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Equity: A Startup Guide for Employees

What is Equity? Equity is simply **ownership.** It's your slice of the pie in a company. To quote Fred Wilson, founder of Union Square Ventures and blogger on AVC.com, employee equity "reinforces that everyone is on the team, everyone is sharing in the gains, and everyone is a shareholder."

How does Equity benefit you? In 1986 after Microsoft's initial public offering (IPO), and subsequent rise in its share price, it created three billionaires and an estimated 12,000 millionaires among Microsoft employees. In 2004 when Google went through their IPO the press said at the time the IPO "created more than 1,000 paper millionaires," including a chef and a masseuse. That statistic was often attributed to "estimates," though it was never clear where those estimates came from. Equity comes in all shapes and sizes. Getting equity in the right company can have large financial rewards in the long run.

The Equity "lingo": When discussing equity with your current or future employer there are some terms you should know:

- **Preferred Stock:** is typically sold to investors. It's "preferred" because it has additional rights attached to it, like voting on certain corporate governance matters and selecting board members.
- **Common Stock:** is primarily for employees.
- **Stock Options:** are the right (or option) to purchase stock in the company. Stock options aren't stock, they have to be purchased (or exercised) first.
- **Exercise Shares:** to choose to buy or sell your shares in a company.
- **Exercise Price:** also known as strike price. This is the price at which you can purchase your stock.
- **Cliff:** is a milestone when the first portion of the stock vests, meaning the employee doesn't get the rights to the options until the cliff. Most companies have a one-year cliff.
- **Vesting:** is when an employee gains the right to exercise the stock. A vesting schedule lays out the timetable in which an employee gains the rights to the options. The most common vesting schedule is four years, with a one year cliff.

- **Fair Market Value (FMV):** the current value of the share.
- **409a Valuation:** a formal report that sets the current value of a company's common stock.

Is Equity right for you? When receiving equity it's important to think about the company. Is this the right company for you and do you see yourself being successful with them? Investors buy equity in a company with money, but you'll be earning yours through your investment of time and effort. Make sure you see the growth prospects for yourself and for the company.

Typical Equity Allowances

Role	Seed Round	Series A
Sales Development Representative (SDR)	0.10%	0.05-0.10%
Outbound Business Representative (OBR)	0.10-0.20%	0.05-0.10%
Account Executive (AE)	0.10-0.20%	0.05-0.10%
Enterprise Account Executive (EAE)	0.25%	0.10%
Customer Success Manager (CSM)	0.25%	0.10%
Account Manager (AM)	0.25-0.30%	0.10%
Sales Engineer (SE)	0.25-0.30%	0.10%
Sales Operations	0.50%	0.25%
Product, Content, PR, Digital, Events	0.50%	0.30-0.40%
SDR Manager	0.50-0.75%	0.30-0.40%
Head of Sales	1.0%	0.50%
Director of Sales	1.0%	0.50-0.70%
VP of Sales	1.0-1.5%	1.0-2.0%

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