

ESOP (EMPLOYEES STOCK OPTION PLAN)

LAWS GOVERNING THE FRAMEWORK OF ESOPS

Companies Act, 2013 along with Companies (Share Capital and Debentures) Rules, 2014.

Section 2(37) of Companies Act 2013

"Employee's stock option" means the option given to the Directors, officers or employees of a company or of its holding company or subsidiary company or companies, if any, which gives such directors, officers or employees, the benefit or right to purchase, or to subscribe for, the shares of the company **at a future date at a pre-determined price.**

ESOP PROCEDURE AS PER COMPANIES ACT, 2013

- 1) Hold a Board Meeting to consider ESOP and to fix the date, time, place and agenda of the General Meeting to pass a special resolution for ESOP.
- 2) If required constitute Compensation Committee which shall plan the scheme of ESOP. ***(SEBI requirement. Not mentioned in the Companies Act, 2013)***
- 3) Prepare the Explanatory Statement to be accompanied with the notice of the General Meeting and ensure that it contains the information as specified in **Rule 12(2) of the Companies (Share Capital and Debentures) Rules, 2014**
- 4) Issue notices at least 21 days before the General Meeting proposing the Special resolution with suitable explanatory statement.
- 5) Hold General Meeting of the Shareholders for approval of the ESOP Scheme.
- 6) File with the concerned ROC **Form MGT-14 within 30 days** of passing of the special resolution.
- 7) On receipt of letter of acceptance of option along with upfront payment, from the Employee, issue the option certificates.
- 8) After expiry of **vesting period**, the options shall vest in the employee. At that time, the Company shall issue a letter of vesting along with the letter of exercise of options.

"vesting" means the process by which the employee is given the right to apply for shares of the company against the option granted to him in pursuance of ESOS.

"vesting period" means the period during which the vesting of the option granted to the employee in pursuance of ESOS takes place.

- 9) Receipt of letter of exercise from employee during the **exercise period**.

*The companies granting option to its employees pursuant to Employees Stock Option Scheme will have the freedom to determine **the exercise price** in conformity with the applicable accounting policies, if any.*

"exercise period" means the time period after vesting within which the employee should exercise his right to apply for shares against the option vested in him in pursuance of the ESOS.

“exercise price” means the price payable by the employee for exercising the option granted to him in pursuance of ESOS.

- 10) Hold a Board Meeting at the suitable interval during the exercise period for allotment of shares on options exercised by the Employees.
- 11) File with the concerned ROC **Form PASS-3 within 30 days** of allotment.
- 12) Dispatch of letter of allotment along with the share certificates **(within 2 months from the date of allotment).**
- 13) Make Entries in Form No.SH.6

IMPORTANT POINTS TO BE NOTED:

Sr.No	Particulars	Points
1.	Persons Eligible	a) Permanent Employee who has been working in India or outside India; or b) Director, whether WTD or not. c) An employee as defined in clauses a) or b) of a subsidiary company, in India or outside India, or of a holding company of company or of an associate company.
2.	Persons not Eligible	a) Promoter or promoter group. b) Independent Director. c) A director who either himself or through his relative or through any body corporate, directly or indirectly holds more than 10% of outstanding Eq. shares.
3.	Approval of shareholders by way of Separate Resolution in case of	(a) grant of option to employees of subsidiary or holding company; or (b) grant of option to identified employees, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant of option.
4.	Variation of Terms of ESOP	Company by Special Resolution in general meeting vary the terms of ESOS offered but not yet exercised by the employees provided such variation is not prejudicial to the interests of the option holders.
5.	Lock-in Period	Shall be minimum period of one year between the grant of options and vesting of option The company shall have the freedom to specify the lock-in period for the shares issued pursuant to exercise of option.
6.	Rights of The Option-Holder	No right to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of option granted to them, till shares are issued on exercise of option.
7.	Consequence of failure to exercise option	The amount payable by the employee, if any, at the time of grant of option: (a) may be forfeited by the company if the option is not exercised by the employee within the exercise period or (b) the amount may be refunded to the employee if the option are not vested due to non-fulfilment of condition relating to vesting of option as per the ESOS.

8.	Non-Transferability of Option	<p>(a) Option granted shall not be transferable to any person.</p> <p>(b) Option granted shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner.</p> <p>(c) In the event of death of employee while in employment, all the option granted to him till such date shall vest in the legal heirs or nominees of the deceased employee.</p> <p>(d) In case the employee suffers a permanent incapacity while in employment, all the option granted to him as on the date of permanent incapacitation shall vest in him on that day.</p> <p>(e) In the event of resignation or termination of the employee, all option not vested as on that day shall expire.</p>
9.	Disclosure in the Director's Report:	<p>Option granted, option vested, option exercised, total no. of shares arising as a result of exercise of option, options lapsed, the exercise price variation of terms of options, money realized by exercise of options, total no. of options in force, employee-wise details of options granted to- KMP , any other employee who receives a grant in any one year of option amounting to 5% or more of options granted during that year, identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;</p>
10.	Register of Employee Stock Options & Authentication	<p>The register shall be maintained in Form No.SH.6 at the registered office of the company or such other place as Board decides.</p> <p>The entries in register shall be authenticated by the Company secretary or by any other person authorised by the Board.</p>