

OPTION TO PURCHASE SHARES - NOTES

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INTRODUCTION

Without question, a business' most important resource is its staff. An effective management employee can make a major contribution to the progress of a business. This contribution grows over time if the employee remains in the service of the company for several years.

Too often companies lose good people because they refuse or fail to pay them properly. Canadian tax law makes it very difficult to financially reward an effective manager, who does not appreciate giving the tax department a large portion of the income the company may pay him as a performance bonus.

To solve this problem, companies have developed different forms of profit-sharing programs to retain people who are key to the business.

The most widespread form of incentive is stock options, which we will discuss in greater detail in this document.

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DEFINITION

A stock option (hereinafter an "option") is a right granted to a person to purchase shares from the treasury of a company, at a fixed or determinable cost. The exercise of this right may or may not be limited in time and may be subject to certain preconditions, which to a certain extent constitute the tangible or intangible consideration for granting them.

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REMARKS

An option is a way of making a person take an interest in the future profitability of the company, by giving him a stake in its business. It allows its beneficiary to acquire one or more treasury shares, at a fixed or variable unit price. A fixed price generally does not lead to a dilution in terms of the sharing of the profits earned by the company before the option is granted. It only affects the sharing of future profits.

The attraction of an option lies in the fact that, after it is granted, the value of the company's shares continues to increase as the company earns profits. This increase in value represents the potential profit a person may make after exercising his option, when the share is resold. If the deadline for exercising the option extends over several years, the potential gain on the option increases considerably.

A person who is given an option therefore sees his interest in the profitability of the company's operations increase, which generally gives him greater motivation at work when he is one of its officers.
