

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, 1996, 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

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	Shares Outstanding at April 16, 1996
-----	-----
Common Stock, \$0.06 Par Value	17,082,982

Exhibit Index located at page 9

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

## GENTEX CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

At March 31, 1996 and December 31, 1995

	ASSETS	
	March 31, 1996	December 31, 1995
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$13,676,787	\$14,115,041
Short term investments	22,894,463	20,162,189
Accounts receivable, net	16,432,759	14,706,156
Inventories	6,350,404	5,735,519
Prepaid expenses and other	621,891	1,342,640
	-----	-----
Total current assets	59,976,304	56,061,545
PLANT AND EQUIPMENT - NET	22,363,104	18,942,115
OTHER ASSETS		
Long-term investments	35,076,554	32,146,422
Patents and other assets, net	2,161,078	2,093,439
	-----	-----
Total other assets	37,237,632	34,239,861
	-----	-----
Total assets	\$119,577,040	\$109,243,521
	=====	=====
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$7,216,185	\$5,422,658
Accrued liabilities	10,717,496	8,627,409
	-----	-----
Total current liabilities	17,933,681	14,050,067
DEFERRED INCOME TAXES	1,097,140	521,674
SHAREHOLDERS' INVESTMENT		
Common stock	1,024,979	1,013,752
Additional paid-in capital	39,456,190	37,128,320
Other shareholder's equity	60,065,050	56,529,708
	-----	-----
Total shareholders' investment	100,546,219	94,671,780
	-----	-----
Total liabilities and shareholders' investment	\$119,577,040	\$109,243,521
	=====	=====

See accompanying notes to condensed consolidated financial statements.



GENTEX CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 For the Three Months Ended March 31, 1996 and 1995

	1996	1995
	-----	-----
NET SALES	\$35,908,083	\$26,042,968
COST OF GOODS SOLD	22,377,952	15,426,405
	-----	-----
Gross profit	13,530,131	10,616,563
OPERATING EXPENSES:		
Research and development	1,727,234	1,388,550
Selling, general & administrative	3,642,004	3,068,884
Patent settlement	4,000,000	0
	-----	-----
Total operating expenses	9,369,238	4,457,434
	-----	-----
Income from operations	4,160,893	6,159,129
OTHER INCOME		
Interest and dividend income	815,275	627,217
Other, net	17,481	61,836
	-----	-----
Total other income	832,756	689,053
	-----	-----
Income before provision for federal income taxes	4,993,649	6,848,182
PROVISION FOR FEDERAL INCOME TAXES	1,648,000	2,261,000
	-----	-----
NET INCOME	\$3,345,649	\$4,587,182
	=====	=====
EARNINGS PER SHARE	\$0.19	\$0.27
WEIGHTED DAILY AVERAGE OF COMMON STOCK OUTSTANDING	17,380,981	17,057,610

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, 1996 and 1995

	1996	1995
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$3,345,649	\$4,587,182
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	989,598	764,609
Gain on disposal of equipment	0	(5,000)
Deferred income taxes	1,362,768	78,160
Amortization of deferred compensation	115,510	74,477
Change in assets and liabilities:		
Accounts receivable, net	(1,726,603)	91,069
Inventories	(614,885)	171,487
Prepaid expenses and other	(66,553)	148,656
Accounts payable	1,793,527	25,577
Accrued liabilities	2,090,087	2,146,234
	-----	-----
Net cash provided by operating activities	7,289,098	8,082,451
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in short-term investments	(2,732,274)	(4,187,898)
Plant and equipment additions	(4,363,901)	(1,012,232)
Proceeds from sale of plant and equipment	0	5,000
Decrease (Increase) in long-term investments	(2,954,245)	1,477,025
Increase in other assets	(99,591)	(23,669)
	-----	-----
Net cash used for investing activities	(10,150,011)	(3,741,774)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock and tax benefit of stock plan transactions	2,422,659	1,445,095
	-----	-----
Net cash provided by financing activities	2,422,659	1,445,095
	-----	-----
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(438,254)</b>	<b>5,785,772</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>14,115,041</b>	<b>11,183,991</b>
	-----	-----
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$13,676,787</b>	<b>\$16,969,763</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 1995 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, 1996, and December 31, 1995, and the results of operations and cash flows for the interim periods presented.
- (3) Inventories consisted of the following at the respective quarter end:

	March 31, 1996	December 31, 1995
	-----	-----
Raw materials	\$4,111,638	\$3,294,254
Work-in-process	358,206	358,206
Finished goods	1,880,560	2,083,059
	-----	-----
	\$6,350,404	\$5,735,519
	=====	=====

- (4) The Company has been involved in patent litigation with Donnelly Corporation since 1990 concerning a number of patents relating to electrochromic mirrors owned by the Company and Donnelly.

