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ALL I WANT FOR CHRISTMAS ARE STOCK OPTIONS

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This article was written by Elizabeth Resteghini from Morse for the Scroobious community.

Scroobious is increasing diversity in the startup ecosystem by providing the education, tools, and community founders need to create investor-compelling pitch material and a platform to help investors easily find them through data-driven curation. For startup founders who have a story to tell but need help telling it, The Pitch it Plan™, or PiP, is a virtual platform that helps you get your compelling story into an investor-ready format. Unlike googling for hours or paying thousands for a pitch coach, PiP is affordable and approachable through online education and personalized feedback from a human who understands the investor mindset. Our framework has been published, vetted by investors, and has helped founders score meetings, raise rounds, and get into prestigious accelerators. Founders can sign up here or book an intro call to chat.

Combining the best practices of traditional law firms with an inventive approach, Morse's founders created a solid basis for a more modern practice of law. We offer our clients responsive and reliable service, sound and insightful business advice, and reasonable fees. We're dedicated to developing real partnerships with our clients, addressing each client's specific challenges, and delivering effective results tailored to each client's needs. While we have long enjoyed a reputation for special competency in technology ventures, we represent clients of all sizes and industries in all stages of the business life cycle. Our clients include startups, emerging growth entities, established family businesses, and Fortune 1000 companies. Our exceptional business model affords clients access to highly experienced counsel in the areas of M&A, Venture Capital, IP, Employment, Taxation, Privacy, and Litigation.

Stock options are a form of equity compensation that when granted give the optionee the opportunity to purchase shares of stock in a company at a pre-determined price per share. At the time of grant they do not represent current stock ownership but rather the opportunity to become a stockholder once the options have vested and been exercised.

Stock options can be a great way to attract new talent. It is not uncommon for startups who cannot afford to pay large salaries to make their compensation packages more competitive by including stock options. In addition, stock options are frequently utilized to help incentivize and retain employees by encouraging them to stay and grow with the company because they have an opportunity for stock ownership in the business down the road.

While stock options can be fully vested upon the date of grant, more often than not you will want to issue stock options with a vesting schedule. Vesting schedules are typically time-based. The length of vesting provisions can vary, but a typical vesting provision for employee stock option grants are four-year vesting with a one-year cliff. This means that the stock options would vest over four years' time, but during the first year no options will vest until the optionee reaches the one-year anniversary (commonly referred to as a cliff) and at such anniversary 25% of the stock option will vest, and thereafter over the remaining three years the other 75% will vest in either equal monthly or quarterly installments. This type of vesting schedule can encourage an employee to stay at your company for the four-year term if they want to be able to have all their options vest and be able to exercise the full number of options for shares of stock.

Several key things to keep in mind when granting stock options include:

- Incentive stock options can only be issued to employees. Incentive stock options have the ability to qualify for special tax treatment. If you are issuing stock options to an advisor or director, you should issue non-qualified stock options.

- The price per share that the stock options are granted at should be the current fair market value of the shares. The board of directors should review, carefully consider, discuss and determine the fair market value at which to grant stock options, and approve it in a board meeting or by a written consent. One way for boards to try to insulate their decision on the fair market value is by getting an independent 409A valuation done.

- Granting stock options also need to be approved by the Board of Directors.

- If you are a recipient of a stock option grant, it will typically stop vesting after your employment or services to the company end, and commonly needs to be exercised within 90 days (or such amount of time set inside the stock option plan or specific grant) or else they will expire.

For more information, please contact Elizabeth Resteghini.