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June 22, 2004

Via E Mail

To: The Financial Accounting Standards Board (Reference File No. 1102-100)

From: Sharat Sharan; CEO ON24 Inc.

The following are our comments on FASB's recent Exposure Draft, the Share-Based Payment, and Amendment of FASB Statements No. 123 and 95.

Company Consideration

ON24 is a private company with about 50 employees; with plans to double that in the coming year. Private companies by their very nature are more risky for employees, and the way we attract top talent is by making them equity partners in the company. That way, if they work very hard to make the company successful and the company does well they will do well too. Providing employees options, is the only way I can compete for talent.

Macroeconomic Considerations

- 1. FASB claims that only 3% of all small businesses use stock options. Of course, the relevant point is that *within that 3% are the venture-backed companies* that are responsible for creating 10 million jobs and over 11% of annual US GDP. These companies rely on stock options as a critical part of motivating employees to take high-risk jobs.
- 2. Options make employees equity partners. Technology competitors *India and China have specifically said no to expensing options*, and China's latest 5 year plan calls for broad based employee stock options.
- 3. Expensing options *will not address corporate governance issues* or penalize management excesses.

Financial Reporting Considerations

- 1. The proposal generally calls for stock options to be expensed at grant date using either the Black-Scholes method or binomial methods, which are widely acknowledged to be problematic when applied to employee options. Those methods are useless for nonpublic companies. Now, FASB has determined that if a nonpublic entity decided it could not reasonably estimate the fair value of employee stock options (using Black-Scholes or binomial models), it could choose to use a modified "intrinsic value" method. Doing so requires recalculation of the expense every reporting period creating variable accounting treatment as the stock options are marked-to-market. Nonpublic companies should continue to have their option values determined by their Boards and their auditors.
- 2. Using these methods will result in misleading and non-comparable financial statements. *Each company will determine its' own variables for future volatility, option term and dividend yield.*
- 3. Not including vesting periods in the determination of value overstates the value of an employee option and *violates the principle of fair value*.
- 4. Expensing options *confuses a capital account transaction with a P&L event*. Options do not create a liability for companies. Options do not affect revenue, cash, or impact company operations. The FASB proposal would, in effect, reflect a double dip, or double cost of capital.

5. Current rules allow expensing and/or disclosure of the amount of expense in footnotes to the financial statements. This is the correct approach.

About ON24

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ON24 is the leading provider of webcast and multimedia communication solutions for the enterprise. The company provides one-stop solutions for internal and external multimedia communications for the enterprise, financial services, healthcare, and government markets. ON24 customers include more than 400 leading companies: Cardinal Health, Cisco Systems, Credit Suisse First Boston, Hewlett Packard, Merrill Lynch, NCAA, Philips, and Sun Microsystems. Based in San Francisco, the privately held company was founded in 1998.

Sincerely

Sharat Sharan President and CEO

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