

GENTEX CORP
Form 10-Q
August 04, 2009

**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 June 30, 2009, 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.

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if 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 July 23, 2009
Common Stock, \$0.06 Par Value	137,743,973

Exhibit Index located at page 20

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

	June 30, 2009	December 31,
	(Unaudited)	2008
		(Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 329,498,715	\$ 294,306,512
Short-term investments	6,104,592	29,177,273
Accounts receivable, net	51,449,887	44,528,810
Inventories	48,380,958	54,993,855
Prepaid expenses and other	22,704,273	34,145,509
Total current assets	458,138,425	457,151,959
PLANT AND EQUIPMENT NET	207,032,639	214,951,719
OTHER ASSETS		
Long-term investments	80,744,752	81,348,942
Patents and other assets, net	10,176,072	9,650,760
Total other assets	90,920,824	90,999,702
Total assets	\$ 756,091,888	\$ 763,103,380
LIABILITIES AND SHAREHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$ 16,742,716	\$ 19,706,159
Accrued liabilities	34,544,385	29,766,279
Total current liabilities	51,287,101	49,472,438
DEFERRED INCOME TAXES	15,118,683	15,034,620
SHAREHOLDERS INVESTMENT		
Common stock	8,264,638	8,258,010
Additional paid-in capital	258,479,226	253,821,363
Retained earnings	415,331,811	434,975,514

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Other shareholders investment	7,610,429	1,541,435
Total shareholders investment	689,686,104	698,596,322
Total liabilities and shareholders investment	\$ 756,091,888	\$ 763,103,380

See accompanying notes to condensed consolidated financial statements.

GENTEX CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
NET SALES	\$ 117,341,777	\$ 170,491,552	\$ 211,173,254	\$ 348,461,831
COST OF GOODS SOLD	81,547,272	111,411,298	153,068,379	226,734,586
Gross profit	35,794,505	59,080,254	58,104,875	121,727,245
OPERATING EXPENSES:				
Engineering, research and development	11,221,720	13,398,456	22,601,924	26,134,743
Selling, general & administrative	8,494,480	9,892,080	17,225,561	19,815,616
Total operating expenses	19,716,200	23,290,536	39,827,485	45,950,359
Income from operations	16,078,305	35,789,718	18,277,390	75,776,886
OTHER INCOME (EXPENSE)				
Investment income	867,640	3,239,867	2,060,304	7,300,211
Impairment loss on available-for-sale securities	0	0	(1,290,590)	0
Other, net	1,356,244	990,455	(3,131,091)	2,405,580
Total other income (expense)	2,223,884	4,230,322	(2,361,377)	9,705,791
Income before provision for income taxes	18,302,189	40,020,040	15,916,013	85,482,677
PROVISION FOR INCOME TAXES	6,092,882	13,161,679	5,263,637	28,176,181
NET INCOME	\$ 12,209,307	\$ 26,858,361	\$ 10,652,376	\$ 57,306,496
EARNINGS PER SHARE:				
Basic	\$ 0.09	\$ 0.19	\$ 0.08	\$ 0.40
Diluted	\$ 0.09	\$ 0.19	\$ 0.08	\$ 0.40
Cash Dividends Declared per Share	\$ 0.110	\$ 0.105	\$ 0.22	\$ 0.21

See accompanying notes to condensed consolidated financial statements.

GENTEX CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 10,652,376	\$ 57,306,496
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,213,984	17,432,494
(Gain) loss on disposal of assets	397,184	635,370
(Gain) loss on sale of investments	3,432,131	(1,817,174)
Impairment loss on available-for-sale securities	1,290,590	0
Deferred income taxes	(3,829,485)	2,100,444
Stock-based compensation expense related to employee stock options, employee stock purchases and restricted stock	4,449,101	5,034,362
Excess tax benefits from stock-based compensation	0	(62,647)
Change in operating assets and liabilities:		
Accounts receivable, net	(6,921,077)	(7,163,822)
Inventories	6,612,897	(3,176,875)
Prepaid expenses and other	12,437,539	175,356
Accounts payable	(2,963,443)	3,720,311
Accrued liabilities, excluding dividends declared	4,765,954	(1,852,869)
Net cash provided by (used for) operating activities	49,537,751	72,331,446
CASH FLOWS FROM INVESTING ACTIVITIES:		
Plant and equipment additions	(11,457,187)	(28,593,312)
Proceeds from sale of plant and equipment	2,003	11,002
(Increase) decrease in investments	27,289,103	16,063,590
(Increase) decrease in other assets	(110,930)	378,389
Net cash provided by (used for) investing activities	15,722,989	(12,140,331)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock from stock plan transactions	215,390	8,004,747
Cash dividends paid	(30,283,927)	(30,193,617)
Repurchases of common stock	0	(53,663,265)
Excess tax benefits from stock-based compensation	0	62,647
Net cash provided by (used for) financing activities	(30,068,537)	(75,789,488)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,192,203	(15,598,373)

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CASH AND CASH EQUIVALENTS, beginning of period	294,306,512	317,717,093
CASH AND CASH EQUIVALENTS, end of period	\$ 329,498,715	\$ 302,118,720

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 2008 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 June 30, 2009, and the results of operations and cash flows for the interim periods presented.
- (3) Adoption of New Accounting Standards
In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The Company concluded that the adoption of FSP EITF 03-6-1 did not have a material impact on its reported basic and diluted earnings per share amounts. In May 2009, FASB issued Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events (SFAS No. 165). The statement 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. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. The Company has evaluated subsequent events in accordance with SFAS No. 165 from its interim balance sheet date of June 30, 2009, through August 3, 2009, and concluded that no events/transactions require disclosure or recognition in its financial statements. In June 2009, FASB issued SFAS No. 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162 (SFAS no. 168). The statement establishes FASB Accounting Standards Codification (Codification) as the single source of authoritative U.S. GAAP. Rules and interpretive releases of the U.S. Securities and Exchange Commission (SEC), under authority of federal securities laws, are also sources of authoritative U.S. GAAP for U.S. SEC registrants. SFAS No. 168 is effective for interim or annual financial periods ending after September 15, 2009. All existing accounting standards are superseded as described in this statement. All other accounting literature not included in the Codification is non-authoritative. The Codification is not expected to have a material impact on the Company's consolidated financial statements. In April 2009, FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly, and FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. These FSPs provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP No. FAS 157-4 clarifies the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. FSP No. FAS 115-2 and FSP No. FAS 124-2 established a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down through earnings. There was no impact to the Company's consolidated financial statements as a result of the adoption of these three Staff Positions.

