

ASK STEVE

Stock options foster sense of shared interest

Microchip Technology Inc. Chief Executive Officer Steve Sanghi offers practical help for your real-life business challenges.

Question: Our company has given stock options to employees for many years. The company is now talking about giving Restricted Stock Units (RSUs) to employees instead of options. Would you please comment on this subject?

— Andy, Tempe

Answer: Starting with the fiscal year after June 30, 2005, companies are required to expense stock options on their income statements. This is having a profound effect on businesses.

In the 1980s, there was a cry from investors that the boards of directors at public companies needed to tie the interests of employees to the interests of shareholders. Stock options did that very well, because if the stock went up, then both the investors and the employees made money. It sounded fair. In fact, the 1990s was a very successful period for investors and employees alike.

But then the stock market crashed in 2001, and stock options got a bad name. Yes, there was corporate malfeasance at Enron and WorldCom. However, overall, stock options were a great tool. With stock-option expensing in place, the cost of giving RSUs to employees has become reasonably similar to the cost of expensing options (depending on the volatility index of the stock). Therefore an increasing number of boards of directors are shifting toward RSUs.

The employees like them too, because RSUs are guaranteed to make money. The

exercise price for RSUs is zero, and the employee makes money whether the stock goes up or not.

The ironic thing is that investors also like RSUs. Stock options got such a bad name that nearly 99 percent of the investors and analysts prefer RSUs. This is the biggest "upside down" scenario that I have ever seen in employee and executive compensation. How RSUs tie the interests of employees to the interests of shareholders is beyond me.

With RSUs, employees make money irrespective of shareholders making money. But shareholders and employees both love RSUs, so companies are converting their programs to RSUs and everyone is happy.

In a few years, there will be a period when employees make money and investors don't. The wheel would then have gone full circle. The executives and boards will be criticized for giving RSUs and uncoupling the interest of employees to the interest of shareholders. A new class of MBAs would have graduated and will be managing America's money. And they will take their turn in criticizing executive-compensation levels and perceived greed.

So call me cynical, but I believe that stock options were a better tool to tie the interests of employees to those of shareholders. Stock-option expensing changed all that. This is one case where the accounting tail has wagged the dog big time, and to the serious detriment of the long-term interests of shareholders.

Ask Steve by writing to steve.sanghi@microchip.com.



Steve Sanghi

EXECUTIVE PROFILE

Tenacious entrepreneur

Title company finds success despite real-estate downturn

By Christia Gibbons
THE ARIZONA REPUBLIC

Frank Busch III is Tasmanian Devil meets yoga master.

He works hard, plays hard, thinks fast. Friends and colleagues call him tenacious, dependable, inspiring, helpful and driven.

The corporate attorney-turned-entrepreneur started his Scottsdale-based Thomas Title & Escrow company just a year ago, finding a successful niche in a troubled time in the real-estate industry.

His seven-person firm has closed more than \$300 million in transactions, offering services in title insurance, real-estate settlement and escrow services. The boutique firm specializes in commercial real estate, opening a residential division eight months into the venture.

"I do my best when I'm going Mach 12 with my hair on fire," said the 32-year-old Busch, who was named one of the Top 40 under 40 for 2007 in the *Title Report*, a title insurance industry publication.

Capitalizing on his Spanish-speaking skills and time spent studying law and working in Mexico City, Busch also has found a niche in providing title and escrow services to U.S. homebuyers and developers looking to own property south of the border.

"The land-title system in Mexico is much different than the U.S. system, and title insurance and escrow services are new concepts down there. So you can't automatically guarantee that someone else doesn't have an interest in your land," Busch said.

Currently, Thomas Title & Escrow is handling the title insurance and escrow work for a 220-unit residential development in San Carlos by Mesa's Sunstone Homes.

None of this success comes as a surprise to his mother, Patrice Busch, who along with her husband, Frank, and brother Tom Meagher, are partners in the business.

"I spotted something unusual about Frank as an adolescent," Patrice said. "He was energetic and active and rough-and-tumble like most, but had an ability to sit still and focus whenever he was engaged in a project."

