

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 JUNE 30, 1997, 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 38-2030505  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

600 N. CENTENNIAL, ZEELAND, MICHIGAN 49464  
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 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   
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APPLICABLE ONLY TO CORPORATE USERS:

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 July 14, 1997 -----
Common Stock, \$0.06 Par Value	35,028,985

Exhibit Index located at page 10

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

GENTEX CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
AT JUNE 30, 1997 AND DECEMBER 31, 1996

	ASSETS	
	-----	-----
	June 30, 1997	December 31, 1996
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,666,591	\$ 16,730,356
Short term investments	15,465,427	31,803,621
Accounts receivable, net	21,484,437	17,015,174
Inventories	9,402,711	6,180,422
Prepaid expenses and other	1,366,519	966,287
	-----	-----
Total current assets	59,385,685	72,695,860
PLANT AND EQUIPMENT - NET	37,220,133	31,574,547
OTHER ASSETS		
Long-term investments	66,876,110	33,945,446
Patents and other assets, net	2,224,608	2,162,567
	-----	-----
Total other assets	69,100,718	36,108,013
	-----	-----
Total assets	\$165,706,536	\$140,378,420
	=====	=====

	LIABILITIES AND SHAREHOLDERS' INVESTMENT	
	-----	-----
	June 30, 1997	December 31, 1996
	-----	-----
CURRENT LIABILITIES		
Accounts payable	\$ 10,182,021	\$ 5,794,832
Accrued liabilities	6,485,314	5,566,085
	-----	-----
Total current liabilities	16,667,335	11,360,917
DEFERRED INCOME TAXES	1,695,540	1,213,862
SHAREHOLDERS' INVESTMENT		
Common stock	2,101,739	2,084,957
Additional paid-in capital	48,480,837	44,963,895
Other shareholders' equity	96,761,085	80,754,789
	-----	-----
Total shareholders' investment	147,343,661	127,803,641
	-----	-----
Total liabilities and shareholders' investment	\$165,706,536	\$140,378,420
	=====	=====

See accompanying notes to condensed consolidated financial statements.

GENTEX CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30		Six Months Ended June 30	
	1997	1996	1997	1996
NET SALES	\$44,873,334	\$38,672,711	\$86,775,456	\$74,580,794
COST OF GOODS SOLD	29,068,728	24,181,145	56,238,684	46,559,097
	-----		-----	
Gross profit	15,804,606	14,491,566	30,536,772	28,021,697
OPERATING EXPENSES:				
Research and development	2,406,945	1,907,698	4,484,212	3,634,932
Selling, general & administrative	2,779,137	2,728,007	5,469,528	6,370,011
Patent settlement	0	0	0	4,000,000
	-----		-----	
Total operating expenses	5,186,082	4,635,705	9,953,740	14,004,943
	-----		-----	
Income from operations	10,618,524	9,855,861	20,583,032	14,016,754
OTHER INCOME (EXPENSE)				
Interest and dividend income	1,020,651	768,705	1,972,300	1,583,980
Other, net	213,671	(282)	236,793	17,199
	-----		-----	
Total other income	1,234,322	768,423	2,209,093	1,601,179
	-----		-----	
Income before provision for federal income taxes	11,852,846	10,624,284	22,792,125	15,617,933
PROVISION FOR FEDERAL INCOME TAXES	3,852,000	3,400,000	7,407,000	5,048,000
	-----		-----	
NET INCOME	\$8,000,846	\$7,224,284	\$15,385,125	\$10,569,933
	=====		=====	
EARNINGS PER SHARE	\$0.22	\$0.20	\$0.43	\$0.30
WEIGHTED DAILY AVERAGE OF COMMON STOCK OUTSTANDING	35,812,342	35,606,575	35,785,633	35,214,307

See accompanying notes to condensed consolidated financial statements.

