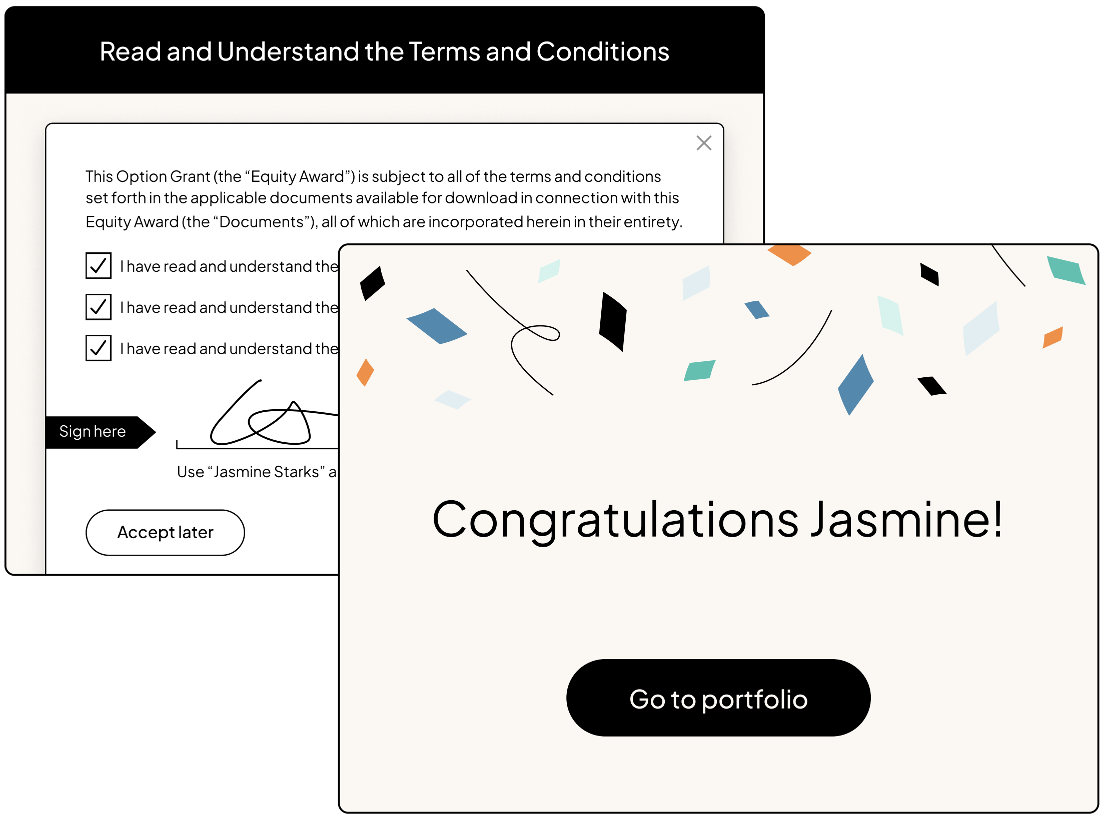
Equity types: Corporations

Example: Jasmine
Software engineer at a technology company

3

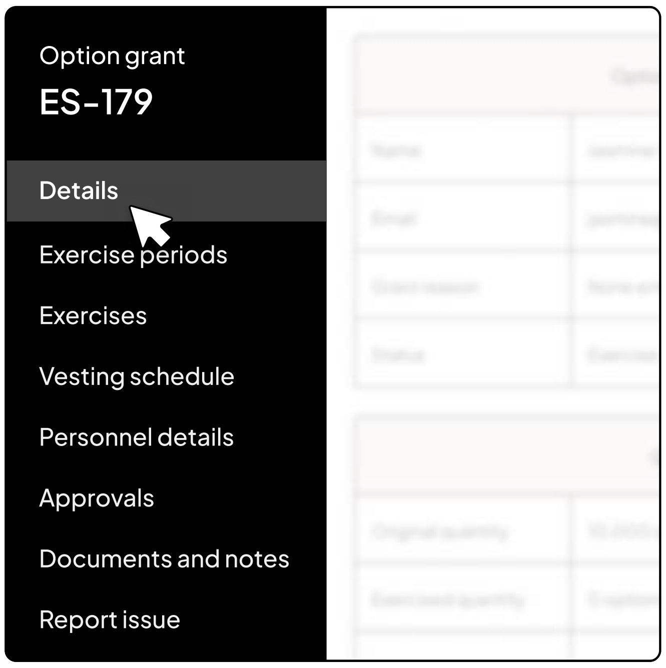
Once Jasmine is satisfied, she can digitally sign the offer to accept the grant.



4

Once the grant is accepted, Jasmine can review all the details of her grant on the dashboard at any time.

She would be able to do this for any grant she receives (for example, the initial grant upon hiring or any additional **"refresh"** grants she receives).



