INFINITE EQUITY

Refreshing Equity for Companies Built on Stock Options

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What to Do When Your Option-Fueled Comp Strategy Falters?

Ask any compensation leader what's keeping them up at night, and the answer is nearly universal: **retention**. If your company has relied heavily on stock options to attract and retain talent, you're not alone. But in today's market, that strategy is under growing pressure.

Between market volatility, shifting employee expectations, and unpredictable stock performance, keeping top talent engaged is harder than ever. And one of the tools meant to help—stock options—is increasingly falling short. What once served as a cornerstone of compensation in high-growth sectors like technology and biotech is now, in many cases, working against the very goals it was meant to support.

Options that once acted as powerful motivators now sit underwater. They don't excite. They don't retain. They don't reward. Instead, they serve as a daily reminder of a fallen stock price—and the opportunity employees feel they've lost. To make matters worse, those same options still count against your share reserve, limiting your ability to issue fresh, more meaningful grants.

So what do you do when equity stops working?

This is where stock option exchange programs shine. Done well, they offer a chance to reset, rebuild trust, and breathe new life into your equity strategy.

Exchange Programs Are Having a Moment—Here's Why

An exchange program allows employees to trade in their old, underwater options for new ones—usually at a lower strike price, with updated vesting terms, or in a different equity format altogether (like RSUs). Think of it as hitting the refresh button on your compensation toolkit.

The benefits are compelling:

Restore Equity Value	Reignite Motivation	Clean up Dilution	Rebuild Alignment
Employees receive awards that actually have a chance of delivering value.	A new grant, with a new vesting schedule, reminds employees that the company is invested in their future.	You retire the old, ineffective options —helping you better manage your share pool.	A new stock price baseline gives everyone a common goal and a sense of shared ownership.

Once companies recognize that underwater options are doing more harm than good, the natural next question is: What now? There's no universal fix, but most organizations tend to explore one of four common paths—each with its own reasoning, benefits, and potential drawbacks. Let's break them down:

Do Nothing (Hope and Hold)

This is the path of least resistance. It avoids additional complexity, no tough conversations with shareholders, and no extra accounting cost. The idea? "If we just wait long enough, the stock will recover."

But while hope is not a bad thing, it's not a strategy. The longer underwater options sit untouched, the more they drag down morale. Employees may quietly disengage, especially when they see competitors offering fresh, exciting equity grants. Eventually, attrition follows.

Special or Increased Grants

Another route is to layer new grants on top of old ones—either through a special retention grant, a bump in annual awards, or even a one-time cash bonus.

This can seem like a quick fix, and it does give you the chance to selectively reward key players. But there's a downside: it increases dilution, often draws shareholder scrutiny, and sets an expectation that compensation will always be "made whole" when the stock dips. That's a hard precedent to walk back.

Focus on Education

Some companies try to bridge the gap with better storytelling. They explain the long-term nature of options, remind employees that stock prices rebound, and highlight the upside potential.

Education is important, and it can help retain optimism. But it doesn't solve the fundamental problem. If an employee has options with a strike price at $60 and the stock is currently sitting at $20, no amount of narrative will make that award feel valuable. Eventually, the disconnect becomes too big to ignore.

Implement an Exchange Program

The most strategic and holistic solution is a formal option exchange. It directly addresses the issue—giving employees a fresh grant with real value and real potential, while aligning equity with the company's current trajectory.

While these programs require more effort, the payoff can be well worth it. They reinforce long-term alignment, strengthen retention, and send a clear message: leadership is listening and committed to making equity meaningful again.

For companies seeking a simpler path, a targeted repricing may offer a viable alternative. This lighter-weight approach resets the strike price on underwater options. Historically, additional vesting was tied to the repricing, which triggers a tender offer. The employees have to elect to accept the additional vesting for the reset strike price. The time, administrative burden, and cost to execute a tender offer has steered many companies away from adding additional vesting in the past.

A Note On Repricing (Without A Tender Offer)

A new trend with option repricings has emerged, called a Premium Exercise Period. Essentially, a company reprices the options at-the-money, but if an employee exercises any repriced options during the Premium Exercise Period, they revert back to the original strike price. This essentially adds a vesting period, but there is one major significant benefit. By not actually adding any additional vesting criteria, the employee is never worse off. Because this isn't a "voluntary election," it doesn't trigger SEC tender offer rules, which simplifies execution, cost and timing significantly.

The key? Communication. Without a clear message around intent and long-term value, repricings can feel transactional. But framed effectively, they can still deliver real retention power—especially when paired with a strong narrative around employee ownership.

