

GENTEX CORP
Form 10-Q
May 04, 2010

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**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, 2010, or

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

(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 (Section 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

* The registrant has not yet been phased into the interactive data requirements

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

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Non-accelerated filer
(Do not check if 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
PROCEEDING 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 23, 2010
Common Stock, \$0.06 Par Value	139,471,739

Exhibit Index located at page 19

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GENTEX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 340,853,897	\$ 336,108,446
Short-term investments	55,218,346	17,123,647
Accounts receivable, net	83,826,911	71,159,512
Inventories	67,746,364	53,608,996
Prepaid expenses and other	23,937,689	27,412,894
Total current assets	571,583,207	505,413,495
PLANT AND EQUIPMENT NET	198,508,874	197,530,249
OTHER ASSETS		
Long-term investments	122,953,155	109,155,248
Patents and other assets, net	11,640,708	10,504,497
Total other assets	134,593,863	119,659,745
Total assets	\$ 904,685,944	\$ 822,603,489
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$ 49,758,307	\$ 27,456,747
Accrued liabilities	52,459,976	31,181,031
Total current liabilities	102,218,283	58,637,778
DEFERRED INCOME TAXES	28,358,604	28,036,968
SHAREHOLDERS' INVESTMENT		
Common stock	8,368,304	8,300,363
Additional paid-in capital	289,927,007	270,351,796
Retained earnings	456,057,483	438,937,242
Other shareholders' investment	19,756,263	18,339,342

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Total shareholders' investment	774,109,057	735,928,743
Total liabilities and shareholders' investment	\$ 904,685,944	\$ 822,603,489

See accompanying notes to condensed consolidated financial statements.

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GENTEX CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the Three Months Ended March 31, 2010 and 2009

	2010	2009
NET SALES	\$ 185,768,929	\$ 93,831,477
COST OF GOODS SOLD	117,200,560	71,521,107
Gross profit	68,568,369	22,310,370
OPERATING EXPENSES:		
Engineering, research and development	14,338,518	11,380,204
Selling, general & administrative	9,621,954	8,731,081
Total operating expenses	23,960,472	20,111,285
Operating income	44,607,897	2,199,085
OTHER INCOME (EXPENSE):		
Investment income	512,883	1,192,664
Impairment loss on available-for-sale securities	0	(1,290,590)
Other, net	2,564,472	(4,487,335)
Total other income (expense)	3,077,355	(4,585,261)
Income (loss) before provision for income taxes	47,685,252	(2,386,176)
PROVISION FOR (BENEFIT FROM) INCOME TAXES	15,223,122	(829,245)
NET INCOME (LOSS)	\$ 32,462,130	\$ (1,556,931)
EARNINGS (LOSS) PER SHARE:		
Basic	\$ 0.23	\$ (0.01)
Diluted	\$ 0.23	\$ (0.01)
Cash Dividends Declared per Share	\$ 0.11	\$ 0.11

See accompanying notes to condensed consolidated financial statements.

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GENTEX CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 32,462,130	\$ (1,556,931)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	9,675,591	9,625,860
(Gain) loss on disposal of assets	179,297	288,031
(Gain) loss on sale of investments	(2,336,058)	3,862,328
Impairment loss on available-for-sale securities	0	1,290,590
Deferred income taxes	(160,137)	(3,301,142)
Stock-based compensation expense related to employee stock options, employee stock purchases and restricted stock	2,334,402	2,244,273
Excess tax benefits from stock-based compensation	(276,341)	0
Change in operating assets and liabilities:		
Accounts receivable, net	(12,667,399)	(2,692,121)
Inventories	(14,137,368)	871,460
Prepaid expenses and other	2,777,951	4,765,750
Accounts payable	22,301,560	(422,156)
Accrued liabilities, excluding dividends declared	21,154,386	1,087,413
Net cash provided by operating activities	61,308,014	16,063,355
CASH FLOWS FROM INVESTING ACTIVITIES:		
Plant and equipment additions	(10,845,788)	(5,988,937)
Proceeds from sale of plant and equipment	146,578	2,001
(Increase) decrease in investments	(46,187,875)	20,012,435
(Increase) decrease in other assets	(2,043,241)	(551,254)
Net cash provided by (used for) investing activities	(58,930,326)	13,474,245
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock from stock plan transactions	17,308,754	37,932
Cash dividends paid	(15,217,332)	(15,139,685)
Excess tax benefits from stock-based compensation	276,341	0
Net cash provided by (used for) financing activities	2,367,763	(15,101,753)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,745,451	14,435,847

