

GENTEX CORP
Form 10-Q
November 05, 2015
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 September 30, 2015, 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 (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:

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, October 22, 2015
Common Stock, \$.06 Par Value	291,524,142

GENTEX CORPORATION AND SUBSIDIARIES

For the Three and Nine Months Ended September 30, 2015

FORM 10-Q

Index

	Page
Part I - Financial Information	
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>18</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>25</u>
Item 4. <u>Controls and Procedures</u>	<u>25</u>
Part II - Other Information	
Item 1A. <u>Risk Factors</u>	<u>27</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>27</u>
Item 6. <u>Exhibits</u>	<u>28</u>
<u>Signatures</u>	<u>29</u>
<u>Exhibit Index</u>	<u>30</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 September 30, 2015 and December 31, 2014

	September 30, 2015 (Unaudited)	December 31, 2014 (Note)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 564,528,197	\$ 497,429,804
Accounts receivable, net	208,203,616	168,008,704
Inventories	164,604,063	141,757,884
Prepaid expenses and other	41,867,345	49,441,302
Total current assets	979,203,221	856,637,694
PLANT AND EQUIPMENT—NET	388,188,954	373,390,992
OTHER ASSETS		
Goodwill	307,365,845	307,365,845
Long-term investments	94,424,586	114,642,567
Intangible Assets, net	332,400,000	346,875,000
Patents and other assets, net	22,428,765	23,627,931
Total other assets	756,619,196	792,511,343
Total assets	\$ 2,124,011,371	\$ 2,022,540,029
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$ 83,892,258	\$ 71,456,983
Accrued liabilities	97,737,628	61,974,180
Total current liabilities	181,629,886	133,431,163
LONG TERM DEBT	227,500,000	258,125,000
DEFERRED INCOME TAXES	43,785,884	59,571,421
TOTAL LIABILITIES	452,915,770	451,127,584
SHAREHOLDERS' INVESTMENT		
Common stock	17,534,331	17,714,877
Additional paid-in capital	584,423,871	553,836,483
Retained earnings	1,070,899,025	988,548,070
Accumulated other comprehensive income	(1,761,626	) 11,313,015
Total shareholders' investment	1,671,095,601	1,571,412,445
Total liabilities and shareholders' investment	\$ 2,124,011,371	\$ 2,022,540,029

Note: The condensed consolidated balance sheet at December 31, 2014 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 Nine Months Ended September 30, 2015 and 2014

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
NET SALES	\$389,829,139	\$350,913,912	\$1,138,025,071	\$1,025,090,220
COST OF GOODS SOLD	237,932,439	212,288,220	697,492,531	620,873,493
Gross profit	151,896,700	138,625,692	440,532,540	404,216,727
OPERATING EXPENSES:				
Engineering, research and development	21,505,461	21,671,940	65,408,256	62,395,241
Selling, general & administrative	14,128,619	13,747,925	43,020,328	41,602,675
Total operating expenses	35,634,080	35,419,865	108,428,584	103,997,916
Income from operations	116,262,620	103,205,827	332,103,956	300,218,811
OTHER INCOME				
Investment income	495,468	406,491	1,861,545	1,129,654
Other Income, net	(710,346)	) 380,289	950,304	9,958,235
Total other income	(214,878)	) 786,780	2,811,849	11,087,889
Income before provision for income taxes	116,047,742	103,992,607	334,915,805	311,306,700
PROVISION FOR INCOME TAXES	37,715,317	31,655,724	104,841,502	93,677,000
NET INCOME	\$78,332,425	\$72,336,883	\$230,074,303	\$217,629,700
EARNINGS PER SHARE:				
Basic	\$0.27	\$0.25	\$0.78	\$0.75
Diluted	\$0.27	\$0.25	\$0.77	\$0.74
Cash Dividends Declared per Share	\$0.085	\$0.080	\$0.250	\$0.230

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 and Nine Months Ended September 30, 2015 and 2014

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Income	\$78,332,425	\$72,336,883	\$230,074,303	\$217,629,700
Other comprehensive income (loss) before tax:				
Foreign currency translation adjustments	(396,686)	(269,392)	(1,038,892)	(602,131)
Unrealized losses on derivatives	(1,275,655)	—	(3,143,576)	—
Unrealized losses on available-for sales securities, net	(11,808,718)	(4,785,501)	(15,372,962)	(11,131,487)
Other comprehensive loss, before tax	(13,481,059)	(5,054,893)	(19,555,430)	(11,733,618)
Benefit for income taxes related to components of other comprehensive loss	(4,579,531)	(1,674,925)	(6,480,789)	(3,896,021)
Other comprehensive loss, net of tax	(8,901,528)	(3,379,968)	(13,074,641)	(7,837,597)
Comprehensive Income	\$69,430,897	\$68,956,915	\$216,999,662	\$209,792,103

See accompanying notes to condensed consolidated financial statements.

Table of Contents

GENTEX CORPORATION AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For Nine Months Ended September 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$230,074,303	\$217,629,700
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63,709,095	59,747,630
Gain on disposal of assets	(18,052	) (35,000
Loss on disposal of assets	360,659	411,129
Gain on sale of investments	(8,390,451	) (14,964,192
Loss on sale of investments	1,828,617	1,081,164
Deferred income taxes	(10,836,858	) 225,911
Stock-based compensation expense related to employee stock options, employee stock purchases and restricted stock	16,534,607	15,569,999
Excess tax benefits from stock-based compensation	(2,411,583	) (2,615,892
Change in operating assets and liabilities:		
Accounts receivable, net	(40,194,912	) (43,365,458
Inventories	(22,846,177	) (15,523,737
Prepaid expenses and other	9,106,066	(13,414,445
Accounts payable	12,435,275	12,103,087
Accrued liabilities, excluding dividends declared	33,810,991	10,603,937
Net cash provided by operating activities	283,161,580	227,453,833
CASH FLOWS (USED FOR) INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales proceeds	45,787,794	68,958,662
Purchases	(34,380,942	) (63,310,363
Plant and equipment additions	(62,282,827	) (49,994,352
Proceeds from sale of plant and equipment	4	35,005
(Increase) in other assets	(1,931,566	) (1,213,792
Net cash (used for) investing activities	(52,807,537	) (45,524,840
CASH FLOWS (USED FOR) FINANCING ACTIVITIES:		
Repayment of long-term debt	(30,625,000	) (5,625,000
Issuance of common stock from stock plan transactions	20,008,358	19,184,437
Cash dividends paid	(72,150,137	) (64,209,453
Repurchases of common stock	(82,900,454	) (9,999,957
Excess tax benefits from stock-based compensation	2,411,583	2,615,892
Net cash (used for) financing activities	(163,255,650	) (58,034,081
NET INCREASE IN CASH AND CASH EQUIVALENTS	67,098,393	123,894,912
CASH AND CASH EQUIVALENTS, beginning of period	497,429,804	309,591,724
CASH AND CASH EQUIVALENTS, end of period	\$564,528,197	\$433,486,636

