



## LEGAL Q&A

**Q** What programs are available to a corporation seeking to provide equity based incentives to its key employees and what issues need to be addressed in developing such programs?

**A** Stock option grants and the award of restricted stock are important equity based components of a corporation's executive compensation programs. Plans may be designed to combine different types of equity based incentives to satisfy corporate and employee objectives.

Stock options are either "incentive stock options," qualifying for certain tax treatment under the Internal Revenue Code, or non-qualified stock options, in any case providing the employee option holder the right to acquire stock of the corporation at a specified option exercise price. Restricted stock awards involve an immediate grant of a specified number of shares of stock.

There are a myriad of issues to consider in designing equity based incentive plans, including service or performance based vesting of the option or award, tax consequences to the employee and the corporation (including opportunities to defer employee tax), accounting treatment, voting and dividend rights for restricted stock, required corporate approvals, securities law compliance and disclosure obligations.



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