INSTRUMENTAL WEALTH™

Equity Compensation Cheat Sheet

	Restricted Stock Units (RSUs)	Incentive Stock Options (ISOs)	Non-Qualified Stock Options (NSOs)	Employee Stock Purchase Plan (ESPP)	Performance Stock Units (PSUs)
Pros	No purchase necessary Value even if stock price doesn't increase Less risky than stock options	Potential for favorable tax treatment No tax at grant or vesting	More flexibility than ISOs No AMT concerns	Discounted purchase price Potential for quick gains	Aligned with company performance Potential for higher payouts
Cons	Taxed as ordinary income upon vesting No control over timing of taxation	AMT exposure Must hold for specific periods for preferential tax treatment	Less favorable tax treatment than ISOs Taxed at exercise	Contribution limits Potential for ordinary income tax on discount	Uncertainty in final payout Complex valuation and tax treatment
Tax Rules	Taxed at vesting (unless deferred) Reported on W-2; Subject to payroll taxes	No tax at grant or exercise Potential AMT on spread at exercise Long-term capital gains if qualifying disposition	Taxed as ordinary income on spread at exercise Reported on W-2; Subject to payroll taxes	Discount taxed as ordinary income Additional gain can be capital gain if held long enough	Similar to RSUs, taxed at vesting Reported on W-2; Subject to payroll taxes
Key Considerations	Consider tax withholding strategy Evaluate potential for tax deferral Plan for diversification after vesting	Monitor AMT exposure Plan exercise strategy around holding periods Consider exercising early in the year for tax planning	Time exercises strategically Consider cashless exercise options Plan for tax withholding at exercise	Maximize contributions if cash flow allows Understand qualifying vs. disqualifying dispositions Consider sell-to-cover strategy at purchase	Understand performance metrics Model potential outcomes Plan for tax impact of maximum payout
Blackout Dates	May apply around vesting dates and financial reporting periods	May apply during financial reporting periods and before major corporate events	May apply during financial reporting periods and before major corporate events	Usually not applicable, but check company policy	May apply around vesting dates and financial reporting periods
Vesting Dates	Typically vest over time (e.g., 25% per year for 4 years)	Usually vest over time (e.g., 25% per year for 4 years)	Typically vest over time (e.g., 25% per year for 4 years)	N/A - Shares are purchased at end of offering period	Vest upon achievement of performance goals, often over 1-3 years

Note: Always consult with a financial advisor and tax professional for personalized advice tailored to your specific situation and goals.

What to Know About 10b5-1 Trading Plans

10b5-1 plans are pre-arranged trading schedules that allow corporate insiders to sell a predetermined number of shares at set times. They offer several key benefits:

1. **SEC Compliance:** Provide a defense against insider trading allegations by establishing trades in advance.
2. **Reputational Protection:** Reduce the appearance of impropriety since trades are pre-scheduled.
3. **Diversification:** Enable systematic selling of company stock without raising concerns about company confidence.
4. **Blackout Period Flexibility:** Often allow trades during company-imposed blackout periods.
5. **Reduced Stress:** Operate automatically once established, minimizing concerns about trade timing.

While beneficial, 10b5-1 plans must be carefully structured to comply with SEC rules. Always consult with legal counsel and financial advisors when establishing these plans.

How to Assess Your Concentration Risk

Concentration risk is the risk of having your job, income, and assets all tied to one company's performance. While it can lead to significant wealth (e.g., Bezos, Musk), it also means your financial security is heavily dependent on a single entity.

Key Considerations:

- Gradual diversification over time
- Implement 10b5-1 plans (see above) for systematic, compliant selling
- Explore strategies like collar options or exchange funds for large positions
- Know the SEC mutual funds regulations (No more than 5% in one company, no more than 10% in one sector)

Best Practices:

- Regular portfolio reviews to adjust your concentration levels
- Consultation with financial advisors & tax professionals