


8 QUESTIONS TO ASK

ABOUT STARTUP EQUITY BEFORE ACCEPTING THE JOB



ASK THESE QUESTIONS BEFORE YOU ACCEPT THE OFFER



WHAT PERCENTAGE OF THE COMPANY'S EQUITY DO THE OPTIONS REPRESENT?



The number of shares granted really don't matter if you don't know the denominator, i.e. the total number of shares. Don't think in terms of number of shares or the valuation of shares when you join an early-stage startup. Think in terms of percentage of the fully diluted shares outstanding (FDSO).



Many early stage startups ignore convertible notes when they give you the fully diluted capital number to calculate your ownership percentage. The company converts the convertible notes into preferred stock during a VC financing at a discount from the price per share paid by VCs.



Since the convertible notes are a promise to issue stock, you'll want to ask the company to include some estimate for conversion of convertible notes in the fully diluted capital to help you more accurately estimate your percentage ownership.



For a general sense of what a fair percentage is you can take a look at this post. Depending on your experience and position in the company it may be a take it or leave it situation. Most companies will have set policy for how much they grant each position etc, but I say always negotiate everything.



WHAT TYPE OF EQUITY GRANT WILL I RECEIVE?

Equity can be granted in the form of Incentive Stock Options (ISO), which is most typical for and can only be granted to employees, Nonqualified Stock Options (NSO), and Restricted Stock Units (RSU). There are nuances in the tax treatment of these different type of grants so ask and check how it will affect you. We will be putting out a complete guide to explain all of this soon, so stay tuned.

ISO

Incentive Stock Option

A type of employee stock option that can be granted only to employees and confer a U.S. tax benefit. ISOs are also sometimes referred to as incentive share options or Qualified Stock Options by IRS.

NSO

Nonqualified Stock Options

Are stock options which do not qualify for the special treatment accorded to incentive stock options.

RSU

Restricted Stock Units

A grant valued in terms of company stock, but company stock is not issued at the time of the grant. After the recipient of a unit satisfies the vesting requirement, the company distributes shares or the cash equivalent of the number of shares used to value the unit.



WHEN WAS THE RECENT 409A VALUATION?

The 409A valuation is an appraisal done for tax purposes and done annually or upon a new round of financing. The exercise price of options is set by the 409A valuation. You should ask when the last 409A valuation was done. If it's been a while, the company may have to do another 409A valuation, which means your exercise price may go up.

WHAT IS THE VESTING SCHEDULE?

Typically equity vests over time in an attempt to align the company and employee incentives. Standard vesting schedules typically are set over four years with 25% vesting after one year the rest vesting monthly over the next three years.



If Restricted Stock Units (RSU):

Is there a performance condition tied to these RSUs? RSU grants sometimes have a performance condition tied to them, which means they may not vest until the company realizes an exit event such as an IPO or acquisition.



WHAT WAS THE MOST RECENT VALUATION OF THE COMPANY?

This can potentially help you understand the value of your grant but a lot of startups will not be willing to share this with you or they will simply give you the post money of the last round. Having valued a lot of startups this is only sometimes of value.



ARE THERE NON-STANDARD TRANSFER RESTRICTIONS?

Once the equity vests, it remains yours, but there are some limitations on what you can do with it. Having transfer restrictions on your shares is common, so watch out for non-standard ones.



DOES THE COMPANY EXPECT TO ISSUE STOCK OR
RAISE A NEW ROUND IN THE FORESEEABLE
FUTURE?

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DOES MY VESTING ACCELERATE
IF THE COMPANY IS ACQUIRED?

It is not uncommon for companies to offer accelerated vesting upon the company's acquisition. Accelerated vesting is nice to have in an exit event. The acquiring company may lay you off or you may not want to work for the acquirer.



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