

GENTEX CORP  
Form 10-Q  
August 07, 2014  
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, 2014, 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   | 38-2030505                           |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer 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 | <input checked="" type="checkbox"/> | 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: ☒

Edgar Filing: GENTEX CORP - Form 10-Q

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 24, 2014 |
|-------------------------------|-----------------------------------|
| Common Stock, \$.06 Par Value | 146,207,067                       |

GENTEX CORPORATION AND SUBSIDIARIES

For the Three and Six Months Ended June 30, 2014

FORM 10-Q

Index

|  |           |
|--|-----------|
| Part I - Financial Information   | Page      |
| Item 1. <u>Unaudited Consolidated Financial Statements</u>   | <u>3</u>  |
| <u>Unaudited Condensed Consolidated Balance Sheets</u>   | <u>3</u>  |
| <u>Unaudited Condensed Consolidated Statements of Income</u>   | <u>4</u>  |
| <u>Unaudited Condensed Consolidated Statements of Comprehensive Income</u>                           | <u>5</u>  |
| <u>Unaudited Condensed Consolidated Statements of Cash Flows</u>                                     | <u>6</u>  |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u>                                | <u>7</u>  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>16</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>23</u> |
| Item 4. <u>Controls and Procedures</u>   | <u>23</u> |
| Part II - Other Information  |           |
| Item 1A. <u>Risk Factors</u>   | <u>24</u> |
| Item 6. <u>Exhibits</u>  | <u>24</u> |
| <u>Signature</u>   | <u>25</u> |
| <u>Exhibit Index</u>   | <u>26</u> |

Table of Contents

## PART I —FINANCIAL INFORMATION

## Item 1. Unaudited Consolidated Financial Statements.

## GENTEX CORPORATION AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

As of June 30, 2014 and December 31, 2013

|   | June 30, 2014<br>(Unaudited) | December 31, 2013<br>(Note) |
|---|------------------------------|-----------------------------|
| <b>ASSETS</b>                                       |                              |                             |
| <b>CURRENT ASSETS</b>                               |                              |                             |
| Cash and cash equivalents                           | \$ 391,650,469               | \$ 309,591,724              |
| Accounts receivable, net                            | 178,281,000                  | 143,046,590                 |
| Inventories   | 125,211,874                  | 120,074,164                 |
| Prepaid expenses and other                          | 38,564,835                   | 28,473,764                  |
| Total current assets                                | 733,708,178                  | 601,186,242                 |
| <br><b>PLANT AND EQUIPMENT—NET</b>                  | <br>358,316,077              | <br>357,021,225             |
| <br><b>OTHER ASSETS</b>                             |                              |                             |
| Goodwill  | 307,365,845                  | 307,365,845                 |
| Long-term investments                               | 109,797,786                  | 107,005,522                 |
| Intangible Assets, net                              | 356,525,000                  | 366,175,000                 |
| Patents and other assets, net                       | 24,321,193                   | 25,334,600                  |
| Total other assets                                  | 798,009,824                  | 805,880,967                 |
| Total assets  | \$ 1,890,034,079             | \$ 1,764,088,434            |
| <br><b>LIABILITIES AND SHAREHOLDERS' INVESTMENT</b> |                              |                             |
| <br><b>CURRENT LIABILITIES</b>                      |                              |                             |
| Accounts payable                                    | \$ 55,820,675                | \$ 56,510,321               |
| Accrued liabilities                                 | 72,992,648                   | 63,470,093                  |
| Total current liabilities                           | 128,813,323                  | 119,980,414                 |
| <br><b>LONG TERM DEBT</b>                           | <br>261,875,000              | <br>265,625,000             |
| <br><b>DEFERRED INCOME TAXES</b>                    | <br>51,607,443               | <br>50,879,337              |
| <br><b>TOTAL LIABILITIES</b>                        | <br>442,295,766              | <br>436,484,751             |
| <br><b>SHAREHOLDERS' INVESTMENT</b>                 |                              |                             |
| Common stock  | 8,775,424                    | 8,734,681                   |
| Additional paid-in capital                          | 501,953,007                  | 478,865,778                 |
| Retained earnings                                   | 919,492,148                  | 818,027,861                 |
| Accumulated other comprehensive income              | 17,517,734                   | 21,975,363                  |
| Total shareholders' investment                      | 1,447,738,313                | 1,327,603,683               |
| Total liabilities and shareholders' investment      | \$ 1,890,034,079             | \$ 1,764,088,434            |

Note: The condensed consolidated balance sheet at December 31, 2013 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.

3

---

Table of Contents

## GENTEX CORPORATION AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three and Six Months Ended June 30, 2014 and 2013

|  | Three Months Ended June 30, |               | Six Months Ended June 30, |               |
|--|-----------------------------|---------------|---------------------------|---------------|
|  | 2014                        | 2013          | 2014                      | 2013          |
| NET SALES                                | \$338,436,964               | \$286,973,898 | \$674,176,308             | \$556,472,867 |
| COST OF GOODS SOLD                       | 204,144,736                 | 184,361,279   | 408,585,273               | 360,396,745   |
| Gross profit                             | 134,292,228                 | 102,612,619   | 265,591,035               | 196,076,122   |
| OPERATING EXPENSES:                      |                             |               |                           |               |
| Engineering, research and development    | 20,234,074                  | 18,864,182    | 40,723,301                | 37,547,758    |
| Selling, general & administrative        | 14,222,716                  | 12,152,166    | 27,854,750                | 23,078,454    |
| Total operating expenses                 | 34,456,790                  | 31,016,348    | 68,578,051                | 60,626,212    |
| Income from operations                   | 99,835,438                  | 71,596,271    | 197,012,984               | 135,449,910   |
| OTHER INCOME                             |                             |               |                           |               |
| Investment income                        | 398,005                     | 625,717       | 723,163                   | 1,121,130     |
| Other, net                               | 5,388,560                   | 4,906,951     | 9,577,946                 | 6,311,811     |
| Total other income                       | 5,786,565                   | 5,532,668     | 10,301,109                | 7,432,941     |
| Income before provision for income taxes | 105,622,003                 | 77,128,939    | 207,314,093               | 142,882,851   |
| PROVISION FOR INCOME TAXES               | 28,895,257                  | 25,031,542    | 62,021,276                | 45,354,887    |
| NET INCOME                               | \$76,726,746                | \$52,097,397  | \$145,292,817             | \$97,527,964  |
| EARNINGS PER SHARE:                      |                             |               |                           |               |
| Basic                                    | \$0.53                      | \$0.36        | \$1.00                    | \$0.68        |
| Diluted                                  | \$0.52                      | \$0.36        | \$0.99                    | \$0.68        |
| Cash Dividends Declared per Share        | \$0.16                      | \$0.14        | \$0.30                    | \$0.28        |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

## GENTEX CORPORATION AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months and Six Months Ended June 30, 2014 and 2013

|  | Three Months Ended June 30, |              | Six Months Ended June 30, |               |
|--|-----------------------------|--------------|---------------------------|---------------|
|  | 2014                        | 2013         | 2014                      | 2013          |
| Net Income   | \$76,726,746                | \$52,097,397 | \$145,292,817             | \$97,527,964  |
| Other comprehensive income (loss) before tax:  |                             |              |                           |               |
| Foreign currency translation adjustments   | (241,489                    | ) 229,115    | (332,739                  | ) (372,634    |
| Unrealized gains (losses) on available-for sales securities, net                         | (2,653,194                  | ) (3,674,340 | ) (6,345,985              | ) 5,520,521   |
| Other comprehensive income (loss), before tax  | (2,894,683                  | ) (3,445,225 | ) (6,678,724              | ) 5,147,887   |
| Provision (Benefit) for income taxes related to components of other comprehensive income | (928,618                    | ) (1,286,019 | ) (2,221,095              | ) 1,932,182   |
| Other comprehensive income, net of tax   | (1,966,065                  | ) (2,159,206 | ) (4,457,629              | ) 3,215,705   |
| Comprehensive Income   | \$74,760,681                | \$49,938,191 | \$140,835,188             | \$100,743,669 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

