

GENTEX CORP  
Form 10-Q  
May 02, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended March 31, 2012,

March 31, 2012,

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 Number: 0-10235

**GENTEX CORPORATION**

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(Exact name of registrant as specified in its charter)

**Michigan**  
(State or other jurisdiction of  
incorporation or organization)

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

**600 N. Centennial, Zeeland, Michigan**  
(Address of principal executive offices)

**49464**  
(Zip Code)

**(616) 772-1800**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE 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 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 April 20, 2012
Common Stock, \$0.06 Par Value	144,213,755

Exhibit Index located at page 22



**GENTEX CORPORATION AND SUBSIDIARIES****PART I - FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements.****GENTEX CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>ASSETS</u>	
	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 370,804,725	\$ 357,986,774
Short-term investments	51,989,936	60,808,237
Accounts receivable, net	139,296,845	110,389,715
Inventories	200,751,160	188,753,312
Prepaid expenses and other	23,425,298	34,354,946
<b>Total current assets</b>	<b>786,267,964</b>	<b>752,292,984</b>
<b>PLANT AND EQUIPMENT - NET</b>	<b>309,663,660</b>	<b>282,541,588</b>
<b>OTHER ASSETS</b>		
Long-term investments	146,155,364	128,168,165
Patents and other assets, net	13,060,218	13,024,265
<b>Total other assets</b>	<b>159,215,582</b>	<b>141,192,430</b>
<b>Total assets</b>	<b>\$ 1,255,147,206</b>	<b>\$ 1,176,027,002</b>
<b><u>LIABILITIES AND SHAREHOLDERS' INVESTMENT</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 72,986,047	\$ 65,470,573
Accrued liabilities	57,118,552	35,223,927
<b>Total current liabilities</b>	<b>130,104,599</b>	<b>100,694,500</b>
<b>DEFERRED INCOME TAXES</b>	<b>54,771,435</b>	<b>48,213,981</b>
<b>SHAREHOLDERS' INVESTMENT</b>		
Common stock	8,653,024	8,644,174
Additional paid-in capital	401,647,926	395,229,891
Retained earnings	638,299,049	610,702,253
Other shareholders' investment	21,671,173	12,542,203
<b>Total shareholders' investment</b>	<b>1,070,271,172</b>	<b>1,027,118,521</b>
<b>Total liabilities and shareholders' investment</b>	<b>\$ 1,255,147,206</b>	<b>\$ 1,176,027,002</b>

See accompanying notes to condensed consolidated financial statements.

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**GENTEX CORPORATION AND SUBSIDIARIES**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME****For the Three Months Ended March 31, 2012 and 2011**

	2012	2011
NET SALES	\$ 290,706,762	\$ 250,945,897
COST OF GOODS SOLD	189,880,269	160,629,160
Gross profit	100,826,493	90,316,737
OPERATING EXPENSES:		
Engineering, research and development	23,215,134	18,914,761
Selling, general & administrative	12,110,396	11,311,102
Total operating expenses	35,325,530	30,225,863
Operating income	65,500,963	60,090,874
OTHER INCOME:		
Investment income	596,023	499,570
Other, net	2,690,337	2,864,818
Total other income	3,286,360	3,364,388
Income before provision for income taxes	68,787,323	63,455,262
PROVISION FOR INCOME TAXES	22,442,739	21,122,380
NET INCOME	\$ 46,344,584	\$ 42,332,882
EARNINGS PER SHARE:		
Basic	\$ 0.32	\$ 0.30
Diluted	\$ 0.32	\$ 0.29
Cash Dividends Declared per Share	\$ 0.13	\$ 0.12

**GENTEX CORPORATION AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the Three Months Ended March 31, 2012 and 2011**

	2012	2011
Comprehensive income	55,473,554	47,312,805

See accompanying notes to condensed consolidated financial statements.

