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Letter of Comment No: 2549
File Reference: 1102-100

From: Paul Richins [prichins@utahmed.com]
Sent: Wednesday, May 19, 2004 11:11 AM

To: Director - FASB

Subject: File Reference No. 1102-100

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



19-May-2004

Financial Accounting Standards Board RE: File Reference No. 1102-100

Ladies/Gentlemen:

This letter expresses concerns of Utah Medical Products, Inc. (Nasdaq: UTMD) about your Proposed Statement on Share-Based Payment, and your Exposure Draft dated March 31, 2004.

UTMD is a small, innovative medical device company located in Midvale, Utah. I have been employed by the company for fourteen out of the twenty-six years of its existence. I currently represent UTMD as an officer and member of the Board of Directors. The average tenure of all of our employees is eight years with the company, which is a key to our competitiveness and ability to produce highly reliable products that improve health care.

UTMD strongly disagrees that recognizing compensation cost associated with granting of employee stock options benefits investors, employees, companies or the U.S. economy. The cost of market-priced option grants and subsequent exercises is, in fact, ownership dilution to existing shareholders, which cost is currently recognized in the dilution calculation for reported earnings per share (eps). To the extent that investors establish market value as a function of eps, the effect of dilution has already been incorporated.

The primary argument made in support of your proposed standard, that optionees receive benefits, the cost of which are not currently recognized in financial statements, is not correct. There is, in fact, no expenditure of company resources in connection with an option grant or exercise. According to accounting principles, the function of the income statement is to try as accurately as possible to match past revenue activity with the costs associated with producing it. The cost of options is in the form of "enterprise value," not in the form of earnings performance related to revenue activity. Enterprise value is established by each investor using many different forms of performance assessment and vision for the future. Expensing of options on the income statement will not reduce the need for per share enterprise value assessment by investors, and introduces additional assumptions that will make financial performance reports less clear, not more. If investors are clearly advised by a company how many options have been issued, what the average exercise price is, what the history has been (for trending purposes), and what management's quantified intention is for issuing future options, they have all the information needed to make a value assessment about future dilution.

In addition, your proposed standard would not help investors because there is not a method for reasonably assigning value to options. The value of options depends on future events. Accounting is historically based. The fallacy that option pricing models produce meaningful numbers can be illustrated very simply. Every model of which I am aware produces option values based on market price on the date of grant. Holding all other variables constant, the models return increasing option values with higher market prices the higher the exercise price of the option, the higher the value/potential expense. If you asked one hundred investors to pick between having options with exercise price at \$10.00 per share or at \$20.00 per share, all one hundred would prefer the options priced at \$10.00. Under your proposed standard, a company will recognize more expense for the \$20.00 option than for the \$10.00 option, which doesn't seem logical to me.

Over the last ten years, UTMD has repurchased eight times more of its shares in the open marketplace than it has issued as a result of option exercises. Our ability to do that very favorable anti-dilutive activity was as

the result of having motivated employees who created a performance that allowed the company to have the cash flow to repurchase shares. Consequently, no one could fairly argue that UTMD's option plans have been dilutive. Why then should eps be reduced? To be completely fair, using the logic of your proposal, UTMD should be adding to its current eps performance to reflect future share repurchases.

As a small company, UTMD uses options to attract and retain employees who would otherwise work for larger Companies for higher salaries. Expensing options in the manner proposed will have a chilling effect on the desire of small companies to issue options, and therefore will result in fewer people working for small risk-taking companies. In the medical device industry, we depend on the small companies for the majority of innovation that takes place. Therefore the longer term effect on the U.S. economy of expensing options will be harmful to innovation.

Please DO NOT adopt the proposed standard.

Sincerely,

Paul O. Richins Treasurer Utah Medical Products, Inc.

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UTAH MEDICAL PRODUCTS, INC. 7043 South 300 West Midvale, Utah 84047-1048 Phone 801-566-1200 Fax 801-566-2062

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