GENTEX CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE SIX MONTHS ENDED JUNE 30, 1997 AND 1996

	1997	1996
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 15,385,125	\$ 10,569,933
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	3,037,338	1,990,480
Loss (Gain) on disposal of equipment	5,319	(81)
Deferred income taxes	(149,458)	1,372,259
Amortization of deferred compensation	284,510	235,200
Change in assets and liabilities:		
Accounts receivable, net	(4,469,263)	(2,886,760)
Inventories	(3,222,289)	(842,428)
Prepaid expenses and other	(115,172)	(177,838)
Accounts payable	4,387,189	4,749,531
Accrued liabilities	919,229	(2,908,747)
	-----	-----
Net cash provided by operating activities	16,062,528	12,101,549
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Decrease in short-term investments	16,338,194	2,019,148
Plant and equipment additions	(8,593,511)	(9,465,242)
Proceeds from sale of plant and equipment	1,500	627
Increase in long-term investments	(31,941,877)	(3,817,935)
Increase in other assets	(172,511)	(136,024)
	-----	-----
Net cash used for investing activities	(24,368,205)	(11,399,426)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock and tax benefit of stock plan transactions	3,241,912	5,388,521
	-----	-----
Net cash provided by financing activities	3,241,912	5,388,521
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,063,765)	6,090,644
CASH AND CASH EQUIVALENTS, beginning of period	16,730,356	14,115,041
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CASH AND CASH EQUIVALENTS, end of period	\$ 11,666,591	\$ 20,205,685
	=====	=====

See accompanying notes to condensed consolidated financial statements

## GENTEX CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- (1) The 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 generally accepted accounting principles 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 condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Registrant's 1996 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 June 30, 1997, and December 31, 1996, and the results of operations and cash flows for the interim periods presented.
- (3) Inventories consisted of the following at the respective quarter ends:

	June 30, 1997	December 31, 1996
	-----	-----
Raw materials	\$5,915,205	\$3,860,534
Work-in-process	348,336	348,336
Finished goods	3,139,170	1,971,552
	-----	-----
	\$9,402,711	\$6,180,422
	=====	=====

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

## RESULTS OF OPERATIONS:

## SECOND QUARTER 1997 VERSUS SECOND QUARTER 1996

Net Sales. Net sales for the second quarter of 1997 increased by approximately \$6,201,000, or 16%, when compared with the second quarter last year. Net sales of the Company's automotive mirrors increased by 17% as automatic mirror unit shipments increased by 11% from approximately 811,000 in the second quarter of 1996 to 897,000 in the current quarter. This increase reflected increased penetration on foreign 1997 and 1998 model year vehicles for interior and exterior electrochromic Night Vision Safety(TM) (NVS(R)) Mirrors. Mirror unit shipments to automotive customers outside North America increased by 82% compared with the second quarter in 1996, primarily due to increased shipments of exterior aspheric mirrors for Mercedes-Benz and new interior mirror programs. Shipments to customers in North America decreased by 13%, compared with an approximate 2% decline in North American light vehicle production, primarily due to strikes at two major customers. Net sales of the Company's fire protection products increased 7%, primarily due to increased sales of the Company's audible signals, strobes and AC/DC smoke detectors.

Cost of Goods Sold. As a percentage of net sales, cost of goods sold increased from 63% in the second quarter of 1996 to 65% for the comparable period in 1997. This increased percentage primarily reflected automotive customer price reductions not fully offset by productivity improvements, relatively low yields on the Company's new aspheric and "thin glass" exterior mirrors as shipments increased during the quarter, production support start-up expenses for the new 1998 model year mirror programs, and temporary under-utilization of the Company's State Street automotive products manufacturing facility.

Operating Expenses. Research and development expenses increased approximately \$499,000, but remained at approximately 5% of net sales, when compared with the same quarter last year, primarily reflecting additional staffing for new product development, including aspheric exterior mirrors, thin glass exterior mirrors, and mirrors with other electronic features. Selling, general and administrative expenses increased approximately \$51,000, but decreased from 7% to 6% of net sales, when compared with the second quarter of 1996. This increased expense primarily reflected increased sales expense in Europe to support higher sales and increased Michigan Single Business Tax expense due to increased profitability, offset by lower patent litigation legal expense accruals of \$30,000, compared to \$300,000 last year.

