

Edgar Filing: GENTEX CORP - Form 10-Q

GENTEX CORP
Form 10-Q
November 02, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

for the quarterly period ended September 30, 2007,

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

for the transition period from _____ to _____

COMMISSION FILE NO. 0-10235

GENTEX CORPORATION
(Exact name of registrant as specified in its charter)

MICHIGAN
(State or other jurisdiction of
incorporation or organization)

38-2030505
(I.R.S. Employer Identification No.)

600 N. CENTENNIAL, ZEELAND, MICHIGAN
(Address of principal executive offices)

49464
(Zip Code)

(616) 772-1800
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last
report)

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an
accelerated filer, or a non-accelerated filer. See definition of "accelerated
filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check
one):

Edgar Filing: GENTEX CORP - Form 10-Q

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PROCEEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐ No ☐

APPLICABLE ONLY TO CORPORATE ISSURERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class -----	Shares Outstanding at October 23, 2007 -----
Common Stock, \$0.06 Par Value	144,508,379

Exhibit Index located at page 17
Page 1 of 21

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

GENTEX CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (Unaudited) -----	December 31 (Audited) -----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$310,113,174	\$245,499
Short-term investments	70,830,966	82,727
Accounts receivable, net	75,666,023	58,337
Inventories	47,403,471	48,805
Prepaid expenses and other	15,737,453	11,507
	-----	-----
Total current assets	519,751,087	446,878

Edgar Filing: GENTEX CORP - Form 10-Q

PLANT AND EQUIPMENT - NET	198,135,164	184,134
OTHER ASSETS		
Long-term investments	161,599,496	146,215
Patents and other assets, net	8,704,535	7,800
	-----	-----
Total other assets	170,304,031	154,015
	-----	-----
Total assets	\$888,190,282	\$785,028
	=====	=====
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$ 34,546,969	\$ 23,881
Accrued liabilities	35,767,846	33,481
	-----	-----
Total current liabilities	70,314,815	57,362
DEFERRED INCOME TAXES	26,629,722	24,971
SHAREHOLDERS' INVESTMENT		
Common stock	8,670,503	8,548
Additional paid-in capital	239,199,789	196,901
Retained earnings	513,577,734	472,192
Other shareholders' investment	29,797,719	25,051
	-----	-----
Total shareholders' investment	791,245,745	702,694
	-----	-----
Total liabilities and shareholders' investment	\$888,190,282	\$785,028
	=====	=====

See accompanying notes to condensed consolidated financial statements.

-2-

GENTEX CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
	-----	-----	-----	-----
NET SALES	\$162,524,803	\$141,265,647	\$483,210,597	\$422,677,
COST OF GOODS SOLD	105,522,931	93,387,125	313,933,117	275,669,
	-----	-----	-----	-----
Gross profit	57,001,872	47,878,522	169,277,480	147,007,
OPERATING EXPENSES:				
Engineering, research and development	13,251,945	10,536,334	37,974,076	30,658,
Selling, general & administrative	9,112,808	7,737,384	26,212,009	23,041,
	-----	-----	-----	-----
Total operating expenses	22,364,753	18,273,718	64,186,085	53,699,
	-----	-----	-----	-----

Edgar Filing: GENTEX CORP - Form 10-Q

Income from operations	34,637,119	29,604,804	105,091,395	93,308,
OTHER INCOME (EXPENSE)				
Interest and dividend income	5,139,536	4,794,928	14,458,180	15,181,
Other, net	4,076,418	1,308,341	12,739,080	5,588,
	-----	-----	-----	-----
Total other income	9,215,954	6,103,269	27,197,260	20,769,
	-----	-----	-----	-----
Income before provision for income taxes	43,853,073	35,708,073	132,288,655	114,078,
PROVISION FOR INCOME TAXES	14,026,590	11,370,152	42,008,356	36,133,
	-----	-----	-----	-----
NET INCOME	\$ 29,826,483	\$ 24,337,921	\$ 90,280,299	\$ 77,945,
	=====	=====	=====	=====
EARNINGS PER SHARE:				
Basic	\$ 0.21	\$ 0.17	\$ 0.63	\$ 0.
Diluted	\$ 0.21	\$ 0.17	\$ 0.63	\$ 0.
Cash Dividends Declared per Share	\$ 0.105	\$ 0.095	\$ 0.295	\$ 0.

See accompanying notes to condensed consolidated financial statements.

-3-

GENTEX CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For nine mo ended Septemb	
	2007	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 90,280,299	\$
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	24,213,482	
(Gain) loss on disposal of assets	302,960	
(Gain) loss on sale of investments	(10,681,432)	
Deferred income taxes	(2,230,860)	
Stock-based compensation expense related to employee stock options, employee stock purchases and restricted stock	6,785,909	
Excess tax benefits from stock-based compensation	(269,057)	
Change in operating assets and liabilities:		
Accounts receivable, net	(17,328,627)	(
Inventories	1,401,927	
Prepaid expenses and other	(2,765,530)	
Accounts payable	10,664,996	
Accrued liabilities, excluding dividends declared	823,952	
	-----	-----
Net cash provided by (used for) operating activities	101,198,019	
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Plant and equipment additions	(38,936,917)	(

