



**KNK & Co.** LLP  
COMPANY SECRETARIES

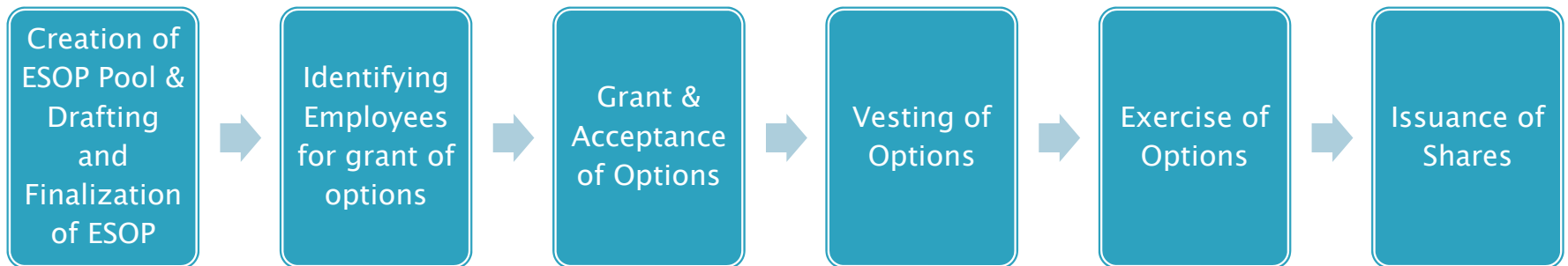
# **Brief Write up on Employee Stock Options Plan (ESOP)**

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## General Steps involved in ESOP



## Legal Structure for ESOPs in India



\* Applicable to certain Companies



## Basic definitions to understand ESOPs

### Grant of Options

Issue of Options to Employees.

### Option Grantee

Employees having right but not an obligation to exercise in pursuance of the ESOP.

### Vesting:

The process by which the employees are given the right to apply for the shares of the Company against the options granted to him/her in pursuance of ESOP.

### Vesting Period:

The period during which the vesting of the options granted to the employees in pursuance of ESOP take place.

### Exercise:

Application by the Employees (Option grantee) to the Company for issue of shares against options vested in him/her in pursuance of ESOP.

### Exercise Price:

The price payable by the employees for exercising the options granted to him/her in pursuance of ESOP.

### Exercise Period:

Time period after vesting within which the employees should exercise his/her right to apply for shares against the options vested in him/her in pursuance of the ESOP.





## General Eligibility of Employees

a permanent employee of the Company who has been working in India or outside India; or

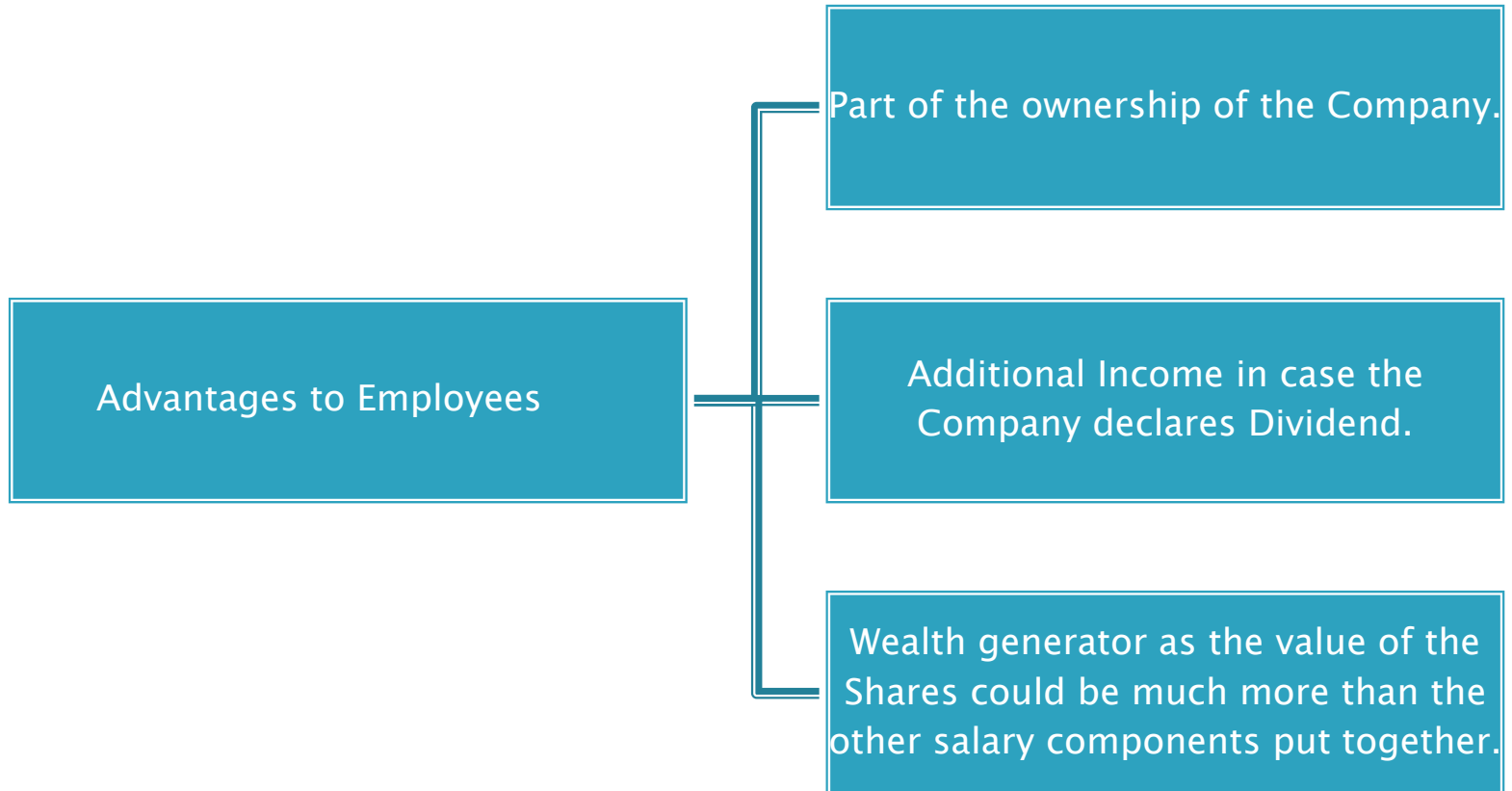
a Director of the Company, whether a Whole Time Director or not but excluding an Independent Director; or

