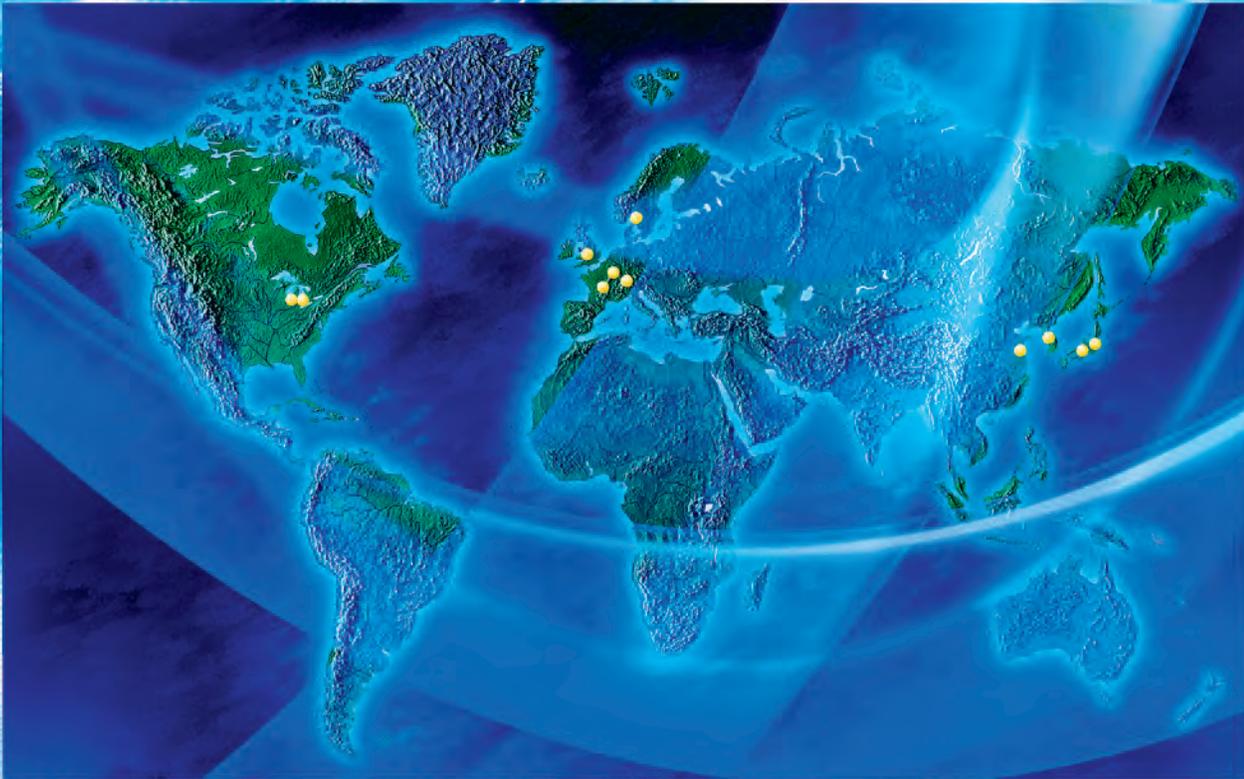




**GENTEX**  
CORPORATION

2006 Annual Report



## **GENTEX** CORPORATION

Corporate Headquarters:  
600 North Centennial  
Zeeland, Michigan 49464  
616-772-1800  
[www.gentex.com](http://www.gentex.com)

### Sales and Engineering Offices:

China:	Shanghai
France:	Paris
Germany:	Erlenbach Munich
Japan:	Nagoya Yokohama
Korea:	Seoul
Sweden:	Landskrona
United Kingdom:	Coventry
United States:	Livonia, Michigan Zeeland, Michigan

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NOTE: In an effort to reduce the cost of printing and shipping annual reports and proxy materials next year, we encourage all shareholders to register to receive those documents via e-mail and vote your shares on the Internet, as it is the most cost-effective method. To register, visit the following Internet address and follow the directions on this site:

<https://icsdelivery.com/gntx/index.html>

Thank you in advance for working with us to reduce expenses.



# I ntroduction and Corporate Profile

It's a blessing and a curse, but reality nonetheless. Our success -- and that of every Tier One automotive supplier -- is inexorably tied to the success of our customers. Simply put, we sell more mirrors when automakers sell more vehicles. And, in our case, our products are most often offered in option packages, so we work to make sure that dealers or those ordering vehicles "check the box" to order the package featuring our mirror(s).

Over the past few years, the well-documented challenges facing the North American automotive manufacturers have put downward pressure on Gentex sales. However, during this same period, the worldwide sales of Asian- and European-branded vehicles remained relatively strong.

Because of our North American roots, it's easy to overlook the extent to which Gentex is integrated into the global automotive market, but today more than 60 percent of our shipments go to automakers headquartered outside the United States, and increasingly these shipments are comprised of some of our most sophisticated products.

Our custom microphones convey conversations on busy Paris boulevards. Our map lights illuminate center consoles on the streets of Tokyo. Our compass transducers and displays provide directional headings on the bustling streets of Beijing. Our image sensors (cameras on chips) activate vehicle high beams on the winding roadways of the British Midlands. Our displays show the cab fare through the interior mirror's surface on Munich's storied beltways.

Gentex truly is a global automotive supplier, and on the pages that follow, you'll find an overview of our international operations as well as some highlights from each region. It may surprise you to learn the degree to which our auto-dimming mirrors and related features are enhancing driving safety around the world.

## Fast Facts

Gentex develops advanced electro-optical products -- electronic devices combining photoelectric sensors and related electronic circuitry. We're the world's leading supplier of electrochromic, automatic-dimming rearview mirrors for the automotive industry, and develop advanced smoke detectors and signaling devices for the commercial fire protection market. We are one of the top electronics producers in the state of Michigan.

2006 Revenues: \$ 572.3 million

Number of Employees: 2,438

#### Divisions:

1. Automotive Products (96% of revenues)
2. Fire Protection Products (4% of revenues)

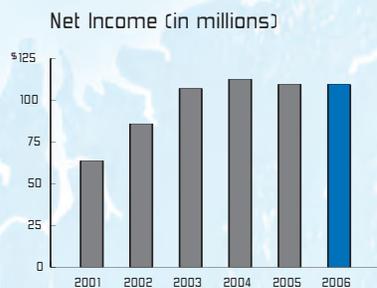
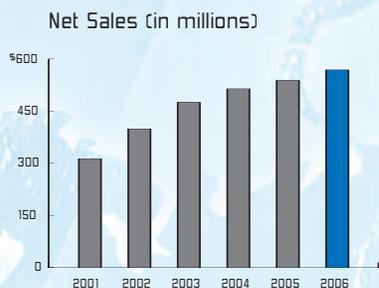
#### Main Products:

1. Automatic-dimming interior and exterior rearview mirrors and related electronic features
2. Smoke detectors, fire alarms and signaling devices, primarily for commercial applications

#### Locations:

Five manufacturing facilities plus a Technology Center in Zeeland, Michigan; automotive sales and engineering offices in China, France, Germany, Japan, Korea, Sweden, the United Kingdom, and the United States, four regional sales offices for the Fire Protection Products Group.