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 2014 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 September 30, 2015, 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 was to originally be effective for public entities for annual and interim periods beginning after December 15, 2016. On July 9, 2015 the FASB decided to defer by one year the effective dates of the new standard for both public and nonpublic entities reporting under US GAAP. Early adoption would be permitted for all entities, but not before the original public entity effective date (i.e. 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 is currently evaluating which adoption method it plans to use and is assessing 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. The Company recorded Goodwill of \$307.4 million as part of the HomeLink® acquisition. The carrying value of Goodwill as of December 31, 2014 and September 30, 2015 was \$307.4 million.

In addition to annual impairment testing, which was performed in the fourth quarter of 2014 and indicated that the estimated fair value of the Automotive reporting unit exceeded its corresponding carrying amount including goodwill, the Company continuously monitors for events and circumstances that could negatively impact the key assumptions in determining fair value thus resulting in the need for interim impairment testing, including long-term revenue growth projections, profitability, discount rates, recent market valuations from transactions by comparable companies, volatility in the Company's market capitalization, and general industry, market and

7

GENTEX CORPORATION AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

macroeconomic conditions. No such events or circumstances in the most recently completed quarter indicated the need for interim impairment testing.

The patents and intangible assets and related change in carrying values are set forth in the table below:

As of September 30, 2015:

Other Intangible Assets	Gross	Accumulated Amortization	Net	Assumed Useful Life
Gentex Patents	\$30,720,542	\$(13,092,594)	)\$17,627,948	various
Other Intangible Assets				
HomeLink® Trade Names and Trademarks	\$52,000,000	\$—	\$52,000,000	Indefinite
HomeLink® Technology	180,000,000	(30,000,000)	)150,000,000	12 years
Existing Customer Platforms	43,000,000	(8,600,000)	)34,400,000	10 years
Exclusive Licensing Agreement	96,000,000	—	96,000,000	Indefinite
Total Other Intangible Assets	\$371,000,000	\$(38,600,000)	)\$332,400,000	
Total Patents & Other Intangible Assets	\$401,720,542	\$(51,692,594)	)\$350,027,948	

As of December 31, 2014:

Other Intangible Assets	Gross	Accumulated Amortization	Net	Assumed Useful Life
Gentex Patents	\$30,132,116	\$(11,065,153)	)\$19,066,963	various
HomeLink® Trade Names and Trademarks				
HomeLink® Trade Names and Trademarks	\$52,000,000	\$—	\$52,000,000	Indefinite
HomeLink® Technology	180,000,000	(18,750,000)	)\$161,250,000	12 years
Existing Customer Platforms	43,000,000	(5,375,000)	)\$37,625,000	10 years
Exclusive Licensing Agreement	96,000,000	—	96,000,000	Indefinite
Total other identifiable intangible assets	\$371,000,000	\$(24,125,000)	)\$346,875,000	
Total Patents & Other Intangible Assets	\$401,132,116	\$(35,190,153)	)\$365,941,963	

Amortization expense on patents and intangible assets was approximately \$5.5 million and \$16.5 million during the three and nine month periods ended September 30, 2015, respectively, compared to approximately \$5.5 million and \$16.5 million for the same periods ended September 30, 2014, respectively.

Excluding the impact of any future acquisitions, the Company continues to estimate amortization expense for each of the years ended December 31, 2015, 2016, 2017, 2018 and 2019 to be approximately \$22 million annually.

(4) Investments

The Company follows the provisions of ASC 820, "Fair Value Measurements and Disclosures" for its financial assets and liabilities, and for 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

8

GENTEX CORPORATION AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

(4) Investments (continued)

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 September 30, 2015, and December 31, 2014:

As of September 30, 2015:

Description	Total as of September 30, 2015	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	\$564,528,197	\$564,528,197	\$—	\$—
Short-Term Investments:				
Other	335	335	—	—
Long-Term Investments:				
Common Stocks	24,128,497	24,128,497	—	—
Mutual Funds – Equity	70,296,089	70,296,089	—	—
Total	\$658,953,118	\$658,953,118	\$—	\$—

As of December 31, 2014:

Description	Total as of December 31, 2014	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	\$497,429,804	\$497,429,804	\$—	\$—
Short-Term Investments:				
Other	1,021	1,021	—	—
Long-Term Investments:				
Common Stocks	24,648,451	24,648,451	—	—
Mutual Funds – Equity	89,994,116	89,994,116	—	—
Total	\$612,073,392	\$612,073,392	\$—	\$—

GENTEX CORPORATION AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

(4) Investments (continued)

The amortized cost, unrealized gains and losses, and market value of investment securities are shown as of September 30, 2015, and December 31, 2014:

As of September 30, 2015:

	Cost	Unrealized Gains	Losses	Market Value
Short-Term Investments:				
Other	\$335	\$—	\$—	\$335
Long-Term Investments:				
Common Stocks	21,181,972	4,667,521	(1,720,996)	24,128,497
Mutual Funds – Equity	71,895,080	1,917,534	(3,516,525)	70,296,089
Total	\$93,077,387	\$6,585,055	\$(5,237,521)	\$94,424,921

As of December 31, 2014:

	Cost	Unrealized Gains	Losses	Market Value
Short-Term Investments:				
Other	\$1,021	\$—	\$—	\$1,021
Long-Term Investments:				
Common Stocks	17,069,742	7,933,717	(355,008)	24,648,451
Mutual Funds – Equity	80,852,329	9,922,204	(780,417)	89,994,116
Total	\$97,923,092	\$17,855,921	\$(1,135,425)	\$114,643,588

Unrealized losses on investments as of September 30, 2015, are as follows:

	Aggregate Unrealized Losses	Aggregate Fair Value
Less than one year	\$ 5,237,521	\$58,061,443

Unrealized losses on investments as of December 31, 2014, are as follows:

	Aggregate Unrealized Losses	Aggregate Fair Value
Less than one year	\$ 1,135,425	\$19,972,258

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 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 during the periods presented.