## GENTEX CORPORATION AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2014 and 2013

|   | 2014                  | 2013                  |
|---|-----------------------|-----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                       |                       |
| Net income  | \$ 145,292,817        | \$ 97,527,964         |
| Adjustments to reconcile net income to net cash provided by operating activities:                                 |                       |                       |
| Depreciation and amortization   | 39,592,545            | 27,566,632            |
| Gain on disposal of assets  | (35,000               | ) —                   |
| Loss on disposal of assets  | 374,925               | 2,010,463             |
| Gain on sale of investments   | (12,213,259           | ) (8,567,087          |
| Loss on sale of investments   | 647,520               | 714,756               |
| Deferred income taxes   | 667,802               | (3,024,452            |
| Stock-based compensation expense related to employee stock options, employee stock purchases and restricted stock | 10,147,262            | 8,077,955             |
| Excess tax benefits from stock-based compensation   | (1,403,740            | ) (1,495,850          |
| Change in operating assets and liabilities:   |                       |                       |
| Accounts receivable, net  | (35,234,410           | ) (10,607,330         |
| Inventories   | (5,137,710            | ) 43,928,296          |
| Prepaid expenses and other  | (7,809,607            | ) 329,541             |
| Accounts payable  | (689,646              | ) 589,628             |
| Accrued liabilities, excluding dividends declared   | 7,906,087             | 15,235,030            |
| Net cash provided by operating activities   | 142,105,586           | 172,285,546           |
| <b>CASH FLOWS USED FOR INVESTING ACTIVITIES:</b>  |                       |                       |
| Activity in available-for-sale securities:  |                       |                       |
| Sales proceeds  | 55,370,528            | 31,899,490            |
| Maturities and calls  | —                     | 6,250,000             |
| Purchases   | (52,943,104           | ) (51,633,929         |
| Plant and equipment additions   | (30,248,002           | ) (24,067,012         |
| Proceeds from sale of plant and equipment   | 35,005                | 15,510                |
| (Increase) decrease in other assets   | (683,656              | ) (531,456            |
| Net cash used for investing activities  | (28,469,229           | ) (38,067,397         |
| <b>CASH FLOWS USED FOR FINANCING ACTIVITIES:</b>  |                       |                       |
| Repayment of long-term debt   | (3,750,000            | ) —                   |
| Issuance of common stock from stock plan transactions   | 11,576,970            | 16,030,793            |
| Cash dividends paid   | (40,808,322           | ) (38,701,691         |
| Excess tax benefits from stock-based compensation   | 1,403,740             | 1,495,850             |
| Net cash used for financing activities  | (31,577,612           | ) (21,175,048         |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>82,058,745</b>     | <b>113,043,101</b>    |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>   | <b>309,591,724</b>    | <b>389,678,664</b>    |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>   | <b>\$ 391,650,469</b> | <b>\$ 502,721,765</b> |



See accompanying notes to condensed consolidated financial statements.

6

---

GENTEX CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

(1)Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by the Company, 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 Company 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 Company's 2013 annual report on Form 10-K. 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 Company as of June 30, 2014, and the results of operations and cash flows for the interim periods presented.

(2)Adoption of New Accounting Standards

In May 2014 the Financial Accounting Standards Board (FASB) issued the Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), that will supersede nearly all existing revenue recognition guidance under US GAAP. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard will be effective for public entities for annual and interim periods beginning after December 15, 2016.

Entities can choose to apply the standard using either the full retrospective approach or a modified retrospective approach. Entities electing the full retrospective adoption will apply the standard to each period presented in the financial statements. This means that entities will have to apply the new guidance as if it had been in effect since the inception of all its contracts with customers presented in the financial statements. Entities that elect the modified retrospective approach will apply the guidance retrospectively only to the most current period presented in the financial statements. This means that entities will have to recognize the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings at the date of initial application. The new revenue standard will be applied to contracts that are in progress at the date of initial application.

The Company continues to evaluate which adoption method it plans to use and has not yet determined or the potential effect the new standard will have on its consolidated financial statements.

(3)Goodwill and Other Intangible Assets

Goodwill represents the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. On September 27, 2013, the Company recorded Goodwill of \$337.6 million as part of the HomeLink® acquisition. As of December 31, 2013, the Company adjusted recorded Goodwill to \$307.4 million resulting from refinement of the purchase accounting estimates, based on updated valuations of tangible and intangible assets acquired as part of the HomeLink® acquisition. The Company finalized the purchase accounting estimates in the first quarter of 2014. The amount of Goodwill that is expected to be deductible for tax purposes is \$307.4 million. The carrying value of Goodwill as of December 31, 2013 and June 30, 2014 was \$307.4 million.



## GENTEX CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

Intangible assets as of June 30, 2014 consist of the following:

| Other Intangible Assets                    | Gross         | Accumulated<br>Amortization | Net           | Assumed<br>Useful Life |
|--|---------------|-----------------------------|---------------|------------------------|
| HomeLink® Trade Names and Trademarks       | \$52,000,000  | \$—                         | \$52,000,000  | Indefinite             |
| HomeLink® Technology                       | 180,000,000   | (11,250,000)                | 168,750,000   | 12 years               |
| Existing Customer Platforms                | 43,000,000    | (3,225,000)                 | 39,775,000    | 10 years               |
| Exclusive Licensing Agreement              | 96,000,000    | —                           | 96,000,000    | Indefinite             |
| Total other identifiable intangible assets | \$371,000,000 | \$(14,475,000)              | \$356,525,000 |                        |

The HomeLink® Trade Name and Trademarks were valued utilizing the relief from royalty valuation method, which is a function of projected revenue, the royalty rate that would hypothetically be charged by a licensor of an asset to an unrelated licensee discounted utilizing market participants weighted average cost of capital.

The HomeLink® Technology and the Existing Customer Platform assets were valued using forms of the multi-period excess earnings valuation method which estimates future revenues and cash flows derived from the technology, and then subsequently deducts portions of future cash flow that is supported by other intangibles and fixed assets. The resulting cash flows are discounted using a weighted average cost of capital.

The Exclusive Licensing Agreement asset (entered into in the ordinary course of business) was valued based on a "with or without" valuation methodology. This method compares the Company's estimated future cash flow projections with the exclusive agreement compared to those same cash flows without that exclusive license agreement.

Amortization expense on patents and intangible assets was \$5.5 million and \$11.0 million during the three and six month period ended June 30, 2014, respectively, compared \$0.8 million and \$1.5 million in the same periods in 2013, respectively.

Excluding the impact of any future acquisitions, the Company continues to estimate amortization expense for each of the years ended December 31, 2014, 2015, 2016, 2017 and 2018 to be approximately \$22 million annually.

No impairment indicators arose during the six months ended June 30, 2014 which would give reason for an interim impairment test to be performed on goodwill or intangible assets.