## GENTEX CORPORATION AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 46,344,584	\$ 42,332,882
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,674,712	10,552,370
(Gain) loss on disposal of assets	161,487	507,022
(Gain) loss on sale of investments	(1,494,565)	(2,371,430)
Impairment loss on available-for-sale securities	0	0
Deferred income taxes	880,311	2,003,651
Stock-based compensation expense related to employee stock options, employee stock purchases and restricted stock	3,960,579	3,101,524
Excess tax benefits from stock-based compensation	(318,115)	(1,246,101)
Change in operating assets and liabilities:		
Accounts receivable, net	(28,907,130)	(20,682,578)
Inventories	(11,997,848)	(3,307,536)
Prepaid expenses and other	11,876,847	4,712,490
Accounts payable	7,515,474	20,777,628
Accrued liabilities, excluding dividends declared	20,435,185	20,995,621
<b>Net cash provided by (used for) operating activities</b>	<b>61,131,521</b>	<b>77,375,543</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Plant and equipment additions	(39,824,858)	(19,436,397)
Proceeds from sale of plant and equipment	0	47,505
(Increase) decrease in investments	5,839,795	38,010,307
(Increase) decrease in other assets	175,419	2,239,006
<b>Net cash provided by (used for) investing activities</b>	<b>(33,809,644)</b>	<b>20,860,421</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock from stock plan transactions	2,466,307	8,142,192
Cash dividends paid	(17,288,348)	(15,652,134)
Excess tax benefits from stock-based compensation	318,115	1,246,101
<b>Net cash provided by (used for) financing activities</b>	<b>(14,503,926)</b>	<b>(6,263,841)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>12,817,951</b>	<b>91,972,123</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>357,986,774</b>	<b>348,349,773</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 370,804,725</b>	<b>\$ 440,321,896</b>

See accompanying notes to condensed consolidated financial statements.

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**GENTEX CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

- (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 2011 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, 2012, and the results of operations and cash flows for the interim periods presented.

(3) Adoption of New Accounting Standards

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (ASU 2011-04). ASU 2011-04 amends ASC 820 to achieve common fair value measurement and disclosure requirements in U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). The amended guidance requires information disclosure regarding transfers between Level 1 and Level 2 of the fair value hierarchy, information disclosure regarding sensitivity of a fair value measurement categorized within Level 3 of the fair value hierarchy to changes in unobservable inputs and any interrelationships between those unobservable inputs, and the categorization by level of the fair value hierarchy for items that are not measured at fair value. The amended guidance was effective for financial periods beginning after December 15, 2011. ASU 2011-04 did not have a material effect on the Company's consolidated financial position or results of operations.

In June 2011, FASB issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Under ASU 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single or continuous statement of comprehensive income or in two separate consecutive statements. The amended guidance was effective for financial periods beginning after December 15, 2011. ASU 2011-05 did not have a material effect on the Company's consolidated financial position or results of operations.

In December 2011, FASB issued Accounting Standards Update No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12). ASU 2011-12 defers the effective date of ASU 2011-05 as it pertains to the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. The amended guidance was effective for financial periods beginning after December 15, 2011. ASU 2011-12 did not have a material effect on the Company's consolidated financial position or results of operations.

(4) Investments

The Company follows the provisions of ASC 820, Fair Value Measurements and Disclosures for its financial assets and liabilities, and to its non-financial assets and liabilities. ASC 820 provides a framework for measuring the fair value of assets and liabilities. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards that permit, or in some cases, require estimates of fair-market value. This standard also expanded financial statement disclosure requirements about a company's use of fair-value measurements, including the effect of such measure on earnings.