GENTEX CORPORATION AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

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

	September 30, 2015	December 31, 2014
Raw materials	\$ 105,026,208	\$ 90,780,320
Work-in-process	26,119,390	24,135,944
Finished goods	33,458,465	26,841,620
Total Inventory	\$ 164,604,063	\$ 141,757,884

(6) Earnings Per Share

The following table reconciles the numerators and denominators used in the calculation of basic and diluted earnings per share (EPS), adjusted for the 2 for 1 stock split effected in the form of a 100% stock dividend issued on December 31, 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerators:				
Numerator for both basic and diluted EPS, net income	\$ 78,332,425	\$ 72,336,883	\$ 230,074,303	\$ 217,629,700
Denominators:				
Denominator for basic EPS, weighted-average shares outstanding	292,589,866	290,969,434	293,742,028	290,383,296
Potentially dilutive shares resulting from stock plans	2,787,612	1,906,518	3,252,544	2,353,616
Denominator for diluted EPS	295,377,478	292,875,952	296,994,572	292,736,912
Shares related to stock plans not included in diluted average common shares outstanding because their effect would be anti-dilutive	3,756,369	7,698,848	1,611,900	2,949,114

(7) Stock-Based Compensation Plans

As of September 30, 2015, the Company had four equity incentive plans which include two stock option plans, a restricted stock plan and an employee stock purchase plan. All plans and any prior 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, 2014, for additional information related to these stock-based compensation plans.

The Company recognized compensation expense for share-based payments of \$4,404,297 and \$13,979,297 for the three and nine months ended September 30, 2015, respectively and \$4,778,693 and \$13,391,738 for the three and nine months ended September 30, 2014, respectively. Compensation cost capitalized as part of inventory as of September 30, 2015, was \$279,903.

Employee Stock Option Plan

The Company has an employee stock option plan covering 24,000,000 shares of common stock. The purpose of the plan is to provide an opportunity to use stock options as a means of recruiting new managerial and

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

(7) Stock-Based Compensation Plans (continued)

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		Nine Months Ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
Dividend Yield ⁽¹⁾	2.12	% 2.36	% 2.13	% 2.32	%
Expected volatility ⁽²⁾	35.81	% 37.70	% 36.10	% 38.73	%
Risk-free interest rate ⁽³⁾	1.37	% 1.79	% 1.56	% 1.81	%
Expected term of options (years) ⁽⁴⁾	4.31	4.38	4.97	4.84	
Weighted-avg. grant date fair value	\$3.94	\$3.60	\$4.47	\$4.13	

(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.

(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 employee stock option 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 September 30, 2015, there was \$22,971,517 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

The Company has a non-employee director stock option plan covering 1,000,000 shares of common stock. As of September 30, 2015, there was \$71,922 of unrecognized compensation cost under the non-employee director plan related to share-based payments. The Company has granted options on 315,000 shares under the non-employee director plan through September 30, 2015. Under the non-employee director 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 2,000,000 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 9,000,000 shares of common stock. The purpose of the restricted stock 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 restricted stock 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

12

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

(7) Stock-Based Compensation Plans (continued)

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 September 30, 2015, the Company had unearned stock-based compensation of \$11,698,198 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 nine months ended September 30, 2015 was \$905,772 and \$2,555,310.

(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 (loss) by component: (All amounts shown are net of tax).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Foreign currency translation adjustments:				
Balance at beginning of period	\$761,692	\$2,175,183	\$1,403,899	\$2,507,922
Other Comprehensive (loss) income before reclassifications	(396,685)	(269,392)	(1,038,892)	(602,131)
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Net current-period change	(396,685)	(269,392)	(1,038,892)	(602,131)
Balance at end of period	365,007	1,905,791	365,007	1,905,791
Unrealized gains (losses) on available-for-sale securities:				
Balance at beginning of period	8,551,564	15,342,551	10,868,322	19,467,441
Other Comprehensive income (loss) before reclassifications	(6,353,685)	(1,604,338)	(5,727,233)	1,788,502
Amounts reclassified from accumulated other comprehensive income	(1,321,982)	(1,506,238)	(4,265,192)	(9,023,968)
Net current-period change	(7,675,667)	(3,110,576)	(9,992,425)	(7,235,466)
Balance at end of period	875,897	12,231,975	875,897	12,231,975
Unrealized gains (losses) on derivatives:				
Balance at beginning of period	(2,173,354)	—	(959,206)	—
Other comprehensive income (loss) before reclassifications	(1,113,648)	—	(2,327,796)	—
Amounts reclassified from accumulated other comprehensive income	284,472	—	284,472	—
Net current-period change	(829,176)	—	(2,043,324)	—
Balance at end of period	(3,002,530)	—	(3,002,530)	—
	\$ (1,761,626)	\$ 14,137,766	\$ (1,761,626)	\$ 14,137,766

Accumulated other comprehensive income
(loss), end of period

13

GENTEX CORPORATION AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

(8) Comprehensive Income (continued)

The following table presents details of reclassifications out of other comprehensive income for the three and nine months ended September 30, 2015 and 2014.

