GENTEX CORP
Form 10-K
February 23, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(x) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 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 No.: 0-10235

GENTEX CORPORATION
(Exact name of registrant as specified in its charter)

Michigan	38-2030505
State or other jurisdiction of incorporation of organization	(I.R.S. Employer Identification No.)
600 N. Centennial Street, Zeeland, Michigan	49464
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (616) 772-1800

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common Stock, par value $.06 per share	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes: þ No: o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes: o No: þ

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: þ No: o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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: þ No: o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

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	ü		Accelerated filer
Non-accelerated filer		(Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes: o No: þ

As of June 30, 2015 (the last business day of the registrant’s most recently completed second fiscal quarter), 293,627,515 shares of the registrant’s common stock, par value $.06 per share, were outstanding. The aggregate market value of the common stock held by non-affiliates of the registrant (i.e., excluding shares held by executive officers, directors, and control persons as defined in Rule 405 (17 CFR 203.405) on that date was $4,680,011,701 computed at the closing price on that date.

As of February 1, 2016, 288,888,033 shares of the registrant’s common stock, par value $.06 per share, were outstanding,

Portions of the Company’s Proxy Statement for its 2016 Annual Meeting of Shareholders are incorporated by reference into Part III.

GENTEX CORPORATION AND SUBSIDIARIES
For the Year Ended December 31, 2015
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Part I

Item 1. Business.

(a) General Development of Business

Gentex Corporation (the Company) designs and manufactures automatic-dimming rearview mirrors and electronics for the automotive industry, dimmable aircraft windows for the aviation industry, and commercial smoke alarms and signaling devices for the fire protection industry. The Company's largest business segment involves designing, developing, manufacturing and marketing interior and exterior automatic-dimming automotive rearview mirrors that utilize proprietary electrochromic technology to dim in proportion to the amount of headlight glare from trailing vehicle headlamps. Within this business segment, the Company also designs, develops and manufactures various electronics features that are value added features to the interior and exterior automotive rearview mirrors as well as interior visors and overhead consoles. The Company ships its products to all of the major automotive producing regions worldwide, which it supports with numerous sales, engineering and distribution locations worldwide.

The Company was organized as a Michigan corporation in 1974 to manufacture smoke detectors, a product line that has since evolved to include a variety of fire protection products. In 1982, the Company introduced an interior electro-mechanical automatic-dimming rearview mirror as an alternative to the manual day/night rearview mirrors for automotive applications. In 1987, the Company introduced an interior electrochromic automatic-dimming rearview mirror for automotive applications. In 1991, the Company introduced an exterior electrochromic automatic-dimming rearview mirror for automotive applications. In 1997, the Company began making volume shipments of three new exterior mirror sub-assembly products: thin glass flat, convex and aspheric. In 2005, the Company began making volume shipments of its new bezel-free exterior automatic-dimming mirror. In 2005, the Company announced, and in 2010 began delivering electrochromic dimmable aircraft windows for the aviation industry. In 2013, the Company acquired HomeLink®, a wireless vehicle/home communications product that enables drivers to remotely activate garage door openers, entry door locks, home lighting, security systems, entry gates and other radio frequency convenience products for automotive applications, wherein the Company had previously been a licensee of HomeLink® and had been, since 2003, integrating HomeLink® into its interior automatic-dimming rearview mirrors. In 2015, the Company began making volume shipments of the Full Display Mirror, which is an on-demand, mirror-borne LCD display that streams live, panoramic video of the vehicle's rearward view in order to improve driver rear vision. Also in 2015, the Company signed an exclusive agreement in the ordinary course of business with TransCore to integrate TransCore's Universal Toll Module™ ("UTM") technology into its interior automatic-dimming rearview mirrors. The interior mirror is the optimal location for a vehicle-integrated toll transponder and it eliminates the need to affix multiple toll tags to the windshield. Automotive revenues represent approximately 98% of the Company's total revenue, consisting of interior and exterior electrochromic automatic-dimming rearview mirrors and automotive electronics.

(b) Financial Information About Segments
See Note 7 to the Consolidated Financial Statements filed with this report.

(c) Narrative Description of Business

The Company is a supplier of automatic-dimming and non-automatic-dimming rearview interior and exterior mirrors and electronics to the automotive industry, dimmable aircraft windows for aviation markets, and fire protection products to the fire protection market.

