

Restricted stocks overview

Restricted stocks are shares in a company that are granted to employees as part of their compensation package. These shares come with certain restrictions and cannot be sold or transferred until they vest. Vesting means that the employee must fulfill certain conditions, such as staying with the company for a specific period or meeting performance targets, before they own the stock outright.



BENEFITS FOR EMPLOYEES

- **Potential for wealth accumulation:** if the company performs well, the value of restricted stocks can increase significantly, leading to substantial financial gains for employees.
- **Voting rights and dividends:** employees receive both, even though they cannot sell the shares.
- **Tax deferral:** the compensation is not taxed until the shares are vested.
- **Flexibility:** once the shares have vested, employees own them outright and can choose to move them to another institution, cash out, retain the shares, or gift them.
- **Simplicity:** restricted stocks are relatively straightforward compared to other forms of equity compensation. The timeline of events is easy to follow, and taxes are often withheld automatically.



BENEFITS FOR THE COMPANY

- **Alignment of interests:** employees are motivated to contribute to the company's success as their compensation is directly tied to the stock value.
- **Golden handcuffs:** the requirement to fulfill vesting conditions helps retain talented employees within the company.



KEY CONSIDERATIONS

- Restricted stocks often come with a **vesting period**, ranging from 3 to 5 years.
- **Tax implications** must be considered, as restricted stocks are taxed as ordinary income upon vesting.
- Risks of **company stock concentration:** being overly allocated to company stock can lead to significant financial volatility. Diversification is essential to mitigate this risk.

SUMMARY

In conclusion, restricted stocks are a valuable tool for both companies and employees, fostering alignment of interests, wealth accumulation, and employee retention. For further personalized advice, please consult with your wealth management advisor or email us at dtroyer@monetagroup.com.