



For Immediate Release

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Grant Thornton LLP launches Underwater Stock Option service

Approximately two-thirds of public companies have more than 75 percent of their outstanding stock options under water, according to a recent Grant Thornton survey

Phoenix, September 29, 2009 – Grant Thornton LLP’s Compensation and Benefits Consulting and Valuation Services groups have combined their resources to offer a new Underwater Stock Option service to help public companies develop strategies to address outstanding stock options that are now under water.

“Stock options have generally played a critical role in U.S. companies’ total compensation programs, making up the majority of equity-based incentives granted to key employees and executives,” said Brad Preber, Phoenix Office Managing Partner. “The current economic downturn has stripped away much of the value of these instruments while companies continue to book some form of compensation expense.”

In most cases, companies that have underwater stock options have four alternative solutions: 1) exchange underwater options for new options, 2) exchange underwater options for restricted stock or restricted stock units (RSUs), 3) exchange underwater options for cash or 4) do nothing. Each alternative comes with pros and cons that should be considered. Of the approximately 140 exchange programs implemented or pending this year, it has been about an even split between an exchange for options and exchange for stock.

“Addressing the underwater option issue brings with it various cost, valuation and tax challenges,” said Preber. “It is important that companies with underwater stock options evaluate each of the options available to them and choose the one that best fits its employee compensation needs.”

“In fact,” added Preber, “Grant Thornton recommends that companies with underwater stock options take the five steps below to address whether or not an exchange program makes sense for your company:

- Assess and quantify the problem and alternative solutions.
- Design and test your program.
- Determine ‘go/no go’ status of exchange and other equity incentive solutions.
- Submit for board of directors and shareholder approval (as required).
- Implement and communicate.”

The new service helps companies come up with a strategic framework for exploring an exchange strategy; analyze the extent of the issue and model alternative scenarios that quantify

program effects on cost, dilution and likely participation; value the options; understand the SFAS 123(R) and section 162(m) implications of any exchange program; and assist in communicating the program to participants and supporting the program's administrative requirements upon implementation.

To read more about the new Underwater Stock Option service, please click [here](#). To see the full survey results of Grant Thornton's most recent executive compensation survey, *Executive compensation: Rethinking strategies for challenging times*, please click [here](#).

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