

Edgar Filing: GENTEX CORP - Form 10-Q

GENTEX CORP  
Form 10-Q  
October 31, 2006

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

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006, 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  x 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):

Large Accelerated Filer  x Accelerated Filer  Non-accelerated Filer   
--- --- ---

Indicate by a check mark whether the registrant is a shell company (as defined

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in Rule 12b-2 of the Exchange Act).

Yes      No    x  
 ---      ---

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 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 ISSUERS:

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 20, 2006 -----
Common Stock, \$0.06 Par Value	143,238,050

Exhibit Index located at page 17  
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### PART I. FINANCIAL INFORMATION

#### ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

##### GENTEX CORPORATION AND SUBSIDIARIES

##### CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2006 ----- (Unaudited)	December 31, 2005 ----- (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$251,224,408	\$439,681,693
Short-term investments	81,842,157	67,331,928
Accounts receivable, net	71,098,343	60,924,437
Inventories	44,353,691	39,836,822
Prepaid expenses and other	11,463,484	11,212,647
	-----	-----
Total current assets	459,982,083	618,987,527
PLANT AND EQUIPMENT - NET	183,664,510	164,030,341
OTHER ASSETS		

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Long-term investments	135,523,153	132,524,966
Patents and other assets, net	7,551,255	7,102,968
	-----	-----
Total other assets	143,074,408	139,627,934
	-----	-----
Total assets	\$786,721,001	\$922,645,802
	=====	=====
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$ 32,575,153	\$ 23,607,927
Accrued liabilities	37,873,457	34,480,332
	-----	-----
Total current liabilities	70,448,610	58,088,259
DEFERRED INCOME TAXES	22,888,034	22,962,168
SHAREHOLDERS' INVESTMENT		
Common stock	8,594,283	9,362,639
Additional paid-in capital	195,700,888	194,476,306
Retained earnings	472,630,956	623,301,775
Other shareholders' investment	16,458,230	14,454,655
	-----	-----
Total shareholders' investment	693,384,357	841,595,375
	-----	-----
Total liabilities and shareholders' investment	\$786,721,001	\$922,645,802
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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GENTEX CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30		Nine Months Ended September	
	2006	2005	2006	2005
	-----	-----	-----	-----
NET SALES	\$141,265,647	\$138,114,897	\$422,677,471	\$398,114,897
COST OF GOODS SOLD	93,387,125	86,918,447	275,669,763	248,114,897
	-----	-----	-----	-----
Gross profit	47,878,522	51,196,450	147,007,708	150,000,000
OPERATING EXPENSES:				
Engineering, research and development	10,536,334	9,140,231	30,658,131	28,140,231
Selling, general & administrative	7,737,384	6,762,837	23,041,411	21,762,837
	-----	-----	-----	-----
Total operating expenses	18,273,718	15,903,068	53,699,542	49,903,068
	-----	-----	-----	-----
Income from operations	29,604,804	35,293,382	93,308,166	100,096,932
OTHER INCOME (EXPENSE)				
Interest and dividend income	4,794,928	4,456,050	15,181,565	14,456,050
Other, net	1,308,341	1,033,387	5,588,374	5,033,387
	-----	-----	-----	-----
Total other income	6,103,269	5,489,437	20,769,939	19,489,437

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Income before provision for income taxes	35,708,073	40,782,819	114,078,105	11
PROVISION FOR INCOME TAXES	11,370,152	12,847,000	36,133,077	3
NET INCOME	\$ 24,337,921	\$ 27,935,819	\$ 77,945,028	\$ 7
EARNINGS PER SHARE:				
Basic	\$ 0.17	\$ 0.18	\$ 0.52	\$
Diluted	\$ 0.17	\$ 0.18	\$ 0.52	\$
Cash Dividends Declared per Share	\$ 0.095	\$ 0.09	\$ 0.275	\$

See accompanying notes to condensed consolidated financial statements.

