GENTEX CORP
Form 10-K
February 20, 2013

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 fiscal year ended December 31, 2012 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: x No: .

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: No: x

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: x No: .

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: x No: .

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	x		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: No: x

As of June 30, 2012 (the last business day of the registrant's most recently completed second fiscal quarter), 144,566,141 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 $2,918,112,041 computed at the closing price on that date.

As of February 6, 2013, 143,148,231 shares of the registrant's common stock, par value $.06 per share, were outstanding.

Portions of the Company's Proxy Statement for its 2013 Annual Meeting of Shareholders are incorporated by reference into Part III.

Exhibit Index located at Page 60

Part I

Item 1. Business.

(a) General Development of Business

Gentex Corporation (the Company) is the leading supplier of automatic-dimming (auto-dimming) rearview mirrors and camera-based driver-assist and lighting-assist systems for the global automotive industry. The Company also provides commercial smoke alarms and signaling devices to the North American fire protection market as well as dimmable aircraft windows for the commercial, business and general aviation markets. The Company's largest segment involves designing, developing, manufacturing and marketing interior and exterior auto-dimming automotive rearview mirrors that utilize proprietary electrochromic technology to dim in proportion to the amount of headlight glare from trailing vehicle headlamps. The Company has numerous locations worldwide and ships product worldwide as well. More than half of the Company's interior mirrors are sold with advanced electronic features. The Company also manufactures some non-automatic-dimming rearview automotive mirrors with electronic features.

The Company was organized as a Michigan corporation in 1974 to manufacture residential smoke detectors, a product line that has since evolved into a more sophisticated group of fire protection products primarily for the commercial building industry. In 1982, the Company introduced an auto-dimming interior electro-mechanical rearview mirror that was the first commercially successful glare-control product offered as an alternative to the conventional, manual day/night mirror. In 1987, the Company introduced its interior electrochromic auto-dimming mirror, providing the first successful commercial application of electrochromic (EC) technology in the automotive industry and world. Through the use of electrochromic technology, this mirror is continually variable and automatically darkens to the degree required to eliminate rearview mirror headlight glare. In 1991, the Company introduced its exterior electrochromic sub-assembly, which works as a complete glare-control system with the interior auto-dimming mirror. 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 mirror sub-assembly product.

During 2001, the Company announced a new proprietary technology, called SmartBeam® that uses a custom, active-pixel, CMOS (complementary metal oxide semiconductor) sensor, and maximizes a driver's forward vision by significantly improving utilization of the vehicle's high-beam headlamps during nighttime driving. The SmartBeam® product is a single-function driver-assist feature for headlamp lighting control that competes with multiple-function driver-assist features that include headlamp lighting control as one of the multiple functions. During 2004, the Company began shipping auto-dimming mirrors with SmartBeam®. During 2009, the Company expanded the capabilities of its SmartBeam® product to include Dynamic Forward Lighting (DFL). DFL can be used to control "constant on" high-beam systems. It works in conjunction with emerging future headlamp technology to generate glare-free "block out" zones that shield oncoming and preceding vehicles from headlamp glare. This allows light to be projected around the surrounding traffic, and optimize the capabilities of the SmartBeam® Intelligent Forward Lighting System. During 2012, the Company announced a new, camera-based driver-assist system that uses a multi-function camera combined with algorithmic decision-making to perform Automatic High-Beam Control, Lane Keeping and Driver Alert. The system was developed in conjunction with Mobileye®, the global pioneer in the development of vision-based driver-assistance systems. The Automatic High-Beam Control turns a vehicle's high beams on and off automatically according to surrounding traffic conditions. In Lane Keeping mode, the driver is warned by vibration in the steering wheel, while the Lane Keeping function warns the driver by applying torque at the steering wheel to direct the vehicle back into the lane. Driver Alert monitors the vehicle's lane position and can notify a driver of signs of inattentiveness with a coffee cup warning light that appears on the dashboard instrument cluster. Certain components, including the camera and microprocessor, are integrated into a Gentex interior auto-dimming mirror. The Company is currently shipping auto-dimming mirrors with SmartBeam® and/or Driver-Assist features for 80 vehicle models with 10 automakers.

During 2006, the Company announced development programs with several automakers for its Rear Camera Display (RCD) Mirror that shows the vehicle operator a panoramic video view of objects directly behind the vehicle in real time. During 2007, the Company announced a number of Original Equipment Manufacturer (OEM) programs and dealer or port-installed programs for its RCD Mirror. During 2008, the Company announced that its RCD Mirror was available through MITO Corporation, a distributor of high-quality aftermarket electronic products and accessories. The Company is currently shipping auto-dimming mirrors with RCD for 64 vehicle models with 10 automakers. The Company is also shipping auto-dimming mirrors with RCD for over 20 aftermarket or dealer-installed programs.

The "Cameron Gulbransen Kids Transportation Safety Act of 2007" (KTSA) and the pending requirement that all new vehicles in the United States will be required to be equipped with cameras and rear camera displays by September 2014 has now been delayed four times. Notwithstanding these delays, the final rule is still in the Office of Management and Budget (OMB), and the National Highway Traffic Safety Administration (NHTSA) indicated that the final rule is currently expected in fiscal year 2013. The Company believes that its cost-competitive RCD Mirror product is an optimum, ergonomic, easily adaptable method to display the image produced by the rear camera for increased safety, and automakers could install rear cameras with the display in a RCD Mirror to satisfy the requirements of the legislation. Nonetheless, the Company also believes that this has become an ever increasingly competitive market, as there are a number of different locations that the image from the camera can be displayed in the vehicle by automakers. As a result, the Company's RCD mirrors have always been sold to automakers that have multiple options for where the Rear Camera Display is located. There continues to be a lot of uncertainty among the Company's current RCD Mirror automotive customers as a result of the rulemaking delays and, as previously disclosed, four of its customers have notified the Company that they have selected a radio display in the center console as the primary location for the rear Video Display application. As previously announced, two of those customer location changes are expected to impact the Company's RCD Mirror unit shipments beginning in calendar year 2013, with the other two customers impacting RCD Mirror unit shipments beginning in calendar year 2014. Each of these customer transitions occur over multiple years. These four customers continue to purchase the Company's RCD Mirrors for other vehicle applications. In addition, these customers continue to offer the Company's auto-dimming mirrors, many with other advanced electronic features. As of the date hereof, no additional RCD Mirror customers have indicated a move of the Rear Video Display application from the mirror to the center console.

During 2005, the Company announced that it would provide the variably dimmable windows for the passenger compartment on the new Boeing 787 Dreamliner Series of Aircraft. The Company began delivering variably dimmable windows to the production line in the second quarter of 2010 and Boeing delivered the first 787 Dreamliner Series of Aircraft on September 27, 2011. During 2008, the Company announced that it would supply dimmable windows to Hawker Beechcraft Corporation for passenger-cabin windows on the Beechcraft King Air 350i airplane. The Company continued to ship parts for the Boeing 787 Dreamliner Series of Aircraft and the King Air 350i airplane in low volume during 2012.

(b) Financial Information About Segments

See Note 7 to the Consolidated Financial Statements filed with this report.

(c) Narrative Description of Business

The Company currently manufactures electro-optic products, including automatic-dimming rearview mirrors and some non automatic-dimming rearview mirrors with electronic features for the automotive industry. The Company also manufactures fire protection products primarily for the commercial building industry and variable dimmable windows for the aircraft industry.

Automotive Mirrors

Automatic-Dimming Rearview Mirrors

Interior Auto-Dimming Mirrors. In 1987, the Company was the first to achieve a significant technological breakthrough by applying electrochromic technology to the glare-sensing capabilities of its Motorized Mirror. Through the use of this technology, the mirror gradually darkens to the degree necessary to eliminate rearview glare from following vehicle headlights. The interior auto-dimming mirror offers all of the continuous reflectance levels between its approximate 85% full-reflectance state and its 5% least-reflectance state, taking just a few seconds to span the entire range. Special electro-optic sensors in the mirror detect glare and electronic circuitry supplies electricity to darken the mirror to only the precise level required to eliminate glare, allowing the driver to maintain maximum vision. This is accomplished by the utilization of two layers of precision glass with special conductive coatings that are separated by the Company’s proprietary electrochromic materials. When the appropriate light differential is detected by the sensors, an electric current causes the elctrochromic material to darken, decreasing the mirror’s reflectance, thereby eliminating glare.

During 1991, the Company began shipping the first advanced-feature interior auto-dimming mirror, the auto-dimming headlamp control mirror, an automatic-dimming mirror that automatically turns car head- and taillamps “on” and “off” at dusk and dawn in response to the level of light observed. During 1993, the Company began shipping an auto-dimming compass mirror, with an electronic compass that automatically compensates for changes in the earth’s magnetic field. During 1997, the Company began shipping a new interior auto-dimming mirror that digitally displays either a compass or outside temperature reading. During 1998, the Company began shipping new compass mirrors with light-emitting diode (LED) map lamps, a major improvement over mirrors with standard incandescent map lamps, including extremely long life, low heat generation, lower current draw, more resistance to shock, and lower total cost of ownership. In 2000, the Company began shipping to General Motors interior auto-dimming mirrors that serve as the driver interface for the OnStar® System, an in-vehicle safety, security and information service using Global Positioning System (GPS) satellite technology. OnStar® is a registered trademark of OnStar® Corporation.

During 2001, the Company began making shipments of its auto-dimming mirrors for a number of small/mid-sized, medium-priced vehicles and has continued to increase its penetration of auto-dimming mirrors for the small/mid-sized vehicles since 2001. During 2012, the Company began making shipments of its auto-dimming mirrors for over 30 additional small/mid-sized vehicles manufactured by Chrylser, Daimler, Fiat, Ford, General Motors, Honda, Hyundai/Kia, Mazda, Mitsubishi, Nissan, Opel/Vauxhall, Peugeot/Citroen, Renault and VW/Audi.

During 2003, the Company began making shipments of its auto-dimming mirrors with its microphone as part of Chrylser’s “U-Connect®” telematics system. During 2007, the Company began making shipments of its microphone mirrors as part of Ford’s “Sync®” telematics system.

Also during 2001, the Company announced its new proprietary technology, called SmartBeam® that uses a custom, active-pixel, CMOS (complementary metal oxide semiconductor) sensor, and maximizes a driver's forward vision by significantly improving utilization of the vehicle's high-beam headlamps during nighttime driving. The SmartBeam® product is a single-function driver-assist feature for headlamp lighting control that competes with multiple-function driver-assist features that include headlamp lighting control as one of the multiple functions. While SmartBeam® is expected to help provide growth over the next several years, competition from multiple-function driver-assist products could impact such expectations. As the Company continues to expand the capabilities of its CMOS imager technology for additional features, the Company recognizes that it is competing against multiple-function driver-assist technologies that could present a competitive threat for SmartBeam®. During 2004, the Company began shipping auto-dimming mirrors with SmartBeam® for a number of 2005 vehicle models, and the Company has continued to increase its penetration of auto-dimming mirrors with SmartBeam® since 2004.

During 2009, the Company expanded the capabilities of its SmartBeam® product to include Dynamic Forward Lighting (DFL). DFL can be used to control "constant on" high-beam systems. It works in conjunction with emerging future headlamp technology to generate glare-free "block-out" zones that shield oncoming and preceding vehicles from headlamp glare. This allows light to be projected around the surrounding traffic, and optimize the capabilities of the SmartBeam® Intelligent Forward Lighting System. During 2012, the Company announced that it began shipping its new vision-based, glare-free high-beam system (known as SmartBeam® DFL). The new DFL vision-based system consists of a custom CMOS image sensor combined with algorithmic decision-making to offer constant "on" glare-free high beams.

During 2012, the Company announced that it is supplying auto-dimming mirrors with a new, camera-based driver-assist system for five Ford and Lincoln vehicle models. The Company's new driver-assist system uses a multi-function camera combined with algorithmic decision-making to perform Automatic High-Beam Control, Lane Keeping and Driver Alert. The system was developed in conjunction with Mobileye ® , the global pioneer in the development of vision-based driver-assistance systems, The Automatic High-Beam Control turns a vehicle's high beams on and off automatically according to surrounding traffic conditions. In Lane Keeping mode, the driver is warned by vibration in the steering wheel, while the Lane Keeping function warns the driver by applying torque at the steering wheel to direct the vehicle back into the lane. Driver Alert monitors the vehicle's lane position and can notify a driver of signs of inattentiveness with a coffee cup warning light that appears on the dashboard instrument cluster. Certain components, including the camera and microprocessor, are integrated into a Gentex interior auto-dimming mirror.

The Company shipped approximately 1,172,000 SmartBeam® and/or Driver-Assist units in calendar year 2012 and is currently shipping auto-dimming mirrors with SmartBeam® and/or Driver-Assist features for 80 vehicle models with 10 automakers.

During 2006, the Company announced development programs with several automakers for its RCD Mirror that consists of a liquid crystal display (LCD) that shows a panoramic video view of objects directly behind the vehicle in real time. During 2007, the Company began shipping auto-dimming mirrors with RCD for a number of vehicle models with automakers and has increased its penetration of auto-dimming mirrors with RCD since 2007. In addition, the Company began shipping auto-dimming mirrors with RCD as a dealer or port-installed (i.e. Gulf States Toyota, one of two independent Toyota distributorships that cover dealers in the states of Arkansas, Louisiana, Mississippi, Oklahoma and Texas). During 2008, the Company also announced that its RCD Mirror is available through MITO Corporation, a distributor of high-quality aftermarket electronic products and accessories. The Company shipped approximately 1,575,00 RCD Mirror units in calendar year 2012 and is currently shipping auto-dimming mirrors with RCD for 64 vehicle models with 10 automakers. The Company is also shipping auto-dimming mirrors with RCD for over 20 aftermarket or dealer-installed programs.

In February of 2008, the President signed into law the “Cameron Gulbransen Kids Transportation Safety Act of 2007”. The National Highway Traffic Safety Administration (NHTSA) had one year to initiate rulemaking to revise the federal standard to expand the field of view so that drivers can detect objects directly behind vehicles. Under the Act, NHTSA then had two years to determine how automakers must meet the rules. NHTSA's Notice of Proposed Rulemaking (NPRM) for the law became available on December 3, 2010, and was formally posted in the Federal Register on December 7, 2010. NHTSA indicated in the NPRM that all new vehicles under 10,000 lbs. in the United States would be required to have backup camera-based systems by September 2014. However, the issuance of the final rule has been delayed four times. Notwithstanding these delays, the final rule is still in the Office of Management and Budget (OMB), and the National Highway Traffic Safety Administration (NHTSA) indicated that the final rule is currently expected in “fiscal year 2013”.

The Company believes that its cost-competitive RCD Mirror product is an optimum, ergonomic, easily adaptable method to display the image produced by the rear camera for increased safety, and automakers could install rear cameras with the display in a RCD Mirror to satisfy the requirements of the above referenced legislation. However, the Company continues to believe that this has become an ever increasingly competitive market, as there are a number of different locations that the image from the camera can be displayed in the vehicle by automakers. As a result, the Company's RCD mirrors have always been sold to automakers that have multiple options for where the Rear Camera Display is located (i.e. rearview mirror, the navigation system, and other radio or multi-purpose displays in the vehicle). There continues to be a lot of uncertainty among the Company's current RCD mirror automotive customers as a result of the rulemaking delays and, as previously announced, four of its customers have notified the Company that they have selected a radio display in the center console as the primary location for the Rear Video Display application. As previously announced, two of those customer location changes are expected to impact the Company's RCD mirror unit shipments beginning in calendar year 2013, with the other two customers impacting RCD mirror unit shipments beginning in calendar year 2014. Each of these customer transitions occur over multiple years. These four customers continue to purchase the Company's RCD mirrors for other vehicle applications. In addition, these customers continue to offer the Company's auto-dimming mirrors, many with other advanced electronic features. As of the date hereof, no additional RCD mirror customers have indicated a move to the Rear Video Display application from the mirror to the center console.

The Company continues to believe that the market for camera displays in vehicles will be divided into two primary market segments:

1. The top 20% of the vehicle market will primarily offer the display for a rear camera in the navigation system, with the option of purchasing an RCD mirror.

2. The remaining portion of the market is the most likely market area to offer the camera display in the rearview mirror or in other multipurpose displays in the vehicle in a number of different locations, including the radio, instrument

panel, console, etc. This is the segment of the market with the greatest volume potential, but also has the greatest and increasing competition.

In addition, the Company continues to believe that its RCD Mirror product will be implemented in three overlapping phases by automakers:

1. Market-Driven Phase: included the time period prior to any legislation through NHTSA's Notice of Proposed Rulemaking on December 7, 2010.
2. “Wait and See” Phase: includes the time period from when the legislation was signed into law until the final rule is issued.

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3. Implementation Phase: includes the time period from the issuance of the final rule until full implementation, when 100% of all new vehicles in the U.S. under 10,000 lbs. will be required to be equipped with rear cameras and displays. The Company believes that automaker production cycles currently are being used by OEM's to set their implementation schedules, absent any final rules and schedules being published by NHTSA.

During 2011, the Company announced that it teamed with Hyundai to develop an automatic-dimming rearview mirror that acts as the interface for Hyundai's new Blue Link™ technology, which provides a significant number of automated services aimed at making the driver's life easier. The mirror's bezel houses three buttons that, when pressed, allow the driver to use voice commands to operate a wide range of navigation, vehicle assistance, entertainment and emergency services hands free.

