

NOTES – STOCK OPTIONS

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1.00 INTRODUCTION

The most important resource of a business is undoubtedly its personnel. An efficient employee can make a significant contribution to the growth of a business. This contribution will be even more vital if the employee is promoted to the management level and continues to work for the business for several years.

Unfortunately, businesses often lose good employees because they refuse or fail to adequately compensate them. The Canadian taxation system also increases the difficulty of financially stimulating an efficient employee. Employees don't usually relish the idea of remitting a substantial part of any performance bonus to the tax authorities.

To find a solution to this problem, the business world has developed various profit-sharing programs to give key employees a financial interest in the success of the business.

The most common form of profit-sharing program is a stock option.

2.00 DEFINITION

Stock options grant employees a right to acquire shares from the share capital of a corporation during predetermined periods and at a fixed or determinable price. Exercising such a right may or may not be subject to certain prior conditions. In sum, stock options allow the beneficiary to acquire shares, the value of which will continue to increase, as long as the corporation continues to earn profits.

The instrument used to exercise this type of option to purchase granted by a corporation is called a stock option.

3.00 REMARKS

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