Edgar Filing: GENTEX CORP - Form 10-Q

Proceeds from sale of plant and equipment	529,737	
(Increase) decrease in investments	14,123,731	(
(Increase) decrease in other assets	(772,484))
	-----	---
Net cash provided by (used for) investing activities	(25,055,933)	(
	-----	---
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock from stock plan transactions	36,279,027	
Cash dividends paid	(40,748,764)	(
Repurchases of common stock	(7,328,015)	(2
Excess tax benefits from stock-based compensation	269,057)
	-----	---
Net cash provided by (used for) financing activities	(11,528,695)	(2
	-----	---
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64,613,391	(1
CASH AND CASH EQUIVALENTS, beginning of period	245,499,783	4
	-----	---
CASH AND CASH EQUIVALENTS, end of period	\$310,113,174	\$ 2
	=====	===

See accompanying notes to condensed consolidated financial statements.

-4-

GENTEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- (1) The unaudited condensed consolidated financial statements included herein have been prepared by the Registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Registrant believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Registrant's 2006 annual report on Form 10-K.
- (2) In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of only a normal and recurring nature, necessary to present fairly the financial position of the Registrant as of September 30, 2007, and the results of operations and cash flows for the interim periods presented.
- (3) Inventories consisted of the following at the respective balance sheet dates:

	September 30, 2007	December 31, 2006
	-----	-----
Raw materials	\$30,151,960	\$31,727,666

Edgar Filing: GENTEX CORP - Form 10-Q

Work-in-process	4,542,473	4,681,714
Finished goods	12,709,038	12,396,018
	-----	-----
	\$47,403,471	\$48,805,398
	=====	=====

- (4) The following table reconciles the numerators and denominators used in the calculation of basic and diluted earnings per share (EPS):

	Quarter Ended September 30,		Nine Months Ended September	
	2007	2006	2007	2006
	-----	-----	-----	-----
Numerators:				
Numerator for both basic and diluted EPS, net income	\$ 29,826,483	\$ 24,337,921	\$ 90,280,299	\$ 77,945,0
Denominators:				
Denominator for basic EPS, weighted-average shares outstanding	143,496,082	144,879,673	142,740,287	149,871,5
Potentially dilutive shares resulting from stock plans	1,346,546	212,411	958,975	569,9
	-----	-----	-----	-----
Denominator for diluted EPS	144,842,628	145,092,084	143,699,262	150,441,5
	=====	=====	=====	=====
Shares related to stock plans not included in diluted average common shares outstanding because their effect would be antidilutive	1,209,289	9,045,847	2,224,594	6,770,3

(5) Stock-Based Compensation Plans

At September 30, 2007, the Company had two stock option plans, a restricted stock plan and an employee stock purchase plan. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" [SFAS 123(R)] utilizing the modified prospective approach. Prior to the adoption of SFAS 123(R) we accounted for stock option grants under the recognition and measurement principles of APB Opinion No. 25 (Accounting for Stock Issued to Employees) and related interpretations, and accordingly, recognized no compensation expense for stock option grants in net income. Readers should refer to Note 6 of our consolidated financial statements in our Annual Report on Form 10-K for the calendar year ended December 31, 2006, for additional information related to these stock-based compensation plans.

-5-

GENTEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

(5) Stock-Based Compensation Plans (continued)

Edgar Filing: GENTEX CORP - Form 10-Q

Under the modified prospective approach, SFAS 123(R) applies to new awards and to awards that were outstanding on December 31, 2005. Under the modified prospective approach, compensation cost recognized in the third quarter of 2007 includes compensation cost for all share-based payments granted prior to, but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Prior periods were not restated to reflect the impact of adopting the new standard.

As a result of adopting SFAS 123(R) on January 1, 2006, the Company's income before taxes, net income and basic and diluted earnings per share for the third quarter and nine months ended September 30, 2007, were \$1,930,835, \$847,424, and \$.01 per share lower and \$5,482,600, \$2,012,956, and \$.01 lower, respectively. Compensation cost capitalized as part of inventory as of September 30, 2007, was \$112,083. The cumulative effect of the change in accounting for forfeitures was not material.

Employee Stock Option Plan

The fair value of each option grant in the Employee Stock Option Plan was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the indicated periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Dividend yield	2.00%	1.94%	1.99%	1.97%
Expected volatility	29.80%	29.80%	29.40%	30.18%
Risk-free interest rate	4.26%	4.69%	4.57%	4.89%
Expected term of options (in years)	4.31	4.93	4.32	4.57
Weighted-average grant-date fair value	\$ 5.39	\$ 3.97	\$ 4.97	\$ 4.15

The Company determined that all employee groups exhibit similar exercise and post-vesting termination behavior to determine the expected term. Under the plans, the option exercise price equals the stock's market price on date of grant. The options vest after one to five years, and expire after five to seven years.

As of September 30, 2007, there was \$11,243,554 of unrecognized compensation cost related to share-based payments which is expected to be recognized over the vesting period with a weighted-average period of 4.3 years.

Non-employee Director Stock Option Plan

As of September 30, 2007, there was \$66,876 of unrecognized compensation cost under this plan related to share-based payments which is expected to be recognized over the balance of the 2007 calendar year. Under the plan, the option exercise price equals the stock's market price on date of grant. The options vest after six months, and expire after ten years.

