

Let's all get rich by backdating everything

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This year clearly set a record.

Gluttonous excess. Unbridled pursuit of material goods. Over-the-top spending.

No, not Thanksgiving weekend.

I'm talking about stratospheric executive pay. And yet, I gladly gave thanks for it this weekend.

Why?

Because out-of-control CEO salaries have given us an economic concept that is so simple, yet brilliant, it can change the world.

Perhaps you have seen stories about scandals over backdating stock options.

Here is what you need to know: Even at their lofty salaries, some CEOs face deprivation. After taxes, some can afford no more than three servants, two houses and perhaps just a time-share on a private jet.

So the board searches for ways to get more money to the CEO. Why?

The cynical might say it's because directors are often CEOs themselves. Frequently they serve on each other's boards. But how to up the income without taking cash from the register?

Stock options. The theory is, give the CEO options to buy stock in the future at today's price. If he does a good job, the stock rises, benefiting all investors. He exercises his options and posts a profit.

But what if the stock doesn't do well? After all, the standard answer to whether the market will rise or fall is, "Yes."

This is where backdating's brilliance shines through. Let's say you are given a stock option on Jan. 1, and the share price is \$10 that day. That typically would be your option price.

But suppose the date got left off. Later you date your option to a day when the stock was \$9. You've just earned an extra dollar.

Another method: in-the-money options (also called "we're in the money" options).

Let's say that the stock is trading for \$10 when you get your option, but the option allows you to buy it for \$9. You can make an immediate profit.

After reporting by The Wall Street Journal, it turns out backdated options are a corporate form of speeding on the freeway: Lots of people do it, but they'll deny it to the end.

The New York Times reports that more than 50 executives and directors have been ousted. The Securities and Exchange Commission has filed civil charges against a couple of companies. The Justice Department and IRS are studying their -- well, options.

The poster boy for the backdating scandal, for whatever reason, is William McGuire, a former CEO of UnitedHealth. UnitedHealth manages medical plans for one of every six Americans. You probably know them best as the people who keep you on hold for several hours before denying your prescription is covered.

During McGuire's tenure, he was awarded options worth a whopping \$1.5 billion. A fellow executive, Stephen Hemsley, did quite well, too.

One secret to their success? Well, UnitedHealth recently hired an outside law firm to investigate. I read a copy of its report. It concludes the option grants ``in connection with their respective employment agreements were likely backdated."

UnitedHealth options had a habit of being dated to days when the stock hit its lowest price of the quarter.

As for the company's compensation committee: The chairman was McGuire's financial advisor, handling up to \$55 million of his cash, the law firm said.

Some executives and directors have said they really just didn't notice the dates on options. I can sympathize with people who misplace money.

I recently sent a coat to the cleaners and found 10 bucks in the pocket. While rummaging in my junk drawer, I discovered a roll of quarters.

I haven't found millions of dollars in stock options lying around, but I'll keep looking.

A study by Lucian Bebchuk, a Harvard law professor, and Yaniv Grinstein, a Cornell management professor, concluded 12 percent of firms they looked at provided "lucky grants" of manipulated option dates between 1996 and 2005.

Here's what I believe we should do to option backdaters:

Thank them. Profusely.

Think of the social problems this concept could solve.

South Florida's housing affordability crisis? Give buyers the option to backdate the price, say to the last condo glut.

Windstorm insurance? Ask Citizens to backdate your premium to Aug. 23, 1992, one day before Andrew hit.

Think of the agony that could have been avoided in gas lines this summer if we'd just backdated the price of unleaded to, suddenly, last summer.

With the backdating of options, our nation's corporate leadership illustrated a standard of behavior that can benefit all.

And that, to me, was reason to give thanks.

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