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## **Underwater Stock Option Repricings Resurge As Shareholder-Friendly Exchange Programs Evolve, Says Aon Consulting's Radford Surveys + Consulting**

*New research from Radford finds companies, shareholders seek middle ground to address troubled employee options with programs that meet investor approval*

**San Jose, Calif. – September 22, 2008** – As a growing number of companies are forced to address underwater employee stock options, firms are increasingly offering equity exchange programs by which employees can trade worthless options for new options or restricted stock, according to recent research conducted by Aon Consulting's Radford Surveys + Consulting, the leading provider of compensation market intelligence to the technology industries.

A new Radford study of 61 firms found that of the three types of exchange programs - options-for-options, options-for-stock and options-for-cash – companies are nearly evenly split between using options-for-options and options-for-stock programs.

- Options-for-Options (46 percent): cancellation of underwater options followed by an immediate re-grant of (fewer) new options
- Options-for-Stock (49 percent): cancellation of underwater options followed by an immediate re-grant of (*significantly* fewer) new shares of restricted stock/units
- Options-for-Cash (5 percent): cancellation of underwater options for a cash payment

“After years of being viewed negatively by shareholders, employee stock option repricings, or the practice of lowering the purchase price of an outstanding option after a drop in company stock value, is once again gaining positive traction in the form of exchange programs,” said Brett Harsen, vice president, Radford Surveys + Consulting. “Most investors will approve a responsible proposed exchange of underwater options that is beneficial to all stakeholders – the company, employees and shareholders.”

### **Underwater Option Exchange Accounting Implications**

Determining the actual ratio of old underwater option shares to new option or restricted stock shares is an accounting-driven exercise focused on the goal of cost neutrality, according to Terry Adamson, senior vice president, Radford Surveys + Consulting, who collaborated with Harsen on the exchange program study. No additional charges to a company's earnings will be incurred as long as the fair value of the new award is no greater than the fair value of the surrendered underwater options.

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“Shareholders and company auditors are requiring increasingly complex modeling to determine what the right cost-neutral exchange ratio should be in these programs,” notes Adamson. “Predicting employee exercise behavior with an underwater option, often requiring finance departments to increase the level of sophistication over its normal quarterly reporting methods, is more difficult to do compared to a new at-the-money award.”

For more information on underwater options, please visit Radford’s Underwater Options Portal — a comprehensive resource for Human Resources, Legal and Finance professionals providing guidance on addressing the challenge of underwater employee stock options. Visit the portal at <http://www.underwaterexchange.com> .

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## **About Radford Surveys + Consulting**

For more than 30 years, Radford has provided compensation market intelligence to the technology and life sciences industries. Global survey databases, which include three million incumbents, offer current, reliable data to 2,000+ clients. Leveraging Radford survey data, our thought-leading global Radford Consulting team creates tailored solutions for the toughest global business and compensation challenges facing companies at all stages of development. In addition to our consulting team, we also offer equity valuation assistance via Radford Valuation Services, and leading-edge market analyses and survey services with Radford Advisory Services. For more information on Radford, please visit [www.radford.com](http://www.radford.com).

## **About Aon Consulting**

Aon Consulting Worldwide is among the top global human capital consulting firms, with 2007 revenues of \$1.352 billion and 6,335 professionals in 117 offices worldwide. Aon Consulting is shaping the workplace of the future through benefits, talent management and rewards strategies and solutions. Aon Consulting was named the best employee benefit consulting firm by the readers of Business Insurance magazine in 2006, 2007 and 2008. For more information on Aon, please visit [www.aon.mediaroom.com](http://www.aon.mediaroom.com).

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