

# More Firms Use Options to Gamble on Their Own Stock

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Not so long ago, corporate treasurers who used company resources to buy or sell stock options, in a bet that the company's stock would rise, would have been called gamblers or worse.

But in today's bull market, so many companies now are betting on their own stock, through options, that they now consider the practice prudent financial management. Intel and Microsoft both say they have made hundreds of millions of dollars with options.

The bull market has kept most—but not all—of the options trading profitable. This month, bad news drove down the stock of biotechnology company Cephalon, raising questions about whether it ever will

## Bets by the House

More companies are buying and selling options in bets that the stock price will rise. Some sell puts, obligating them to buy the stock at a preset price, risking losses if the price falls. Others buy calls allowing them to buy their own stock cheaply if it rises.

### INTEL

Has received \$423 million in proceeds for selling puts and rarely had to pay off. Currently exposed to puts on \$1 billion worth of stock.

### MICROSOFT

Has made \$300 million after tax on puts and never had to pay off. Currently exposed to puts on \$2 billion worth of stock.

### CEPHALON

Paid \$10 million in stock last month for calls in bet that good news would boost stock. Instead, bad news knocked stock down.

### BOEING

Sold puts beginning in October 1992. Ended program at end of 1994 without explanation.

### IBM

Sold puts once in mid-1990s to hedge a convertible debt security. Won't say why it hasn't continued.

profit from a \$10 million options bet.

While such trading is legal and the Securities and Exchange Commission has allowed it to proceed, some corporate boards consider it too much like gambling and refuse to go along.

A few years ago, using options to bet on your own stock "seemed a little seedy and suspect," says James J. Angel, a finance professor at Georgetown University in Washington. "Now, they're seen as legitimate risk-management tools."

At least 100 companies have used options to bet on their own stock, according to a Salomon Brothers report in February. They include Intel, which claims to have pioneered the practice about six years ago, Adobe Systems, Cadence Design Systems, Dell Computer, Dow Chemical, General Mills, Interneuron Pharmaceuticals, Maytag, McDonald's and Microsoft.

Marketing the instruments and handling the trades has become big business at securities firms including Goldman Sachs, Merrill Lynch, Morgan Stanley and Salomon Brothers, at Citibank and at the securities arms of two big Swiss banks, Swiss Bank and Union Bank of Switzerland.

Some companies, including Boeing and International Business Machines, have tried the system, made money on it, but abandoned it. Although they won't say why they quit, their decisions came around the time that companies such as Procter & Gamble were getting burned by other

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