**(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.

Assets or liabilities that have recurring fair value measurements are shown below as of June 30, 2014, and December 31, 2013:

8

---

## GENTEX CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

## (4) Investments (continued)

As of June 30, 2014:

| Description             | Total as of<br>June 30, 2014 | Fair Value Measurements at Reporting Date Using                         |   |  |
|-------------------------|------------------------------|---|---|--|
|                         |                              | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Cash & Cash Equivalents | \$391,650,469                | \$391,650,469   | \$—   | \$—  |
| Short-Term Investments: |                              |   |   |  |
| Other                   | 65                           | 65  | —   | —  |
| Long-Term Investments:  |                              |   |   |  |
| Common Stocks           | 23,987,403                   | 23,987,403  | —   | —  |
| Mutual Funds – Equity   | 85,810,383                   | 85,810,383  | —   | —  |
| Total                   | \$501,448,320                | \$501,448,320   | \$—   | \$—  |

As of December 31, 2013:

| Description             | Total as of<br>December 31, 2013 | Fair Value Measurements at Reporting Date Using                         |   |  |
|-------------------------|----------------------------------|---|---|--|
|                         |                                  | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Cash & Cash Equivalents | \$309,591,724                    | \$309,591,724   | \$—   | \$—  |
| Long-Term Investments:  |                                  |   |   |  |
| Common Stocks           | 33,282,439                       | 33,282,439  | —   | —  |
| Mutual Funds – Equity   | 73,723,083                       | 73,723,083  | —   | —  |
| Total                   | \$416,597,246                    | \$416,597,246   | \$—   | \$—  |

The amortized cost, unrealized gains and losses, and market value of investment securities are shown as of June 30, 2014, and December 31, 2013:

As of June 30, 2014:

| Description             | Cost         | Unrealized   |             | Market Value    |
|-------------------------|--------------|--------------|-------------|-----------------|
|                         |              | Gains        | Losses      |                 |
| Short-Term Investments: |              |              |             |                 |
| Other                   | \$65         | \$—          | \$—         | \$65            |
| Long-Term Investments:  |              |              |             |                 |
| Common Stocks           | 15,871,777   | 8,399,886    | (284,260)   | ) 23,987,403    |
| Mutual Funds – Equity   | 70,322,085   | 15,489,334   | (1,036)     | ) 85,810,383    |
| Total                   | \$86,193,927 | \$23,889,220 | \$(285,296) | ) \$109,797,851 |

## GENTEX CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

## (4) Investments (continued)

As of December 31, 2013:

|                        | Cost         | Unrealized<br>Gains | Losses     | Market Value    |
|------------------------|--------------|---------------------|------------|-----------------|
| Long-Term Investments: |              |                     |            |                 |
| Common Stocks          | \$22,799,035 | \$10,532,007        | \$(48,603) | ) \$33,282,439  |
| Mutual Funds – Equity  | 54,256,577   | 19,466,506          | —          | 73,723,083      |
| Total                  | \$77,055,612 | \$29,998,513        | \$(48,603) | ) \$107,005,522 |

Unrealized losses on investments as of June 30, 2014, are as follows:

|                    | Aggregate Unrealized Losses | Aggregate Fair Value |
|--------------------|-----------------------------|----------------------|
| Less than one year | \$ 285,296                  | \$4,179,684          |

Unrealized losses on investments as of December 31, 2013, are as follows:

|                    | Aggregate Unrealized Losses | Aggregate Fair Value |
|--------------------|-----------------------------|----------------------|
| Less than one year | \$ 48,603                   | \$1,886,080          |

ASC 320, “Accounting for Certain Investments in Debt and Equity Securities”, as amended, 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. No equity investment losses were considered to be other than temporary at June 30, 2014.

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

|                 | June 30, 2014 | December 31, 2013 |
|-----------------|---------------|-------------------|
| Raw materials   | \$78,340,632  | \$75,081,810      |
| Work-in-process | 22,673,765    | 21,409,976        |
| Finished goods  | 24,197,477    | 23,582,378        |
| Total Inventory | \$125,211,874 | \$120,074,164     |





Table of Contents

## (6) Earnings Per Share

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

|   | Three months ended June 30, |              | Six months ended June 30, |              |
|---|-----------------------------|--------------|---------------------------|--------------|
|   | 2014                        | 2013         | 2014                      | 2013         |
| Numerators:   |                             |              |                           |              |
| Numerator for both basic and diluted EPS, net income  | \$76,726,746                | \$52,097,397 | \$145,292,817             | \$97,527,964 |
| Denominators:   |                             |              |                           |              |
| Denominator for basic EPS, weighted-average shares outstanding  | 145,215,130                 | 143,240,333  | 145,059,684               | 142,888,337  |
| Potentially dilutive shares resulting from stock plans  | 1,284,363                   | 770,292      | 1,558,905                 | 649,655      |
| Denominator for diluted EPS   | 146,499,493                 | 144,010,625  | 146,618,589               | 143,537,992  |
| Shares related to stock plans not included in diluted average common shares outstanding because their effect would be anti-dilutive | 2,994,629                   | 3,270,342    | 995,177                   | 3,454,067    |

## (7) Stock-Based Compensation Plans

At June 30, 2014, the Company had four equity incentive plans which include two stock option plans, a restricted stock plan and an employee stock purchase plan. All of the plans and any material amendments thereto have previously been approved by shareholders. 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, 2013, for additional information related to these stock-based compensation plans.

The Company recognized compensation expense for share-based payments of \$4,603,699 and \$8,613,044 for the three and six months ended June 30, 2014, respectively. Compensation cost capitalized as part of inventory as of June 30, 2014, was \$235,657.

## Employee Stock Option Plan

In May 2014, the Employee Stock Option Plan was approved by shareholders, amending and restating a prior plan.

The Company may grant up to 12,000,000 shares of common stock under the plan. The purpose of the plan is to provide an opportunity to use stock options as a means of recruiting new managerial and technical personnel and as a means for retaining certain employees of the Company and allow them to purchase shares of common stock of the Corporation and thereby have an additional incentive to contribute to the prosperity of the Company.

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, |         |
|---|-----------------------------|---------|---------------------------|---------|
|   | 2014                        | 2013    | 2014                      | 2013    |
| Dividend Yield <sup>(1)</sup>                   | 2.24                        | % 2.68  | % 2.29                    | % 2.73  |
| Expected volatility <sup>(2)</sup>              | 38.92                       | % 45.79 | % 39.64                   | % 45.96 |
| Risk-free interest rate <sup>(3)</sup>          | 1.62                        | % 1.41  | % 1.68                    | % 1.09  |
| Expected term of options (years) <sup>(4)</sup> | 4.01                        | 4.01    | 3.99                      | 4.02    |
| Weighted-avg. grant date fair value             | \$7.85                      | \$6.98  | \$8.19                    | \$6.54  |

(1) Represents the Company's estimated cash dividend yield over the expected term of option grant.

Amount is determined based on analysis of historical price volatility of the Company's common stock. The (2) expected volatility is based on the daily percentage change in the price of the stock over a period equal to the expected term of the option grant.



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

(7) Stock-Based Compensation Plans (continued)

(3) Represents the U.S. Treasury yield over the expected term of the option grant.

Represents the period of time that options granted are expected to be outstanding. Based on analysis of historical

(4) option exercise activity, the Company has determined that all employee groups exhibit similar exercise and post-vesting termination behavior.

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 five to seven years. As of June 30, 2014, there was \$26,876,954 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 June 30, 2014, there was \$352,618 of unrecognized compensation cost under the plan related to share-based payments. The Company has granted options on 133,000 shares under the director plan through June 30, 2014. Under the plan, the option exercise price equals the stock's market price on the 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 1,000,000 shares of common stock. 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. 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 June 30, 2014, the Company had unearned stock-based compensation of \$10,928,192 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 three months and six months ended June 30, 2014 was \$801,033 and \$1,534,218, respectively.

