

 **Innovation Advisors**
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Letter of Comment No: 5517
File Reference: 1102-100

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Director of Major Projects
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 1102-100

Dear Sirs:

I appreciate the opportunity to communicate my thoughts regarding your Exposure Draft with respect to Share-based Payments. I would first like to state my overall position, then propose an approach that I believe would provide an accurate valuation of options, if required.

I am opposed to the expensing of options and share purchase discounts. I have been CEO of two public companies (CTG: NYSE and XPDR: NASDAQ) and a Director of several others, and participated and managed in both option and share purchase plans. I believe these plans have been major contributors to aligning the interests of employees and shareholders, and in many cases introduced employees to an understanding of the capital system. The current discussions regarding the expensing of options is already leading to reduced use of this substantial motivational device to the long term detriment of both shareholder and employee interests.

However, my major focus is on what I believe is an innovative yet pragmatic approach to CORRECTLY value options, if that path is chosen. I will identify the approach as the Campbell Cash Purchase via Auction (CPA), basically having option receiving employees set the value of their option via a Dutch Auction.

Dutch Auction Defined. In a Dutch auction, the seller lists a fixed quantity of items for sale (e.g. five Barbie dolls, or twenty rocks that bear a striking resemblance to George Washington). Participants in the auction submit a bid that indicates how many items they wish to buy, and how much they want to pay for each item. When the auction is closed, the winning per-item price is determined by choosing the lowest of the offers submitted. However, the items are distributed to bidders beginning with the bidder who submitted the highest per-item price. This bidder receives the quantity they bid for, but at the lower per-item price. Remaining quantities of the item are used to fill the remaining bids at the winning per-item price in descending price-bid order.

Confused? This example should clear things up: Joe and Sue are the bidders in a Dutch auction for lamps. Joe places a bid for 30 lamps at \$20 each. Sue offers to buy 10 lamps at \$65 each. Because Sue's bid (\$65) is greater than Joe's bid (\$20). Sue is entitled to all 10 lamps she requested at the \$20 price (the lowest winning bid). Joe is entitled to the remaining 20 lamps at \$20 each, even though his original bid was for a quantity of 30.

There is usually more than one winner in a Dutch auction. But, winners who are not the top bidder may win fewer items than requested in their original bids. Note that winning bidders are still bound to purchase the smaller number or items.

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Dutch Auction For Stock Options. Now apply this form of valuation determination to the employee stock option. A selected sample, say 10%, of the total number of options to be granted are set aside. All recipients of the pool receive 90% of their otherwise assigned grant, and then all recipients are allowed to submit immediate cash payment bids for options in the remaining 10% pool. In a pure Dutch auction a participant could submit a bid for as many options as desired. In this case, the issuing company might want to cap the number of shares biddable by any single individual. Obviously, these practices could be developed quickly after the overall scheme is put in place.

The auction process would factor in the unique perspective that only an employee can possess regarding option value (e.g. length of intended employment versus vesting period, inside perception of company performance, etc). Management receives a clear indication of the value that option-receiving employees place on their grants. This market driven price might lead companies and boards to place more or less emphasis on stock options, enhanced communication, or other changes. But fundamentally, these decisions would be driven by a current, legitimate, valuation of the stock option itself.

To fellow option-receiving employees a Dutch auction would provide, for the first time, a specific identification of the value that some peers (presumably the more analytically engaged, and thus more thoughtful arbiters of value) will pay in cash for an incremental grant. Perhaps the behavior of these influential employees would help to enhance the perceived value of the option program within a company in general.

Hopefully, this proposal will assuage critics searching for a fair pricing mechanism. A fair price, communicated clearly should lead to survival and even extension of the employee stock option, and provide all constituents with a clear balance between the perceived value received and the accounting cost to be assigned. A quarterly cycle of the option bidding process should be of appropriate frequency, and consistent with both financial reporting cycles and the intermittent granting practice (due to new employees, special and regular grants, etc.) of most companies.

Thank you for the opportunity to share my perspective, I would enjoy any further discussion that my ideas may have prompted.

Sincerely,

David N. Campbell
Managing Director