

Black's Law Dictionary, Sixth Edition, P. 1094

Option. Right of election to exercise a privilege. Contract made for consideration to keep an offer open for prescribed period. A right, which acts as a continuing offer, given for consideration, to purchase or lease property at an agreed upon price and terms, within a specified time. An option is an agreement which gives the optionee the power to accept an offer for a limited time. *Kelman v. Bohi*, 27 Ariz.App. 24, 550 P.2d 671, 675. An option to purchase or to sell is not a contract to purchase or to sell, as optionee has the right to accept or to reject the offer, in accordance with its terms, and is not bound. *Catmull v. Johnson*, Utah, 541 P.2d 793, 795.

An option contract is a promise which meets the requirements for the formation of a contract and limits the promisor's power to revoke an offer. Restatement, Second, Contracts, § 25.

A privilege existing in one person, for which he has paid money, which gives him the right to *buy* certain commodities or certain specified securities from another person, if he chooses, at any time within an agreed period, at a fixed price, or to *sell* such commodities or securities to such other person at an agreed price and time. If the option gives the choice of buying or not buying, it is denominated a "call." If it gives the choice of selling or not, it is called a "put." If it is a combination of both these, and gives the privilege of *either* buying or selling or not, it is called a "straddle" or a "spread eagle."

The sale or exchange of an option to buy or sell property results in capital gain or loss if the property is a capital asset.