

# American Federation of Labor and Congress of Industrial Organizations



815 Sixteenth Street, N.W.  
Washington, D.C. 20006  
(202) 637-5000  
www.aflcio.org

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September 8, 2006

Mr. James S. Turley  
Chief Executive Officer  
Ernst & Young LLP  
Five Times Square  
New York, New York 10036

Dear Mr. Turley:

Ernst & Young ("E&Y") has served as the independent auditor for many companies such as Broadcom and KB Home that are currently under investigation for improper stock option grants. Union-sponsored pension funds hold approximately \$400 billion in assets and are significant shareholders in Broadcom, KB Home and other companies under investigation. I am writing to you in your capacity as the auditor for these firms to inquire what steps are being taken to verify whether your firm had a role in improper grants and how E&Y will implement the Public Company Accounting Oversight Board's ("PCAOB") guidance regarding the timing and accounting for stock option grants.

Over the past several months, there has been growing investor concern about the timing of executives' stock option grants. The names of dozens of companies have been revealed to be under investigation for the backdating of their executives' stock options at below-market value strike prices. Others are under scrutiny for "spring-loading" option grants by setting the grant date to occur just ahead of the release of positive news, or timing grants to follow the release of negative news.

In a September 6th Senate hearing, SEC Chairman Christopher Cox indicated that more than 100 companies are now under investigation in connection with possible fraudulent reporting of stock option grants. However, the number of companies involved could be more numerous as academics at the hearing estimated that over 1,000 firms have manipulated stock option grants in some fashion. Taking into account E&Y's market standing, a number of these firms could be E&Y clients.

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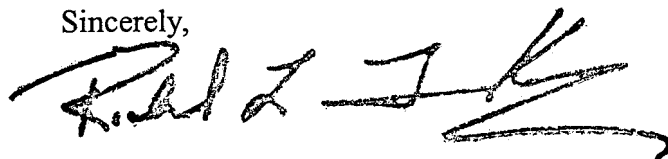
Companies that improperly backdate option grants risk disclosure and securities fraud violations, as well as running afoul of tax laws. According to the recently released PCAOB staff audit alert, "auditors planning or performing an audit should be alert to the risk that the issuer may not have properly accounted for stock option grants and, as a result, may have materially misstated its financial statements or may have deficiencies in its ICFR."

Several companies that improperly issued stock options have already restated past financial statements, and a number of the executives involved have been charged with criminal fraud. As an independent auditor, E&Y is responsible for properly examining and verifying companies' financial and accounting statements. In light of the recent stock option scandal, it is necessary to increase scrutiny of past audits and option grants to reveal any improprieties.

Given the potential damage to shareholders due to options backdating, I am concerned about what role E&Y may or may not have had in the backdating of their clients under investigation and E&Y's role in clients' option grants generally. I urge you to describe what steps are being taken to determine E&Y's involvement in stock option backdating where it has occurred and what steps are being taken to implement PCAOB's guidance regarding the timing and accounting of stock option grants. We believe that this information is an important factor to consider in deciding whether to ratify E&Y as the independent accountant in the upcoming proxy season.

Thank you for your attention to this matter. We would appreciate an immediate response in this matter, whether in the form of a request to meet or a written statement. Please contact AFL-CIO Associate General Counsel Damon Silvers at (202) 637-3953 if you have any questions regarding our concerns. I look forward to your response.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard L. Trumka", with a long horizontal flourish extending to the right.

Richard L. Trumka

RLT/me  
opeiu #2, afl-cio