During the quarter, the Company reached a settlement agreement with Donnelly to resolve the patent litigation pending between the two companies. Under the agreement:

The companies have cross-licensed certain patents (for the life of the patents) that each company may practice within its own "core" electrochromic technology area.

The Company will pay Donnelly \$6 million (plus a \$200,000 contingent payment if Donnelly prevails in its lighted mirror patent appeal) as full and complete satisfaction of all of Donnelly's patent infringement claims.

The companies agreed not to pursue litigation against each other on certain other patents for a period of four years.

The Company recorded a one-time charge of \$4,000,000 (\$6,000,000 payment, net of accrued reserves) in connection with the settlement of its patent litigation with Donnelly.

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

## RESULTS OF OPERATIONS:

## FIRST QUARTER 1996 VERSUS FIRST QUARTER 1995

Net Sales. Net sales for the first quarter of 1996 increased by approximately \$9,865,000, or 38%, when compared with the first quarter last year. Net sales of the Company's automotive mirrors increased by 43% as automatic mirror unit shipments increased from approximately 518,000 in the first quarter of 1995 to 720,000 in the current quarter. This increase primarily reflected increased penetration on domestic and foreign 1996 model year vehicles for interior and exterior electrochromic Night Vision Safety(TM) (NVS(R)) Mirrors. Net sales of the Company's fire protection products increased 11%, as shipments to other customers offset reduced shipments of its strobe warning light to a major customer that has developed its own strobe product.

Cost of Goods Sold. As a percentage of net sales, cost of goods sold increased from 59% in the first quarter of 1995 to 62% for the comparable period in 1996. This increased percentage primarily reflects automotive customer price reductions for the 1996 model year, as well as changes in the Company's product mix of automotive mirror shipments.

Operating Expenses. Research and development expenses increased approximately \$339,000, but remained at 5% of net sales, when compared with the same quarter last year, primarily reflecting additional staffing and contractual services. Selling, general and administrative expenses increased approximately \$573,000, but decreased from 12% to 10% of net sales, when compared with the first quarter of 1995. This increased expense primarily reflected higher patent litigation legal expense accruals of \$1,200,000, compared to \$900,000 last year. During the first quarter of 1996, the Company recorded a one-time charge of \$4,000,000 (\$6,000,000 payment, net of accrued reserves) in connection with the settlement of its patent litigation with Donnelly Corporation.

Other Income - Net. Investment income increased by approximately \$188,000 when compared with the first quarter of 1995, 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 \$77,119,000 at March 31, 1996, 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, including the payment of \$6,000,000 in April 1996 to settle all outstanding patent litigation with Donnelly Corporation.

## TRENDS AND DEVELOPMENTS:

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 through the 1998 model year, and the contracts with BMW are 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.

The Company has agreed to price reductions over the life of its long-term contracts and 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 cost reductions and increases in unit sales volume. In addition, the Company continues to experience some pressure for raw material cost increases.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

During the quarter, the Company reached a settlement agreement with Donnelly Corporation to resolve all patent litigation pending between the two companies. See footnote (4) to the Condensed Consolidated Financial Statements on Page 5 of this report.

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

(a) See Exhibit Index on Page 9.

(b) No reports on Form 8-K were filed during the three months ended March 31, 1996.



## 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 04/30/96

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/s/ Fred T. Bauer

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Fred T. Bauer  
Chairman and Chief  
Executive Officer

Date 04/30/96

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/s/ Enoch C. Jen

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Enoch C. Jen  
Vice President-Finance,  
Principal Financial and  
Accounting Officer

## EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION	PAGE
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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 12, 1994, was filed as Exhibit 3(a)(2) to Registrant's Report on Form 10-Q dated April 28, 1995, and the same is hereby 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.	
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 May 11, 1995), was filed as Exhibit 10(b)(1) to Registrant's Report on Form 10-Q dated August 1, 1995, 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.	

EXHIBIT NO.	DESCRIPTION	PAGE
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*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 through March 5, 1993, was filed as Exhibit 10(b)(4) to Registrant's Report on Form 10-K dated March 5, 1993, 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-31-1996  
MAR-31-1996  
13,676,787  
22,894,463  
16,622,293  
(189,534)  
6,350,404  
59,976,304  
35,535,574  
(13,172,470)  
119,577,040  
17,933,681

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1,024,979  
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35,908,083  
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