# Six-Year Financial Summary



## Summary of Operations For The Years Ended December 31,

	2001	2002	2003	2004	2005	2006	Change 2006 vs. 2005
Net sales	\$ 310,305	\$ 395,258	\$ 469,019	\$ 505,666	\$ 536,484	\$ 572,267	7%
Operating income	82,059	115,200	146,575	150,066	136,295	126,447	-7%
Net income	65,217	85,771	106,761	112,657	109,528	108,761	-1%
Earnings per share - diluted	0.43	0.56	0.69	0.72	0.70	0.73	4%
Return on average equity	14.8%	16.3%	16.8%	15.3%	13.5%	14.1%	5%
Wtd. avg. common shares outstanding - diluted	151,744	153,205	155,369	156,721	157,031	148,494	-5%
Number of shareholders <sup>1</sup>	34,191	31,361	29,431	27,398	28,458	21,805	-23%
Cash dividends declared per share	\$ -	\$ -	\$ 0.15	\$ 0.32	\$ 0.35	\$ 0.37	6%
Total assets	\$ 506,823	\$ 609,173	\$ 762,530	\$ 856,859	\$ 922,646	\$ 785,028	-15%
Working capital	238,873	247,738	434,869	541,753	560,900	389,515	-31%
Current ratio	12:1	10:1	10:1	12:1	11:1	8:1	-27%
Cash and short- and long-term investments	\$ 338,415	\$ 419,010	\$ 539,223	\$ 617,054	\$ 639,539	\$ 474,444	-26%
Plant and equipment — net	110,862	124,983	126,807	135,649	164,030	184,134	12%
Long-term debt, including current maturities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
Shareholders' investment	479,001	573,640	693,643	783,280	841,595	702,694	-17%
Return on average assets	14.0%	15.4%	15.6%	13.9%	12.3%	12.7%	3%
Capital expenditures	\$ 45,298	\$ 32,561	\$ 22,248	\$ 30,535	\$ 53,533	\$ 48,193	-10%
Depreciation and amortization	15,193	18,632	20,426	21,741	23,823	27,763	17%
Market performance: high	\$ 17.12	\$ 16.75	\$ 22.49	\$ 23.54	\$ 20.32	\$ 21.00	3%
low	9.22	11.76	11.95	15.10	15.38	12.74	-17%
Number of employees	1,768	1,926	2,012	2,094	2,279	2,438	7%

<sup>1</sup> Includes registered and estimated "street name" shareholders.

In thousands, except current ratio, per share data, return on average equity, return on average assets, market performance data, number of employees and shareholders, and cash dividends paid.

All per share data have been adjusted to reflect the two-for-one stock split effected in the form of a 100 percent common stock dividend issued in May 2005.

A 15-year summary of financial data is located on the inside back flap of this annual report.



# to Our Shareholders:

March 1, 2007

It's hard to believe that we've closed out another year in the history of Gentex Corporation. And, what a year it was . . . full of successes, full of changes, full of challenges, just plain full! And despite all of this, I don't think I've ever seen our associates around the world pull together as a team any more so than in the past year, and I think this is the beginning of another era for Gentex.

While our sales team put forth an enormous effort during the year, despite facing tremendous vehicle production headwinds at certain automotive customers, there are probably no groups in the Company that deserve more accolades than our manufacturing process and engineering product development teams. They worked countless hours during the year to not only improve yields on new products that we launched, but they also worked together on the design of a new product that, by all accounts, has the potential to be a big hit with automakers and consumers alike.

The proprietary, new auto-dimming mirror that features an on-demand rear camera display (RCD) through the mirror glass surface is in great demand from our customers. We currently are working with three customers on development programs for this product that will incrementally add significant dollar content per mirror unit shipped. Upon receiving a production order from a customer, we believe that we could be in volume production on the product in nine to 12 months.

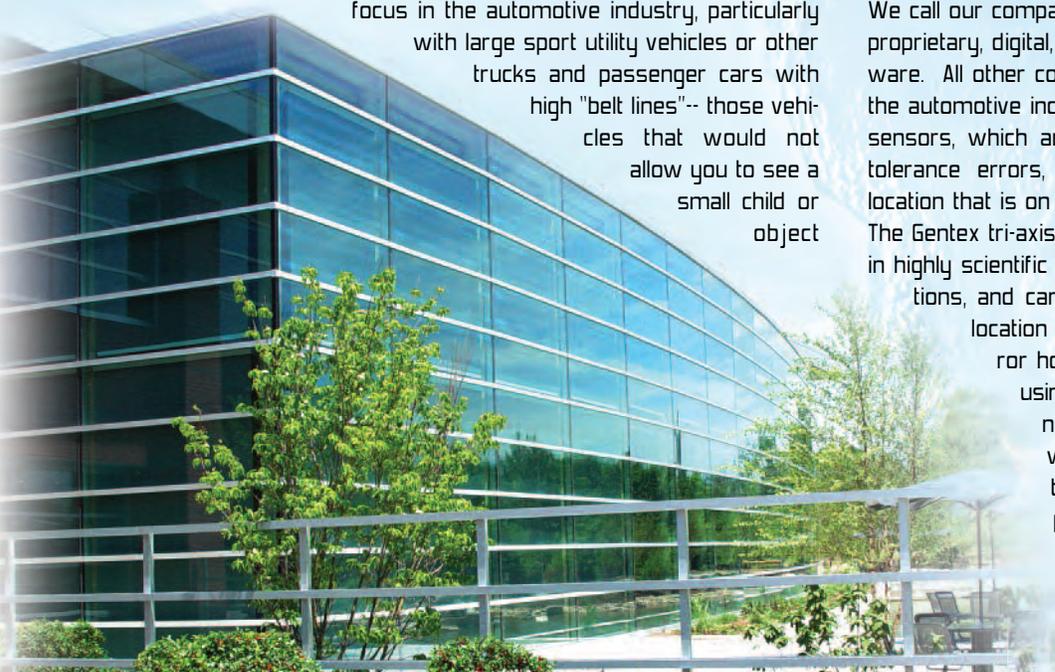
Rear camera displays (RCDs) have become a large focus in the automotive industry, particularly with large sport utility vehicles or other trucks and passenger cars with high "belt lines"-- those vehicles that would not see a small child or object

directly behind the vehicle when backing up (which, for the most part, includes most vehicles that are in production today). We believe that locating the display in the mirror is the intuitive location for most drivers, and know that it's a more cost-effective solution than adding a special LCD display elsewhere in the vehicle.

As evidence that the spotlight is on RCDs, in late 2006, a major national television news organization aired a story illustrating a large sport utility vehicle that showed that the area directly behind the vehicle was completely clear when the driver looked in the vehicle's interior and both exterior mirrors. In fact, they had lined up a complete kindergarten class of 29 students in a "V" shape behind the vehicle -- not one of whom could be detected in any of the vehicle's three rearview mirrors. A rear camera and display that had been installed on the vehicle was able to alert the driver that the children were in the vehicle's rearward path. So, I'm sure you can understand the reason for the strong focus on this product in the industry and at Gentex over the past several years.

Electronics is the fastest-growing segment in the automotive supply industry, and also one of the most competitive. We continue to invest significant research and development dollars in this area, including other display technologies and camera-based systems that offer a larger feature set to automakers for the future. In addition, the Company has also developed its own unique compass technology, which can be sold as a system with the compass heading displayed in the interior auto-dimming mirror.

We call our compass technology Z-Nav<sup>®</sup>, as it features a proprietary, digital, tri-axis sensor (transducer) and software. All other compass technologies currently used in the automotive industry utilize analog or digital dual-axis sensors, which are more susceptible to variation and tolerance errors, and must be mounted in a fixed location that is on a plane parallel to the earth's surface. The Gentex 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. Calibration is easier and faster using Z-Nav. We are pleased that we can now offer our customers another option when they are evaluating compass technologies, and that we can fully participate in that market segment.



Our new "Centennial East" manufacturing and technology center.

