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Letter of Comment No: 2577

File Reference: 1102-100

From: Pat Kenealy [pat_kenealy@idg.com]
Sent: Tuesday, May 18, 2004 6:27 PM
To: Director - FASB
Cc: susan_cheng@idgventures.com; kim@idgventures.com
Subject: Share-Based Payment, and Amendment of FASB Statements No. 123 and 95 (File Reference No. 1102-100)

Dear Sir,

I am writing you to about the recent FASB final Exposure Draft, *Share-Based Payment, and Amendment of FASB Statements No. 123 and 95*

As CEO of a privately-held media company with revenues in the hundreds of millions of dollars, I believe the FASB share-based payment proposal fails on multiple levels. From a purely accounting perspective, the valuation methods proscribed will not result in a better depiction of a company's economic health or more transparent financial statements. On a macroeconomic level, it seems to me FASB has underestimated the negative impact an expensing rule will have on the nation's economy -- especially in high tech.

As someone who spent a decade in venture capital earlier in my career, I know how expensive and distracting implementing FASB's proposed private company valuation methods will be for start-ups and non-public entities. FASB's current proposal will ultimately undermine stock options as a compensation tool that successfully align the interests of shareholders, managers, employees, and customers. This alignment has encouraged the growth of Silicon Valley, Greater Boston, San Diego, Austin, and other high tech centers which have driven our nation's economic growth. FASB claims that only 3% of all small businesses use stock options. Don't forget that inside that 3% are the venture-backed companies that are responsible for creating 10 million jobs and over 11% of annual US GDP.

I urge you to reconsider your proposal, and to modify it to preserve the ability of stock options to foster entrepreneurship in small, still-private start-up companies.

Sincerely,

PK

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5/19/2004