As a result of the fast ramp-up in global automotive light vehicle production in the second half of 2010 and the continuation through 2011 calendar year, the Company experienced increased costs associated with supply chain constraints on certain automotive-grade electronic components. Although availability of certain automotive-grade components remained tight throughout this period, the Company did experience continued sequential improvement in this area through 2011. However, the March 12, 2011, earthquake and tsunami in Japan added significant stresses on the supply chain, as many electronic components are supplied by Japanese manufacturers who were impacted by the natural disaster. The Company was successful in securing additional quantities of constrained parts to meet anticipated customer demand. In addition, the Company did experience sequential reductions in supply chain-related costs through the balance of calendar year 2011 as supply chain constraints/disruptions were resolved following the earthquake and tsunami in Japan.

Flooding in Thailand as a result of heavy rain and monsoons since late July 2011 resulted in additional supply chain disruptions as production at certain component supplier plants was moved to their plants in other countries, putting certain suppliers outside of Thailand in over-capacity situations. Gaining access to those components and ensuring adequate supply resulted in additional costs to the Company during the fourth quarter of 2011. The Company did experience sequential improvement in this area during the first and second quarters of 2012. The incremental costs associated with these particular supply chain constraints/disruptions have been resolved, barring another natural disaster impacting the supply chain. As of the date hereof, the supply chain related issues the Company has experienced have not disrupted deliveries to customers, but the Company continues to apply measures to ensure adequate supply of certain automotive-grade components.

The Company shipped approximately 12,828,000 interior auto-dimming mirrors in 2010, approximately 16,189,000 in 2011, and approximately 18,081,000 in 2012.

During 2012, interior total mirror unit shipments by the Company increased primarily due to increased light vehicle production levels in North America as well as increased penetration of auto-dimming mirrors on 2012 and 2013 model year vehicles.

The Company is currently shipping interior auto-dimming mirrors that are standard equipment or factory-installed options on certain trim levels to the following manufacturers:

BMW	Ford	Hyundai	Ssangyong
-BMW	-Ford	-Hyundai	Subaru
-Rolls Royce	-Lincoln	-Kia	Suzuki
Chrysler	Geely	Mazda	Tata
-Chrysler	-Emgrand	Mitsubishi	-Jaguar
-Dodge	-Volvo	Nissan	-Land Rover
-Jeep	General Motors	-Infiniti	Toyota
Daimler	-Buick	-Nissan	-Lexus
-Mercedes-Benz	-Cadillac	PSA	-Toyota
Fiat	-Chevrolet	-Citroen	Volkswagen
-Alfa Romeo	-GMC	-Peugeot	-Audi
-Fiat	-Holden	Renault	-Bentley
-Lancia	-Opel	-Renault	-SEAT
-Maserati	Honda	-Samsung	-Skoda
Fisker	-Acura	SAIC	-Volkswagen
	-Honda	-MG	
	Hongqi	-Roewe	

Exterior Auto-Dimming Mirror Sub-Assemblies. The Company has devoted substantial research and development efforts to the development of its electrochromic technology to permit its use in exterior rearview mirrors. Exterior auto-dimming mirrors are controlled by the sensors and electronic circuitry in the interior auto-dimming mirror, and both the interior and exterior mirrors dim simultaneously. The Company’s efforts have culminated in a design that is intended to provide acceptable long-term performance in all automotive environments likely to be encountered. In 1994, the Company began shipments of its complete three-mirror system, including the convex (curved glass) wide-angle auto-dimming mirrors. During 1997, the Company began making volume shipments of additional new exterior mirror products: thin glass flat and aspheric mirrors. During 2001, the Company began making shipments of the world’s first exterior automatic-dimming mirrors with built-in turn-signal indicators to General Motors and Southeast Toyota. The Company currently offers its exterior auto-dimming mirrors with turn-signal indicators and side blind zone features. In 2005, the Company began making volume shipments of its new bezel-free exterior mirror sub-assembly product. The Company currently sells its exterior auto-dimming mirror sub-assemblies to exterior mirror suppliers of the automakers who assemble the exterior auto-dimming mirror sub-assemblies into full mirror units for subsequent resale to the automakers.

The Company shipped approximately 4,264,000 exterior auto-dimming mirror sub-assemblies during 2010, approximately 5,288,000 in 2011, and approximately 5,751,000 in 2012.

During 2012, total exterior unit shipments by the Company increased primarily due to increased light vehicle production levels in North America and increased penetration of exterior auto-dimming mirrors in Europe and North America.

The Company is currently shipping exterior auto-dimming mirrors that are standard equipment or a factory-installed option on certain trim levels to the following manufacturers:

BMW	Fiat	Honda	PSA	Volkswagen
-BMW	-Maserati	-Acura	-Citroen	-Audi
-Rolls Royce	Ford	-Honda	Ssangyong	-Bentley
-Mini	-Ford	Hyundai	Tata	-Skoda
Chrysler	-Lincoln	-Hyundai	-Jaguar	-Volkswagen
-Chrysler	General Motors	-Kia	-Land Rover	
-Dodge	-Buick	Mazda	Tesla	
-Jeep	-Cadillac	Nissan	Toyota	
Daimler	-Chevrolet	-Infiniti	-Lexus	
-Mercedes-Benz	-GMC	-Nissan	-Toyota	
	-Opel			

Non-Automatic-Dimming Rearview Mirrors.
In 2007, the Company began shipping some non-auto-dimming exterior mirrors with electronic features (i.e. side blind zone indicators) in low volume. During 2012, unit shipments for non-auto-dimming exterior mirrors with electronic features continued in low volume.

In 2010, the Company began shipping some non-auto-dimming interior mirrors with electronic features in low volume. During 2012, unit shipments for non-auto-dimming interior mirrors with electronic features continued in low volume.

Automotive Mirrors Product Development. The Company continually seeks to develop new products and hopes to continue introducing additional advanced-feature auto-dimming mirrors. Advanced-feature auto-dimming mirrors currently being offered by the Company include headlamp control, rear camera display, driver-assist features, lighted LED map lamps, compass, remote keyless entry, compass/temperature mirror, compass/temperature dual display, telematics, HomeLink®, tire pressure display, hands free communication, trip functions display, indicator LED’s for alarm system, exterior turn signal and side blind zone mirrors.

Advanced automotive mirror technologies that the Company markets today continue to evolve at a rapid pace and are resulting in future new awarded business. Interior auto-dimming mirrors are in launch with new bezel-free frameless designs; lighting applications with new optoelectronics; digital mircrophones replacing analog microphones; wireless control systems; many different displays in new sizes with faster processing and increased graphics capabilities; SmartBeam® with advanced detection for tunnels, curves, and fog for use on halogen, xenon, and LED headlamp technologies; driver-assist systems with lane departure warning, traffic sign recognition, and a variety of object detection capabilities; and combinations of these various features. Exterior auto-dimming mirrors are in launch with new bezel-free frameless designs, curved glass capabilities, and a variety of other capabilities.

During 2001, the Company announced a new proprietary technology, called SmartBeam® that uses a custom, active-pixel, CMOS (complementary metal oxide semiconductor) sensor, and maximizes a driver's forward vision by significantly improving utilization of the vehicle's high-beam headlamps during nighttime driving. The SmartBeam® product is a single-function driver-assist feature for headlamp lighting control that competes with multiple-function driver-assist features that include headlamp lighting control as one of the multiple functions. During 2004, the Company began shipping auto-dimming mirrors with SmartBeam® and the Company has continued to increase its penetration of auto-dimming mirrors with SmartBeam® since 2004.

During 2009, the Company expanded the capabilities of its SmartBeam® product to include Dynamic Forward Lighting (DFL). DFL can be used to control “constant on” high-beam systems. It works in conjunction with emerging future headlamp technology to generate glare-free “block out” zones that shield oncoming and preceding vehicles from headlamp glare. This allows light to be projected around the surrounding traffic, and optimize the capabilities of the SmartBeam® Intelligent Forward Lighting System.

During 2012, the Company announced a new, camera-based driver-assist system that uses a multi-function camera combined with algorithmic decision-making to perform Automatic High-Beam Control, Lane Keeping and Driver Alert. The system was developed in conjunction with Mobileye®, the global pioneer in the development of vision-based driver-assistance systems. The Automatic High-Beam Control turns a vehicle's high beams on and off automatically according to surrounding traffic conditions. In Lane Keeping mode, the driver is warned by vibration in the steering wheel, while the Lane Keeping function warns the driver by applying torque at the steering wheel to direct the vehicle back into the lane. Driver Alert monitors the vehicle's lane position and can notify a driver of signs of inattentiveness with a coffee cup warning light that appears on the dashboard instrument cluster. Certain components, including the camera and microprocessor, are integrated into a Gentex interior auto-dimming mirror. The Company is currently shipping auto-dimming mirrors with SmartBeam® and/or Driver-Assist features for 80 vehicle models with 10 automakers.

During 2012, the Company continued to further develop its CMOS imager technology and camera algorithm application capabilities for the automotive industry. These expanded capabilities will assist in the ongoing development of potential new advanced-feature auto-dimming mirror products.

During 2006, the Company announced development programs with several automakers for its RCD Mirror that consists of a proprietary LCD device that shows a panoramic video view of objects behind the vehicle in real time. When the vehicle is put in "reverse," the display illuminates and automatically appears through the rearview mirror's reflective surface to give a high resolution, bright colored image. The image is generated by a camera or cameras placed in a protected area at the rear of the vehicle. When the vehicle is put in "drive," the display in the mirror automatically disappears. The ability to automatically have the display appear through the auto-dimming mirror's surface is made possible by utilizing proprietary "transflective" coatings developed by the Company. The Company is currently shipping auto-dimming mirrors with its RCD Mirror for 64 vehicle models with 10 automakers. The Company is also shipping auto-dimming mirrors with its RCD Mirror for over 20 aftermarket or dealer-installed programs.

In addition, the Company has developed its own compass technology, which can be sold as a system with the compass heading displayed in the interior auto-dimming mirror. The Gentex compass technology is called Z-Nav®, as it features a proprietary, digital, tri-axis sensor (transducer) and software. The tri-axis design is similar to compasses used in highly scientific apparatus such as aerospace applications, and can be mounted on any fixed or pivotal location in the vehicle, including inside the mirror housing.

The Company also developed an ALS (Active Light Sensor) technology as a cost-effective, improved-performance, intelligent CMOS light sensor to control the dimming of its rearview mirrors, and the Company began making volume shipments of mirrors incorporating ALS in 2002.

During 2001, the Company developed a new microphone designed specifically for use in the automotive environment for telematics applications. The first volume Gentex microphone application was part of Chrysler's "U-Connect®" telematics system, beginning in 2003. During 2006, the Company's proprietary integrated hands-free microphone was available as part of an optional navigation package at Ford. Also, the Company continues to separately ship its proprietary microphone units that are being incorporated into prismatic interior mirrors at a customer's request.

During 2011, the Company teamed with Hyundai to develop an automatic-dimming rearview mirror that acts as the interface for Hyundai's new Blue Link™ technology, which provides a significant number of automated services aimed at making the driver's life easier. The mirror's bezel houses three buttons that, when pressed, allow the driver to use voice commands to operate a wide range of navigation, vehicle assistance, entertainment and emergency services hands free.

The Company continued the development of its electrochromic technology for use in complete three-mirror systems. In these systems, both the driver and passenger side exterior auto-dimming mirrors are controlled by the sensors and electronic circuitry in the interior rearview mirror, and the interior and both exterior mirrors dim simultaneously. The Company's engineering, research, and development expenses are set forth as a separate line item in the Consolidated Statements of Income of the Company's Consolidated Financial Statements filed in this report.

Automotive Mirrors Markets and Marketing. In North America, the Company markets its products primarily through a direct sales force. The Company generally supplies auto-dimming mirrors and mirrors with advanced electronic features to its customers worldwide under annual blanket purchase orders. In addition, the Company currently supplies auto-dimming mirrors to VW/Audi and Chrysler LLC under long-term agreements, entered into in the ordinary course of the Company's business.

During 2012, as previously announced, the Company negotiated a long-term agreement with VW/Audi in the ordinary course of the Company's business. Under the agreement, the Company is the exclusive supplier of all interior and exterior auto-dimming rearview mirror products sourced through December 31, 2018.

The Company had a long-term agreement with Daimler AG (formerly DaimlerChrysler AG) entered into in the ordinary course of the Company's business. Under the agreement, the Company was sourced virtually all interior and exterior auto-dimming mirror business at Mercedes and Chrysler through December 2009. The Company's exterior auto-dimming mirror sub-assemblies are supplied by means of sales to exterior mirror suppliers. During 2007, the Company negotiated an extension to its global supply agreement with Chrysler LLC in the ordinary course of the Company's business. Under the extension, the Company will be sourced virtually all Chrysler interior auto-dimming rearview mirrors through 2015.

The Company previously negotiated a multi-year sourcing agreement with Ford Motor Company in the ordinary course of the Company's business. Under the agreement, the Company is sourced all existing interior auto-dimming rearview mirror programs as well as a number of new interior auto-dimming rearview mirror programs during the agreement term which ended on December 31, 2011. The Company continues to supply Ford on a purchase order basis.

During 2008, the Company negotiated an extension to its long-term agreement with General Motors in the ordinary course of the Company's business. The agreement ended on August 1, 2012, and the Company continues to supply General Motors on a purchase order basis.

During 1993, the Company established a sales and engineering office in Germany and the following year, the Company formed a German limited liability company, Gentex GmbH, to expand its sales and engineering support activities in Europe. During 1999, the Company established Gentex Mirrors, Ltd., as a sales and engineering office in the United Kingdom. During 2000, the Company established Gentex France, SAS, as a sales and engineering office in France. During 2003, the Company established a satellite office in Munich, Germany. During 2005, the Company established a satellite office in Sweden, and during 2010, the Company established additional German satellite offices in Sindelfingen and Ingolstadt, Germany. During 2011, the Company established an additional satellite office in Cologne, Germany. The Company's marketing efforts in Europe are conducted through Gentex GmbH, Gentex Mirrors, Ltd., and Gentex France SAS. The Company is currently supplying mirrors for Audi, BMW, Bentley, Citroen, Chrysler of Europe, Fiat, Ford of Europe, Honda of Europe, Tata/Jaguar, Tata/Land Rover, Daimler/Mercedes-Benz, Nissan of Europe, Opel, Peugeot, Renault, Rolls Royce, SEAT, Skoda, Toyota of Europe, Volkswagen and Volvo in Europe.

During 1998, the Company established Gentex Japan, Inc., as a sales and engineering office in Nagoya, Japan, to expand its sales and engineering support in Japan. During 2002, the Company established Gentex Technologies Korea Co., Ltd. as a sales and engineering office in Seoul, Korea. During 2004, the Company established a satellite office in Yokohama, Japan. During 2011, the Company established a satellite office in Tochigi, Japan. During 2005, the Company opened a sales and engineering office near Shanghai, China. The Company is currently supplying mirrors for, Chrysler, Ford, GM, Honda, Hyundai, Infiniti, Kia Motors, Lexus, Mazda, Mitsubishi, Nissan, SAIC, Suzuki, Samsung, Ssangyong, Toyota and Volkswagen/Audi in Asia.

In 2000, the Company signed an agreement with Murakami Corporation, a major Japanese mirror manufacturer, to cooperate in expanding sales of automatic-dimming mirrors using the Gentex electrochromic technology. During 2006, the agreement with Murakami Corporation was terminated and replaced with a Memorandum of Understanding. During 2007, the Company signed a new supplier agreement with Murakami Corporation in the ordinary course of the Company's business.

During 2012, the Company continued to market and sell auto-dimming mirrors into the domestic China automotive market, primarily by shipping product directly through the global automakers' joint venture relationships and indirectly into China through global automakers export divisions. Due to these indirect shipments, it is difficult for the Company to determine with certainty the number of mirror units that are shipped into those companies destined for vehicles in China. In addition, the Company continues to make progress in marketing and selling its auto-dimming mirrors to the larger Chinese domestic automakers beyond the global automakers' and their joint ventures.

