Karen Salmansohn

From: Sent: To: Subject: Len Tatore

Friday, January 17, 2003 10:38

Karen Salmansohn

FW: File Reference No. 1102-00

Letter of Comment No: File Reference: 1102-001

Date Received: |-\7-\

----Original Message----

From: Kurt Weise [mailto: KWEISE@centralbnk.com]

Sent: Friday, January 17, 2003 9:09 AM

To: director@fasb.org

Cc: kpclark_08@bankersresource.com; pjdelaney_08@bankersresource.com; rmjohnson 08@bankersresource.com; slfeurt 08@bankersresource.com

Subject: File Reference No. 1102-001

Dear FASB:

I am writing this comment letter to express my opinion against any mandated expensing of stock options. In my opinion expensing stock options does not properly reflect a true cost to the company that can be measured at the time of award. The only "cost" of issuing employee stock options is borne by existing shareholders in the form of potential dilution. This should be fully and completely disclosed. The issuance of stock options does not result in a corporate level cost that impacts net income. To the extent options are actually issued, corporate assets are increased by the amount of cash that the employee must pay to exercise the option.

Futhermore, In my opinion the current option pricing models are flawed. The current model does not properly measure the corporate cost or "expense" associated with issuing employee stock options. Black-Scholes produces potentially huge differences in the expense numbers depending on what inputs are used. Stock volatility is a significant component of Black-Scholes and a company's guess at what its stock's volatility is going to be is truly trying to predict the future, which includes interest rates, dividends, and employee behavior with respect to the option.

Many of the unique aspects of employee stock options are not accounted for in Black-Scholes or other models. For example, models assume that stock options are freely transferable. Employee stock options are not. By not accounting for this significant restriction, the expense number provided is truly misleading information to investors.

A new valuation model is necessary even under a disclosure model. A new model would have to deal with stock volatility. Stock price volatility within the model, should either be set at zero or capped, to level the playing field. Without this, a favorable bias would exist for companies in non-volatile industries and a negative bias in highly volatile industries, i.e., the option value will be significantly higher for the company in the volatile market. This makes no sense.

Please carefully consider the need to react to recent accounting scandals and irregularities by putting in place an accounting rule that is misleading and inaccurate. The value of stock options in employee compensation is undisputed.

I strongly favor a new disclosure model with more accurate valuation models that are designed to reflect true income statement effect. Thank you.

Kurt R. Weise President and CEO United Financial Corp. ("UBMT") 763-512-5299