To assist in the purchase of the wide variety of electronic components we utilize in our products, during 2006 we named a very capable individual to the position of Vice President of Purchasing and Photonics. Mark Newton has significant experience in the global purchase of electronic components and has made a lot of headway in working with our supply base in this critical area. Mark also is very talented in product design, as he and his team in the Photonics area were instrumental in the development of the rear camera display product.

We had a similar situation on exterior mirrors for our European customers, where a governmental agency implemented a new law requiring that the field-of-view on exterior mirrors be expanded. And, rather than re-designing every mirror case for every vehicle, automakers required that Gentex completely re-design its exterior mirror sub-assembly product to increase the field of view without increasing the size of the mirror. This required significant time on the part of our engineering, design, process and manufacturing teams, and continues to be a challenge for the Company in

"We continue to use the mirror as a strategic electronic module that allows automakers to offer multiple features in a safe, ergonomic, high-performance and quick-to-market location. We believe that certain displays, sensors, cameras and microphones -- they all naturally belong in the mirror, and our vision is to help customers exploit this critical piece of interior real estate in the vehicle."

- Fred Bauer, Gentex Chairman of the Board and Chief Executive Officer

With all of this talk about electronics and other gadgets, I should tell you that we are not neglecting our core business in the process of developing all of these other new electronic products. Our primary goal is to grow the market for auto-dimming mirrors which, as of the end of 2006, had only penetrated 18 percent of all of the world's vehicles (interior mirrors). Exterior mirrors have penetrated even less of the world market, at six percent, and we believe that there is significant room for growth in this area of our business, as more automakers start to add one and two exterior auto-dimming mirrors to vehicles that previously only offered an interior auto-dimming mirror.

While automotive customer price reductions have the largest single negative impact on the Company's gross margin, the Company also faced a number of other challenges during the past year that resulted in a negative impact on its gross margin, including having to re-design and implement the production of all of its interior mirror circuit boards to meet end-of-life vehicle (ELV) requirements, which are governmental regulations that have been or will be implemented by most customers in order to eliminate potentially hazardous substances from vehicles upon disposal. This was a very costly initiative for the Company in terms of engineering resources, and one for which we received no reimbursement.

terms of production yields. The resulting product designed by the Company is more aesthetically pleasing to most customers, and most new exterior mirror programs globally will feature this new mirror. But again, it's a costly initiative that we had to absorb. We do believe at this time that we have surpassed the major hurdles in this area and are well on our way to more acceptable manufacturing yields.

## Some of the other highlights from the year include:

- We launched our SmartBeam® high beam head-lamp assist product on several new BMW, Cadillac and Chrysler models, and the product has been well received in the market. Other global customers are lining up, and new enhancements are coming on line in '07. SmartBeam is currently offered on the BMW 3, 5, 6 and 7 Series; Cadillac STS, DTS, Escalade and Escalade EXT; Chrysler 300C, Jeep Commander, Jeep Grand Cherokee and Jeep Grand Cherokee SRT8. Follow-on programs have been identified by all of these automakers, and we have lined up additional customers in Europe and Asia and those products will go into production over the next several years.

Interest in SmartBeam remains at a very high level, and we're working on product enhancements and improvements to ensure that we're offering the best we have to our customers around the globe. Research conducted in both North America and Europe with end customers who have vehicles equipped with SmartBeam has provided very positive feedback in terms of how the product performs, as well as the fact that consumers believe that it is appropriately priced. It continues to rank among the top features that consumers are most interested in purchasing on their next vehicle.

- We went "tier 1" on all of the Mercedes interior mirrors that we ship, and this was a sea-change for Gentex in our business relationship with DaimlerChrysler, as we went from shipping a base-feature mirror sub-assembly to another mirror supplier to shipping a completed interior mirror with up to four additional electronic features directly to Mercedes assembly plants. It represents a significant increase in revenue with respect to DaimlerChrysler, who moved up to being the Company's #2 customer in 2006, in large part as a result of this change.
- We completed our new Centennial East manufacturing facility and technology center, which is attached to the Company's headquarters facility. Our customers have been impressed with this plant, which increases our building capacity for mirrors to approximately 25 million units annually. While we now have plenty of capacity for interior mirrors, we are in the process of constructing an addition to our exterior mirror manufacturing facility to meet the growing demand for those products. That addition is expected to be completed by year-end and will cost approximately \$6 million.

- We did it again: We completed the transition to the third-surface reflector by obsoleting our lower performance, fourth-surface interior mirror process that featured a silver-painted surface. The new product now meets ELV requirements and is aesthetically and practically a better product. Gentex has a long history of obsoleting its own products and processes to make improvements and keeping its competition chasing it, which is not an easy proposition in a volatile industry like automotive. But, where would Gentex be today if we hadn't obsoleted the electro-mechanical (non electrochromic) mirrors that we used to produce in the 1980s?

- And last, but not least, we're in the process of putting in a production line to manufacture the dimmable windows for the new Boeing 787 Dreamliner series of aircraft. Prototype production shipments for test planes begin this summer, and we think that this is going to be a popular product at Boeing and with other aircraft manufacturers.

During 2006, we once again showed that we can grow our automotive business, despite the headwinds we've been facing as certain automotive customers reduce vehicle production levels, primarily in North America. We also continue to diversify our customer base. At the end of 2006, the customers who each represented ten percent or more of total revenues included General Motors (22%), DaimlerChrysler (15%), Toyota (13%) and BMW (12%). Overall, the geographic breakdown on our automotive revenues continues to move closer to being equally split between North America, Europe and the Asia/Pacific regions. We also continue to expand and are staffing a new office in China to meet the growing needs of that market.

Automotive net sales increased by seven percent to \$548.4 million, on a seven percent increase in mirror unit shipments, from 12.6 million to 13.4 million units, primarily reflecting increased penetration of interior and exterior auto-dimming mirrors on European and Asian vehicles. North American unit shipments increased by one percent, primarily due to the GM takeover business that was partially offset by lower light vehicle production on SUVs and pickups in North America.

Unit shipments to offshore customers increased by 12 percent during 2006, but continue to be camouflaged by decreased production at the "Detroit Three" in North America. Light vehicle production declined three percent in North America and increased by two and five percent, respectively, for Europe and Japan/Korea for calendar 2006.

For 2006, the Company posted a one percent decrease in net income at \$108.8 million, or 73 cents per share, on a net sales increase of seven percent to \$572.3 million. This compares to 2005 revenues of \$536.5 million and net income of \$109.5 million, or 70 cents per share. The higher earnings per share for 2006, despite the small decrease in net income year-over-year, is due to the reduction in shares outstanding from the Company's share repurchases during 2006. Net income was down slightly due to stock option expensing, which was not included in the Company's 2005 financial statements but was required to be included in the 2006 numbers in accordance with Generally Accepted Accounting Principles.

During the year, the Company worked to efficiently return cash to shareholders via its cash dividend and share repurchase programs. The Company declared quarterly cash dividends totaling \$0.37 per share for calendar 2006, a six percent increase over the dividends declared in calendar year 2005. The Company also repurchased 15.2 million shares of the Company's stock at a cost of \$226.9 million during calendar year 2006. Approximately 6.5 million shares remain authorized to repurchase under the existing plan.

The Company also announced a number of new vehicle programs with automakers that will offer our auto-dimming mirrors, including the Ford Edge, Fusion and Mustang, Lincoln MKX crossover, Infiniti QX 56, Peugeot 207 compact hatchback, Mitsubishi Galant, Audi TT Coupe, Volkswagen EOS coupe convertible, Dodge Nitro and Caliber, Jeep Compass and the Chrysler 300C. The Chrysler 300C offers more Gentex features on it than any other vehicle we ship for, followed by the Toyota Avalon. A number of the new vehicle programs mentioned above also feature not only auto-dimming interior mirrors with features, but also are now offering at least one auto-dimming exterior mirror.

