

Questions: Gerald Weiss' Stock Options

1. Do you agree with Gerald's assessment that his stock option package "was a really sweet deal"? Would you have accepted this package? What about the special arrangements Gerald has made? How do they work?
2. What mistakes, if any, did Joe make? What mistakes, if any did Gerald make? If you were Joe, how would you have handled Gerald's desire to exercise one of his "puts" at the end of 1998?
3. Consider the following two methods of granting options to executives on a multi-year basis:
 - Up-front mega-grants: These are large grants of options (given up-front with fixed terms), which are not followed by any new grants for many years. This is essentially Gerald's package (absent the special protections).
 - Fixed-value plans: These are yearly grants where the Black-Scholes value of the at-the-money options is held constant for multiple years. For example, \$1 million of options each year for four years.

What are the pros and cons of each type of option plan? Please explain.