

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 MARCH 31, 1998, 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 (I.R.S. Employer Identification No.)  
incorporation or organization)

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

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   
-----

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<br>-----                 | Shares Outstanding<br>at April 16, 1998<br>----- |
|--------------------------------|--|
| Common Stock, \$0.06 Par Value | 35,718,114                                       |

Exhibit Index located at page 10

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

## GENTEX CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

AT MARCH 31, 1998 AND DECEMBER 31, 1997

|  | ASSETS         |                   |
|--|----------------|-------------------|
|  | March 31, 1998 | December 31, 1997 |
|  | -----          | -----             |
| CURRENT ASSETS                                 |                |                   |
| Cash and cash equivalents                      | \$37,091,553   | \$26,768,647      |
| Short term investments                         | 17,372,305     | 14,362,736        |
| Accounts receivable, net                       | 27,507,613     | 24,515,525        |
| Inventories                                    | 8,470,962      | 8,787,689         |
| Prepaid expenses and other                     | 1,502,320      | 1,484,839         |
|  | -----          | -----             |
| Total current assets                           | 91,944,753     | 75,919,436        |
| PLANT AND EQUIPMENT - NET                      | 52,188,748     | 42,238,885        |
| OTHER ASSETS                                   |                |                   |
| Long-term investments                          | 72,448,922     | 70,291,142        |
| Patents and other assets, net                  | 1,375,154      | 1,333,384         |
|  | -----          | -----             |
| Total other assets                             | 73,824,076     | 71,624,526        |
|  | -----          | -----             |
| Total assets                                   | \$217,957,577  | \$189,782,847     |
|  | =====          | =====             |
| LIABILITIES AND SHAREHOLDERS' INVESTMENT       |                |                   |
| CURRENT LIABILITIES                            |                |                   |
| Accounts payable                               | \$11,500,572   | \$8,760,256       |
| Accrued liabilities                            | 11,109,537     | 5,830,968         |
|  | -----          | -----             |
| Total current liabilities                      | 22,610,109     | 14,591,224        |
| DEFERRED INCOME TAXES                          | 2,912,347      | 1,986,446         |
| SHAREHOLDERS' INVESTMENT                       |                |                   |
| Common stock                                   | 2,337,337      | 2,123,949         |
| Additional paid-in capital                     | 58,953,085     | 53,654,663        |
| Other shareholders' equity                     | 131,144,699    | 117,426,565       |
|  | -----          | -----             |
| Total shareholders' investment                 | 192,435,121    | 173,205,177       |
|  | -----          | -----             |
| Total liabilities and shareholders' investment | \$217,957,577  | \$189,782,847     |
|  | =====          | =====             |

See accompanying notes to condensed consolidated financial statements.

GENTEX CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND 1997

|   | 1998<br>-----         | 1997<br>-----        |
|---|-----------------------|----------------------|
| NET SALES   | \$56,979,402          | \$41,902,122         |
| COST OF GOODS SOLD                                  | 34,340,509<br>-----   | 27,169,956<br>-----  |
| Gross profit  | 22,638,893            | 14,732,166           |
| OPERATING EXPENSES:                                 |                       |                      |
| Research and development                            | 2,579,229             | 2,077,268            |
| Selling, general<br>& administrative                | 3,036,013<br>-----    | 2,690,391<br>-----   |
| Total operating expenses                            | 5,615,242<br>-----    | 4,767,659<br>-----   |
| Income from operations                              | 17,023,651            | 9,964,507            |
| OTHER INCOME  |                       |                      |
| Interest and dividend income                        | 1,246,187             | 951,649              |
| Other, net  | 305,445<br>-----      | 23,122<br>-----      |
| Total other income                                  | 1,551,632<br>-----    | 974,771<br>-----     |
| Income before provision<br>for federal income taxes | 18,575,283            | 10,939,278           |
| PROVISION FOR FEDERAL INCOME TAXES                  | 6,074,000<br>-----    | 3,555,000<br>-----   |
| NET INCOME  | \$12,501,283<br>===== | \$7,384,278<br>===== |
| Earnings Per Share                                  |                       |                      |
| Basic   | \$0.35                | \$0.21               |
| Diluted   | \$0.34                | \$0.21               |
| Weighted Average Shares:                            |                       |                      |
| Basic   | 35,562,598            | 34,818,212           |
| Diluted   | 36,678,188            | 35,745,958           |

See accompanying notes to condensed consolidated financial statements.