(8) Comprehensive Income

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 unrealized gains and losses on certain investments and foreign currency translation adjustments.

The following table presents the net changes in the Company's accumulated other comprehensive income by component: (All amounts shown are net of tax).

## GENTEX CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

|  | For Three Months Ended June 30, |              | For Six Months Ended June 30, |              |
|--|---------------------------------|--------------|-------------------------------|--------------|
|  | 2014                            | 2013         | 2014                          | 2013         |
| Foreign currency translation adjustments:                        |                                 |              |                               |              |
| Balance at beginning of period                                   | \$2,416,672                     | \$1,857,184  | \$2,507,922                   | \$2,458,933  |
| Other Comprehensive income before reclassifications              | (241,489 )                      | 229,115      | (332,739 )                    | (372,634 )   |
| Amounts reclassified from accumulated other comprehensive income | —                               | —            | —                             | —            |
| Net current-period change  | (241,489 )                      | 229,115      | (332,739 )                    | (372,634 )   |
| Balance at end of period   | 2,175,183                       | 2,086,299    | 2,175,183                     | 2,086,299    |
| Unrealized gains(losses) on available-for-sale securities:       |                                 |              |                               |              |
| Balance at beginning of period                                   | 17,067,127                      | 21,088,438   | 19,467,441                    | 15,111,778   |
| Other Comprehensive income before reclassifications              | 2,527,930                       | 881,260      | 3,392,840                     | 8,692,354    |
| Amounts reclassified from accumulated other comprehensive income | (4,252,506 )                    | (3,269,581 ) | (7,517,730 )                  | (5,104,015 ) |
| Net current-period change  | (1,724,576 )                    | (2,388,321 ) | (4,124,890 )                  | 3,588,339    |
| Balance at end of period   | 15,342,551                      | 18,700,117   | 15,342,551                    | 18,700,117   |
| Accumulated other comprehensive income, end of period            | \$17,517,734                    | \$20,786,416 | \$17,517,734                  | \$20,786,416 |

The following table presents details of reclassifications out of other comprehensive income for the three and six months ended June 30, 2014 and 2013.

| Details about Accumulated Other Comprehensive Income Components |                                     |              |                                   |              | Affected Line item in the Statement of Consolidated Income |
|---|-------------------------------------|--------------|-----------------------------------|--------------|--|
| Amounts Reclassified from Other Comprehensive Income            |                                     |              |                                   |              |  |
|   | For the Three Months ended June 30, |              | For the Six Months ended June 30, |              |  |
|   | 2014                                | 2013         | 2014                              | 2013         |  |
| Unrealized gains on available-for-sale securities               |                                     |              |                                   |              |  |
| Realized gain on sale of securities                             | \$6,542,318                         | \$5,030,124  | \$11,565,739                      | \$7,852,331  | Other, net   |
| Provision for Income Taxes                                      | (2,289,812 )                        | (1,760,543 ) | (4,048,009 )                      | (2,748,316 ) | Provision for Income Taxes                                 |
| Total reclassifications for the period                          | \$4,252,506                         | \$3,269,581  | \$7,517,730                       | \$5,104,015  | Net of tax   |

## (9)Debt and Financing Arrangements

On September 27, 2013, the Company entered into a Credit Agreement (the “Credit Agreement”) with certain banks and agents.

Pursuant to the Credit Agreement, the Company is borrower under a \$150 million senior revolving credit facility (the “Revolving Facility”) and a \$150 million term loan facility (the “Term Loan”). Under the terms of the Credit Agreement, the Company is entitled, subject to the satisfaction of certain conditions, to further request an

GENTEX CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

additional principal amount of up to \$75 million. In addition, the Company is entitled, subject to certain terms and conditions, to the benefit of swing loans for principal amounts of up to \$20 million and to request Letters of Credit from amounts otherwise available under the Revolving Facility of up to \$20 million. The obligations of the Company under the Credit Agreement are not secured, but are subject to certain covenants (see below).

During the three and six months ended June 30, 2014, the Company made partial repayments of \$1.9 million and \$3.8 million respectively, plus accrued interest, on the Term Loan, and accrued interest on the Revolving Facility. The Company used cash and cash equivalents to fund the payments. As of June 30, 2014 the Company had availability of \$25 million on the Revolving Facility (not including additional aggregate principal amounts which can be requested as set forth above).

The interest rates per annum applicable to loans, other than swing loans, under the Credit Agreement will be, at the Company's option and subject to certain conditions, equal to either a base rate or a LIBOR rate for one, two, three or six-month interest periods chosen by the Company, plus an applicable margin percentage. The base rate will be the highest of: (i) the federal funds rate plus 0.50%; (ii) the agent's prime rate or; (iii) the LIBOR rate plus 1.00%. The LIBOR rate will be equal to the London interbank offered rates for U.S. Dollars quoted by Bloomberg or the appropriate successor, divided by a number equal to 1 minus the maximum percentage in effect on such day for determining reserve requirements, as prescribed by the Board of Governors of the Federal Reserve System. The applicable margin percentage is based on the leverage ratio of the Company. The range of the applicable margin percentage is 1.00% per annum to 1.75% per annum in the case of the LIBOR rate, and 0.00% per annum to 0.75% per annum in the case of the base rate.

As of June 30, 2014, the Company has chosen the option of borrowing funds using the one month LIBOR, and based on the Company's leverage ratio as of June 30, 2014, the interest rate on its borrowings is equal to 1.15%. Interest expenses for three and six months ended June 30, 2014 netted within the "Other, net" section of the income statement were \$0.9 million and \$1.8 million, respectively. There was no cash paid for interest expense for the three and six months ended June 30, 2013 as there were no outstanding borrowings during those periods. A one percent increase in the Company's borrowing rate, would increase interest expense paid by the Company on its borrowings by approximately \$2.7 million dollars on an annual basis, based on loan balances as of June 30, 2014.

The Credit Agreement contains customary representations and warranties and certain covenants that limit the ability of the Company and certain of its subsidiaries to, among other things: (i) incur or guarantee additional indebtedness; (ii) redeem or repurchase subordinated debt; (iii) sell or otherwise transfer or dispose of certain assets; (iv) make certain investments; (v) incur or suffer to exist liens securing indebtedness; (vi) dissolve, liquidate, consolidate, merge or wind-up its affairs; (vii) engage in certain transactions with affiliates; or (viii) make certain other negative pledges. In addition, the Credit Agreement contains financial covenants that limit capital expenditures in any fiscal year and that measure: (i) the ratio of the Company's total funded indebtedness net of certain cash to the amount of the Company's consolidated Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"); and (ii) the ratio of the amount of the Company's consolidated EBITDA to the Company's cash interest expense. The Credit Agreement also includes customary events of default. As of June 30, 2014, the Company was in compliance with its covenants under the Credit Agreement.

The Revolving Facility expires and the Term Loan matures on September 27, 2018.

(10) Equity

The increase in common stock during the six months ended June 30, 2014, was primarily due to the issuance of 679,044 shares of the Company's common stock under the Company's stock-based compensation plans. The Company announced a \$.02 per share increase in its quarterly cash dividend rate during the second quarter of 2014. As such, the Company had a recorded cash dividend of \$0.16 per share in the second quarter of 2014 as compared to \$0.14 during the first quarter of 2014. The second quarter dividend of \$23.4 million was declared on May 15, 2014, and was paid on July 18, 2014.