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Equity types: Corporations

Example: Jasmine
Software engineer at a technology company

5

The Details section includes the basic information about her grant, including:

- # of total shares
- #of exercised shares
- The strike (exercise) price

Option grant
ES-179

- Details
- Exercise periods
- Exercises
- Vesting schedule
- Personnel details
- Approvals
- Documents and notes
- Report issue

Print

Option grant holder	
Name	Jasmine Starks
Email	jasmine@raizeinc.com
Grant reason	None entered
Status	Exercise in progress

Quantities	
Original quantity	4,000 options (NSO)
Exercised quantity	0 options

6

In the Exercise Periods section, she can review her post-termination exercise periods (the time period in which she must exercise the shares after leaving the company if she wishes to keep them).

Option grant
ES-179

- Details
- Exercise periods
- Exercises
- Vesting schedule
- Personnel details
- Approvals
- Documents and notes
- Report issue

Print

Post-termination exercise periods	
Voluntary termination	3 months
Involuntary termination	3 months
Termination with cause	0 days
Death	12 months
Disability	12 months
Retirement	3 months

Refer to your Equity Incentive Plan and Option Agreement for a more detailed explanation of post-termination exercise periods.

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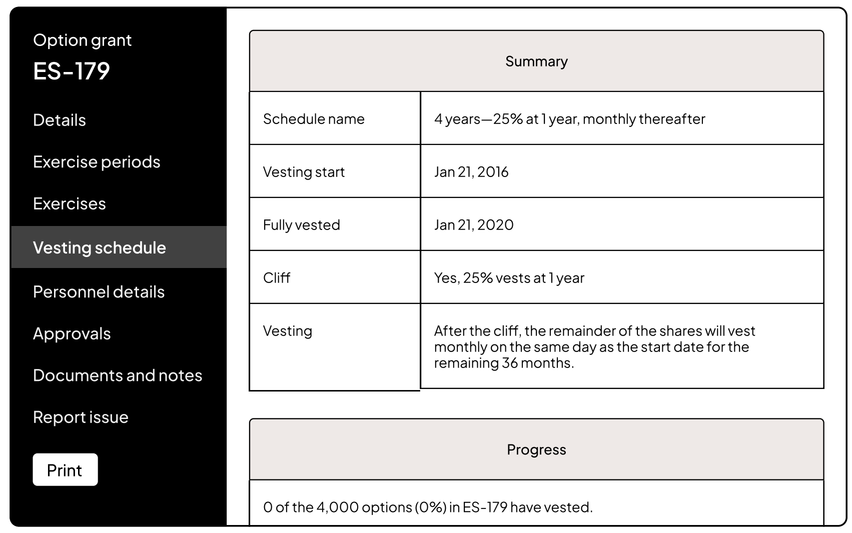
Equity types: Corporations

Example: Jasmine
Software engineer at a technology company

7

In the Vesting schedule section, Jasmine can see exactly how many of her shares have vested.

In this example, all of her shares have vested after four years.



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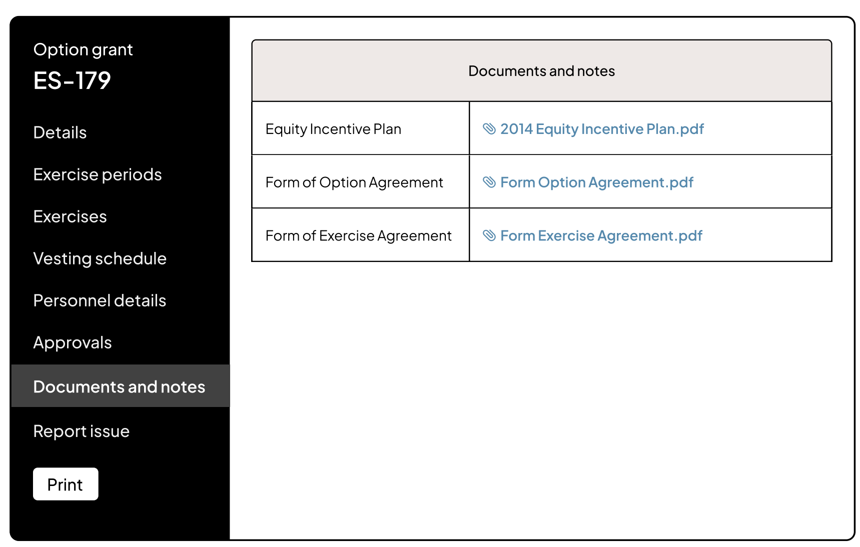
In the Documents and Notes section, she can review all of the documents associated with each grant. This includes her equity plan, her option agreement and her exercise agreement.



