

## Important Changes to California Rules on the Granting of Stock Options

The California Corporations Commissioner has repealed significant regulatory restrictions on employee options and other equity grants effective July 9, 2007. The new regulations make several changes to the rules for options and compensatory grants of securities other than options, including to:

- Repeal the prohibition on performance-based vesting or time-based vesting that is not as rapid as 20 percent per year for five years for employees other than managers or officers.
- Repeal the requirement that the exercise price or purchase price not be less than 85 percent of fair value (or 100 percent for a more-than 10 percent owner).
- Facilitate the extension of plans adopted earlier and then extended to California residents by allowing shareholder approval to occur within 12 months of the issuance of options to California residents. In addition, foreign private issuers may make grants to up to 35 persons without obtaining shareholder approval.
- For plans subject to Rule 701, adopt the federal rules on financial disclosure.

For additional information, please call a member of our Tax & Benefits Department.