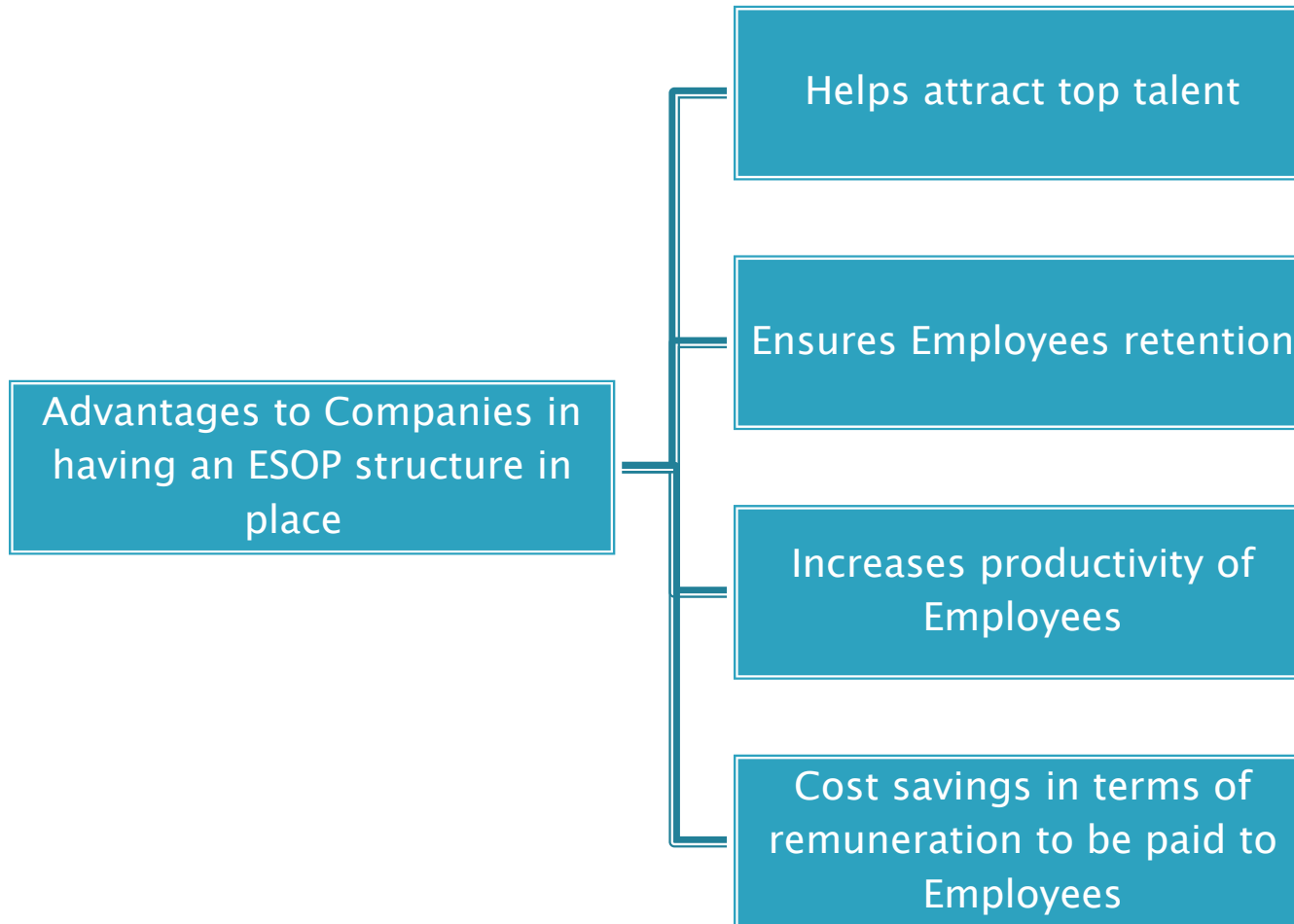
an Employee as defined in clauses (a) or (b) of a Subsidiary, in India or outside India, or of a holding Company of the Company

an employee who is a promoter or a person belonging to the promoter group; or \*

a Director who either himself or through his relative or through any body corporate, directly or indirectly, holds more than ten percent of the outstanding equity shares of the Company. \*

\* Can be considered as eligible employees for Recognized Startups upto ten years from the date of its incorporation or registration.







## Few Pointers for Employees

• Shares are given to employees once the vesting period is completed by the Employees.

ESOP are Options and not actual Shares

ESOP are taxed twice in the hands of the Employees

• ESOP are taxed once (as perquisites) when the Employees exercises his/her options on completion of the vesting period and once when the Shares are sold (as capital gains).

• ESOP, if unvested at the time of termination or resignation leads to loss of ESOP hence leading to an opportunity lost. In case of resignation, the ESOP may allow immediate exercise of Shares.

Resignation or Termination would lead to loss of ESOP

