

than a whole number of shares, of the underlying security is issued. The adjustment panel has discretion to make exceptions to the general rules described above.

EXAMPLE: Before a 2 for 1 stock split, an investor holds one ABC binary stock option with an exercise price of \$50 that pays a cash settlement amount of \$100 if the exercise settlement value of ABC at expiration is above the exercise price. After adjustment for the split, the investor will still hold one ABC binary stock option that pays a cash settlement amount if the exercise settlement value of ABC at expiration is above the exercise price, but the exercise price will be \$25 (*i.e.*, \$50 divided by two). Thus, if the exercise settlement value of ABC stock at expiration, on a post-split basis, is above \$25, the investor will receive \$100.

An investor holds an XYZ binary stock option with an exercise price of \$50 that pays a cash settlement amount of \$100 if the exercise settlement value of XYZ stock is below the exercise price. XYZ announces a 2.5 for 1 stock split. The exercise price will be adjusted to equal \$20 (\$50 divided by 2.5). If the exercise settlement value of XYZ stock at expiration is below \$20, the investor will receive \$100. Exercise prices of binary stock options will generally be rounded to the nearest adjustment increment (or up in the event the adjusted price is equidistant between two adjustment increments).

Conversely, in the event of a reverse stock split or combination of shares, the exercise price will be proportionately increased.

Distributions of property other than the underlying security may result in adjustments to the terms of binary stock options. For example, the exercise settlement value might be adjusted to include the value of the distributed property.

EXAMPLE: XYZ "spins off" its subsidiary ABC by distributing to its stockholders two shares in ABC for each share of XYZ. The exercise settlement value of XYZ binary stock options may be adjusted to include the value of two shares of ABC as well as one share of XYZ.

Alternatively, the option might be adjusted by reducing its exercise price by an amount equal to the value of the property distributed with respect to a single share of the underlying security (in the example above, the two shares of ABC).

As in the case of other stock options, adjustments to the terms of binary stock options may result from events other than dividends, distributions, and splits. If all outstanding shares of an underlying security are acquired in