



CANDIDATE GUIDE

Startup Equity 101

We know of candidates who signed contracts without understanding the equity involved — and honestly, it was worthless. Here's how to read an offer letter with confidence.

This guide exists to help you understand how startup equity actually works, so you can ask sharper questions in a negotiation and read an offer letter with confidence. It isn't financial advice, and it isn't legal advice — we're recruiters, not accountants. Before you exercise options, sign a term sheet, or make any decision involving real money, run the specifics past a CPA or a startup-focused tax adviser.

That said: if you're interviewing at a startup or scaleup right now, equity is almost certainly on the table, and if it isn't offered, ask why not. Base salaries at these companies can run 10–20% below what an established company would pay, with equity there to close the gap. We know of candidates who've signed contracts without understanding the equity involved — and honestly, it turned out to be worthless. This guide is here to set realistic expectations and put you in a stronger position if it comes to negotiation.

THE BASICS

Equity: What You Actually Own

A company's cap table — its ownership ledger — has two broad classes of stock. Investors buy preferred stock, which comes with protections such as a liquidation preference: they get their money back, often at 1x their investment, before anyone holding common stock sees a cent when the company sells. Employees are granted options over common stock, which sits behind preferred stock in the payout order.

“Your equity is not the same instrument the investors have — in a modest exit, common stockholders can end up with relatively little, even when the headline sale price looks impressive.”

When someone quotes you a percentage — say, 0.2% equity — ask whether it's on a fully diluted basis. That means assuming every option, warrant and convertible note has already been exercised and turned into shares: an honest number. Some companies

instead quote a percentage of shares currently issued, which looks bigger on paper but shrinks once the option pool and outstanding funding rounds are accounted for.

INSTRUMENTS

ISOs, NSOs and RSUs: The Three Flavours

Almost every offer uses one of three instruments. Which one you get usually isn't negotiable — it depends on your role, your residency and the company's stage — but knowing the difference helps you plan around it. One IRS quirk worth knowing: if the value of ISOs that first become exercisable in any calendar year exceeds \$100,000, the excess is automatically reclassified as NSOs.

- Incentive Stock Options (ISOs) — for W-2 employees only. You pay the strike price to exercise. Usually no tax is due at exercise, but a large spread between strike price and fair market value can trigger Alternative Minimum Tax (AMT).
- Non-Qualified Options (NSOs) — for employees, contractors, advisors and board members. You pay the strike price to exercise, and ordinary income tax applies immediately on the spread between the strike price and fair market value.
- RSUs — typically reserved for later-stage companies, usually post-Series C or public. There's no cost to you: shares are simply delivered as they vest, and you're taxed as ordinary income on their full value on the day they vest.

VESTING

Vesting: When Is It Yours?

Vesting is the schedule that determines when you actually earn the right to your equity. It exists to stop someone joining, grabbing their full grant and leaving a month later — so if you had any ideas, that's why they don't work.

In most US startups the near-universal default is a four-year vesting period with a one-year cliff. Nothing vests for the first 12 months; leave or get let go before that anniversary and you walk away with zero equity. The moment you pass 12 months, 25% of

your total grant vests immediately, all at once. The remaining 75% then vests in equal monthly instalments — roughly 1/48th of the total grant every month — across months 13 to 48. Granted 4,000 options, for example: nothing vests for a year, then 1,000 vest at once on the 12-month mark, followed by roughly 83 a month until you're fully vested at year four.

Four-year vesting with a one-year cliff

How a typical grant vests. Nothing vests before the 12-month mark.



■ Vests at once at the 12-month cliff ■ Vests monthly, months 13 to 48

Roughly 1/48th of the total grant vests each month after the cliff.

VESTING · WHAT TO ASK

Vesting — Questions to Ask

- Acceleration on exit — some later-stage or founding roles negotiate acceleration, where some or all unvested equity vests immediately if the company is acquired (single-trigger), or if you're let go without cause after an acquisition (double-trigger). This matters a lot if you're a founding or head-of hire.
- Refresh grants — if you stay beyond your initial four-year grant, ask whether the company issues annual 'refresher' grants for retention. Many later-stage companies do this; many early-stage companies haven't even thought about it.
- Vesting start date — if you negotiated a delayed start or a signing bonus in lieu of vesting time, get the actual vesting start date confirmed in writing. It should usually be your first day, not your offer letter date.

Strike Price, 409A Valuation & the Cost of Exercising

A strike price (or exercise price) is what you pay per share to convert a vested option into a share you actually own. It's set at grant, based on the company's latest 409A valuation — an independent appraisal of what the common stock is worth, deliberately lower than what investors just paid for preferred stock, often by 3 to 10 times.

The earlier you join, the lower your strike price tends to be, because the 409A valuation is lower. And exercising isn't free: 10,000 vested options at a \$2 strike price costs you \$20,000 out of pocket before you own a single sellable share.

\$20,000

out of pocket to exercise **10,000 vested options at a \$2 strike price** — before you own a single sellable share.