Automotive Products

Automotive Rearview Mirrors and Electronics. Automotive applications are the largest business segment for the Company, consisting of interior and exterior electrochromic automatic-dimming rearview mirrors and automotive electronics. The Company manufactures interior electrochromic automatic-dimming rearview mirrors that darken to reduce glare and improve visibility for the driver. These electronic interior mirrors can also include additional electronic features such as compass, microphones, HomeLink®, lighting assist and driver assist forward safety camera systems, various lighting systems, various telematics systems, universal toll modules, and a wide variety of displays. The Company also ships interior non-automatic-dimming rearview mirrors with features.

The Company's interior electrochromic automatic-dimming rearview mirrors also power the application of the Company's exterior electrochromic automatic-dimming rearview mirrors that darken to reduce glare and improve visibility for the driver. These electronic exterior mirrors typically range in size and shape per automaker specification, but also include additional features such as turn signal indicators, side blind zone indicators, and courtesy lighting. The Company also ships exterior non-automatic-dimming rearview mirrors with similar electronic features available in its automatic-dimming applications.

The Company manufactures other automotive electronics products both inside and outside of the rearview mirror through HomeLink® applications in the vehicle including the rearview mirror, interior visor, overhead console, or center console.

The Company produces rearview mirrors and electronics for automotive passenger cars, light trucks, pick-up trucks, sport utility vehicles, and vans for original equipment manufacturers (OEMs) worldwide, tier one automotive mirror manufacturers worldwide, and various aftermarket and accessory customers. Automotive rearview mirrors and electronics accounted for 98% of the Company's consolidated net sales in 2015.

The Company is the leading manufacturer of electrochromic automatic-dimming rearview mirrors in the world, and is the dominant supplier to the automotive industry. Competitors for automotive rearview mirrors include Magna International, YH America, Inc., BYD Auto Company, Murakami Kaimeido Company, Steelmate, Tokai Rika Company, Ningbo Kingband, and Beijing Sincode. The Company also supplies electrochromic automatic-dimming rearview mirrors to certain of these rearview mirror competitors.

Automotive Rearview Mirrors and Electronics Product Development. The Company continually seeks to develop new products and is currently working to introduce additional advanced-feature automatic-dimming mirrors. Advanced-feature automatic-dimming mirrors currently being offered by the Company include, SmartBeam® and certain driver-assist features, HomeLink®, frameless mirror designs, LED map lamps, compass and temperature displays, telematics, universal toll modules, hands free communication, as well as Rear Camera Display (RCD) and Full Display (FDM) interior mirrors, proprietary exterior turn signals, side blind zone indicators and various other exterior mirror features that improve safety and field of view.

Automotive Rearview Mirrors and Electronics Markets and Marketing. In North America, Europe and Asia, the Company markets its products primarily through a direct sales force through its sales and engineering offices located in, Germany, UK, Sweden, France, Japan, Korea and China, as well as its headquarters in Michigan. The Company generally supplies automatic-dimming mirrors and mirrors with advanced electronic features to its customers worldwide under annual blanket purchase orders with customers, as well as under long-term agreements with certain customers, entered into in the ordinary course of the Company's business.

The Company is currently supplying mirrors and electronics modules for Audi, BMW, Daimler, FCA Group, Ford, General Motors, Honda, Hyundai/Kia, Infiniti, Jaguar/Land Rover, Lexus, Mazda, Mitsubishi, Nissan, Opel, PSA Group, Renault, Rolls Royce, SAIC, SEAT, Skoda, Subaru, Suzuki, Tesla, Toyota, Volkswagen and Volvo.

The Company's automatic-dimming mirror unit shipment mix by region has significantly changed over the past ten years. The following is a breakdown of unit shipment mix by region in 2015, 2014, 2013, and 2005 calendar years:

	2015		2014		2013		2005	
Domestic	22	%	21	%	25	%	34	%
Transplants[1]	15	%	16	%	13	%	14	%
North America	37	%	37	%	38	%	48	%
Europe	45	%	44	%	42	%	38	%
Asia-Pacific	18	%	19	%	20	%	14	%
Total	100	%	100	%	100	%	100	%

[1] European and Asian based automakers with automotive production plants in North America.

Revenues by major geographic area are disclosed in Note 7 to the Consolidated Financial Statements.