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GENTEX CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For nine months ended September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 77,945,028	\$ 79,909,839
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	20,613,394	18,123,855
(Gain) loss on disposal of assets	74,784	440,254
(Gain) loss on sale of investments	(4,620,523)	(3,012,538)
Deferred income taxes	(1,664,489)	(1,856,619)
Amortization of deferred compensation	1,277,801	1,303,406
Stock based compensation expense related to employee stock options and employee stock purchases	5,276,900	0
Tax benefit of stock plan transactions	0	1,777,169
Excess tax benefits from stock based compensation	(214,212)	0
Change in operating assets and liabilities:		
Accounts receivable, net	(10,173,906)	(20,358,912)
Inventories	(4,516,869)	(6,313,927)
Prepaid expenses and other	576,552	(771,654)
Accounts payable	8,967,226	7,668,807
Accrued liabilities, excluding dividends declared	3,975,320	8,269,956
Net cash provided by operating activities	97,517,006	85,179,636
CASH FLOWS FROM INVESTING ACTIVITIES:		
Plant and equipment additions	(40,406,163)	(41,775,680)
Proceeds from sale of plant and equipment	294,361	40,753
(Increase) decrease in investments	(10,707,990)	13,504,039
Increase in other assets	259,826	(1,102,532)
Net cash provided by (used for) investing activities	(50,559,966)	(29,333,420)

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### CASH FLOWS FROM FINANCING ACTIVITIES:

Issuance of common stock from stock plan transactions	12,832,072	12,796,239
Cash dividends paid	(41,096,783)	(39,793,723)
Repurchases of common stock	(207,363,826)	(25,214,573)
Excess tax benefits from stock based compensation	214,212	0
	-----	-----
Net cash provided by (used for) financing activities	(235,414,325)	(52,212,057)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(188,457,285)	3,634,159
CASH AND CASH EQUIVALENTS, beginning of period	439,681,693	395,538,719
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 251,224,408	\$399,172,878
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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### 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 2005 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, 2006, 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, 2006	December 31, 2005
	-----	-----
Raw materials	\$27,856,244	\$24,628,200
Work-in-process	4,141,178	3,739,394
Finished goods	12,356,269	11,469,228
	-----	-----
	\$44,353,691	\$39,836,822
	=====	=====

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- (4) All earnings per share amounts, weighted daily average of shares of common stock outstanding, common stock, and additional paid-in capital have been restated, to reflect the Company's announcement on April 1, 2005, of a two-for-one stock split effected in the form of a 100 percent common stock dividend for each outstanding share, issued to shareholders on May 6, 2005. The ex-dividend date was May 9, 2005.
- (5) 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 30,	
	2006	2005	2006	2005
Numerators:				
Numerator for both basic and diluted EPS, net income	\$ 24,337,921	\$ 27,935,819	\$ 77,945,028	\$ 79,909,839
Denominators:				
Denominator for basic EPS, weighted-average shares outstanding	144,879,673	155,817,978	149,871,596	155,545,871
Potentially dilutive shares resulting from stock plans	212,411	1,640,438	569,929	1,591,194
Denominator for diluted EPS	145,092,084	157,458,416	150,441,525	157,137,065
Shares related to stock plans not included in diluted average common shares outstanding because their effect would be antidilutive	9,045,847	3,104,212	6,770,393	4,430,072

(6) Stock-Based Compensation Plans

At September 30, 2006, the Company had two stock option plans, a restricted plan and an employee stock purchase plan, which are described more fully below. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), "Shares-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

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GENTEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

(6) Stock-Based Compensation Plans (continued)

of our consolidated financial statements in our Annual Report on Form 10-K

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for the calendar year ended December 31, 2005, for additional information related to these stock-based compensation plans.

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 2006 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, 2006, were \$1,807,010, \$1,266,162, and \$.01 per share lower, and \$5,276,900, \$3,513,977 and \$.02 per share lower, respectively, than if we had continued to account for stock-based compensation under APB Opinion No. 25 for our stock option grants. Compensation cost capitalized as part of inventory as of September 30, 2006, was \$91,852. The cumulative effect of the change in accounting for forfeitures was not material.

