Option costs in the spotlight
Plishner, Emily S
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Option costs in the spotlight

A proposed change in the accounting rules for stock option compensation grants, commonly used as management incentives, could result in reductions in reported corporate earnings. That, in turn, could make companies think twice before granting liberal stock option incentives as part of management compensation packages.

Such option packages have been popular with Wall Street, which views the incentives as a good way to link management's interests with those of shareholders. Option incentives have been widely used by new companies and innovative managements. They have been especially popular for attracting high-level executive talent to companies with limited cash resources but significant stock appreciation potential—including startups and turnaround situations.

A new report by analyst Jack Ciesielski of R.G. Associates (Baltimore) quantifies the potential earnings effects for the Dow Jones Industrials (*table*). While the effects are far greater for high growth companies than they are for the older—and generally better capitalized—giants in the Dow Jones group, they are still noticeable, especially for companies, such as AlliedSignal and Union Carbide, that have used stock options to motivate change.

EARNINGS IMPACT

Company	1992 Earnings per share*	% change (one year)†
AlliedSignal	$3.83	-6.3%
Chevron	4.54	-0.4
DuPont	2.12	-0.9
Eastman Kodak	3.27	-1.2
Exxon	3.56	-0.6
General Electric	5.03	-2.2
International Paper	3.35	-2.7
Merck	3.07	-1.6
3M	5.61	-2.0
Procter & Gamble	3.13	-2.2
Texaco	4.08	-0.5
Union Carbide	0.70	-4.3

* Adjusted for nonrecurring items. †If proposed rule had been in effect in 1992. Source: R.G. Associates (Baltimore).

Ciesielski notes that the value of options is quantifiable, and should be recognized and charged against earnings for inter-company comparability. However, he cautions that once option costs are made explicit "boards could be stingier in awarding them."

EMILY S. PLISHNER

WRAP-UP

General Chemical (Parsippany, NJ) and the United Steelworkers (Pittsburgh) are scheduled to meet June 14. More than 200 members of local 12781 have been locked out of General Chemical's Claymont, DE sulfuric acid recycling plant since April 30 (*CW, May 19, p. 3*).

Mobil Chemical (Fairfax, VA) has brought onstream a $12-million, specialty petrochemicals unit at its site in Edison, NJ. The 1-million gal/year plant will produce a line of lubricant additives and synthetic fuels.

Chevron Corp. (San Francisco) has confirmed it will offer its Port Arthur, TX and Philadelphia refineries for sale. Olefins capacity at the Port Arthur site will be unaffected, although the fate of aromatics capacity at both sites is unclear.

Union Carbide plans to raise tabs of tetraethylenepentamine, triethylenetetramine, and heavy polyamine mixtures by 10% effective July 1. Carbide says the hike is prompted by increasing costs and erosion of prices and margins the past several months.

Ashland Chemical's Electronic Chemicals Division will supply ultra high-purity chemicals to the Belgium Interuniversity Microelectronics Center in Leuven, Belgium. The materials will be used in its advanced semiconductor pilot research line.

Toray Industries is constructing a metallizing unit for biaxially oriented polypropylene (BOPP) films at Toray Plastics' (America) subsidiary in North Kingstown, Rhode Island. The plant, due for startup in December 1993, will have capacity for 1,200 m.t./year of metallized BOPP film.

BTR-Separations, a joint venture of DuPont and ConAgra, has acquired the Impaq chromatographic silica business of PQ Corp. (Valley Forge, PA).