Historically, new safety and comfort and convenience options have entered the original equipment automotive market at relatively low rates on “top of the line” or luxury model automobiles. As the selection rates for the options on the luxury models increase, they generally become available on more models throughout the product line. The ongoing trend of domestic and foreign automakers is to offer several options as a package. The Company believes that its automatic-dimming mirrors with and without advanced features will be offered in more option rate packages, and continue to be available on more small and mid-size vehicle models as consumer awareness of these safety and comfort and convenience features continues to grow, and as the Company continues its efforts to make automakers aware of the Company's technology available on competitive vehicle platforms.

Automotive Rearview Mirrors and Electronics Competition. The Company continues to be the leading producer of automatic-dimming rearview mirrors in the world and currently is the dominant supplier to the automotive industry with an approximate 91% market share worldwide in 2015 and an approximate 90% market share in 2014. While the Company believes it will retain a dominant position in automatic-dimming rearview mirrors for some time, another U.S. manufacturer, Magna Mirrors, a wholly-owned subsidiary of Magna International, continues to compete for sales to domestic and foreign vehicle manufacturers and is supplying a number of domestic and foreign vehicle models with its versions of electrochromic mirrors and may have considerably more resources available to it. As such, Magna Mirrors may present a formidable competitive threat. The Company also continues to sell automatic-dimming exterior mirror sub-assemblies to Magna Mirrors. In addition, a Japanese manufacturer (Tokai Rika) is currently supplying a few vehicle models in Japan with solid-state electrochromic mirrors. There are also a small number of Chinese domestic mirror suppliers that are marketing and selling automatic-dimming rearview mirrors, in low volume, within the domestic China automotive market. However, the Company believes that these Chinese domestic mirror suppliers do not currently meet global automotive grade specifications.

On September 27, 2013, the Company completed its acquisition of HomeLink®. Currently, the Company is the sole supplier of wireless in-vehicle communication devices to the automotive industry for communication with garages, gates, parking barriers, and certain home automation products. HomeLink® business continues to be awarded to the Company either through its automatic-dimming rearview mirrors, or through HomeLink® electronic modules which are integrated into other areas of the automobile (i.e. visors, overhead consoles, and center consoles). 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 believes it is being awarded virtually all business in this area and while the Company believes it continues to maintain a competitive advantage in this area, the increased focus on vehicle and home connectivity through other devices, represents a longer term competitive threat.

The Company believes its electrochromic automatic-dimming mirrors and mirrors with advanced electronic features offer significant performance advantages over competing products and the Company makes significant research and development investments to continue to increase and improve the performance advantages of its products.

There are numerous other companies in the world conducting research on various technologies, including electrochromics, for controlling light transmission and reflection. The Company currently believes that the electrochromic materials and manufacturing process it uses for automotive mirrors remains the most efficient and cost-effective way to produce such products. While automatic-dimming mirrors using other technologies may eliminate glare, the Company currently believes that each of these technologies have inherent cost or performance limitations as compared to the Company's technologies.

As the Company continues to expand its automatic-dimming mirror products with additional advanced electronic features and expands the capabilities of its CMOS imager technology for additional features (i.e. driver-assist features, rear video camera, etc.), the Company recognizes that it is competing with considerably larger and more geographically diverse electronics companies that could present a formidable competitive threat in the future as new products/features are brought to market.

Fire Protection Products

The Company manufactures photoelectric smoke detectors and alarms, visual signaling alarms, photoelectric smoke detectors and electrochemical carbon monoxide alarms, electrochemical carbon monoxide detectors and alarms, audible and visual signaling alarms, and bells and speakers for use in fire detection systems in office buildings, hotels, and other commercial and residential establishments.

Markets and Marketing. The Company’s fire protection products are sold directly to fire protection and security product distributors under the Company’s brand name, to electrical wholesale houses, and to original equipment manufacturers of fire protection systems under both the Company’s brand name and private labels. The Company markets its fire protection products primarily in North America, but also globally through regional sales managers and manufacturer representative organizations.

Competition. The fire protection products industry is highly competitive in terms of both the smoke detectors and signaling appliance markets. The Company estimates that it competes principally with eight manufacturers of smoke detection products for commercial use and approximately four manufacturers within the residential market, three of which produce photoelectric smoke detectors. In the signaling appliance markets, the Company estimates it competes with approximately seven manufacturers. While the Company faces significant competition in the sale of smoke detectors and signaling appliances, it believes that the introduction of new products, improvements to its existing products, its diversified product line, and the availability of special features will permit the Company to maintain its competitive position.