**GENTEX CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued****(Unaudited)**

## (4) Investments (continued)

The Company's investment securities are classified as available for sale and are stated at fair value based on quoted market prices. Assets or liabilities that have recurring measurements are shown below as of March 31, 2012 and December 31, 2011:

Description	Total as of March 31, 2012	Fair Value Measurements at Reporting Date Using Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & Cash Equivalents	\$ 370,804,725	\$ 370,804,725	\$	\$
Short-Term Investments:				
Government Securities	21,006,150	21,006,150		
U.S. Treasury Notes	25,022,500		25,022,500	
Corporate Bonds	5,730,158		5,730,158	
Other	231,128	231,128		
Long-Term Investments:				
Common Stocks	61,462,560	61,462,560		
Mutual Funds - Equity	81,167,814	81,167,814		
Certificate of Deposit	505,390		505,390	
Corporate Bonds	2,665,700		2,665,700	
Other - Equity	353,900	353,900		
<b>Total</b>	<b>\$ 568,950,025</b>	<b>\$ 535,026,277</b>	<b>\$ 33,923,748</b>	<b>\$</b>

Description	Total as of December 31, 2011	Fair Value Measurements at Reporting Date Using Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & Cash Equivalents	\$ 357,986,774	\$ 357,986,774	\$	\$
Short-Term Investments:				
Government Securities	35,024,030	35,024,030		
U.S. Treasury Notes	25,044,000		25,044,000	
Corporate Bonds	649,204		649,204	
Other	91,003	91,003		
Long-Term Investments:				
Common Stocks	53,554,303	53,554,303		
Mutual Funds - Equity	73,749,772	73,749,772		
Certificate of Deposit	505,390		505,390	
Other - Equity	358,700	358,700		
<b>Total</b>	<b>\$ 546,963,176</b>	<b>\$ 520,764,582</b>	<b>\$ 26,198,594</b>	<b>\$</b>





**GENTEX CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued****(Unaudited)****(4) Investments (continued)**

The Company determines the fair value of its U.S. Treasury Notes, Government Securities and Corporate Bonds by utilizing monthly valuation statements that are provided by its broker. The broker determines the investment valuation by utilizing the bid price in the market. The Company also refers to third party sources to validate valuations.

The amortized cost, unrealized gains and losses, and market value of investment securities are shown as of March 31, 2012 and December 31, 2011:

	Cost	Unrealized Gains	Unrealized Losses	Market value
<b>As of March 31, 2012:</b>				
<b>Short-Term Investments:</b>				
Government Securities	\$ 21,003,435	\$ 2,888	(\$ 173)	\$ 21,006,150
U.S. Treasury Notes	25,016,013	6,487		25,022,500
Corporate Bonds	5,757,164		(27,006)	5,730,158
Other	231,128			231,128
<b>Long-Term Investments:</b>				
Common Stocks	44,007,773	17,691,650	(236,863)	61,462,560
Mutual Funds-Equity	69,076,447	12,210,061	(118,694)	81,167,814
Certificate of Deposit	505,390			505,390
Corporate Bonds	2,676,474		(10,774)	2,665,700
Other - Equity	338,506	15,394		353,900
<b>Total</b>	<b>\$ 168,612,330</b>	<b>\$ 29,926,480</b>	<b>(\$ 393,510)</b>	<b>\$ 198,145,300</b>

	Cost	Unrealized Gains	Unrealized Losses	Market value
<b>As of December 31, 2011:</b>				
<b>Short-Term Investments:</b>				
Government Securities	\$ 35,016,980	\$ 7,090	(\$ 40)	\$ 35,024,030
U.S. Treasury Notes	25,025,600	18,400		25,044,000
Corporate Bonds	648,879	325		649,204
Other	91,003			91,003
<b>Long-Term Investments:</b>				
Common Stocks	42,344,526	12,274,640	(1,064,863)	53,554,303
Mutual Funds-Equity	68,986,676	6,277,183	(1,514,087)	73,749,772
Certificate of Deposit	505,390			505,390
Other Equity	338,506	20,194		358,700
<b>Total</b>	<b>\$ 172,957,560</b>	<b>\$ 18,597,832</b>	<b>(\$ 2,578,990)</b>	<b>\$ 188,976,402</b>