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Other Comprehensive Income				Affected Line item in the Statement of Consolidated Income
	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014		
Unrealized gains on available-for-sale securities					
Realized gain on sale of securities	\$2,033,819	\$2,317,289	\$6,561,834	\$13,883,028	Other, net
Provision for Income Taxes	(711,837)	(811,051)	(2,296,642)	(4,859,060)	Provision for Income Taxes
	\$1,321,982	\$1,506,238	\$4,265,192	\$9,023,968	Net of tax
Unrealized gains (losses) on derivatives					
Realized loss on interest rate swap	\$(437,650)	\$—	\$(437,650)	\$—	Other, net
Provision for Income Taxes	153,178	—	153,178	—	Provision for Income Taxes
	\$(284,472)	\$—	\$(284,472)	\$—	Net of tax
Total reclassifications for the period	\$1,037,510	\$1,506,238	\$3,980,720	\$9,023,968	Net of tax

(9) Debt and Financing Arrangements

Credit Agreement

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 ("Revolver") and a \$150 million term loan facility ("Term Loan"). Under the terms of the Credit Agreement, the Company is entitled, to further request an additional aggregate principal amount of up to \$75 million, subject to the satisfaction of certain conditions. In addition, the Company is entitled to the benefit of swing loans from amounts otherwise available under the Revolver in the aggregate principal amount of up to \$20 million and to request Letters of Credit from amounts otherwise available under the Revolver in the aggregate principle amount up to \$20 million, both subject to certain conditions. The obligations of the Company under the Credit Agreement are not secured, but are subject to certain covenants. The Revolver expires and the Term Loan matures on September 27, 2018.

During the three and nine months ended September 30, 2015, the Company made principal repayments of \$26.9 million and \$30.6 million respectively, plus accrued interest, on the Term Loan. The aforementioned payments include additional payments made by the company of \$25.0 million during the three months ended September 30, 2015 on the Revolver, which were in addition to scheduled amounts due. The Company used cash and cash equivalents to fund the payments. As of September 30, 2015, \$100.8 million was outstanding on the Revolver with availability of an additional \$49.2 million. Under current terms of the Term Loan, the Company will make principal repayments of \$7.5 million annually through the maturity date of the Term Loan. As of September 30, 2015, \$135.0 million was outstanding under the Term Loan.

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

(9) Debt and Financing Arrangements (continued)

As of September 30, 2015, the borrowing rate on both its Term Loan and Revolver are derived from the one month LIBOR, and based on the Company's leverage ratio as of September 30, 2015, the interest rate on its borrowings is equal to 1.19%. Interest expense are netted within the "Other, net" section of the Condensed Consolidated Statements of Income and were \$1.3 million and \$3.0 million during the three and nine months ended September 30, 2015, respectively, and \$0.9 million and \$2.7 million during the three and nine months ended September 30, 2014, respectively.

The Credit Agreement contains customary representations and warranties and certain covenants that place certain limitations on the Company.

As of September 30, 2015, the Company was in compliance with its covenants under the Credit Agreement.

Interest Rate Swap

On October 1, 2014 the Company entered into an interest rate swap transaction with a bank (the "Counterparty"). The Counterparty is among the syndicate of lenders under the existing Credit Agreement entered into on September 27, 2013. The Company entered into the interest rate swap transaction to mitigate the Company's floating rate interest risk on an aggregate of \$150 million of the Company's debt that is currently outstanding under the Credit Agreement. The interest rate swap has an effective date of July 31, 2015 and a termination date of September 27, 2018 (which is the expiration date of the Credit Agreement). The Company is required to make certain monthly fixed rate payments to the Counterparty calculated on a notional amount of \$150 million for the rate swap, while the Counterparty is obligated to make monthly floating rate payments to the Company referencing the same notional amount. The interest rate swap transaction has the effect of fixing the annual interest rate payable on \$150 million of the Company's outstanding debt under its existing credit facility to 1.89%, as of the effective date. The notional amounts of the interest rate swap agreement are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. This derivative instrument has been designated as a cash flow hedge of the variable interest payments on the related debt.

Notwithstanding the terms of the interest rate swap transaction, the Company is ultimately obligated for all amounts due and payable under its existing Credit Agreement.

The notional amount of the Company's derivative instruments are as follows:

	September 30, 2015	December 31, 2014
Interest Rate swap	\$ 150,000,000	\$ 150,000,000

The following table sets forth financial assets and liabilities measured at fair value related to the interest rate swap agreement and the respective pricing levels to which the fair value measurements are classified within the fair value hierarchy. The Company uses the market approach to derive the value of its level 2 fair value measurements. Interest rate swaps are valued using publicized swap curves.

Fair Value Measurements

Quoted Prices with Other Observable Inputs (Level 2)

	September 30, 2015	December 31, 2014
--	--------------------	-------------------

Edgar Filing: GENTEX CORP - Form 10-Q

Financial assets:		
Interest Rate Swap Asset	\$—	\$—
Financial Liabilities:		
Interest Rate Swap Liability (Other Accrued Liabilities)	\$4,619,278	\$1,475,702

15

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

(9) Debt and Financing Arrangements (continued)

Based on loan balances as of September 30, 2015 and the effective date of July 31, 2015 of the interest rate swap, a one percent increase in the Company's borrowing rate would increase net interest expense paid by the Company on its borrowings by approximately \$0.8 million dollars on an annual basis.

(10) Equity

The decrease in common stock during the nine months ended September 30, 2015, was primarily due to share repurchases of 4,885,077 shares pursuant to the Company's previously announced share repurchase plan, which was partially offset by the issuance of 1,875,967 shares of the Company's common stock under the Company's stock-based compensation plans for a net decrease of 3,009,110 shares.

The Company announced a \$.005 per share increase in its quarterly cash dividend rate during the second quarter of 2015. As such, the Company recorded a cash dividend of \$0.085 during the second and third quarters of 2015 as compared per to \$.08 per share during the first quarter of 2015. The third quarter dividend of \$24.8 million, was declared on August 31, 2015, and was paid on October 16, 2015.

(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 other electronics. The Company also develops and manufactures variably dimming 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Automotive Products	\$379,889,957	\$341,786,404	\$1,111,009,546	\$997,708,190
Other	9,939,182	9,127,508	27,015,525	27,382,030
Total	\$389,829,139	\$350,913,912	\$1,138,025,071	\$1,025,090,220
Income from operations:				
Automotive Products	\$112,238,938	\$100,053,622	\$322,289,461	\$290,348,056
Other	4,023,682	3,152,205	9,814,495	9,870,755
Total	\$116,262,620	\$103,205,827	\$332,103,956	\$300,218,811

(13) Income Taxes

The effective tax rate was 32.5% in the third quarter of 2015 compared to 30.4% for the same period in 2014. 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 increase in the effective tax rate from the third quarter of 2015 compared to the third quarter of 2014 is primarily due to incremental research and development tax credits related to the 2013 calendar year of \$1.8 million recognized during the third quarter of 2014 as a result of an amended tax filing at that time.