Employee Stock Purchase Plan

In 2003, a new Employee Stock Purchase Plan covering 1,200,000 shares was

Edgar Filing: GENTEX CORP - Form 10-Q

approved by the shareholders, replacing a prior plan. Under the plan, the Company sells shares at 85% of the stock's market price at date of purchase. Under SFAS 123(R), the 15% discounted value is recognized as compensation expense.

-6-

GENTEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

(5) Stock-Based Compensation Plans (continued)

Restricted Stock Plan

The Company has a Restricted Stock Plan covering 1,000,000 shares of common stock that was approved by the shareholders in 2001, the purpose of which is to permit grants of shares, subject to restrictions, to key employees of the Company as a means of retaining and rewarding them for long-term performance and to increase their ownership in the Company. Shares awarded under the plan entitle the shareholder to all rights of common stock ownership except that the shares may not be sold, transferred, pledged, exchanged or otherwise disposed of during the restriction period. The restriction period is determined by the Compensation Committee, appointed by the Board of Directors, but may not exceed ten years. As of September 30, 2007, the Company had unearned stock-based compensation of \$5,622,372 associated with these restricted stock grants. The unearned stock-based compensation related to these grants is being amortized to compensation expense over the applicable restriction periods. Amortization expense from restricted stock grants in the third quarter and nine months ended September 30, 2007, were \$492,309 and \$1,303,308, respectively.

(6) Accounting for Uncertainty in Income Taxes

Effective January 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes. The implementation of FIN 48 did not have a significant impact on the Company's financial position or results of operations.

As of January 1, 2007, the Company had unrecognized tax benefits of approximately \$2,100,000 including accrued interest. Unrecognized tax benefits including accrued interest decreased to approximately \$1,800,000 during the third quarter ending September 30, 2007, primarily due to the statute of limitations expiring for the 2003 tax year. If recognized, the effective rate would be affected by the unrecognized tax benefits.

The Company recognizes interest and penalties related to unrecognized tax benefits through the provision for income taxes. The Company had accrued approximately \$175,000 for interest as of September 30, 2007. Interest recorded during the nine months ended September 30, 2007, was not considered significant.

The Company is subject to periodic and routine audits in both domestic and foreign tax jurisdictions. It is reasonably possible that the amounts of unrecognized tax benefits could change as a result of an audit. Based on the current audits in process, the payment of taxes as a result of audit settlements are not expected to have a significant impact on the Company's financial position or results of operations.

Edgar Filing: GENTEX CORP - Form 10-Q

For the majority of tax jurisdictions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2004.

- (7) Comprehensive income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For the Company, comprehensive income represents net income adjusted for items such as unrealized gains and losses on investments and foreign currency translation adjustments. Comprehensive income was as follows:

	September 30, 2007 -----	September 30, 2006 -----
Quarter Ended	\$31,155,687	\$26,549,014
Nine Months Ended	\$95,026,188	\$80,280,623

-7-

GENTEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

- (8) The increase in common stock during the nine months ended September 30, 2007, was primarily due to the issuance of 2,479,908 shares of the Company's common stock under its stock-based compensation plans, partially offset by the repurchase of 447,710 shares in the first quarter of 2007 pursuant to the Company's previously announced share repurchase plan for approximately \$7,328,000. The Company has also recorded a \$0.095 per share cash dividend in the first and second quarters and a \$0.105 per share cash dividend in the third quarter. The third quarter dividend of approximately \$15,173,000, was declared on August 14, 2007, and was paid on October 19, 2007.

- (9) Contingencies

The Company is involved in litigation with K.W. Muth and Muth Mirror Systems LLC relating to exterior mirrors with turn signal indicators. The turn signal feature in exterior mirrors currently represents approximately one percent of our revenues, and the litigation does not involve core Gentex electrochromic technology. The trial in Wisconsin related to this case occurred during July 2007. There was a hearing held on October 19, 2007, and the judge's goal is to issue written rulings related to the case by the end of the year.

While the ultimate results of litigation cannot be predicted with certainty, management currently believes that it will not have a material adverse effect on the Company's financial statements.

- (10) The Company currently manufactures electro-optic products, including automatic-dimming rearview mirrors for the automotive industry, and fire protection products for the commercial building industry:

Edgar Filing: GENTEX CORP - Form 10-Q

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue:				
Automotive Products	\$156,528,289	\$135,100,675	\$464,827,910	\$404,380,294
Fire Protection Products	5,996,514	6,164,972	18,382,687	18,297,177
Total	\$162,524,803	\$141,265,647	\$483,210,597	\$422,677,471
Operating Income:				
Automotive Products	\$ 33,544,456	\$ 28,304,238	\$101,538,736	\$ 89,549,115
Fire Protection Products	1,092,663	1,300,566	3,552,659	3,759,051
Total	\$ 34,637,119	\$ 29,604,804	\$105,091,395	\$ 93,308,166

(11) In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). This statement provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities, with changes in fair value recognized in earnings as they occur. SFAS No. 159 permits the fair value option election on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins on or after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided that the entity makes that choice in the first 120 days of that fiscal year; has not yet issued financial statements for any interim period of the fiscal year of adoption; and also elects to apply the provisions of SFAS No. 157. Currently, the Company is not planning to adopt the provisions of SFAS No. 159.