## GENTEX CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

## (11) Contingencies

The Company is periodically involved in legal proceedings, legal actions and claims arising in the normal course of business, including proceedings relating to product liability, intellectual property, safety and health, employment and other matters. Such matters are subject to many uncertainties and outcomes are not predictable. The Company does not believe, however, that at the current time any of these matters constitute material pending legal proceedings that will have a material adverse effect on the financial position or future results of operations of the Company.

## (12) Segment Reporting

The Company's automotive segment develops and manufactures electro-optic products, including: automatic-dimming rearview mirrors with and without electronic features for the automotive industry; non-auto dimming rearview automotive mirrors with and without electronic features; and HomeLink®, the vehicle-based control system that enables drivers to remotely activate garage door openers, entry door locks, home lighting, security systems, entry gates, and other radio frequency convenience products. The Company also develops and manufactures variably dimmable windows for the aerospace industry and fire protection products for the commercial construction industry, which are combined into the "Other" segment shown below.

|                         | Three Months Ended June 30, |               | Six Months Ended June 30, |               |
|-------------------------|-----------------------------|---------------|---------------------------|---------------|
|                         | 2014                        | 2013          | 2014                      | 2013          |
| Revenue:                |                             |               |                           |               |
| Automotive Products     | \$329,557,679               | \$279,789,872 | \$655,921,786             | \$542,757,372 |
| Other                   | 8,879,285                   | 7,184,026     | 18,254,522                | 13,715,495    |
| Total                   | \$338,436,964               | \$286,973,898 | \$674,176,308             | \$556,472,867 |
| Income from operations: |                             |               |                           |               |
| Automotive Products     | \$96,849,968                | \$69,959,655  | \$190,294,435             | \$132,621,089 |
| Other                   | 2,985,470                   | 1,636,616     | 6,718,549                 | 2,828,821     |
| Total                   | \$99,835,438                | \$71,596,271  | \$197,012,984             | \$135,449,910 |

## (13) Income Taxes

The effective tax rate was 27.4% in the second quarter of 2014 compared to 32.5% for same period of 2013. Effective tax rates differ from statutory federal income tax rates, primarily due to the domestic manufacturing deduction, provisions for state and local income taxes and permanent tax differences. The decrease in the effective tax rate from the second quarter of 2014 compared to the second quarter 2013 is primarily due to incremental research and development tax credits related to amended tax return filings for calendar years 2010 through 2012 in the amount of \$5.5 million.



Table of ContentsItem 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.  
RESULTS OF OPERATIONS:

## SECOND QUARTER 2014 VERSUS SECOND QUARTER 2013

**Net Sales.** Net sales for the second quarter of 2014 increased by \$51.5 million or 18% when compared with the second quarter of 2013.

Automotive net sales for the second quarter of 2014 increased 18% to \$329.6 million, compared with automotive net sales of \$279.8 million in the second quarter of 2013, driven by a 12% quarter-over-quarter increase in automotive mirror unit shipments and the addition of HomeLink®. North American automotive mirror unit shipments in the second quarter of 2014 increased 8% to 2.7 million units compared with the second quarter of 2013, primarily due to increased penetration of the Company's interior and exterior auto-dimming mirrors, which was partially offset by quarter-over-quarter declines in the Company's RCD mirror unit shipments. International automotive mirror unit shipments in the second quarter of 2014 increased 14% compared with the second quarter of 2013 primarily due to increased penetration of the Company's interior and exterior auto-dimming mirrors.

The below table represents the Company's auto dimming mirror unit shipments for the three and six months ended June 30, 2014 and 2013. (in thousands)

|                                   | Three Months Ended June 30, |       |             | Six Months ended June 30, |        |             |
|-----------------------------------|-----------------------------|-------|-------------|---------------------------|--------|-------------|
|                                   | 2014                        | 2013  | %<br>Change | 2014                      | 2013   | %<br>Change |
| North American Interior Mirrors   | 2,119                       | 1,998 | 6 %         | 4,094                     | 4,030  | 2 %         |
| North American Exterior Mirrors   | 629                         | 558   | 13 %        | 1,165                     | 1,068  | 9 %         |
| Total North American Mirror Units | 2,748                       | 2,556 | 8 %         | 5,259                     | 5,098  | 3 %         |
| International Interior Mirrors    | 3,310                       | 2,889 | 15 %        | 6,573                     | 5,535  | 19 %        |
| International Exterior Mirrors    | 1,324                       | 1,174 | 13 %        | 2,675                     | 2,291  | 17 %        |
| Total International Mirror Units  | 4,634                       | 4,063 | 14 %        | 9,247                     | 7,826  | 18 %        |
| Total Interior Mirrors            | 5,429                       | 4,887 | 11 %        | 10,667                    | 9,564  | 12 %        |
| Total Exterior Mirrors            | 1,953                       | 1,732 | 13 %        | 3,839                     | 3,359  | 14 %        |
| Total Auto-Dimming Mirror Units   | 7,382                       | 6,619 | 12 %        | 14,506                    | 12,924 | 12 %        |

Other net sales, which include fire protection products and dimmable aircraft windows, were \$8.8 million in the second quarter of 2014, up 24% compared with \$7.2 million in the second quarter of 2013 primarily due to increases in shipments of dimmable aircraft windows.

**Cost of Goods Sold.** As a percentage of net sales, cost of goods sold decreased to 60.3% for the second quarter of 2014 versus 64.2% in the second quarter of 2013, primarily due to the impact of the HomeLink® acquisition, improvements in product mix, and purchasing cost reductions, which were partially offset by annual customer price reductions. Each of the positive factors is estimated to have impacted cost of goods sold independently as a percentage of net sales by approximately 150 - 200 basis points.

**Operating Expenses.** Engineering, research and development (E, R & D) expenses for the second quarter of 2014 increased 7% or \$1.4 million when compared with the second quarter of 2013, primarily due to increased staffing levels. Selling, general and administrative (S, G & A) expenses increased 17% or \$2.1 million for the second quarter of 2014 compared to the second quarter of 2013, primarily due to increased amortization expense related to the HomeLink® acquisition which was not present in the 2nd quarter of 2013. S,G&A expenses were 4.2% of net sales in

the second quarter of 2014 and in the second quarter of 2013.

## Table of Contents

**Total Other Income & Expense.** Total other income for the second quarter of 2014 increased by \$0.3 million when compared with the second quarter of 2013, primarily due to increased realized gains on the sale of equity investments, partially offset by interest expense of \$0.9 million in the second quarter of 2014.

**Taxes.** The effective tax rate was 27.4% in the second quarter of 2014 compared to 32.5% for same quarter of 2013. The effective tax rate differed from the statutory federal income tax rate, primarily due to the domestic manufacturing deduction, provisions for state and local income taxes, and permanent tax differences. The decrease in the effective tax rate from the second quarter of 2014 compared to the second quarter 2013 is primarily due to incremental research and development tax credits related to amended tax return filings for calendar years 2010 through 2012 which provided an incremental benefit of approximately \$5.5 million.

**Net Income.** Net income for the second quarter of 2014 increased by \$24.6 million or 47% when compared with the second quarter of 2013, primarily due to increases in sales and operating margin.

## SIX MONTHS ENDED JUNE 30, 2014 VERSUS SIX MONTHS ENDED JUNE 30, 2013

**Net Sales.** Net sales for the six months ended June 30, 2014 increased by \$117.7 million or 21.2% when compared with the same period in 2013.

