Stacey Sutay

Letter of Comment No. 3 File Reference: 1102-100

From: Director - FASB

Sent: Wednesday, March 31, 2004 3:00 PM

To: Stacey Sutay

Subject: FW: A short suggestion on the expensing of options issue

-----Original Message-----

From: joseph.nadol@jpmorgan.com [mailto:joseph.nadol@jpmorgan.com]

Sent: Wednesday, March 31, 2004 1:31 PM

To: Director - FASB

Subject: A short suggestion on the expensing of options issue

I am puzzled by the continuing controversy over this issue. It is very easy to measure the ultimate expense of an employee option — it is the difference between the market value of the stock and the strike price of the option when it is exercised. For example, if the stock price is \$50 and the strike price is \$30, if the company issues a share of stock under normal circumstances the same day as an option is exercised, it would recognize \$20 more. That \$20 is the true transfer of wealth from shareholder to employee and should be expensed at that time. Companies would not know ahead of time how much the options would cost them, but isn't that exactly the point?? If managements and boards considered the potential implications of dilution ahead of time, they would be far more careful about committing to open ended contracts such as options. There are plenty of similar types of contracts, such as asset valuel guarantees in the aerospace industry, which are treated this way. I fail to understand why this methodology is never recommended by either side in this debate, and I would appreciate a response for my own edification.

Joe Nadol VP Aerospace/Defense equity analyst JPMorgan

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