Frederic W. Cook & Co., Inc.
One North Franklin, Chicago, IL 60606 Tel. (312) 332-0910
email: tmhaines@fwcook.com website: www.fwcook.com
New York • Chicago • Los Angeles

March 4, 2003

Thomas M. Haines
Principal

Ms. Kimberley Crook
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH, United Kingdom
CommentLetters@iasb.org.uk

RE: ED 2 Share-based Payment - Issued November 7, 2002

Dear Ms. Crook:

This letter presents the comments of Frederic W. Cook & Co. in regard to the above referenced Exposure Draft.

Frederic W. Cook & Co. provides consulting assistance to corporations in developing compensation plans for their executives and key employees. Formed in 1973, we have served over 1,300 clients from offices in New York, Chicago, and Los Angeles.

Our objective is to add value to our clients' compensation programs through an independent viewpoint that balances the design and competitive level of compensation with its resulting impact on shareholder-value creation. Our consultants are widely recognized as experts in the field of equity-based compensation. As such, we believe we are qualified to comment on the IASB proposal. Our comments are structured by reference to the questions raised in the draft International Financial Reporting Standard (IFRS).

Please excuse the length of our response. The issues are complex, requiring a careful and thorough reply. Your most important question, and our most important response is to question 11.

Question 1:	Is the proposed scope of the IFRS appropriate? If not, which transactions should be excluded and why?
Response:	We recommend that the present exemption for broad-based employee stock option or purchase plans contained in U.S. FASB Opinion 25 (¶4) be continued in any IFRS approved by the IASB. Our reasons are that the existing exemption has caused no concerns, raised no controversy, is of de minimis dilutive effect, and is not part of the current debate

on employee stock option efficacy. These ESPPs and all-employee options are benign productivity incentives, approved by shareholders for the purpose of incentive alignment, not compensation for services.

We also believe that, if there is to be an expense for employee stock options, there should be ***no exemption*** from expense for the issuance of financial instruments which have similar option features, such as convertible securities or warrants. Convertible instruments typically have below-market interest rates because of the value of the convertibility feature. This value is [we understand] unrecognized currently in expense.

Question 2: Are these recognition requirements appropriate? If not, why not, or in which circumstances are the recognition requirements inappropriate?

Response: No comment; discussion in ¶s 4-6 of the ED seems reasonable, but the accounting implications are not stated

Question 3: Is this principle of requiring measurement of equity instruments granted in exchange for services at their "fair value," with no exceptions for unlisted entities, appropriate? If not, why not, or in which circumstances is it not appropriate?

Response: The principle of using the "fair value" of equity instruments ***other than*** stock options granted in exchange for services (for example outright grants of stock) seems reasonable and fair

With respect to employee stock options, however, there is no market value since the instruments, being nontransferable, are not traded. There is no accurate method of measuring the "fair value" of employee stock options in the absence of a public market for similarly structured instruments. The use of option-pricing models developed for publicly traded options are universally thought to ***overvalue employee stock options***, even with the adjustments proposed in the draft IFRS.

Option-pricing models do not purport to measure the ***cost to the company*** of granting options to employees. There is no "cost" per se that can be measured. Nor do they purport to measure the ***value of the options to the recipient***. We are told by accounting professionals that this is irrelevant for accounting purposes.

Rather, option-pricing models purport to measure the ***amount of cash forgone*** to the company by granting options to employees rather than selling them in the market. This forgone cash, then, becomes the "expense" recognized for the option in the income statement. Yet no evidence is offered, or claim made, that option-pricing models, as adjusted, measure what investors (or employees) would be willing to pay for options with characteristics similar to employee stock options.

We believe option-pricing models, as adjusted, ***overstate the "fair value"*** of employee options and, thus, the amount of cash forgone by not selling them in the market. "Fair," as in fair value, means fair to both the buyer and seller. "Value," as in fair value, means a price at which numerous willing sellers and buyers would agree to trade similar instruments: Since a buyer will not pay more than the perceived value to him or her, investors' (or employees') ***perception of the value to employees is relevant*** to the issue of "fair value."