It is with a heavy heart that I inform you that Gentex Board of Directors member J. Terry Moran unexpectedly passed away on November 12, 2006. Terry knew Gentex well and we will miss the expertise that he brought to the Company. Even more so, we will miss his great sense of humor and the camaraderie that he brought to our team.

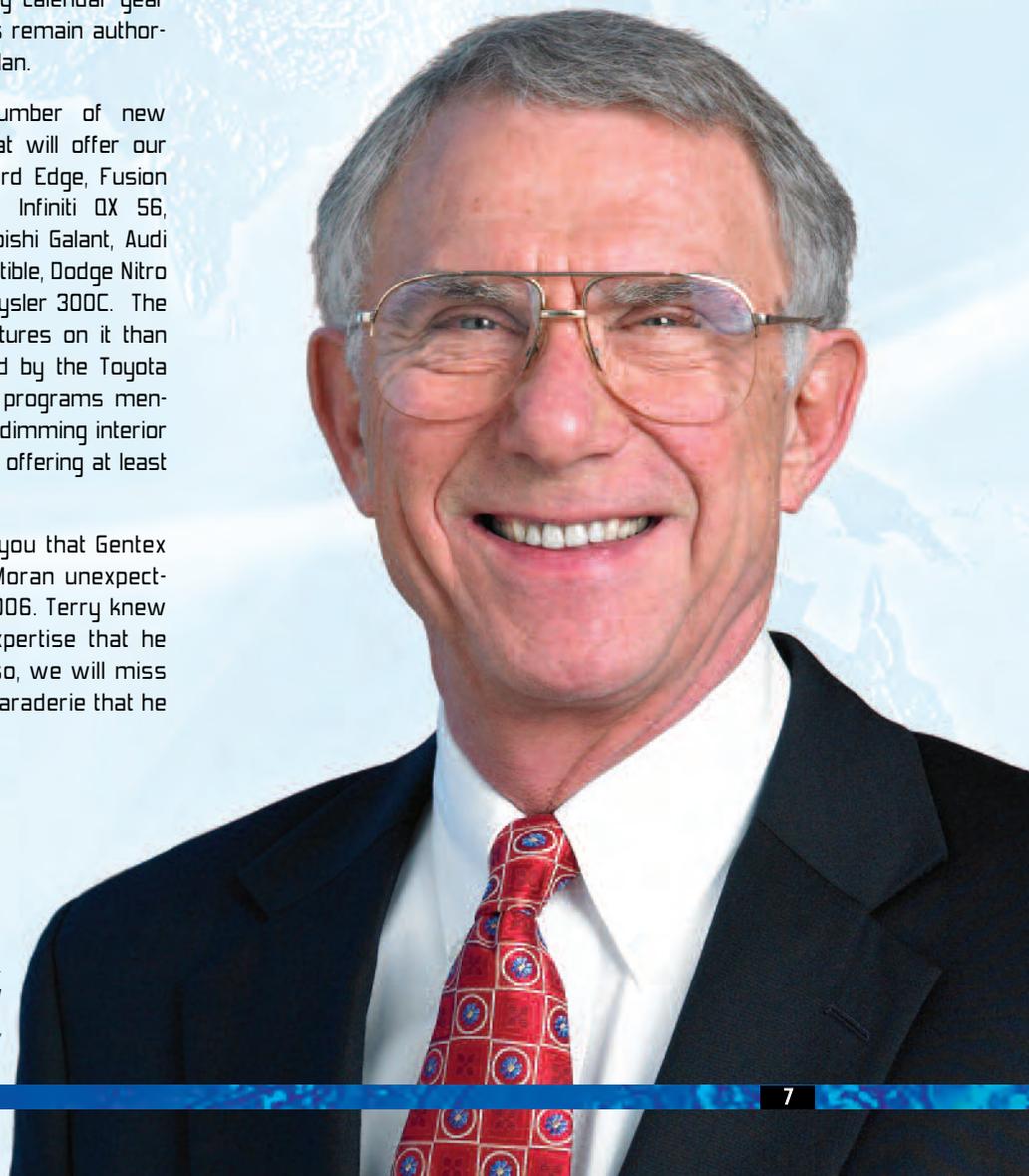
So, all in all, a busy but good year for Gentex, and we think we have a solid foundation in place to continue to build the business at a level that will allow us to reap the rewards of our efforts in the future. For 2007, our main goals are to improve quality, streamline our systems, increase sales, stabilize margins and launch new products to meet the ever-growing, complex needs of our customers.

Thanks to all for the significant effort that was invested this year and to our shareholders who have been very patient as we have moved through this transitional phase. 2007 looks to be another interesting and busy year!

Best regards,



Fred T. Bauer, Chairman of the Board  
and Chief Executive Officer



*Forward-looking statements contained in this letter to our shareholders are qualified in their entirety by the general information with respect to forward-looking statements. Please refer to "Safe Harbor for Forward-Looking Statements" under "Risk Factors" on page 20 of this report.*

# W Worldwide Operational Overview

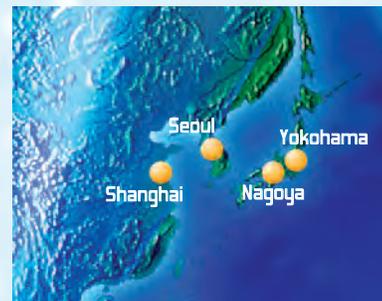
## Asia

### Locations:

Japan: Nagoya (Established 1998)  
Yokohama (Established 2005)  
Customers/Brands Supported: Acura, Honda, Infiniti,  
Lexus, Mazda, Mitsubishi, Nissan, Toyota

Korea: Seoul (Established 2003)  
Customers/Brands Supported: Daewoo, Hyundai,  
Kia, Ssangyong

China: Shanghai (Established 2005)  
Customers/Brands Supported: Chery, First Automobile Works, Polarsun,  
Shanghai Automotive Industrial Corporation



### 2006 Highlights

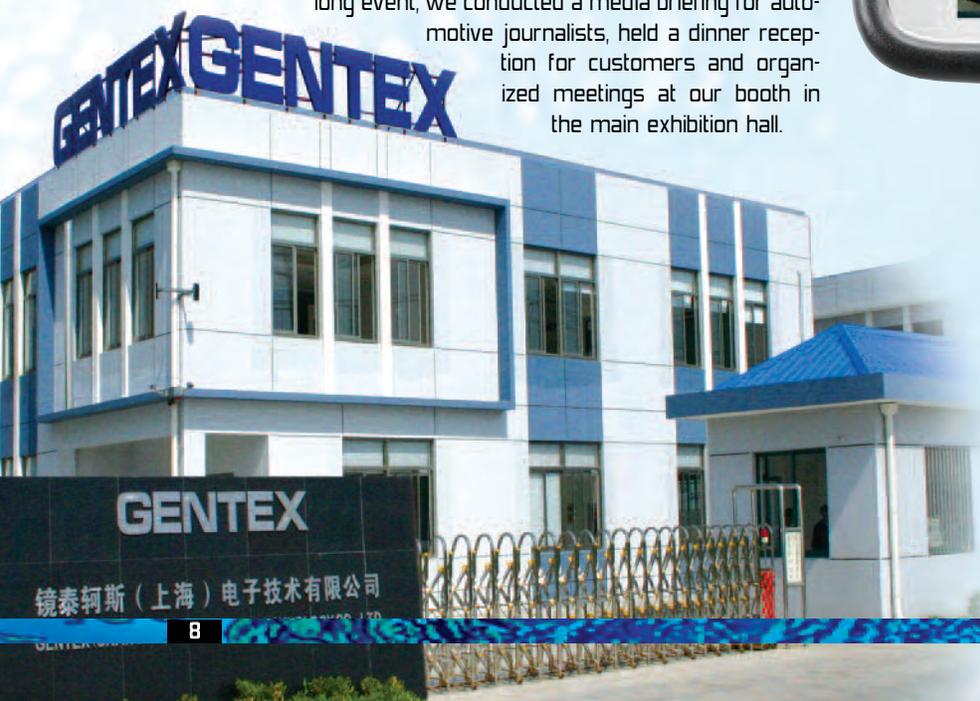
Perhaps the most notable highlight to come from our Asian sector this year was the establishment of a sales and engineering office and light final assembly facility in Shanghai, China. For several years now we've shipped product to China in support of existing customers that have established vehicle manufacturing operations there. However, in order to meet emerging localization requirements (regulations mandating that Chinese vehicles be manufactured with parts produced in China), and to better serve China's maturing domestic automakers, we opened a 25,000-square-foot sales, engineering, quality support and final assembly facility.

