

## Karen Salmansohn

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**From:** Director - FASB  
**Sent:** Wednesday, January 22, 2003 9:22 AM  
**To:** Karen Salmansohn  
**Subject:** FW: Stock Options



Card for Alan Shuler



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-----Original Message-----

**From:** Alan Shuler [mailto:alan.shuler@datakey.com]  
**Sent:** Wednesday, January 22, 2003 9:16 AM  
**To:** Director - FASB  
**Subject:** Stock Options

For small technology based companies the granting of stock options is a critical component to attract and retain skilled employees. Many of these companies, including Datakey, Inc., are struggling to achieve profitability and have a very difficult time attracting qualified people. If the FASB requires these options to be expensed there will be extremely harmful effects on the technology sector and small business in general. We urge you to continue allowing footnote disclosure of the option grants with no charge to earnings.

If charging current earnings for option grants is a foregone conclusion we beg you to consider a much more reasonable valuation method for determining the charge to earnings. The Black Scholes method greatly overstates the value of these options for a small public company since there is no separate market for the options and, in many cases, their exercise is restricted by insider trading rules and/or investor pressure. No officer of a public company wants to be accused of being disloyal or lacking confidence and, therefore, watches trading windows come and go without exercising "in-the-money" options.

In my personal situation I held 30,000 options for 10 years and watched them expire unexercised because there was never a "good time" to exercise them. These options ended up being worthless even though the Black Scholes formula called for an earnings charge of \$120,000 in 1992!!! If an earnings charge is warranted why not take the charge when the options are exercised and the correct "value" is known?

Thank you for giving consideration to my thoughts.

Alan Shuler  
VP&CFO  
Datakey, Inc.  
(DKEY)