In addition to the special characteristics of employee options described above that reduce their value vs. traded options, employees themselves bring certain attributes to the value exchange that result in a ***further lowering*** of the "fair value" of employee options:

1. Employees tend to be risk averse
2. They are already over concentrated in their employer's stock
3. They cannot hedge their option position
4. They tend not to be sophisticated investors able to pick "highs" in their stock and realize gains
   — Thus, volatility is of less value to employees than public investors
5. Whether through voluntary action or company encouragement, employees may retain some or all of the shares they purchase, unlike private investors in traded options

(See "Stock Options for Undiversified Executives" by Brian J. Hall and Kevin J. Murphy)

It is true that compensation professionals apply option-pricing models to employee options in their work. But this is primarily for the purpose of comparing options granted in one company to a group of peers or the market as a whole, not for determining their real value to employees. In fact, when converting option values to real compensation, it is reasonably common to apply a ***significant haircut*** to option values determined using option-pricing models.

The major difference between employee options and traded options is that employee options are ***nontransferable***. Except for death, they may be exercised only by the employee. They may not be sold to someone else. And once exercised, they die. The IASB's answer to this difference is to simply allow use of "expected" life, rather than contractual life, of the option in measuring "fair value." But this does not adequately account for the loss of remaining time value when the employee option is exercised before its end, as is often the case. It measures the difference in time value between expected and contractual life ***when the option is granted***. But this is far less than the ***forgone time value at the point of exercise*** when the option is exercised early.

Given the pervasive view that option-pricing models, as adjusted, overestimate the "fair value" of employee options, we see the IASB as having three choices:

1. Sponsor development of an option-pricing model to more accurately

determine the "fair value" of employee options

2. Permit further adjustments to market-based option-pricing models to reduce the "value gap" for employee options

3. Abandon the goal of measuring the "fair value" of employee options as unachievable in the absence of a public market for employee options. Instead, consider the ***"minimum option value method"*** (MOVM) which clearly and simply measures the value of allowing the employee to delay payment of the option's exercise price, risk free.

The problem with the fair value approach proposed by the IASB is that it does not result in a "fair value" for an employee option at grant. Thus, the objective of "leveling the playing field" between fixed-price options and other forms of equity incentive will not be achieved. Practice will be ***biased against options*** because few companies will be willing to incur an expense for a form of compensation which is significantly greater than the value perceived by recipients.

We believe it is wrong to measure the "fair value" of employee options in unlisted entities as if they were public companies. These stocks have ***no market volatility*** since they do not trade. Option pricing models rely heavily on the concept of volatility to give value to options. Since they have no volatility, they should be valued by the MOVM, which essentially is an option-pricing model with a volatility of zero.

As described above, we believe option-pricing models overstate the "fair value" of employee options in part because value is driven heavily by volatility, and employees are less likely and able to "profit" from high volatility than traders in public options. Consequently, we believe the MOVM would produce a more reasonable and realistic estimate of the "fair value" of employee options ***for both public and nonpublic entities*** than any existing option-pricing model.

Question 4: Do you agree that the date when an entity receives goods or services is the appropriate date at which to measure the fair value of the goods or services received? If not, at which date should the fair value of the goods or services received be measured? Why

Response: Equity instruments granted in exchange for goods or services should be measured at the ***grant date*** because this is the date the parties reach agreement on the value of the exchange. Changes in the value of an equity instrument after it is issued should not affect expense.

Question 5: Do you agree that the ***grant date*** for equity instruments is the appropriate date at which to measure the fair value of the goods or services received?