GENTEX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Table of Contents

(14) Stock Split

On December 5, 2014, the Company announced that its Board of Directors approved a two-for-one split of our outstanding shares of common stock to be effected in the form of a 100% stock dividend. On December 31, 2014, shareholders of record at the close of business on December 17, 2014, were issued one additional share of common stock for each share owned by such shareholder. The stock split increased the number of shares of common stock outstanding from approximately 147.6 million to approximately 295.2 million. Share and per-share amounts (including stock options and restricted stock) shown in the consolidated financial statements and related notes reflect the split. The total number of authorized common shares and the par value thereof was not changed by the split.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS:

THIRD QUARTER 2015 VERSUS THIRD QUARTER 2014

Net Sales. Net sales for the third quarter of 2015 increased by \$38.9 million or 11% when compared with the third quarter of 2014.

Automotive net sales for the third quarter of 2015 increased 11% to \$379.9 million, compared with automotive net sales of \$341.8 million in the third quarter of 2014, driven by a 15% quarter-over-quarter increase in automotive mirror unit shipments. North American automotive mirror unit shipments in the third quarter of 2015 increased 16% to 3.1 million units compared with the third quarter of 2014, primarily due to increased penetration of the Company's interior and exterior auto-dimming mirrors. International automotive mirror unit shipments in the third quarter of 2015 increased 14% compared with the third quarter of 2014 also 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 three and nine months ended September 30, 2015 and 2014. (in thousands)

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2015	2014	% Change	2015	2014	% Change	
North American Interior Mirrors	2,242	2,054	9 %	6,451	6,148	5 %	
North American Exterior Mirrors	871	627	39 %	2,462	1,792	37 %	
Total North American Mirror Units	3,114	2,681	16 %	8,913	7,939	12 %	
International Interior Mirrors	3,669	3,206	14 %	10,903	9,778	12 %	
International Exterior Mirrors	1,541	1,347	14 %	4,614	4,022	15 %	
Total International Mirror Units	5,210	4,553	14 %	15,517	13,800	12 %	
Total Interior Mirrors	5,911	5,259	12 %	17,354	15,926	9 %	
Total Exterior Mirrors	2,412	1,974	22 %	7,076	5,813	22 %	
Total Auto-Dimming Mirror Units	8,324	7,233	15 %	24,430	21,739	12 %	

Note: Percent change and amounts may not total due to rounding.

Other net sales, which include fire protection products and dimmable aircraft windows, were \$9.9 million in the third quarter of 2015, an increase of 9% compared with \$9.1 million in the third quarter of 2014 primarily due to increases in shipments of dimmable aircraft windows.

Cost of Goods Sold. As a percentage of net sales, cost of goods sold increased to 61.0% for the third quarter of 2015 versus 60.5% in the third quarter of 2014 primarily due to the impact of currency rate fluctuations. Annual customer price reductions were essentially offset by increased purchasing cost reductions.

Operating Expenses. Engineering, research and development (E, R & D) expenses for the third quarter of 2015 decreased 1% or \$0.2 million when compared with the third quarter of 2014, primarily due to increased gains on reimbursable projects and foreign currency fluctuations.

Selling, general and administrative (S, G & A) expenses increased 3% or \$0.4 million for the third quarter of 2015 compared to the third quarter of 2014, driven higher by increased marketing and advertising expenditures. S,G&A

expenses were essentially flat at 4% of net sales in the third quarter of 2015 compared to the third quarter of 2014. Total operating expenses were \$35.6 million which increased 1% or \$0.2 million from \$35.4 million in the second quarter of 2014.

Table of Contents

Total Other Income & Expense. Total other income for the third quarter of 2015 decreased by \$1.0 million when compared with the third quarter of 2014, primarily due to increased interest expense as a result of the newly implemented interest rate swap and lower realized gains on the sale of equity investments, in the third quarter of 2015. **Taxes.** The effective tax rate was 32.5% in the third quarter of 2015 compared to 30.4% for same quarter of 2014. 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 increase in the effective tax rate for the third quarter of 2015 compared to the third quarter of 2014 is primarily a result of incremental research and development tax credits of \$1.8 million recognized during the third quarter of 2014 as a result of an amended tax filing at that time.

Net Income. Net income for the third quarter of 2015 increased by \$6.0 million or 8% when compared with the third quarter of 2014, due to increases in sales and operating income that were offset to an extent by lower other income and increased income taxes versus the third quarter of 2014.

NINE MONTHS ENDED SEPTEMBER 30, 2015 VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2014

Net Sales. Net sales for the nine months ended September 30, 2015 increased by \$112.9 million or 11% when compared with the same period in 2014.

Automotive net sales for the first nine months of 2015 were \$1.1 billion, up 11% compared with automotive net sales of \$997.7 million for the first nine months of 2014, driven by a 12% period over period increase in automotive mirror unit shipments. North American automotive mirror unit shipments in the nine months ended September 30, 2015 increased 12% to 8.9 million units compared with same period in 2014, primarily due to increased penetration of the Company's interior and exterior auto-dimming mirrors. International automotive mirror unit shipments in the nine months ended September 30, 2015 increased 12% to 15.5 million units 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 nine months of 2015 increased to 61.3%, up from 60.6% in the same period last year primarily due to annual customer price reductions, foreign currency fluctuations, and increased manufacturing costs, which were partially offset by purchasing cost reductions. Annual customer price reductions had a negative impact of approximately 125 - 150 basis points. Each of the other negative factors is estimated to have impacted cost of goods sold independently as a percentage of net sales by approximately 25 - 50 basis points.

