

# Stock options can be best path to satisfaction

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When Gravity Payments CEO Dan Price announced plans to implement a minimum salary of \$70,000 a year for Gravity employees, there was a lot of fanfare.

The research Gravity Payments relied upon in deciding to do this is from a happiness and emotional well-being study performed by psychologist Daniel Kahneman and economist Angus Deaton.

They found that at a salary of around \$70,000-\$75,000, emotional well-being and happiness increased.

But what happens when stock options are thrown into the mix? From the employee's perspective, they're hard to value. You might get rich. (Thrilling!) Or you might fail. (Bummer.)

Approximately 56 percent of employees in the computer industry have stock options.

From an employer's perspective, options provide long-term incentives for employees to be engaged, take ownership, decrease turnover and propel the company forward.

How do companies prove non-cash compensation can increase happiness? By helping employees understand their stock option plan.

Here are some great questions for (potential) employees to ask and for employers to answer to help understand stock options.

## Ownership and dilution

- What percent of the company do your options cover?
- How many shares are outstanding and how many shares are reserved for issuance under the plan?
- How far along is the company toward a liquidity event (IPO or acquisition)?
- Private shares don't have a highly liquid trading platform, so you should not expect to be able to sell them for cash before then.
- How much preferred stock liquidation preference sits on top of the common stock?

## Valuation

- How is fair market value (FMV) per common share determined?
- Did the company obtain a Section 409A valuation to determine FMV of the shares? Is the valuation less than a year old?
- Is the option grant price at the current FMV?
- If the option price is less than FMV, you will suffer adverse tax consequences.

- If the grant price is greater than FMV, is there a reason for this?

#### Participation planning

- What happens when you leave the job?
- Can you still exercise vested options? For how long?
- Can the company repurchase vested shares? At what price?
- What happens upon a change of control?
- Is vesting accelerated, even in part?

#### Cash flow planning

- How much cash will you need to exercise your options? Are they ISOs or NQOs
- Is there tax withholding due on exercise of options?

Employee satisfaction is key to building a successful business. When employees are armed with knowledge to better gauge the true value of their stock options, they can see the potential life satisfaction available to them – and be in it for the big win.

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