

MP&T Director-File Reference 110  
Financial Accounting Standards Bo  
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Letter of Comment No: 161  
File Reference: 1102-001  
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January 31, 2003

Dear Director,

Capital Corp of the West NASDAQ – CCOW is responding to “Accounting for Stock-Based Compensation”. We are not in favor of this proposed new accounting treatment and are concerned as to its high potential for misleading financial statements.

Our specific concern centers option valuation. There is an obvious shortfall of any valuation method to record income statement option expense estimates in that income statements are based on actual data or data that can be with some reasonableness estimated. It is obvious that future stock prices cannot be predicted with any degree of reasonableness, so any valuation method will not give a consistent reasonable valuation and has a high potential to mislead.

Internally we use the Black-Scholes pricing model and feel the results computed do not fairly value our outstanding and vested options. Our recent history is a prime example of this. Last year our stock price increased over 60% and while we were well pleased with this increase, we do not anticipate under normal events the same increase per year going forward into the future. Given this one year 60+% increase in stock price, there is now a significant “valuation gap” between our last year “foot note” valuation disclosure and the real value of the options today. Had we expensed last year rather than foot noted, we would have significantly under reported expenses and over stated income for the year. If the same method were used this year, there would be a high potential to over report expenses and understate income. The resulting significant year-to-year fluctuation of our income statement, EPS, ROE and other financial statistics would only add confusion to all but the most sophisticated reader of our financials. Additionally, when we issue new options they immediately 25% vest at current market prices and therefore have no current intrinsic value. The assigning of economic value and the expense recognition required for these options are of concern in that they have no intrinsic value and values are dependent on several unpredictable future events such as market price, employee retention, and employee choice of exercise dates. However, we would be required to reflect a current period income statement expense for the 25% vested portion of these options. This could cause highly inaccurate current period expense recognition.

Our belief as a company, is that the current “foot noting” of assumed future value of these options, along with appropriate disclaimers as to accuracy should remain in place as is with no change. We are available for additional discussion, should you desire additional input.

Sincerely,

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