Response: Yes, unless the equity instrument is settled in cash, in which case cash paid should be the measure of expense

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Question 6: Do you agree that the fair value of the goods or services received from parties other than employees is usually more readily determinable than the fair value of

	the equity instruments granted?
Response:	Yes
Question 7:	Do you agree that the fair value of the equity instruments granted is more readily determinable than the fair value of the employee services received? Are there any circumstances in which this is not so?
Response:	Most employee stock options are granted ***on top of*** or in addition to regular compensation (salary, bonus, long-term performance incentives, and benefits). The consideration is ***incremental services*** and retention, the value of which is difficult or impossible to measure. Thus, we believe there should be a ***rebuttable presumption*** that the value of the equity instrument granted to employees is more readily determinable than the value of the services received. There are situations where there is an explicit voluntary tradeoff of measurable salary, bonus or outright stock grants which are given up in exchange for options. In these situations, the value of what is given up is more readily determinable than the value of the option granted, and this could be the measure of compensation expense. In most situations that we are aware of, this is less than the "fair value" of the option, measured using option pricing models, hence supporting our contention that option-pricing models as adjusted, overstate the value of employee options.
Question 8:	Do you agree that it is reasonable to presume that the services rendered by the counterparty as consideration for the equity instruments are received during the vesting period? If not, when are the services received, in your view?
Response:	If this question relates to equity instruments granted to non-employees in exchange for goods and services, we believe that the value exchange occurs at grant, not vesting. FASB's EITF 96-18 never made sense and should be overturned
Question 9:	Do you agree that if the fair value of the equity instruments granted is used as a surrogate measure of the fair value of the services received, it is necessary to determine the amount to attribute to each unit of service received? If not, what alternative approach do you propose? If an entity is required to determine the amount to attribute to each unit of service received, do you agree that this should be calculated by dividing the fair value of the equity instruments granted by the number of units of services expected to be received during the vesting period? If not, what alternative method do you propose?
Response:	The units-of-service method seems conceptually superior to the FASB's service-based method, but is extremely difficult to understand and explain, hence undermining credibility. Since the FASB's service-based method has caused no practice problems and is well accepted, we recommend it be retained in any IFRS.
Question 10:	Do you agree with the proposed requirement that recognition of the value of services rendered should be accompanied by a corresponding increase in equity which is **not** subsequently adjusted even if the equity is subsequently forfeited or

the option is not exercised? If not, in what circumstances should an adjustment be made to total equity and why?

Response: We support the draft IFRS's fixing of the value of the equity instrument at grant and then amortizing that grant value over the vesting period. We also support the IFRS's view (unlike SFAS 123) that the value at grant should include an adjustment for an estimate of forfeiture likelihood, which is not then adjusted for actual forfeiture. Thus, once expense has been recorded during the vesting period, it should not be reversed if the award is subsequently forfeited because of failure to meet the employment requirements. And we support the IFRS's position that, once a forfeiture has occurred, no further accruals are required for unamortized grant value.

Now to the question about equity. We believe it is logical that the grant of an equity instrument which is not immediately expensed gives rise to an increase in equity which is then amortized as expense is recognized. It also logically follows that, if the award is forfeited and prior recorded expense is not reversed, that the portion of equity which has already been expensed not be adjusted. However, we assume that the IFRS intends that the portion of equity represented by any unamortized grant value ***will be reversed***. If this is not intended, it should be.

Question 11: Do you agree that an option- pricing model should be applied to estimate the fair value of options granted? If not, by what other means should the fair value of the options be estimated? Are there circumstances in which it would be inappropriate or impracticable to take into account any of the factors listed above [exercise price of the options, the life of the option, the current price of the underlying shares, the expected volatility of the share price the dividends expected on the shares, and the risk-free interest rate for the life of the option] in applying an option pricing model?

Response: We agree with the IASB's statement that the fair value of equity instruments granted should be based on market prices, if available, taking into account the terms and conditions of the grant. The problem arises with respect to employee stock options for which there are no market prices because the options are not transferable.