Dimmable Aircraft Windows

The Company previously announced that it would provide variably dimmable windows for the passenger compartment on the Boeing 787 Dreamliner Series of Aircraft. The Company continues to ship parts for the Boeing 787 Dreamliner Series of Aircraft.

Markets and Marketing. The Company markets its variably dimmable windows to aircraft manufacturers globally.

Competition. The Company’s variably dimmable aircraft windows are the first commercialized product of its type for original equipment installation in the aircraft industry. Other manufacturers are working to develop and sell competing products utilizing other technology in the aircraft industry for aftermarket or original equipment installation.

The Company’s success with electrochromic technology provides potential opportunities for other commercial applications, which the Company expects to explore in the future when and as the Company feels it is in its best interests to do so.

Trademarks and Patents

The Company owns 29 U.S. Registered Trademarks and 533 U.S. Patents, of which 22 Registered Trademarks and 491 patents relate to electrochromic technology, automotive rearview mirrors, microphones, displays, cameras, sensor technology, and/or HomeLink® products. These patents expire at various times between 2016 and 2034. The Company believes that these patents provide the Company a competitive advantage in its markets, although no single patent is necessarily required for the success of the Company's products.

The Company also owns 175 foreign Registered Trademarks and 687 foreign patents, of which 167 Registered Trademarks and 607 patents relate to electrochromic technology, automotive rearview mirrors, microphones, displays, cameras, sensor technology, and/or HomeLink® products. These patents expire at various times between 2016 and 2040. The Company believes that the competitive advantage derived in the relevant foreign markets for these patents is comparable to that experienced in the U.S. market.

The Company owns 7 U.S. Registered Trademarks, 16 U.S. Patents, 18 foreign Registered Trademarks, and 11 foreign patents that relate to the Company’s fire protection products. The US Patents expire between 2017 and 2032, while the foreign patents expire between 2020 and 2030. The Company believes that the competitive advantage provided by these patents is relatively small.

The Company owns 26 U.S. Patents and 15 foreign patents that relate specifically to the Company’s variable dimmable windows. The U.S. Patents expire between 2016 and 2034, while the foreign patents expire between 2021 and 2027. The Company also has in process 244 U.S. patent applications, 217 foreign patent applications, and 45 Trademark applications. The Company continuously seeks to improve its core technologies and apply those technologies to new and existing products. As those efforts produce patentable inventions, the Company expects to file appropriate patent applications.

In addition, the Company periodically obtains intellectual property rights, in the ordinary course of the Company's business, to strengthen its intellectual property portfolio and minimize potential risks of infringement.

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Miscellaneous

The Company considers itself to be engaged in the manufacture and sale of automatic-dimming rearview mirrors, non-automatic-dimming rearview mirrors and electronics for the automotive industry, fire protection products for the fire protection industry and variable dimmable windows for the aircraft industry. The Company has several important customers within the automotive industry, three of which each account for 10% or more of the Company's net sales in 2015 (including direct sales to OEM customers and sales through their Tier 1 suppliers): Volkswagen Group, Toyota Motor Company, and Ford Motor Company. The loss of any of these customers (or certain other significant customers) could have a material adverse effect on the Company's business, financial condition, and/or results of operations. The Company’s backlog of unshipped orders was $428.2 million and $368.2 million at February 1, 2016, and 2015, respectively.

At February 1, 2016, the Company had 4,757 full-time employees. None of the Company’s employees are represented by a labor union or other collective bargaining representative. The Company believes that its relations with its employees are in good standing.

(d) Financial Information About Geographic Areas

See “Markets and Marketing” in Narrative Description of Business (Item 1(c)) and Note 7 of the Consolidated Financial Statements for certain information regarding geographic areas.

(e) Available Information

The Company’s Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, will be made available, free of charge, through the Investor Information section of the Company’s Internet website (http://ir.gentex.com) as soon as practicable after such materials are electronically filed with or furnished to the Securities and Exchange Commission (SEC). The SEC maintains an Internet website (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issues that a company files electronically with the SEC.

