### Karen Salmansohn

From: Director - FASB

Sent: Monday, February 03, 2003 11:

To: Karen Salmansohn

Subject: FW: File Reference Number 11

Letter of Comment No: | 6 9 File Reference: 1102-001

Date Received: 1-31-03

----Original Message----

From: STEVE [mailto:STEVE@MesaLabs.com]
Sent: Friday, January 31, 2003 3:26 PM

To: Director - FASB

Subject: File Reference Number 1102-001

January 31, 2003

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

#### Dear Board Members:

As Chief Financial Officer of Mesa Laboratories, Inc. (NASDAQ:MLAB), I would like to submit the following comments regarding the current proposals for expensing and presenting the impact of employee stock options in annual and quarterly financial reports. Our company has been publicly held since 1984 and has routinely awarded option grants to all of its permanent full-time employees during that time. I would like to share comments based on our experience.

#### The Nature of the Transaction:

We believe that proposals to expense employee stock options ignore the actual nature of the transaction. In every employee stock option plan I have ever seen, an option is granted to buy stock at a fixed price for a period of time. During that time period the option holder based on his own evaluation of the current price and the company's future makes a decision to buy or not buy stock in the company. The decision of when to buy, when to sell and realize profit and how much profit is generated is controlled by the employee and not the company. More importantly, there is a transaction generated where value is given to purchase the stock and a stock certificate or ownership in the company is issued to the purchaser. Following the purchase of stock, the employee will make decisions to sell or hold the stock based on their own assessment of the future and their own tolerance for risk, the same as any common shareholder.

#### Distortion to Equity:

In the actual transaction, cash is received and equity is issued which must be recorded on the company's books. When expensing future value, the value of the option must be calculated and expensed, which will lower retained earnings. The actual calculation of expense is subjective and easily manipulated. The actual value of the options cannot be known for years, and will probably never be known by the company issuing the options. If a company routinely understates its expense calculation, equity will become overstated over time, and if expense is overstated over time, equity will be understated over time. Since price-to-earnings and price-to-equity are two key methods for valuing a company, the result to shareholders calculating value from over or under stated numbers could be devastating. Also I am not aware of a mechanism in any of the proposals brought forth to correct these types of errors over time. It would seem to me that a management could manipulate company value for a management buyout very easily under these rules.

Company's Without Traded Options:

Several companies today are valuing and expensing stock options based on values for their traded options. If this was a fair method for valuing and expensing employee stock options it would still only be available to a smaller group of large capitalization companies. For the majority of small capitalization companies, this option would not be available. The nature of these traded stock options is also ignored. While stock options granted to employees last for several years, typically have some type of vesting schedule attached to them and cannot be traded, traded stock options are normally short-term in nature and do not have vesting periods that prevent the option from being exercised. This means that the value of one cannot be fairly compared to the other.

## The Black-Scholes Expense Calculation can be Manipulated:

The Black-Scholes model of valuing stock options can be manipulated. There are key assumptions regarding future stock appreciation and interest rates that are determined by company management. These are very subjective and even the best management will infrequently make correct assumptions. The model also does not allow for stock price declines or the many other variables that may impact an individual company's value. I cannot see where it accounts for the vesting schedule's impact on value, but then again there are only a very few people that truly understand how the model actually works. For most investors, the Black-Scholes calculation is nothing more than a number pulled out of the air.

#### What is the Value of Current Disclosures to Investors:

Before we expand the Black-Scholes calculated expense impact on earnings and earnings per share from annual reports to quarterly reports, we should determine whether investors even read or value this information. Since this disclosure was created, I have never had a single investor question its meaning or how it was calculated. I don't believe most investors value this information.

# Mitigating the Impact of Employee Stock Options:

There are probably a number of ways for companies to mitigate or eliminate the impact of employee stock options. In our case, we utilize a stock buy-back program. Over the years we have bought back more shares than we have granted or had exercised and issued. The average value of stock repurchased has been less than the exercise price of options exercised or under grant. For this reason we believe we have eliminated any impact on existing shareholders, and can continue to do so in the future.

To close, I want to point out that we see stock ownership by employees to be positive. Due to the stock options granted by our company more than one half of our employees are owners of the company, and almost 100 percent of those employees with more than five years of scrvice with the company are now owners. There are even a large number of past employees that continue to hold their shares in the company. Our stock option plans build loyalty and help provide assets for retirement or other key needs for those employees who are willing to take risk with the rest of our shareholders, and this should not be damaged by an independent regulatory body wishing to ignore the actual nature of the transaction in favor of public opinion. In our country, equity and ownership are highly valued, and if our employees wish to buy stock in our company through a plan that has been approved by our stockholders, then those employees and stockholders should not be punished and burden by expenses that were never incurred, but were rather imagined by regulators who are ignoring fact for public pressure

Respectfully,

Steven W. Peterson Vice President of Finance, Chief Financial Officer and Secretary Mesa Laboratories, Inc.