



Equity 101

Jargon Buster

The basics:

- **Equity:** ownership in a company, usually in the form of shares. Holding equity means you have a stake in the company's value.
- **Stock/share:** both mean the same thing - ownership in a company. Stock is the general term. A share is one unit of stock.
- **Plan:** the company's rulebook that explains how your equity program works.
- **Grant:** the equity award you've been granted, showing how many shares or options you'll receive.
- **Grant date:** the official date your award is made.
- **Vesting:** the process of your award becoming yours over time. Once equity vests, you own it.

Most common plan types:

- **RSUs (Restricted Stock Units):** awards that turn into your shares after the vesting period or other conditions, such as performance, have been met. There is no purchase needed on your part.
- **Stock options:** this is when you have the right to buy company shares at a fixed price, usually a discount, in the future.
- **ESPP (Employee Share Purchase Plan):** a program that lets employees buy company shares, often at a discount.

Vesting and ownership:

- **Cliff vesting:** when nothing vests for a set period, then it all vests at once, for example 100% cliff vest after four years.
- **Graded vesting:** when your award vests in smaller amounts over time (for example 25% each year for four years).
- **Vested:** the part of your award you already own and can keep, generally speaking even if you leave the company. (Some plans are subject to T&Cs).
- **Unvested:** the portion of your award you don't own yet, and that you could lose if you leave the company before it vests.
- **Forfeiture:** when unvested awards are lost, usually if you leave the company before they vest.
- **Voting rights:** the rights of shareholders to vote on company matters, which may apply to shares once they are vested.

Key actions and timelines:

- **Exercise (options only):** using your stock options to buy shares at a set price.
- **Exercise price (strike price):** the fixed price you pay per share when you exercise options.
- **Expiration date (options only):** the last date you can exercise your options – after this you lose them.
- **Lapse:** when an award is cancelled or expires, for example if options reach their expiration date and are not used.
- **Trading window:** periods when employees are allowed to buy, sell or exercise company shares.
- **Blackout period:** times when trading is not allowed (often around earnings) to prevent insider trading.
- **Lock-up period:** a set time – often after a company goes public (IPOs) – when you're not allowed to sell your shares.
- **Trigger:** an event that makes an award available – for example, a company is acquired or at IPO.

Value and price:

- **Share price:** the current market price of one share.
- **Fair market value (FMV):** the official 'today' value of a share used for taxes and reporting.
- **Spread (gain):** the difference between today's share price and the price at which you exercised – basically your potential profit on options.
- **Underwater (options):** when the share price is lower than your exercise price – so people typically don't exercise when their options are underwater.
- **Exercise price/strike price:** the fixed price you can buy shares for when you use your stock options.
- **Market volatility:** the fluctuation in the price of shares, which can impact the value of equity compensation.

Selling shares:

- **Liquidity:** turning shares into cash.
- **Liquidity event:** a specific event that makes selling possible, for example an IPO, merger or company buyout.
- **Sell-to-cover:** automatically selling some shares at vesting/exercise to cover the required taxes.
- **Fractional shares:** less than one whole share.

Taxes:

- **Taxable event:** an occurrence that triggers tax liability, such as the vesting of RSUs or the exercise of stock options.
- **Withholding taxes:** taxes your company may automatically take when equity vests or is exercised.
- **Income tax:** tax on income like your salary – some equity types are taxed in this way.
- **Capital gains tax:** tax you may owe if you sell shares for more than you paid for them.
- **Cost basis:** what you paid for a share (plus fees). It's used to work out your gain or loss when you sell your shares.

Dividends:

- **Dividend:** a cash payment some companies make to shareholders, based on overall company profits.
- **Dividend equivalents:** payments on unvested awards as if you already owned the shares.
- **Dividend reinvestment (DRIP):** choosing to use dividends to automatically buy more shares (this can create fractional shares).





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