Automotive net sales were \$655.9 million, up 20.8% compared with automotive net sales of \$542.8 million for the first six months of 2013, driven by a 12% increase in automotive mirror unit shipments and the addition of HomeLink®. North American automotive mirror unit shipments in the second quarter of 2014 increased 3% to 5.3 million units compared with same period in 2013, primarily due to increased penetration of the Company's interior and exterior auto-dimming mirrors, which was partially offset by year-over-year declines in the Company's RCD mirror unit shipments. International automotive mirror unit shipments in the six months ended June 30, 2014 increased 18% compared with the same period in 2014 primarily due to increased penetration of the Company's interior and exterior auto-dimming mirrors.

**Cost of Goods Sold.** As a percentage of net sales, cost of goods sold for the first six months of 2014 declined to 60.6%, down from 64.8% in the same period last year primarily due to the impact of the HomeLink® acquisition, improvements in product mix, and purchasing cost reductions, which were partially offset by annual customer price reductions. Each of the positive factors is estimated to have impacted cost of goods sold independently as a percentage of net sales by approximately 150 - 200 basis points.

**Operating Expenses.** Engineering, research and development (E, R & D) expenses for the six months ended June 30, 2014 increased 8.5% or \$3.2 million when compared with the same period last year, primarily due to increased staffing levels which continue to support growth and the development of new business, as well as personnel additions that were part of the HomeLink® acquisition which were not present in the first six months of 2013.

Selling, general and administrative (S, G & A) expenses increased 20.7% or \$4.8 million when compared with the same period last year, primarily due to amortization expense related to the HomeLink® acquisition

**Total Other Income.** Total other income for for the six months ended June 30, 2014 increased by \$2.9 million when compared with the same period last year, primarily due to increased realized gains on sales of equity investments, which were partially offset by interest expense on the Company's borrowings.

**Taxes.** The effective tax rate was 29.9% for the six months ended June 30, 2014 compared to 31.74% for same period of 2013. The effective tax rate differed from the statutory federal income tax rate, primarily due to the domestic manufacturing deduction, provisions for state and local income taxes, and permanent tax differences. The decrease in the effective tax rate from the same period in 2013 is primarily due to incremental research and development tax credits related to amended tax return filings for calendar years 2010 through 2012 which provided an incremental benefit of approximately \$5.5 million.

**Net Income.** Net income for the six months ended June 30, 2014 increased by \$47.8 million or 49% to \$145.3 million versus \$97.5 million in the same period last year, primarily due to increased sales levels and increased operating margins.



Table of Contents**FINANCIAL CONDITION:**

The Company's cash and cash equivalents as of June 30, 2014 was \$391.7 million, which increased approximately \$82.1 million compared to \$309.6 million as of December 31, 2013. The increase was primarily due to cash flow generated by operating activities.

Accounts receivable as of June 30, 2014 increased approximately \$35.2 million compared to December 31, 2013, primarily due to the higher sequential sales level as well as timing of sales within quarters.

Inventories as of June 30, 2014 increased approximately \$5.1 million when compared to December 31, 2013, primarily due to increases in raw materials inventory.

Long-term investments as of June 30, 2014 increased approximately \$2.8 million compared to December 31, 2013, due to increases in unrealized gains in equity investments, partially offset by realized gains on sales of equity investments that were re-deployed.

Accrued liabilities as of June 30, 2014 increased approximately \$9.5 million compared to December 31, 2013, primarily due to increased accrued taxes and compensation, reflecting the timing of certain tax and compensation payments.

Long term debt as of June 30, 2014 decreased by \$3.8 million compared to December 31, 2013, due to the Company's principal repayment on its term loan, further explained in Note 9 to the Unaudited Condensed Financial Statements.

Cash flow from operating activities for the six months ended June 30, 2014, decreased \$30.2 million to \$142.1 million, compared with \$172.3 million, during the same period last year, primarily due to changes in working capital, partially offset by increases in net income.

Capital expenditures for the six months ended June 30, 2014, were approximately \$30.2 million, compared with approximately \$24.1 million for the same period last year, primarily due to production equipment purchases.

The Company continues to estimate that it has building capacity to manufacture approximately 21-23 million interior mirror units annually and approximately 10 million exterior mirror units annually, based on current product mix.

The Company believes its existing and planned facilities are suitable, adequate, and have the capacity necessary for current and near-term planned business. However, in the second half of 2014, the Company is planning to begin construction of a new manufacturing and distribution facility located in Zeeland, Michigan. The total cost of this project is expected to be approximately \$30-35 million, of which approximately \$5-10 million will be incurred in 2014.

Management considers the Company's current working capital and long-term investments, as well as the debt financing arrangement (notwithstanding its prohibitions on incurring additional indebtedness), discussed further in Note 9 to the Unaudited Condensed Financial Statements, in addition to internally generated cash flow, to be sufficient to cover anticipated cash needs for the foreseeable future considering its contractual obligations and commitments. The following is a summary of working capital and long-term investments:

|                       | June 30, 2014 | December 31, 2013 |
|-----------------------|---------------|-------------------|
| Working Capital       | \$604,894,855 | \$481,205,828     |
| Long Term Investments | 109,797,786   | 107,005,522       |
| Total                 | \$714,692,641 | \$588,211,350     |

The Company has a share repurchase plan under which it may purchase up to 4,000,000 shares of the Company's common stock based on market conditions, the market price of the stock, anti-dilutive effect on earnings, available cash and other factors that the Company deems appropriate. The Company did not repurchase any shares in the six months ended June 30, 2014.

Table of Contents

The following is a summary of quarterly share repurchase activity under the plan to date:

| Quarter Ended      | Total Number of Shares<br>Purchased<br>(Post - Split) | Cost of Shares Purchased |
|--------------------|---|--------------------------|
| March 31, 2003     | 830,000   | \$ 10,246,810            |
| September 30, 2005 | 1,496,059   | 25,214,573               |
| March 31, 2006     | 2,803,548   | 47,145,310               |
| June 30, 2006      | 7,201,081   | 104,604,414              |
| September 30, 2006 | 3,968,171   | 55,614,102               |
| December 31, 2006  | 1,232,884   | 19,487,427               |
| March 31, 2007     | 447,710   | 7,328,015                |
| March 31, 2008     | 2,200,752   | 34,619,490               |
| June 30, 2008      | 1,203,560   | 19,043,775               |
| September 30, 2008 | 2,519,153   | 39,689,410               |
| December 31, 2008  | 2,125,253   | 17,907,128               |
| September 30, 2012 | 1,971,829   | 33,716,725               |
| Totals             | 28,000,000  | \$ 414,617,179           |

4 million shares remain authorized to be repurchased under the plan as of June 30, 2014.

**BUSINESS UPDATE**

As previously announced, the Company completed the acquisition of HomeLink® on September 27th 2013. The integration of HomeLink® remains a major priority for the Company in 2014. The integration continues to run in line with, to slightly ahead of, the Company's original projections. The Company is encouraged by customer approvals received, the manufacturing transition to production at the Company's U.S. based facilities, integration of suppliers and compatibility partners, order processing, logistics, the sourcing of new business awards, and perhaps most importantly, new product development.