We receive a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the options are sold over the exercise price of the options. Prior to the adoption of SFAS 123(R), we reported all tax benefits resulting from the exercise of stock options as operating cash flows in our consolidated statement of cash flows. In accordance with SFAS 123(R), for the nine months ended September 30, 2006, we revised our consolidated statement of cash flows presentation to report the tax benefits from the exercise of stock options as financing cash flows. For the nine months ended September 30, 2006, \$214,212 of tax benefits from the exercise of stock options and vested restricted stock were reported as financing cash flows rather than operating cash flows.

Net cash proceeds from the exercise of stock options and employee stock purchases were \$4,089,009 and \$12,927,745, respectively, for the third quarter and nine months ended September 30, 2006. The actual income tax benefit realized from stock option exercises and vested restricted stock are \$319,057 and \$1,223,936, respectively, for the same periods.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation for the third quarter and nine months ended September 30, 2005:

	Three Months Ended September 30, 2005 -----	Nine Months Ended September 30, 2005 -----
Net Income, as reported	\$27,935,819	\$ 79,909,839
Deduct: Total stock-based employee compensation expense determined under fair value-based method of all awards, net of tax effects	(1,332,871)	(19,349,947)
	-----	-----
Pro forma net income	\$26,602,948	\$ 60,559,892

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	=====	=====
Earnings per share:		
Basic - as reported	\$ .18	\$ .51
Basic - pro forma	\$ .17	\$ .39
Diluted - as reported	\$ .18	\$ .51
Diluted - pro forma	\$ .17	\$ .39

On March 30, 2005, in response to the required implementation of SFAS No. 123(R), the Company accelerated the vesting of current "under water" stock options. As a result of the vesting acceleration, approximately 2.3 million shares became immediately exercisable and an additional approximate \$13.6 million of proforma stock-based employee compensation

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GENTEX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

(6) Stock-Based Compensation Plans (continued)

expense was recognized in the first quarter 2005, that otherwise would have been recognized as follows: \$6.1 million in 2005; \$4.5 million in 2006; \$2.2 million in 2007 and \$0.8 million in 2008-2009. The objective of this Company action was primarily to avoid recognizing compensation expense associated with these options in future financial statements, upon the Company's adoption of SFAS 123(R), effective January 1, 2006. In addition, the Company also received shareholder approval of an amendment to its Employee Stock Option Plan to allow the grant of non-qualified stock options.

Employee Stock Option Plan

In 2004, a new Employee Stock Option Plan was approved, replacing the prior plan. The Company may grant options for up to 18,000,000 shares under its new Employee Stock Option Plan. The Company has granted options on 5,378,608 shares (net of shares from canceled options) under the new plan through September 30, 2006. 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 three to seven years.

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,	
	2006	2005	2006	2005
Dividend yield	1.94%	2.05%	1.97%	2.05%
Expected volatility	29.80%	26.04%	30.18%	38.12%
Risk-free interest rate	4.69%	4.13%	4.89%	4.00%
Expected term of options (in years)	4.93	4.39	4.57	4.37
Weighted-average grant-date fair value	\$ 3.97	\$ 3.99	\$ 4.15	\$ 5.21



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The Company determined that all employee groups exhibit similar exercise and post-vesting termination behavior to determine the expected term.

As of September 30, 2006, there was \$9,579,726 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 4.4 years.

A summary of the status of the Company's employee stock option plan for the third quarter and nine months ended September 30, 2006, and changes during the same periods, are presented in the table and narrative below:

	Three Months Ended September 30, 2006				Nine Months	
	Shares (000)	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contract Life	Aggregate Intrinsic Value (000)	Shares (000)	Wtd. A Ex. Pr
Outstanding at Beginning of Period	10,646	\$17			10,510	\$17
Granted	466	14			1,322	15
Exercised	(300)	12		\$ 725	(914)	12
Forfeited	(89)	17			(195)	18
	-----	---			-----	---
Outstanding at End of Period	10,723	17	3.0 Yrs	\$1,923	10,723	17
	-----	---	-----	-----	-----	---
Exercisable at End of Period	7,434	\$17	2.3 Yrs	\$1,502	7,434	\$17