GENTEX CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND 1997

|   | 1998                | 1997                |
|---|---------------------|---------------------|
|   | -----               | -----               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                     |                     |
| Net income  | \$12,501,283        | \$7,384,278         |
| Adjustments to reconcile net income to net cash provided by operating activities- |                     |                     |
| Depreciation and amortization   | 2,145,732           | 1,519,844           |
| Loss on disposal of equipment   | 30,395              | 5,319               |
| Deferred income taxes   | (120,968)           | 44,130              |
| Amortization of deferred compensation   | 123,638             | 154,424             |
| Change in assets and liabilities:   |                     |                     |
| Accounts receivable, net  | (2,992,088)         | (3,231,461)         |
| Inventories   | 316,727             | (1,673,419)         |
| Prepaid expenses and other  | 237,269             | (152,932)           |
| Accounts payable  | 2,740,316           | 3,173,662           |
| Accrued liabilities   | 5,278,569           | 1,438,910           |
|   | -----               | -----               |
| Net cash provided by operating activities   | 20,260,873          | 8,662,755           |
|   | -----               | -----               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                     |                     |
| Decrease (increase) in short-term investments                                     | (3,009,569)         | 9,604,573           |
| Plant and equipment additions   | (11,949,293)        | (3,056,724)         |
| Proceeds from sale of plant and equipment   | 0                   | 1,500               |
| Decrease (increase) in long-term investments                                      | 105,417             | (22,134,246)        |
| Increase in other assets  | (220,064)           | (77,167)            |
|   | -----               | -----               |
| Net cash used for investing activities  | (15,073,509)        | (15,662,064)        |
|   | -----               | -----               |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                     |                     |
| Issuance of common stock and tax benefit of stock plan transactions               | 5,135,542           | 2,357,763           |
|   | -----               | -----               |
| Net cash provided by financing activities   | 5,135,542           | 2,357,763           |
|   | -----               | -----               |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                       | <b>10,322,906</b>   | <b>(4,641,546)</b>  |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                             | <b>26,768,647</b>   | <b>16,730,356</b>   |
|   | -----               | -----               |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>                                   | <b>\$37,091,553</b> | <b>\$12,088,810</b> |
|   | =====               | =====               |

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 1997 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 March 31, 1998, and December 31, 1997, and the results of operations and cash flows for the interim periods presented.
- (3) Inventories consisted of the following at the respective quarter ends:

|                 | March 31, 1998 | December 31, 1997 |
|-----------------|----------------|-------------------|
|                 | -----          | -----             |
| Raw materials   | \$4,837,372    | \$4,931,434       |
| Work-in-process | 600,298        | 600,298           |
| Finished goods  | 3,033,292      | 3,255,957         |
|                 | -----          | -----             |
|                 | \$8,470,962    | \$8,787,689       |
|                 | =====          | =====             |

- (4) Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130: "Reporting Comprehensive Income". This statement establishes standards for reporting and display of comprehensive income and its components. 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 Gentex, comprehensive income represents net income adjusted for items such as unrealized gains and losses on certain investments and foreign currency translation adjustments. Comprehensive income was approximately \$13,971,000 and \$7,216,000 for the quarters ended March 31, 1998 and 1997, respectively.

## GENTEX CORPORATION AND SUBSIDIARIES

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

## RESULTS OF OPERATIONS:

## FIRST QUARTER 1998 VERSUS FIRST QUARTER 1997

Net Sales. Net sales for the first quarter of 1998 increased by approximately \$15,077,000, or 36%, when compared with the first quarter last year. Net sales of the Company's automotive mirrors increased by 42% as automatic mirror unit shipments increased by 47% from approximately 863,000 in the first quarter of 1997 to 1,268,000 in the current quarter. This increase reflected increased penetration on domestic and foreign 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 43% compared with the first quarter in 1997, primarily due to increased aspheric exterior mirror sub-assembly shipments for Mercedes-Benz. Shipments to customers in North America increased by 49%, despite nearly flat North American light vehicle production, primarily due to increased mirror shipments for light trucks and sport/utility vehicles. Net sales of the Company's fire protection products decreased 5%, primarily due to lower than expected sales of certain of the Company's audible and visual signals, and generally light industry sales.