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The Company’s auto-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 2012 vs. 2002 calendar years:

	2012		2002	
Domestic	23	%	50	%
Transplants	17	%	7	%
North America	40	%	57	%
Europe	41	%	28	%
Asia-Pacific	19	%	15	%
	100	%	100	%

Revenues by major geographic area are disclosed in footnote 7 of the Consolidated Financial Statements.
Historically, new safety and comfort options have entered the original equipment automotive market at relatively low rates of “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 and may become standard equipment. The ongoing trend of domestic and foreign automakers is to offer several options as a package. As consumer demand increases for a particular option, the auto-dimming mirrors tend to be offered on more vehicles and in higher option rate packages. The Company anticipates that its auto-dimming mirrors will be offered as standard equipment, in higher option rate packages, and on more small/mid-size vehicle models as consumer awareness of the safety and comfort features continue to become more well-known and acceptance grows.
The Company has contracted with MITO Corporation in the ordinary course of business to sell a number of its most popular automatic-dimming mirrors directly to consumers in the automotive aftermarket; in addition, the Company sells some auto-dimming mirrors to automotive distributors. In 2008, the Company announced that its RCD Mirror is available through MITO Corporation as well. It is management’s belief that these sales have limited potential until the Company achieves significantly higher penetration of the OEM market.
Automotive Mirrors Competition. The Company continues to be the leading producer of auto-dimming rearview mirrors in the world and currently is the dominant supplier to the automotive industry with an approximate 88% market share worldwide in 2012, as compared to approximately 88% in 2011. While the Company believes it will retain a dominant position in auto-dimming rearview mirrors for some time, one other U.S. manufacturer (Magna Mirrors) is competing for sales to domestic and foreign vehicle manufacturers and is supplying a number of domestic and foreign vehicle models with its hybrid or solid polymer matrix versions of electrochromic mirrors. In addition, two Japanese manufacturers are currently supplying a few vehicle models in Japan with solid-state electrochromic mirrors. There are a small number of Chinese domestic mirror suppliers that are marketing and selling auto-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 October 1, 2002, Magna International acquired Donnelly Corporation, which was the Company’s major competitor for sales of automatic-dimming rearview mirrors to domestic and foreign vehicle manufacturers and their mirror suppliers. The Company continues to sell certain automatic-dimming rearview mirror sub-assemblies to Magna.
The Company believes its electrochromic automatic mirrors and mirrors with advanced electronic features offer significant performance advantages over competing products. However, the Company recognizes that Magna Mirrors, a competitor and wholly-owned subsidiary of Magna International, is considerably larger than the Company and may present a more formidable competitive threat. To date, the Company is not aware of any significant impact of Magna’s acquisition of Donnelly upon the Company; however, any ultimate competitive impact remains uncertain.
There are numerous other companies in the world conducting research on various technologies, including eletrochromics, 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 auto-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), the Company recognizes that it is competing with considerably larger European and Asian electronics companies that could present a more formidable competitive threat in the future as new products/features are brought to market.
The Company’s RCD Mirror feature competes in the market-place with backup sensors and other displays used with rear backup cameras (displays could be in the rearview mirror, navigation system or other radio or multi-purpose displays). The Company believes that its RCD Mirror is an optimum, ergonomic, easily adaptable method to display the image produced by the rear camera for increased safety. Any color display in a vehicle is relatively costly, and when a color display is required for other features such as navigation, radio or other vehicle functions, then it may be less costly on a per-feature basis to display the output of the backup camera in that in-dash display, offering significant competition to the RCD Mirror. The long-term success of the RCD Mirror continues to depend on automakers’ strategies for complying with the anticipated final rulemaking under the Cameron Gulbransen Kids Transportation Safety Act of 2007, (which has now been delayed four times) and their willingness and desire to display other information in the RCD Mirror, driving down the per-feature cost.
The Company's SmartBeam® product is a single-function driver-assist feature for headlamp lighting control that competes with 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 vehicles high-beam usage, competition from multiple-function driver-assist products could impact the long-term success of the Company's expectations.
Fire Protection Products
The Company manufactures approximately 55 different models of smoke alarms and smoke detectors, combined with over 100 different models of signaling appliances. All the smoke detectors/alarms operate on a photoelectric principle to detect smoke. While the use of photoelectric technology entails greater manufacturing costs, the Company believes that these detectors/alarms are superior in performance to competitive devices that operate through an ionization process, and are preferred in most commercial residential occupancies. Photoelectric detectors/alarms feature low light-level detection, while ionization detectors utilize an ionized atmosphere, the electrical conductivity of which varies with changes in the composition of the atmosphere. Photoelectric detectors/alarms are widely recognized to respond more quickly to slow, smoldering fires, a common form of dwelling unit fire and a frequent cause of fire-related deaths. In addition, photoelectric detectors are less prone to nuisance alarms and do not require the use of radioactive materials necessary for ionization detectors. Photoelectric smoke detectors/alarms are now being required by over a dozen major cities, over a dozen states, as well as regional and national building and fire alarm codes.
In 2009, the Company announced the development and subsequent UL listing of its first Carbon Monoxide (CO) Alarm as well as an alarm that combines both CO and smoke alarm sensing technology into one unit. These products are designed primarily for applications such as hotels, motels, hospitals, college dormitories and nursing homes. The alarm utilizes photoelectric smoke sensing technology and an established CO sensing technology to deliver both smoke and CO protection in one unit. The new products are in compliance with Underwriters Laboratories (UL) 2034, UL217, and National Fire Protection Association 72 and 720. This newer product comes at a time when approximately thirty eight states are currently mandating CO detection in primarily residential occupancies.
The Company’s fire protection products provide the flexibility to be wired as part of multiple-function systems and consequently are generally used in fire detection systems common to large office buildings, hotels, motels, military bases, college dormitories and other commercial establishments. However, the Company also offers single-station alarms for both commercial and residential applications. While the Company does not emphasize the residential market, some of its fire protection products are used in single-family residences that utilize fire protection and security systems. The Company’s detectors emit audible and/or visual signals in the immediate location of the device, and certain models are able to communicate with monitored remote stations.
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 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 new Boeing 787 Dreamliner Series of Aircraft. Boeing delivered the first 787 Dreamliner Series of aircraft to All Nippon Airways (ANA) on September 27, 2011. During 2008, the Company announced that it would supply dimmable windows to Hawker Beechcraft Corporation for the passenger cabin windows of the Beechcraft King Air 350i airplane. The Company continued to ship parts for the Boeing 787 Dreamliner Series of Aircraft and the King Air 350i airplane in low volume during 2012.

Markets and Marketing. The Company jointly markets and sells its variable dimmable windows to aircraft manufacturers with PPG Aerospace.

Competition. The Company’s variable dimmable aircraft windows are the first commercialized product 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. Examples of possible applications of electrochromic technology include windows for the automotive, architectural and aerospace markets. Progress in adapting electrochromic technology to the specialized requirements of the window market continued in 2012. However, the Company believes that a commercial architectural window product will still require several years of additional engineering and resolution of intellectual property issues.

Trademarks and Patents

The Company owns 21 U.S. trademarks and 404 U.S. patents, 371 of which relate to electrochromic technology, automotive rearview mirrors, microphones, displays, cameras and/or sensor technology. These patents expire between 2013 and 2031. The Company believes that these patents provide the Company a competitive advantage in the automotive rearview mirror market; however, none of these patents is individually integral to the success of the Company’s products.

The Company also owns 61 foreign trademarks and 316 foreign patents, 302 of which relate to electrochromic technology, automotive rearview mirrors, microphones, displays cameras and/or sensor technology. These patents expire at various times between 2013 and 2028. 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 13 U.S. patents and 9 foreign patents that relate to the Company’s fire protection products, and the Company believes that the competitive advantage provided by these patents is relatively small.

The Company’s remaining 20 U.S. patents and remaining 5 foreign patents owned by the Company relate to the Company’s variable dimmable windows, and the Company believes that the competitive advantage provided by these patents is relatively small.

The Company also has in process 123 U.S. patent applications, 129 foreign patent applications, and 11 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 and non- automatic-dimming rearview mirrors for the automotive industry, fire protection products for the commercial building industry and variable dimmable windows for the aircraft industry. The Company has several important customers within the automotive industry, five of which each account for 10% or more of the Company’s annual sales (including direct sales to OEM customers and sales through their Tier 1 suppliers): Toyota Motor Company, VW/Audi, Hyundai/Kia, Daimler AG and General Motors Corporation. The loss of any of these customers could have a material adverse effect on the Company. The Company’s backlog of unshipped orders was $271,200,383 and $298,469,503 at February 1, 2013, and 2012, respectively.

At February 1, 2013, the Company had 3,605 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 good.

(d) Financial Information About Geographic Areas.

See “Markets and Marketing” in Narrative Description of Business (Item 1(c)) and Footnote 7 to 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://www.gentex.com) as soon as practicable after such material is 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 Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended, that are based on management’s beliefs, and information currently available to us, and are also based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual results and developments will conform to our current expectations, estimates and projections about the global automotive industry, the economy and the Company itself is subject to a number of risks, assumptions and uncertainties, many of which are beyond our control, and the affects can be difficult to predict. Words like “anticipates,” “believes,” “confident,” “estimates,” “expects,” “forecasts,” “hopes”, “likely,” “plans,” “pr “optimistic,” and “should,” and variations of such words and similar expressions identify forward-looking statements. These statements do not guarantee future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict with regard to timing, expense, likelihood and degree of occurrence. These risks include, without limitation, the pace of economic activity in Europe, Asia and in the United States, employment and other general economic conditions; worldwide automotive production; the maintenance of the Company's market share; the ability to control costs, including the ability to achieve purchasing and manufacturing cost reductions, control and leverage fixed overhead costs, maintain margins; the ability to control E,R&D and S,G&A expenses. Additionally, these risks include competitive pricing pressures; the mix of products purchased by customers; the market for and the success of certain of the Company's mirror products (e.g. Rear Camera Display, SmartBeam ® and other camera-based driver-assist and lighting-assist products), including vehicle model penetration and option take rates; changes in customers' marketing strategies; consumer confidence and the impact on production volume levels; intellectual property litigation risk; the ability to continue to make and sell product innovations; customer inventory management; scheduled production shutdowns at our customers' production facilities; currency fluctuations; interest rates; equity prices; the financial strength/stability of the Company's customers (including their Tier 1 suppliers);

potential impact of supply chain disruptions including but not limited to those caused by natural disasters and any other part shortages; potential restructuring/sale of OEM business segments or suppliers; potential customer (including their Tier 1 suppliers) bankruptcies; and other risks identified in the Company's other filings with the Securities and Exchange Commission. Therefore, actual results and outcomes may materially differ from what is expressed or forecasted. Furthermore, the Company undertakes no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

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 continues to be uncertain (especially in Europe, which is our largest automotive shipping destination) and continues to cause increased financial and production stresses evidenced by volatile production levels, volatility with customer orders, supplier part shortages, automotive plan 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, due to fuel costs and environmental concerns, and supply chain stresses. If additional 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 increased volatility and uncertainty in executing planned new programs which have, in some cases, resulted in delays or cancellations of new vehicle platforms, package reconfigurations and inaccurate volume forecasts. This volatility and uncertainty has made it more difficult for us to forecast future sales, effectively manage costs and utilize capital, engineering, research and development, and human resource investments.
Key Customers. We have a number of large customers, including five automotive customers which each account for 10% or more of our annual net sales (includes direct sales to OEM customers and sales through their Tier 1 suppliers): Toyota Motor Company, VW/Audi, Hyundai/Kia, Daimler AG and General Motors Corporation. 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) would have a material adverse effect on our business, financial condition, and/or results of operations. Effective October 1, 2003, General Motors Corporation began including a 30-day escape clause into its contracts in the event its suppliers are not competitive on pricing. Effective January 1, 2004, Ford Motor Company began imposing new contract terms, including the right to terminate a supplier contract for any or no reason.
Pricing Pressures. In addition to price reductions over the life of our long-term agreements, we continue to experience significant pricing pressures from our automotive customers and competitors, which have affected, and which will continue to affect our margins to the extent that we are unable to offset the price reductions with engineering and purchasing cost reductions, productivity improvements, and increases in unit sales volume, each of which pose an ongoing challenge. In addition, financial pressures, increasing production volumes and overall increasing book of business at certain automakers are resulting in increased cost reduction efforts by them, including requests for additional price reductions, decontenting certain features from vehicles, customer market testing of future business, dual sourcing initiatives and warranty cost-sharing programs, which could adversely impact our business, financial condition, and/or results of operations.

Competition. We recognize that Magna Mirrors, our main competitor for sales for automatic-dimming rearview mirrors and a wholly-owned subsidiary of Magna International, is considerably larger than we are and may present a more formidable competitive threat in the future. Our future growth and success will depend on the ability to compete in our highly competitive markets.
Our RCD Mirror feature competes in the market place with backup sensors and rear backup cameras (which could be in the rearview mirror, navigation system or other radio or multi-purpose displays). We believe that our RCD Mirror is an optimum, ergonomic, easily adaptable method to display the image produced by the rear camera for increased safety. Any color display in a vehicle is relatively costly, and when a color display is required for other features such as navigation, radio or other vehicle functions, then it may be less costly on a per-feature basis to display the output of the backup camera in that in-dash display, offering significant competition to the RCD Mirror. The long-term success of our RCD Mirror may depend on automakers' strategy in complying with the anticipated final rulemaking under the Cameron Gulbransen Kids Transportation Safety Act of 2007 (which has now had four delays), and their willingness and desire to display other information in the RCD Mirror, driving down the per-feature cost.
Our SmartBeam® product is a single-function driver-assist feature for headlamp lighting control that competes with 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 vehicles high-beam usage, competition from multiple-function driver-assist products could impact the long-term success of the Company's expectations. As the Company continues to expand the capabilities of its CMOS imager

technology for additional driver-assist features, the Company recognizes that it is competing against multiple-function driver-assist technologies that could present a competitive threat for SmartBeam®.
Intellectual Property. We believe that our patents and trade secrets provide us with a competitive advantage in automotive rearview mirrors, although none of our patents individually is 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. The lack of intellectual property protection is well-known in a number of countries, including China. This trend represents an increasing risk to technology companies in the United States, including Gentex.
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.
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.
Credit Risk. In light of the continuing financial stresses within the worldwide automotive industry, certain automakers and Tier 1 customers are considering the sale of certain business segments or may be considering 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 operation. The current uncertain economic environment (especially in Europe) continues to cause increased financial pressures and production stresses on our customers, which could impact timely customer payments and ultimately the collectability of receivables.
Our overall allowance for doubtful accounts primarily relates to financially distressed Tier 1 mirror customers. We continue to work with these financially distressed customers in collecting past due balances. Refer to Footnote 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 one supplier due to part shortages, natural disasters, work stoppages, strikes, bankruptcy, etc. could disrupt our shipments to one or more automaker 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 five 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 four manufacturing facilities in Zeeland, Michigan. Should a catastrophic event occur, our ability to manufacture product, complete existing orders and provide other services would 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.
Other. Other issues and uncertainties which could adversely impact our business, financial condition, and/or results of operations include:

- Changes in the commodity prices of the materials used in our products. We continue to experience pressure for select raw material cost increases. The Company did experience increased costs associated with supply chain constraints on certain automotive grade electronic components during the first half of calendar year 2012. The costs associated with these particular supply chain constraint/disruptions appear to have been resolved, barring another natural disaster impacting the supply chain.

- Uncertain equity markets could negatively impact our financial performance due to an increase in realized losses on the sale of equity investments and/or recognized losses due to an Other-Than-Temporary impairment adjustment on available-for-sale securities (mark to market adjustment).

- General economic conditions continue to be of concern in many of the regions in which we do business (especially in Europe) given that our primary industry is greatly impacted by overall, general economic conditions. Any continued adverse worldwide economic conditions, currency exchange rates, war or significant terrorist acts, could each affect worldwide automotive sales and production levels.

- We implemented the first phase of a new Enterprise Resource Planning (ERP) System effective July 1, 2009, which covered key core business areas at our West Michigan locations. To date, we have not experienced any significant issues. In addition, we have implemented our new ERP system for one of our overseas offices effective December 1, 2009. To date, we have not experienced any significant issues. The implementation of additional lean manufacturing production line scheduling and business reporting capabilities are still in process as of December 31, 2012. While we believe that all necessary system development processes, testing procedures and user training that is planned will be adequate and completed prior to implementation, there is no guarantee that all system components will function as intended at the time of implementation. Unanticipated failure(s) could cause delays in our ability to produce or ship our products, process transactions, or otherwise conduct business in our markets, resulting in material financial risk.

- Manufacturing yield issues may negatively impact our margins and profitability.

- Obligations and costs associated with addressing quality issues or warranty claims could adversely affect our financial results.

- The European New Car Assessment Program (Euro NCAP) provides an incentive to European automobile manufacturers to make safety technologies that include camera based driver assist features such as lane detection, vehicle detection, and pedestrian detection as standard equipment. Euro NCAP compliant camera based driver assist systems are also capable of including high beam assist as a function. The increased application of Euro NCAP on European vehicles can potentially have a negative impact on our SmartBeam® product by utilizing driver assist camera systems that include the high beam assist feature. While the Company does continue product development and launch of new SmartBeam® and new driver assist camera products on European vehicles, the potential for increased competition may exist in the future.

- The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined from the DRC and adjoining countries in their products. These new requirements will require due diligence efforts in fiscal 2013, with initial disclosure requirements beginning in May 2014. There will be costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering "conflict free" conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

Our ability to attract or retain key employees to operate our manufacturing facilities and to staff our corporate office.

- We are dependent on the services of our management team. Losing key members of our management team could adversely affect our operations. We do not maintain key man life insurance on any of our officers or directors.

- Our ability to successfully design and execute strategic and operating plans, including continuing to obtain new business.

Antitakeover Provisions. Our articles of incorporation, bylaws, and the laws of Michigan include provisions that may provide our board of directors with adequate time to consider whether a hostile takeover offer is in our best interest and the best interests of our shareholders. These provisions, however, could discourage potential acquisition proposals and could delay or prevent a change in control.

Fluctuations in Market Price. The market price for our common stock has fluctuated, ranging from a low of $14.38 to a high of $31.40 during 2012. The overall market and the price of our common stock may continue to fluctuate. There may be a significant impact on the market price for our common stock due to, among other things including those discussed above:

- variations in our anticipated or actual operating results or the results of our competitors;
- changes in investors’ or analysts’ perceptions of the risks and conditions of our business and in particular our primary industry;
- changes in investors’ or analysts’ perceptions of how the Kids Transportation Safety Act of 2007 (which has been delayed four times), and in particular the new rulemaking, may impact our business in the future;
- intellectual property litigation and infringement claims;
- the size of the public float of our common stock;
- market conditions, including the industry in which we operate, and
- general macroeconomic conditions (especially in Europe).

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

The Company currently operates out of five office/manufacturing facilities in Zeeland and Holland, Michigan. The Company also operates a chemistry lab facility to support production in Zeeland, Michigan. These facilities are approximately 25 miles southwest of Grand Rapids, Michigan. In addition, the Company operates overseas offices discussed elsewhere herein (see Part 1, Item1). The office and production facility for the Fire Protection Products Group is a 25,000 square-foot, one-story building leased by the Company since 1978 from related parties (see Part III, Item 13, of this report).

