

for more than its original cost even though the option never becomes worthwhile to exercise. (The shorter the time remaining until expiration the less likely it is that this will be possible.)

3. Prior to the period when a European-style option or a capped option is exercisable, the only means through which the holder can realize value from the option (unless the capped option is automatically exercised) is to sell it at its then market price in an available secondary market. If a secondary market for such an option is not available during the time the option is not exercisable, it will not be possible for its holder to realize any value from the option at that time.

4. The exercise provisions of an option may create certain risks for the option holders, if the option does not have an automatic feature, a holder who wishes to exercise must assure that action is taken in a timely manner. See the discussion of "How to Exercise" in Chapter VIII.

On the other hand, if the option has an automatic exercise feature—such as one that will cause the option to be automatically exercised at the expiration if it is in the money by a specified amount—the option may be exercised at a price at which the holder would not voluntarily choose to exercise in view of the transactions costs of exercise or other factors. The transaction costs associated with the exercise could even exceed the cash settlement amount of the option, with the result that the holder would realize a net loss from the exercise. Conversely, an option that has a cash settlement amount that is less than the threshold amount cannot be exercised even though the option holder's transaction costs may be low enough to permit the option to be exercised profitably. In such a case, the option may expire unexercised.

The automatic exercise feature of capped options imposes a maximum value that a holder of these options can receive. Even if the option holder expects the value of the underlying interest to continue to move in a favorable direction prior to its expiration, the automatic exercise feature will prevent the holder from realizing any gain from the option in excess of the cap interval times the multiplier for the option.

5. The courts, the SEC, another regulatory agency, OCC or the options markets may impose exercise restrictions. While an American-style option can normally be exercised at any time prior to its expiration,