Karen Salmansohn

From: Director - FASB
Sent: Monday, February 03, 2003 11:39 /
To: Karen Salmansohn
Subject: FW: Invitation to Comment on Accou...

Letter of Comment No: 165
File Reference: 1102-001
Date Received: 1-31-03

-----Original Message-----
From: Paul Richins [mailto:prichins@utahmed.com]
Sent: Friday, January 31, 2003 3:18 PM
To: Director - FASB
Subject: Invitation to Comment on Accounting for Stock-Based Compensation - response

Product Catalog Customer Support Online Ordering Investor Link Global Operations Career Opportunities

UTAH MEDICAL PRODUCTS INC.

January 31, 2003

MP&T Director-File Reference 1102-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Sirs:

This is in response to your *Invitation to Comment on Accounting for Stock-Based Compensation.*

The fact that option pricing models produce incorrect and/or misleading numbers can be illustrated very simply. In the case of Utah Medical Products, Inc., we will (in the case of 2002) or have previously, reported that, according to the Black-Scholes model, the per-share weighted average fair value of our options is as follows (I include strike prices of options for comparison purposes):

Year	Value	Price Range of Options Granted
1999	$2.56	$6.50-$7.75
2000	$3.09	$6.63-$7.75
2001	$4.27	$9.125-$12.00
2002	$6.52	$14.60-$15.01

In all cases, options were granted at fair market value. The other variables in the model did not change much year to year.

After examining this data, I ran simulations to determine the sensitivity of the BS model and came to the conclusion that there is a direct correlation between the price of the option and the resulting value/potential expense. In other words, the higher the strike price of the option, the higher the value/potential expense. If you asked one hundred individuals to pick between owning an option at $6.50 per share or $15.01 per share, they would all take the option priced at $6.50. That the most relied on valuation model consistently produces such perverse results shows the fallacy of being able to report a stock-based compensation number

that is meaningful.

The cost of market-priced option grants and subsequent exercises is, in fact, dilution to existing shareholders resulting in each shareholder having a smaller claim on the earnings pie. That cost is currently recognized by the EPS dilution calculation. To require companies to reduce the size of the pie (net income) is wrong because the pie, has not, in fact, got smaller because of the options. There is, in fact, no outlay of company resources in connection with an option grant or exercise. The cost is dilution.

What FASB should do is work to change tax law to disallow the tax deduction currently available to companies from disqualifying dispositions of ISOs.

Sincerely,

Paul O. Richins
Treasurer
Utah Medical Products, Inc.

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