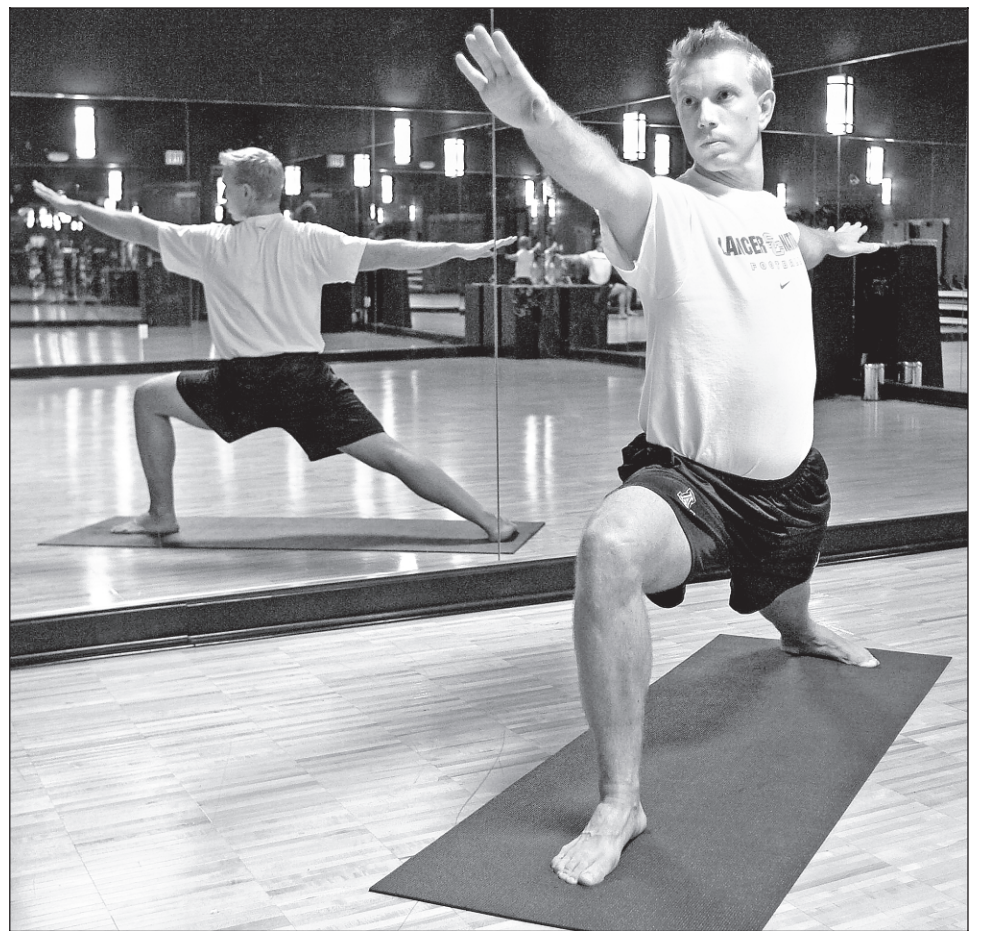
And like a mom, Patrice pointed out: "Although we don't have much to say about Thomas Title's daily operations, we did come up with the name and remind him frequently of our expectation of humility and strength of character."

The family moved from Cincinnati to Tucson in 1989 for dad, Frank Busch Jr., to take the job as head coach of the University of Arizona swimming teams right before Busch started high school. He was the kind of kid to whom it just made sense to learn Spanish.

His mother said her son "thought that it was senseless not to be fluent in the language and arranged a college semester in Mexico City."

Later, Busch transferred from the University of Notre Dame to the University of Arizona's McGuire Center for Entrepreneurship at the Eller College of Management, where he received a Bachelor of Science in business administration in 1997.

He got his law degree from the Univer-



TOM TINGLE/THE ARIZONA REPUBLIC

Frank Busch III, president of Thomas Title & Escrow, says yoga helps him find calm in the storm.

Frank Busch III

Title: President, Thomas Title & Escrow LLC

Education: University of Arizona, Bachelor of Science degree in business, with a major in entrepreneurship, magna cum laude; University of California Hastings College of Law, juris doctor.

Civic activities: Executive council of the Boys and Girls Clubs of Metropolitan Phoenix; executive officer of UA's Phoenix Alumni Board of Directors.

Honors: Maricopa County Bar Association's Volunteer Lawyers Program; Attorney of the Month for August 2002; 2003 Consumer Rights Attorney of the Year for pro bono work with low-income families by Maricopa County Bar Association. Arizona's Top Pro Bono Attorneys for 2004 by the Arizona Foundation for Legal Services and Education.

For fun: Traveling, fitness, UA football and basketball

Networking: Non-stop.

Favorite TV show: O'Reilly Factor.

Advice: Listen before you speak.

Lesson learned: Never assume anything.

publicly traded companies that aren't able to move at our speed."

Steve Pidgeon, a former colleague of Busch's at Snell & Wilmer who recently moved to DLA Piper, said Busch is the kind of leader that attracts people to work with him.

"He has an upbeat, charming personality," Pidgeon said. "He has a lot of guts to start a title company in a downturn."

Part of the success, Busch said, can be attributed to the state-of-art technology his firm uses that gives clients 24/7 access to their transactions.

The "deal portal" counters the problems that can arise when people end up playing phone tag, missing faxes and need information at odd hours.

"My industry is drowning in paper work, and we have made a commitment as a firm, much like our developer clients, to go 'green,'" Busch said.

Listening is the key to doing business, Busch said. "Finding common ground is incredibly important."

His friend Jim Clements, who is a producer at The Clements Agency, an insurance firm in Scottsdale, said Busch is "tenacious and driven. His enthusiasm and drive will bring the best out in others. Frank is ethical, hard-working, loyal and never afraid to tell you the truth."

When Busch isn't in the office 70-plus hours a week, he's snowboarding, running four days a week on the treadmill, practicing yoga two to three times a week and planning wine-tasting networking receptions.

"Yoga helps me to find calm in the storm," he said. "It takes a lot to rattle me." He developed in an expertise in wine while going to school in the Bay Area.

"Our client base largely consists of sophisticated commercial real estate and legal professionals. We wanted to do something a little different than a happy hour at our offices," he said.

Feds close down NetBank

FAILURE

Continued from D1

matically will become customers of ING Bank, which agreed to assume \$1.5 billion of NetBank's insured, non-brokered deposits.

NetBank had \$109 million spread among 1,500 accounts that exceeded the \$100,000 insurance limit. Customers with non-insured balances will become creditors of the receiver-ship and will receive immediate payments from FDIC up to 50 percent of those balances. They also will have immediate access to their insured funds.

NetBank had \$744 million in brokered deposits — those ar-

ranged through third parties. FDIC will pay the brokers directly to the extent of their insured funds.

Bank failures have been rare lately as the industry achieved record profits. NetBank becomes the second failure this year, joining Metropolitan Savings Bank of Pittsburgh. No banks failed in 2005 or 2006.

FDIC warned NetBank customers to regard unsolicited e-mail as potentially fraudulent since neither it nor ING will ask depositors to verify accounts via e-mail.

Reach the reporter at russ.wiles@arizonarepublic.com.

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