**GENTEX CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued****(Unaudited)**

## (4) Investments (continued)

Unrealized losses on investments as of March 31, 2012, are as follows:

	Aggregate Unrealized Losses	Aggregate Fair Value
Less than one year	(\$ 393,510)	\$ 19,619,288
Greater than one year		

Unrealized losses on investments as of December 31, 2011, are as follows:

	Aggregate Unrealized Losses	Aggregate Fair Value
Less than one year	(\$ 2,578,990)	\$ 42,845,635
Greater than one year		

ASC 320, Accounting for Certain Investments in Debt and Equity Securities, as amended and interpreted, provided guidance on determining when an investment is other than temporarily impaired. The Company reviews its fixed income and equity investment portfolio for any unrealized losses that would be deemed other-than-temporary and require the recognition of an impairment loss in income. If the cost of an investment exceeds its fair value, the Company evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and the Company's intent and ability to hold the investments. Management also considers the type of security, related-industry and sector performance, as well as published investment ratings and analyst reports, to evaluate its portfolio. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded and a new cost basis in the investment is established. If market, industry, and/or investee conditions deteriorate, the Company may incur future impairments. No equity investment losses were considered to be other than temporary at March 31, 2012.

Fixed income securities as of March 31, 2012, have contractual maturities as follows:

Due within one year	\$ 51,989,936
Due between one and five years	3,171,090
Due over five years	
	\$ 55,161,026

## (5) Inventories consisted of the following at the respective balance sheet dates:

	March 31, 2012	December 31, 2011
Raw materials	\$ 141,927,724	\$ 129,796,238
Work-in-process	26,323,114	26,367,953
Finished goods	32,500,322	32,589,121
	\$ 200,751,160	\$ 188,753,312



**GENTEX CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued****(Unaudited)**

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

	Three Months Ended March 31,	
	2012	2011
<b>Numerators:</b>		
Numerator for both basic and diluted EPS, net income	\$ 46,344,584	\$ 42,332,882
<b>Denominators:</b>		
Denominator for basic EPS, weighted-average shares outstanding	143,502,772	141,860,885
Potentially dilutive shares resulting from stock plans	1,485,229	2,124,959
Denominator for diluted EPS	144,988,001	143,985,844
Shares related to stock plans not included in diluted average common shares outstanding because their effect would be antidilutive	2,233,907	0

**(7) Stock-Based Compensation Plans**

At March 31, 2012, the Company had two stock option plans, a restricted stock plan and an employee stock purchase plan. Readers should refer to Note 5 of our consolidated financial statements in our Annual Report on Form 10-K for the calendar year ended December 31, 2011, for additional information related to these stock-based compensation plans.

The Company recognized compensation expense for share-based payments of \$3,405,554 for the first quarter ended March 31, 2012. Compensation cost capitalized as part of inventory as of March 31, 2012, was \$184,462.

**Employee Stock Option Plan**

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

	Three Months Ended March 31,	
	2012	2011
Dividend yield	2.60%	2.73%
Expected volatility	44.07%	40.39%
Risk-free interest rate	1.01%	2.24%
Expected term of options (in years)	4.03	4.05
Weighted-average grant-date fair value	\$ 7.06	\$ 8.36

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**GENTEX CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued**

**(Unaudited)**

(7) Stock-Based Compensation Plans (continued)

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

As of March 31, 2012, there was \$21,429,863 of unrecognized compensation cost related to share-based payments which is expected to be recognized over the vesting periods.

Non-employee Director Stock Option Plan

As of March 31, 2012, there was no unrecognized compensation cost under this plan related to share-based payments. Under the shareholder approved plan, the option exercise price equals the stock's market price on date of grant. The options vest after six months, and expire after ten years.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan covering 1,200,000 shares that was approved by the shareholders, replacing a prior plan. Under the plan, the Company sells shares at 85% of the stock's market price at date of purchase. Under ASC 718, the 15% discounted value is recognized as compensation expense.

