

GENTEX CORP
Form 10-Q
August 02, 2013

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, 2013, or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No.: 0-10235
GENTEX CORPORATION
(Exact name of registrant as specified in its charter)

Michigan 38-2030505
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

600 N. Centennial, Zeeland, Michigan 49464
(Address of principal executive offices) (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, July 25, 2013
Common Stock, \$.06 Par Value	144,259,553

GENTEX CORPORATION AND SUBSIDIARIES

For the Three and Six Months Ended June 30, 2013

FORM 10-Q

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PART I—FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements.

GENTEX CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

As of June 30, 2013 and December 31, 2012

	June 30, 2013 (Unaudited)	December 31, 2012 (Note)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$502,721,765	\$389,678,664
Short-term investments	92,516,252	60,802,856
Accounts receivable, net	120,187,023	109,579,693
Inventories	116,001,970	159,930,266
Prepaid expenses and other	24,044,587	24,671,561
Total current assets	855,471,597	744,663,040
PLANT AND EQUIPMENT—NET	345,931,734	349,938,172
OTHER ASSETS		
Long-term investments	136,977,928	141,834,034
Patents and other assets, net	27,895,756	29,256,089
Total other assets	164,873,684	171,090,123
Total assets	\$1,366,277,015	\$1,265,691,335
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$43,789,630	\$43,200,002
Accrued liabilities	60,094,081	44,757,440
Total current liabilities	103,883,711	87,957,442
DEFERRED INCOME TAXES	55,383,634	56,773,337
SHAREHOLDERS' INVESTMENT		
Common stock	8,655,585	8,584,581
Additional paid-in capital	444,299,603	418,766,010
Retained earnings	733,268,066	676,039,254
Accumulated other comprehensive income	20,786,416	17,570,711
Total shareholders' investment	1,207,009,670	1,120,960,556
Total liabilities and shareholders' investment	\$1,366,277,015	\$1,265,691,335

Note: The condensed consolidated balance sheet at December 31, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

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 and Six Months Ended June 30, 2013 and 2012

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
NET SALES	\$286,973,898	\$280,255,548	\$556,472,867	\$570,962,310
COST OF GOODS SOLD	184,361,279	187,498,242	360,396,745	377,378,511
Gross profit	102,612,619	92,757,306	196,076,122	193,583,799
OPERATING EXPENSES:				
Engineering, research and development	18,864,182	22,792,503	37,547,758	46,007,637
Selling, general & administrative	12,152,166	12,452,571	23,078,454	24,562,967
Total operating expenses	31,016,348	35,245,074	60,626,212	70,570,604
Income from operations	71,596,271	57,512,232	135,449,910	123,013,195
OTHER INCOME				
Investment income	625,717	633,700	1,121,130	1,229,723
Other, net	4,906,951	2,533,783	6,311,811	5,224,120
Total other income	5,532,668	3,167,483	7,432,941	6,453,843
Income before provision for income taxes	77,128,939	60,679,715	142,882,851	129,467,038
PROVISION FOR INCOME TAXES	25,031,542	19,913,176	45,354,887	42,355,915
NET INCOME	\$52,097,397	\$40,766,539	\$97,527,964	\$87,111,123
EARNINGS PER SHARE:				
Basic	\$0.36	\$0.28	\$0.68	\$0.61
Diluted	\$0.36	\$0.28	\$0.68	\$0.60
Cash Dividends Declared per Share	\$0.14	\$0.13	\$0.28	\$0.26

See accompanying notes to condensed consolidated financial statements.

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GENTEX CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2013 and 2012

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income	\$52,097,397	\$40,766,539	\$97,527,964	\$87,111,123
Other comprehensive income (loss) before tax:				
Foreign currency translation adjustments	229,115	(784,992)	(372,634)	(440,207)
Unrealized gains (losses) on available-for sales securities, net	(3,674,340)	(8,882,763)	5,520,521	4,631,367
Other comprehensive income (loss), before tax	(3,445,225)	(9,667,755)	5,147,887	4,191,160
Provision for income taxes related to components of other comprehensive income	(1,286,019)	(3,108,967)	1,932,182	1,620,978
Other comprehensive income (loss), net of tax	(2,159,206)	(6,558,788)	3,215,705	2,570,182
Comprehensive Income	\$49,938,191	\$34,207,751	\$100,743,669	\$89,681,305