In the case of options, we do ***not agree*** that an option-pricing model should be used to estimate the fair value of the options granted. Our reasons are that (1) such models are not applicable to employee options, (2) their accuracy cannot be validated, (3) it is widely believed that option-pricing models overestimate the value of employee options, (4) adjustments proposed to take account of the nontransferability still result in overstatement of fair value at grant because they fail to account for the lost time value when the option is exercised early, and (5) volatility, which drives the value of options, is a less important determinant of value of employee options than traded options because employees often do not have the timing flexibility and financial acumen of professional traders to take advantage of spikes in market value of the underlying stock.

So long as the IASB and the FASB insist on the use of "fair value" and option-pricing models to estimate the value of employee options at grant for expense-recognition purposes, employee stock option accounting will remain ***highly controversial.*** "Fair value" accounting, in the absence of market validation, will not result in fairer or more representational accounting for the results of operations, and investors will migrate to reliance on "pro forma" earnings (i.e., by backing out option expense from the results of operations), or, more likely, the demise of options in the more productive segments of our economies to the detriment of employees, shareholders and the public alike.

The IASB and the FASB should stop at this point and consider whether there is not a better and fairer way that would be less controversial and potentially destructive.

We have ***two alternatives*** for your consideration:

The ***first*** is the ***Minimum Option Value Method (MOVM)*** which is not "fair value" but is an option-pricing model.

The formula is simple and noncontroversial. It requires only estimates of expected dividends and risk-free interest rates over the option's life. The MOVM is the fair market value of the stock at grant less the sum of (1) the present value of the option exercise price plus (2) the present value of expected dividends for the life of the option, all discounted to their present value at the risk-free interest rate.

MOVM represents the value to the employee of being able to delay payment of the exercise price for the expected term of the option. It assumes the option will be valuable at some point during the option period, a reasonable assumption given the long life of most employee options.

MOVM represents the ***minimum amount*** an employee should be willing to pay for the option. Hence, it should be noncontroversial from the issuer's viewpoint.

However, MOVM does not result in a de minimus value. For an at-the-money option on a non-dividend paying stock with a 7-year expected term and a 6% risk-free interest rate, MOVM results in an option value of ***33%*** of market price, whereas the Black-Scholes value for an identical option with a 40% expected volatility has an option value of 53***%*** of market price (see attached **Exhibit**).

The only difference between MOVM and market-based option-pricing models is the absence of a volatility estimate. Volatility drives market-based option value but not employee option value. Market traders rightly value volatility in traded options. MOVM is a compromise position between "fair value," which overvalues employee options, and "intrinsic value," which undervalues employee options.

The ***second alternative*** is a modification of an approach popularized by Coca-Cola and Warren Buffet. It is the ***Third-Party Valuation Method (TPVM)***

In the absence of a liquid trading market for employee options, issuers should be allowed to use an average of bid and asked prices obtained by independent investment banks for stock options hypothetically granted by the company with the same terms as employee options, i.e., 100% option exercise price, maximum option term, no exercise until vesting, and non-transferable (i.e., once exercised, the option expires).

The investment banks performing this service should be instructed that the options on which they are providing bid and asked prices: (1) may be exercised only during the period between the vesting date(s) and the maximum option term; (2) are not transferable (they may only be exercised by the holder); and (3) the bank may not hedge the option provision, for example, by borrowing stock and shorting it against the option (with the option as "risk collateral" to the lender).

This process of obtaining bid and asked prices should be overseen by the company's auditors who would validate its fairness. And the resulting "fair value," used for expense-recognition purposes, would be disclosed to investors.

The IASB (and the FASB) may not wish to impose the TPVM on the tens of thousands of issuers who would be subject to any new global accounting standard on employee stock options for reasons of cost and burden. It should be sufficient to say that market prices for the value of employee options are always superior to putative non-market valuations obtained through option-pricing models, and the TPVM may be used in lieu of option-pricing models by those who wish to use it.

Question 12: Do you agree that replacing an option's contracted life with its expected life when applying an option pricing model is an appropriate means of adjusting the option's fair value for the effects of non-transferability? If not, do you have an alternative suggestion? Is the proposed requirement for taking into account the inability to exercise an option during the vesting period appropriate?