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CASH AND CASH EQUIVALENTS, beginning of period	336,108,446	294,306,512
CASH AND CASH EQUIVALENTS, end of period	\$ 340,853,897	\$ 308,742,359

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 2009 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, 2010, and the results of operations and cash flows for the interim period presented.
- (3) Adoption of New Accounting Standards
In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 amends ASC 820 to require a number of additional disclosures regarding fair value measurements. The amended guidance requires entities to disclose the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, the reasons for any transfers in or out of Level 3, and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. The ASU also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. The amended guidance was effective for financial periods beginning after December 15, 2009, except the requirement to disclose Level 3 transactions on a gross basis, which becomes effective for financial periods beginning after December 15, 2010. ASU 2010-06 did not have a significant effect on the Company's consolidated financial position or results of operations. The additional disclosure requirements of ASU 2010-06 have been included in Note 5.
- (4) Subsequent Events
In 2009, FASB issued authoritative guidance at ASC 855, Subsequent Events. The standard establishes principles and requirements for subsequent events. The standard also sets forth the period after the balance sheet date during which management shall evaluate events/transactions that may occur for potential recognition or disclosure in its financial statements. The Company has evaluated subsequent events, and concluded that no events have occurred since March 31, 2010 that require disclosure or recognition in its consolidated financial statements.
- (5) Investments
FASB has issued authoritative guidance at ASC 820, Fair Value Measurements. This statement establishes 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 expands financial statement disclosure requirements about a company's use of fair-value measurements, including the effect of such measure on earnings.

Table of Contents**GENTEX CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)**

(5) Investments (continued)

The Company adopted the provisions of ASC 820 related to its financial assets and liabilities in 2008, and to its non-financial assets and liabilities in 2009, neither of which had a material impact on the Company's consolidated financial position, results of operations or cash flows. 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, 2010:

Description	Total as of March 31, 2010	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	\$ 340,853,897	\$ 340,853,897	\$	\$
Short-Term Investments:				
Government Securities	30,072,490	30,072,490		
U.S. Treasury Notes	25,104,500		25,104,500	
Other	41,356	41,356		
Long-Term Investments:				
Common Stocks	57,636,827	57,636,827		
Mutual Funds Equity	55,623,460	55,623,460		
Limited Partnership Equity	9,094,168		9,094,168	
Certificates of Deposit	250,000		250,000	
Other Equity	348,700	348,700		
Net	\$ 519,025,398	\$ 484,576,730	\$ 34,448,668	\$

The Company determines the fair value of its U.S. Treasury Notes by utilizing monthly valuation statements that are provided by its broker. The broker bases the investment valuation by using the bid price in the market. In addition, the Company determines the fair value of its limited partnership equity investments by utilizing monthly valuation statements that are provided by the limited partnership. The limited partnership bases its equity investment valuations on unadjusted quoted prices in active markets. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

The amortized cost, unrealized gains and losses, and market value of investment securities are shown as of March 31, 2010:

Cost	Unrealized		Market value
	Gains	Losses	

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Short-Term Investments:				
Government Securities	\$ 30,099,752	\$ 3,395	\$ (30,657)	\$ 30,072,490
U.S. Treasury Notes	25,107,812		(3,312)	25,104,500
Other	41,356			41,356
Long-Term Investments:				
Common Stocks	41,638,754	16,085,788	(87,715)	57,636,827
Mutual Funds-Equity	45,489,396	10,135,623	(1,559)	55,623,460
Limited Partnership Equity	7,844,022	1,250,146		9,094,168
Certificates of Deposit	250,000			250,000
Other Equity	338,506	10,194		348,700
	\$ 150,809,598	\$ 27,485,146	\$ (123,243)	\$ 178,171,501