To introduce Gentex and our new facility to the marketplace, we participated in "AutoChina 2006" at the Beijing Auto Show. During the course of the week-long event, we conducted a media briefing for automotive journalists, held a dinner reception for customers and organized meetings at our booth in the main exhibition hall.

China is on course to become an automotive powerhouse. The country's vehicle output is predicted to more than double by 2011, when it will likely surpass Japan as the world's second-leading producer of automobiles. China has already overtaken Japan as the world's second largest market for new vehicles after the United States, registering sales of 7.22 million units in 2006, up more than 25 percent year-over-year, according to the China Association of Automobile Manufacturers.



The Gentex rear camera display provides a view directly behind the vehicle in order to improve safety when backing up.



Gentex's new facility in Shanghai, China.

*The mirror is an intuitive, ergonomic and cost-effective location for rear camera displays that lets the driver view the display and the reflected scene simultaneously.*



And the demand for vehicles has just begun to kick in with China's 1.3 billion people. If automotive sales continue at their current pace, more than 130 million vehicles will flood China's roads by 2020, up from about 33 million today.

With our new operations in Shanghai, Gentex stands poised to capitalize on China's explosive growth. Due to the size and pricing of vehicles in China, we believe that our addressable market there is approximately the top ten percent of all vehicles sold.

Automakers in Japan and Korea continue to be heavy users of Gentex advanced feature mirrors -- mirrors with displays, garage door openers, map lights, etc. Over the past year, this trend continued, especially with Japanese customers who often design their vehicles with the North American consumer in mind. Automakers in Japan continue to show increasing interest in Gentex's SmartBeam high-beam headlamp control system and rear camera display. Toyota even showed the rear camera display on a Tacoma pickup truck at an automotive specialty products show this past fall.



Total vehicle sales in China rose 25 percent last year, and the top-selling model was the FAW/Volkswagen Jetta.

The domestic Japanese market, which has been relatively slow to adopt auto-dimming technology, is beginning to show signs of growth, thanks in part to a new downsized auto-dimming interior mirror designed for smaller vehicles. The mirror, which often comes with center console lighting, debuted on the Toyota Corolla in Japan and is expected to roll out to additional small vehicles over the next two years.

Gentex has engineered a line of downsized auto-dimming mirrors designed for smaller vehicles. A small light comes on automatically at night to softly illuminate the gear selector and center console area.



Smaller SUVs and crossover vehicles such as this Mitsubishi Pajero, a downsized SUV sold in Japan, are increasingly using auto-dimming mirrors.



#### Why Look Anyplace Else?

Backing up is inherently dangerous, as the average vehicle has a rear blind spot of nearly 15 feet! Consumer and governmental safety groups continue to study backup aids aimed at improving safety while the vehicle is in the "reverse" gear, but a recent NHTSA study reported that "Of the technologies tested for their potential to reduce back-over incidents, the camera-based systems may have the greatest potential to provide drivers with reliable assistance in identifying people in the path of the vehicle when backing up."





# Worldwide Operational Overview (continued)

## Europe

### Locations:

- Germany: Erlenbach (Established 1994)  
Munich (Established 2003)  
Customers/Brands Supported: Audi, BMW, Mercedes, Opel, Porsche, Skoda, Volkswagen
- United Kingdom: Coventry (Established 1999)  
Customers/Brands Supported: Bentley, Jaguar, Land Rover, MG Rover, Rolls Royce
- France: Paris (Established 2000)  
Customers/Brands Supported: Alfa Romeo, Citroen, Fiat, Lancia, Maserati, Peugeot, SEAT
- Sweden: Landskrona (Established 2005)  
Customers/Brands Supported: Saab, Volvo



### 2006 Highlights

As noted in the Letter to Our Shareholders, a significant European sector highlight came from Mercedes, where Genetex is now a tier one supplier on virtually all of the Mercedes interior mirrors we ship. Previously, we shipped mirror sub-assemblies to another tier one mirror supplier, but today we ship a complete interior auto-dimming mirror with up to four additional electronic features directly to Mercedes assembly plants.

One of those features is a proprietary Genetex microphone designed for hands-free communication within the harsh automotive environment. The dual-array, automotive-grade microphone not only handles moisture and temperature extremes, but also mitigates wind, vibration and electronically induced noise.

Another feature selling well in Europe is SmartBeam. In 2006, the BMW 3-Series sedan joined the 5-, 6- and 7-Series models in offering our automatic high-beam headlamp assist system. SmartBeam uses a tiny camera and microprocessor-based algorithmic decision making to automatically turn your high beams on and off according to surrounding light and traffic conditions. The system makes nighttime driving safer by optimizing high-beam usage.

This past summer, Genetex sponsored SmartBeam consumer research in Europe using the respected TÜV Rheinland Group, an international service company based in Germany that documents the safety and quality of new products, systems and services. TÜV surveyed drivers in Germany and the U.K. and found that:



### In 2006, Genetex began shipping directly to Mercedes.

The auto-dimming mirrors come with up to four additional electronic features, including map lights, HomeLink®, microphones and PRNDL lighting.

\*HomeLink is a registered trademark of Johnson Controls, Inc.

*SmartBeam is at the forefront of a trend that sees an increased use of in-vehicle, camera-based driver safety systems.*



- More than 81% of those surveyed would like SmartBeam on their next vehicle.
- More than 82% of those surveyed felt SmartBeam would ease the burden on the driver.
- 80% of U.K. survey participants and nearly 70% of German participants favored automating ancillary functions (like SmartBeam), because it allows the driver to focus on the primary task of driving.

SmartBeam is at the forefront of a trend that sees an increased use of in-vehicle, camera-based driver safety systems. European automakers in particular have been at the forefront in the development and implementation of advanced lighting, lane keeping, object recognition and other camera-based features. Gentex continues to advance its research in CMOS (complementary metal oxide semiconductor) imagers in order to continually improve SmartBeam while at the same time investigating the feasibility -- and more important, the profitability and business case -- for using the technology as a platform for additional value-added, safety features.

No matter what new features the future brings, integrating them into the vehicle is always one of the automakers' biggest challenges.

SmartBeam optimizes high-beam usage while relieving drivers of the repetitive task of turning high beams on and off manually. In Europe and other select regions, BMW now offers SmartBeam on its 3-, 5-, 6- and 7-Series sedans.



