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Treat Startup Equity Like Money: Read the Grant Before You Count the Wealth

A practical guide for tech workers evaluating options, restricted stock and private-company equity so a big share number does not hide the real economics.

Startup equity can create life-changing upside, but employees often negotiate salary carefully and accept equity without understanding percentage ownership, vesting, exercise cost, tax timing, liquidity or restrictions. Private-company shares may be restricted and difficult to sell. The right approach is to value the grant as a risky financial instrument—not a lottery ticket and not zero.

Ask for the denominator

“50,000 options” is meaningless without fully diluted shares outstanding. Ask what percentage of the company the grant represents on a fully diluted basis today, the strike price, current 409A/fair market value used for tax purposes, vesting schedule, post-termination exercise window, and whether early exercise is allowed.

Ask what happens in an acquisition, whether vesting accelerates, and how refresh grants are handled. Get the plan and grant documents, not just a recruiter summary.

Understand the cash requirement

Options give you a right to buy shares; exercising can require real cash. Calculate shares $\times$ strike price. Then ask a qualified tax professional about possible tax consequences before exercising. If the company grows, the exercise decision can become more expensive and time-sensitive.

Restricted stock and early-exercised shares can involve Section 83(b) elections, which generally have a 30-day filing deadline after property is transferred. Missing a tax deadline can be expensive; do not rely on a chat thread or colleague for individualized tax advice.

Price in illiquidity

Private-company stock may not have a public market, and securities acquired through employee plans may be restricted. Even a high paper valuation does not mean you can sell shares when rent is due. Treat equity as long-duration, high-risk compensation until a real liquidity path exists.

Ask whether the company has conducted tender offers or secondary sales, what transfer restrictions exist, and whether employees have ever been able to sell.

Negotiate the whole package

Compare cash salary, bonus, equity percentage, vesting, role scope, promotion path and company quality. A lower salary can be rational if the equity is meaningful and you can absorb the risk; it can also be a bad trade if the grant is tiny or exercise terms are harsh.

The wealth-building move is understanding what you own. If the company will not explain the grant clearly enough for you to model it, that is information too.

The ownership test

Ask four questions before every major decision: Does this create an asset the company controls? Does it increase switching cost or repeatability? Does it reduce dependence on one customer, platform or vendor? Does it leave the company with better data, IP, distribution or proof than before?

Growth without accumulated assets can be fragile. The strongest moves produce revenue today and make the next sale, hire, financing or product decision easier tomorrow.

Read an equity grant like a financial instrument, not a compliment

Ask for the exact security type, number of shares or units, vesting schedule, cliff, exercise price if options, expiration rules, post-termination exercise window, and the fully diluted share count needed to estimate percentage ownership. “10,000 options” is meaningless without the denominator. Also ask whether future fundraising or option-pool changes are expected to dilute that percentage.

Understand the cash/tax moments before they arrive. Options may require cash to exercise; different option types can have different tax treatment; restricted stock can raise an 83(b) decision with a short filing deadline when applicable. Do not rely on a founder or coworker for personal tax advice—use a qualified tax professional who can review the actual grant and your situation.

Model three outcomes: company fails, company grows moderately, company exits at a high valuation. Include dilution and exercise/tax cash where you can estimate it. Equity is asymmetric and uncertain; that is why salary, benefits, role quality and learning still matter. The goal is to understand the bet you are taking rather than mentally spending headline valuation.

SOURCE DESK

Research behind this guide

Use the primary sources below to verify current rules, eligibility and program details before acting. Program terms can change.

SEC — Rule 144 restricted securities



Investor.gov — Employee stock option plans glossary



IRS — Section 83(b) 30-day filing rule (Rev. Proc.)



SEC — Securities Act interpretations for employee options



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