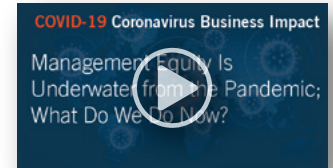


## Management Equity Is Underwater from the Pandemic; What Do We Do Now?

APRIL 24, 2020

On April 23, 2020, Dechert's Executive Compensation and Employee Benefits group presented "Management Equity Is Underwater from the Pandemic; What Do We Do Now?" an episode of the firm's COVID-19 Coronavirus Business Impact Broadcast Series. The episode was hosted by Howard Klein (moderator), a partner in the firm's New York office; Eric Rubin, a partner in the firm's Philadelphia office; and Sarah Burke, an associate in the firm's New York office.

The presenters discussed the techniques that can be implemented to address underwater management equity awards at private equity portfolio companies.



### HIGHLIGHTS FROM THE EPISODE

#### **What can generally be done about underwater management equity?**

Common approaches to address underwater appreciation awards include: (i) repricings; (ii) top-up grants; (iii) cancellation of existing awards for new full value equity awards; (iv) phantom awards; and (v) retention bonus arrangements.

#### **What should be considered with respect to these approaches?**

As with most compensation decisions, there are a variety of considerations, including tax, securities and accounting implications, valuation issues, and employee retention and morale objectives.

#### **What should private equity portfolio companies do right now?**

It is generally a little too early to do anything right now, at least insofar as equity award modifications and the resetting of performance goals. If companies act too quickly, they risk having to make multiple changes to their outstanding programs over a short period of time and creating undue confusion and more uncertainty for employees.