Other Income - Net. Investment income increased by approximately \$252,000 when compared with the second quarter of 1996, primarily due to the higher investable fund balances and higher interest rates. Other income in the second quarter primarily reflected net realized gains on the sale of equity investments of \$168,000.

## SIX MONTHS ENDED JUNE 30, 1997 VERSUS SIX MONTHS ENDED JUNE 30, 1996

Net Sales. Net sales for the six months ended June 30, 1997, increased by approximately \$12,195,000, or 16%, when compared with the same period last year. Automatic mirror unit shipments increased from approximately 1,531,000 in the first six months of 1996 to 1,760,000 in the first six months of 1997. This increase reflected increased penetration on foreign 1997 model year vehicles for interior and exterior electrochromic Night Vision Safety(TM) (NVS(R)) Mirrors. Mirror unit shipments to automotive customers outside North America increased by 65% compared with the first six months of 1996, primarily due to increased shipments of exterior aspheric mirrors for Mercedes-Benz and new interior mirror programs. Shipments to customers in North America decreased by 2%, primarily due to strikes at two major customers. Net sales of the Company's fire protection products increased 9%, primarily due to increased sales of the Company's audible signals, strobes and AC/DC smoke detectors.

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

SIX MONTHS ENDED JUNE 30, 1997 VERSUS SIX MONTHS ENDED JUNE 30, 1996 (CONT.)

Cost of Goods Sold. As a percentage of net sales, cost of goods sold increased from 62% in the first six months of 1996 to 65% for the comparable period in 1997. This increased percentage primarily reflected automotive customer price reductions not fully offset by productivity improvements, relatively low yields on the Company's new aspheric and "thin glass" exterior mirrors as shipments began during the period, production support start-up expenses for the new 1998 model year mirror programs, and temporary under-utilization of the Company's State Street automotive products manufacturing facility.

Operating Expenses. For the six months ended June 30, 1997, research and development expenses increased approximately \$849,000, but remained at 5% of net sales, when compared with the same period last year, primarily reflecting additional staffing for new product development, including aspheric exterior mirrors, thin glass exterior mirrors, and mirrors with other electronic features. Selling, general and administrative expenses decreased approximately \$900,000, and decreased from 9% to 6% of net sales, when compared with the first six months of 1996. This decreased expense primarily reflected lower patent litigation accruals of \$60,000, compared to \$1,500,000 last year, as a result of the patent litigation settlement in 1996, partially offset by increased Michigan Single Business tax expense due to increased profitability. During the first quarter in 1996, the Company recorded a one-time charge of \$4,000,000 in connection with the settlement of its patent litigation with Donnelly Corporation.

Other Income - Net. Investment income for the six months ended June 30, 1997, increased by approximately \$388,000 as compared to the first six months of 1996, primarily due to the higher investable fund balances and higher interest rates.

FINANCIAL CONDITION:

Management considers the Company's working capital and long-term investments totaling approximately \$109,594,000 at June 30, 1997, together with internally generated cash flow and an unsecured \$5,000,000 line of credit from a bank, to be sufficient to cover anticipated cash needs for the foreseeable future.

TRENDS AND DEVELOPMENTS:

In addition to price reductions over the life of its long-term contracts, 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 improvements, engineering and purchasing cost reductions, and increases in unit sales volume. In addition, the Company continues to experience some pressure for raw material cost increases. The Company began volume shipments of its new aspheric exterior mirrors during the first quarter and began volume shipments of its new thin glass exterior mirrors toward the end of the second quarter; therefore, margins will be adversely affected to the extent that the Company is unable to improve glass yields to target levels and ramp-up production on schedule.

Due to the Company's relatively small number of large automotive customers, the Company's quarterly operating results are affected by the levels and timing of customer releases, which can significantly vary due to automotive industry sales and production levels, strikes at customer plants and plant vacation shutdowns. The Company currently supplies NVS(R) Mirrors to BMW, Chrysler Corporation, Ford Motor Company and General Motors Corporation under long-term contracts. The General Motors contract is in effect through the 1998 model year, and the contracts with BMW are in effect for the four-year period ending March 31, 1999. The term of the Ford contract is through December 1999, and the Chrysler contract runs through the 1999 Model Year.