Blueprint to Buy-In: It's All in the Design

Who's Eligible?

Grant Eligibility

Most companies limit the program to truly underwater options. They often exclude:

- Options granted in the past 12 months
- Grants that are only slightly underwater (e.g., less than 20%)

This ensures you're not swapping out awards that could still recover on their own.

Participant Eligibility

Governance optics matter. Many companies exclude board members and Named Executive Officers (NEOs) to avoid shareholder pushback. That said, if your senior leaders are facing the same retention challenges—and you have a strong business case—they can be included.

What Are You Exchanging Into?

This is where things get creative. You don't have to do a straight swap of old options for new ones.

Here are three common formats:

Options-for-Options	Options-for-RSUs	Options-for-Cash
A familiar structure for employees. Same upside potential, but with a reset strike price and new vesting.	More certainty, especially appealing to risk-averse employees. Less dilution, but also less upside.	Rarely used—expensive, doesn't promote retention, and creates tax implications.

Each option has its place. The best choice depends on your goals, employee demographics, and equity philosophy.

Resetting Vesting and Term

Vesting Schedules

Resetting vesting is one of the most important retention levers. Most companies extend vesting for new awards by one or two years. This not only avoids windfalls but also reinforces your commitment to long-term value creation.

Contractual Term

When exchanging options for options, companies must decide whether to reset the expiration term. Most choose to start fresh (often 10 years), which keeps things simple and consistent.

Exchange Ratios and Bands

You're not locked into a 1:1 swap. In fact, most programs use exchange bands—groupings of grants by strike price, with different exchange ratios applied. This approach helps:

- Ensure fairness across levels of underwater options
- Keep share usage efficient
- Make it easy for employees to understand

For Example:

- Options with strike prices \$5–\$10 → exchange at 1.5:1
- \$10–\$20 → exchange at 2.5:1
- \$20+ → exchange at 3.5:1

This lets you offer more generous ratios for deeper underwater grants, without overcommitting.

Don't Skip the Modeling

Here's where your finance and accounting teams shine. Modeling helps you:

- Estimate participation rates
- Quantify accounting cost
- Forecast share usage

Most companies target a "value-for-value" exchange—meaning the new awards are equal in fair value to the old ones. But a small incremental cost is typical, especially if you want the offer to feel compelling. The key is finding that sweet spot between cost control and participation.

Governance Isn't Optional—Here's Why

A stock option exchange may sound like a compensation strategy—and at its core, it is—but it's also a legal, operational, and compliance undertaking. These programs don't happen in a vacuum. They sit at the intersection of finance, HR, legal, equity administration, and shareholder governance. That means careful planning, cross-functional alignment, and no small amount of paperwork.

Let's break down the key legal and administrative areas that need attention—and how to tackle them with confidence.

Shareholder and Proxy Considerations

Even if your equity plan technically permits repricing or exchanges without shareholder approval, that doesn't mean you're in the clear. Proxy advisory firms like ISS (Institutional Shareholder Services) and Glass Lewis are watching. Closely. These groups carry significant influence over institutional investors. If they don't like how your exchange is structured—or if you skip a shareholder vote when they expect one—you could find yourself facing:

- A negative recommendation on your next Say-on-Pay vote
- A vote "against" your compensation committee or board members
- A PR headache you didn't need

This is why most public companies—especially those with institutional investors—voluntarily go to a shareholder vote even when it's not strictly required. It shows transparency, governance discipline, and respect for investor input.

Best practice: Proactively engage your largest shareholders early. Share your rationale, your data, and your governance approach. Bring them along for the ride instead of surprising them at the finish line.

Also, if your program includes NEOs, you'll need to clearly disclose and justify their participation in the Compensation Discussion & Analysis (CD&A) section of your proxy. This is where your communication strategy really matters—framing the exchange as a strategic move that supports long-term value creation and fairness.

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Pro Tip

Build a calendar with your legal team early in the process. Map out filing deadlines, review cycles, blackout periods, and all key milestones. A well-run exchange is often a well-scheduled one.

Tender Offer Rules

Here's where it gets technical—but stick with us, because it's important.

When you give employees a choice—such as trading underwater options for new ones or RSUs—you're likely triggering SEC tender offer rules. This means your exchange program is treated a bit like a mini public offering. And with that comes regulatory requirements:

- Schedule TO Filing: You must file a Tender Offer Statement with the SEC. This outlines the terms of the offer, who's eligible, what's being exchanged, and how the process works.
- 20 Business Days Minimum: The offer must remain open for at least 20 business days. No shortcuts here—it's non-negotiable.
- Disclosure of Written Communications: Any written materials related to the offer—emails, FAQs, video messages, and even Slack posts—must be included in your Schedule TO filings. Transparency is key.