The corporate office and production facility for the Company’s Automotive Products Group is a modern, two-story, 150,000 square-foot building of steel and masonry construction situated on a 40-acre site in a well-kept industrial park. A second 128,000 square-foot office/manufacturing facility was completed on this site in 1996. The Company expanded its automotive production facilities by constructing a third 170,000 square-foot facility on its current site which opened in 2000.

In 2002, the Company expanded its manufacturing operations in Zeeland, Michigan, with the construction of a 150,000 square-foot automotive mirror manufacturing facility. During 2003, the Company also announced plans for a new 200,000 square-foot technical office facility linking the fourth manufacturing facility with its existing corporate office and production facility. The Company completed the construction of its fourth automotive manufacturing facility and the new technical center in 2006 at a total cost of approximately $38 million, which was funded from its cash and cash equivalents on hand.

In 2003, the Company also constructed a 40,000 square-foot office, distribution and light manufacturing facility in Erlenbach, Germany, at a cost of approximately $5 million.

In 2006, the Company purchased a 25,000 square-foot office, distribution and light manufacturing facility near Shanghai, China, at a cost of approximately $750,000, which was funded from cash and cash equivalents on hand.

In 2008, the Company expanded its automotive exterior mirror manufacturing facility in Zeeland, Michigan, with the construction of a 60,000 square-foot building addition, which was completed at a cost of approximately $6 million, which was funded from cash and cash equivalents on hand.

In December 2010, the Company purchased, with cash and cash equivalents on hand, an existing 108,000-square-foot electronics manufacturing facility in Holland, Michigan, which is located approximately three miles from its other manufacturing facilities in Zeeland, Michigan. The facility was operational in the first quarter of 2011 and at full capacity in the third quarter of 2011. The total cost to purchase the facility and building improvements was approximately $5 million. In 2012, the Company expanded its electronics assembly facility in Holland, Michigan, with the construction of a 125,000 square-foot expansion. The total cost of the facility expansion was approximately $25 million.

In 2012, the Company expanded its automotive exterior mirror manufacturing facility in Zeeland, Michigan, with the construction of a 32,000 square-foot building addition, which was completed at a cost of approximately $4 million. The Company also in 2012 constructed a 60,000 square-foot chemistry lab facility in Zeeland, Michigan, which was completed as a cost of approximately $11.5 million. These expansion projects were funded from cash and cash equivalents on hand.

In 2011, the Company announced plans for a 120,000 square-foot expansion project connecting two of its manufacturing facilities in Zeeland, Michigan, which is expected to be completed in the first quarter of 2013 with a total estimated cost of approximately $23 million. This project is expected to be funded from current cash and cash equivalents on hand.

In 2012, the Company announced plans for a 10,000 square-foot facility to centralize the production and distribution of chilled water that is used in production, chemistry labs, as well as air conditioning, which is expected to be completed in the second quarter of 2013 with a total cost of $11 million. This project is expected to be funded from current cash and/or cash equivalents on hand.

After the above expansion projects are completed, the Company estimates that it will have building capacity to manufacture approximately 21-23 million interior mirror units annually, based on current product mix. The Company evaluates equipment capacity on an annual basis and adds equipment as needed. In 2012, the Company shipped approximately 18,081,000 interior auto-dimming mirrors.

The Company's automotive exterior mirror manufacturing facility has an estimated building capacity to manufacture approximately 10 million units annually, based on the current product mix. The Company evaluates equipment capacity on an annual basis and adds equipment as needed. In 2012, the Company shipped approximately 5,751,000 exterior auto-dimming mirrors.

The Company believes its existing and planned facilities are currently suitable, adequate, and have the capacity required for current and near-term planned business. However, the Company continues to evaluate longer-term facility needs to support demand for its products. As a result, the Company performed master planning and completed land infrastructure improvements, with a cost of approximately $15 million, at a 140 acre site that the Company currently owns to prepare for its next facility. The timing of new facility construction is still uncertain due to the current volatile economic environment, uncertainty in the automotive industry, as well as uncertainties related to the timing of the ramp up of certain products.

Item 3. Legal Proceedings.

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.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) The Company's common stock trades on The Nasdaq Global Select Market®. As of February 6, 2013, there were 1,785 record-holders of the Company's common stock. Ranges of high and low sale prices of the Company's common stock reported through The Nasdaq Global Select Market for the past two fiscal years appear in the following table.

YEAR	QUARTER	HIGH	LOW
2012	First	31.40	23.22
	Second	25.57	19.36
	Third	22.54	14.38
	Fourth	18.93	15.25
2011	First	35.35	26.17
	Second	32.20	25.97
	Third	31.74	21.84
	Fourth	32.21	22.30

See Item 12 of Part III with respect to "Equity Compensation Plan Summary," which is incorporated herein.

Stock Performance Graph: The following graph depicts the cumulative total return on the Company's common stock compared to the cumulative total return on the Nasdaq Composite Index (all U.S. companies) and the Dow Jones U.S. Auto Parts Index (excluding tire and rubber makers). The graph assumes an investment of $100 on the last trading day of 2007, and reinvestment of dividends in all cases.

In August 2008, the Company's Board of Directors approved a continuing resolution to pay a quarterly dividend at an increased rate of $0.11 per share until the Board takes other action with respect to the payment of dividends. In February 2011, the Company's Board of Directors approved a continuing resolution to pay a quarterly dividend at an increased rate of $0.12 per share until the Board takes other action with respect to the payment of dividends. In February 2012, the Company's Board of Directors approved a continuing resolution to pay a quarterly dividend at an increased rate of $0.13 per share until the Board takes other action with respect to the payment of dividends. In February 2013, The Company's Board of Directors approved a continuing resolution to pay a quarterly dividend at an increased rate of $0.14 per share until the Board takes other action with respect to the payment of dividends. Based on current U.S. income tax laws, the Company intends to continue to pay a quarterly cash dividend and will consider future dividend rate adjustments based on the Company's financial condition, profitability, cash flow, liquidity and other relevant business factors.

(b) Not applicable.

(c) On October 8, 2002, the Company announced a share repurchase plan, under which it may purchase up to 8,000,000 shares (post-split) based on a number of factors, including market 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. 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 8,000,000 shares under the plan. On August 14, 2006, the Company announced that the Company's Board had authorized the repurchase of an additional 8,000,000 shares under the plan. On February 26, 2008, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 4,000,000 shares under the plan. On October 23, 2012, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 4,000,000 shares under the Plan. During 2012, the Company repurchased 1,971,829 shares at a cost of $33,716,725 (none of which occurred in the fourth quarter of 2012). Cumulatively, the Company has repurchased 28,000,000 shares at a cost of $414,617,179 under the Plan. As of December 31, 2012, 4,000,000 shares remain authorized to be repurchased under the Plan. The Company bases its repurchases 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 utilizing "normalized" interest rates; available cash; and other factors that the Company deems appropriate.

The following is a summary of share repurchase activity during 2012:

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 to Be Purchased Under the Plan*
January 2012	—	—	—	1,971,829
February 2012	—	—	—	1,971,829
March 2012	—	—	—	1,971,829
April 2012	—	—	—	1,971,829
May 2012	—	—	—	1,971,829
June 2012	—	—	—	1,971,829
July 2012	400,003	$15.55	400,003	1,571,826
August 2012	1,167,072	$17.27	1,167,072	404,754
September 2012	404,754	$18.13	404,754	—
October 2012	—	—	—	4,000,000
November 2012	—	—	—	4,000,000
December 2012	—	—	—	4,000,000
Total	1,971,829		1,971,829	

* See above paragraph for data on which plan was announced, the total number of shares approved for repurchase under the plan, and the expiration date (if any) of the plan.

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

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

Item 6. Selected Financial Data.

(in thousands, except per share data)

	2012	2011	2010	2009	2008
Net Sales	$1,099,560	$1,023,762	$816,263	$544,523	$623,800
Net Income	168,587	164,668	137,734	64,637	62,088
Earnings Per Share (Fully Diluted)	$1.17	$1.14	$0.98	$0.47	$0.44
Cash Dividends Declared per Common Share	$0.52	$0.48	$0.44	$0.44	$0.43
Total Assets	$1,265,691	$1,176,027	$1,002,691	$822,603	$763,103
Long-Term Debt Outstanding at Year End	$—	$—	$—	$—	$—

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations.

The following table sets forth for the periods indicated certain items from the Company's Consolidated Statements of Income expressed as a percentage of net sales and the percentage change in the dollar amount of each such item from that in the indicated previous year.

	Percentage of Net Sales						Percentage Change			
							2012		2011	
	Year Ended December 31,						To		To	
	2012		2011		2010		2011		2010	
Net Sales	100.0	%	100.0	%	100.0	%	7.4	%	25.4	%
Cost of Goods Sold	66.1		64.7		63.8		9.7		27.2	
Gross Profit	33.9		35.3		36.2		3.1		22.3	
Operating Expenses:										
Engineering, Research and Development	7.7		8.0		7.8		4.1		27.4	
Selling, General and Administrative	4.4		4.7		5.0		(0.4	)	19.6	
Litigation Settlement	0.5		—		—		N/A		—	
Total Operating Expenses:	12.6		12.7		12.8		6.3		24.3	
Operating Income	21.3		22.6		23.4		1.3		21.2	
Other Income/(Expense)	1.4		1.3		1.5		16.1		4.8	
Income Before Provision for Income Taxes	22.7		23.9		24.9		2.1		20.1	
Provision for Income Taxes	7.4		7.8		8.0		1.6		21.4	
Net Income	15.3	%	16.1	%	16.9	%	2.4	%	19.6	%

Results of Operations: 2012 to 2011

Net Sales. Company net sales increased by $75,797,000, or 7% compared to the prior year. Automotive net sales increased by 7% on a 11% increase in auto-dimming mirror shipments, from 21,477,000 (in 2011) to 23,832,000 (in 2012) units, primarily reflecting increased light vehicle production in North America as well as increased penetration of auto-dimming mirrors on 2012 and 2013 model year vehicles. North American auto-dimming mirror unit shipments in 2012 increased by 22% compared to 2011, primarily as a result of increased auto-dimming mirror unit shipments to certain Japanese transplant automakers and to the traditional Big Three automakers. Overseas mirror unit shipments increased by 5% during 2012 compared to 2011, primarily due to increased auto-dimming mirror unit shipments to certain European and Japanese automakers. Other net sales increased 10% compared to the prior year, as dimmable aircraft window sales increased 56% year over year and fire protection sales decreased 5% year over year.

Cost of Goods Sold. As a percentage of net sales, cost of goods sold increased from 64.7% in 2011 to 66.1% in 2012, primarily reflecting annual automotive customer price reductions and product mix, partially offset by purchasing cost reductions. Each negative factor is estimated to have impacted cost of goods sold as a percentage of net sales by approximately 1-2 percentage points.

Operating Expenses. Engineering, research and development expenses increased approximately $3,369,000 from 2011 to 2012, but remained at approximately 8% of net sales. E, R & D expenses increased 4% year over year, primarily due to additional employee hiring for new product development projects and program awards, partially offset by reduced costs associated with outside contract/engineering/development services.

Selling, general and administrative expenses were approximately flat from 2011 to 2012, and declined to 4% of net sales from 5% year-over-year, primarily due to increased overseas office expense, offset by the impact of foreign exchange rates. The impact of foreign exchange rates was approximately three percentage points in 2012 vs. 2011.

During the fourth quarter of 2012, the Company in the ordinary course of business incurred litigation settlement expense of $5,000,000 related to the Company's litigation with American Vehicular Sciences LLC ("AVS"). On June 25, 2012, AVS filed four patent infringement complaints in the United States District Court in the Eastern District of Texas, which named the Company and one of two of its customers as co-defendants. In two of the complaints (#6:12-cv-00413 and #6:12-cv-00406), AVS alleged that the Company's SmartBeam® product infringed one patent owned by AVS. In the other two complaints (#6:12-cv-00410 and #6:12-cv-00415), AVS alleged that the Company's monitoring system products infringe two other patents owned by AVS. The Company was served with the four complaints on July 27, 2012. On October 5, 2012, the Company submitted its answers to all four complaints. On December 28, 2012, in the ordinary course of business, the Company entered into a settlement/license agreement (“agreement”) with AVS, settling all pending litigation. As a result of the agreement, the United States District Court in the Eastern District of Texas has ordered that the Company is dismissed with prejudice as a defendant in the complaints filed by AVS.

Total Other Income/(Expense). Investment income increased $1,141,000 in 2012 vs. 2011, primarily due to increased year-end mutual fund distribution income. Other income – net increased $965,000 in 2012 vs. 2011, primarily due to increased realized gains on the sale of equity investments.

Taxes. The provision for federal income taxes varied from the statutory rate in 2012 primarily due to the domestic manufacturing deduction.

Net Income. Net income increased by $3,919,000, or 2% year over year, primarily due to increased sales and gross profit.

Results of Operations: 2011 to 2010

Net Sales. Company net sales increased by $207,499,000, or 25% compared to the prior year. Automotive net sales increased by 26% on a 26% increase in auto-dimming mirror shipments, from 17,092,000 (in 2010) to 21,477,000 (in 2011) units, primarily reflecting increased light vehicle production in North America and Europe as well as increased penetration of auto-dimming mirrors with electronic content. North American auto-dimming mirror unit shipments in 2011 increased by 26% compared to 2010, primarily as a result of increased auto-dimming mirror unit shipments at the traditional Big Three automakers. Overseas mirror unit shipments increased by 26% during 2011 compared to 2010, primarily due to increased auto-dimming mirror unit shipments to certain European automakers. Other net sales increased 7% compared to the prior year, as dimmable aircraft window sales increased 29% year over year and fire protection sales increased 2% year over year.

Cost of Goods Sold. As a percentage of net sales, cost of goods sold increased from 64% in 2010 to 65% in 2011, primarily reflecting annual automotive customer price reductions, partially offset by the higher sales level leveraged over the fixed manufacturing overhead costs.

Operating Expenses. Engineering, research and development expenses increased approximately $17,534,000 from 2010 to 2011, but remained at 8% of net sales. E, R & D expenses increased 27% year over year, primarily due to additional hiring of employee and outside contract engineering/development services.

Selling, general and administrative expenses increased 20% and approximately $7,960,000, primarily due to the Company’s overseas office expenses, but remained at 5% of net sales. Foreign exchange rates accounted for approximately four percentage points of the increase in selling, general and administrative expenses in 2011 vs. 2010.

Total Other Income/(Expense). Investment income increased $1,264,000 in 2011 vs. 2010, primarily due to increased year-end mutual fund distribution income.

Other income –net decreased $668,000 in 2011 vs. 2010, primarily due to reduced realized gains on the sale of equity investments in calendar year 2011.

Taxes. The provision for federal income taxes varied from the statutory rate in 2011 primarily due to the domestic manufacturing deduction.

Net Income. Net income increased by $26,934,000, or 20% year over year, primarily due to increased sales and gross margin.

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Liquidity and Capital Resources

The Company’s financial condition throughout the periods presented has remained very strong, in spite of the general economic environment (particularly in Europe, which is the Company's largest automotive shipping destination), and conditions in our primary automotive industry which, even though improving in certain regions, have not necessarily fully recovered.

The Company's cash and cash equivalents were approximately $389,679,000, $357,987,000 and $348,350,000 as of December 31, 2012, 2011 and 2010, respectively. The Company's cash and cash equivalents include amounts held by foreign subsidiaries of approximately $6,593,000, $6,095,000 and $4,980,000 as of December 31, 2012, 2011 and 2010, respectively. The funds held by foreign subsidiaries are considered indefinitely reinvested to be used to support operations outside the United States. The Company does not intend to repatriate any foreign cash or cash equivalents in the foreseeable future. These amounts would be subject to possible U.S. taxation only if remitted as dividends.

The Company's current ratio increased from 7.5 as of December 2011, to 8.5 as of December 31, 2012, primarily as a result of an increase in cash and cash equivalents and a decrease in accounts payable, partially offset by a decrease in inventory. The Company's current ratio decreased from 9.1 as of December 31, 2010, to 7.5 as of December 31, 2011, primarily as a result of the increase in accounts payable, partially offset by an increase in inventory.

Cash flow from operating activities were $257,846,000, $141,669,000 and $128,134,000 for the years ended December 31, 2012, 2011, and 2010, respectively. Cash flow from operating activities increased $116,177,000 for the year ended December 31, 2012, compared to the same period last year, primarily due to changes in inventory. Cash flow from operating activities increased approximately $13,535,000 for the year ended December 31, 2011, compared to the same prior year period, primarily due to increased net income, partially offset by changes in working capital. Cash flow from operating activities increased approximately $17,479,000 for the year ended December 31, 2010, compared to the same prior year period, primarily due to increased net income, partially offset by changes in working capital.

Capital expenditures for the year ended December 31, 2012, decreased to $117,474,000, compared to $120,178,000 for the prior year. During 2012, capital expenditures related primarily to building/land improvement related costs and production equipment purchases. Building/land improvement related costs were approximately $74,000,000 of total 2012 capital expenditures.

In light of on-going demand for our auto-dimming mirrors and more complex product mix, the Company currently anticipates that 2013 capital expenditures will be approximately $50-$60 million, a majority of which will be production equipment purchases. 2013 capital expenditures will be financed from current cash and cash equivalents on hand. The Company previously announced the following expansion plans that are still in process. The projects include:

- 120,000 square-foot expansion project connecting two of its manufacturing facilities in Zeeland, Michigan, which is expected to be completed in the first quarter of 2013 with a total estimated cost of approximately $23 million.
- 10,000 square-foot facility to centralize the production and distribution of chilled water that is used in production, chemical labs, as well as air conditioning, which is expected to be completed in the second quarter of 2013 with a total estimated cost of $11 million.

The Company incurred approximately $22 million in facility related costs pertaining to the above projects through 2012. The remaining $10-15 million in facility costs pertaining to the above projects are expected to be incurred in 2013.

