STOCK OPTIONS FOR EXECUTIVES*

1. PROVISIONS OF CURRENT STOCK OPTION PLANS


A compilation of data regarding specific company plans arranged alphabetically by company name. Data given include persons eligible, option price, market price on specified dates, purchase arrangements, and restrictions on exercise of options.


The major part of this report consists of a detailed analysis of the provisions of 86 stock option plans adopted since September, 1950.

A summary of the study was published in the Management Record, December, 1951, pp. 431-433.


Reports, in summary form, a study of more than 100 plans adopted since October, 1950, by companies listed on the New York Stock Exchange. Describes briefly the provisions of these plans and the objectives of the companies in establishing them. Also discusses their advantages and disadvantages and the conditions under which stock options do, in fact, work as an incentive.

The factual material in this report was summarized in the Commercial and Financial Chronicle for September 6, 1951, page 880.

2. LEGAL ASPECTS OF STOCK OPTIONS


Complete text of Accounting Research Bulletin No. 37 adopted by the Committee on Accounting Procedure of the American Institute of Certified Public Accountants.

*Items from this list should be ordered directly from the publisher. Addresses are given in connection with each reference.
of Accountants. Deals only with "the accounting treatment of stock options involving compensation" and analyzes "the two principal accounting problems involved ... (a) the selection of the date on which the compensation is deemed to have accrued and (b) the manner in which it should be measured."


A comprehensive review of the law prior to, and since, adoption of the Revenue Act of 1950 with detailed analysis of the latter. The article also discusses situations not covered by the statute.


Discusses the various objectives for which stock options can be used—supplementary income, capital gains, retirement income or deferred compensation, family security—and the means by which these objectives can be realized with emphasis on conformity with the 1950 tax law.


A discussion of "tax mechanics that increase the net amount in the pocket of the executive." Points out tax advantages of stock options as one type of deferred compensation and cites several examples of various types of plans.


Points out the tax advantages of restricted stock options for listed companies and the risks in establishing such plans for unlisted companies. In the latter case, the author holds that deferred compensation plans are preferable.


In this report the Committee makes clear that its purpose in amending the rules governing the "tax treatment of certain employee stock options" was to clear up uncertainties regarding the legal status of then existing regulations and thus make possible the use of "restricted stock options" as an incentive device by treating gains realized from their sale as capital gains.

Covers “any stock option granted to an employee if income (within the meaning of the revenue laws) or compensation is or may be received by the employee at the time the option is granted or exercised, at the time of the disposition of the option, at the time of the disposition of any stock acquired pursuant to exercise of the option, or at any other time.” Permits the granting without approval of “restricted stock options” if the option price is at least 95% of the market price at the time the option is granted and if certain specified conditions are met.


This report examines stock options in relation to the objects of the salary stabilization program and states the practical considerations upon which its recommendations were based. A summary of the testimony and exhibits presented to the panel is included as an appendix to this report.


Discusses the legal and tax aspects of both stock options and stock purchase plans and questions of policy which corporations need to consider in connection with them. Notes that “Since the Revenue Act of 1950, the instalment stock purchase plan has been yielding in popularity to the restricted stock option, and it is to be anticipated that many companies with such plans will ultimately either abandon them in favor of restricted stock options or combine the instalment payment features of such plans with restricted stock options and thereby obtain advantages of both types of plan.”

3. STOCK OPTIONS AS INCENTIVES


An analysis of experience with stock options as a form of executive compensation over the period 1926-1935. The author concludes that, except for a company in distress which desires to attract new and able management, stock options “offer little advantage from a corporate point of view and may give occasion for much trouble.”


“... the proprietary incentive for executives ... frequently is over-
estimated . . ." and a proprietary interest does not, in itself, produce executive competency which "is the product of innate ability and long-cultivated talents more than of the method of compensation for services . . . ."

". . . an executive should be worth his hire and he should receive fair compensation for services rendered . . . . He can be more effective as an executive, however, if he is not the beneficiary of any plan which inherently produces a conflict between his own self-interest and the interests of the company as a whole, or which gives ground for suspicion that he is using a dominating position 'to feather his own nest.'"


President of the Kroger Company comments on his company's stock option plan "... stockholders' interests are better protected when management has proprietary interests through ownership of stock in the company. There is the added incentive to produce profits."


In discussing stock options as a form of incentive payment, the author states that they have their "greatest value (1) in a situation where executive action can greatly influence earnings—for example, in a young company or in one that new management is revitalizing; (2) in a concern where executive action is more important than raw economic factors in the market's evaluation of the stock; and (3) in publicly owned rather than privately owned concerns." In addition, he suggests that incentive might be increased by combining "the principle of the annual incentive bonus and the stock option."


Covers tax status, business attitudes, purposes of options as stated by a number of companies, option price and terms of purchase, and significance of options in different types of companies. The author concludes that stock options have "become a factor in the distribution of the limited supply of executive ability into those channels in which it may be used most productively" and that they have had a favorable effect upon the "developmental aspects" of business in that "an ownership interest seems more likely to encourage growth than a pension interest in a company."