A summary of the status of the Company's non-vested employee stock option activity for the third quarter and nine months ended September 30, 2006, are presented in the table and narrative below:

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### GENTEX CORPORATION AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

##### (6) Stock-Based Compensation Plans (cont.)

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	Shares (000)	Wtd. Avg. Grant Date Fair Value	Shares (000)	Wtd. Avg. Grant Date Fair Value
Non-vested stock options at beginning of period	3,113	\$5.13	3,069	\$5.65
Granted	466	3.97	1,322	4.15
Vested	(270)	7.03	(1,041)	7.03
Forfeited	(20)	5.05	(61)	5.51
	-----	-----	-----	-----

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Non-vested stock options at end of period	3,289	\$4.91	3,289	\$4.91
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### Non-employee Director Stock Option Plan

The Company has a Non-employee Director Stock Option Plan covering 1,000,000 shares that was approved, replacing a prior plan. The Company has granted options on 315,240 shares (net of shares from canceled options) under the current plan through September 30, 2006. 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.

As of September 30, 2006, there was \$61,173 of unrecognized compensation cost related to share-based payments which is expected to be recognized over the balance of the 2006 calendar year.

A summary of the status of the Company's Non-employee Director Stock Option Plan for the third quarter and nine months ended September 30, 2006, and changes during the third quarter and nine months ended September 30, 2006, are presented in the table and narrative below:

	Three Months Ended September 30, 2006				Nine Months	
	Shares (000)	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contract Life	Aggregate Intrinsic Value (000)	Shares (000)	Wtd. A Ex. Pr
Outstanding at Beginning of Period	453	\$15			445	\$14
Granted	0	0			48	15
Exercised	(40)	7		\$267	(80)	6
Forfeited	(72)	16			(72)	16
	---	---			---	---
Outstanding at End of Period	341	15	6.5 Yrs	\$311	341	15
	---	---	-----	----	---	---
Exercisable at End of Period	293	\$15	6.0 Yrs	\$311	293	\$15

A summary of the status of the Company's non-vested non-employee director stock option plan activity for the third quarter and nine months ended September 30, 2006, are presented in the table and narrative below:

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	Shares (000)	Wtd. Avg. Grant Date Fair Value	Shares (000)	Wtd. Avg. Grant Date Fair Value
Non-vested stock options at beginning of period	48	\$5.61	0	\$ 0
Granted	0	0	48	5.61
Vested	0	0	0	0
Forfeited	0	0	0	0
	---	-----	---	-----
Non-vested stock options at end of period	48	\$5.61	48	\$5.61

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## Employee Stock Purchase Plan

In 2003, a new Employee Stock Purchase Plan covering 1,200,000 shares was approved, replacing a prior plan. The Company has sold a total of 412,502 shares under the new plan through September 30, 2006. The Company sells shares at

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## GENTEX CORPORATION AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

#### (6) Stock-Based Compensation Plans (cont.)

85% of the stock's market price at date of purchase. The weighted average fair value of shares sold in 2006 was approximately \$13.03.

#### Restricted Stock Plan

The Company has a Restricted Stock Plan covering 1,000,000 shares of common stock that was approved, 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 a committee, appointed by the Board of Directors, but may not exceed ten years. The Company has 549,790 shares outstanding as of September 30, 2006, and 131,410 shares were granted with a restriction period of five years at market prices ranging from \$14.00 to \$17.09 year to date. As of September 30, 2006, the Company has unearned stock-based compensation of \$5,179,679 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.

- (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, 2006 -----	September 30, 2005 -----
Quarter Ended	\$26,549,014	\$31,843,635
Nine Months Ended	\$80,280,623	\$81,765,670

- (8) The decrease in common stock during the nine months ended September 30, 2006, was primarily due the repurchase of 13,972,800 shares for approximately \$207,364,000, partially offset by the issuance of 1,166,868 shares, respectively, of the Company's common stock under its stock-based compensation plans. The Company has also recorded a \$0.09 per share cash

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dividend in the first and second quarters and a \$0.095 per share cash dividend in the third quarter. The third quarter dividend of approximately \$13,608,000, was declared on August 14, 2006, and was paid on October 20, 2006.