Restricted Stock Plan

The Company has a Restricted Stock Plan covering 2,000,000 shares of common stock that was approved by the shareholders. The purpose of the plan is to permit grants of shares, subject to restrictions, to key employees of the Company as a means of retaining and rewarding them for long-term performance and to increase their ownership in the Company. Shares awarded under the plan entitle the shareholder to all rights of common stock ownership except that the shares may not be sold, transferred, pledged, exchanged or otherwise disposed of during the restriction period. The restriction period is determined by the Compensation Committee, appointed by the Board of Directors, but may not exceed ten years under the terms of the plan. As of March 31, 2012, the Company had unearned stock-based compensation of \$7,034,435 associated with these restricted stock grants. The unearned stock-based compensation related to these grants is being amortized to compensation expense over the applicable restriction periods. Amortization expense from restricted stock grants in the first quarter ended March 31, 2012, was \$555,025.

- (8) 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.
- (9) The increase in common stock during the three months ended March 31, 2012, was primarily due to the issuance of 147,498 shares of the Company's common stock under the Company's stock-based compensation plans. The Company announced a \$0.01 per share increase in its quarterly cash dividend rate during the first quarter of 2012, which resulted in a recorded cash dividend of \$0.13 per share. The first quarter dividend of approximately \$18,748,000, was declared on February 21, 2012 and was paid on April 20, 2012.

**GENTEX CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued****(Unaudited)**

- (10) The Company currently manufactures electro-optic products, including automatic-dimming rearview mirrors for the automotive industry, and fire protection products for the commercial construction industry. The Company also develops and manufactures variably dimmable windows for the aerospace industry and non-auto dimming rearview automotive mirrors with electronic features:

	Quarter Ended March 31,	
	2012	2011
<b>Revenue:</b>		
Automotive Products	\$ 285,684,500	\$ 246,290,778
Other	5,022,262	4,655,119
<b>Total</b>	<b>\$ 290,706,762</b>	<b>\$ 250,945,897</b>
<b>Income (loss) from Operations:</b>		
Automotive Products	\$ 65,470,703	\$ 60,411,222
Other	30,260	(320,348)
<b>Total</b>	<b>\$ 65,500,963</b>	<b>\$ 60,090,874</b>

The Other segment includes Fire Protection Products and Dimmable Aircraft Windows.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**RESULTS OF OPERATIONS:**

**FIRST QUARTER 2012 VERSUS FIRST QUARTER 2011**

*Net Sales.* Net sales for the first quarter of 2012 increased by approximately \$39,761,000, or 16%, when compared with the first quarter last year. Net sales of the Company's automotive mirrors (including features) increased by approximately \$39,394,000, or 16%, in the first quarter of 2012, when compared with the first quarter last year, primarily due to 16% increase in auto-dimming mirror unit shipments from approximately 5,418,000 in the first quarter of 2011 to approximately 6,259,000 in the current quarter. This unit increase was primarily due to increased penetration of auto-dimming mirrors and increased light vehicle production in North America and Japan/Korea. Unit shipments to customers in North America for the current quarter increased by 18% compared with the first quarter of the prior year, primarily due to increased auto-dimming mirror unit shipments to the domestic automakers as well as Japanese and European transplant automakers. Mirror unit shipments for the current quarter to automotive customers outside North America increased by 14% compared with the first quarter in 2011, primarily due to increased auto-dimming mirror unit shipments to certain European automakers.

Other net sales increased by approximately \$367,000, or 8% for the current quarter versus the same quarter of last year, primarily due to a 48% increase in dimmable aircraft window net sales. Fire protection net sales were flat quarter over quarter and continue to be impacted by the relatively weak commercial construction market.

