

# Harnessing the Stock Market for Social Good

## Companies Can Grant SOCIAL BONUSES

### Stock Options for Social Good

### Sustainable Funding for Social Causes

**There is a simple way to produce billions of dollars for social causes. There is a way to harness the power of Capitalism for the Common Good that avoids government spending, taxes, stimuli, or bailouts. In the midst of the debate over which individuals should receive corporate bonuses, we should be asking companies to grant SOCIAL BONUSES that will benefit the public interest. There is a way for companies to donate something to charity that doesn't cost them anything to give – and to get a deferred tax deduction for the value of the gift.**

In addition to issuing stock options to its employees, managers, and board members, a company can also issue warrants to nonprofit public charities. (Issuing warrants is not the same as donating stock to a charity for a variety of reasons.) Now, besides benefitting insiders and shareholders, any increase in the company's stock price will also benefit nonprofit public charities. **Society will Share the Benefits of corporate growth.**

**What is it?** A warrant is essentially the same as a stock option and grants the recipient (called the holder – in this case, a nonprofit public charity) the right to purchase a company's stock at a specified price (called the strike price – usually the price of the stock on the date the warrant or option was issued) for specified period of time (usually a number of years). Unlike a stock option, which is typically issued in relation to corporate employment or service, a warrant is typically issued as part of a financial transaction or investment.

**How does it work?** If the company's current stock price rises above the strike price at any time within the specified period, the nonprofit public charity warrant holder can exercise its right to purchase the stock at the strike price and then immediately sell the stock at the prevailing market price – and can keep the difference. As long as the company has issued the stock itself, this difference is the value of the company's deferred tax-deductible contribution to the nonprofit public charity. (See IRS Revenue Ruling 75-348.) Of course, if the current stock price remains below the strike price, nothing happens.

**Who selects the charities?** As long as the recipient charities are appropriately registered with the IRS, a company may use any selection process it deems appropriate. A company might, for example, only support national charities, or it might support local charities in areas in which it has offices. A company might support charities related to its lines of business or causes with which it is already identified. A company might solicit suggestions from its employees or establish a process in which employees could vote on preselected charities. The bottom line is that the company decides; no outside entity dictates its choices.

**Where does the money come from?** The money comes from the marketplace in our free-market economy. This is not a scheme or a gimmick, but actually a silver lining in the depressed stock market. The value that is created comes from the growth in the company's stock price, which means that the best time to do this is now, when the overall stock market is down. This is not money that comes from corporate revenues, and it is not a corporate expense. Here are the simplified details:

- There is no cash outlay by the company issuing the warrant.
- There is no debt to be repaid by the company, only accounting, reporting, or bookkeeping requirements.
- The existing shareholders do experience a miniscule, nonmaterial dilution in the value of their equity, just as they do now with any stock options issued to employees, managers, or board members.
- During the downturn, many companies enacted programs to exchange some or all of their existing stock options for new options with lower strike prices (that is, with more generous terms). In other words, not

only do companies routinely issue options (and dilution is not an issue), but companies have also “repriced” those options to preserve the benefit.

- As long as the company has issued the stock itself, the company can take a charitable deduction for the value of the deferred contribution in the year that the nonprofit public charity realizes the contribution.
- The company’s participation in the program may be a marketing advantage, since many people would rather do business with a company that shares the benefits of its growth with society.

To appreciate the enormous potential of such a strategy, imagine the impact if nonprofit public charities were to receive warrants for a mere one tenth of one percent (0.1%) of the market value of a significant number of companies. Over time, this would produce a windfall for socially beneficial causes. In this example, the gift is a mere dime out of every hundred dollars of the future growth in the market value of the company (called the capital gain), and the beneficiaries are nonprofit public charities. If charities were to receive warrants for one percent (1.0%) of the market value of a significant number of companies, the benefits to all of society would be enormous. And, this need not be limited to a single year; it can be an ongoing program.

**This is a breakthrough method for providing sustainable, long-term funding for socially beneficial causes that derives from the normal workings of the stock market.** Everyone is aware of the benefits that befall the fortunate few who receive and then are able to exercise stock options. If individuals can receive options over many years, why can’t we provide similar benefits in the public interest? **Society is the beneficiary, not individuals. These are Stock Options for Social Good.**

The general reaction to the idea has been positive (“It’s so simple”), incredulous (“Why hasn’t this been done before?”), and affirmative (“This is an idea whose time has come”). Some companies express some reluctance (“We’ll consider it, if other companies do it, too”) or ask questions (“What do we get out of it?”). Public charities are cautiously optimistic (“This could be a significant new source of sustainable funding and a paradigm shift”).

This is a source of long-term funding for social causes that does not rely upon the already strained resources of taxpayers, governments, companies, or donors. Since companies already give stock options to employees, managers, and board members, hasn’t the time come for companies also to share a small portion of their growth directly with the common good?

All that is required for this to happen is for companies to make it so – **voluntarily**. This idea is different from corporate taxes. This idea is more than a new kind of public/private partnership. This idea goes beyond corporate social responsibility. This idea is a new way of looking at the role of the corporation in society. This idea is a new way of utilizing free markets to benefit social causes.

**No taxes. No stimulus. No bailouts. No risk. Just Capitalism for the Common Good. Just Sharing the Benefits of the Stock Market. Just companies donating something to charity that doesn’t cost them anything to give – and getting a deferred tax deduction for the value of the gift.**

**We must all work to make the idea of sharing a small slice of corporate growth with society into a public cause – the cause of Harnessing the Power of the Stock Market for Social Good. After all, we will all benefit.**

**This is an idea whose time has come.**

Arthur Bushkin  
Chairman & CEO  
Stargazer Foundation  
[CEO@Stargazer.org](mailto:CEO@Stargazer.org)

# Harnessing the Stock Market for Social Good

## What Others Are Saying

The vast majority of corporate charitable donations are in cash or stock. The Stargazer Foundation approach is a valuable additional method for making corporate donations. It requires no cash outlay and allows public charities to receive a share of future equity value growth at a time when corporate donations that require current expenditures are being reduced.

The Stargazer Foundation initiative encourages donations of warrants to purchase stock at the current price. This cashless contribution is likely to be especially important to corporate donors now facing reduced profits, or even losses. The value of the warrants can be expected to increase as the economy recovers. When the economy recovers and the warrants are exercised, the donor corporations will receive tax deductions identical to the value realized by the charities.

Alan Madian, Economist and Director of LECG

---

Social Bonuses are one of the most innovative methods I have seen to fund charities, which, in these economic times, need new funding sources more than ever before.

Social Bonuses provide a pain free way for corporations to make contributions to charities. This idea couldn't be better timed, since it is especially beneficial to companies trying to cover shortfalls in their charitable giving due to the current economic climate.

Social Bonuses help charitable organizations cover long-term shortfalls in their contributions. When the company does well and its stock price increase, the charity benefits, as well. It's easy, too. As long as the stock underlying the Social Bonus warrants is registered, it's not difficult for a charity to handle.

Robert A. Wiedemer, Author "America's Bubble Economy" and "Aftershock"