- (9) 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:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
<b>Revenue:</b>				
Automotive Products	\$135,100,675	\$131,696,221	\$404,380,294	\$379,781,156
Fire Protection Products	6,164,972	6,418,676	18,297,177	18,359,906
	-----	-----	-----	-----
Total	\$141,265,647	\$138,114,897	\$422,677,471	\$398,141,062
	=====	=====	=====	=====
<b>Operating Income:</b>				
Automotive Products	\$ 28,304,238	\$ 33,810,716	\$ 89,549,115	\$ 98,146,950
Fire Protection Products	1,300,566	1,482,666	3,759,051	4,137,874
	-----	-----	-----	-----
Total	\$ 29,604,804	\$ 35,293,382	\$ 93,308,166	\$102,284,824
	=====	=====	=====	=====

- (10) In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB statement No. 109, "Accounting for Income Taxes." Interpretation No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of Interpretation No. 48 is not expected to have any significant effect on the Company's consolidated financial position or results of operations.

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### GENTEX CORPORATION AND SUBSIDIARIES

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

##### RESULTS OF OPERATIONS:

##### THIRD QUARTER 2006 VERSUS THIRD QUARTER 2005

Net Sales. Net sales for the third quarter of 2006 increased by approximately \$3,151,000, or 2%, when compared with the third quarter last year. Net sales of the Company's automotive auto-dimming mirrors increased

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by approximately \$3,404,000, or 3%, in the third quarter of 2006, when compared with the third quarter last year, primarily due to improved product mix with additional electronic content in mirrors and an increase in auto-dimming mirror unit shipments from approximately 3,198,000 in the third quarter of 2005 to 3,210,000 in the current quarter. Unit shipments to customers in North America for the current quarter decreased by 8% compared with the third quarter of the prior year, primarily due to lower production levels at the traditional Big Three. Mirror unit shipments for the current quarter to automotive customers outside North America increased by 8% compared with the third quarter in 2005, primarily due to increased penetration at certain European and Asian automakers. Net sales of the Company's fire protection products decreased 4% 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 increased from 63% in the third quarter of 2005 to 66% in the third quarter of 2006, when comparing the current quarter to the same quarter last year, primarily reflecting the impact of automotive customer price reductions. Stock option expense impacted cost of goods sold by \$566,000.

Operating Expenses. Engineering, research and development expenses for the current quarter increased 15% and approximately \$1,396,000, when compared with the same quarter last year. Excluding stock option expense of \$605,000, E, R & D expenses increased by 9% 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 electronic features. Selling, general and administrative expenses increased 14% and approximately \$975,000, for the current quarter, when compared with the third quarter of 2005. Excluding stock option expense of \$637,000, S, G & A expenses increased by 5%, when comparing the current quarter to the same quarter last year, primarily reflecting the continued expansion of the Company's overseas sales offices, partially offset by a reduction in state taxes.

Total Other Income. Total other income for the current quarter increased by approximately \$614,000 when compared with the third quarter of 2005, primarily due to increased interest income due to higher interest rates partially offset by lower investable funds, and 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 Extra Territorial Income Exclusion Act exempted taxable income, domestic manufacturing deduction, tax-exempt investment income and stock option expense.

Net Income. The Company's net income for the current quarter decreased by \$3,598,000, or 13%, when compared with the same quarter last year. Excluding stock option expense of \$1,266,000, the Company's net income decreased 8%.

NINE MONTHS ENDED SEPTEMBER 30, 2006, VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2005

Net Sales. Net sales for the nine months ended September 30, 2006, increased by \$24,536,000, or 6%, when compared with the same period last year. Net sales of the Company's automotive auto-dimming mirrors increased by \$24,599,000, or 6%, as auto-dimming mirror unit shipments increased by 7% from approximately 9,323,000 in the first nine months of 2005 to 10,010,000 units in the first nine months of 2006. This increase primarily reflected the increased penetration of interior and exterior auto-dimming mirrors on 2006 and 2007 model year vehicles. Unit shipments to customers in North America increased by 3% as a result of increased unit shipments to

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transplants, partially offset by reduced shipments to domestic automakers due to their lower production levels. Mirror shipments to automotive customers outside North America increased by 11%, primarily due to increased penetration at certain European and Asian automakers. Net sales of the Company's fire protection products were flat.