*Cost of Goods Sold.* As a percentage of net sales, cost of goods sold increased from 64.0% in the first quarter of 2011 to 65.3% in the first quarter of 2012. This quarter-over-quarter percentage increase in cost of goods sold primarily reflected the impact of annual automotive customer price reductions, partially offset by purchasing and manufacturing cost reductions.

*Operating Expenses.* Engineering, research and development (E, R & D) expenses for the current quarter increased 23% and approximately \$4,300,000 when compared with the same quarter last year, primarily due to additional hiring of employees and outside contract engineering/development services to support new product development projects and program awards.

Selling, general and administrative (S, G & A) expenses increased 7% and approximately \$799,000 for the current quarter, when compared with the same quarter last year, primarily due to continued overseas office hiring to support overseas growth, partially offset by foreign exchange rates. Foreign exchange rates accounted for approximately a five percentage point reduction in selling, general and administrative expenses quarter over quarter.

*Total Other Income.* Total other income for the current quarter decreased by approximately \$78,000, when compared with the same quarter last year, primarily due to decreased realized gains on the sale of equity investments.

*Taxes.* The provision for income taxes varied from the statutory rate for the current quarter, primarily due to the domestic manufacturing deduction.

*Net Income.* Net income for the first quarter of 2012 increased by approximately \$4,012,000, when compared with the same quarter last year, primarily due to increased net sales and gross profit.

**FINANCIAL CONDITION:**

Cash and cash equivalents as of March 31, 2012, increased approximately \$12,818,000 compared to December 31, 2011. The increase was primarily due to cash flow from operations and fixed income maturities, partially offset by capital expenditures and dividends paid.



Accounts receivable as of March 31, 2012 increased approximately \$28,907,000 compared with December 31, 2011, primarily due to the higher sales level as well as monthly sales within each of those quarters.

Inventory as of March 31, 2012 increased approximately \$11,998,000 compared with December 31, 2011, primarily due to higher sales and production levels in conjunction with longer lead times for certain electronic component raw materials inventory.

Long-term investments as of March 31, 2012 increased approximately \$17,987,000 compared to December 31, 2011, primarily due to an increase in unrealized gains in equity investments given current market conditions.

Accrued liabilities as of March 31, 2012 increased approximately \$21,895,000 compared to December 31, 2011, primarily due to increased accrued taxes and compensation, reflecting the timing of certain tax and compensation payments.

Cash flow from operating activities for the three months ended March 31, 2012, decreased approximately \$16,244,000 to approximately \$61,132,000, compared with approximately \$77,376,000, during the same period last year, primarily due to changes in working capital, partially offset by increased net income. Capital expenditures for the three months ended March 31, 2012, were approximately \$39,825,000, compared with approximately \$19,436,000 for the same quarter last year, primarily due to building/improvement related costs and production equipment purchases. Building/improvement related costs were approximately \$25,700,000 in the current quarter.

The Company's existing automotive interior mirror manufacturing facilities in Zeeland and Holland, Michigan, currently have estimated building capacity to manufacture approximately 16-18 million interior mirror units annually, based on current product mix. The Company's automotive exterior mirror manufacturing facility has an estimated building capacity to manufacture approximately 6 million units annually, based on current product mix.

The Company previously announced the following expansion plans to increase plant capacity in the electronic assembly, final assembly and exterior mirror manufacturing areas:

60,000 square-foot chemistry lab expansion at the Company's Zeeland, Michigan campus, which is expected to be completed in the second quarter of 2012 with a total estimated cost of approximately \$9 million.

32,000 square-foot expansion project at the Company's exterior mirror manufacturing facility in Zeeland, Michigan, which is expected to be completed in the second quarter of 2012 with a total estimated cost of approximately \$4 million.

125,000 square-foot expansion at the electronic assembly manufacturing facility in Holland, Michigan, which is expected to be completed in mid 2012 with a total estimated cost of approximately \$17 million.

120,000 square-foot expansion project connecting two manufacturing facilities in Zeeland, Michigan, which is expected to be completed in the second half of 2012 with a total