

Letter of Comment No: 6205
File Reference: 1102-100

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Director, Major Projects and Technical Activities Financial Accounting Standards Board
File Reference No. 1102-100
Share-Based Payment; an amendment of FASB Statements No. 123 and 95
Norwalk, CT 06856-5116

Subject: Make Companies Put Stock Options on the Books

Dear Director, Major Projects and Technical Activities Standards Board:

I strongly support your proposal to require companies to expense stock options. Not expensing stock options has promoted their overuse in CEO pay against the long-term interests of shareholders. For example, I believe stock options provided a financial incentive for Enron executives to cook the books.

The retirement savings of America's working families depend in part on all companies, including small businesses and start-ups, having honest accounting practices. Companies that do not expense stock options are hiding their true cost from investors, creditors and other consumers of financial reports. In my opinion as a CPA, compensation expense must be accurately reported on a company's income statement. Stock options are compensation to those employees receiving them. companies must show this compensation on their financial statements, and not just in the notes to the financial statements, so that users of those statements have an accurate picture of the actual costs associated with providing that company's product or service. The companies' argument that they will not be able to retain outstanding employees is patently false and self-serving. If all companies have to recognize options as salary expense, do these companies think their employees will leave for another company? Of course they will not do that. Employees will still have their options, but companies will have to report the compensation they pay their employees, and this compensation's affects on net income will be plainly visible for everyone to see. Stock option compensation should not receive preferential accounting treatment.

In conclusion, I urge you to require stock option expensing as soon as possible. Independent experts, such as the Financial Accounting Standards Board, should set the standards on stock option expensing, not the politicians in Washington. One can argue that the Enron's and HealthSouth's of the new millenium were the direct result of the House and Senate's interference with the FASB's plan to recognize stock options in the early '90's. Stock options are a compensation expense, and this cost can be reliably estimated using your proposed accounting method. I believe corporate executives should be ashamed for trying to hide the cost of stock options from their investors.

Sincerely,

Henry Norton

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