Cash and cash equivalents as of December 31, 2012 increased approximately $31,692,000 compared to December 31, 2011, primarily due to cash flow from operations, partially offset by capital expenditures, dividends paid and share repurchases.

Inventories as of December 31, 2012, decreased approximately $28,823,000 compared to December 31, 2011, primarily due to a decrease in raw materials inventory resulting from improved supply chain constraint conditions, and a decrease in finished goods inventory.

Long-term investments as of December 31, 2012, increased approximately $13,666,000 compared to December 31, 2011, primarily due to an increase in unrealized gains in equity investments as a result of current market conditions.
Patents and other assets, net as of December 31, 2012 increased approximately $16,232,000 compared to December 31, 2011, primarily due to obtaining certain intellectual property rights related to certain existing and potential future automotive mirror features and products in the ordinary course of the Company's business (additional details disclosed under "Inflation, Changing Prices and Other").
Accounts payable as of December 31, 2012, decreased approximately $22,271,000 compared to December 31, 2011, primarily due to reduced inventory purchases and capital expenditures.
Management considers the Company's working capital and long-term investments, together with internally generated cash flow and an unsecured $5,000,000 line of credit demand note from a bank, to be sufficient to cover anticipated cash needs for the next year and for the foreseeable future, considering its contractual obligations and other commitments. The following is a summary of the Company's working capital and long-term investments as of December 31, 2012, 2011 and 2010:

	2012	2011	2010
Working Capital	$656,706,000	$651,598,000	$583,181,000
Long Term Investments	$141,834,000	$128,168,000	$129,091,000
Total	798,540,000	779,766,000	712,272,000

On October 8, 2002, the Company announced a share repurchase plan, under which it may purchase up to 8,000,000 shares (post-split) based on a number of factors, including market 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. 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 8,000,000 shares under the plan. On August 14, 2006, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 8,000,000 shares under the plan. On February 26, 2008, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 4,000,000 shares under the plan. On October 23, 2012, the Company announced that the Company's Board of Directors had authorized the repurchase of an additional 4,000,000 shares 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 utilizing “normalized” interest rates; available cash; and other factors that the Company deems appropriate.

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

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

4,000,000 shares remain authorized to be repurchased under the Plan as of December 31, 2012.

Inflation, Changing Prices and Other
The Company generally supplies auto-dimming mirrors and mirrors with advanced electronic features to its customers worldwide under annual blanket purchase orders. In addition, the Company currently supplies auto-dimming mirrors to VW/Audi and Chrysler LLC under long-term agreements, entered into in the ordinary course of business.
During 2012, the Company negotiated a long-term agreement with VW/Audi in the ordinary course of the Company's business. Under the agreement, the Company is the exclusive supplier of all interior and exterior auto-dimming rearview mirror products sourced through December 31, 2018.
The Company had a long-term agreement with Daimler AG (formerly DaimlerChrysler AG) entered into in the ordinary course of the Company's business. Under the agreement, the Company was sourced virtually all interior and exterior auto-dimming mirror business at Mercedes and Chrysler through December 2009. The Company's exterior auto-dimming mirror sub-assemblies are supplied by means of sales to exterior mirror suppliers. During 2007, the Company negotiated an extension to its global supply agreement with Chrysler LLC in the ordinary course of the Company's business. Under the extension, the Company will be sourced virtually all Chrysler interior auto-dimming rearview mirrors through 2015.
The Company previously negotiated a multi-year sourcing agreement with Ford Motor Company in the ordinary course of the Company's business. Under the agreement, the Company was sourced all existing interior auto-dimming rearview mirror programs as well as a number of new interior auto-dimming rearview mirror programs during the agreement term which ended on December 31, 2011. The Company continues to supply Ford on a purchase order basis.
During 2008, the Company negotiated an extension to its long-term agreement with General Motors, in the ordinary course of the Company's business. The agreement term ended on August 1, 2012, and the Company continues to supply General Motors on a purchase order basis.

As a result of the fast ramp-up in global automotive light vehicle production in the second half of 2010 and the continuation through 2011 calendar year, the Company experienced increased costs associated with supply chain constraints on certain automotive-grade electronic components. Although availability of certain automotive-grade components remained tight throughout this period, the Company did experience continued sequential improvement in this area through 2011. However, the March 12, 2011, earthquake and tsunami in Japan added significant stresses on the supply chain, as many electronic components are supplied by Japanese manufacturers who were impacted by the natural disaster. The Company was successful in securing additional quantities of constrained parts to meet anticipated customer demand. In addition, the Company did experience sequential reductions in supply chain-related costs through the balance of calendar year 2011, as supply chain constraints/disruptions were resolved.
Flooding in Thailand as a result of heavy rain and monsoons since late July 2011 resulted in additional supply chain disruptions as production at certain component supplier plants was moved to their plants in other countries, putting certain suppliers outside of Thailand in over-capacity situations. Gaining access to those components and ensuring adequate supply resulted in additional costs to the Company during the fourth quarter of 2011. The Company did experience sequential improvement in this area during the first and second quarters of 2012. The costs associated with these particular supply chain constraints/disruptions have, it appears, been resolved, barring another natural disaster impacting the supply chain. To date, the supply chain related issues the Company has experienced have not disrupted deliveries to customers, but the Company continues to apply measures to ensure adequate supply of certain automotive-grade components.
As periodically disclosed, the Company believes that its patents and trade secrets provide it with a competitive advantage. The Company has also previously discussed that fact that claims of infringement could be costly, time-consuming, and divert the attention of management and key personnel from other business issues. To that end, and as previously disclosed, during the third quarter of 2012 the Company has been able to, in the ordinary course of business, obtain certain intellectual property rights related to certain existing and potential future automotive mirror features and products that will decrease potential risks of infringement. These rights are included on the Balance Sheet under the category "Patents and other assets-net". As part of obtaining the above-referenced intellectual property

rights, the Company has also agreed to royalty payments based on shipments of automotive mirror products incorporating certain mirror features. Amortization expense associated with these rights and the

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royalty payments are currently expected to negatively impacts the gross profit margin by approximately 35 basis points on an annualized basis going forward at least in the near term (though the impact over a ten-year period is not certain). The Company's business is not substantially and materially dependent upon the obtained intellectual property rights.

As previously disclosed, on June 25, 2012, American Vehicular Sciences LLC ("AVS") filed four patent infringement complaints in the United States District Court in the Eastern District of Texas, which named the Company and one of two of its customers as co-defendants. In two of the complaints (#6:12-cv-00413 and #6:12-cv-00406), AVS alleged that the Company's SmartBeam® product infringed one patent owned by AVS. In the other two complaints (#6:12-cv-00410 and #6:12-cv-00415), AVS alleged that the Company's monitoring system products infringe two other patents owned by AVS. The Company was served with the four complaints on July 27, 2012. On October 5, 2012, the Company submitted its answers to all four complaints.

On December 28, 2012, in the ordinary course of business, the Company entered into a settlement/license agreement ("agreement") with AVS, settling all pending litigation. The cost associated with the agreement was accrued by the Company and reflected in its financial results as of December 31, 2012. As a result of the agreement, the United States District Court in the Eastern District of Texas has ordered that the Company is dismissed with prejudice as a defendant in the complaints filed by AVS.

The Company utilizes the light vehicle production forecasting services of IHS Worldwide, and IHS current forecasts for light vehicle production for the first quarter of 2013 are approximately 3.9 million units for North America, 4.7 million for Europe and 3.3 million for Japan and Korea. Current forecasts for light vehicle production for calendar 2013 are approximately 15.9 million units for North America, 18.6 million for Europe and 12.7 million for Japan and Korea.

The Company currently estimates that top line revenue will decrease approximately 5-10% in the first quarter of 2013 compared with the same period in 2012 based on the current IHS worldwide forecast for current light vehicle production levels, our anticipated product mix, as well as our 12-week customer release schedule. 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; supplier part shortages; automotive plant shutdowns; sales rates in Europe, Asia and North America; deteriorating macroeconomic environment (especially in Europe); 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, make forecasting difficult. The Company also continues to experience increasing volatility with customer orders within its twelve-week customer release window with some customers (including Tier 1 mirror suppliers) revising orders at the last minute. Due to significant uncertainties with global vehicle production volumes, it is an extremely difficult environment to forecast, and as a result, the Company is not providing revenue estimates beyond the first quarter of 2013 at this time.

The Company also estimates that engineering, research and development expenses are currently expected to decrease approximately 10% in the first quarter of 2013 compared with the same period in 2012, primarily due to reduced costs related to outside contract engineering/development services. In addition, the Company estimates that selling, general and administrative expenses are currently expected to be approximately flat in the first quarter of 2013 compared with the same period in 2012 (this estimate is based on stable foreign exchange rates).

Based on the current IHS forecast for light vehicle production levels for the entire 2013 year, the Company currently estimates that SmartBeam® and driver-assist unit shipments will increase approximately 10-15% in calendar year 2013 compared with calendar year 2012, based on anticipated product mix and estimated take rates.

Based on the current IHS forecast for light vehicle production levels for the entire 2013 year, the Company currently estimates that RCD Mirror unit shipments will decrease approximately 25-35% in calendar year 2013 compared with calendar year 2012, based on anticipated current product mix and estimated take rates. This guidance incorporates estimated reduced shipments to four automotive customers that have previously notified the Company of their plans to have the primary display for rear camera video in a radio display in the vehicle's center console instead of the interior rearview mirror as previously disclosed. The Company's RCD Mirror unit shipments are expected to be impacted by these changes initially with two customers in calendar year 2013 and with two additional customers beginning in calendar year 2014, with the transitions occurring over multiple years.

The Company does not have any significant off-balance sheet arrangements or commitments that have not been recorded in its Consolidated Financial Statements. See the Contractual Obligations and Other Commitments below.

Market Risk Disclosure
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 adjustments on available-for-sale securities (mark-to-market adjustments).
The Company has some assets, liabilities and operations outside the United States, including a Euro denominated account, which currently are not significant overall to the Company as a whole. Because the Company sells its automotive mirrors throughout the world and automobile manufacturing is highly dependent on general economic conditions, it could be significantly affected by weak economic conditions in foreign markets that could reduce demand for its products.
Most of the Company’s non-U.S. sales are invoiced and paid in U.S. dollars; during 2012, approximately 8% of the Company’s net sales were invoiced and paid in foreign currencies (compared to 9% for 2011 and 8% for 2010). The Company currently expects that approximately 7% of the Company’s net sales in 2013 will be invoiced and paid in foreign currencies. The Company does not currently engage in hedging activities.
The Company manages interest rate risk and default risk in its fixed-income investment portfolio by investing in shorter-term maturities and investment grade issues. The Company’s fixed-income investments’ maturities at fair value (000,000) and average interest rates are as follows:

					Total Balance as of December 31,	
	2013	2014	2015	2016	2012	2011
U.S. Government						
Amount	$15.0	—	—	—	$15.0	$25.0
Average Interest Rate	0.2 %	—	—	—	0.2 %	0.2 %
Government Agency						
Amount	$38.5	—	—	—	$38.5	$35.0
Average Interest Rate	0.2 %	—	—	—	0.2 %	0.3 %
Certificates of Deposit						
Amount	$0.5	—	—	—	$0.5	$0.5
Average Interest Rate	2.6 %	—	—	—	2.6 %	2.6 %
Corporate Bonds						
Amount	$6.5	$2.2	—	—	$8.7	0.6
Average Interest Rate	1.6 %	1.7 %	—	—	1.6 %	1.9 %
Other						
Amount	$0.2		—	—	$0.2	$0.1
Average Interest Rate	0.1 %		—	—	0.1 %	0.2 %

Most of the Company’s equity investments are managed by a number of outside equity fund managers who invest primarily in large capitalization companies on the U.S. stock markets:

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Contractual Obligations and Other Commitments

The Company had the following contractual obligations and other commitments (000,000) as of December 31, 2012 .

	Total	Less than 1 Year	1-3 Years	After 3 Years
Short-term debt	$—	$—	$—	$—
Long-term debt	—	—	—	—
Operating leases	2.1	1.4	0.7	—
Purchase obligations	94.9	94.8	0.1	—
Dividends payable	18.6	18.6	—	—
Total	$115.6	$114.8	$0.8	$—

Purchase obligations are primarily for inventory parts and capital equipment.

Critical Accounting Policies.

The preparation of the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, requires management to make estimates, assumptions and apply judgments that affect its' financial position and results of operations. On an ongoing basis, management evaluates these estimates and assumptions. Management also continually reviews its' accounting policies and financial information disclosures.

The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements. The policies described below represent those that are broadly applicable to its operations and involve additional management judgment due to the sensitivity of the methods, assumptions and estimates necessary in determining the related amounts.

Revenue Recognition. The Company recognizes revenue in accordance with ASC 820, Revenue Recognition in Financial Statements. Accordingly, revenue is recognized based on the terms of the customer purchase order that indicates title to the product and risk of ownership passes to the customer upon shipment. Sales are shown net of returns, which have not historically been significant. The Company does not generate sales from sale arrangements with multiple deliverables.

Accounts Receivable. The Company reviews a monthly aging report of all accounts receivable balances starting with invoices outstanding over sixty days. In addition, the Company monitors information about its customers through a variety of sources including the media, and information obtained through on-going interaction between Company personnel and the customer. Based on the evaluation of the above information, the Company estimates its allowances related to customer receivables on historical credit and collections experience, customers current financial condition and the specific identification of other potential problems, including the economic climate. Actual collections can differ, requiring adjustments to the allowances, but such adjustments have not, historically, been material.

Inventories. Estimated inventory allowances for slow-moving and obsolete inventories are based on current assessments of future demands, market conditions, evaluation of longer lead times for certain electronic components and related management initiatives. If market conditions or customer requirements change and are less favorable than those projected by management, inventory allowances are adjusted accordingly.

Investments. The Company's internal investment committee regularly reviews its fixed income and equity investment portfolio for any unrealized losses that would be deemed other-than-temporary and require the recognition of an impairment loss in income. If the cost of an investment exceeds its fair value, the Company evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and the Company's intent and ability to hold the investment. Management also considers the type of security, related industry, 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 continue to deteriorate, the Company may incur future impairments.

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Self Insurance. The Company is self-insured for health and workers' compensation benefits up to certain stop-loss limits. Such costs are accrued based on known claims and an estimate of incurred, but not reported (IBNR) claims. IBNR claims are estimated using historical lag information and other data provided by claims administrators. This estimation process is subjective, and to the extent that future results differ from original estimates, adjustments to recorded accruals may be necessary.
Income Taxes. The Company applies the provisions of ASC 740 as it relates to uncertainty in income taxes recognized in the Company's consolidated financial statements. A threshold of more likely than not to be sustained upon examination is applied to uncertain tax positions. The Company deems the estimates related to this provision to be reasonable, however, no assurance can be given that the final outcome of these matters will not vary from what is reflected in the historical income tax provisions and accruals.
Stock-Based Compensation. Effective January 1, 2006, the Company accounts for stock-based compensation in accordance with the fair value recognition provisions of ASC 718. The Company utilizes the Black-Scholes model, which requires the input of subjective assumptions. These assumptions include estimating (a) the length of time employees will retain their vested stock options before exercising them ("expected term"), (b) the volatility of the Company's common stock price over the expected term, (c) the number of options that will ultimately not complete their vesting requirements ("forfeitures") and (d) expected dividends. Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amounts recognized on the consolidated condensed statements of operations.
See also Item 13 of Part III with respect to "Certain Transactions", which is incorporated herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.
See "Market Risk Disclosure" in Management's Discussion and Analysis (Item 7).

Item 8. Financial Statements and Supplementary Data.
The following financial statements and reports of independent registered public accounting firm are filed with this report as pages 37 through 59 following the signature page:
Report of Independent Registered Public Accounting Firm
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting
Consolidated Balance Sheets as of December 31, 2012 and 2011
Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010
Consolidated Statement of Comprehensive Income for the years ended December 31, 2012 , 2011, and 2010
Consolidated Statement of Shareholders' Investment for the years ended December 31, 2012, 2011 and 2010
Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010
Notes to Consolidated Financial Statements
Selected quarterly financial data for the past two years appears in the following table:

Quarterly Results of Operations
(in thousands, except per share data)

	First		Second		Third		Fourth	
	2012	2011	2012	2011	2012	2011	2012	2011
Net Sales	$290,707	$250,946	$280,256	$243,002	$268,248	$269,468	$260,349	$260,347
Gross Profit	100,826	90,317	92,757	85,625	90,116	95,285	89,119	90,354
Operating Income	65,501	60,091	57,512	53,247	57,623	62,247	53,819	55,783
Net Income	46,345	42,333	40,767	38,472	41,877	43,397	39,599	40,466
Earnings Per Share*	$0.32	$0.29	$0.28	$0.27	$0.29	$0.30	$0.28	$0.28

*Diluted

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
As defined in Item 304 of Regulation S-K, there have been no changes in, or disagreements with, accountants during the 24-month period ended December 31, 2012.

Item 9A. Controls and Procedures.
Disclosure Controls and Procedures.
As of December 31, 2012, an evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures [(as defined in Exchange Act Rules 13a – 15(e) and 15d – 15(e)]. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were adequate and effective as of December 31, 2012, to ensure that material information relating to the Company would be made known to them by others within the Company, particularly during the period in which this Form 10-K was being prepared.
Management's Report on Internal Control Over Financial Reporting.
Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Framework – Integrated Framework our management concluded that our internal control over financial reporting was effective as of December 31, 2012. The effectiveness of the Company's internal control over financial reporting as of December 31, 2012, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included on page 37 hereof. During the period covered by this annual report, there have been no changes in the Company's internal controls over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to December 31, 2012.