Cost of Goods Sold. As a percentage of net sales, cost of goods sold decreased from 65% in the first quarter of 1997 to 60% for the comparable period in 1998. This decreased percentage primarily reflected improved yields on the Company's new aspheric, convex and thin flat exterior mirrors and increased sales volume spread over fixed overhead expenses.

Operating Expenses. Research and development expenses increased approximately \$502,000, but remained at 5% of net sales, when compared with the same quarter last year, primarily reflecting additional staffing for new product development, including mirrors with additional electronic features. Selling, general and administrative expenses increased approximately \$346,000, but decreased from 6% to 5% of net sales, when compared with the first quarter of 1997. This increased expense primarily reflected increased selling expenses associated with the higher sales level, including opening a sales and engineering office in Japan.

Other Income - Net. Other income increased by approximately \$577,000 when compared with the first quarter of 1997, primarily due to higher investable fund balances and realized gains on the sale of equity investments.

## FINANCIAL CONDITION:

Management considers the Company's working capital and long-term investments totaling approximately \$141,784,000 at March 31, 1998, 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 agreements, 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.

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

TRENDS AND DEVELOPMENTS (CONT.):

The Company currently supplies NVS(R) Mirrors to BMW, Chrysler Corporation, Ford Motor Company and General Motors Corporation under long-term agreements. The BMW long-term contract is through March 31, 1999, and the long-term supply agreement with Chrysler Corporation runs through the 2003 Model Year. The term of the Ford contract is through December 1999, while the GM contract runs through the 1998 Model Year for exterior mirrors and through the 2002 Model Year for interior mirrors.

The Company has developed a plan to ensure that its computer systems will be compliant by mid 1999 with the Year 2000. The Company currently believes that the cost of addressing the Year 2000 issue will not be material to the Company's business, operations or financial condition.

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

- (a) See Exhibit Index on Page 10.
- (b) No reports on Form 8-K were filed during the three months ended March 31, 1998.



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 04/30/98                    /s/ Fred T. Bauer  
-----  
Fred T. Bauer  
Chairman and Chief  
Executive Officer

Date 04/30/98                    /s/ Enoch C. Jen  
-----  
Enoch C. Jen  
Vice President-Finance,  
Principal Financial and  
Accounting Officer

## EXHIBIT INDEX

| EXHIBIT NO. | DESCRIPTION   | PAGE |
|-------------|---|------|
| 3(a)(1)     | 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. |      |
| 3(a)(2)     | 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)(1)     | 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.  |      |
| 3(b)(2)     | First Amendment to Bylaws, adopted on August 25, 1997, was filed as Exhibit 3(c) to Registrant's Report on Form 10-Q dated October 31, 1997, and the same is 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-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.   |      |

| EXHIBIT NO. | DESCRIPTION   | PAGE |
|-------------|---|------|
| *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.          |      |
| *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.

|             |             |              |
|-------------|-------------|--------------|
| 3-MOS       |             |              |
|             | DEC-31-1998 |              |
|             | MAR-31-1998 |              |
|             |             | 37,091,553   |
|             |             | 17,372,305   |
|             |             | 27,507,613   |
|             |             | 0            |
|             |             | 8,470,962    |
|             |             | 91,944,753   |
|             |             | 74,788,598   |
|             |             | (22,599,850) |
|             |             | 217,957,577  |
|             | 22,610,109  |              |
|             |             | 0            |
|             | 0           |              |
|             |             | 0            |
|             |             | 2,337,337    |
|             |             | 190,097,784  |
| 217,957,577 |             |              |
|             |             | 56,979,402   |
|             |             | 56,979,402   |
|             |             | 34,340,509   |
|             |             | 34,340,509   |
|             |             | (1,551,632)  |
|             |             | 0            |
|             |             | 0            |
|             |             | 18,575,283   |
|             |             | 6,074,000    |
|             | 12,501,283  |              |
|             |             | 0            |
|             |             | 0            |
|             |             | 0            |
|             |             | 0            |
|             |             | 12,501,283   |
|             |             | 0.35         |
|             |             | 0.34         |