

Equity Compensation Program

Document ID: HR-COMP-010 **Last Updated:** March 2024 **Owner:** Human Resources & Finance **Applies To:** All Eligible Employees

Overview

NovaTech offers equity compensation as part of our total rewards package, allowing employees to share in the company's success. This guide explains our equity program, including stock options, vesting, and key terms.

Equity Philosophy

NovaTech believes in broad-based equity participation: - All full-time employees receive equity grants - Equity aligns employee and company interests - Long-term value creation is rewarded - We aim for competitive equity packages

Types of Equity Awards

Stock Options (ISO/NSO)

Incentive Stock Options (ISOs): - Tax-advantaged for US employees - Must meet holding period requirements - Subject to \$100K annual limit - Available to employees only

Non-Qualified Stock Options (NSOs): - Available to employees and contractors - No holding period requirements - Taxed at exercise

Restricted Stock Units (RSUs)

Currently reserved for senior leadership. May expand in the future.

New Hire Grants

Grant Guidelines

Equity grants are based on role level:

Level	Typical Grant Range
L1-L2 (Entry)	5,000 - 10,000 options
L3 (Mid)	10,000 - 20,000 options
L4 (Senior)	20,000 - 40,000 options
L5 (Staff/Principal)	40,000 - 80,000 options
L6 (Director+)	80,000+ options

Ranges are guidelines; actual grants depend on: - Experience and impact potential - Market conditions - Team and budget considerations

Grant Process

1. **Offer letter** includes equity grant details
2. **Board approval** (monthly)
3. **Grant documentation** sent via Carta
4. **Accept grant** within 30 days
5. **Vesting begins** from start date

Vesting Schedule

Standard Vesting

All equity awards follow a **4-year vesting schedule with 1-year cliff**:

Period	Vesting
Month 1-11	0%
Month 12 (cliff)	25%
Month 13-48	~2.08%/month

Example: 40,000 option grant - After 12 months: 10,000 options vested - After 24 months: 20,000 options vested - After 36 months: 30,000 options vested - After 48 months: 40,000 options vested (fully vested)

Vesting Upon Departure

- **Voluntary departure:** Unvested options forfeit immediately
- **Involuntary termination:** Standard terms apply
- **Acquisition:** See “Change of Control” section

Exercise Window

After leaving NovaTech: - **90 days** to exercise vested options (standard) - **Extended exercise** may be available (case by case)

Refresh Grants

Annual Refresh Program

High-performing employees may receive additional equity grants:

Performance Rating	Refresh Eligibility
Exceptional	Strong consideration
Exceeds Expectations	Eligible
Meets Expectations	Selective
Below Expectations	Not eligible

Refresh Grant Sizes

Typically 25-50% of new hire grant for the level, depending on: - Performance rating - Unvested equity remaining - Market competitiveness - Budget availability

Promotion Grants

Promotions typically include equity grants to bring compensation to the new level range.

Exercise Process

How to Exercise Options

1. Log in to **Carta** (equity management platform)
2. View your vested options
3. Select options to exercise
4. Choose payment method
5. Complete exercise

Payment Methods

Method	Description
Cash	Pay exercise price from personal funds
Cashless (sell to cover)	Sell shares to cover cost (if available)
Cashless (full sale)	Sell all shares, receive net proceeds

Note: Cashless exercise only available during liquidity events.

Exercise Costs

Cost	Description
Exercise price	Strike price \times number of shares
Taxes	Depends on option type and holding
Fees	Minimal administrative fees

Tax Considerations

Incentive Stock Options (ISOs)

Event	Tax Treatment
Grant	No tax
Exercise	No regular tax (may trigger AMT)
Sale (qualifying)	Long-term capital gains
Sale (disqualifying)	Ordinary income + capital gains

Qualifying disposition: Hold shares 2+ years from grant AND 1+ year from exercise.

Non-Qualified Stock Options (NSOs)

Event	Tax Treatment
Grant	No tax
Exercise	Ordinary income on spread
Sale	Capital gains on appreciation

Important Notes

- Consult a tax advisor for your specific situation
 - NovaTech does not provide tax advice
 - Tax laws vary by country/state
 - Plan for tax obligations before exercising
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409A Valuation

What is 409A?

The IRS requires private companies to establish fair market value (FMV) for stock. This affects: - Strike price for new grants - Tax treatment of options

Valuation Updates

NovaTech updates its 409A valuation: - At least annually - After significant events (funding rounds, etc.)

Current Valuation

Contact HR or check Carta for current FMV information.

Change of Control

Acquisition Scenarios

Single-trigger acceleration: Not standard at NovaTech.

Double-trigger acceleration: - Trigger 1: Change of control (acquisition) - Trigger 2: Involuntary termination within 12 months

If both triggers occur, typically 50-100% acceleration (depends on agreement).

What Happens in an Acquisition

Possible outcomes: 1. **Cash acquisition:** Options converted to cash payout 2. **Stock acquisition:** Options converted to acquirer stock 3. **Assumption:** Options continue under acquirer's plan 4. **Cancellation:** Options cashed out at FMV - strike price

Specific terms depend on acquisition agreement.

Equity Management (Carta)

Accessing Carta

1. Go to **app.carta.com**
2. Log in with your NovaTech email
3. View your equity holdings

Carta Features

- View all grants and vesting schedule
- See current value (based on latest 409A)
- Exercise options (when available)
- Download tax documents
- Update personal information

Keeping Information Current

Keep your Carta profile updated: - Address (for tax documents) - Bank account (for any payments) - Contact information

Frequently Asked Questions

Q: When can I sell my shares?

A: NovaTech is currently private. Shares can only be sold: - During periodic tender offers (if offered) - At IPO - Upon acquisition

Q: What happens to my equity if I leave?

A: - Vested options: 90 days to exercise - Unvested options: Forfeit immediately
- Exercised shares: You keep them

Q: Can I transfer my options?

A: Generally no. Options are non-transferable except: - To family members for estate planning - Upon death to beneficiary

Q: How do I know my options' value?

A: Check Carta for: - Number of shares - Strike price - Latest 409A valuation
- Estimated value (FMV - strike \times shares)

Q: What if I can't afford to exercise?

A: Options: - Wait for liquidity event (cashless exercise) - Exercise what you can afford - Discuss with financial advisor

Q: Are there blackout periods?

A: Yes, insiders may be restricted from trading during: - Quarterly close periods
- Before major announcements - Per company trading policy

Resources

- **Carta:** app.carta.com
 - **Equity questions:** hr@novatech.com
 - **Tax questions:** Consult your tax advisor
 - **Company updates:** [#company-announcements](https://twitter.com/novatech)
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Related Documents

- Total Compensation Philosophy (HR-COMP-001)
 - Insider Trading Policy (HR-COMP-015)
 - Offer Letter Terms
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Disclaimer

This document is for informational purposes only and does not constitute tax, legal, or financial advice. Consult with qualified professionals regarding your specific situation. The equity program is subject to the terms of the Stock Option Plan and individual grant agreements.

Review Cycle: Annual Next Review: March 2025