

Incentive Compensation

Incentive Compensation Typically Comes in Four Varieties

Type of Compensation	AMT Tax (26%-28%)	Income Tax (up to 37%)	Investment Tax (up to 20%)	Cash/Risk
Incentive Stock Option	When exercised on difference between FMV & strike	Sold within 1 year on difference between sales & strike	Sold after 1 year on difference between sales & strike ¹	Strike price
Non-Qualified Stock Option	None	When issued	None	None
Restricted Stock	None	Sold within 1 year	Sold after 1 year	Price paid
Employee Stock Purchase Plan	None	Sold within 1 year	Sold after 1 year	Price paid

Terms Defined

Vesting Date: First date when options can be exercised

Expiration Date: Last date when options can be exercised

Strike Price: Price paid to exercise options

Sales Price: Price when sold

Exercise: Convert options plus cash into shares

Fair Market Value: Price when option exercised

Strategy

Risk Management: Working for company and owning shares combines career risk and financial risk

Liquidity and Cash Flow: Optimal timing of exercising options and selling shares

Tax Optimization: Sell enough to take advantage of lower tax rates

Level: Sell equal portions of each grant between now and expiration

Minimizing AMT Taxes & Private Companies: Exercise and sell ISOs with each tender offer, then sell others as needed for liquidity and risk management

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¹ Also two years after date granted

Disclaimer: Consult an accounting or tax professional before implementing a strategy.