

**EXAMPLE:** An investor holds a call option covering 100 shares of XYZ stock with an exercise price of \$50 resulting in an aggregate exercise price for the contract of \$5,000 ( $\$50 \times 100$ ). After a 3 for 2 split, the deliverable could be increased to 150 shares while the nominal exercise price remained \$50. In that case, upon exercise of the adjusted option, the investor would still pay \$5,000 ( $\$50 \times 100$ , not  $\$50 \times 150$ ), but would receive 150 shares of XYZ stock instead of 100.

Note in the preceding example that, although the number of shares deliverable was adjusted to be 150, the number by which the unadjusted exercise price of \$50 was multiplied to determine the total exercise price continued to be 100 rather than 150. Similarly, premium quotations would continue to be multiplied by 100 to obtain the total premium to be paid for a single option.

**Stock Options with Exercise Prices Stated in Decimals**

In the future, the exchanges may introduce stock options with exercise prices stated in points and decimals (e.g., 20.15 or 30.80). The following adjustment rules would apply to any series of stock options whose exercise price is stated in points and decimals:

When a stock distribution, stock split or stock dividend results in the issuance of one or more whole shares of stock for each outstanding share—such as a 2 for 1 or a 3 for 1 stock split—as a general rule the number of underlying shares will not be adjusted. Instead, the number of outstanding options will be proportionately increased and the exercise price will be proportionately decreased. (See the example of a 2 for 1 stock split under “Stock Options with Exercise Prices Stated in Fractions” above.)

Other stock dividends, stock distributions and stock splits may result in an adjustment in the number of underlying shares and the exercise price.

**EXAMPLE:** An investor bought an XYZ 50 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 \$50 a share, each outstanding option could be adjusted to cover 150 shares at an exercise price of \$33.33 per share. The aggregate exercise price remains substantially the same before and after the adjustment ( $\$50 \times 100 = \$5,000$  and  $\$33.33 \times 150 = \$4,999.50$ ).

**All Stock Options**

As a general rule, adjustments in exercise prices are rounded to the nearest exercise price increment ( $\frac{1}{8}$  or one cent, as the case may be), and adjustments in the number of underlying shares are rounded down to eliminate fractional shares. In the latter case, the property deliverable upon exercise may be adjusted to include the value of the eliminated fractional share, as determined by OCC.