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

(5) Investments (continued)

Unrealized losses on investments as of March 31, 2010, are as follows:

	Aggregate Unrealized Losses	Aggregate Fair Value
Less than one year	\$ (123,243)	\$ 52,714,907
Greater than one year		

ASC 320, Accounting for Certain Investments in Debt and Equity Securities, as amended and interpreted, provides 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. Management considered equity investment losses of \$17,909,901 to be other than temporary in 2008. The Company considered additional equity investment losses of \$1,290,590 to be other than temporary in 2009. Accordingly, the losses were recognized in the consolidated statement of income in their respective reporting periods. No additional equity investment losses were considered to be other than temporary at March 31, 2010. Fixed income securities as of March 31, 2010, have contractual maturities as follows:

Due within one year	\$ 55,218,346
Due Between one and five years	250,000
Due over five years	

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

	March 31, 2010	December 31, 2009
Raw materials	\$ 47,415,970	\$ 34,041,224
Work-in-process	6,772,555	6,819,243
Finished goods	13,557,839	12,748,529
	\$ 67,746,364	\$ 53,608,996

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(Unaudited)**

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

	Quarter Ended March 31,	
	2010	2009
Numerators:		
Numerator for both basic and diluted EPS, net income	\$ 32,462,130	\$ (1,556,931)
Denominators:		
Denominator for basic EPS, weighted-average shares outstanding	138,254,281	137,094,907
Potentially dilutive shares resulting from stock plans	1,260,346	
Denominator for diluted EPS	139,514,627	137,094,907
Shares related to stock plans not included in diluted average common shares outstanding because their effect would be antidilutive	1,327,668	8,509,196

(8) Stock-Based Compensation Plans

At March 31, 2010, the Company had two stock option plans, a restricted stock plan and an employee stock purchase plan. Readers should refer to Note 6 of our consolidated financial statements in our Annual Report on Form 10-K for the calendar year ended December 31, 2009, for additional information related to these stock-based compensation plans.

The Company recognized compensation expense for share-based payments of \$1,888,972 for the first quarter ended March 31, 2010. Compensation cost capitalized as part of inventory as of March 31, 2010, was \$121,844.

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,	
	2010	2009
Dividend yield	2.70%	2.50%
Expected volatility	40.60%	37.45%
Risk-free interest rate	2.55%	1.67%
Expected term of options (in years)	4.20	4.24
Weighted-average grant-date fair value	\$ 5.56	\$ 2.58

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

As of March 31, 2010, there was \$11,822,916 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 4.0 years.

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(Unaudited)****(8) Stock-Based Compensation Plans (continued)****Non-employee Director Stock Option Plan**

As of March 31, 2010, there was no unrecognized compensation cost under this plan related to share-based payments. 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.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan covering 1,200,000 shares 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 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. As of March 31, 2010, the Company had unearned stock-based compensation of \$5,651,174 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, 2010, was \$445,430.

- (9) Comprehensive income (loss) 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 (loss) represents net income (loss) adjusted for items such as unrealized gains and losses on investments and foreign currency translation adjustments. Comprehensive income (loss) was as follows:

Quarter Ended	March 31, 2010	March 31, 2009
	\$ 33,879,051	\$ (2,805,191)

- (10) The increase in common stock during the three months ended March 31, 2010, was primarily due to the issuance of 1,132,354 shares of the Company's common stock under its stock-based compensation plans. The Company has also recorded a \$0.11 per share cash dividend in the first quarter. The first quarter dividend of approximately \$15,342,000, was declared on February 22, 2010 and was paid on April 16, 2010.

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(Unaudited)**

(11) 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,	
	2010	2009
Revenue:		
Automotive Products	\$ 181,528,789	\$ 88,954,343
Other	4,240,140	4,877,134
Total	\$	