Item 9B. Other Information.
None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Executive Officers of the Registrant.

The following table lists the names, ages, and positions of all of the Company's executive officers. Officers are generally elected at the meeting of the Board of Directors following the annual meeting of shareholders.

NAME	AGE	POSITION	POSITION HELD SINCE
Fred Bauer	70	Chief Executive Officer	May 1986
Mark Newton	53	Senior Vice President	August 2010
Bruce Los	57	Senior Vice President	February 2012
Steve Dykman	47	Vice President, Finance and Treasurer	January 2007
Paul Flynn	48	Vice President, Operations	January 2012

There are no family relationships among the officers listed in the preceding table.

Except for the executive officers discussed below, all other executive officers have held their current position with the Company for more than five years.

Mark Newton had previously served as Senior Vice President, Electronics, Purchasing and North American Sales since August 2009, as Senior Vice President, Electrical Engineering and Purchasing since June 2008, as Vice President, Purchasing and Advanced Technology since July 2007, as Vice President Purchasing and Photonics since July 2006, as Photonics Engineering Manager since July 2005 and joined the Company as Advanced Lighting Developer in August 2004. Mr. Newton became an executive officer of the Company on January 1, 2008.

Bruce Los joined the Company as Vice President, Human Resources in December 2003 and became an executive officer and Senior Vice President of the Company on February 16, 2012.

Paul Flynn had previously served as Director of Test and Manufacturing Systems since April 2011, as Manager of Electrical Testing and Microelectronics since October 2008, as Microelectronics Production Manager since September 2005, as Production Department Manager since April 2001 and joined the Company as a Production Group Leader in April 1996. Mr. Flynn became an executive officer of the Company on November 15, 2012.

Information relating to directors appearing under the caption "Election of Directors" in the definitive Proxy Statement for 2013 Annual Meeting of Shareholders and filed with the Commission within 120 days after the Company's fiscal year end, December 31, 2012 (the "Proxy Statement"), is hereby incorporated herein by reference. No changes were made to the procedures by which shareholders may recommend nominees for the Board of Directors. Information concerning compliance with Section 16(a) of the Securities and Exchange Act of 1934 appearing under the caption "Section 16(A) Beneficial Ownership Reporting Compliance" in the definitive Proxy Statement is hereby incorporated herein by reference. Information relating to the Company's Audit Committee and concerning whether at least one member of the Audit Committee is an "audit committee financial expert" as that term is defined under Item 407(d)(5) of Regulation S-K appearing under the caption "Corporate Governance – Audit Committee" in the definitive Proxy Statement is hereby incorporated by reference.

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, and principal accounting officer. A copy of the Code of Ethics for Certain Senior Officers is available without charge, upon written request, from the Corporate Secretary of the Company, 600 N. Centennial Street, Zeeland, Michigan 49464 and the Company's website. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Ethics by posting such information on its website. Information contained in the Company's website, whether currently posted or posted in the future, is not part of this document or the documents incorporated by reference in this document.

Item 11. Executive Compensation.

The information contained under the caption “Compensation Committee Report,” “Compensation Discussion and Analysis,” “Executive Compensation,” “Director Compensation,” and “Compensation Committee Interlocks and

Insider Participation" contained in the definitive Proxy Statement is hereby incorporated herein by reference. The "Compensation Committee Report" shall not be deemed to be soliciting material or to be filed with the commission.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information contained under the captions "Common Stock Ownership of Management," "Common Stock Ownership of Certain Beneficial Owners," and "Equity Compensation Plan Summary" contained in the definitive Proxy Statement is hereby incorporated herein by reference. There are no arrangements known to the registrant, the operation of which may at a subsequent date result in a change in control.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information contained under the caption "Certain Transactions" contained in the definitive Proxy Statement is hereby incorporated herein by reference. The information contained under the caption "Election of Directors" contained in the definitive Proxy Statement is hereby incorporated by reference.

Item 14. Principal Accounting Fee and Services.

Information regarding principal accounting fees and services set forth under the caption "Ratification of Appointment of Independent Auditors – Principal Accounting Fees and Services" in the definitive Proxy Statement is hereby incorporated herein by reference. Information concerning the policy adopted by the Audit Committee regarding the pre-approval of audit and non-audit services provided by the Company's independent auditors set forth under the caption "Corporate Governance – Audit Committee" in the definitive Proxy Statement is hereby incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) 1. Financial Statements. See Part II, Item 8.
2. Financial Statements Schedules. None required or not applicable.
3. Exhibits. See Exhibit Index located on page 60.

(b) See (a) above.
(c) See (a) above.

SIGNATURES

Pursuant to the requirements of Section 13 of 15(d) 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	
By:	/s/ Steven Dykman Steven Dykman, Vice President-Finance and Treasurer
Date:	February 20, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on this 20th day of February, 2013, by the following persons on behalf of the registrant and in the capacities indicated.

By:	/s/ Fred Bauer Fred Bauer, Chairman and Chief Executive Officer (Principal Executive Officer) on behalf of Gentex Corporation
By:	/s/ Steven Dykman Steven Dykman, Vice President-Finance and Treasurer (Principal Financial Officer and Principal Accounting Officer) on behalf of Gentex Corporation

Each Director of the registrant whose signature appears below hereby appoints Steve Dykman, as his attorney-in-fact to sign in his name and on his behalf, and to file with the Commission any and all amendments to this report on Form 10-K to the same extent and with the same effect as if done personally.

/s/ Fred Bauer Fred Bauer	Director
/s/ Gary Goode Gary Goode	Director
/s/ Arlyn Lanting Arlyn Lanting	Director
/s/ John Mulder John Mulder	Director
/s/ Mark Newton Mark Newton	Director
/s/ Richard Schaum Richard Schaum	Director
/s/ Fred Sotok Fred Sotok	Director
/s/ Wallace Tsuha Wallace Tsuha	Director
/s/ James Wallace James Wallace	Director

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Gentex Corporation:

We have audited the accompanying consolidated balance sheets of Gentex Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, shareholders' investment and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gentex Corporation and subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United Stated), Gentex Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Grand Rapids, Michigan
February 20, 2013

31%

Corporate generated F&I

0.3 (0.4) 0.7 175%

Finance and insurance, net as reported

$30.4 $22.5 $7.9 35%

Dealership generated light vehicle F&I per vehicle sold same store(1) (2)

$1,005 $860 $145 17%

Dealership generated F&I per vehicle sold same store(1) (2)

$983 $839 $144 17%

Light vehicle F&I per vehicle sold same store(1)

$1,015 $844 $171 20%

Heavy truck F&I per vehicle sold

$131 $ $131 %

F&I per vehicle sold same store(1)

$993 $824 $169 21%

(1) Same store information consists of amounts from dealerships for the identical months of each period presented in the comparison, commencing with the first full month in which an applicable dealership was owned by us.

(2) Dealership generated F&I per vehicle sold excludes Corporate generated F&I.

We evaluate our dealership generated F&I performance on a per vehicle sold basis by dividing dealership generated F&I gross profit by the number of vehicles sold during the period. We also evaluate F&I gross profit from our portfolio of consumer loans, as well as any gains related to the sale of our remaining interest in certain contracts (collectively, Corporate generated F&I). Beginning in 2009, we discontinued issuing new consumer loans for the purchase of used vehicles and began managing the wind-down of our then-existing loan portfolio, which totaled $5.5 million as of June 30, 2010.

F&I increased $7.9 million (35%) during the second quarter of 2010 as compared to 2009, due to (i) a 12% increase in same store light vehicle retail unit sales and (ii) a 17% increase in same store dealership generated light vehicle F&I per vehicle sold. The increase in dealership generated F&I per vehicle sold was primarily attributable to (a) less stringent lending standards and other market factors in the second quarter of 2010, which allowed more of our customers to take advantage of a broader array of finance and insurance products, (b) our continued focus on improving the F&I results at our lower-performing stores by increasing the training of our F&I personnel and implementing certain best practices initiatives, including a certification process for our F&I personnel, and (c) continuing to refine and enhance the menu of products we offer our customers.

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Selling, General and Administrative

	For the Three Months Ended June 30,					% of Gross Profit
	2010	% of Gross Profit	2009	% of Gross Profit	Increase (Decrease)	Increase (Decrease)
			(Dollars in millions)			
Personnel costs	$ 64.7	36.8%	$ 62.0	39.9%	$ 2.7	(3.1%)
Sales compensation	17.3	9.8%	14.5	9.3%	2.8	0.5%
Share-based compensation	1.2	0.7%	(0.5)	(0.3%)	1.7	1.0%
Outside services	12.9	7.3%	13.3	8.6%	(0.4)	(1.3%)
Advertising	8.2	4.7%	7.4	4.8%	0.8	(0.1%)
Rent	10.5	6.0%	10.0	6.4%	0.5	(0.4%)
Utilities	3.7	2.1%	3.7	2.4%		(0.3%)
Insurance	3.2	1.8%	2.4	1.5%	0.8	0.3%
Other	12.9	7.3%	12.3	7.9%	0.6	(0.6%)
Selling, general and administrative same store(1)	134.6	76.5%	125.1	80.5%	9.5	(4.0%)
Acquisitions						
Selling, general and administrative actual	$ 134.6	76.5%	$ 125.1	80.5%	$ 9.5	(4.0%)
Gross Profit same store(1)	$ 175.9		$ 155.4			
Gross Profit actual	$ 175.9		$ 155.4			

(1) Same store information consists of amounts from dealerships for the identical months of each period presented in the comparison, commencing with the first full month in which an applicable dealership was owned by us.

Same store SG&A expense as a percentage of gross profit was 76.5% for the second quarter of 2010, as compared to 80.5% for the second quarter of 2009. The 400 basis point decrease was primarily a result of a 310 basis point decrease in personnel costs as a result of leveraging our fixed expenses, restructuring costs incurred in the second quarter of 2009 and lower fixed compensation expense resulting from the elimination of our regional management structure and staffing reductions. We are also currently engaged in numerous store-level productivity initiatives to improve our profitability, including the transition to a common dealership management system and the consolidation of certain dealership accounting functions.

Other Operating Income

Other operating income includes gains and losses from the sale of property and equipment, income derived from lease arrangements and other non-core operating items. During the three months ended June 30, 2010, we reached an agreement with one of our tenants and received $1.7 million in exchange for a termination of the related leases. As a result of this agreement, we expect other operating income to be reduced by approximately $0.6 million during the second half of 2010. The $1.7 million of rental income during the three months ended June 30, 2010 was offset by approximately $1.7 million of losses from the impairment of property and equipment and other non-core operating items.

Floor Plan Interest Expense

The $0.6 million (13%) decrease in floor plan interest expense was attributable to a lower average balance of new vehicle inventory and the lower short-term interest rate environment. Additionally, during the first half of 2010, we used excess cash to repay approximately $67.0 million of floor plan notes payable using floor plan offset accounts with certain of our floor plan lenders, effectively lowering our average floor plan notes payable balance during the three months ended June 30, 2010 when compared to the prior year period.

Other Interest Expense

The $0.4 million (4%) increase in other interest expense was primarily attributable to (i) increased loaner vehicle notes payable and (ii) increased fees associated with our revolving credit facility.

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Income Tax Expense

The $4.5 million increase in income tax expense was primarily a result of the $11.6 million increase in income before income taxes in the second quarter of 2010 as compared to the second quarter of 2009. Our effective tax rate increased from 38.3% for the 2009 period to 38.6% for the 2010 period. The 30 basis point increase was primarily the result of a reduction of certain tax reserves during the second quarter of 2009. Our effective tax rate is highly dependent on our level of income before income taxes and permanent differences between book and tax income. As a result, it is difficult to project our overall effective tax rate for any given period. Excluding the impact of permanent differences between book and tax income and based upon our current expectation of 2010 income before income taxes, we expect our effective income tax rate will be between 38% and 40% for 2010.

Discontinued Operations

The $0.9 million, net of tax, net loss from discontinued operations during the second quarter of 2010 consists of rent and other expenses of idle facilities and legal expenses associated with franchises sold prior to June 30, 2010.

The $1.1 million, net of tax, net loss from discontinued operations during the second quarter of 2009 is a result of (i) $2.0 million of net operating losses of franchises sold prior to June 30, 2010, including rent, legal and other expenses of idle facilities and (ii) $0.9 million, net of tax, of costs associated with a lease termination, partially offset by a $1.8 million, net of tax, gain on the sale of one franchise (one dealership location).

We continuously evaluate the financial and operating results of our dealerships, as well as each dealership s geographical location, and may continue to refine our dealership portfolio through strategic divestitures from time to time.

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RESULTS OF OPERATIONS

Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009

	For the Six Months Ended June 30,			
	2010	2009	Increase (Decrease)	% Change
	(Dollars in millions, except per share data)			
REVENUES:				
New vehicle	$ 1,118.6	$ 949.7	$ 168.9	18%
Used vehicle	539.7	450.4	89.3	20%
Parts and service	310.8	317.5	(6.7)	(2%)
Finance and insurance, net	56.5	43.1	13.4	31%
Total revenues	2,025.6	1,760.7	264.9	15%
GROSS PROFIT:				
New vehicle	74.8	61.7	13.1	21%
Used vehicle	46.9	39.7	7.2	18%
Parts and service	161.2	156.8	4.4	3%
Finance and insurance, net	56.5	43.1	13.4	31%
Total gross profit	339.4	301.3	38.1	13%
OPERATING EXPENSES:				
Selling, general and administrative	264.2	246.3	17.9	7%
Depreciation and amortization	11.3	11.8	(0.5)	(4%)
Other operating income, net	(0.8)	(0.8)		%
Income from operations	64.7	44.0	20.7	47%
OTHER EXPENSE:				
Floor plan interest expense	(8.1)	(9.5)	(1.4)	(15%)
Other interest expense	(18.9)	(19.0)	(0.1)	(1%)
Convertible debt discount amortization	(0.8)	(0.9)	(0.1)	(11%)
Interest income	0.1	0.1		%
Total other expense, net	(27.7)	(29.3)	(1.6)	(5%)
Income before income taxes	37.0	14.7	22.3	152%
INCOME TAX EXPENSE	14.3	5.5	8.8	160%
INCOME FROM CONTINUING OPERATIONS	22.7	9.2	13.5	147%
DISCONTINUED OPERATIONS, net of tax	(2.5)	(3.4)	0.9	26%
NET INCOME	$ 20.2	$ 5.8	$ 14.4	248%
Income from continuing operations per common share Diluted	$ 0.69	$ 0.28	$ 0.41	146%
Net income per common share Diluted	$ 0.62	$ 0.18	$ 0.44	244%

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	For the Six Months Ended June 30, 2010	2009
REVENUE MIX PERCENTAGES:		
New light vehicles	51.3%	49.9%
New heavy trucks	3.9%	4.0%
Used light vehicle retail	21.4%	20.5%
Used heavy truck retail	0.2%	0.4%
Used light vehicle wholesale	5.0%	4.7%
Used heavy truck wholesale	0.1%	0.1%
Parts and service light vehicle	13.7%	16.3%
Parts and service heavy truck	1.7%	1.7%
Finance and insurance, net light vehicle	2.7%	2.4%
Finance and insurance, net heavy truck	%	%
Total revenue	100.0%	100.0%
GROSS PROFIT MIX PERCENTAGES:		
New light vehicles	21.1%	19.5%
New heavy trucks	0.9%	1.0%
Used light vehicle retail	14.2%	13.5%
Used heavy truck retail	(0.1%)	(0.3%)
Used light vehicle wholesale	0.1%	0.3%
Used heavy truck wholesale	(0.1%)	(0.3%)
Parts and service light vehicle	44.5%	48.8%
Parts and service heavy truck	3.0%	3.2%
Finance and insurance, net light vehicle	16.4%	14.3%
Finance and insurance, net heavy truck	%	%
Total gross profit	100.0%	100.0%
SG&A EXPENSES AS A PERCENTAGE OF GROSS PROFIT	77.8%	81.7%

Net income and income from continuing operations increased $14.4 million and $13.5 million, respectively, during the six months ended June 30, 2010 as compared to the six months ended June 30, 2009, primarily as a result of (i) a $38.1 million (13%) increase in gross profit, (ii) a 390 basis point decrease in SG&A expenses as percentage of gross profit and (iii) a $1.4 million (15%) decrease in floor plan interest expense. Our loss from discontinued operations decreased $0.9 million (26%), net of tax, during the six months ended June 30, 2010 as compared to the six months ended June 30, 2009, primarily related to a decrease in the number of dealerships included in discontinued operations during the six months ended June 30, 2010 as compared to the six months ended June 30, 2009.

The $13.5 million increase in income from continuing operations was primarily the result of increased gross profit across all four of our business lines in the 2010 period. The $38.1 million (13%) increase in total gross profit was primarily a result of a $13.1 million (21%) increase in new vehicle gross profit, a $13.4 million (31%) increase in F&I gross profit and a $7.2 million (18%) increase in used vehicle gross profit. Our total gross profit margin decreased 30 basis points to 16.8%, principally as a result of a mix shift to our lower margin new and used vehicle businesses. Our total light vehicle gross profit margin decreased 50 basis points to 17.1%.

The $264.9 million (15%) increase in total revenue was primarily a result of a $168.9 million (18%) increase in new vehicle revenue and an $89.3 million (20%) increase in used vehicle revenue. The increase in new vehicle revenue includes a $160.2 million (18%) increase in same store light vehicle revenue and an $8.7 million (12%) increase in heavy truck revenue. The increase in used vehicle revenue includes a $73.9 million (21%) increase in same store light vehicle retail revenue and a $17.9 million (22%) increase in same store light vehicle wholesale revenue.