In June 2007, the FASB ratified the consensus on Emerging Issues Task Force (EITF) Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for non-vested equity-classified employee share-based payment awards as an increase to additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after September 15, 2007. While the Company is currently evaluating the provisions of EITF 06-11, the adoption is not expected to have any significant effect on the Company's consolidated financial position or results of operations.

-8-

GENTEX CORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS:

THIRD QUARTER 2007 VERSUS THIRD QUARTER 2006

Edgar Filing: GENTEX CORP - Form 10-Q

Net Sales. Net sales for the third quarter of 2007 increased by approximately \$21,259,000, or 15%, when compared with the third quarter last year. Net sales of the Company's automotive auto-dimming mirrors increased by approximately \$21,428,000, or 16%, in the third quarter of 2007, when compared with the third quarter last year, primarily due to a 15% increase in auto-dimming mirror unit shipments from approximately 3,210,000 in the third quarter 2006 to 3,706,000 in the current quarter. This unit increase primarily reflected the increased penetration of interior auto-dimming mirrors with additional electronic content. Unit shipments to customers in North America for the current quarter increased by 18% compared with the third quarter of the prior year, primarily due to increased interior mirror unit shipments for certain traditional Big Three automakers as well as Asian transplant automakers. Mirror unit shipments for the current quarter to automotive customers outside North America increased by 13% compared with the third quarter in 2006, primarily due to increased penetration at certain Asian and European automakers. Net sales of the Company's fire protection products decreased 3% for the current quarter versus the same quarter of last year.

Cost of Goods Sold. As a percentage of net sales, cost of goods sold decreased from 66% in the third quarter of 2006 to 65% in the third quarter of 2007. This percentage decrease primarily reflected the higher sales level leveraged over the fixed overhead costs, purchasing cost reductions and improved manufacturing yields, partially offset by annual customer price reductions. Each positive factor is estimated to have impacted cost of goods sold as a percentage of net sales by up to approximately 1%.

Operating Expenses. Engineering, research and development expenses for the current quarter increased 26% and approximately \$2,716,000 when compared with the same quarter last year. Excluding litigation expenses of \$1,579,000 (see discussion under "Trends and Developments"), E, R & D expenses increased by 14% when comparing the current quarter to the same quarter last year, primarily reflecting additional staffing, engineering and testing for new product development, including mirrors with additional features. Selling, general and administrative expenses increased 18% and approximately \$1,375,000, for the current quarter, when compared with the third quarter of 2006, primarily reflecting the continued expansion of the Company's overseas offices.

Total Other Income. Total other income for the current quarter increased by approximately \$3,113,000 when compared with the third quarter of 2007, primarily due to realized gains on the sale of equity investments.

Taxes. The provision for income taxes varied from the statutory rate during the current quarter, primarily due to the domestic manufacturing deduction and stock option expense tax benefit.

Net Income. Net income increased by \$5,489,000, or 23%, when compared with the same quarter last year, primarily due to increased sales and gross margin and an increase in other income.

NINE MONTHS ENDED SEPTEMBER 30, 2007, VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2006

Net Sales. Net sales for the nine months ended September 30, 2007, increased by approximately \$60,533,000, or 14%, when compared with the same nine month period last year. Net sales of the Company's automotive auto-dimming mirrors increased by approximately \$60,448,000, or 15%, as auto-dimming mirror unit shipments increased by 13% from approximately 10,010,000 in the first nine months of 2006 to 11,358,000 units in the first nine months of 2007. This increase primarily reflected the increased penetration of interior and exterior auto-dimming mirrors on 2007 and 2008

Edgar Filing: GENTEX CORP - Form 10-Q

model year vehicles. Unit shipments to customers in North America increased by 9%, during the first nine months of 2007 versus the first nine months of 2006, primarily due to increased

-9-

interior mirror unit shipments for certain traditional Big Three automakers as well as Asian transplant automakers. Mirror unit shipments to automotive customers outside North America increased by 17%, primarily due to increased penetration at certain European and Asian automakers. Net sales of the Company's fire protection products were flat on a period over period basis.

Cost of Goods Sold. As a percentage of net sales, cost of goods sold decreased slightly from 65.2% in the nine months ended September 30, 2006, to 65.0% in the nine months ended September 30, 2007. This slight percentage decrease primarily reflected the higher sales level leveraged over the fixed overhead costs, purchasing cost reductions and improved manufacturing yields, mostly offset by annual customer price reductions. Each positive factor is estimated to have impacted cost of goods sold as a percentage of net sales by approximately 1%.

Operating Expenses. For the nine months ended September 30, 2007, engineering, research and development expenses increased approximately \$7,316,000, and increased from 7% to 8% of net sales, when compared to the same period last year, primarily due to Muth litigation expense and additional staffing, engineering and testing for new product development, including mirrors with additional features. Excluding Muth litigation expense of \$4,430,000 (see discussion under "Trends and Developments"), E, R & D expenses increased by 10% for the current nine month period versus the same nine month period last year. Selling, general and administrative expenses increased approximately \$3,171,000 for the nine months ended September 30, 2007, but remained at 5% of net sales, when compared to the same period last year, primarily reflecting the continued expansion of the Company's overseas offices, partially offset by a reduction in non-income based state taxes.

