

## Sidebar 4

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### Modification of Nonvested Share Options

On January 1, 2008, Company B (see Sidebar 1) decreased the exercise price of its stock options in response to a major decline in its share price. In determining the incremental cost of the modified share option, Company B calculates the fair values of the original options as of December 31, 2007, and the modified stock options as of January 1, 2008. The fair value of the original option just prior to the modification was calculated at \$3, and the fair value of the modified option was calculated at \$4, giving Company B an incremental cost of \$1. Company B already recognized compensation cost for two years based on the original fair value of \$10 per option. The unrecognized compensation cost for the original share options is \$6 (\$10 less 40% of \$10). The total modified compensation costs would be based on an option value of \$7 (\$6 + \$1).

Reflecting the 2009 revision in the number of options expected to vest, Company B would recognize total compensation cost of \$5,600,000 (\$7 x 800,000 options) to be allocated over the remaining three years of the requisite service period.