

## Difference between In-the-money (ITM), out-of-the-money (OTM), or at-the-money (ATM)

An option can be described by its strike price's proximity to the stock's price. An option can either be [in-the-money \(ITM\)](#), [out-of-the-money \(OTM\)](#), or [at-the-money \(ATM\)](#).

An [at-the-money](#) option is described as an option whose exercise or strike price is approximately equal to the present price of the underlying stock.

For instance, if Microsoft (MSFT) was trading at \$65.00, then the January \$65.00 call would be an example of an [at-the-money](#) call option. Similarly, the January \$65.00 put would be an example of an [at-the-money](#) put option.

Please view charts below for at-the-money option examples.

<i>MSFT CALLS</i>				<i>Stock =</i>
<i>\$65.00</i>				
Strike Price	Option Price	Status	Intrinsic Value	Extrinsic Value
50	15.10	ITM	15.00	.10
55	10.30	ITM	10.00	.30
60	5.70	ITM	5.00	.70
<b>65</b>	<b>1.50</b>	<b>ATM</b>	<b>0</b>	<b>1.50</b>
70	.75	OTM	0	.75
75	.35	OTM	0	.35
80	.15	OTM	0	.15

<i>MSFT PUTS</i>				<i>Stock =</i>
<i>\$65.00</i>				
Strike Price	Option Price	Status	Intrinsic Value	Extrinsic Value
50	.10	OTM	0	.10
55	.30	OTM	0	.30
60	.70	OTM	0	.70
<b>65</b>	<b>1.50</b>	<b>ATM</b>	<b>0</b>	<b>1.50</b>
70	5.70	ITM	5.00	.70
75	10.30	ITM	10.00	.30
80	15.10	ITM	15.00	.10

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An **in-the-money call** option is described as a call whose strike (exercise) price is lower than the present price of the underlying. An **in-the-money put** is a put whose strike (exercise) price is higher than the present price of the underlying, i.e. an option which could be exercised immediately for a cash credit should the option buyer wish to exercise the option.

In our Microsoft example above, an in-the-money call option would be any listed call option with a strike price below \$65.00 (the price of the stock). So, the MSFT January 60 call option would be an example of an in-the-money call.

The reason is that at any time prior to the expiration date, you could exercise the option and profit from the difference in value: in this case \$5.00 (\$65.00 stock price - \$60.00 call option strike price = \$5.00 of intrinsic value). In other words, the option is \$5.00 "in-the-money."

Using our Microsoft example, an in-the-money put option would be any listed put option with a strike price above \$65.00 (the price of the stock). The MSFT January 70 put option would be an example of an in-the-money put.

It is in-the-money because at any time prior to the expiration date, you could exercise the option and profit from the difference in value: in this case \$5.00 (\$70.00 put option strike price - \$65.00 stock price = \$5.00 of intrinsic value). In other words, the option is \$5.00 "in-the-money."

Please view charts below for more **in-the-money** option examples.

<i>MSFT CALLS</i>				<i>Stock = \$</i>
<i>65.00</i>				
Strike Price	Option Price	Status	Intrinsic Value	Extrinsic Value
<b>50</b>	<b>15.10</b>	<b>ITM</b>	<b>15.00</b>	<b>.10</b>
<b>55</b>	<b>10.30</b>	<b>ITM</b>	<b>10.00</b>	<b>.30</b>
<b>60</b>	<b>5.70</b>	<b>ITM</b>	<b>5.00</b>	<b>.70</b>
65	1.50	ATM	0	1.50
70	.75	OTM	0	.75
75	.35	OTM	0	.35
80	.15	OTM	0	.15

<i>MSFT PUTS</i>				<i>Stock =</i>
<i>\$65.00</i>				
Strike Price	Option Price	Status	Intrinsic Value	Extrinsic Value
50	.10	OTM	0	.10
55	.30	OTM	0	.30
60	.70	OTM	0	.70
65	1.50	ATM	0	1.50
<b>70</b>	<b>5.70</b>	<b>ITM</b>	<b>5.00</b>	<b>.70</b>
<b>75</b>	<b>10.30</b>	<b>ITM</b>	<b>10.00</b>	<b>.30</b>
<b>80</b>	<b>15.10</b>	<b>ITM</b>	<b>15.00</b>	<b>.10</b>

An **out-of-the-money call** is described as a call whose exercise price (strike price) is higher than the present price of the underlying. Thus, an out-of-the-money call option's entire premium consists of only extrinsic value.

There is no intrinsic value in an out-of-the-money call because the option's strike price is higher than the current stock price. For example, if you chose to exercise the MSFT January 70 call while the stock was trading at \$65.00, you would essentially be choosing to buy the stock for \$70.00 when the stock is trading at \$65.00 in the open market. This action would result in a \$5.00 loss. Obviously, you wouldn't do that.

An **out-of-the-money put** has an exercise price that is lower than the present price of the underlying. Thus, an out-of-the-money put option's entire premium consists of only extrinsic value.

There is no intrinsic value in an out-of-the-money put because the option's strike price is lower than the current stock price. For example, if you chose to exercise the MSFT January 60 put while the stock was trading at \$65.00, you would be choosing to sell the stock at \$60.00 when the stock is trading at \$65.00 in the open market. This action would result in a \$5.00 loss. Obviously, you would not want to do that.



Please view charts below for [out-of-the-money](#) option examples.

<i>MSFT CALLS</i>				<i>Stock =</i>
<i>\$65.00</i>				
Strike Price	Option Price	Status	Intrinsic Value	Extrinsic Value
50	15.10	ITM	15.00	.10
55	10.30	ITM	10.00	.30
60	5.70	ITM	5.00	.70
65	1.50	ATM	0	1.50
<b>70</b>	<b>.75</b>	<b>OTM</b>	<b>0</b>	<b>.75</b>
<b>75</b>	<b>.35</b>	<b>OTM</b>	<b>0</b>	<b>.35</b>
<b>80</b>	<b>.15</b>	<b>OTM</b>	<b>0</b>	<b>.15</b>

<i>MSFT PUTS</i>				<i>Stock =</i>
<i>\$65.00</i>				
Strike Price	Option Price	Status	Intrinsic Value	Extrinsic Value
<b>50</b>	<b>.10</b>	<b>OTM</b>	<b>0</b>	<b>.10</b>
<b>55</b>	<b>.30</b>	<b>OTM</b>	<b>0</b>	<b>.30</b>
<b>60</b>	<b>.70</b>	<b>OTM</b>	<b>0</b>	<b>.70</b>
65	1.50	ATM	0	1.50
70	5.70	ITM	5.00	.70
75	10.30	ITM	10.00	.30
80	15.10	ITM	15.00	.10

For more Information about option trading, please click here:  
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