HomeLink® V, which combines bi-directional communication capability for garage doors, gates, lights, locks, and security systems with the ability to function across the globe, provides the Company with a technology platform for both integration into our rearview mirrors and expansion of our product line with electronic modules outside the mirror. In addition, the Company recently announced battery powered HomeLink®, which uses a long life multi-year battery. Historically, the limiting factor in adding HomeLink® to a vehicle has been getting the vehicle electrically wired to power it, a process that generally requires a vehicle model change or mid-cycle refresh, which can have significant lead-times. The advantage of the battery powered HomeLink® is that it does not need to be electrically wired into the vehicle for it to work. The Company also recently announced HomeLink® for applications outside the automotive industry. HomeLink® for non-automotive applications expands beyond automobiles to all other vehicle types which include but are not limited to motorcycles, mopeds, snowmobiles, tractors, combines, lawn mowers, loaders, bulldozers, road-graders, backhoes and golf carts. These product developments will utilize the market leading HomeLink® V system of communication to the home, door locks, garage doors, gates, lights, security systems, and an increasing array of home automation products.

The Company also recently announced a new CMOS Imager, which is the Company's fourth generation chip. The Company's SmartBeam camera systems utilize a proprietary Company designed camera chip in a Company designed camera system with Company developed algorithms and software running the system. The newly developed CMOS imager was developed specifically for automotive vision system applications requiring high dynamic range, defined as the ability to capture scene details in bright light and in dark conditions. This imager allows the viewer to see more in the camera picture, and was designed with increased capability for automotive safety applications. Additionally, with the new CMOS Imager, the Company announced a new generation of SmartBeam that has an advanced feature set made possible by the high dynamic range of the imager including: high beam assist; dynamic forward lighting with

high beams constantly ON; LED matrix beam; and a variety of specific detection applications including tunnel, fog, road type, object detection and collision detection. Lastly, with the new CMOS Imager, the Company announced a video camera system designed for today's advanced automotive display application requirements, which is the Company's first video

## Table of Contents

camera product announcement. In video applications, a competitive advantage of the Company's camera is that the Company believes it can present more detail in a video display than other cameras in the market.

The Company does continue to experience pricing pressure from its automotive customers and competitors, which will continue to cause downward pressure on its profit margins. This requires the Company continuously work to offset these price reductions with engineering and purchasing cost reductions, productivity improvements, and increases in unit sales volume.

On March 31, 2014, the National Highway Traffic Safety Administration issued a final rule requiring rearview video systems in U.S. light vehicles by May 1, 2018, with a phase-in schedule requirement of 10% of vehicles after May 2016, 40% of vehicles after May 2017, and 100% of vehicles after May 2018. In this release, NHTSA estimated that 57% of model year 2014 vehicles already have a rear video system, and that even without a final rule, 73% of the vehicles sold into North America would have already included a rearview video system by 2018. This NHTSA ruling, as is indicated from the percentage of U.S. vehicles already having a solution, does not currently indicate an immediate opportunity for new RCD mirror applications for the Company. Customer opportunities may exist by the time the 100% requirement is in place, but no new material guidance is available from the Company at this time. The Company's rear camera display mirror application meets all the technical requirements of the NHTSA ruling when installed in a vehicle and appropriately paired with an OEM specified camera. The Company has previously reported that in anticipation of the NHTSA ruling requiring rearview video systems, four of its customers had implemented standard equipment rear video display in the radio in place of the Company's RCD mirror option, and that the Company would experience those lost U.S. applications beginning in 2013 and continuing throughout calendar 2014. Actual RCD unit shipments for calendar year 2013 decreased 21% as a result, and the Company currently expects a similar decline in unit shipments in 2014.

The European New Car Assessment Program (Euro NCAP) provides an incentive for automobiles sold in Europe to apply safety technologies that include camera based driver assist features such as lane detection, vehicle detection, and pedestrian detection as standard equipment. Euro NCAP compliant camera based driver assist systems are also capable of including high beam assist as a function. The increased application of Euro NCAP on European vehicles could potentially replace the Company's SmartBeam application on these vehicles.

Requests to NHTSA for cameras and video displays to replace automotive rearview mirrors has for many years been a consideration in regulatory discussion and specification development. Mirrors are the primary safety function for rear vision in automotive today. Challenges to replacing rearview mirrors with cameras include viewing area, depth perception, cleanliness of the camera lens in all weather conditions, and the fundamental issue of what does the driver do if the camera fails due to electrical or interference issues.

The Company designs and manufactures both rearview mirrors and CMOS imager cameras and video displays and has been shipping these products for many years. The Company has recognized the future potential for these technologies, and continues to be an active participant in the development of products that would hopefully maintain the Company as a market leader in this area.

Automakers continue to experience volatility and uncertainty in executing planned new programs, which result in delays or cancellations of new vehicle platforms, package configurations, and inaccurate volume forecasts. This challenge makes it difficult for the Company to forecast future sales and manage costs, inventory, capital, engineering, research and development, and human resource investments.

The automotive industry continues to be cyclical and highly impacted by levels of economic activity, and the current economic environment while improving, continues to be uncertain. This challenge stresses the Company with volatile customer orders, automaker plant shutdowns, supplier material cost fluctuation, supplier part shortages, and consumer vehicle feature preference changes (to vehicles where the Company has lower penetration). Because the Company



sells its products throughout the world, and automotive manufacturing is highly dependent on economic conditions, the Company can be affected by uncertain economic conditions that can reduce demand for its products.

The uncertain economic environment can also affect the automotive industry in the sale or bankruptcy of customer businesses. Should any of the Company's customers, including Tier 1 suppliers, sell their business or declare bankruptcy, it could adversely affect the collection of receivables, product planning and business with that customer.

## Table of Contents

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These new requirements required due diligence efforts in 2013 and 2014, and the Company disclosed its findings to the SEC on Form SD on May 30, 2014. As there may be only a limited number of suppliers offering "conflict free" minerals, the Company cannot be sure that it will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, the Company may face reputational challenges if it determines that certain of its products contain minerals not determined to be conflict free or if the Company is unable to sufficiently verify the origins for all conflict minerals used in the Company's products through the procedures the Company may implement.

The Company previously announced that it was providing variably dimmable windows for the Boeing 787 Dreamliner series of aircraft as well as the Beechcraft King Air 350i aircraft. The Company continued to ship parts for the Boeing 787 Dreamliner Series of Aircraft and the King Air 350i airplane in relatively low volume. The Company continues to work with aircraft manufacturers that have an interest in this technology regarding potential additional programs.

The Company believes that its patents and trade secrets provide it with a competitive advantage in automotive rearview mirrors and in other parts of the vehicle with its newly acquired HomeLink® portfolio. Claims of patent infringement can be costly and time-consuming to address. To that end, the Company obtains intellectual property rights in the ordinary course of business to strengthen its intellectual property portfolio to minimize the risk of infringement.

The Company does not have any significant off-balance sheet arrangements or commitments that have not been recorded in its consolidated financial statements.

## OUTLOOK

The Company utilizes the light vehicle production forecasting services of IHS Worldwide. The IHS July forecast for light vehicle production for the third quarter of 2014 are 4.25 million units for North America, 4.57 million units for Europe, and 3.27 million units for Japan and Korea. The IHS July forecast for light vehicle production for calendar year 2014 are 17.0 million units for North America, 20.0 million units for Europe, and 13.6 million units for Japan and Korea.

Based on the IHS July 2014 forecast for the third quarter of 2014, as well as the estimated option rates for the Company's mirrors on vehicle models, anticipated product mix including HomeLink® products, and the Company's 12-week customer release schedule, the Company estimates that net sales in the third quarter of 2014 will increase 15 - 20% compared with the third quarter of 2013.

The Company also estimates gross profit margin for the third quarter of 2014 to be in the range of 39.5% - 40%, based on the July 2014 IHS production forecast and current forecasted product mix.