This small, oval-shaped auto-dimming mirror supports the Audi TT's styling and comes with a red transreflective compass display that matches the car's interior lighting scheme.

Over the years, Gentex has proven that the mirror is a safe, ergonomic, intuitive and cost-effective location for displays, sensors, cameras, microphones, driver interfaces and other feature components. Integrating features in the mirror also enhances styling for Europe's prestigious, style-conscious brands by "bundling" features that otherwise would clutter the dash and/or windscreen.

Gentex's new Z-Nav compass technology also improves styling by allowing the transducer (compass-heading sensor) to be mounted directly on the mirror circuit board instead of a separate, fixed housing.

#### Gentex Microphones

The microphone is a critical enabler for effective in-vehicle telematics systems, hands-free phones and voice-activated features. That's why Gentex maintains its own microphone research and development program. Mercedes, Chrysler and Ford all use Gentex's proprietary, automotive-grade, mirror-borne microphones.

#### Wire Management and Windscreen Integration

Gentex auto-dimming mirrors and related mounting systems help automakers integrate features and house the components and wires that might otherwise clutter the dash and/or windscreen.



Gentex engineered a family of mirrors for BMW that, in addition to eliminating glare, come with one or more of the following features/components:

- Z-Nav compass transducer and display
- Anti-theft alert/light
- HomeLink
- Remote keyless entry receiver
- Fog sensor (for auto-defroster)
- Rain sensor (for auto-wipers)
- SmartBeam





# Worldwide Operational Overview (continued)

## North America

### Locations:

Michigan: Zeeland (Established 1974)

Livonia (Established 1993)

Customers/Brands Supported: Chrysler, Ford, General Motors, Suzuki



### 2006 Highlights

For the past several years, the SUV has reigned supreme in the United States. But rising gas prices have led to declining sales of these heavily featured vehicles, which often come with auto-dimming mirrors.

Enter the crossover vehicle -- a more fuel-efficient, downsized SUV or car/SUV hybrid. These vehicles are playing an increasing role in the vehicle lineup of automakers worldwide. Case-in-point: the GM trio of the Buick Enclave, Saturn Outlook and GMC Acadia all are available with a Gentex auto-dimming interior and driver-side exterior mirror with a turn signal.

The North American market also leads the way in the integration of features in exterior auto-dimming mirrors. Topping the feature list is Gentex's proprietary, new Razor, an arrow-shaped, LED-illuminated turn signal. Gentex is currently shipping Razor for the Toyota Tundra, and plans to begin shipping the feature for additional vehicles in the near future.

Another exterior mirror feature gaining momentum in the United States is Gentex's turn/approach module, which features a turn-signal indicator and vehicle approach/side lighting in one compact component. The signal shines directly into the vehicle's rearward/sideward blindspots in order to alert trailing vehicles of impending turns and lane changes. The approach lighting makes entering and exiting the vehicle safer and more convenient by illuminating the door handle and surrounding entry area when the car door opens or when the remote keyless entry system is activated.

2006 also saw the debut of the 2007 Chrysler 300C, a car available with more Gentex features than any other customer vehicle in our history, including:

- Automatic-dimming interior mirror
- DaimlerChrysler's U-Connect™ (hands-free phone) interface
- Proprietary Gentex microphone
- SmartBeam
- Automatic-dimming driver- and passenger-side exterior mirrors
- Approach lighting
- Turn signals



Gentex's dual-feature turn signal and approach lighting module.

*2006 also saw the debut of the 2007 Chrysler 300C, a car available with more Gentex features than any other customer vehicle in our history.*

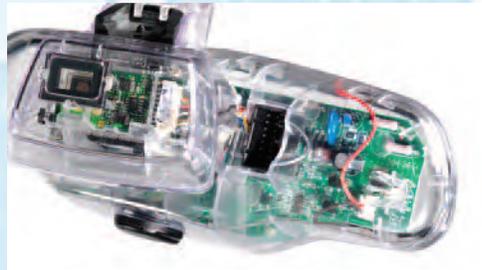


Just as in Europe, Gentex's SmartBeam continues to grow in popularity in the United States. In addition to the Chrysler 300C, the feature was recently added to the Cadillac Escalade and Cadillac Escalade EXT. Add-on programs are expected to follow.

This past summer, SmartBeam consumer research was conducted in the United States by The Planning Edge, a Birmingham, Michigan-based automotive research and analysis firm. The study surveyed current owners of Gentex's SmartBeam technology to see how they valued the system. The results were overwhelmingly positive.

- 86% of SmartBeam owners are satisfied with the feature. In fact, 58% of owners indicate extreme satisfaction.
- 92% of SmartBeam owners feel the feature meets or exceeds their expectations.
- 91% of SmartBeam owners never, rarely or only occasionally find the need to override the system.
- 80% of SmartBeam owners believe SmartBeam is more convenient than manual high-beam switching.
- Nearly 70% of owners said SmartBeam makes them feel safer when driving at night.

Telematics systems continue to proliferate in the United States vehicle market, and increasingly, the Gentex auto-dimming mirror is home to various system components, including driver interfaces and microphones. GM's OnStar interface continues to primarily reside in Gentex mirrors while, as previously mentioned, Chrysler's U-Connect hands-free phone and Ford's voice-activated navigation controls utilize Gentex microphones.



Gentex mirrors allow automakers to strategically integrate a wide variety of features into the vehicle in one electronic module.



**Crossing over to the Crossover**

Small, fuel-efficient crossover vehicles are increasingly gaining popularity. In 2006, Gentex began shipping for six crossover vehicles, including the following:

- Dodge Caliber
- Dodge Nitro
- Ford Edge
- Jeep Compass
- Lincoln MKX
- Mitsubishi Pajero

#### Razor Turn Signal

Gentex's proprietary, new Razor uses either red or amber LEDs (light-emitting diodes) to illuminate an arrow-shaped turn signal in exterior auto-dimming mirrors. The signals are designed to shine directly into the vehicle's rearward/sideward blindspots in order to alert trailing vehicles of impending turns and lane changes.

- Auto-dimming Interior Mirror
- U-Connect Hands-Free Phone
- Gentex Microphone
- Auto-dimming Exterior Mirrors
- Approach Lighting
- Turn Signals
- SmartBeam



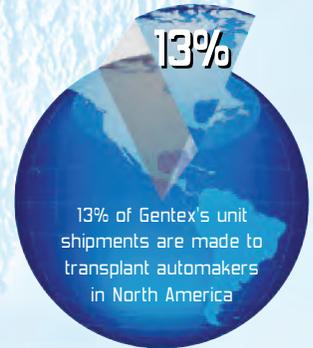


## Transplants

Due to the global nature of our business, and because most automakers sell vehicles in multiple markets around the world, each overseas Gentex sales/engineering office supports multiple international customers in addition to the domestic automakers in their region.

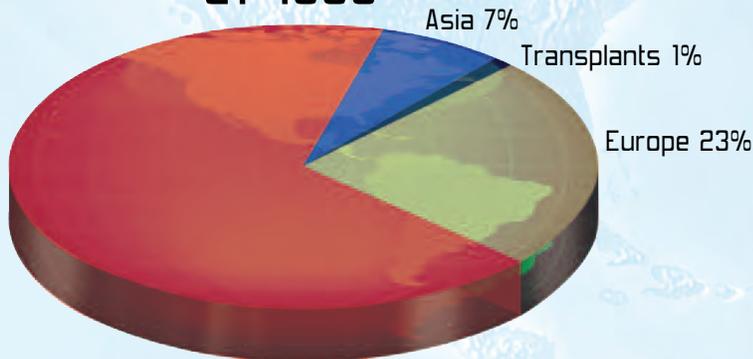
Foreign automakers that manufacture and sell vehicles in North America are often referred to as "transplants." In 1999, one percent of all of Gentex shipments went to transplants. Today that number tops 13 percent. We expect that number to continue to grow, as more Asian and European automakers locate additional vehicle assembly plants in the United States.