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Cost of Goods Sold. As a percentage of net sales, cost of goods sold increased from 63% in the nine months ended September 30, 2005, to 65% in the nine months ended September 30, 2006, when compared to the same period last year, primarily reflecting the impact of automotive customer price reductions. Stock option expense impacted cost of goods sold by \$1,683,000.

Operating Expenses. For the nine months ended September 30, 2006, engineering, research and development expenses increased approximately \$4,742,000, but remained at 7% of net sales, when compared to the same period last year. Excluding stock option expense of \$1,881,000, E, R & D expenses increased by 11% for the current period versus the same period last year, primarily due to additional staffing, engineering and testing for new product development, including mirrors with additional electronic features. Selling, general and administrative expenses increased approximately \$2,427,000 for the nine months ended September 30, 2006, but remained at 5% of net sales, when compared to the same period last year. Excluding stock option expense of \$1,712,000, S, G & A expense increased by 3% versus the same period in the prior year, primarily reflecting the continued expansion of the Company's overseas sales offices.

Total Other Income. Total other income for the nine months ended September 30, 2006, increased \$6,397,000 when compared to the same period last year, primarily due to increased interest income due to higher interest rates and 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, 2006, primarily due to Extra Territorial Income Exclusion Act exempted taxable income, domestic manufacturing deduction, tax-exempt investment income and stock option expense.

Net Income. The Company's net income for the nine months ended September 30, 2006, decreased \$1,965,000, or 2%, when compared to the same period last year, primarily due to stock option expense and automotive customer price reductions. Excluding stock option expense of \$3,514,000, the Company's net income increased by 2%.

### FINANCIAL CONDITION:

Cash flow from operating activities for the nine months ended September 30, 2006, increased to \$97,517,000, compared to \$85,180,000, for the same period last year, primarily due to slower growth in accounts receivable. Capital expenditures for the nine months ended September 30, 2006, increased to \$40,406,000, compared to \$41,776,000 for the same period last year, primarily due to increased purchase of manufacturing equipment.

The Company has completed the construction of its fourth automotive manufacturing facility and a new technical center. The Company has invested approximately \$38 million for the new facilities during 2004-2006, which was funded from its cash and cash equivalents on hand.

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Accounts receivable as of September 30, 2006, increased approximately \$10,174,000 compared to December 31, 2005. The increase was primarily due to the higher sales level, as well as monthly sales within each quarter.

Management considers the Company's working capital and long-term investments totaling approximately \$525,057,000 as of September 30, 2006, 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 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 eight million shares under the plan. On August 14, 2006, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional eight million shares under the plan. During the quarter ended March 31, 2003, the Company repurchased 830,000 shares (post-split) at a cost of approximately \$10,247,000. During the quarter ended September 30, 2005, the Company repurchased approximately 1,496,000 shares at a cost of approximately \$25,215,000. During the

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quarter ended March 31, 2006, the Company repurchased approximately 2,804,000 shares at a cost of approximately \$47,145,000. During the quarter ended June 30, 2006, the Company repurchased approximately 7,201,000 shares at a cost of approximately \$104,604,000. During the quarter ended September 30, 2006, the Company repurchased approximately 3,968,000 shares at a cost of approximately \$55,614,000. Approximately 7,701,000 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, 2005. Management believes there have been no changes in those critical accounting policies, except as noted below.

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### STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of SFAS No. 123(R). The Company utilizes the Black-Scholes model, which requires the input of subjective assumptions. These assumptions include estimating (a) the length of time employees will retain their vested stock options before exercising them ("expected term"), (b) the volatility of the Company's common stock price over the expected term, (c) the number of options that will ultimately not complete their vesting requirements ("forfeitures") and (d) expected dividends. Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amounts recognized on the consolidated condensed statements of operations.