Operating Expenses. Engineering, research and development (E, R & D) expenses for the nine months ended September 30, 2015 increased 5% or \$3.0 million when compared with the same period last year, primarily due to increased staffing, testing and prototype expense, which continue due to development and launch of new business. Selling, general and administrative (S, G & A) expenses for the first nine months of 2015 increased 3% or \$1.4 million when compared with the same period last year, primarily due to severance related costs of approximately \$2 million, which were partially offset by foreign currency fluctuations.

Total Other Income. Total other income for the nine months ended September 30, 2015 decreased by \$8.3 million when compared with the same period last year, primarily due to lower realized gains on sales of equity investments in the first nine months of 2015 compared to the same period in the prior year.

Taxes. The effective tax rate was 31.3% for the nine months ended September 30, 2015 compared to 30.1% for same period of 2014. 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 increase in the effective tax rate in the first nine months of 2015 from the same period in 2014 is primarily due to incremental research and development tax credits related to amended tax return filings for calendar years 2010 through 2012, which were recognized in the second quarter of 2014 and incremental research and development tax credits of \$1.8 million recognized during the third quarter of 2014. Such research and development tax credits provided an incremental benefit of approximately \$7.3 million which were still higher than additional benefits of approximately \$3.9 million from the reversal of the uncertain tax position reserve related to the amended filings recognized in the first quarter of 2015.

Table of Contents

Net Income. Net income for the nine months ended September 30, 2015 increased by \$12.4 million or 6% to \$230.1 million versus \$217.6 million in the same period last year, primarily due to increased sales levels and increased operating income, which was offset by lower other income and increased income taxes.

FINANCIAL CONDITION:

The Company's cash and cash equivalents as of September 30, 2015 was \$564.5 million, which increased approximately \$67.1 million compared to \$497.4 million as of December 31, 2014. The increase was primarily due to cash flow generated by operating activities.

Accounts receivable as of September 30, 2015 increased approximately \$40.2 million compared to December 31, 2014, primarily due to the higher sales level as well as timing of sales within those quarters.

Inventories as of September 30, 2015 increased approximately \$22.8 million when compared to December 31, 2014, primarily due to increases in raw materials and finished goods inventories.

Accounts payable as of September 30, 2015 increased approximately \$12.4 million when compared to December 31, 2014 primarily due to increased purchases of raw materials to meet forecasted production demand.

Accrued liabilities as of September 30, 2015 increased approximately \$35.8 million compared to December 31, 2014, primarily due to increased accrued taxes, and compensation, reflecting the timing of certain tax and compensation payments.

Long term debt as of September 30, 2015 decreased by \$30.6 million compared to December 31, 2014, 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 nine months ended September 30, 2015, increased \$55.7 million to \$283.2 million, compared with \$227.5 million, during the same nine month period last year, primarily due to increases in net income and changes in working capital.

Capital expenditures for the nine months ended September 30, 2015 were approximately \$62.3 million, compared with approximately \$50.0 million for the same period last year.

The Company believes its existing and planned facilities are currently suitable, adequate, and have the capacity required for current and near-term planned business. Nevertheless, the Company continues to evaluate longer term facilities needs. As a result, in 2014, the Company began construction of a 250,000 square-foot manufacturing and distribution facility located at a 140 acre site where the Company previously performed master planning and completed land infrastructure improvements, located in Zeeland, Michigan. The total cost of the building project is expected to be approximately \$30 - \$35 million and will be completed in 2016 and will be funded with cash and cash equivalents on hand. Once operational, the Company expects that it will add capacity to produce an additional 5 - 7 million mirrors annually, depending on product mix.

The Company estimates that it currently has building capacity to manufacture approximately 24 - 27 million interior mirror units annually and approximately 10 - 12 million exterior mirror units annually, based on current product mix. The Company evaluates equipment capacity on an ongoing basis and adds equipment as needed.

Management considers the 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 Consolidated 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:

	September 30, 2015	December 31, 2014
Working Capital	\$797,573,335	\$723,206,531
Long Term Investments	94,424,586	114,642,567
Total	\$891,997,921	\$837,849,098

Table of Contents

The Company has a share repurchase plan under which the Board of Directors has authorized the repurchase of 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. During the three and nine months ended September 30, 2015, the Company repurchased 2,051,013 and 4,885,077 shares respectively under a repurchase authorization of 8,000,000 shares (post - split) that was approved by the Board of Directors in October 2012. On October 21, 2015, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 5,000,000 shares under the plan. The Company has 6,317,443 shares remaining under the plan as of September 30, 2015, which is further detailed in Part II, Item 2 of this Form 10-Q.

BUSINESS UPDATE

The Company continues to outpace vehicle production growth thanks again in large part to the many different product launches that have been executed in calendar year 2015. The Company's unit and revenue growth continue due in part to introduction of the Company's electrochromic technology on a number of vehicles as new applications.

Base interior auto-dimming mirrors were launched on 10 vehicle models in the first quarter of 2015, 6 vehicle models in the second quarter of 2015, and 13 vehicle models in the third quarter of 2015. A number of those launches involved the Company's frameless interior mirror technology. The Company's growth was further driven by increased applications of electronic features. In the first quarter of 2015, the Company launched on 13 vehicle models that launched with advanced features, 10 vehicle models launched with advanced features in the second quarter of 2015, and an additional 4 vehicle models launched, also with advanced features, in the third quarter of 2015.

Exterior auto-dimming and non auto-dimming mirrors with advanced features are also continuing growth and penetration as evidenced by the Company's launch on 20 vehicle models in the first nine months of 2015.

These additional vehicle models offering the Company's interior, exterior and advanced feature products as well as further penetration of its products on existing models, helped drive a 9% organic growth rate for interior mirrors and a 22% organic growth rate for exterior mirrors during the first nine months of 2015 compared to the same period in the prior year, against flat light vehicle production rates in the Company's primary markets. Electronic feature content has contributed to the growth rate in 2015, evidenced by revenue growth out-pacing unit growth rates, despite a 1% headwind from foreign exchange rates and the impact of annual customer price reductions in the range of approximately 2 to 3%. The first nine months of 2015 are also highlighted by the fact that the Company has launched and is shipping auto dimming mirrors on multiple A segment vehicles with many of those vehicles utilizing advanced electronic features such as reverse camera displays, SmartBeam[®] and HomeLink[®].