There are exceptions—such as for small, negotiated repricings that don't involve a broad-based offer—but in most cases, you'll be navigating these requirements. It's essential to partner with outside counsel or a law firm experienced in equity compensation and tender offers.

Your Program Is Only as Strong as the Story You Tell

Confused employees don't engage. Full stop. A great program needs more than a good design—it needs a clear, compelling message. That means going beyond legal notices and check-the-box compliance. You need a communication strategy that's clear, approachable, and genuinely helpful.

Here's's what that looks like in practice:

Clear, Simple Language

The tender offer will be full of legalese—don't rely on it to do the explaining for you. Employees need plain-English guidance that breaks things down clearly: what's happening, why it matters, and what actions they need to take.

Support and resources:

Clearly outline where employees can go for help. Provide FAQs, contacts for questions, and step-by-step guides. Whether it's through your intranet, an equity portal, or a dedicated help inbox—make it easy to get answers fast.

Town halls that walk through the details

Host live sessions that walk employees through how the exchange works, what choices they'll have, and how to execute their elections. Use this time to refresh everyone on Equity 101 basics and reinforce key concepts.

A real, human story:

Employees want to hear from leadership—not just what's happening, but why it's happening. This is a chance to reinforce key values like transparency, ownership, and shared success. A message from leadership that says, "We know the current equity isn't working as intended, and we're doing this because we want you to see real value from your hard work," builds trust and shows employees they're seen.

Interactive tools that show the break-even point

Use simple, visual tools that help employees see their personal break-even point—so they can understand exactly when and how the new award could deliver value.

This is your chance to bridge the gap between policy and understanding—to **make equity feel accessible, relevant, and worthwhile**. When employees get the message, they engage. When they don't, even the best-designed program falls flat.

Getting Shareholders on Board

It's not just employees you need on your side—shareholders matter too. And how you bring them into the process can make or break your program's success. Here's how to build confidence and keep investors aligned:

Go for formal approval

Even if your plan technically doesn't require a vote, asking shareholders to approve the exchange sends a strong governance signal.

Retire the old shares

Don't recycle tendered options back into the plan. Retiring them shows you're serious about managing dilution.

Balance with fewer new grants

Some companies scale back or skip their annual grant the same year to help offset dilution and simplify the story.

Know your audience:

If your major investors follow ISS or Glass Lewis, make sure your plan lines up with their policies—otherwise, you're asking for a no vote.

Be transparent about the "why":

Frame the exchange as part of your long-term talent strategy. Investors are more likely to support the plan if they see it as a smart way to retain top people and drive performance.

At the end of the day, shareholders want to know you're thinking long-term—and making thoughtful choices that align with both people and performance.

Is It Time for a Stock Option Exchange?

Ask yourself:

Are more than 30% of your options 50%+ underwater?

Is key talent starting to leave—or disengage?

Do you have enough share reserve or board support to move forward?

If the answer is yes to even one of these, it's time to explore your options—literally.

WE'VE DONE THIS BEFORE

FOLLOW THESE 6 STEPS

1 Assess the Landscape

Begin by evaluating the scope and impact of the issue. How many outstanding options are underwater? By what margin? Which employee populations are affected most? This step also involves reviewing plan provisions and proxy requirements, engaging legal, accounting, and valuation experts, and aligning internally on goals and constraints.

2 Model Scenarios

Explore multiple exchange design options and model the outcomes. Consider cost, dilution, employee impact, and accounting implications. Create a shortlist of viable approaches, determine appropriate exchange ratios, and assess whether to structure the program as value-for-value.

3 Engage Stakeholders

Secure alignment with senior leadership and the compensation committee early in the process. If shareholder approval is needed, build a clear and compelling narrative supported by robust data and benchmarking.

4 Prepare the Offer

Work with legal counsel to draft the tender offer documents and finalize exchange terms. At the same time, begin preparing employee-facing materials—including FAQs, communications, and educational content. Identify the tools and systems you'll use to administer the exchange and develop a detailed timeline for launch and execution.

5 Launch & Support

Open the exchange window and implement your communication and support plan. Host town halls to walk employees through the details, offer tools to model break-even points, and provide guidance on how to submit elections.

6 Close & Report

Once the exchange window closes, finalize the process. Cancel tendered options, grant new awards, and complete the necessary accounting and financial reporting. Update your equity administration system and ensure all required disclosures—such as 10-K or proxy updates—are completed accurately.