

## STOCK OPTIONS AT A STARTUP?



Hi! I've recently been offered an **in-house recruiting job** at a pre-IPO software company in NYC. I am meeting with them next week to negotiate my compensation package, which may include an option on 1,000 or more shares of stock. This is the first time I will have ever discussed such a benefit in my life, although I am a good negotiator (I have been recruiting for seven years). How can I tell a good stock options package from a lousy deal? HELP!

New Cat on the Alley

Dear New Cat on the Alley:

Pre-IPO ... Ah, the lure of big bucks and prestige is certainly all the rage these days. I'm not sure, but I think I heard that the vegetable cart guy down the block wants to do one. And apparently the donut shop around the corner is definitely doing one! Realistically, though, pre-IPO is actually more of a wish than a fact. There is no guarantee that a company is going to go public until it actually does. And once a company does go public, there is no guarantee that the IPO will be successful. That being said, however, the potential does indeed exist to make a killing.

Stock options are an important part of any compensation agreement for both the employer and the prospective employee. On the employer side, options allow a cash-strapped company to offer a lower cash salary. Options also tie the employee to the company via a vesting schedule and the notion that better work will improve stock price. The prospective employee, in turn, can arrange an incredibly lucrative options package.

Stock options in a compensation package force the prospective employee to do what he or she should already be doing – due diligence. How marketable is the company's idea or product? What's the competition like? Is it an early-stage startup or an end-stage startup? What type of investors, if any, have the founders attracted thus far? What are the numbers of shares currently outstanding? What price would the options be issued at and what have previous options been issued at? What have IPOs of similar companies been priced at and how did they do in the market? Are the founders capable of bringing their idea to fruition? How is the company running now?

Take a good look at the company and what you are bringing to the table. If you have a lot to offer, really believe in the company, and are in a position to accept less cash, negotiate a compensation package that is options-heavy and cash-light. But only do this if you can spare the cash – stock options are great, but they won't pay your rent or buy you groceries. In any case, use your acquired negotiating skills to your advantage. While 1,000 share options are standard for many companies, the amount really depends upon the company and the position being recruited for. There is often more room for negotiation of options than salary – a thousand here or there likely means much less to an employer than it might mean to you, so never be afraid to negotiate.