

GENTEX CORP
Form 10-Q
May 03, 2011

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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, 2011, 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 (§ 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 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 April 22, 2011
Common Stock, \$0.06 Par Value	142,740,803

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CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 440,321,896	\$ 348,349,773
Short-term investments	41,649,014	86,447,596
Accounts receivable, net	116,330,190	95,647,612
Inventories	104,036,266	100,728,730
Prepaid expenses and other	20,498,179	24,095,563
Total current assets	722,835,545	655,269,274
PLANT AND EQUIPMENT NET	213,688,533	205,107,756
OTHER ASSETS		
Long-term investments	142,324,972	129,091,167
Patents and other assets, net	13,063,917	13,222,442
Total other assets	155,388,889	142,313,609
Total assets	\$ 1,091,912,967	\$ 1,002,690,639
LIABILITIES AND SHAREHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$ 61,073,092	\$ 40,295,464
Accrued liabilities	54,265,548	31,793,165
Total current liabilities	115,338,640	72,088,629
DEFERRED INCOME TAXES	41,615,876	37,071,184
SHAREHOLDERS INVESTMENT		
Common stock	8,564,448	8,537,528
Additional paid-in capital	359,051,014	347,834,218
Retained earnings	540,046,163	514,842,177
Other shareholders' investment	27,296,826	22,316,903

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Total shareholders' investment	934,958,451	893,530,826
Total liabilities and shareholders' investment	\$ 1,091,912,967	\$ 1,002,690,639

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, 2011 and 2010

	2011	2010
NET SALES	\$ 250,945,897	\$ 185,768,929
COST OF GOODS SOLD	160,629,160	117,200,560
Gross profit	90,316,737	68,568,369
OPERATING EXPENSES:		
Engineering, research and development	18,914,761	14,338,518
Selling, general & administrative	11,311,102	9,621,954
Total operating expenses	30,225,863	23,960,472
Operating income	60,090,874	44,607,897
OTHER INCOME:		
Investment income	499,570	512,883
Other, net	2,864,818	2,564,472
Total other income	3,364,388	3,077,355
Income before provision for income taxes	63,455,262	47,685,252
PROVISION FOR INCOME TAXES	21,122,380	15,223,122
NET INCOME	\$ 42,332,882	\$ 32,462,130
EARNINGS PER SHARE:		
Basic	\$ 0.30	\$ 0.23
Diluted	\$ 0.29	\$ 0.23
Cash Dividends Declared per Share	\$ 0.12	\$ 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, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 42,332,882	\$ 32,462,130
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	10,552,370	9,675,591
(Gain) loss on disposal of assets	507,022	179,297
(Gain) loss on sale of investments	(2,371,430)	(2,336,058)
Impairment loss on available-for-sale securities	0	0
Deferred income taxes	2,003,651	(160,137)
Stock-based compensation expense related to employee stock options, employee stock purchases and restricted stock	3,101,524	2,334,402
Excess tax benefits from stock-based compensation	(1,246,101)	(276,341)
Change in operating assets and liabilities:		
Accounts receivable, net	(20,682,578)	(12,667,399)
Inventories	(3,307,536)	(14,137,368)
Prepaid expenses and other	4,712,490	2,777,951
Accounts payable	20,777,628	22,301,560
Accrued liabilities, excluding dividends declared	20,995,621	21,154,386
Net cash provided by (used for) operating activities	77,375,543	61,308,014
CASH FLOWS FROM INVESTING ACTIVITIES:		
Plant and equipment additions	(19,436,397)	(10,845,788)
Proceeds from sale of plant and equipment	47,505	146,578
(Increase) decrease in investments	38,010,307	(46,187,875)
(Increase) decrease in other assets	2,239,006	(2,043,241)
Net cash provided by (used for) investing activities	20,860,421	(58,930,326)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock from stock plan transactions	8,142,192	17,308,754
Cash dividends paid	(15,652,134)	(15,217,332)
Excess tax benefits from stock-based compensation	1,246,101	276,341
Net cash provided by (used for) financing activities	(6,263,841)	2,367,763
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	91,972,123	4,745,451

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CASH AND CASH EQUIVALENTS, beginning of period	348,349,773	336,108,446
CASH AND CASH EQUIVALENTS, end of period	\$ 440,321,896	\$ 340,853,897

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 2010 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, 2011, and the results of operations and cash flows for the interim period presented.
- (3) 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. 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, 2011 and December 31, 2010:

Description	Total as of March 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	\$ 440,321,896	\$ 440,321,896	\$	\$
Short-Term Investments:				
Government Securities	16,451,232	16,451,232		
U.S. Treasury Notes	25,061,500		25,061,500	
Other	136,282	136,282		
Long-Term Investments:				
Common Stocks	67,476,282	67,476,282		
Mutual Funds - Equity	64,161,659	64,161,659		
Limited Partnership - Equity	9,826,231		9,826,231	
Certificate of Deposit	500,000		500,000	
Other - Equity	360,800	360,800		

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Total	\$ 624,295,882	\$ 588,908,151	\$ 35,387,731	\$
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GENTEX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(Unaudited)

(3) Investments (continued)

Description	Total as of December 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	\$ 348,349,773	\$ 348,349,773	\$	\$
Short-Term Investments:				
Government Securities	36,136,760	36,136,760		
U.S. Treasury Notes	50,156,250		50,156,250	
Other	154,586	154,586		
Long-Term Investments:				
Common Stocks	63,637,711	63,637,711		
Mutual Funds Equity	55,234,901	55,234,901		
Limited Partnership Equity	9,363,555		9,363,555	
Certificate of Deposit	500,000		500,000	
Other Equity	355,000	355,000		
Total	\$ 563,888,536	\$ 503,868,731	\$ 60,019,805	\$

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. The Company also refers to third party sources to validate valuations. 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, 2011 and December 31, 2010:

As of March 31, 2011:

	Cost	Unrealized		Market value
		Gains	Losses	
Short-Term Investments:				
Government Securities	\$ 16,444,796	\$ 6,678	\$ (242)	\$ 16,451,232
U.S. Treasury Notes	25,034,780	26,720		25,061,500
Other	136,282			136,282
Long-Term Investments:				
Common Stocks	47,800,256	19,919,794	(243,768)	67,476,282

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Mutual Funds-Equity	48,404,467	15,848,720	(91,528)	64,161,659
Limited Partnership Equity	7,779,258	2,046,973		9,826,231
Certificate of Deposit	500,000			500,000
Other Equity	338,506	22,294		360,800
Total	\$ 146,438,345	\$ 37,871,179	\$ (335,538)	\$ 183,973,986

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(Unaudited)**

(3) Investments (continued)
As of December 31, 2010:

	Cost	Unrealized		Market value
		Gains	Losses	
Short-Term Investments:				
Government Securities	\$ 36,137,467	\$ 9,254	\$ (9,961)	\$ 36,136,760
U.S. Treasury Notes	50,095,921	60,329		50,156,250
Other	154,586			154,586
Long-Term Investments:				
Common Stocks	44,899,944	18,819,518	(81,751)	63,637,711
Mutual Funds-Equity	42,106,776	13,128,125		55,234,901
Limited Partnership Equity	7,844,022	1,519,533		9,363,555
Certificate of Deposit	500,000			500,000
Other Equity	338,506	16,494		355,000
Total	\$ 182,077,222	\$ 33,553,253	\$ (91,712)	\$ 215,538,763

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

	Aggregate Unrealized Losses	Aggregate Fair Value
Less than one year	\$ (335,538)	\$ 11,159,682
Greater than one year		

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

	Aggregate Unrealized Losses	Aggregate Fair Value
Less than one year	\$ (91,712)	\$ 17,007,886
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, 2011.

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Fixed income securities as of March 31, 2011, have contractual maturities as follows:

Due within one year	\$ 41,649,014
Due between one and five years	500,000
Due over five years	

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

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

	March 31, 2011	December 31, 2010
Raw materials	\$ 65,157,000	\$ 62,857,800
Work-in-process	16,863,087	13,055,237
Finished goods	22,016,179	24,815,693
	\$ 104,036,266	\$ 100,728,730

(5) 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, 2011	2010
Numerators:		
Numerator for both basic and diluted EPS, net income	\$ 42,332,882	\$ 32,462,130
Denominators:		
Denominator for basic EPS, weighted-average shares outstanding	141,860,885	138,254,281
Potentially dilutive shares resulting from stock plans	2,124,959	1,260,346
Denominator for diluted EPS	143,985,844	139,514,627
Shares related to stock plans not included in diluted average common shares outstanding because their effect would be antidilutive	0	1,327,668

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

At March 31, 2011, 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, 2010, for additional information related to these stock-based compensation plans.