9/11/24 Circle|Call - Equity Strategy: Playing Chess, Not Checkers

Double Trigger RSUs Conversation Section Transcript

Jennifer Loo @ Tala: In reference to RSUs falling in or out of favor, someone referenced a change from double trigger to single trigger. Could we expound on that?

VIP Anand Mehta: My understanding is that this is largely driven by taxes: What is the taxable event? With an option, your taxable event is when you exercise it, even if it is vested. With RSUs, the taxable event is when you take delivery of it – when it becomes yours.

So if I had a set of RSUs that vested every month, I would have to pay cash to the IRS for taxes every month. People got around that by saying two things need to happen – you'll hear this as single trigger versus double trigger RSUs – 'I need time to vest and I need to have a liquidity event', whether it's an IPO or acquisition or something like that.

And because you've gotten the second trigger, and haven't taken delivery, you don't need to pay the IRS. The situation you're trying to avoid is giving someone equity RSUs, and then they have to fund it. Not only do they not have the liquidity, but they need to take cash from somewhere else and get it to the government on something that might be worthless.

David Oppenheimer (Independent): I have not yet heard of a company moving from double trigger to single trigger without having a liquidity event specifically in mind, because as was stated, any RSU vest is a taxable event to the employee and a reporting requirement on the company.

The only way to solve that, and it can be done, is for the company to use its cash to pay the taxes on behalf of the employee and withhold some of those shares. It's called Share Withholding. For example, say an employee has 100 shares vesting and the company issues 67 shares to the employee and then holds back 33 shares.

But then the company needs to have the cash and treasury to satisfy the IRS requirement on behalf of the employee.

It is rarely done unless the company is flush with cash, in which case, again, going back to what was earlier mentioned, it's more likely that a company would do some type of offering to buy shares from employees, which would then allow that second trigger to automatically trigger during a broader share buyback plan for employees.

VIP Shawn @ Morgan Stanley at Work: What we see across our client base is what you outlined. They're willing to do a liquidity event, a share buyback to provide the opportunity for the employees. It removes the double trigger. The company buys back the shares, and the money that they're buying back the shares with goes directly to the IRS. It doesn't go to the employee. We see that mainly with our more cash-flush late-stage companies doing it as an employee benefit.

Lily Yang @ Strava: Does that taint the unvested RSUs?

David Oppenheimer (Independent): I can't give you a definitive answer, because this is all part of why you do a tender offer and how you do a tender offer, because, to your point, until you know exactly how many shares you're going to be able to sell, you don't want to vest, more shares than can be sold in the Offering.

I believe there are methods, that enable that once you've established how much each individual is selling in the tender, you would only trigger those shares that are getting sold. You need to work with your lawyer who is managing your tender with you.

Zoom Chat - Shared Resources & Links

Morgan Stanley at Work: [State of the Workplace Financial Benefits Study Overview]()

Benchmark Registration Question Results
What is your equity burn percentage?
43% said between 1-3%
43% said between 3-5%
7% said between 5-7%
5% said less than 1%
2% said N/A

Top three challenges of equity comp philosophy cited:
1. Ensuring terms are competitive

2. Balancing costs with equity preservation
3. Aligning equity strategies with performance metrics

Best practices on educating employees on equity

📚[Employee Equity Education templates in this shared Google drive]

Kelly Wolf @ Hippo: *I was at Amazon from 2000 to 2019. Early days when the equity was underwater for an extended period there were many interim comp strategies to retain key talent while we worked towards getting to free cash flow.*

David Oppenheimer (Independent): *Inversely, challenges arise when valuations and share prices drop — yet the equity comp is measured on a $$ basis, thereby driving up the burn rate at a time that the company may not be performing well.*