

As a general rule, stock dividends, stock distributions and stock splits can result in an adjustment in the number of underlying shares or the exercise price, or both.

EXAMPLE: An investor bought an XYZ 60 option—either a call or a put—and XYZ Corporation subsequently effected a 3 for 2 stock distribution. Instead of covering 100 shares of stock at an exercise price of \$60 a share, each outstanding option could be adjusted to cover 150 shares at an exercise price of \$40 per share.

However, when a stock distribution results in the issuance of one or more whole shares of stock for each outstanding share—such as a 2 for 1 stock split—as a general rule the number of underlying shares is not adjusted. Instead, the number of outstanding options is proportionately increased and the exercise price is proportionately decreased.

EXAMPLE: Before a 2 for 1 stock split, an investor holds an option on 100 shares of XYZ stock with an exercise price of \$60. After adjustment for the split, he will hold two XYZ options, each on 100 shares and with an exercise price of \$30.

An adjustment panel may make an exception to the general rule to adjust for stock dividends. For example, in cases where the issuer of the underlying security announces or exhibits a policy of declaring regular stock dividends that do not individually exceed 10% of the amount of the underlying security outstanding, an adjustment panel may determine to treat the stock dividends as though they were ordinary cash dividends and to make no adjustment for them.

As a general rule, adjustments in exercise prices are rounded to the nearest 1/8 of a dollar, and adjustments in the number of underlying shares are rounded down to eliminate fractional shares. In the latter case, the exercise price may be further adjusted to compensate for the elimination of the fractional shares.

Distributions of property other than the underlying security may require different adjustments. For example, outstanding options might be adjusted to include the distributed property.

EXAMPLE: If XYZ “spins off” its subsidiary ABC by distributing to its stockholders 2.5 shares of ABC