E,R&D expense in the third quarter of 2014 is estimated to increase 5% - 10% compared with E, R&D in the third quarter of 2013, primarily due to the increased staffing levels that have occurred throughout calendar 2013 and into 2014, which increase continue to support growth and development of existing business as well as personnel additions that were part of the HomeLink® acquisition.

S, G&A expense in the third quarter of 2014 is estimated to increase approximately 10% compared with S, G&A in the third quarter of 2013, primarily due to increased amortization of the HomeLink® acquired assets as well as

personnel additions that were part of the HomeLink® acquisition. This estimate is based on stable foreign exchange rates.

The Company estimates that Other Income in the third quarter 2014 to be in the range of \$2-3 million, depending on specific market conditions.

Table of Contents

The Company expects the effective tax rate to be approximately 30.5% - 31.5% for the third quarter of 2014, based on current tax laws.

The Company continues to estimate that capital expenditures for 2014 will be approximately \$75 - \$85 million. In the second half of 2014, the Company is planning to begin construction of a new manufacturing and distribution facility located in Zeeland, Michigan. The total cost of this project is expected to be approximately \$30-35 million, of which approximately \$5-10 million will be incurred in 2014.

The Company continues to estimate that depreciation and amortization expense for the full year to be in the range of \$80 - \$85 million.

**CRITICAL ACCOUNTING POLICIES:**

The preparation of the Company's consolidated condensed financial statements contained in this report, which have been prepared in accordance with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluates these estimates. Estimates are based on historical experience and/or on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that may not be readily apparent from other sources. Historically, actual results have not been materially different from the Company's estimates. However, actual results may differ from these estimates under different assumptions or conditions. The Company has identified critical accounting policies used in determining estimates and assumptions in the amounts reported in its Management's Discussion and Analysis of Financial Condition and Results of Operations in its Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Table of Contents

Item 3. Quantitative And Qualitative Disclosures About Market Risk.

The Company is subject to market risk exposures of varying correlations and volatilities, including foreign exchange rate risk, interest rate risk, and equity price risk. Volatile equity markets could negatively impact the Company's financial performance due to realized losses on the sale of equity investments and/or recognized losses due to other-than-temporary impairment adjustment on available for sale securities (mark-to-market adjustments). During the quarter ended June 30, 2014, there are no material changes in the risk factors previously disclosed in the Company's report on Form 10-K for the fiscal year ended December 31, 2013, except as set forth in Item 2.

The Company has some assets, liabilities and operations outside the United States, including euro-denominated accounts, which currently are not significant overall to the Company as a whole. Because the Company sells its automotive mirrors throughout the world, and automotive manufacturing is highly dependent on general economic conditions, the Company could be affected by uncertain economic conditions in foreign markets that can reduce demand for its products.

Item 4. Controls And Procedures.

Evaluation of Disclosure Controls and Procedures.

Under the supervision of, and with the participation of management, the Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2014, and have concluded that as of that date, the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the quarter ended June 30, 2014, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

SAFE HARBOR STATEMENT:

This Quarterly Report contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The statements contained in this communication that are not purely historical are forward-looking statements. Forward-looking statements give the Company's current expectations or forecasts of future events. These forward-looking statements generally can be identified by the use of words such as "anticipate", "believe", "could", "estimate", "expect", "forecast", "goal", "hope", "may", "plan", "project", "will", and variations of such words and similar expressions. Such statements are subject to risks and uncertainties that are often difficult to predict and beyond the Company's control, and could cause the Company's results to differ materially from those described. These risks and uncertainties include, without limitation: changes in general industry or regional market conditions; changes in consumer and customer preferences for our products; our ability to be awarded new business; continued uncertainty in pricing negotiations with customers; loss of business from increased competition; customer bankruptcies or divestiture of customer brands; fluctuation in vehicle production schedules; changes in product mix; raw material shortages; higher raw material, fuel, energy and other costs; unfavorable fluctuations in currencies or interest rates in the regions in which we operate; costs or difficulties related to the integration of any new or acquired technologies and businesses; changes in regulatory conditions; warranty and recall claims and other litigation and customer reactions thereto; possible adverse results of pending or future litigation or infringement claims; negative impact of any governmental investigations and associated litigations including securities litigations relating to the conduct of our business; integration of the newly acquired HomeLink® business operations; retention of the newly acquired customers of the HomeLink® business; and expansion of product offerings including those

incorporating HomeLink® technology. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law or the rules of the Nasdaq Global Select Market.

Table of Contents

PART II—OTHER INFORMATION

Item 1A. Risk Factors.

Information regarding risk factors appears in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I – Item 2 of this Form 10-Q and in Part I – Item 1A – Risk Factors of the Company's report on Form 10-K for the fiscal year ended December 31, 2013. There have been no material changes from the risk factors previously disclosed in the Company's report on Form 10-K for the year ended December 31, 2013, except to the extent described in Part I – Item 2 of this Form 10-Q.

Item 6. Exhibits.

See Exhibit Index on Page 26

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENTEX CORPORATION

Date: August 7, 2014      /s/ Fred T. Bauer  
Fred T. Bauer  
Chairman and Chief  
Executive Officer (Principal Executive Officer) on behalf of Gentex Corporation

Date: August 7, 2014      /s/ Steven R. Downing  
Steven R. Downing  
Vice President – Finance and Treasurer  
(Principal Financial Officer) on behalf of Gentex Corporation

Date: August 7, 2014      /s/ Kevin C. Nash  
Kevin C. Nash  
Vice President - Accounting  
(Principal Accounting Officer) on behalf of Gentex Corporation



Table of Contents

EXHIBIT INDEX

Exhibit No. Description

|         |   |
|---------|---|
| 3.1     | Registrant's Restated Articles of Incorporation, adopted on August 20, 2004, were filed as Exhibit 3(a) to Registrant's Report on Form 10-Q dated November 2, 2004, and an Amendment to the Registrant's Restated Articles of Incorporation, adopted as of May 18, 2012, was filed as Exhibit 3.1(i) to the Registrant's Form 8-K dated May 22, 2012, and the same are hereby incorporated by reference, together with an Amendment to the Registrant's Restated Articles of Incorporation adopted as of May 15, 2014 which was included in the Registrant's Proxy statement which was filed with the Commission March 31, 2014 and the same is hereby incorporated by reference. |
| *10.1   | Retirement from Service Agreement between Gentex Corporation and Bruce Los filed as exhibit to Registrant's Report on Form 8-K dated June 16, 2014.   |
| 10.2    | Gentex Corporation Employee Stock Option Plan (as amended and restated, effective February 20, 2014) was included in Registrant's Proxy Statement filed with the Commission on March 31, 2014, and the same is hereby incorporated herein by reference.   |
| 10.3    | Specimen form of Grant Agreement for the Gentex Corporation Employee Stock Option Plan (as amended and restated, effective February 10, 2014.   |
| 10.4    | Amendment to the Gentex Corporation 2012 Amended and Restated Nonemployee Director Stock Option Plan (effective February 16, 2012) was included in the Registrant's Proxy Statement filed with the Commission on March 31, 2014, and the same is hereby incorporated herein by reference.   |
| 10.5    | Specimen form of Grant Agreement for the Gentex Corporation 2012 Amended and Restated Non-Employee Director Stock Option Plan, as amended.  |
| 31.1    | Certificate of the Chief Executive Officer of Gentex Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).  |
| 31.2    | Certificate of the Chief Financial Officer of Gentex Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).  |
| 32      | Certificate of the Chief Executive Officer and Chief Financial Officer of Gentex Corporation pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).  |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase   |

\*Indicates a compensatory plan or arrangement.