his broker to sell them at the market price. Thus our executive cleared $40 a share with two telephone calls—and without investing a cent of his own money."

Although the benefit of the capital gains tax provision is not available when stocks are bought and sold in such rapid fire order, substantial profits can still be realized at a moment's notice without an iota of risk.

Under most stock option plans, the bargain price and the risk-free ride are privileges accorded to only a handful of salaried executives like Mr. Smith. In subsequent pages, we shall see how real flesh and blood members of this exclusive coterie have been able to perform feats of magic even greater than those performed by the mythical Mr. Smith.

The studies which follow are intended to be illustrative rather than exhaustive. Examples have been selected from leading companies in key industries because of their greater economic importance and because they illustrate the typical features as well as some of the variations of stock option plans in general. However, they are not the only plans in existence nor are all of them necessarily the most profitable.

In the first five years following the change in the tax laws, more than 400 major companies adopted stock option plans. Today, well over half of the 1,077 companies listed on the New York Stock Exchange as well as many listed on the other exchanges and many whose stocks are unlisted have adopted such plans. "Few personnel practices have gained such wide acceptance in so short a time." (*Management Record*, May 1954)

Moreover, the great majority of these plans, according to *U. S. News and World Report* (March 18, 1955), "have produced handsome paper profits for participating employees." Further investigation might well reveal plans which, in terms of profitableness, equal or exceed those we have selected for the purpose of our study.

In any case, we believe that the following examples and analyses make it abundantly clear that the manner in which stock option fortunes are made, as well as their magnitude, should be a matter of concern for all. Tax avoidance, the misuse of corporate power, inflationary price pressures exerted by managements obsessed with stock market values—these are everyone's problems.

GOODYEAR TIRE AND RUBBER COMPANY

The Goodyear Tire and Rubber Company wasted no time in taking advantage of the 1950 tax law. In December of that year, 38 officers and other key employees were granted options for 79,000 shares at $59 per share.

Since then additional grants have been made, stock dividends have been distributed, and a two for one stock split has taken place. As a result of the stock dividends and the stock splits, each share purchased under the initial Goodyear option has been transformed into more than four shares.[3]

Currently the value of all shares purchased under Goodyear options ($42.1 million) is 963 percent greater than the price which was actually paid for them ($3.96 million). In addition, the value of all shares for which options were still outstanding on December 31 of last year is almost twice as great as the price Goodyear executives would have to pay in order to purchase them.

VALUE OF GOODYEAR STOCK OPTIONS
(Based on May 8, 1959 Prices and Adjusted for Stock Dividends and Stock Splits)

Options Exercised, 1952-1958:		
Value as of May 8, 1959	$42,089,205	
Option Price	3,958,287	
Difference between current value and purchase price		$38,130,918
Options Outstanding, December 31, 1958:		
Value as of May 8, 1959	$20,371,539	
Option Price	10,315,181	
Difference		$10,056,358
Total Increase in Value Over Option Price		$48,187,276

[3] Each time a stock dividend is issued or a stock split occurs, the number of shares under option increases and the purchase price is reduced so that the amount required to exercise any option in full remains the same. (Thus, after a two for one split, an option for five shares at $20 per share becomes an option for ten shares at $10.)

If stock options were exercised prior to such dividends or splits, the optionee would of course benefit like any other stockholder. His share holdings would also increase without any additional outlay of funds.