The term most people never ask about — and most regret not asking about — is the post-termination exercise window. When you leave a company, voluntarily or not, you typically have a limited window, traditionally 90 days, to exercise your vested options before you forfeit them entirely. If your strike price is high relative to the current 409A value, or you simply don't have the cash, that 90 days can force you to write a large cheque for a company you no longer work at, walk away from equity you earned, or raise the cash through a third-party option-financing firm that takes a cut of any future proceeds. A growing number of companies now offer extended windows of 5–10 years — a genuinely useful, low-cost perk worth asking about, and one that costs the company almost nothing to grant.

DEADLINE

The 83(b) Election: A 30-Day Deadline

If you're granted restricted stock directly — common for founders and very early employees, less common for later hires who get options — or you early-exercise

unvested options, you can file an 83(b) election with the IRS. Filing it locks in your taxable value at today's usually very low, early-stage fair market value, rather than the value on each future vesting date. If the company's value rises steadily, that can turn what would have been years of ordinary-income tax bills into one small one now, plus capital gains treatment later. Miss the 30-day window from grant or exercise, though, and it's gone permanently — no extensions, no exceptions.

- ☐ If this applies to you, ask your equity administrator or CPA the moment you're granted restricted stock or early-exercise options — not the week before the deadline.
- ☐ Send the election by certified mail with a return receipt as your proof of timely filing.

TAX

Taxes, in Plain English

This is the section people skip and then get an unpleasant surprise from. Three concepts do most of the work.

- AMT (Alternative Minimum Tax) — a parallel tax system that can apply when you exercise ISOs. If the spread between your strike price and current fair market value is large, exercising can trigger a real tax bill even though you haven't sold anything or received any cash. This is the classic 'exercised my options, owed tax I couldn't pay' story.
- Ordinary income — taxed at your normal income tax rate, up to 37% federally. This applies to NSO exercises and RSU vests, and to any ISO exercise that fails the AMT test.
- Long-term capital gains — taxed at 0/15/20% federally, well below ordinary income rates. ISOs get long-term treatment if you hold for 2 years from grant and 1 year from exercise; on NSOs and RSUs, the clock starts at exercise or vest, not grant.

Why the holding period matters

Top federal tax rate

Ordinary income

37%

Long-term capital gains

20%

Ordinary income is taxed at up to 37% federally; long-term capital gains at 0, 15 or 20%. The top band of each is shown.

Qualified Small Business Stock (QSBS) is one of the most valuable and most overlooked benefits of early-stage startup equity. If your company is a US C-corporation with under \$75M in gross assets when your stock is issued (thresholds are periodically updated by Congress, so verify the current figure) and you hold your shares for five or more years, you may be able to exclude a very large portion of your gain from federal tax entirely under Section 1202. Ask whether the company's stock qualifies, and keep your own paperwork trail regardless of what HR tells you.

VALUATION

What Is Your Equity Actually Worth?

A recruiter or hiring manager telling you '0.2% equity, we're valued at \$50M' is not telling you your equity is worth \$100,000. Ownership percentage multiplied by company valuation is the naive number everyone quotes — 0.2% of a \$50M company is \$100,000 — and it's a starting point, not an answer.

- Liquidation preference — you almost certainly hold common stock. In an exit, preferred holders (investors) get their money back first, often 1x their total invested capital or more. In a modest exit, common stock can be worth close to nothing even with a respectable headline sale price.
- Future dilution — a company valued at \$50M today at Series A will almost certainly raise more rounds, each issuing new shares and shrinking everyone else's percentage. A grant that's 0.2% today might be 0.1% or less by exit, purely from future fundraising, before the company has grown in value at all.

- Common vs. preferred spread — the headline valuation figure is usually the post-money price investors just paid for preferred stock, which sits ahead of you. The true value of common stock is typically discounted from that number — exactly what a 409A valuation calculates.
- Illiquidity — private company shares generally can't be sold until an acquisition, an IPO, or a secondary sale window the company chooses to open (increasingly common at later-stage companies, rare at seed/Series A). Assume your equity is illiquid for years, if it ever becomes liquid at all.

“Treat your equity as a lottery ticket with a wide range of outcomes: most commonly worth zero, occasionally worth a genuinely life-changing amount, and in between, worth something that roughly tracks how well the company executes.”

Weight your decision more on the base salary, the role and what you'll learn — and treat equity as real but speculative upside, not as compensation you can rely on.

BENCHMARKS

What Does "Competitive Equity" Look Like?

"Competitive equity" is one of the most-used, least-defined phrases in a job description. Below are real, anonymised ranges from growth, product marketing, senior and field marketing roles Example has worked on across NYC and Series A–C SaaS companies — an actual benchmark rather than a vague promise.

- 1st marketing/growth hire, Series A or earlier (often a "founding" title) — \$100K–\$175K base, 0.10%–0.5% equity, sometimes higher for the very first hire.
- Individual contributor PMM / growth marketer, Series A–B — \$120K–\$175K base, 0.05%–0.25% equity.