Total Other Income. Total other income for the nine months ended September 30, 2007, increased \$6,427,000 when compared to the same period last year, primarily due to realized gains on the sale of equity investments.

Taxes. The provision for income taxes varied from the statutory rate during the nine months ended September 30, 2007, primarily due to the domestic manufacturing deduction and stock option expense tax benefit.

Net Income. Net income increased by \$12,335,000, or 16%, when compared with the same nine month period last year, primarily due to increased sales and gross margin and an increase in other income.

FINANCIAL CONDITION:

Cash flow from operating activities for the nine months ended September 30, 2007, increased \$3,681,000 to \$101,198,000, compared to \$97,517,000, for the same period last year, primarily due to increased net income, partially offset by changes in working capital. Capital expenditures for the nine months ended September 30, 2007, were \$38,937,000, compared to \$40,406,000 for the same period last year; the reduction was primarily due to the construction of a new facility in 2006.

Edgar Filing: GENTEX CORP - Form 10-Q

The Company also started construction of a 60,000-square-foot building addition to its exterior mirror manufacturing facility in Zeeland, Michigan, during the first quarter of 2007. The building addition is expected to be completed in the first quarter of 2008 with an approximate cost of \$6 million, which will be funded from cash and/or cash equivalents.

Cash and cash equivalents as of September 30, 2007, increased approximately \$64,613,000 compared to December 31, 2006. The increase was primarily due to cash flow from operations, less dividends paid.

Accounts receivable as of September 30, 2007, increased approximately \$17,329,000 compared to December 31, 2006. The increase was primarily due to the higher sales level, as well as monthly sales within each quarter.

Accounts payable as of September 30, 2007, increased \$10,665,000 compared to December 31, 2006. The increase was primarily due to increased capital spending and increased production levels.

Management considers the Company's working capital and long-term investments totaling approximately \$611,036,000 as of September 30, 2007, together with internally generated cash flow and an unsecured \$5,000,000

-10-

line of credit from a bank, to be sufficient to cover anticipated cash needs for the next year and for the foreseeable future.

On October 8, 2002, the Company announced a share repurchase plan, under which it may purchase up to 8,000,000 shares (post-split) based on a number of factors, including market conditions, the market price of the Company's common stock, anti-dilutive effect on earnings, available cash and other factors that the Company deems appropriate. On July 20, 2005, the Company announced that it had raised the price at which the Company may repurchase shares under the existing plan. On May 16, 2006, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 8,000,000 shares under the plan. And, on August 14, 2006, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 8,000,000 shares under the plan.

The following is a summary of quarterly share repurchase activity under the plan to date:

Quarter Ended	Total Number of Shares Purchased (Post-Split)	Cost of Shares Purchased
March 31, 2003	830,000	\$ 10,246,810
September 30, 2005	1,496,059	25,214,573
March 31, 2006	2,803,548	47,145,310
June 30, 2006	7,201,081	104,604,414
September 30, 2006	3,968,171	55,614,102
December 31, 2006	1,232,884	19,487,427
March 31, 2007	447,710	7,328,015
	-----	-----
Total	17,979,453	\$269,640,651

Edgar Filing: GENTEX CORP - Form 10-Q

6,020,547 shares remain authorized to be repurchased under the plan.

CRITICAL ACCOUNTING POLICIES:

The preparation of the Company's consolidated condensed financial statements contained in this report, which have been prepared in accordance with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluates these estimates. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Historically, actual results have not been materially different from the Company's estimates. However, actual results may differ from these estimates under different assumptions or conditions.

The Company has identified the critical accounting policies used in determining estimates and assumptions in the amounts reported in its Management's Discussion and Analysis of Financial Condition and Results of Operations in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Management believes there have been no changes in those critical accounting policies.

TRENDS AND DEVELOPMENTS:

During the first quarter of 2005, the Company negotiated an extension to its long-term agreement with General Motors (GM) in the ordinary course of the Company's business. Under the extension, the Company was sourced virtually all the interior auto-dimming rearview mirrors programs for GM and its worldwide affiliates through August 2009, and includes all but two low-volume models that had previously been awarded to a competitor under a lifetime contract. The new business also included the GMT360 program, which is the mid-size truck/SUV platform that previously did not offer auto-dimming mirrors. The new GM programs were transferred to the Company by the 2007 model year. The Company also negotiated a price reduction for the GM OnStar(R) feature in

-11-

its auto-dimming mirrors, effective January 1, 2005, in connection with GM's stated plan to make their OnStar system standard across their vehicle models over the next several years.

The Company has a long-term agreement with DaimlerChrysler in the ordinary course of the Company's business. Under the agreement, the Company will be sourced virtually all Mercedes and Chrysler interior and exterior auto-dimming rearview mirrors through December 2009. During the quarter ended September 30, 2007, the Company negotiated an extension to its global supply agreement with Chrysler in the ordinary course of the Company's business. Under the extension, the Company will be sourced virtually all Chrysler interior auto-dimming rearview mirrors through 2015. From publicly available information, the Company currently does not believe that the Daimler sale of the Chrysler unit will significantly impact the Company's current business with Chrysler or Mercedes in the near term, but there may be other information of which the Company is not aware.