SmartBeam[®] is the Company's proprietary high beam control system integrated into its auto-dimming mirror. SmartBeam[®] Generation 4, which was developed using the fourth generation of the Company's custom designed CMOS imager, 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 and road type as well as certain lane tracking features to assist with lighting control. The Company believes it has a unique advantage in the automotive industry with SmartBeam[®]. The camera chip is designed by the Company specifically for certain driver assist applications, with custom optics and algorithms written by the Company and specifically tailored for its chip and optical systems. The Company packages the control electronics inside of its interior rearview mirrors with a self-calibrating camera attached to the mirror mount with optimal mechanical packaging which also provides for ease of service. Competing products attach their camera and electronics directly to the windshield, which causes additional maintenance in the event of a windshield replacement. In addition, the Company has long been integrating its SmartBeam[®] camera products to optimize performance by fusing with other systems on the vehicle, including radar, navigation, steering and related modules provided by other suppliers. This enables the Company to provide its customers with a highly customizable solution

that meets their unique needs and specifications. In the third quarter, the Company began shipping its SmartBeam[®] product on A and B segment vehicles in the Japan market. One of the product combinations now made available by the Company on these vehicles in the Japan market is a SmartBeam[®], RCD mirror. To date, that mirror is the most content-rich mirror the Company has ever sold for use in the Japan market and it is being deployed on A and B segment vehicles.

Table of Contents

HomeLink® is a vehicle to home communication system that enables many home automation functions with the simple push of a button. In 2015, HomeLink® continues to be a growth driver of the business as consumers and automakers continue to increase their demand for this type of functionality in the vehicle. 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 innovative, new applications in the vehicle environment. In 2014, the Company announced HomeLink® for applications for alternative automobiles and 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 is also working with compatibility partners for HomeLink® applications in new markets like China where HomeLink® has never before been offered. The unique attributes of the China market allow for potential new use cases of this product and offer what the Company believes to be a real opportunity for growth of the HomeLink® brand and product.

The most recent advanced electronic feature that the Company has announced is its Full Display Mirror. The Full Display Mirror begins production in the fourth quarter of 2015. When it comes to driving safety, seeing what is behind you in the rearview mirror is critical. Current automotive design trends are yielding vehicles with small rear windows that are often further obstructed by headrests, passengers, and roof support pillars. These factors can significantly hinder the mirror's rearward view. The Company's Full Display Mirror is an intelligent rear vision system that uses a custom, externally mounted video camera and mirror-integrated video display to optimize a vehicle's rearward view. This rear vision system consists of a hybrid Full Display Mirror that offers bi-modal functionality. In mirror mode, the product functions as a standard auto dimming rearview mirror which means that during nighttime driving, digital light sensors talk to one another via a microprocessor to automatically darken the mirror when glare is detected. However, with the flip of a switch, the mirror enters display mode, and a clear, bright, LCD display appears through the mirror's reflective surface, providing a wide, unobstructed rearward view. The bi-modality of the Full Display Mirror is essential, because in the event of any failure of the camera or display the product is able to function as a standard mirror, which is a long-standing safety requirement in the automotive industry. In addition, the driver has the ability to switch between modes to accommodate usage preferences for various weather conditions, lighting conditions, and driving tasks. The Company is excited about the first production launch of its Full Display Mirror in the fourth quarter of 2015 on the Cadillac CT6 and the Company continues to have broad interest from multiple automakers for development and launch of the Full Display Mirror going forward.

To complement the Full Display Mirror, the Company has announced that it has developed a video camera system designed for today's advanced automotive display application requirements using its proprietary CMOS imager. The Company believes that its CMOS imager, has a competitive advantage in video applications because it can present more detail in various lighting situations than other cameras the Company understands are currently available in the market. The Company's Full Display Mirror and video camera are designed as a system and employ some of the latest technological advances in automotive video cameras and displays.

Automaker requests to NHTSA for cameras and video displays to replace automotive rearview mirrors has been a consideration in regulatory discussion and specification development for many years. Currently, rearview mirrors are the primary safety function for rear vision in the automotive industry. Some of the challenges to replacing rearview mirrors entirely would include: limited viewing area; poor depth perception; cleanliness of the camera lens in all weather conditions; dynamic range of the camera; and the fundamental issue of what does the driver do if the camera fails due to electrical or interference issues. The Company develops, designs and manufactures both rearview mirrors along with its newest generations of products which include CMOS imager cameras and video displays and has been shipping earlier generations of these products for many years. The Company is excited about the future potential for these advanced technologies, and will continue to be an active participant in the development of products that the

Company believes will position it to be a market leader in this area.

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. The Company works continuously to offset these price reductions with engineering and purchasing cost reductions, productivity improvements, and increases in unit sales volume.

Table of Contents

In 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 Rear Camera Display ("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 RCD mirror application meets all the technical requirements of the NHTSA ruling when installed in a vehicle and appropriately paired with an OEM specified camera.

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 Company previously announced that it was providing variably dimmable windows for the Boeing 787 Dreamliner series of aircraft. 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 other electronic features that it offers in vehicles. 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.

Table of Contents

OUTLOOK

The Company utilizes the light vehicle production forecasting services of IHS Worldwide, and using the mid-October 2015 light vehicle production forecasts indicated in the table below, the Company has updated certain of its guidance for calendar year 2015.

Light Vehicle Production (per IHS Automotive October light vehicle production forecast)
(in Millions)

Region	Q4 2015	Q4 2014	% Change	Calendar	Calendar	% Change		
				Year	Year			
				2015	2014			
North America	4.31	4.24	2	%	17.48	17.03	3	%
Europe	5.05	4.99	1	%	20.74	20.15	3	%
Japan and Korea	3.27	3.38	(3	)%	13.12	13.68	(4)%
Total Light Vehicle Production	12.63	12.61	—	%	51.34	50.86	1	%

The Company currently estimates that top line revenue for calendar year 2015 will be between \$1.52 and \$1.54 billion, and continues to estimate that the gross profit margin for calendar year 2015 will be between 38.5% and 39%. These estimates are based on light vehicle production forecasts in the regions to which the Company ships product, as well as the estimated option rates for its mirrors on prospective vehicle models and anticipated product mix.

