Kansas Administrative Regulations
Agency 40. Insurance Department
Article 12. Sale of Stock

40-12-13 Officers, directors, and employee stock purchase plans.

Stock option plans in a domestic insurer shall conform to the following specifications:

(a) Stock options shall be provided for by a fair and reasonable plan which has been submitted
to and approved by the board of directors and stockholders after the company has been in
operation for at least one full year.

(b) The granting of the stock option shall bear a reasonable incentive relationship to the
continual employment of the optionee.

(c) The stock option shall be for a stated number of shares, to be paid for in cash.

(d) If the stock is widely traded, the options shall be for the full market value at the time the
options are granted. If the stock is not widely traded, the options shall be for a price fixed by the
company's board of directors and approved by the commissioner.

(e) The stock option shall fully set forth employment qualifications, conditions for complete
exercise of the options, conditions under which cessation of employment shall terminate the
option, and the effect of death, resignation, or other similar events.

(f) The stock option shall contain an anti-dilution or proration clause. The clause shall provide
that the number of shares allocated to the plan and the number of shares carried by each
individual option, and price per share, shall automatically be proportionately adjusted for each
increase or decrease in the number of issued and outstanding shares of the corporation. This
shall be accomplished without a corresponding increase or decrease in the corporation's paid-in
capital.

(g) Only the optionee, or a court appointed guardian, shall exercise the option during the
optionee's lifetime. For a specified time after death, only the heirs, administrator or executor
shall exercise the option.

(h) The period of time in which an option may be exercised after death shall be no longer than
five years.

(i) The total number of shares set aside at any one time for this purpose shall not be inequitably
proportioned to the number of shares issued and outstanding.

(Authorized by K.S.A. 40-103, 40-205; implementing K.S.A. 40-205; effective Jan. 1, 1968;
amended May 1, 1980; amended May 1, 1986; amended May 1, 1987.)