During the first quarter of 2007, the Company negotiated a multi-year

Edgar Filing: GENTEX CORP - Form 10-Q

sourcing agreement with Ford Motor Company in the ordinary course of the Company's business. Under the agreement, the Company was sourced all existing interior auto-dimming rearview mirror programs as well as a number of new interior auto-dimming rearview mirror programs during the agreement term which ends December 31, 2008.

In 2000, the Company signed an agreement with Murakami Corporation, a major Japanese mirror manufacturer, to cooperate in expanding sales of auto-dimming mirrors using the Gentex electrochromic technology. During 2006, the agreement with Murakami Corporation was terminated and replaced with a memorandum of understanding, negotiated in the ordinary course of the Company's business. During the quarter ended June 30, 2007, the Company signed a new supplier agreement with Murakami Corporation in the ordinary course of the Company's business.

The Company previously announced development programs with several automakers for its Rear Camera Display (RCD) Mirror that consists of a proprietary liquid display (LCD) device that shows a panoramic video of objects behind the vehicle in real time. During the second quarter of 2007, the Company announced a number of OEM programs with Ford Motor Company and a dealer or port-installed program with Mazda to supply its Rear Camera Display Mirror, each in the ordinary course of the Company's business. The Company recently announced that the Rear Camera Display is available as a dealer or port-installed option on the Toyota Camry through Gulf States Toyota, one of two remaining independent Toyota distributorships that covers dealers in the states of Arkansas, Louisiana, Mississippi, Oklahoma and Texas.

The Company currently expects that auto-dimming mirror unit shipments and revenues for the fourth quarter of calendar year 2007 will be approximately 10-15% higher, compared with the same period in 2006. These estimates are based on light vehicle production forecasts in the regions to which the Company ships product, as well as the estimated option rates for its mirrors on prospective vehicle models. Uncertainties, including vehicle production and sales rates at the traditional Big Three automakers in North America and the ongoing UAW contract negotiations, make it difficult to forecast in the short-term.

The Company utilizes the light vehicle production forecasting services of CSM Worldwide, and CSM's current forecasts for light vehicle production for the fourth quarter of 2007 are approximately 3.6 million units for North America, 5.5 million for Europe and 3.9 million for Japan and Korea. CSM's current forecasts for light vehicle production for the calendar 2007 are approximately 15.0 million units for North America, 21.5 million for Europe and 14.7 million for Japan and Korea.

The Company is subject to market risk exposures of varying correlations and volatilities, including foreign exchange rate risk, interest rate risk and equity price risk. During the quarter ended September 30, 2007, there were no material changes in the risk factors previously disclosed in the Company's report on Form 10-K for the fiscal year ended December 31, 2006.

The Company has some assets, liabilities and operations outside the United States, which currently are not significant. Because the Company sells its automotive mirrors throughout the world, the Company could be significantly affected by weak economic conditions in worldwide markets that could reduce demand for its products.

Edgar Filing: GENTEX CORP - Form 10-Q

The Company continues to experience pricing pressures from its automotive customers, which have affected, and which will continue to affect, its margins to the extent that the Company is unable to offset the price reductions with productivity or yield improvements, engineering and purchasing cost reductions, and increases in unit sales volume, which continues to be a challenge. In addition, profit pressures at certain automakers are resulting in increased cost reduction efforts by them, including requests for additional price reductions, decontenting certain features from vehicles, and warranty cost-sharing programs, which could adversely impact the Company's sales growth, margins, profitability and, as a result, its share price. The Company also continues to experience some manufacturing yield issues and pressure for select raw material cost increases. The automotive industry is experiencing increasing financial and production stresses due to continuing pricing pressures, lower domestic production levels, supplier bankruptcies, and commodity material cost increases. If the Company's automotive customers (including their Tier 1 suppliers) experience work stoppages, strikes, etc. due to their UAW contracts or other negotiations, it could disrupt our shipments to these customers, which could adversely affect the Company's sales, margins, profitability and, as a result, its share price. The Company's largest customer, General Motors, shut down virtually all of its assembly plants in the United States due to a nationwide UAW strike at the end of September. The General Motors shut down impacted one day of shipments during the third quarter of 2007.

Automakers have been experiencing increased volatility and uncertainty in executing planned new programs which have, in some cases, resulted in cancellations or delays of new vehicle platforms, package reconfigurations and inaccurate volume forecasts. This increased volatility and uncertainty has made it more difficult for the Company to forecast future sales and effectively utilize capital, engineering, research and development, and human resource investments.

In light of the financial stresses within the worldwide automotive industry, certain automakers and tier one mirror customers are considering the sale of business segments or may be considering bankruptcy. Should one or more of the Company's larger customers (including their tier 1 suppliers) sell their business or declare bankruptcy, it could adversely affect our sales, margins, profitability and, as a result, the Company's share price.

The Company does not have any significant off-balance sheet arrangements or commitments that have not been recorded in its consolidated financial statements.

