

stock for each share of XYZ stock, outstanding XYZ options might be adjusted to require delivery of 100 shares of XYZ stock plus 250 shares of ABC stock.

Alternatively, the exercise prices of outstanding options might be reduced by the value, on a per-share basis, of the distributed property, as determined by the adjustment panel.

Events other than distributions may also result in adjustments. If all of the outstanding shares of an underlying security are acquired in a merger or consolidation, outstanding options will as a general rule be adjusted to require delivery of the cash, securities, or other property payable to holders of the underlying security as a result of the acquisition.

**EXAMPLE:** If XYZ is acquired by PQR in a merger where each holder of XYZ stock receives \$50 plus 1/2 share of PQR stock for each share of XYZ stock held, XYZ options might be adjusted to call for the delivery of \$5,000 in cash and 50 shares of PQR stock instead of 100 shares of XYZ stock.

When an underlying security is wholly or partially converted into a debt security or a preferred stock, options that have been adjusted to call for delivery of the debt security or preferred stock may, as a general rule, be further adjusted to call for any securities distributed as interest or dividends on such debt security or preferred stock.

When an underlying security is converted into a right to receive a fixed amount of cash, options on that security will generally be adjusted to require the delivery upon exercise of a fixed amount of cash, and trading in the options will ordinarily cease when the merger becomes effective. As a result, after such an adjustment is made all options on that security that are not in the money will become worthless and all that are in the money will have no time value.

As a general rule, adjustments are not made for tender offers or exchange offers, whether by the issuer or a third party, and whether for cash, securities (including issuer securities), or other property. This presents a risk for writers of put options, because a successful tender offer or exchange offer (whether by the issuer or by a third party) may have a significant effect on the market value of the security that the put writers would be obligated to purchase if the put options are exercised after the expiration of the offer.