### 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 will be sourced all of 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 includes the GMT360 program, which is the mid-size truck/SUV platform that previously did not offer auto-dimming mirrors. The new GM programs will be transferred to the Company by no later than the 2007 model year. We have estimated that this new business represented incremental auto-dimming mirror units in the range of 500,000 on an annualized basis at that time. The Company also negotiated a price reduction for the GM OnStar(R) feature in 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.

During the quarter ended September 30, 2005, the Company negotiated an extension to its long-term agreement with DaimlerChrysler in the ordinary course of the Company's business. Under the extension, the Company will be sourced virtually all Mercedes and Chrysler interior and exterior auto-dimming rearview mirrors through December 2009.

The Company currently expects that auto-dimming mirror unit shipments will be 5% higher in the fourth quarter of calendar year 2006, compared with the fourth quarter of 2005. 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.

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The Company utilizes the light vehicle production forecasting services of CSM Worldwide, and CSM's current forecasts for light vehicle production for calendar 2006 are approximately 15.3 million units for North America, 20.3 million for Europe and 14.2 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, 2006, 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, 2005.



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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, it could be significantly affected by weak economic conditions in worldwide markets that could reduce demand for its products.

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. 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 and margins. 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.

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.

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

On March 30, 2005, in response to the required implementation of SFAS No. 123(R) as disclosed in Note 6, the Company accelerated the vesting of current "under water" stock options. As a result of the vesting 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. 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.

On April 1, 2005, the Company announced a two-for-one stock split effected in the form of a 100 percent common stock dividend for each outstanding share, issued to shareholders on May 6, 2005. The ex-dividend date was May 9, 2005.

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 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.

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### 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 Results of Operations and Financial Condition.

### ITEM 4. CONTROLS AND PROCEDURES

The management, with the participation of its principal executive officer and principal financial officer, has evaluated the effectiveness, as of September 30, 2006, 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, 2006, were effective to provide reasonable assurance that 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 to provide reasonable assurance that 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, 2006, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### 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 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 economic recovery in the U.S. and in international markets, the pace of automotive production worldwide, the types of products purchased by customers, competitive pricing pressures, currency fluctuations, the financial strength of the Company's customers, the mix of products purchased by customers, the ability to continue to make product innovations, the success of newly introduced products (e.g. SmartBeam), and other risks identified in the Company's filings with the Securities and Exchange Commission. Therefore actual

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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.

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### 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, 2005. There have been no material changes from the risk factors previously disclosed in the Company's report form on Form 10-K.

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

##### (c) Issuer Purchases of Equity Securities

The following is a summary of share repurchase activity during the third quarter ended September 30, 2006:

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of a Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan
-----	-----	-----	-----	-----
July 2006	630,297	\$13.34	630,297	3,039,015
August 2006	1,763,771	\$13.97	1,763,771	9,275,244
September 2006	1,574,103	\$14.33	1,574,103	7,701,141
	-----		-----	
Total	3,968,171		3,968,171	

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. During the quarter ended March 31, 2003, the Company repurchased 830,000 shares (post-split) at a cost of approximately \$10,247,000. During the quarter ended September 30, 2005, the Company repurchased approximately 1,496,000 shares at a cost of approximately \$25,215,000. During the quarter ended March 31, 2006, the Company repurchased approximately 2,804,000 shares at a cost of approximately \$47,145,000. During the quarter ended June 30, 2006, the Company repurchased approximately 7,201,000 shares at a cost of approximately \$104,604,000. On May 16, 2006, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional eight million shares

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under the plan. On August 14, 2006, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional eight million shares under the plan.

ITEM 6. EXHIBITS

(a) See Exhibit Index on Page 17.

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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: October 31, 2006

/s/ Fred T. Bauer

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Fred T. Bauer  
Chairman and Chief Executive Officer

Date: October 31, 2006

/s/ Enoch C. Jen

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Enoch C. Jen  
Senior Vice President & Chief Financial  
Officer, Principal Financial and  
Accounting Officer

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EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----	PAGE ----
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.	

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- 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.

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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)	

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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

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\* Indicates a compensatory plan or arrangement.