Response: We do ***not agree*** that use of expected, vs. maximum, option term is "an appropriate means of adjusting the option's fair value for the effects of non-transferability." It does not result in an appropriate discount from the value of traded options because it does not fully reflect the lost time value when a non-transferable option is exercised before the end of its term.

A more appropriate adjustment, if "fair value" using option-pricing models is decided to be the measurement method, would be measure "fair value" using maximum contractual term, and expense such value over the vesting period as proposed, but then allow an ***adjustment to income*** at option exercise or expiration for the "fair value" of the option ***at that point,*** less intrinsic value

	(i.e., option gain realized), if any.
Question 13:	Do you agree that vesting conditions should be taken into account when estimating the fair value of options or shares granted? If not, why not? Do you have any suggestions or how vesting conditions should be taken into account when estimating the fair value of shares or options granted?
Response:	We agree with the draft IFRS that vesting conditions should be taking into account when determining the value at grant of an equity instrument granted to employees. This estimate should be based on past experience, which can be adjusted by experience for new grants, but not trued up based on actual forfeitures.
Question 14:	Is this proposed requirement for "reload" options appropriate? If not, why not? Do you have an alternative proposal for dealing with options with reload features?
Response:	We agree the value of any "reload" feature should be taken into account in the valuation of an employee option at grant, and this can easily be done. A reload option has much ***more in common with a tradable option*** than with an employee option. Specifically, a reload option allows the holder to realize intrinsic value while preserving time value, which is very similar (if not identical) to what happens when a transferable option is traded before the end of its term. Consequently, we propose that the value at grant of an option with multiple reload features simply be the value determined by an option-pricing model ***using the maximum***, rather than the expected, ***option term***.
Question 15:	Are there other common features of employee share options for which the IFRS should specify requirements?
Response:	No.
Question 16:	Do you agree with "principles-based approach," instead of prescriptive guidance, to the estimation of the fair value of options? Are there specific aspects of valuing options for which such guidance should be given?
Response:	No, we favor a prescriptive approach such as the MOVM. A principles-based approach will provide too much flexibility in valuation, leading to pressure on accountants to sanction a low value. And it will hurt the objective of comparability of treatment and uniform financial reporting.
Question 17:	Do you agree that the incremental value granted when an option is repriced should be taken into account when measuring the services received, resulting in the recognition of additional amounts in the remainder of the vesting period? If not, how do you suggest repricing should be dealt with?
Response:	We favor the incremental approach when repricings occur. Without this earnings penalty, repricing would occur whenever market prices fall. For other modifications, however, such as changes in the post-employment exercise period, there should be ***no remeasurement*** of option grant value since these original terms did not affect option valuation at grant.

Question 18:	Are the proposed requirements to continue to expense the unamortized grant value when an equity grant is cancelled during the vesting period (other than on account of forfeiture for not satisfying the vesting requirements) appropriate? If not, please explain why not and provide details of your suggested alternative approach.
Response:	We agree with the approach proposed in the draft IFRS to continue to recognize expense in these situations. However, if there is a replacement grant, the grant value of the replacement grant should be netted against the unamortized grant value of the original grant. Otherwise, an unwarranted doubling up of expense will occur.
Question 19:	Are the proposed requirements to recognize expense for cash-settled share-based payment transactions appropriate? If not, please provide details of your suggested alternative approach.
Response:	Yes, cash paid to settle an equity award should always measure compensation expense, net of any amortized grant value.
Question 20:	Are the proposed requirements when the employee has a choice of settling an equity award in cash or stock appropriate? If not, please provide details of your suggested alternative approach.
Response:	Yes, we believe the draft IFRS is appropriate if we understand correctly there is no incremental compensation cost for a compound financial instrument that is structured so that the fair value of one settlement alternative is the same as the other
Question 21:	Are the disclosure requirements proposed by the draft IFRS appropriate? If not, which disclosure requirements do you suggest should be added, deleted or amended (and how)?
Response:	We do not believe the additional disclosures proposed by IASB, having to do with how valuation estimates were arrived at and how actual outcomes differed from estimates, offer useful or important information to investors or other users of financial statements. It is up to the auditors to watchdog the assumptions, not investors. Simplified ***information which would be useful*** to investors is (1) options/SARs granted each year as a percentage of average shares and share equivalents outstanding during the year ("run rate"), (2) options/SARs outstanding at year end as a percentage of total shares plus options outstanding ("overhang"), and (3) the dilutive effect of equity incentives on Basic EPS (dollar amount per share and percentage).
Question 22:	Are the proposed requirements for effective dates and transition rules appropriate? If not, please provide details of your suggestions for the IFRS's transitional provisions.
Response:	We question the need for or relevance of the IASB proposing effective dates and transition rules. We understand the IASB has no power to impose its standards on member countries. Rather the accounting standard setting body in each member country will decide whether to adopt the final IFRS or some variation of

