

Message

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Stacey Sutay

Subject: FW: Letter from Fred Bauer (Gentex Corporation, Zeeland, Michigan) Regarding Expensing of Stock Options

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

From: Querback, Lori [mailto:LQuerback@gentex.com]

Sent: Friday, May 09, 2003 4:49 PM

To: Robert Herz; Mike Crooch; Neel Foster; Gary Schieneman; Katherine Schipper; Edward Trott; John Wulff

Subject: Letter from Fred Bauer (Gentex Corporation, Zeeland, Michigan) Regarding Expensing of Stock Options

Dear Distinguished Members of the FASB:

Attached, please find a letter from Fred Bauer, CEO and Chairman of Gentex Corporation in Zeeland, Michigan, regarding the expensing of stock options (H.R. 5147).

Sincerely,

GENTEX CORPORATION

Lori Querback

Administrative Assistant to the CEO

GENTEX CORPORATION

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5/12/03

May 9, 2003

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Treating the Stock Option Malady

Dear Distinguished Members of the FASB,

All the discussions of the dangers of stock options and the need for expensing them remind me of recent news reports where the medical profession, attempting to cure a poor woman with cancer in one breast, accidentally amputated the other.

I have been an entrepreneur for 35 years, starting two companies, creating thousands of jobs and billions in shareholder value. Over the last two decades, on a normalized basis, we at Gentex have gains which compare favorably to Berkshire Hathaway. There is a paradigm to this creative process which eludes the practice of law and accounting. In fact, following the precepts of law, accounting, or finance will cause entrepreneurial failure. A great harm is in the making that will not be clear except in hindsight, and then mainly to those with insight into this entrepreneurial paradigm which powers the American economy.

The main goal of options is to excite management, salaried works and hourly workers alike to adopt the zeal and mentality of the inventor – entrepreneur – business owner. There is a magic in this zeal that can create explosive prosperity all out of proportion to the ingredients in the mix. It's similar to the miraculous acceleration of American industry to win World War II and usher in a new era of ingenuity and prosperity for decades thereafter.

The principal problems with options today are:

1. Excessive option grants create excessive shareholder dilution.
2. Too much concentration of options in top management, thereby eliminating the huge potential of options to accelerate performance of a broad number of workers for optimum economic impact.
3. A misguided tax system for options that forces recipients to prematurely sell the very shares that would impart this ownership mentality.

A reform of options and the individual tax treatment of options by requiring guidelines in order to obtain favorable accounting treatment for corporations would fix the problem in the right way. Fixing the problem right would not only preserve, but reenergize the economy. Fixing the problem wrong by forcing the expensing of options will cause serious harm.

I love Warren Buffet and Allen Greenspan. Just because they're geniuses in their professions does not mean they understand the paradigm of entrepreneurial force that is the backbone of

American enterprise. Accountants and financial experts, by their very training, will fail to protect entrepreneurship which options are intended to enhance.

If the FASB scholars can truly establish "an expense model" that predicts the future value of a stock and the stock market, then perhaps I can harness that fabulous model to predict the winner of the next Kentucky Derby. Please stop and apply this new expense model to historical stocks before the tech bubble burst, then after, to see how it would have "clarified" income statements and balance sheets in retrospect. I can tell you now that all it will do is create a giant morass of low-quality financial statements.

To understand that mathematical formulas, no matter how clever, cannot predict the next recession is clear to us all. Why then do we feel these formulas can predict the future value of a stock which faces even more risks and variables? Stock prices are not like actuarial tables. Humans have evolved over thousands of years. Human survival trends are slow-moving and predictable. With today's increased market volatility, option expense formulas will never be accurate hence our income statements will suffer the same fate.

Options are of minimal use to large, slow-moving mature enterprises. Because earnings per share and cash flow increases are modest, the average stock appreciation will also be modest. Stock price swings of these types of mature enterprises will be more affected by economic cycle and market psychology. Little wonder that the CEOs of these companies issue comparatively few options, primarily to top management, because the companies are not entrepreneurial and options are of less use. CEOs of large mature companies favor expensing of options because options are largely irrelevant. This is in complete contrast to fast-growing, entrepreneurial enterprises where options can mean life or death. It's the entrepreneurial growth enterprises of today that will be the giant industries of tomorrow.

I've spent my life trying to build the owner entrepreneur mentality into the rank and file of our corporation with huge benefits to our investors, the economy, and our work force. We have always used self-imposed discipline to prevent excessive shareholder dilution and to prevent too much concentration of options in top management. We've used options as the primary tool, despite the frustrating tax laws for option recipients, which work against long-term stock retention. Now comes the cruelest insult of all: well intentioned accountants and regulators are likely to destroy the best motivator we have, when applying simple common sense would give us a tool to build decades of future prosperity. Expensing options will effectively eliminate their use. No company in their right mind would subject their financial data to such nonsensical volatility. Expensing options instead of fixing options is being penny wise and pound foolish, and it's so sad.

If anyone wants to take the time to understand these points in more depth, please call me at (616) 748-8505. I'm financially independent, so expensing options won't affect my prosperity much, but the damage we are doing to our future generations and to our economy compels a last effort to reach out.

A Voice in the Wilderness,



Fred T. Bauer
Chief Executive Officer &
Chairman of the Board