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Equity types: Corporations

Example: Jasmine
Software engineer at a technology company

9

After four years at the company, Jasmine's shares are fully vested. She is confident that the shares will be worth more than $1 and that she'll be able to sell them for a profit after an acquisition of the company or some other **"liquidity"** event (opportunity to liquidate her shares for cash.)

Jasmine decides to exercise her stock options. She pays $4,000 to her company and now owns actual shares.

10

Since she was hired, the company's Fair Market Value has grown from $1 to $2, so the value of her 4,000 shares is $8,000.

On her next tax return, Jasmine reports the growth in value and pays ordinary income tax on the $4,000 gain.

11

Eighteen months later, the company is acquired. As part of the deal, current shareholders can sell their stock for $8 per share.

Jasmine sells 4,000 shares at $8 per share, for a total of $32,000.

On her next tax return, Jasmine will report a profit of $24,000 (the sale price of $32,000 minus the $8,000 value on the day she exercised her options).

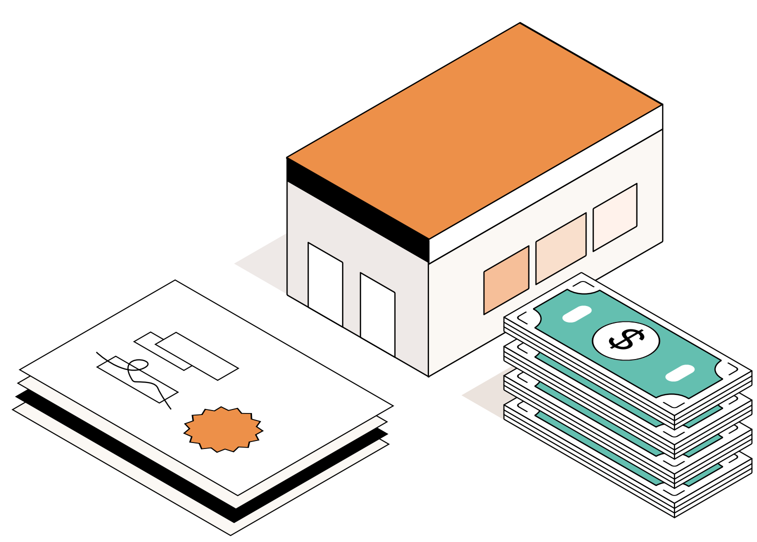
Because she held her shares for more than a year, Jasmine will pay long-term capital gains tax on the profit.

Are there other ways to liquidate besides an IPO?

Yes. Generally there are two other ways to sell exercised shares while the company is still private:

Merger and acquisition
When a company merges with or acquires your company, or if your company is sold to another private equity firm, you may be able to sell your shares.

Secondary transaction
Companies may provide employees a chance to sell some shares and "**take money off the table**" by conducting a secondary transaction, in which third parties or the company itself offers to buy private shares from shareholders.



2

Restricted stock (RSAs and RSUs)

What is a restricted stock award (RSA)?

Restricted Stock Awards (RSAs) are a type of equity that companies award to employees and other service providers.

With restricted stock awards, you're the legal owner of the shares from the date they are issued to you (although vesting still applies). The shares granted are typically paid for by the grantee with cash or in exchange for services provided to the company.

How are restricted stock awards (RSAs) taxed?

RSAs are generally issued by very early-stage companies when the fair market value (FMV) of common stock is very low—this way, employees don't need to pay a lot to have ownership in the company, and they won't get hit with a significant tax burden if they receive the shares as compensation for services instead of purchasing them outright.

If your RSA includes vesting, then you will need to file an 83(b) election with the IRS within 30 days of the grant date. Sending an 83(b) election means that you can choose to pay all of your ordinary income tax up front on an RSA, at a time when the FMV equals the strike price (so there is no taxable difference).

What happens when I leave the company?

- Any vested shares are yours to keep
- Unvested shares will be repurchased by the company.

What is a restricted stock unit (RSU)?

Restricted Stock Units (RSUs) are a type of equity compensation that companies issue to employees. An RSU is a promise from your employer to issue you shares of the company's stock (or the cash equivalent) on a future date—as soon as you meet certain conditions. These conditions are the "restrictions" placed on the award, and the process of meeting the conditions is called vesting.

With RSUs, you don't have to pay anything to get the stock. Instead, you are usually only responsible for paying the applicable taxes when you receive the shares. Unlike with restricted stock awards (RSA), you won't acquire the shares underlying the RSUs until they vest.

What happens when I leave the company?

If you leave your company, you'll get to keep your fully vested shares.

With double-trigger RSUs, you'll usually lose any shares that aren't time-vested when you leave. In addition, it's possible for your time-vested shares to expire before they "fully" vest (by meeting the milestone-based conditions of the second trigger, such as a liquidation event). Your RSU agreement should indicate if and when unvested double-trigger RSUs will expire.