it. In so doing, each member country will set its own effective dates and transition rules, which need not be uniform.

Question 23: Are the proposed requirements for recognizing all tax effects of share-based payment transactions in the income statement appropriate?

Response: We favor the IASB's approach of recognizing actual tax benefits received, whether more or less than the tax benefit based on the fair value at grant. This reflects expense and cash flows that actually occur, and hence will result in more representationally faithful and accurate income statements. The FASB's approach of directly crediting to capital surplus realized tax benefits that exceed recorded tax benefits, and charging income when realized tax benefits are less than recorded tax benefits, is asymmetric and should be abandoned.

Question 24: For each of the differences identified between the draft IFRS and FASB's Statement 123, which treatment is the most appropriate? Why? If you regard neither treatment as appropriate, please provide details of your preferred treatment.

Response: We describe our response using the same letters as in the draft IFRS:

(a) Scope

- <u>Broad-based plans</u> – We favor continuation of the broad-based plan exemption in APB Opinion 25, ¶4, as explained in our response to question 1.

- <u>Choice between Opinion 25 and Statement 123</u> – We believe the existing choice allowed U.S. companies between expensing the fair value of employee options or showing the pro forma effect of such expense in footnotes has worked well and should be continued. We support the FASB's recent decisions to increase the prominence of such pro forma disclosures and require them quarterly. Investors deserve all the information they want to measure the dilutive effect on earnings from options. But they also deserve to know what the earnings would be without a charge for options. We understand many analysts will back out the expense for options from earnings if expense recognition is mandated. We *strongly urge* the IASB and FASB to allow companies to identify the charge for option expense separately from other compensation expense, if companies choose to do so, and to report pro forma earnings and EPS without such expense. Not to allow this would thwart efforts for more transparency and be a disservice to investors.

- <u>MOVM for Unlisted Companies</u> – We recommend the IASB align its IFRS with FASB Statement 123 and allow nonpublic entities to use MOVM for measuring option values. Since the stocks of nonpublic entities do not trade, their prices ***have no volatility***. For the IASB to require companies to use an estimated volatility to value their options when no volatility exists is illogical and contrived.

(b) Measurement Method – Forfeitures – The effect of forfeiture should be incorporated into estimates of “fair value” at grant as proposed in the draft IFRS, unlike current Statement 123. And then reversals of prior accrued expense should ***not*** be permitted when forfeitures caused by employment termination actually occur. Of course, unamortized expense should be cancelled as of any reporting period in which forfeiture occurs.

(c) Cash Settlements – We believe the approach in SFAS 123 is superior to the draft IFRS because it more accurately matches expense with the period for which that expense is earned.

(d) Transactions with Non-employees – We favor the draft IFRS of using grant date as the measurement date for all equity grants, whether to employees or non-employees, including outside directors

(e) Cash SARs – We favor the FASB’s approach as simpler but still accurate

(f) Tax Benefits – See our response to question 23

Question 25: Do you have any other comments on the Exposure Draft?