Gentex truly is a global automotive supplier, with products and features that meet the unique needs of the various automotive markets around the world. We serve nearly every major automaker worldwide, and it's the size and diversity of our customer base that strongly contributes to our continued long-term success.

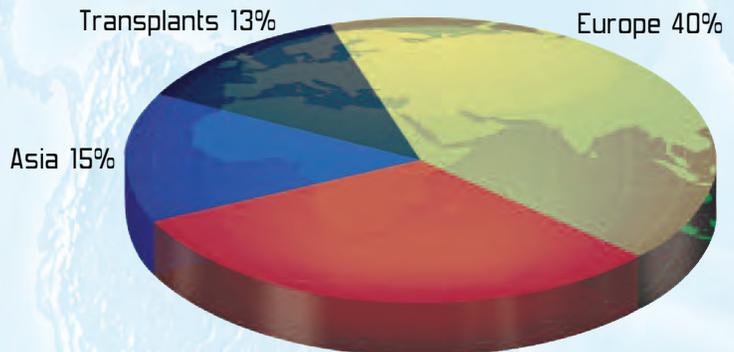


## Summary: Auto-Dimming Mirror Shipments by Region\*

### CY 1999



### CY 2006



\*Units in pie charts are calculated based on the location to which they are shipped.

# Financials

# Management's Discussion and Analysis of Financial Condition and 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.

Year Ended December 31	Percentage of Net Sales			Percent Change	
	2006	2005	2004	2006 to 2005	2005 to 2004
Net Sales	100.0%	100.0%	100.0%	6.7%	6.1%
Cost of Goods Sold	65.2	63.0	58.9	10.5	13.4
Gross Profit	34.8	37.0	41.1	0.2	(4.4)
Operating Expenses:					
Engineering, Research and Development	7.3	6.5	6.1	19.2	13.7
Selling, General and Administrative	5.4	5.1	5.3	13.2	1.6
Total Operating Expenses	12.7	11.6	11.4	16.5	8.1
Operating Income	22.1	25.4	29.7	(7.2)	(9.2)
Other Income	5.7	4.4	3.1	37.8	50.6
Income Before Provision for Income Taxes	27.8	29.8	32.8	(0.6)	(3.5)
Provision for Income Taxes	8.8	9.4	10.5	(0.3)	(5.1)
Net Income	19.0%	20.4%	22.3%	(0.7)%	(2.8)%

## RESULTS OF OPERATIONS: 2006 TO 2005

**Net Sales.** Company net sales increased by \$35,783,000, or 7% compared to the prior year. Automotive net sales increased by 7% on a 7% increase in mirror shipments, from 12,570,000 to 13,427,000 units, primarily reflecting increased penetration of interior and exterior auto-dimming mirrors on European and Asian vehicles. North American mirror unit shipments increased by 1%, primarily due to takeover business from Magna Donnelly at General Motors, partially offset by lower customer production volumes on light trucks and sport utility vehicles in North America. Overseas unit shipments increased by 12% during 2006 due to increased penetration at certain European and Asian automakers. Net sales of the Company's fire protection products increased 1%, primarily due to stronger sales of certain signal products.

**Cost of Goods Sold.** As a percentage of net sales, cost of goods sold increased from 63% to 65%, primarily reflecting the impact of automotive customer price reductions. For the year ended December 31, 2006, stock option expense impacted cost of goods sold by \$2,266,000. Effective January 1, 2006, the Company adopted SFAS No. 123(R).

**Operating Expenses.** Engineering, research and development expenses increased approximately \$6,714,000, but remained at 7% of net sales. Excluding stock option expense of \$2,503,000, E,R & D expenses increased by 12%, primarily due to additional staffing for new electronic product development, including SmartBeam and telematics and new vehicle programs. Selling, general and administrative expenses increased approximately \$3,596,000, but remained at 5% of net sales. Excluding stock option expense of \$2,290,000, S, G & A expenses increased by 5%, primarily reflecting the continued expansion of the Company's overseas sales offices to support the Company's current and future overseas sales growth, partially offset by a reduction in non-income based state taxes.

**Other Income - Net.** Investment income increased \$3,715,000 in 2006, primarily due to increased interest income due to higher interest rates, partially offset by lower investable funds. Other income increased \$5,212,000 in 2006, primarily due to realized gains on the sale of equity investments.

**Taxes.** The provision for federal income taxes varied from the statutory rate in 2006 primarily due to Extra Territorial Income (ETI) Exclusion Act exempted taxable income from increased foreign sales and the domestic manufacturing deduction.

**Net Income.** Net income decreased by \$767,000, or 1%. Excluding stock option expense of \$4,555,000, the Company's net income increased by 3% primarily reflecting the increase in other income, partially offset by decreased gross margin primarily due to the impact of automotive customer price reductions.

## RESULTS OF OPERATIONS: 2005 TO 2004

**Net Sales.** Automotive net sales increased by 6% on an 8% increase in mirror shipments, from 11,640,000 to 12,570,000 units, primarily reflecting increased penetration of interior and exterior auto-dimming mirrors on European vehicles. North American mirror unit shipments increased by 4%, as growth in Asian transplant vehicle penetration was partially offset by reduced shipments to domestic automakers due to their lower production volumes, while overseas unit shipments increased by 12% during 2005. Net sales of the Company's fire protection products increased 5%, primarily due to stronger sales of certain fire alarm and signal products.

**Cost of Goods Sold.** As a percentage of net sales, cost of goods sold increased from 59% to 63% primarily reflecting annual and other automotive customer price reductions, product mix, higher fixed overhead expenses, and yield issues on certain new exterior mirror production lines and in the microelectronics manufacturing area. Each factor is estimated to have impacted cost of goods sold by approximately 1-2%.

**Operating Expenses.** Engineering, research and development expenses increased approximately \$4,226,000, and increased from 6% to 7% of net sales, primarily due to additional staffing for new electronic product development, including SmartBeam and telematics, and new vehicle programs. Selling, general and administrative expenses increased approximately \$441,000, but remained at 5% of net sales, primarily reflecting the continued expansion of the Company's overseas sales offices to support the Company's current and future overseas sales growth, partially offset by a reduction in state taxes.

**Other Income - Net.** Investment income increased \$9,648,000 in 2005, primarily due to increased year-end mutual fund distribution income and increased interest income due to higher interest rates. Other income decreased \$1,714,000 in 2005, primarily due to decreased realized gains on the sale of equity investments.

**Taxes.** The provision for federal income taxes varied from the statutory rate in 2005 primarily due to Extra Territorial Income Exclusion Act exempted taxable income from increased foreign sales.

**Net Income.** Net income decreased by 3%, primarily reflecting the decreased gross margin, partially offset by increased other income in 2005.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's financial condition throughout the periods presented has remained very strong.

The Company's current ratio decreased from 10.7 as of December 31, 2005, to 7.8 as of December 31, 2006, primarily as a result of the decrease in cash and cash equivalents due to share repurchases during the year.

Cash flow from operating activities for the year ended December 31, 2006, increased \$5,196,000 to \$131,440,000, compared to \$126,244,000 for the same period last year, primarily due to a decrease in accounts receivable. Capital expenditures for the year ended December 31, 2006, decreased to \$48,193,000, compared to \$53,533,000 for the same period last year, primarily due to the completion of the new facilities in mid 2006. The Company currently anticipates capital expenditures of approximately \$40-45 million for equipment and an addition to its exterior automotive mirror manufacturing plant during 2007, financed from existing cash and/or cash equivalents on hand.