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New Vehicle

	For the Six Months Ended June 30, 2010	2009	Increase (Decrease)	% Change
	(Dollars in millions)			
Revenue:				
New vehicle revenue same store(1)				
Luxury	$ 378.5	$ 310.9	$ 67.6	22%
Mid-line import	499.2	434.7	64.5	15%
Mid-line domestic	146.3	123.7	22.6	18%
Value	14.8	9.3	5.5	59%
Total new light vehicle revenue same store(1)	1,038.8	878.6	160.2	18%
Heavy truck	79.8	71.1	8.7	12%
Total new vehicle revenue same store(1)	1,118.6	949.7	168.9	18%
New vehicle revenue acquisitions				
Total new vehicle revenue, as reported	$ 1,118.6	$ 949.7	$ 168.9	18%
Gross profit:				
New vehicle gross profit same store(1)				
Luxury	$ 29.4	$ 21.9	$ 7.5	34%
Mid-line import	31.1	28.1	3.0	11%
Mid-line domestic	10.7	8.0	2.7	34%
Value	0.5	0.7	(0.2)	(29%)
Total new light vehicle gross profit same store(1)	71.7	58.7	13.0	22%
Heavy truck	3.1	3.0	0.1	3%
Total new vehicle gross profit same store(1)	74.8	61.7	13.1	21%
New vehicle gross profit acquisitions				
Total new vehicle gross profit, as reported	$ 74.8	$ 61.7	$ 13.1	21%

	For the Six Months Ended June 30, 2010	2009	Increase (Decrease)	% Change
New vehicle units:				
New vehicle retail units same store(1)				
Luxury	7,859	6,712	1,147	17%
Mid-line import	19,789	17,521	2,268	13%
Mid-line domestic	3,843	3,650	193	5%
Value	705	423	282	67%
Total new light vehicle retail units same store(1)	32,196	28,306	3,890	14%
Fleet vehicles	1,289	1,200	89	7%
Total new light vehicle units same store(1)	33,485	29,506	3,979	13%
Heavy truck	1,710	1,092	618	57%

Total new vehicle units same store(1)	35,195	30,598	4,597	15%
Total new vehicle units acquisitions				
New vehicle units actual	35,195	30,598	4,597	15%
Total new light vehicle units same store(1)	33,485	29,506	3,979	13%
Total new light vehicle units acquisitions				
Total new light vehicle units	33,485	29,506	3,979	13%

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New Vehicle Metrics

	For the Six Months Ended June 30, 2010	2009	Increase (Decrease)	% Change
Revenue per new light vehicle sold same store(1)	$ 31,023	$ 29,777	$ 1,246	4%
Revenue per new heavy truck sold	$ 46,667	$ 65,110	$ (18,443)	(28%)
Revenue per new vehicle sold same store(1)	$ 31,783	$ 31,038	$ 745	2%
Gross profit per new light vehicle sold same store(1)	$ 2,141	$ 1,989	$ 152	8%
Gross profit per new heavy truck sold	$ 1,813	$ 2,747	$ (934)	(34%)
Gross profit per new vehicle sold same store(1)	$ 2,125	$ 2,016	$ 109	5%
New light vehicle gross margin same store(1)	6.9%	6.7%	0.2%	3%
New heavy truck gross margin	3.9%	4.2%	(0.3%)	(7%)
New vehicle gross margin same store(1)	6.7%	6.5%	0.2%	3%

(1) Same store information consists of amounts from dealerships for the identical months of each period presented in the comparison, commencing with the first full month in which an applicable dealership was owned by us.

The $168.9 million (18%) increase in new vehicle revenue was primarily the result of a $160.2 million (18%) increase in same store light vehicle revenue due to a 14% increase in same store light vehicle retail unit sales and a 4% increase in revenue per new light vehicle sold. We believe that our increase in new vehicle retail unit sales was primarily driven by a favorable comparison with an overall weak economic environment during the six months ended June 30, 2009, as well as increased consumer confidence, less stringent consumer lending standards and financing incentive programs by certain manufacturers. Unit volumes increased across each of our brand segments, consistent with overall U.S. vehicle sales. New vehicle SAAR increased to 11.1 million for the first half of 2010 as compared to 9.6 million for the first half of 2009.

The $13.1 million (21%) increase in new vehicle gross profit was due to a $13.0 million (22%) increase in same store light vehicle gross profit, resulting from a 14% increase in same store light vehicle retail unit sales and a 20 basis point (3%) increase in same store light vehicle gross margin. We experienced significant increases in gross profit across all of our major light vehicle brands, and a slight increase in gross profit from our heavy truck brands.

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Used Vehicle

	For the Six Months Ended June 30, 2010	2009	Increase (Decrease)	% Change
	(Dollars in millions, except for per vehicle data)			
Revenue:				
Used vehicle retail revenues same store(1)				
Light vehicles	$ 432.9	$ 359.0	$ 73.9	21%
Heavy truck	4.7	7.2	(2.5)	(35%)
Total used vehicle retail revenues same store(1)	437.6	366.2	71.4	19%
Used vehicle retail revenues acquisitions				
Total used vehicle retail revenues	437.6	366.2	71.4	19%
Used vehicle wholesale revenues same store(1)				
Light vehicles	101.0	83.1	17.9	22%
Heavy truck	1.1	1.1		%
Total used vehicle wholesale revenues same store(1)	102.1	84.2	17.9	21%
Used vehicle wholesale revenues acquisitions				
Total used vehicle wholesale revenues	102.1	84.2	17.9	21%
Used vehicle revenue, as reported	$ 539.7	$ 450.4	$ 89.3	20%
Gross profit:				
Used vehicle retail gross profit same store(1)				
Light vehicles	$ 47.1	$ 40.6	$ 6.5	16%
Heavy truck	(0.3)	(0.8)	0.5	63%
Total used vehicle retail gross profit same store(1)	46.8	39.8	7.0	18%
Used vehicle retail gross profit acquisitions				
Total used vehicle retail gross profit 46	46.8	39.8	7.0	18%
Used vehicle wholesale gross profit same store(1)				
Light vehicles	0.4	0.9	(0.5)	(56%)
Heavy truck	(0.3)	(1.0)	0.7	70%
Total used vehicle wholesale gross profit same store(1)	0.1	(0.1)	0.2	200%
Used vehicle wholesale gross profit acquisitions				
Total used vehicle wholesale gross profit	0.1	(0.1)	0.2	200%
Used vehicle gross profit, as reported	$ 46.9	$ 39.7	$ 7.2	18%
Used vehicle retail units:				
Used vehicle retail units same store(1)				
Light vehicles	22,743	19,988	2,755	14%
Heavy truck	180	199	(19)	(10%)
Total used vehicle retail units same store(1)	22,923	20,187	2,736	14%

Used vehicle retail units acquisitions				
Used vehicle retail units actual	22,923	20,187	2,736	14%

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Used Vehicle Metrics

	For the Six Months Ended June 30, 2010	2009	Increase (Decrease)	% Change
Revenue per used light vehicle retailed same store(1)	$ 19,034	$ 17,961	$ 1,073	6%
Revenue per used heavy truck retailed	$ 26,111	$ 36,181	$ (10,070)	(28%)
Revenue per used vehicle retailed same store(1)	$ 19,090	$ 18,140	$ 950	5%
Gross profit per used light vehicle retailed same store(1)	$ 2,071	$ 2,031	$ 40	2%
Gross profit per used heavy truck retailed	$ (1,667)	$ (4,020)	$ (2,353)	(59%)
Gross profit per used vehicle retailed same store(1)	$ 2,042	$ 1,972	$ 70	4%
Used light vehicle retail gross margin same store(1)	10.9%	11.3%	(0.4%)	(4%)
Used heavy truck retail gross margin	(6.4%)	(11.1%)	4.7%	42%
Used vehicle retail gross margin same store(1)	10.7%	10.9%	(0.2%)	(2%)

(1) Same store information consists of amounts from dealerships for the identical months of each period presented in the comparison, commencing with the first full month in which an applicable dealership was owned by us.

The $89.3 million (20%) increase in used vehicle revenue includes a $73.9 million (21%) increase in same store light vehicle retail revenue and a $17.9 million (22%) increase in same store light vehicle wholesale revenue, partially offset by a $2.5 million (35%) decrease in retail revenue from heavy trucks. The $7.2 million (18%) increase in used vehicle gross profit was primarily the result of a $6.5 million (16%) increase in same store light vehicle retail gross profit, partially offset by a $0.5 million (56%) decrease in same store light vehicle wholesale gross profit. We also experienced a $0.7 million (70%) decrease in wholesale losses from heavy trucks. We believe that the increase in used light vehicle retail revenue and gross profit was driven primarily by unit volume increases that reflected increased consumer confidence and a favorable comparison to an overall weak economic environment during the six months ended June 30, 2009. In addition, we have begun to see the benefit of several store-level programs initiated during 2009, including inventory management practices that allow us to offer a wider selection of used vehicle inventory to our customers.

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Parts and Service

	For the Six Months Ended June 30, 2010	2009	Increase (Decrease)	% Change
	(Dollars in millions)			
Revenue:				
Parts and service revenues same store(1)				
Light vehicles	$ 277.1	$ 286.8	$ (9.7)	(3%)
Heavy truck	33.7	30.7	3.0	10%
Total parts and service revenue same store(1)	310.8	317.5	(6.7)	(2%)
Parts and service revenues acquisitions				
Parts and service revenue, as reported	$ 310.8	$ 317.5	$ (6.7)	(2%)
Gross profit:				
Parts and service gross profit same store(1)				
Light vehicles	$ 150.9	$ 147.1	$ 3.8	3%
Heavy truck	10.3	9.7	0.6	6%
Total parts and service gross profit same store(1)	161.2	156.8	4.4	3%
Parts and service gross profit acquisitions				
Parts and service gross profit, as reported	$ 161.2	$ 156.8	$ 4.4	3%
Light vehicle parts and service gross margin same store(1)	54.5%	51.3%	3.2%	6%
Heavy truck parts and service gross margin	30.6%	31.6%	(1.0%)	(3%)
Parts and service gross margin same store(1)	51.9%	49.4%	2.5%	5%

(1) Same store information consists of amounts from dealerships for the identical months of each period presented in the comparison, commencing with the first full month in which an applicable dealership was owned by us.

The $6.7 million (2%) decrease in parts and service revenues was due to a $6.7 million decrease in our warranty revenue. The $4.4 million (3%) increase in parts and service gross profit was due to a 320 basis point increase in our light vehicle parts and service gross margin primarily as a result of increased gross profit from the reconditioning and preparation of used vehicles. Same store customer pay parts and service revenue decreased $0.3 million, while same store customer pay parts and service gross profit increased $2.9 million (3%). Revenue and gross profit from our warranty business decreased $6.7 million (12%) and $2.4 million (9%), respectively, on a same store basis. Same store revenue from our wholesale parts business increased $0.3 million (1%), while same store gross profit from wholesale parts decreased $0.2 million (2%). Gross profit from the reconditioning and preparation of used vehicles sold during the applicable six month period increased $4.1 million (23%).

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Finance and Insurance, net

	For the Six Months Ended June 30, 2010	2009	Increase (Decrease)	% Change
	(Dollars in millions, except for per vehicle data)			
Dealership generated F&I, net same store(1)				
Light vehicles	$ 55.5	$ 43.0	$ 12.5	29%
Heavy truck	0.1	0.1		%
Dealership generated F&I same store(1)	55.6	43.1	12.5	29%
Dealership generated F&I acquisitions				
Dealership generated F&I, net	55.6	43.1	12.5	29%
Corporate generated F&I	0.9		0.9	%
Finance and insurance, net as reported	$ 56.5	$ 43.1	$ 13.4	31%
Dealership generated light vehicle F&I per vehicle sold same store(1) (2)	$ 987	$ 869	$ 118	14%
Dealership generated F&I per vehicle sold same store(1) (2)	$ 957	$ 849	$ 108	13%
Light vehicle F&I per vehicle sold same store(1)	$ 1,003	$ 869	$ 134	15%
Heavy truck F&I per vehicle sold	$ 53	$ 77	$ (24)	(31%)
F&I per vehicle sold same store(1)	$ 972	$ 849	$ 123	14%

(1) Same store information consists of amounts from dealerships for the identical months of each period presented in the comparison, commencing with the first full month in which an applicable dealership was owned by us.

(2) Dealership generated F&I per vehicle sold excludes Corporate generated F&I.

F&I increased $13.4 million (31%) during the six months ended June 30, 2010 as compared to 2009, due to (i) a 14% increase in same store light vehicle retail unit sales and (ii) a 14% increase in same store dealership generated light vehicle F&I per vehicle sold.

The increase in dealership generated F&I per vehicle sold was primarily attributable to results from (a) less stringent lending standards and other market factors in the second quarter of 2010, which allowed more of our customers to take advantage of a broader array of finance and insurance products (b) our continued focus on improving our F&I results at our lower-performing stores by increasing the training of our F&I personnel and implementing certain best practices initiatives, including a certification process for our F&I personnel and (c) continuing to refine and enhance the menu of products we offer our customers.

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Selling, General and Administrative

	For the Six Months Ended June 30,					% of Gross Profit
	2010	% of Gross Profit	2009	% of Gross Profit	Increase (Decrease)	Increase (Decrease)
			(Dollars in millions)			
Personnel costs	$ 126.9	37.4%	$ 121.1	40.2%	$ 5.8	(2.8%)
Sales compensation	32.6	9.6%	27.6	9.2%	5.0	0.4%
Share-based compensation	3.1	0.9%	0.9	0.3%	2.2	0.6%
Outside services	24.4	7.2%	23.4	7.8%	1.0	(0.6%)
Advertising	15.0	4.4%	14.1	4.7%	0.9	(0.3%)
Rent	21.9	6.5%	20.1	6.7%	1.8	(0.2%)
Utilities	8.1	2.4%	8.3	2.8%	(0.2)	(0.4%)
Insurance	5.9	1.7%	6.9	2.3%	(1.0)	(0.6%)
Other	26.3	7.7%	23.9	7.7%	2.4	%
Selling, general and administrative same store(1)	264.2	77.8%	246.3	81.7%	17.9	(3.9%)
Acquisitions						
Selling, general and administrative actual	$ 264.2	77.8%	$ 246.3	81.7%	$ 17.9	(3.9%)
Gross Profit same store(1)	$ 339.4		$ 301.3			
Gross Profit actual	$ 339.4		$ 301.3			

(1) Same store information consists of amounts from dealerships for the identical months of each period presented in the comparison, commencing with the first full month in which an applicable dealership was owned by us.

Same store SG&A expense as a percentage of gross profit was 77.8% for the six months ended June 30, 2010, as compared to 81.7% for the six months ended June 30, 2009. The 390 basis point decrease was primarily a result of a 280 basis point decrease in personnel costs as a result of leveraging our fixed expenses, restructuring costs incurred in the six months ended June 30, 2009 and lower fixed compensation expense resulting from the elimination of our regional management structure and staffing reductions.

Floor Plan Interest Expense

The $1.4 million (15%) decrease in floor plan interest expense was attributable to a lower average balance of new vehicle inventory and the lower short-term interest rate environment. Additionally, during the first half of 2010, we used excess cash to repay approximately $67.0 million of floor plan notes payable using floor plan offset accounts with certain of our floor plan lenders, effectively lowering our average floor plan notes payable balance during the six months ended June 30, 2010 when compared to the prior year period.

Income Tax Expense

The $8.8 million increase in income tax expense was primarily a result of the $22.3 million increase in income before income taxes in the six months ended June 30, 2010 as compared to the six months ended June 30, 2009. Our effective tax rate increased from 37.4% for the 2009 period to 38.6% for the 2010 period. The 120 basis point increase was primarily the result of reducing certain tax reserves during the six months ended June 30, 2009.

Discontinued Operations

During the first six months of 2010, we sold one franchise (one dealership location). The $2.5 million, net of tax, net loss from discontinued operations during the first six months of 2010 was the result of (i) $2.4 million, net of tax, of net operating losses of franchises sold prior to June 30, 2010, including rent, legal and other expenses of idle facilities and (ii) a $0.1 million, net of tax, loss on the sale of one franchise (one dealership location).

The $3.4 million, net of tax, net loss from discontinued operations during the first six months of 2009 includes (i) $4.4 million of net operating losses of franchises sold prior to June 30, 2010, including rent, legal and other expenses of idle facilities and (ii) $0.9 million, net of tax, of costs associated with a lease termination, partially offset by a $1.9 million, net of tax, gain on the sale of three franchises (two dealership locations).

We continuously evaluate the financial and operating results of our dealerships, as well as each dealership s geographical location, and may continue to refine our dealership portfolio through strategic divestitures from time to time.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2010, we had total available liquidity of $260.0 million, including cash and cash equivalents of $27.0 million, borrowing availability of $166.0 million under our various credit facilities and $67.0 of availability under new vehicle floor plan offset accounts with certain of our floor plan lenders, which are generally accessible within one to two days. The total borrowing capacity under our credit facilities of $200.0 million is limited by a borrowing base calculation and, from time to time, may be further limited by our required compliance with certain financial covenants. These financial covenants currently do not further limit our availability under our credit facilities. For a detailed discussion of our financial covenants, see Covenants below.

We continuously evaluate our liquidity position based upon (i) our cash and cash equivalents on hand, (ii) the funds that we expect to generate through future operations, (iii) current borrowing availability under our revolving credit facilities, floor plan facilities and mortgage financing, (iv) deposits of our cash in new vehicle floor plan notes payable offset accounts and (v) potential proceeds from future asset sales. We believe we will have sufficient liquidity to meet our debt service and working capital requirements; commitments and contingencies; debt repayments, maturities and repurchases; acquisitions; capital expenditures; and any operating requirements for at least the next twelve months.