Response: (1) Should the actual outcome of performance awards affect total compensation expense (FASB approach) or not (IASB approach)? Our preferred approach is as follows:

Actual outcomes of performance-based equity grants ***should*** affect total compensation expense. Specifically, an estimate of the probability of meeting any performance vesting conditions should be incorporated into the value determination ***at grant***, just like forfeiture estimates for continued-employment conditions. Then, these grant-value estimates ***per share*** should not be “trued up” based on actual outcomes. However, there should be an adjustment at vesting for the ***actual number of shares earned (or forfeited)*** based on the performance outcomes.

Many plans have earnout ranges of 0-200% of the initial shares grant. And some company’s boards use discretion to determine the extent to which performance goals are met. Without a requirement to reconcile actual shares issued to prior accruals, we could have the bizarre outcome of employees receiving ***far more* or *far less*** shares than had been recorded as expense. The result would be to exacerbate swings in operating earnings and to reduce the reliability of reported earnings. An analogy to the IASB’s approach would be to require that accruals of target bonus amounts not be reconciled to actual bonuses paid because the company got the services from the employees anyway.

(2) How is incremental fair value determined for award modifications that do not directly affect an input to an option pricing model, such as a modification to accelerate vesting upon the occurrence of a specified future event?

(3) Is fair value affected if an award recipient can compel the company to

withhold shares upon option exercise or share issuance to satisfy tax withholding obligations (i.e., "stock-for-tax" withholding)? Does this transform an equity award into a liability award? Is there a concept of "minimum required withholding rate" as currently exists under Opinion 25 and its related Interpretations?

(4) Is there a concept of "maturity" (i.e., a 6-month minimum required holding period) for award settlements or shares used in "stock-for-stock" exercises as currently exists under Opinion 25 and its related Interpretations?

(5) We have difficulty understanding the calculation of fair value for share-based payment arrangements with cash alternatives in the second last paragraph of the draft implementation guidance; could this guidance be clarified?

Respectfully submitted,

For Frederic W. Cook & Co., Inc.

TMH:ml

Ticker | Date of Grant 1/03

NO OF YEARS FOR VOLATILITY & DIVIDEND YIELD 3.00

UST INC

VALUATION INPUT ASSUMPTIONS

For Options Granted/To Be Granted on May 2002

THE STOCK'S CURRENT MARKET VALUE	$ 100.00
THE OPTION'S EXERCISE OR STRIKE PRICE	$ 100.00
ESTIMATED FUTURE ANNUAL STOCK VOLATILITY	0.4000
ESTIMATED FUTURE DIVIDEND YIELD	0.00%
EXPECTED OPTION TERM (IN YEARS)	7.00
RISK FREE RATE FOR OPTION TERM 5 Year zero coupon rate	6.00%

EXOTIC OPTION INPUT ASSUMPTIONS

INDEXED OPTIONS

INDEX (ANNUAL PERCENT INCREASE IN EXERCISE PRICE)	0.00%

PERFORMANCE VESTED

VESTING PRICE (STOCK PRICE TARGET TO EXERCISE)	$ -
PERIOD (TIME IN YEARS TO ACHIEVE STOCK PRICE TARGET)	0.00

MINIMUM VALUE METHOD

PRESENT VALUE PER SHARE (EXOTIC OPTION FEATURES NOT CALCULATED)	**$ 33.49**
PRESENT VALUE AS A PERCENT OF MARKET VALUE	33.49%

BLACK-SCHOLES VALUE

PRESENT VALUE PER SHARE (EXOTIC OPTION FEATURES NOT CALCULATED)	**$ 52.49**
PRESENT VALUE AS A PERCENT OF MARKET VALUE	52.49%

BINOMIAL MODEL VALUE

PRESENT VALUE PER SHARE (AMERICAN CALL OPTION)	**$ 52.49**
PRESENT VALUE AS A PERCENT OF MARKET VALUE	52.49%