The Company is involved in litigation with K. W. Muth and Muth Mirror Systems LLC relating to exterior mirrors with turn signal indicators. The turn signal feature in exterior mirrors currently represents approximately one percent of our revenues, and the litigation does not involve core Gentex electrochromic technology. The Company is uncertain of the outcome of the trial and the impact that it may have on its exterior mirror business. Activity related to the Company's ongoing litigation increased significantly during the first quarter of 2007 and continued through the July 2007 trial in Wisconsin. There was a hearing held on October 19, 2007 and the judge's goal is to issue written rulings related to the case by the end of the year. The litigation expenses totaled \$4,430,000 for the nine months ended September 30, 2007.

On March 30, 2005, in response to the required implementation of SFAS No. 123(R) as disclosed in Note 5, the Company accelerated the vesting of current "under water" stock options. As a result of the vesting

Edgar Filing: GENTEX CORP - Form 10-Q

acceleration, approximately 2.3 million shares became immediately exercisable and an additional approximate \$13.6 million of proforma stock-based employee compensation expense was recognized in the first quarter of 2005. The objective of this Company action is primarily to avoid recognizing compensation expense associated with these options in future financial statements, upon the Company's adoption of SFAS No. 123(R). In addition, the Company has also received shareholder approval of an amendment to its Employee Stock Option Plan to allow the grant of non-qualified stock options.

In July 2007, the State of Michigan enacted a new business tax that will be effective January 1, 2008. The Company completed its evaluation of the new business tax provisions and it is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

On October 1, 2002, Magna International acquired Donnelly Corporation, the Company's major competitor for sales of automatic-dimming rearview mirrors to domestic and foreign vehicle manufacturers and their mirror

-13-

suppliers. The Company sells certain automatic-dimming rearview mirror sub-assemblies to Magna Donnelly. To date, the Company is not aware of any significant impact of Magna's acquisition of Donnelly upon the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided under the caption "Trends and Developments" under Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of its principal executive officer and principal financial officer, has evaluated the effectiveness, as of September 30, 2007, of the Company's "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, the Company's management, including the principal executive officer and principal financial officer, concluded that the Company's disclosure controls and procedures, as of September 30, 2007, were effective such that the information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In the ordinary course of business, the Company may routinely modify, upgrade, and enhance its internal controls and procedures over financial reporting. However, there was no change in the Company's "internal control over financial reporting" (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2007, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Edgar Filing: GENTEX CORP - Form 10-Q

SAFE HARBOR STATEMENT:

Statements in this Quarterly Report on Form 10-Q contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended, that are based on management's belief, assumptions, current expectations, estimates and projections about the global automotive industry, the economy, the impact of stock option expenses on earnings, the ability to leverage fixed manufacturing overhead costs, unit shipment and revenue growth rates and the Company itself. Words like "anticipates," "believes," "confident," "estimates," "expects," "forecast," "likely," "plans," "projects," and "should," and variations of such words and similar expressions identify forward-looking statements. These statements do not guarantee future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict with regard to timing, expense, likelihood and degree of occurrence. These risks include, without limitation, employment and general economic conditions, the pace of automotive production worldwide, the maintenance of the Company's relative market share, competitive pricing pressures, currency fluctuations, the financial strength of the Company's customers, supply chain disruptions, potential sale of OEM business segments or suppliers, the mix of products purchased by customers, the ability to continue to make product innovations, the success of certain newer products (e.g. SmartBeam(R), Z-Nav(R) and Rear Camera Display Mirror), and other risks identified in the Company's filings with the Securities and Exchange Commission. Therefore actual results and outcomes may materially differ from what is expressed or forecasted. Furthermore, the Company undertakes no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

-14-

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

Information regarding risk factors appears in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I - Item 2 of this Form 10-Q and in Part I - Item 1A - Risk Factors of the Company's report on Form 10-K for the fiscal year ended December 31, 2006. There have been no material changes from the risk factors previously disclosed in the Company's report on Form 10-K for the year ended December 31, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Issuer Purchases of Equity Securities

On October 8, 2002, the Company announced a share repurchase plan, under which it may purchase up to 8,000,000 shares (post-split) based on a number of factors, including market conditions, the market price of the Company's common stock, anti-dilutive effect on earnings, available cash and other factors that the Company deems appropriate. This share repurchase plan does not have an expiration date. On July 20, 2005, the Company announced that it had raised the price at which the Company may repurchase shares under the existing plan. On May 16, 2006, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 8,000,000 shares under the plan. And, on August 14, 2006, the Company announced that the Company's Board of Directors had authorized the repurchase of an

Edgar Filing: GENTEX CORP - Form 10-Q

additional 8,000,000 shares under the plan. Cumulatively, the Company has repurchased 17,979,453 shares at a cost of \$269,640,651 under the plan to date (see below). 6,020,547 shares remain authorized to be repurchased under the plan.

Quarter Ended -----	Total Number of Shares Purchased (Post-Split) -----	Cost of Shares Purchased -----
March 31, 2003	830,000	\$ 10,246,810
September 30, 2005	1,496,059	25,214,573
March 31, 2006	2,803,548	47,145,310
June 30, 2006	7,201,081	104,604,414
September 30, 2006	3,968,171	55,614,102
December 31, 2006	1,232,884	19,487,427
March 31, 2007	447,710	7,328,015
	-----	-----
Total	17,979,453	\$269,640,651

ITEM 6. EXHIBITS

(a) See Exhibit Index on Page 17.