We have the following material credit facilities, mortgage notes, senior subordinated notes and inventory financing facilities as of June 30, 2010. For a more detailed description of the material terms of our various debt agreements, refer to the Floor Plan Notes Payable and Long-Term Debt footnotes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Revolving credit facility - $150.0 million revolving credit facility with Bank of America, N.A. as administrative agent, and a syndicate of commercial banks and commercial financing entities (the BofA Revolving Credit Facility) for working capital, general corporate purposes and acquisitions.

Used vehicle facility - $50.0 million used vehicle floor plan facility with JPMorgan Chase Bank, N.A. and Bank of America (the JPMorgan Used Vehicle Floor Plan Facility) for working capital, capital expenditures and general corporate purposes.

Mortgage notes - $165.7 million of mortgage notes payable to Wachovia Bank, National Association, a national banking association, and Wachovia Financial Services, Inc., a North Carolina corporation (together referred to as Wachovia) and certain other mortgagors. These mortgage notes payable are secured by the related underlying property.

3% Senior Subordinated Convertible Notes due 2012 (3% Notes) - $54.7 million in aggregate principal amount of our 3% Notes outstanding, offset by $4.1 million of an unamortized discount. We pay interest on the 3% Notes on March 15 and September 15 of each year until their maturity on September 15, 2012.

8% Senior Subordinated Notes due 2014 (8% Notes) - $179.4 million in aggregate principal amount of our 8% Notes outstanding, offset by $4.0 million of hedging activity. We pay interest on the 8% Notes on March 15 and September 15 of each year until their maturity on March 15, 2014.

7.625% Senior Subordinated Notes due 2017 (7.625% Notes) - $143.2 million in aggregate principal amount of our 7.625% Notes outstanding. We pay interest on the 7.625% Notes on March 15 and September 15 of each year until their maturity on

March 15, 2017.

Inventory financing (floor plan) facilities - $294.5 million outstanding with lenders affiliated with the manufacturers from which we purchase new vehicles and $57.3 million outstanding with lenders not affiliated with any such manufacturers. The availability under our floor plan facilities is not limited, with the exception of an $18.0 million limitation in aggregate borrowings for the purchase of Chrysler, Dodge and Jeep new vehicle inventory and a $30.0 million limitation in aggregate borrowings for the purchase of Hyundai, Kia, Audi, Porsche, Volkswagen, Land Rover and Jaguar new vehicle inventory. In addition to the facilities described above, we have established accounts with certain manufacturers that allow us to deposit cash as an offset to floor plan notes payable (floor plan offset accounts), effectively reducing our outstanding new vehicle floor plan notes payable while retaining access to the related cash, which is generally accessible within one to two days. As of June 30, 2010, we had $67.0 million in these floor plan offset accounts.

Under the terms of our credit facilities and certain mortgage notes payable, our ability to incur new indebtedness is currently limited to (i) permitted floorplan indebtedness, (ii) real estate loans in an aggregate amount not to exceed $12.0 million, (iii) certain refinancings, refunds, renewals or extensions of existing indebtedness and (iv) other customary permitted indebtedness.

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Subordinated Note Repurchases

We may, in the future, from time to time repurchase our 3% Notes, 8% Notes and/or 7.625% Notes in open market purchases or privately negotiated transactions. The decision to repurchase subordinated notes will be dependent upon prevailing market conditions, our liquidity position, and other factors. On February 17, 2010, our Board of Directors authorized us to use up to an additional $30.0 million of cash to repurchase debt securities and/or make unscheduled principal payments on our existing mortgages. This authorization expires on February 28, 2011. Currently, our BofA Revolving Credit Facility and our JPMorgan Used Vehicle Floor Plan Facility limit our ability to purchase our debt securities to $30.0 million per calendar year, plus 50% of the net proceeds from any asset sales during any given calendar year. We did not repurchase any of our subordinated notes during the six months ended June 30, 2010.

Covenants

We are subject to a number of financial covenants in our various debt and lease agreements, including those described below. We were in compliance with all of our financial covenants as of June 30, 2010.

Our BofA Revolving Credit Facility, JPMorgan Used Vehicle Floor Plan Facility and certain of our mortgages and/or guarantees related to such mortgages include financial covenants with requirements as set forth in the table below (capitalized terms represent terms defined in the applicable agreements). In July 2009, we amended the BofA Revolving Credit Facility, which among other things, eliminated the total leverage ratio and reduced the required fixed charge coverage ratio from 1.20 to 1.00, to 1.10 to 1.00 for each four fiscal quarter period ending on or before September 30, 2010. For periods ending after September 30, 2010, the fixed charge coverage ratio will return to 1.20 to 1.00. At our option and with 30 days written notice, the indebtedness limitation, as described above, may be removed in conjunction with the reinstatement of the total leverage ratio, to the terms as set forth in the BofA Revolving Credit Facility prior to the July 2009 amendment.

	Requirement	June 30, 2010	Pass / Fail
Current Ratio	> 1.20 to 1	1.70	Pass
Fixed Charge Coverage Ratio	> 1.10 to 1	1.79	Pass
Consolidated Total Senior Leverage Ratio	< 3.00 to 1	1.28	Pass

Our guarantees under the Wachovia Master Loan Agreement include required compliance with certain financial covenants with requirements as set forth in the table below (capitalized terms represent terms defined in the agreements). In May 2009, we amended the Wachovia Master Loan Agreement, which among other things, eliminated the requirement that we comply with the total leverage ratio, but imposed significant additional limitations on our ability to incur new indebtedness. At our option and with 30 days written notice, the indebtedness limitation, as described above, may be removed in conjunction with the reinstatement of the total leverage ratio to the terms as set forth in the Wachovia Master Loan Agreement prior to the May 2009 amendment.

	Requirement	June 30, 2010	Pass / Fail
Current Ratio	> 1.20 to 1	1.70	Pass
Fixed Charge Coverage Ratio	> 1.20 to 1	1.86	Pass
Adjusted Net Worth	> $350.0 million	$647.0 million	Pass

Certain of our lease agreements include financial covenants with the requirements in the table below (capitalized terms represent terms defined in the applicable agreements) and incorporate by reference the financial covenants set forth in the BofA Revolving Credit Facility.

	Requirement	June 30, 2010	Pass / Fail
Current Ratio	> 1.20 to 1	1.77	Pass
EBITDAR Ratio	> 1.50 to 1	2.35	Pass

Share Repurchases Related to Employee Benefit Plan Awards

During the first six months of 2010, we repurchased 20,264 shares of our common stock for $0.3 million from employees in connection with a net share settlement feature of employee share-based awards.

Cash Flow

Classification of Cash Flows Associated with Floor Plan Notes Payable

Borrowings and repayments of floor plan notes payable to a lender unaffiliated with the entity from which we purchase a particular new vehicle, and all floor plan notes payable relating to pre-owned vehicles (collectively referred to as floor plan notes payable non-trade), are classified as financing activities on the accompanying Condensed Consolidated Statements of Cash Flows, with borrowings reflected separately from repayments. The net change in floor plan notes payable to a lender affiliated with the entity from which we purchase new vehicles (collectively referred to as floor plan notes payable trade) is classified as an operating activity on the accompanying Condensed Consolidated Statements of Cash Flows. Borrowings of floor plan notes payable associated with inventory acquired in connection with all acquisitions are classified as a financing activity. Cash flows related to floor plan notes payable included in operating activities differ from cash flows related to floor plan notes payable included in financing activities only to the extent that the former are payable to a lender affiliated with the entity from which we purchased the related inventory, while the latter are payable to a lender not affiliated with the entity from which we purchased the related inventory.

Floor plan borrowings are required by all vehicle manufacturers for the purchase of new vehicles, and all floor plan lenders require amounts borrowed for the purchase of a vehicle to be repaid within a specified time period after the related vehicle is sold. As a result, we believe that it is important to understand the relationship between the cash flows of all of our floor plan notes payable and new vehicle inventory in order to understand our working capital and operating cash flow and to be able to compare our operating cash flow to that of our competitors (*i.e.*, if our competitors have a different mix of trade and non-trade floor plan financing as compared to us). In addition, we include all floor plan borrowings and repayments in our internal operating cash flow forecasts. As a result, we use the non-GAAP measure cash provided by operating activities, as adjusted to compare our results to forecasts. We believe that splitting the cash flows of floor plan notes payable between operating activities and financing activities, while all new vehicle inventory activity is included in operating activities, results in significantly different operating cash flow than if all the cash flows of floor plan notes payable were classified together in operating activities.

Cash provided by operating activities, as adjusted, has material limitations. Cash provided by operating activities, as adjusted, includes borrowings and repayments of floor plan notes payable to lenders not affiliated with the entity from which we purchase the related vehicle. Cash provided by operating activities, as adjusted, may not be comparable to similarly titled measures of other companies and should not be considered in isolation, or as a substitute for analysis of our operating results in accordance with GAAP. In order to compensate for these potential limitations we also review the related GAAP measures.

As described above, cash provided by operating activities, as adjusted, is not a measure of operating performance under U.S. generally accepted accounting principles (GAAP) and should not be considered as an alternative or substitute for GAAP profitability measures such as cash provided by operating activities. This non-GAAP operating performance measure has material limitations and as a result should be evaluated in conjunction with the directly comparable GAAP measure. For example, this non-GAAP measure is not defined by GAAP and our definition of the measure may differ from and therefore may not be comparable to similarly titled measures used by other companies, thereby limiting its usefulness as a comparative measure. Other limitations are discussed below. In order to compensate for these limitations, we also review the related GAAP measures. Investors should not consider non-GAAP measures in isolation, or as a substitute for analysis of our operating results as reported under GAAP.

We have provided below a reconciliation of cash flow from operating activities, as if all changes in floor plan notes payable, except for (i) borrowings associated with acquisitions and repayments associated with divestitures and (ii) borrowings and repayments associated with the purchase of used vehicle inventory, were classified as an operating activity.

	For the Six Months Ended June 30,	
	2010	2009
	(In millions)	
Reconciliation of Cash (used in) provided by Operating Activities to Cash (used in) provided by Operating Activities, as adjusted		
Net cash (used in) provided by operating activities, as reported	$ (37.1)	$ 29.1
New vehicle floor plan repayments non-trade, net	(19.4)	(35.3)
Floor plan notes payable trade divestitures	5.9	7.7
Net cash (used in) provided by operating activities, as adjusted	$ (50.6)	$ 1.5

Operating Activities

Net cash used in operating activities totaled $37.1 million and net cash used in operating activities, as adjusted, totaled $50.6 million during the six months ended June 30, 2010. Net cash provided by operating activities totaled $29.1 million and net cash provided by operating activities, as adjusted, totaled $1.5 million during the six months ended June 30, 2009. Net cash used in or provided by operating activities, as adjusted, includes net income adjusted for non-cash items and changes in working capital, including changes in floor plan notes payable and inventory.

The $52.1 million decrease in our cash provided by operating activities, as adjusted, for the six months ended June 30, 2010, compared to the six months ended June 30, 2009, was primarily the result of the following;

- $9.8 million related to the timing of collection of accounts receivable and contracts-in-transit,
- $67.0 million related to the use of excess cash to repay new vehicle floor plan notes payable using floor plan offset accounts with two of our floor plan lenders, and
- $19.0 million related to the timing of sale of inventory and repayment of the related floor plan notes payable.

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The decrease in our cash provided by operating activities, as adjusted, was primarily offset by the following;

- $20.7 million change in other current assets related to (i) $12.5 million associated with the change in our tax position of taxable income in 2010, compared to a taxable loss in 2009 as a result of lower pre-tax income and a higher loss on the sale of dealerships and (ii) $8.0 million related to restricted cash in the 2009 period for the repayment of certain mortgage notes payable that did not exist in 2010,

- $11.1 million increase in net income adjusted for non-cash items, and

- $13.2 million increase related to the timing of payment of accounts payable and accrued expenses.

Investing Activities

Net cash provided by investing activities totaled $3.3 million and $16.9 million for the six months ending June 30, 2010 and 2009, respectively. Cash flows from investing activities relate primarily to capital expenditures, acquisition and divestiture activity and sale of property and equipment.

Capital expenditures were $7.5 million and $4.8 million for the six months ended June 30, 2010 and 2009, respectively. Our capital investments consisted of the construction of a new dealership facility, upgrades of our existing facilities and equipment purchases. We expect that capital expenditures during 2010 will total approximately $25.0 million.

Proceeds from the sale of assets totaled $11.2 million and $22.2 million for the six months ended June 30, 2010 and 2009, respectively. We continuously evaluate the financial and operating results of our dealerships, as well as each dealership s geographical location, and may continue to refine our dealership portfolio through strategic divestitures from time to time.

Financing Activities

Net cash used in financing activities totaled $23.9 million and $95.7 million during the six months ended June 30, 2010 and 2009, respectively.

During the first six months of 2010 and 2009, repayments of borrowings amounted to $4.2 million and $57.3 million, respectively. The repayments of borrowings during the six months ended June 30, 2009 were primarily related to a $50.0 million repayment of borrowings from our BofA Revolving Credit Facility.

During the six months ended June 30, 2009, we repaid $2.9 million of non-trade floor plan notes payable associated with the sale of dealerships.

Pending Acquisitions and Divestitures

Assets and liabilities held for sale includes real estate not currently used in our operations that we currently intend to sell, and totaled $20.0 million as of June 30, 2010. There were no franchises pending disposition as of June 30, 2010.

Share Repurchase and Dividend Restrictions

Pursuant to the indentures governing our 8% Notes and our 7.625% Notes, and the agreements governing our BofA Revolving Credit Facility and our JPMorgan Used Vehicle Floor Plan Facility, our ability to repurchase shares of our common stock and pay cash dividends is limited. Such limits are calculated by adding 50% of cumulative net income or subtracting 100% of cumulative net losses (the Cumulative Net Income Basket). The most restrictive covenant of such agreements provides that we may spend $25.0 million in addition to any amounts provided by the Cumulative Net Income Basket to repurchase common stock or pay dividends. As of June 30, 2010, our ability to repurchase common stock or pay dividends was limited to $2.0 million under our most restrictive covenant.

Off Balance Sheet Arrangements

We had no off balance sheet arrangements during the years presented other than those disclosed in Note 11 of our accompanying Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
Interest Rate Risk

We are exposed to market risk from fluctuations in interest rates on a significant portion of our outstanding indebtedness. Based on our $380.4 million of total variable rate debt (including floor plan notes payable) outstanding as of June 30, 2010, a 1% change in interest rates would result in a change of approximately $3.8 million to our annual other interest expense.

Hedging Risk

We have an interest rate swap with a notional principal amount of $125.0 million as of June 30, 2010. The swap was designed to provide a hedge against changes in interest rates on our variable rate floor plan notes payable through maturity in June 2013. This swap is collateralized by our assets that do not otherwise have a first priority lien granted on such assets. This interest rate swap qualifies for cash flow hedge accounting treatment and contains minor ineffectiveness.

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We have a separate interest rate swap with a notional principal amount of $11.9 million as of June 30, 2010. The swap was designed to provide a hedge against changes in interest rates on our variable rate mortgage notes payable through maturity in June 2011. The notional value of this swap is reduced over its term. This interest rate swap qualifies for cash flow hedge accounting treatment and contains minor ineffectiveness.

For additional information about the effect of our derivative instruments on the accompanying condensed consolidated financial statements, see Note 7, Financial Instruments of the notes thereto.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the Company s chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, the Company s chief executive officer and chief financial officer concluded that, as of the end of such period, such disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time period specified in the rules and forms of the U.S. Securities and Exchange Commission and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management s control objectives. The Company s management, including the chief executive officer and the chief financial officer, does not expect that our disclosure controls and procedures can prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and not be detected.

There was no change in our internal control over financial reporting during the second quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In June 2010, the Company announced that it has chosen to transition its dealerships dealer management systems to Automatic Data Processing, Inc. (ADP) beginning in the fourth quarter of 2010. As appropriate, the Company plans to modify the documentation of the internal control process and procedures relating to this change in dealer management systems to supplement and complement existing internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits

4.1	Sixth Supplemental Indenture, dated as of June 30, 2010, among Asbury Automotive Group, Inc. and the Subsidiaries of Asbury Automotive Group, Inc. listed on Schedule II thereto, the other Guarantors listed on Schedule I thereto and The Bank of New York Mellon, as Trustee, related to the 8% Senior Subordinated Notes due 2014 of Asbury Automotive Group, Inc.
4.2	Second Supplemental Indenture, dated as of June 30, 2010, among Asbury Automotive Group, Inc. and the Subsidiaries of Asbury Automotive Group, Inc. listed on Schedule II thereto, the other Guarantors listed on Schedule I thereto and The Bank of New York Mellon, as Trustee, related to the 7.625% Senior Subordinated Notes due 2017 of Asbury Automotive Group, Inc.
10.1	Employment Agreement between Philip R. Johnson and Asbury Automotive Group, Inc., dated as of June 30, 2010 (filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on June 30, 2010)*
31.1	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certificate of Chief Executive Officer pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certificate of Chief Financial Officer pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference.

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.

Asbury Automotive Group, Inc. (Registrant)

Date: July 28, 2010	By:	/s/ CHARLES R. OGLESBY
	Name:	Charles R. Oglesby
	Title:	Chief Executive Officer and President
Date: July 28, 2010	By:	/s/ CRAIG T. MONAGHAN
	Name:	Craig T. Monaghan
	Title:	Senior Vice President and Chief Financial Officer
		(Principal Financial Officer)

INDEX TO EXHIBITS

Exhibit Number	Description of Documents
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