

# GM to Record Options as Expense But Raises Question on Valuation

WSJ  
8/7/02

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DETROIT—Joining a growing number of large companies, General Motors Corp. said it will begin recording the fair-market value of stock options granted to employees as an expense in its financial statements starting in January, but said a more-accurate means to calculate their

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## Clouds Over Stock Options

As companies begin expensing options, they are almost certain to get stingier about handing them out because that will hurt their bottom line, page D1.

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value is needed.

The auto maker said it expects the change to cost about \$85 million, or 15 cents a share next year, with the expense rising to \$130 million, or 24 cents a share, in 2005. GM expects to earn about \$5.60 a share this year, excluding charges and other items, up from \$3.23 a share a year earlier.

“While we are enthusiastic about taking steps such as this to restore investor confidence in business, it is important to point out that current valuation methods available for expensing stock options are not ideal,” the company’s

chief financial officer, John Devine, said in a news release. “We urge the accounting community and regulators to improve valuation methodologies to find a more accurate way to determine the value of stock options.”

GM will calculate the cost of options as it has for the past several years in its annual reports, using the Black-Scholes option-pricing model and will amortize the expense of the options over their three-year vesting period.

Mr. Devine said GM will continue to use stock options as part of its compensation. About 53,000 GM employees hold stock options.

GM said Mr. Devine and Chief Executive Rick Wagoner will certify the accuracy of GM’s financial statements next week, ahead of a Securities and Exchange Commission deadline. The company said it added to its financial-reporting procedures to affirm the adequacy and accuracy of its filings.

A spokesman for Ford Motor Co. said the auto maker is looking at the possibility of recording stock options as an expense and will announce its decision in the near future. At DaimlerChrysler AG, a spokesman says the German auto maker hasn’t decided whether to expense stock options.