During February 1997, the Financial Accounting Standards Board issued statement of Financial Accounting Standard (FAS) No. 128 "Earnings Per Share." This standard is effective for periods ending after December 15, 1997. The Company will adopt FAS No. 128 in its fourth quarter for the year ending December 31, 1997. The Company does not expect the impact of FAS No. 128 to materially affect the financial statements.

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## Item 6. Exhibits and Reports on Form 8-K

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- (a) See Exhibit Index on Page 11.
- (b) No reports on Form 8-K were filed during the three months ended June 30, 1997.



## 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 7/30/97  
-----/s/ Fred T. Bauer  
-----Fred T. Bauer  
Chairman and Chief  
Executive OfficerDate 7/30/97  
-----/s/ Enoch C. Jen  
-----Enoch C. Jen  
Vice President-Finance,  
Principal Financial and  
Accounting Officer

## EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----	PAGE -----
3(a)	Registrant's Articles of Incorporation were filed in 1981 as Exhibit 2(a) to a Registration Statement on Form S-18 (Registration No. 2-74226C), an Amendment to those Articles was filed as Exhibit 3 to Registrant's Report on Form 10-Q in August of 1985, an additional Amendment to those Articles was filed as Exhibit 3(a)(i) to Registrant's Report on Form 10-Q in August of 1987, and an additional Amendment to those Articles was filed as Exhibit 3(a)(2) to Registrant's Report on Form 10-K dated March 10, 1992, all of which are hereby incorporated herein by reference. Amendment to Articles of Incorporation, adopted on May 9, 1996, was filed as Exhibit 3(a)(2) to Registrant's Report on Form 10-Q dated July 31, 1996, and the same is incorporated herein by reference.	
3(b)	Registrant's Bylaws as amended and restated August 18, 1995 were filed as Exhibit 3(b) to Registrant's Report on Form 10-Q dated November 1, 1995, and the same is 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-18 (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)	Shareholder Protection Rights Agreement, dated as of August 26, 1991, 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 8-K on August 20, 1991, and the same is hereby incorporated herein by reference.	
4(b)(1)	First Amendment to Shareholder Protection Rights Agreement, effective April 1, 1994, was filed as Exhibit 4(b)(1) to Registrant's report on Form 10-Q on April 29, 1994, and the same is hereby incorporated herein by reference.	
4(b)(2)	Second Amendment to Shareholder Protection Rights Agreement, effective November 8, 1996, was filed as Exhibit 4(b)(2) to Registrant's Report on Form 10-K, dated March 7, 1997, 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 (Registration Number 2-74226C) as Exhibit 9(a)(1), and the same is hereby incorporated herein by reference.	
10(a)(2)	A 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 March 7, 1997), was filed as Exhibit 10(b)(1) to Registrant's Report on Form 10-K dated March 7, 1997, and the same is hereby incorporated herein by reference.	

EXHIBIT NO. -----	DESCRIPTION -----	PAGE ----
*10(b)(2)	Gentex Corporation 1987 Incentive Stock Option Plan (as amended through May 24, 1989), was filed as Exhibit 10(g)(3) to Registrant's Report on Form 10-K dated March 1, 1990, and the same is hereby incorporated herein by reference.	
*10(b)(3)	Gentex Corporation Restricted Stock Plan was filed as Exhibit 10(b)(3) to Registrant's Report on Form 10-K dated March 10, 1992, and the same is hereby incorporated herein by reference.	
*10(b)(4)	Gentex Corporation Non-Employee Director Stock Option Plan (as amended and restated, effective March 7, 1997) was filed as Exhibit 10(b)(4) to Registrant's Report on Form 10-K dated March 7, 1997, and the same is incorporated herein in reference.	
10(e)	The form of Indemnity Agreement between Registrant and each of the Registrant's directors was filed as a part of a Registration Statement on Form S-2 (Registration No. 33-30353) as Exhibit 10(k) and the same is hereby incorporated herein by reference.	
27	Financial Data Schedule	

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\* Indicates a compensatory plan or arrangement.

6-MOS  
DEC-31-1997  
JUN-30-1997  
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