ISO Grants

Example

Let's say Employee #1 joined Oura several years ago and received:
- 100,000 ISOs
- Exercise (strike) price: $2/share
- Previous 409A valuation: $5/share
- New 409A valuation: $20/share

She/he has already vested all 100,000 ISOs.

Scenario 1: Exercise and Hold

Suppose Employee #1 exercises 100,000 shares when the 409A value was $5/share

Cost to Exercise
100,000 x $2 = $200,000

Bargain Element (Spread)
100,000 x ($5 - $2) = $300,000

Total net outlay: $200,000 + AMT cost (let's assume $75,000) = $275,000

The spread is not treated as a regular taxable income. However, it may trigger an Alternative Minimum Tax (AMT) adjustment. Be mindful of how this impacts your taxes, so be sure to coordinate with your accountant or financial advisor to determine the potential AMT cost.

Scenario 2: Exercise and Hold

Employee #1 exercises 100,000 shares after new 409a valuation at $20/share

Exercise Cost
100,000 x $2 = $20,000

Bargain Element (Spread)
100,000 x ($20 - $2) = $1,800,000

Total net outlay: $200,000 + AMT cost (let's assume $450,000) = $650,000

Waiting to exercise can potentially result in higher AMT tax depending on your income and overall tax situation.

Scenario 1: Why Exercise Early

Example:
- Employee #1 exercises at $5/share (409a valuation 2 years earlier)
- Oura IPOs at $40/share

Value at IPO
100,000 x $40 = $4,000,000

Cost basis:
100,000 x $2 = $200,000

Total Capital gain:
$3,800,000

Capital gains tax liability (assuming FED 20% + CA 13% + NIIT 3.8%):
$1,409,800

Total net outlay = Exercise cost + AMT + tax liability = $1,484,800
Estimated Net proceeds = $2,215,200

Because she/he met the ISO holding periods, much of that gain can qualify for long-term capital gains treatment rather than ordinary income. Be sure to factor in any AMT costs and check with your advisor about whether you can get a credit for your AMT payments in the year of sale, if applicable

Potential Tax Savings

Without early exercise:
- Much of the gain may be taxed as ordinary income
- Federal rates can approach 37%

With a qualifying ISO disposition:
- Federal long-term capital gains rates are 15-20%. The difference can be hundreds of thousands of dollars.

Scenario 2: Why Exercise Early

Example:
- Employee #1 exercises at $20/share and a year goes by before the IPO
- Oura IPOs at $40/share

Value at IPO
100,000 x $40 = $4,000,000

Cost basis:
100,000 x $2 = $200,000

Total Capital gain:
$3,800,000

Capital gains tax liability (assuming FED 20% + CA 13% + NIIT 3.8%):
$1,409,800

Total net outlay = Exercise cost + AMT + tax liability = $2,059,800
Estimated Net proceeds = $1,940,200

Because she/he met the ISO holding periods, much of that gain can qualify for long-term capital gains treatment rather than ordinary income. Be sure to factor in any AMT costs and check with your advisor about whether you can get a credit for your AMT payments in the year of sale, if applicable

Potential Tax Savings

Without early exercise:
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With a qualifying ISO disposition:
- Federal long-term capital gains rates are 15-20%. The difference can be hundreds of thousands of dollars.

Two Important Requirements	
ISO Holding Period • Hold shares at least 1 year after exercise • Hold shares at least 2 years after grant **If both requirements are met:** **Future appreciation can qualify for long-term capital gains treatment under a qualifying ISO disposition.**	