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What the New Options Rules Mean

Employees Will Bear The Brunt of Drive To Expense Them

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THE GROWING MOVEMENT to change the way companies account for stock options isn't just an arcane accounting issue. It could spell the end of a valuable perk for many of the millions of people who receive options each year as part of their compensation.

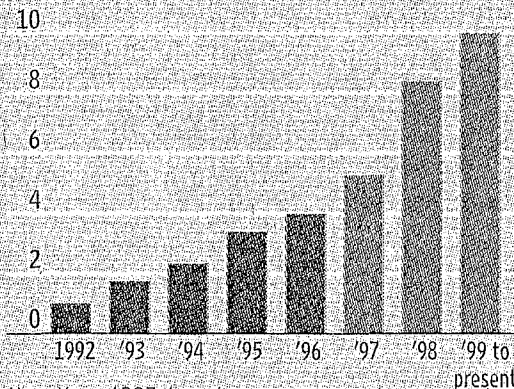
In recent weeks, as American corporations attempt to clean up their image, more than a dozen major companies have announced they plan to start treating employee stock options as an expense. Just yesterday, **General Motors** said it would start expensing options in January.

That means the companies will account for the costs of options on their income statements just as they do today for rents, salaries or travel expenses. Companies currently disclose the effect of stock options in financial-report footnotes.

As companies begin expensing options, they

Options Upsurge

In the past decade, the number of workers holding options has grown dramatically as companies used them to lure or retain employees. Below, the number of employees holding options.



Note: Years 1997 through present represent the high end of an estimated range.

- The value of options as of the day they were granted approaches \$25 billion for the top 200 companies in the Fortune 500, says compensation consulting firm Pearl Meyers & Partners.
- Between 10% and 20% of options go to non-management employees.

Source: National Center for Employee Ownership

are almost certain to get stingier about handing them out because it will hurt their bottom line. That will have major implications for how a wide array of employees negotiate their compensation packages. What will replace stock options isn't yet clear. Some companies may give employees stock grants or cash bonuses. However, in today's tough economy, many employees may find they get nothing to compensate them for the loss of options.

Top executives are likely to get smaller pack-

ages, but they won't be hit the hardest by this sea change. Instead, companies are likely to target middle managers and the 10% to 20% of nonmanagement employees who currently get options.

"Companies are going to trim who gets options and, unfortunate as it is, it's going to be the little guy who gets less," says Alan Johnson, managing director of Johnson Associates, a New York compensation consulting firm.

In recent weeks, such corporate giants as

General Electric, **Bank One**, **Coca-Cola** and **Procter & Gamble** have said they will expense options. In the high-tech world, both **Amazon.com** and **Computer Associates** jumped on the bandwagon.

Barry Diller's **USA Interactive**, a New York media and electronic-commerce company, said it would do away with options altogether. Mr. Diller said options are "far too democratic—they reward

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Workers to Bear Brunt of Drive to Expense Options

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a lazy person and a hardworking person essentially equally." USA Interactive instead probably will begin rewarding employees with restricted stock.

'Part of Our DNA'

Amazon.com currently gives options to all of its 7,700 employees. Now, the Seattle Internet company says it now will use other stock-based compensation programs to award workers. Though no details are worked out, the company pledges that employees will receive benefits similar to what they received with the stock-option program. "Employee ownership is part of our DNA," says Bill Curry, Amazon.com's spokesman. "We're not going to do anything to subtract from that."

Papa John's International began questioning the value of options earlier this year, well before deciding to expense them. The pizza company now says it is doing away with them altogether. When the stock market is ahead of itself, "employees get a windfall that isn't fair to shareholders," says Chris Sternberg, a Papa John's spokesman. "And at other times it's undervalued and that's not fair to employees" who get no benefit from the options they are awarded for their work.

For its part, General Electric says it won't cut back the options it dispenses. Overall, about 35,000 of GE's 310,000 employees receive options. At General Motors, about 53,000 of the car maker's 355,000 employees hold stock options. A spokeswoman for GM also says it has no plans to alter its stock-option plan because of the new accounting practice.

An estimated seven million to 10 million Americans hold employee stock options, according to the National Center for Employee Ownership. The value of options on the date they were granted approaches \$25 billion for the top 200 companies in the Fortune 500, says compensation-consulting firm Pearl Meyers & Partners, based on its annual survey. Corey

Who Gets Options

Here's how some major companies hand out employee stock options:

COMPANY	EMPLOYEES WORLDWIDE	EMPLOYEES WITH STOCK OPTIONS	WHO GETS OPTIONS
Amazon.com	7,700	Almost all full and part time employees	Everyone from workers packing boxes in warehouses to web designers; temp workers do not
Ford Motor	350,000	Less than 10%	Top performers at the management level and above
Microsoft	50,500	"A very large percentage," according to a spokeswoman	Everyone from administrative assistants to senior vice presidents, but not the chairman and CEO
Southwest Airlines	35,000	About a third	Many office workers as well as union workers who have negotiated for options like pilots, flight attendants and reservation agents
Xerox	72,400	Company wouldn't disclose	Managers and executives only

Source: the companies

Rosen, executive director for the non-profit National Center for Employee Ownership, estimates that "maybe as much as half [of those options] currently are underwater" because of the stock-market declines since early 2000.

Workers should keep this backdrop in mind as they negotiate with employers. In the booming 1990s, taking options in lieu of salary may have been a smart move. Now, workers may want to push for other perks.

Companies that do cut back or eliminate options at the lower level "are going to have to look for noncash perquisites" to keep employees happy and motivated, says Robbi Fox, a consultant at Hewitt Associates, a benefits-consulting firm. For example, optionless workers might press for more flexible work schedules.

A Procter & Gamble spokeswoman says the consumer-products giant is "just beginning to look at how we're going to expense options, so it's too early to speculate" on whether the company trims its options disbursements in the future. Every P&G employee owns options to some

degree; new workers get 100 options when they are hired and can earn 50 options for work that goes above the call of duty. In fiscal 2001, P&G issued 28.4 million options.

Dole Food Co., meanwhile, says questions about how many options are granted and to whom will "be reviewed at an appropriate time."

Won't Miss Options

Some employees won't miss stock options. Tina Consagro received 3,500 stock options during the two years she worked as a sourcing analyst at ICGCommerce, a dot-com that never went public. "I think if I recycled the paper I might get a dime out of it," jokes the 33-year-old from Chesterbrook, Pa. She now works for drug distributor AmerisourceBergen Corp., where, instead of stock options, she periodically can buy company stock at a 15% discount to the market price. There's little chance she will strike it rich like she might have with options. But having been scorched by options, she now says, "This is a better deal."