

Stacey Sutay

From: Jerome S. Engel [engel@haas.berkeley.edu]
Sent: Friday, May 07, 2004 1:19 AM
To: Stacey Sutay
Subject: Comment Letter: Objection to proposed amendment to FASB Statements No 123 and 95

To the Financial Standards Accounting Board

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I am a CPA and have practiced in SEC matters over a 23 year career with KPMG and Ernst and Young, ultimately as an audit partner and director of the San Francisco Bay Area practice of Ernst and Young, specializing in serving emerging high technology companies. For the past 14 years I have directed the Lester Center at UC Berkeley, leading the University's activities in entrepreneurship education. I state the above to explain why I feel so strongly about the proposed rule changes.

Requiring the expensing of stock options has the potential to damage a very delicate and immensely valuable process: the unique company creation and innovation cycle that has characterized the best of the Silicon Valley miracle. In my role at U.C. Berkeley, I often am invited to speak to foreign dignitaries who come to study and marvel at the process, in an effort to recreate it in their home countries. The process is far too delicate a balance of ingredients to reduce to a formula, but clearly one key element is the process of broadly shared equity participation by employees, to which the stock option plan is vital.

I will not go on at length, I am sure others have already done so. Suffice it to say that the proposed rule change has the risk of upsetting the delicate balance and doing far more harm than good. I understand that the Board has struggled mightily with this question for years, and that recent abuses of the shareholder trust, mostly in the compensation of senior executives of major 'old economy' concerns, create a need for correction. I believe these issues can be better and more directly addressed by proper board oversight rather than by accounting rule changes.

I object to the rule changes as I fear their consequences, which may be long-term, subtle and disastrous for a vital national treasure; our young emerging company 'engine'. I strongly advise against their adoption.

Jerome S. Engel, CPA
Executive Director
Lester Center for Entrepreneurship and Innovation
University of California, Berkeley

engel@haas.berkeley.edu
<http://entrepreneurship.berkeley.edu/>