- Senior IC / Growth Lead, Series B — \$150K–\$225K base, 0.10%–0.30% equity, or a stated annual equity value (e.g. ~\$150K/yr in equity).
- Field marketing / demand gen manager, Series B+ — \$100K–\$200K base, 0.03%–0.15% equity.
- Head of Marketing / Head of Growth, Series A–C — \$160K–\$250K+ base, 0.30%–0.8%+ equity depending on how early and how senior.
- Partnerships / 1st non-founding specialist hire, seed-stage — \$120K–\$200K base, 0.004%–0.05% equity — small, but often at a very low strike price.

Stage matters more than title: two roles with an identical title can have equity that differs 5–10x purely because of when the company last raised and how many shares are already out — the percentage tells you less than the stage does. Dollar-denominated equity is also becoming more common; if a company states equity as a yearly dollar value rather than a percentage, ask what valuation and vesting schedule that number assumes. It isn't wrong, just another way of presenting the same estimate.

5–10x

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"Founding" grants at seed stage are the highest-leverage but highest-risk end of this range. A 0.5% grant at a company that's already raised four rounds and has 40 people on the cap table is genuinely more diluted, and worth less per point, than a 0.5% grant at a 12-person seed company — always ask how many rounds have been raised and roughly how large the option pool is.

BEFORE YOU SIGN

Questions to Ask Before You Sign

You're allowed to ask every one of these. A company that gets defensive about equity questions is telling you something.

Before you sign, make sure you've asked:

- ☐ How many fully diluted shares are outstanding, and what percentage of that does my grant represent?
- ☐ What was the price per share in the most recent priced round, and what's the current 409A valuation for common stock?
- ☐ What's the strike price on my grant?
- ☐ What's the vesting schedule, and what's my vesting start date?
- ☐ What's the post-termination exercise window — 90 days, or something longer?
- ☐ Is there any acceleration if the company is acquired?
- ☐ How many funding rounds has the company raised, and roughly how large is the current option pool?
- ☐ Is the company a QSBS-eligible C-corp?
- ☐ Will I be offered refresher grants if I stay beyond my initial vesting period?

RISK

The Risks Not in Your Offer Letter

- Dilution — every future funding round shrinks your percentage, unless you're specifically granted anti-dilution protection, which is almost never offered to employees, only to investors.
- Down rounds — if the company raises at a lower valuation than its last round, existing common stock can be worth dramatically less overnight, even though nothing about your day-to-day job changed.
- Total loss is the modal outcome, not the tail risk — the most common outcome for any single startup equity grant is that it's worth nothing. That's not pessimism, it's the base rate: most startups don't have a liquidity event at all, or return less than the preference stack owed to investors.

- Cost to leave — if you leave and don't exercise within your window, you lose vested equity you already earned. If you do exercise, you're paying real cash for a private asset that might be worth exactly what you paid, or nothing.
- Illiquidity — even in a good outcome, you usually can't sell until an acquisition, IPO, or an occasional company-run secondary, which can be years after you've moved to another job.

“Negotiate the salary like the equity is worth zero, and treat any equity outcome above that as a bonus.”

Glossary

- Anti-dilution protection — a term that adjusts an investor's ownership if the company later raises at a lower price; almost never granted to employees.
- Cap table — the full ledger of who owns what percentage of the company, across founders, employees and investors.
- Cliff — the initial period, usually 12 months, during which nothing vests.
- Common stock — the class of stock employees and founders typically hold; ranks behind preferred stock in a payout.
- Exercise — paying the strike price to convert a vested option into an actual share.
- Fully diluted — a percentage calculated as if every option, warrant and convertible security had already been converted to shares; the honest way to state ownership.
- Liquidation preference — the amount investors are contractually entitled to receive before common stockholders see any proceeds in a sale.
- Option pool — shares set aside, usually 10–20% of the company, specifically to grant to employees over time.
- Preferred stock — the class of stock investors hold, which comes with extra rights, including liquidation preference.
- Strike price (exercise price) — the fixed price per share you pay to exercise an option, set at grant based on the 409A valuation.

- 409A valuation — an independent appraisal of what a company's common stock is worth, used to set the strike price on new grants; typically refreshed every 12 months or after major events.
- QSBS (Qualified Small Business Stock) — a federal tax provision (Section 1202) that can exclude a large share of gains from tax if conditions on company size and holding period are met.
- Vesting — the schedule by which you earn the right to equity over time, typically four years with a one-year cliff.

About Example

The data behind this guide is drawn from actual clients we've worked with and roles we've worked on, developed alongside those clients and checked against tax experts — though we're not, and never claim to be, tax advisors. We're recruiters, based in the UK, with work that takes us around the world, mostly the US and mostly NYC, almost exclusively in the SaaS and FinTech startup/scaleup space. We focus solely on marketing — product, field, demand gen, growth and senior roles — and we're unusual in that we've done the jobs ourselves. Gareth founded Example after more than 20 years as a marketer, having built marketing teams both brand- and agency-side, because he saw a clear gap for a recruitment agency that could understand both sides of the fence.



Example Recruitment — marketing-led headhunters for SaaS and FinTech startups and scaleups in New York and London.

Read the live report and get in touch at theexample.co/reports/startup-equity-101