-15-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENTEX CORPORATION

Date: November 2, 2007

/s/ Fred T. Bauer

Fred T. Bauer
Chairman and Chief Executive Officer

Date: November 2, 2007

/s/ Steven A. Dykman

Steven A. Dykman
Vice President - Finance, Principal
Financial and Accounting Officer

-16-

EXHIBIT INDEX

EXHIBIT NO.

DESCRIPTION

PAGE

Edgar Filing: GENTEX CORP - Form 10-Q

-
- 3 (a) Registrant's Restated Articles of Incorporation, adopted on August 20, 2004, were filed as Exhibit 3(a) to Registrant's Report on Form 10-Q dated November 2, 2004, and the same is hereby incorporated herein by reference.
- 3 (b) Registrant's Bylaws as amended and restated February 27, 2003, were filed as Exhibit 3(b)(1) to Registrant's Report on Form 10-Q dated May 5, 2003, and the same are hereby incorporated herein by reference.
- 4 (a) A specimen form of certificate for the Registrant's common stock, par value \$.06 per share, was filed as part of a Registration Statement on Form S-8 (Registration No. 2-74226C) as Exhibit 3(a), as amended by Amendment No. 3 to such Registration Statement, and the same is hereby incorporated herein by reference.
- 4 (b) Amended and Restated Shareholder Protection Rights Agreement, dated as of March 29, 2001, including as Exhibit A the form of Certificate of Adoption of Resolution Establishing Series of Shares of Junior Participating Preferred Stock of the Company, and as Exhibit B the form of Rights Certificate and of Election to Exercise, was filed as Exhibit 4(b) to Registrant's Report on Form 10-Q dated April 27, 2001, and the same is hereby incorporated herein by reference.
- 10 (a) (1) A Lease dated August 15, 1981, was filed as part of a Registration Statement on Form S-1 (Registration Number 2-74226C) as Exhibit 9(a)(1), and the same is hereby incorporated herein by reference.
- 10 (a) (2) First Amendment to Lease dated June 28, 1985, was filed as Exhibit 10(m) to Registrant's Report on Form 10-K dated March 18, 1986, and the same is hereby incorporated herein by reference.
- *10 (b) (1) Gentex Corporation Qualified Stock Option Plan (as amended and restated, effective February 26, 2004) was included in Registrant's Proxy Statement dated April 6, 2004, filed with the Commission on April 6, 2004, which is hereby incorporated herein by reference.
- *10 (b) (2) First Amendment to Gentex Corporation Stock Option Plan (as amended and restated February 26, 2004) was filed as Exhibit 10(b)(2) to Registrant's Report on Form 10-Q dated August 2, 2005, and the same is hereby incorporated herein by reference.
- *10 (b) (3) Specimen form of Grant Agreement for the Gentex Corporation Qualified Stock Option Plan (as amended and restated, effective February 26, 2004) was filed as Exhibit 10(b)(3) to Registrant's Report on Form 10-Q dated November 1, 2005, and the same is hereby incorporated herein by reference.
- *10 (b) (4) Gentex Corporation Second Restricted Stock Plan was filed as Exhibit 10(b)(2) to Registrant's Report on Form 10-Q dated April 27, 2001, and the same is hereby incorporated herein by reference.
- *10 (b) (5) Specimen form of Grant Agreement for the Gentex Corporation Restricted Stock Plan, was filed as Exhibit 10(b)(4) to Registrant's Report on Form 10-Q dated November 2, 2004, and the same is hereby incorporated herein by reference.

Edgar Filing: GENTEX CORP - Form 10-Q

-17-

EXHIBIT NO. -----	DESCRIPTION -----	PAGE ----
*10(b) (6)	Gentex Corporation 2002 Non-Employee Director Stock Option Plan (adopted March 6, 2002), was filed as Exhibit 10(b) (4) to Registrant's Report on Form 10-Q dated April 30, 2002, and the same is incorporated herein by reference.	
*10(b) (7)	Specimen form of Grant Agreement for the Gentex Corporation 2002 Non-Employee Director Stock Option Plan, was filed as Exhibit 10(b) (6) to Registrant's Report on Form 10-Q dated November 2, 2004, and the same is hereby incorporated herein by reference.	
*10(b) (8)	Confidential Severance Agreement and Release between Gentex Corporation and Garth Deur was filed as Exhibit 10(b) (8) to Registrant's Report on Form 10-Q dated August 1, 2006, and the same is incorporated herein by reference.	
10(e)	The form of Indemnity Agreement between Registrant and each of the Registrant's directors and certain officers was filed as Exhibit 10 (e) to Registrant's Report on Form 10-Q dated October 31, 2002, and the same is incorporated herein by reference.	
31.1	Certificate of the Chief Executive Officer of Gentex Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).	19
31.2	Certificate of the Chief Financial Officer of Gentex Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).	20
32	Certificate of the Chief Executive Officer and Chief Financial Officer of Gentex Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)	21

*	Indicates a compensatory plan or arrangement.	

-18-