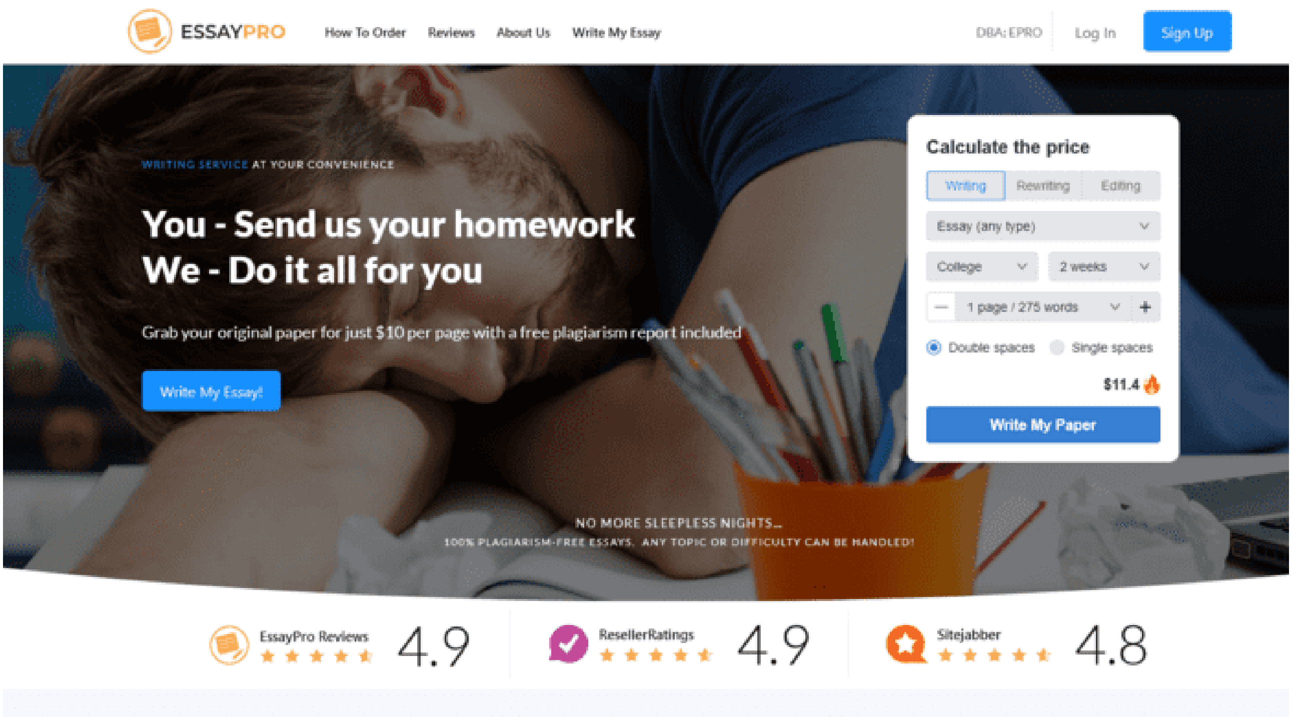
Stock Options



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Stock Options

Since the late 1980's more and more people have been given the opportunity to purchase stock options. As of 2001, ten million employees have chosen to purchase stock options. Another survey established that 97 of the top 100 e-commerce companies gave the choice of options this year. For these reasons, it is important to understand what stock options are, the different types of options, and their advantages and disadvantages.

A stock option gives any employee the right to buy a certain number of shares in the company at a fixed price for a certain number of years. Employees who have been given the choice of stock options hope that the share price will go up and that they will be able to cash in by purchasing the stock at the lower grant price and then selling the stock at the current market price. Stock option plans can be a flexible way for companies to share ownership with employees, reward them for performance, and attract and retain a motivated staff. These plans could also encourage the employees to look in that best interest of the company and other shareholders.

For growth-oriented smaller companies, options are a great way to preserve cash while giving employees a piece of future growth. They can also work for public firms whose benefit plans are well established, but who want to include employees in ownership.

Options are not a mechanism for existing owners to sell shares and are usually inappropriate for companies whose future growth is uncertain. They can also be unappealing in small, closely held companies that do not want to go public or be sold because they may find it difficult to create a market for the share. There have been disagreement on whether or not options are actual ownership. Some believe they are ownership because employees do not receive them for free, they use their own money to purchase the share. Others believe that since the employees can sell their shares a short time after purchasing them they do not have the long-term ownership goal.

A few simple terms with stock options are a call, a put, and a premium. A call is the right to buy the stock, a put is the right to sell the stock and its premium is the price of the option. Overall, options allow you to participate in price movements without committing the large amount of funds needed to buy stock outright.

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...s are even hired, stock options enable companies to recruit better employees. Once the employees are hired, they work harder for the sake of the company as well as a rise in their shares, and therefore, the company is able to retain hard working elites. Another positive remark about stock options is that companies are not required by GAP to record them as an expense which, in turn, inflates their earnings. Just as before with the employee’s stock income, the company receives a tax deduction as well. When the employee exercises his stock then sells it in the market he receives an income, and this amount received by the employee is equal to the tax break granted to the company. Hence, the larger the price difference, the better it is for both the employee and employer.

To conclude, stock options are increasingly being used as incentives for employees in companies around the world. Statistics state that the increased use of stock options privileges has increased the work ethic of employees, thus increasing sales. Stock options are a good non-cash compensation for increasing the moral of employees, but one should note that the underlying tax regulations could be complicated.

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