INTERNATIONAL
BROTHERHOOD OF TEAMSTERS
AFL-CIO

OFFICE OF
JAMES P. HOFFA
GENERAL PRESIDENT

July 1, 2004

Letter of Comment No: 6404
File Reference: 1102-100

Ms. Suzanne Q. Bielstein, Director
Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Dear Ms. Bielstein:

On behalf of the 1.4 million active and 600,000 retirees of the International Brotherhood of Teamsters (IBT), I am pleased to comment on the proposal by the Financial Accounting Standards Board (FASB) to require the mandatory expensing of stock options (File Reference No. 1102-100) and the potential impact that mandatory stock option expensing would have on Teamster families across the country. Teamster pension and health and welfare funds collectively hold over $100 billion in assets and our members also participate in the capital markets as individual investors. Therefore, changes in the way corporations report their financials to investors have a particular impact on the Teamsters Union and our individual members.

The IBT has been at the forefront of fighting for stock option expensing reform. The Teamsters have filed a number of shareholder proposals requesting that corporations adopt policies that require expensing all future stock option grants in the corporation's annual income statement. Weyerhaeuser, PPG Industries, Georgia Pacific, and PepsiCo have all adopted IBT proposals. As you are aware, over 500 public corporations now expense stock options in the annual income statement including such corporate giants as Coca-Cola, General Electric, and Merrill Lynch.

While there has been tremendous support for this important accounting reform, some corporations, mostly from the high-tech industry, argue that the pending reform will not stop corporate malfeasance but instead will harm those who are the true victims of corporate crime – rank and file workers. These corporations argue that the proposed reform will prevent workers from tangibly

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participating in the success of the companies they work for. These corporations also claim that small businesses will not be able to expand, because they will not be able to pay workers in options but will actually have to pay fair wages. This revisionist attitude ignores the fact that it has been top executives, not rank and file workers, who benefit from options. For example, Ken Lay, the former Chairman of the Board of Enron, cashed in almost $57 million in options during the three years before the company's collapse. In 2003, Cisco CEO John Chambers received options on 4 million shares of company stock worth a net $25 million, and at Quest, Chairman Philip Anschutz made $1.9 billon in stock options in 2002. While there has been a growth of broad based option programs in the U.S., according to the National Center for Employee Ownership, executives still receive an average of 65% to 70% of all options granted.[1]

Corporate executives also argue that the FASB's proposal would effectively erase all broad based stock option programs that employees count on as part of their compensation, and it would make workers less productive because they would no longer be able to participate in the success of their company. However, according to the Bureau of Labor Statistics, only 1.7% of nonexecutive workers got any stock options in 2000, which was a banner year for the granting of stock options.

In fact, in 1980, prior to the widespread use of stock options in executive compensation, CEO pay stood at approximately 42 times more than the average worker. Two decades later, CEO pay reached 531 times more than the average worker's pay. The majority of this increase was due to stock options, which have become the biggest component of today's CEO pay packages.

Another effect of the outrageous overuse of stock options is the dilution that occurs when these huge options are exercised. Companies must issue additional stock to satisfy these executive options and that decreases the value of the remaining shares, many held by ordinary investors. According to a recent USA Today article, some firms hand out so many options to employees that they increase the number of shares by almost 7% per year.[2]

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[1] Rosen, Corey. Executive Director NCEO. "Reforming Stock Options in the Post-Enron, Post WorldCom Era." July 2002.
[2] Firms Resist Sensible Reform, USA Today Editorial. June 3, 2004.

Our Union strongly believes that implementing the proposed accounting standards requiring expensing of stock options will help restore the trust of investors in the U.S. capital markets. We look forward to a final ruling that will require companies to truthfully report the economic effect of equity based compensation on the bottom line and, therefore, will significantly improve the transparency and integrity of financial reporting in the United States. Companies that do not expense stock options are hiding the true cost from investors, creditors, and other consumers of financial reports. We hope that the FASB will remain firm in the face of Congressional interference and will create a new rule that will allow all users of financial documents a clear understanding of the company's net worth.

Thank you for considering our comments, and should you have any questions please contact the IBT's Office of Corporate Affairs at (202) 624-8100.

Sincerely,

James P. Hoffa

James P. Hoffa
General President

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