

RSU Grants

Assume Employee #3 receives:

- 10,000 RSUs
- 25% vest annually over four years

After two years:

- 5,000 RSUs are vested
- Sierra is still a private company

What Happens before IPO?

- The employee does not own the shares but has vested units.
- The employee does not owe taxes yet.
- The vested RSUs remain outstanding until the second trigger occurs.

What Happens at IPO?

Suppose Sierra completes its IPO.
The liquidity event satisfies the second trigger.
At that point:

Vested RSUs

The already vested RSUs generally become eligible to settle into shares.

However, many companies delay settlement until:

- IPO date
- Lockup expiration
- A specified post-IPO date

The exact timing is disclosed in the RSU agreement and S-1.

Tax Consequence

This is where employees are often surprised.

When RSUs settle into shares:

- The value of the shares is taxed as ordinary income.
- Payroll taxes apply.
- Federal and state income taxes apply.

Example

Assume:

- 5,000 vested RSUs
- IPO price = \$200/share

Value delivered:

\$1,000,000

Generally, the entire amount becomes W-2 income in the year the shares are delivered.