GENTEX CORPORATION AND SUBSIDIARIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Unaudited)****(3) Adoption of New Accounting Standards (Continued)**

In April 2009, FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP expands the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to interim periods. There was no impact to the Consolidated Financial Statements as a result of the adoption of this Staff Position. The required disclosures regarding fair value financial instruments are included in Note 4 to the Consolidated Financial Statements.

(4) Investments

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). 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. SFAS No. 157 also expands financial statement disclosure requirements about a company's use of fair-value measurements, including the effect of such measure on earnings.

The Company adopted the provisions of SFAS No. 157 related to its financial assets and liabilities in the first quarter of 2008, and to its non-financial assets and liabilities in the first quarter of 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 June 30, 2009:

Description	Total as of June 30, 2009	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	\$ 329,498,715	\$ 329,498,715	\$	\$
Short-Term Investments	6,104,592	6,104,592		
Long-Term Investments	80,744,752	80,744,752		
Net	\$ 416,348,059	\$ 416,348,059	\$	\$

The Company's short-term investments primarily consist of Government Securities. Long-term investments primarily consist of marketable equity securities.

The amortized cost, unrealized gains and losses, and market value of investment securities are shown as of June 30, 2009:

	Cost	Unrealized		Market value
		Gains	Losses	
Government Agency Certificates of Deposit	\$ 5,992,361	\$ 33,890	\$	\$ 6,026,251

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Corporate Bonds				
Other Fixed income	78,341			78,341
Equity	71,853,800	10,399,735	(1,508,783)	80,744,752
	\$ 77,924,502	\$ 10,433,625	\$ (1,508,783)	\$ 86,849,344

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

(4) Investments (Continued)

Unrealized losses on investments as of June 30, 2009 (excluding other-than-temporary impairments), are as follows:

	Aggregate Unrealized Losses	Aggregate Fair Value
Less than one year	\$ (1,508,783)	\$ 22,981,672
Greater than one year		

SFAS No. 115, 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 at December 31, 2008. The Company considered additional equity investment losses of \$1,290,590 to be other than temporary at March 31, 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 June 30, 2009.

Fixed income securities as of June 30, 2009, have contractual maturities as follows:

Due within one year	\$ 6,026,251
Due Between one and five years	
Due over five years	

(5) Inventories

consisted of the following at the respective balance sheet dates:

	June 30, 2009	December 31, 2008
Raw materials	\$ 27,274,407	\$ 36,164,930
Work-in-process	6,690,157	6,787,891
Finished goods	14,416,394	12,041,034
	\$ 48,380,958	\$ 54,993,855

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):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Numerators:				
Numerator for both basic and diluted EPS, net income	\$ 12,209,307	\$ 26,858,361	\$ 10,652,376	\$ 57,306,496
Denominators:				
Denominator for basic EPS, weighted-average shares outstanding	137,163,798	142,239,378	137,135,407	142,762,929
Potentially dilutive shares resulting from stock plans	383,092	336,248	352,424	142,022
Denominator for diluted EPS	137,546,890	142,575,626	137,487,831	142,904,951

Shares related to stock plans not included in diluted average common shares outstanding because their effect would be antidilutive

	7,789,220	5,073,997	7,807,663	6,127,065
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(7) Stock-Based Compensation Plans

At June 30, 2009, 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, 2008, for additional information related to these stock-based compensation plans.

The Company recognized compensation expense for share-based payments of \$1,827,937 and \$3,676,008 for the second quarter and six months ended June 30, 2009, respectively. Compensation cost capitalized as part of inventory as of June 30, 2009, was \$128,997.

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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Dividend yield	2.61%	2.08%	2.56%	2.06%
Expected volatility	38.91%	30.70%	38.18%	30.56%
Risk-free interest rate	2.54%	3.34%	2.11%	2.93%
Expected term of options (in years)	4.25	4.31	4.25	4.31
Weighted-average grant-date fair value	\$ 3.26	\$ 3.57	\$ 2.92	\$ 3.78

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.

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

(7) Stock-Based Compensation Plans (Continued)

As of June 30, 2009, there was \$9,538,308 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.

Non-employee Director Stock Option Plan

As of June 30, 2009, there was \$136,727 of unrecognized compensation cost under this plan related to share-based payments which is expected to be recognized over the balance of the 2009 calendar year. 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

In 2003, a new 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 SFAS 123(R), 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 June 30, 2009, the Company had unearned stock-based compensation of \$4,116,289 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 second quarter and six months ended June 30, 2009, were \$376,891 and \$773,093, respectively.

- (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. Comprehensive income (loss) was as follows:

	June 30, 2009	June 30, 2008
Quarter Ended	\$ 19,526,561	\$ 25,726,282
Six Months Ended	\$ 16,721,370	\$ 45,531,195

- (9) The increase in common stock during the six months ended June 30, 2009, was primarily due to the issuance of 110,471 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 and second quarters. The second q