Item 1A. Risk Factors.

Safe Harbor for Forward-Looking Statements. This Annual Report on Form 10-K 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. Su 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 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.

The following risk factors, together with all other information provided in this Annual Report on Form 10-K should be carefully considered.

Automotive Industry. 98% of our net sales are to customers within the automotive industry. The automotive industry has always been cyclical and highly impacted by levels of economic activity. The current economic environment, while improving, continues to be uncertain (especially in Europe and the Japan and Korean markets, which collectively are larger for us than North America as shipping destinations) and continues to cause increased financial and production stresses evidenced by volatile production levels, volatility with customer orders, supplier part shortages, automotive

plant shutdowns, customer and supplier financial issues/bankruptcies, commodity material cost increases, consumer preference shift to smaller vehicles, where we have a lower penetration rate and lower content per vehicle, and supply chain stresses. If automotive customers (including their Tier 1 suppliers) and suppliers experience bankruptcies, work stoppages, strikes, part shortages, etc., it could disrupt our shipments to these customers, which could adversely affect our business, financial condition, and/or results of operations.

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 us to forecast future sales and manage costs, inventory, capital, engineering, research and development, and human resource investments.

Key Customers. We have a number of large customers, including three automotive customers which each account for 10% or more of our annual net sales in 2015 (including direct sales to OEM customers and sales through their Tier 1 suppliers): Volkswagen Group, Toyota Motor Company, and Ford Motor Company. The loss of all or a substantial portion of the sales to, or decreases in production by, any of these customers (or certain other significant customers) could have a material adverse effect on our business, financial condition, and/or results of operations.

Pricing Pressures. We continue to experience on-going pricing pressures from our automotive customers and competitors, which have affected, and which will continue to affect our profit margins to the extent that we are unable to offset the price reductions with engineering and purchasing cost reductions, productivity improvements, increases in unit shipments of mirrors and electronics with advanced features, each of which pose an ongoing challenge, which could adversely impact our business, financial condition, and/or results of operations.

Competition. We recognize that Magna Mirrors, our main competitor and wholly-owned subsidiary of Magna International, may have considerably more resources available to it, and may present a formidable competitive threat.

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 rearview video 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 there is no certainty in this regard. 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 NHTSA ruling that rearview video systems are required has increased competition for systems capable of rear video in a variety of locations in the vehicle. Our Rear Camera Display (RCD) mirror application has and will continue to be affected by this increased competition.

Our SmartBeam® product is a driver-assist feature for headlamp lighting control that competes with other multiple-function driver-assist features that include headlamp lighting control as one of the multiple functions. While we believe SmartBeam® is a low cost solution for a safety feature that makes nighttime driving safer by maximizing a vehicle's high-beam usage, competition from multiple-function driver-assist products could impact the long-term success of SmartBeam®. As we continue to expand the capabilities of our CMOS imager technology for additional driver-assist features, we recognize that we are competing against multiple-function driver-assist technologies that have presented and will continue to present a competitive threat for SmartBeam®.

Our CMOS imager technology when used as a rearward facing automotive video camera is a video camera that competes with other commercially available automotive video cameras. While we believe our video camera, when combined with our display mirror products, produces a higher dynamic range than other commercially available automotive video cameras, we recognize other technologies are highly competitive and these features are price sensitive. Our ability to market and sell our products may be affected by the high level of competition in this market.

On March 31, 2014 the Alliance of Automobile Manufacturers petitioned the National Highway Traffic Safety Administration to allow automakers to use cameras as an option to replace conventional rearview mirrors within North America, however, no final ruling or legislation was made in response to this petition. In November 2015, a revision to UN-ECE Regulation 46 was approved, which would allow camera monitor systems to replace mirrors within European countries. The revision will enter into force in mid-to-late 2016. Rearview mirrors provide a robust, simple and cost effective means to view the surrounding areas of a vehicle and are the primary safety function for rear vision today. Cameras when used as the primary rear vision delivery mechanism have some inherent limitations such as: electrical

failure; cameras being blocked or obstructed; depth perception challenges; and viewing angle of the camera. Nonetheless, the Company continues designing and manufacturing not only rearview mirrors, but CMOS imager cameras and video displays as well. The Company believes that combining video displays with mirrors may well provide a safer overall product by addressing all driving conditions in a single solution that can be controlled by the driver. The Company also continues to develop in the areas of camera imager performance, camera dynamic range, lens design, image processing from the camera to the display, and camera lens cleaning. The Company acknowledges that as such technology evolves over time, there could be increased competition.