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 Six Months Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$97,527,964	\$87,111,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,566,632	25,138,931
(Gain) loss on disposal of assets	2,010,463	397,298
Gain on sale of investments	(8,567,087	) (4,806,646
Loss on sale of investments	714,756	570,746
Deferred income taxes	(3,024,452	) 1,729,418
Stock-based compensation expense related to employee stock options, employee stock purchases and restricted stock	8,077,955	7,991,705
Excess tax benefits from stock-based compensation	(1,495,850	) (586,535
Change in operating assets and liabilities:		
Accounts receivable, net	(10,607,330	) (19,558,762
Inventories	43,928,296	(3,576,693
Prepaid expenses and other	329,541	3,305,799
Accounts payable	589,628	(11,955,646
Accrued liabilities, excluding dividends declared	15,235,030	15,768,179
Net cash provided by (used for) operating activities	172,285,546	101,528,917
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales proceeds	31,899,490	18,968,556
Maturities and calls	6,250,000	31,000,000
Purchases	(51,633,929	) (35,628,408
Plant and equipment additions	(24,067,012	) (69,424,380
Proceeds from sale of plant and equipment	15,510	10,803
(Increase) decrease in other assets	(531,456	) (725,542
Net cash provided by (used for) investing activities	(38,067,397	) (55,798,971
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock from stock plan transactions	16,030,793	7,439,914
Cash dividends paid	(38,701,691	) (36,036,136
Excess tax benefits from stock-based compensation	1,495,850	586,535
Net cash provided by (used for) financing activities	(21,175,048	) (28,009,687
NET INCREASE IN CASH AND CASH EQUIVALENTS	113,043,101	17,720,259
CASH AND CASH EQUIVALENTS, beginning of period	389,678,664	357,986,774
CASH AND CASH EQUIVALENTS, end of period	\$502,721,765	\$375,707,033

See accompanying notes to condensed consolidated financial statements.

GENTEX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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(1)Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by the Registrant, 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 2012 annual report on Form 10-K.

(2)Management Opinion

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, 2013, and the results of operations and cash flows for the interim periods presented.

(3)Adoption of New Accounting Standards

In February 2013, FASB issued Accounting Standards Update No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-12"). ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income. The amended guidance does not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amended guidance requires an entity to provide information regarding the amounts reclassified out of accumulated other comprehensive income by component, either on the face of the statement where net income is presented or in the notes to the condensed consolidated financial statements. The amended guidance was effective for financial periods beginning after December 15, 2012. ASU 2013-02 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 subject to fair value measurements. 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 cost of securities sold is based on the specific identification method.

The Company's investment securities (common stocks and mutual funds) are classified as available for sale and are stated at fair value based on quoted market prices, and as such are classified as Level 1 assets. 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, and the Company utilizes third party pricing sources to validate such statements. The broker determines the investment valuation by utilizing the bid price in the market. As such, these investments are classified as Level 2 assets.

Assets or liabilities that have recurring measurements are shown below as of June 30, 2013, and December 31, 2012:

GENTEX CORPORATION AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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(4) Investments (continued)

Description	Total as of June 30, 2013	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	\$502,721,765	\$502,721,765		\$—
Short-Term Investments:				
Certificate of Deposit	260,881	—	260,881	—
Government Securities	53,062,359	—	53,062,359	—
U.S. Treasury Notes	28,279,240	—	28,279,240	—
Corporate Bonds	10,493,359	—	10,493,359	—
Other	420,413	420,413	—	—
Long-Term Investments:				
Corporate Bonds	—	—	—	—
U.S. Treasury Notes	—	—	—	—
Common Stocks	46,475,420	46,475,420	—	—
Mutual Funds – Equity	90,502,508	90,502,508	—	—
Total	\$732,215,945	\$640,120,106	\$92,095,839	\$—

Description	Total as of December 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	\$389,678,664	\$389,678,664	\$—	\$—
Short-Term Investments:				
Certificate of Deposit	510,881	—	510,881	—
Government Securities	38,522,471	—	38,522,471	—
U.S. Treasury Notes	15,020,350	—	15,020,350	—
Corporate Bonds	6,563,228	—	6,563,228	—
Other	185,926	185,926	—	—
Long-Term Investments:				
Corporate Bonds	2,180,780	—	2,180,780	—
Common Stocks	53,283,201	53,283,201	—	—
Mutual Funds – Equity	86,109,053	86,109,053	—	—
Other – Equity	261,000	261,000	—	—
Total	\$592,315,554	\$529,517,844	\$62,797,710	\$—

The amortized cost, unrealized gains and losses, and market value of investment securities are shown as of June 30, 2013, and December 31, 2012:

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

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(4) Investments (continued)

As of June 30, 2013:

	Cost	Unrealized Gains	Losses	Market Value
Short-Term Investments:				
Certificate of Deposit	\$260,881	\$—	\$—	\$260,881
Government Securities	53,065,141	6,139	(8,921)	) 53,062,359
U.S. Treasury Notes	28,274,980	5,971	(1,711)	) 28,279,240
Corporate Bonds	10,484,488	10,351	(1,480)	) 10,493,359
Other	420,413			420,413
Long-Term Investments:				
Corporate Bonds	—	—	—	—
U.S. Treasury Notes	—	—	—	—
Common Stocks	34,990,852	11,684,312	(199,744)	) 46,475,420
Mutual Funds – Equity	73,228,014	17,313,612	(39,118)	) 90,502,508
Total	\$200,724,769	\$29,020,385	\$(250,974)	) \$229,494,180

As of December 31, 2012:&#