Continuing uncertainties, including: light vehicle production levels; automotive plant shutdowns; sales rates in Europe, Asia and North America; currency rate fluctuations; challenging macroeconomic environments; OEM strategies and cost pressures; customer inventory management and the impact of potential automotive customer (including their Tier 1 suppliers) and supplier bankruptcies; work stoppages, strikes, etc., which could disrupt shipments to these customers, making forecasting difficult.

The Company also estimates that its operating expenses, which include engineering, research and development expenses and selling, general and administrative expenses are currently expected to be between \$145 and \$147 million for calendar year 2015, primarily due to increased staffing and benefit costs which continue to support growth and the development of new business.

In light of on-going demand for the Company's auto-dimming mirrors and electronics, and previously announced facility expansion projects, the Company currently continues to anticipate that 2015 capital expenditures will be approximately \$95 - \$105 million, a majority of which will be production equipment purchases. 2015 capital expenditures are currently anticipated to be financed from current cash and cash equivalents on hand and cash flows from operating activities.

The Company also continues to estimate that depreciation and amortization expense for calendar year 2015 will be approximately \$85 - \$90 million.

Finally, the Company continues to estimate that its tax rate will be between 31.5% and 32% for calendar year 2015.

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, 2014.

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 September 30, 2015, 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, 2014, 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.

On October 1, 2014 the Company entered into an interest rate swap transaction with a bank. Please refer to Note 9 of the Notes to the Consolidated Financial statements in this Form 10-Q for further details as well as Part I, Item 2 of this Form 10Q.

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 September 30, 2015, 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 September 30, 2015, 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 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. 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

Table of Contents

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.

26

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, 2014. 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, 2014, except to the extent described in Part I – Item 2 of this Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) Issuer Purchase of Equity Securities

On October 8, 2002, the Company announced a share repurchase plan, under which it may purchase up to 16,000,000 shares (post-split) based on a number of factors. On July 20, 2005, the Company announced that it had raised the price at which the Company may repurchase shares under the existing plan. On May 16, 2006, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 16,000,000 shares (post-split) under the plan. On August 14, 2006, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 16,000,000 shares (post-split) under the plan. On February 26, 2008, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 8,000,000 shares (post-split) under the plan. On October 23, 2012, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 8,000,000 shares (post-split) under the plan. On October 21, 2015, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 5,000,000 shares (post-split) under the plan. The Company may purchase authorized shares of its common stock under the plan based on a number of factors, including: market, economic, and industry conditions; the market price of the Company's common stock; anti-dilutive effect on earnings; available cash; and other factors that the Company deems appropriate. The plan does not have an expiration date, but the Board of Directors reviews such plan periodically.

The following is a summary of share repurchase activity during the nine months ended September 30, 2015:

Issuer Purchase of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchase As Part of a Publicly Announced Plan*	Maximum Number of Shares That May Yet Be Purchased Under the Plan*
January 2015	—	—	—	6,202,520
February 2015	491,078	17.69	491,078	5,711,442
March 2015	915,517	17.87	915,517	4,795,925
First Quarter 2015 Total	1,406,595	17.81	1,406,595	
April 2015	695,776	17.83	695,776	4,100,149
May 2015	400,243	17.44	400,243	3,699,906
June 2015	331,450	17.11	331,450	3,368,456
2nd Quarter 2015 Total	1,427,469	17.55	1,427,469	
July 2015	1,291,008	16.22	1,291,008	2,077,448
August 2015	367,747	15.82	367,747	1,709,701
September 2015	392,258	15.38	392,258	6,317,443
3rd Quarter 2015 Total	2,051,013	15.99	2,051,013	

Edgar Filing: GENTEX CORP - Form 10-Q

2015 Total	4,885,077	16.97	4,885,077	6,317,443
------------	-----------	-------	-----------	-----------

*See above and below for additional plan details.

27

Table of Contents

As of September 30, 2015, the Company has repurchased 62,682,557 shares at a total cost of \$527,528,514 under the plan. The following is a summary of quarterly share repurchase activity under the plan to date (adjusted for 2 for 1 stock splits each effected in the form of a 100% stock dividend issued effective May 6, 2005 and December 31, 2014, respectively):

Quarter Ended	Total Number of Shares Purchased All as Part of a Publicly Announced Plan (Post - Split)	Cost of Shares Purchased
March 31, 2003	1,660,000	\$10,246,810
September 30, 2005	2,992,118	25,214,573
March 31, 2006	5,607,096	47,145,310
June 30, 2006	14,402,162	104,604,414
September 30, 2006	7,936,342	55,614,102
December 31, 2006	2,465,768	19,487,427
March 31, 2007	895,420	7,328,015
March 31, 2008	4,401,504	34,619,490
June 30, 2008	2,407,120	19,043,775
September 30, 2008	5,038,306	39,689,410
December 31, 2008	4,250,506	17,907,128
September 30, 2012	3,943,658	33,716,725
September 30, 2014	703,130	9,999,957
December 31, 2014	1,094,350	20,010,925
March 31, 2015	1,406,595	25,049,145
June 30, 2015	1,427,469	25,058,050
September 30, 2015	2,051,013	32,793,258
Totals	62,682,557	\$527,528,514

On December 5, 2014, the Company announced that its Board of Directors approved a two-for-one split of our outstanding shares of common stock to be effected in the form of a 100% stock dividend. On December 31, 2014, shareholders of record at the close of business on December 17, 2014, were issued one additional share of common stock for each share owned by such shareholder. Share and per-share amounts (including stock options and restricted stock) shown in the consolidated financial statements and related notes reflect the split. The total number of authorized common shares and the par value thereof was not changed by the split.

Item 6. Exhibits.

See Exhibit Index on Page 30

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: November 5, 2015

/s/ Fred T. Bauer
Fred T. Bauer
Chairman and Chief
Executive Officer (Principal Executive Officer) on behalf of Gentex
Corporation

Date: November 5, 2015

/s/ Steven R. Downing
Steven R. Downing
Senior Vice President and Treasurer
(Principal Financial Officer) on behalf of Gentex Corporation

Date: November 5, 2015

/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
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