Business Combinations. We anticipate that acquisitions of businesses and assets may play a role in our future growth. We cannot be certain that we will be able to identify attractive acquisition targets, obtain financing for acquisitions on satisfactory terms, successfully acquire identified targets or manage timing of acquisitions with capital obligations across our businesses. Additionally, we may not be successful in integrating acquired businesses into our existing operations and achieving projected synergies. Competition for acquisition opportunities in the various industries in which we operate exists and may increase, thereby potentially increasing our costs of making acquisitions or causing us to refrain from making further acquisitions. We are also subject to applicable antitrust laws and must avoid anticompetitive behavior. These and other acquisition-related factors may negatively and adversely impact our business, financial condition, and/or results of operations.

Intellectual Property. We believe that our patents and trade secrets provide us with a competitive advantage in automotive rearview mirrors, variable dimmable windows, and electronics, although no single patent is necessarily required for the success of our products. The loss of any significant combination of patents and trade secrets regarding our products could adversely affect our business, financial condition, and/or results of operations. Lack of intellectual property protection in a number of countries, including China, poses risk for the Company. This trend represents an increasing risk to technology companies in the United States, including the Company.

New Technology and Product Development. We continue to invest a significant portion of our annual sales in engineering, research and development projects as set forth in our Consolidated Statements of Income of our Consolidated Financial Statements filed with this report. Should these efforts ultimately prove unsuccessful, our business, financial condition, and/or results of operations could be adversely affected.

Intellectual Property Litigation and Infringement Claims. A successful claim of patent or other intellectual property infringement and damages against us could affect our profitability and future growth. If someone claims that our products infringed their intellectual property rights, any resulting litigation could be costly and time consuming and would divert the attention of management and key personnel from other business issues. The complexity of the technology involved in our business and the uncertainty of intellectual property litigation significantly increases these risks and makes such risk part of our on-going business. To that end, we periodically obtain intellectual property rights, in the ordinary course of business, to strengthen our intellectual property portfolio and minimize potential risks of infringement. The increasing tendency of patents granted to others on combinations of known technology is a potential threat to our Company. Any of these adverse consequences could potentially have an effect on our business, financial condition and/or results of operations.

Credit Risk. In light of the continuing financial stresses within the certain regions within the worldwide automotive industry, certain automakers and Tier 1 customers may be considering the sale of certain business segments or bankruptcy. Should one or more of our larger customers (including sales through their Tier 1 suppliers) declare bankruptcy or sell their business, it could adversely affect the collection of receivables, our business, financial condition, and/or results of operations. The current economic environment continues to cause increased financial pressures and production stresses on our customers, which could impact the timeliness of customer payments and ultimately the collectability of receivables.

Our overall allowance for doubtful accounts primarily relates to financially distressed automotive mirror and electronics customers. We continue to work with these financially distressed customers in collecting past due balances. Refer to Note 1 of the Consolidated Financial Statements for additional details regarding our allowance for doubtful accounts.

Supply Chain Disruptions. Due to the just-in-time supply chains within the automotive industry, a disruption in a supply chain caused by one or more of our suppliers and/or an unrelated Tier 1 supplier due to part shortages, natural disasters, work stoppages, strikes, bankruptcy, etc. could disrupt our shipments to one or more automakers or Tier 1 customers, which could adversely affect our business, financial condition, and/or results of operations.

Business Disruptions. Manufacturing of our proprietary products employing electro-optic technology is performed at our manufacturing facilities in Zeeland and Holland, Michigan. One of our manufacturing facilities is located in Holland, Michigan, which is approximately three miles from our other manufacturing facilities in Zeeland, Michigan. Should a

catastrophic event occur, our ability to manufacture product, complete existing orders and provide other services could be severely impacted for an undetermined period of time. We have purchased business interruption insurance to address some of these potential costs. Our inability to conduct normal business operations for a period of time may have an adverse impact on our business, financial condition, and/or results of operations.

IT Infrastructure. A failure of our information technology (IT) infrastructure could adversely impact our business, financial condition, and/or results of operations. We rely upon the capacity, reliability and security of our i