

From: Lien Truong [ltruong@acornsys.com]
Sent: Tuesday, May 25, 2004 5:24 PM
To: Director - FASB
Cc: Leland Putterman; kpaschall@austinventures.com; jcdowling@ivca.org
Subject: RE: File Ref No. 1102-100

To the FASB:

My name is Leland Putterman. I am the CEO of Acorn Systems, Inc., a privately-held performance management software company with over 50 employees, headquartered in Houston, Texas. Our CFO, Lien Kingston and I are writing this e-mail to the Board to voice our opposition against the proposed accounting standard which will require expensing stock options in the financial statements of all U.S. companies. We strongly believe that the proposed accounting standard, if passed, would be a detriment to all U.S. companies and investors, both in terms of (i) the reliability and accuracy of the financial information that investors are relying on to make their investment decisions and (ii) an adverse economic impact to the U.S. economy.

(i) With regard to the reliability and accuracy of the financial information, expensing stock options would have the exact opposite effect of what GAAP are designed to achieve; that is, to provide accurate, reliable, consistent and comparable financial information for all companies to allow investors to make informative decisions. Due to the highly subjective methodology of deriving the so-called "fair-value" of stock option to arrive at the expense number, specifically with companies having to make predictions with regard to the "future" volatility of the underlying share price and how long an employee would hold the options before exercising them, without discounting for the "restricted" terms of the options, the "forced" recognition of stock option expense in the income statement without an objective measurement method will undoubtedly lead to manipulation of earnings by companies and generation of non-comparable financial information. In addition, specifically as it applies to software companies, while the FASB directs companies to defer indefinitely any revenue recognition until the amount of the fee is fixed and determinable (even in cases where cash has been paid by customers and the amount is non-refundable), the same principle does not apply here to stock options, if companies are forced to make assumptions, without any reliable basis especially if the shares have not been freely traded, to derive at an artificial expense number, without a true and determinable consumption of the Company's assets.

While one can argue that by granting an option to the employees, companies can pay its employees less cash compensation and therefore companies should expense the "fair value" of these options to come up with its true compensation cost. That is a fair statement only if the current valuation methodology can measure that "fair value" accurately and that such "fair value" represents the true incremental difference in cash compensation. In reality, the current valuation method has a result of "overstating" expenses. First, these options may never come into fruition if the share prices do not exceed the strike price. Then, taking one step further, let's say that the companies are successful, companies that are successful would be reporting a much greater expense numbers then "unsuccessful" companies, for the same exact grant to two equivalent employees.

(i) With regard to the economic impact, companies like Acorn, with limited capital resources, rely heavily on stock options to attract talented entrepreneurs to come to work for us. Requiring expensing of stock options for U.S. companies, while other foreign companies are not subject to the same measurement methodology, will inevitably drive away good employees as U.S. companies will inevitably shy away from stock option program due to the severe impact to its EPS. Furthermore, for companies such as Acorn, the administrative burden of determining the "fair value" will outweigh any benefits (i.e. one grant to one employee would result in 37 calculations for each reporting period... and that is before the trouble of proving to our external auditors what the various input factors should be, absent of a true arm-length transaction).

We appreciate your reconsideration of the proposed accounting standard. At best, we should leave the current practice as is, which allows companies to disclose in the

financial statements any such impact as opposed to presenting such impact directly in the income statement. For investors who believe that such disclosure is important to their investment decision, the information will still be available for their use.