Cash and cash equivalents as of December 31, 2006, decreased approximately \$194,182,000 compared to December 31, 2005, primarily due to share repurchases.

Inventories as of December 31, 2006, increased approximately \$8,969,000 compared to December 31, 2005. The increase was primarily due to longer lead times on certain electronic components, smoothing out holiday schedules, and building up parts in anticipation of manufacturing line moves.

The increase in plant and equipment as of December 31, 2006, compared to December 31, 2005, is primarily due to new manufacturing equipment and the completion of the new facilities.

Management considers the Company's working capital of approximately \$389,515,000 and long-term investments of approximately \$146,216,000 at December 31, 2006, together with internally generated cash flow and an unsecured \$5,000,000 line of credit from a bank, to be sufficient to cover anticipated cash needs for the next year and for the foreseeable future.

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.

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	<u>1,232,884</u>	<u>19,487,427</u>
Total	17,531,743	\$ 262,312,636

6,468,257 shares remain authorized to be repurchased under the plan.

## INFLATION, CHANGING PRICES AND OTHER

The Company generally supplies auto-dimming mirrors to its customers worldwide under annual blanket purchase orders. During 2005, the Company negotiated an extension to its long-term agreement with General Motors (GM) in the ordinary course of the Company's business. Under the extension, the Company was sourced virtually all the interior auto-dimming rearview mirrors programs for GM and its worldwide affiliates through August 2009, except for two low-volume models that had previously been awarded to a competitor under a lifetime contract. The new business also included the GMT360 program, which is the mid-size truck/SUV platform that previously did not offer auto-dimming mirrors. The GM programs were transferred to the Company by the 2007 model year. At that time we estimated that this new business represented incremental auto-dimming mirror units in the range of 500,000 on an annualized basis. The Company also negotiated a price reduction for the GM OnStar® feature in its auto-dimming mirrors, effective January 1, 2005, in connection with GM's stated plan to make their OnStar system standard across their vehicle models over the next several years.

During 2005, the Company negotiated an extension to its long-term agreement with DaimlerChrysler in the ordinary course of the Company's business. Under the extension, the Company will be sourced virtually all Mercedes and Chrysler interior and exterior auto-dimming rearview mirrors through December 2009. The Company's exterior auto-dimming mirror sub-assemblies are supplied by means of sales to exterior mirror suppliers.

The Company currently expects that auto-dimming mirror unit shipments will be approximately 5-10% percent higher and revenue growth will be toward the high end of this range in calendar 2007 compared with calendar 2006 due to the current forecast of product mix. 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.

The Company utilizes the light vehicle production forecasting services of CSM Worldwide, and CSM's current forecasts for light vehicle production for calendar 2007 are approximately 15.3 million units for North America, 20.8 million for Europe and 14.5 million for Japan and Korea.

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

## 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.

The Company has some assets, liabilities and operations outside the United States, including a Euro-denominated account, which currently are not significant. Because the Company sells its automotive mirrors throughout the world, 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 2006, approximately 13% of the Company's net sales were invoiced and paid in European euros. The Company currently expects that approximately 13% of the Company's net sales in 2007 will be invoiced and paid in European euros. The Company does not currently engage in hedging activities.

## MARKET RISK DISCLOSURE (continued)

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:

	2007	2008	2009	2010	Total Balance as of December 31,	
					2006	2005
<b>U.S. Government</b>						
Amount	-	-	-	-	-	\$ 5.0
Average Interest Rate	-	-	-	-	-	4%
<b>Government Agency</b>						
Amount	\$9.0	-	-	-	\$9.0	\$18.0
Average Interest Rate	5%	-	-	-	5%	3%
<b>Municipal</b>						
Amount	-	-	-	-	-	-
Average Interest Rate*	-	-	-	-	-	-
<b>Certificates of Deposit</b>						
Amount	\$71.2	-	-	-	\$71.2	\$26.2
Average Interest Rate	5%	-	-	-	5%	4%
<b>Corporate</b>						
Amount	-	\$0.3	-	-	\$0.3	\$ 17.2
Average Interest Rate	-	7%	-	-	7%	7%
<b>Other</b>						
Amount	\$2.5	-	-	-	\$2.5	\$ 1.2
Average Interest Rate	5%	-	-	-	5%	3%

\*After-tax

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

## CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The Company has the following contractual obligations and other commitments (000,000) as of December 31, 2006:

	Total	Less than 1 Year	1-3 Years	After 3 Years
Long-term debt	\$ -	\$ -	\$ -	\$ -
Operating leases	1.0	0.5	0.4	0.1
Purchase obligations*	42.9	42.9	-	-
Dividends payable	13.5	13.5	-	-
	\$57.4	\$56.9	\$0.4	\$0.1

\*Primarily for inventory parts and capital equipment.

## CRITICAL ACCOUNTING POLICIES

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 SEC Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements," as amended. 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.

**Inventories.** Estimated inventory allowances for slow-moving and obsolete inventories are based on current assessments of future demands, market conditions 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.

## CRITICAL ACCOUNTING POLICIES (continued)

**Investments.** The Company's 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. Management uses criteria such as the period of time that securities have been in an unrealized loss position, types of securities and their related industries, as well as published investment ratings and analyst reports to evaluate their portfolio. Management considers the unrealized losses at December 31, 2006, to be temporary in nature.

**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 actual results differ from original estimates, adjustments to recorded accruals may be necessary.

**Stock-Based Compensation.** Effective January 1, 2006, the Company accounts for stock-based compensation in accordance with the fair value recognition provisions of SFAS No. 123(R). 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.

## RISK FACTORS

**Safe Harbor for Forward-Looking Statements.** This Annual Report 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 belief, assumptions, current expectations, estimates and projections about the global automotive industry, the economy, the impact of stock option expense, the ability to leverage fixed manufacturing overhead costs, unit shipment and revenue growth rates and the Company itself. Words like "anticipates," "believes," "confident," "estimates," "expects," "forecast," "likely," "plans," "projects," 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, employment and general economic conditions, the pace of economic growth in the U.S. and in international markets, the pace of automotive production worldwide, the maintenance of the Company's market share, the types of products purchased by customers, competitive pricing pressures, currency fluctuations, the financial strength of the Company's customers, the mix of products purchased by customers, the ability to continue to make product innovations, the success of newly introduced products (e.g. SmartBeam®, Z-Nav and Rear Camera Display Mirror), and other risks identified in the Company's 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.** 96% of our net sales are to customers within the automotive industry. Supplying products to the automotive industry involves increasing financial and production stresses due to continuing pricing pressures, lower domestic production levels, overcapacity, customer and supplier bankruptcies, and commodity material cost increases. Automakers are experiencing increased volatility and uncertainty in executing planned new programs which have, in some cases, resulted in cancellation or delays of new vehicle platforms, package reconfigurations and inaccurate volume forecasts. This increased volatility and uncertainty has made it more difficult for us to forecast future sales and effectively utilize capital, engineering, research and development, and human resource investments.

**Key Customers.** We have a few large customers, including four customers which each account for 10% or more of our annual net sales (including sales to their Tier 1 suppliers) -- General Motors Corporation, DaimlerChrysler AG, Toyota Motor Corporation and BMW. The loss of all or a substantial portion of the sales to any of these customers would have a material adverse effect on our sales, margins, profitability and, as a result, our share price. Effective October 1, 2003, General Motors Corporation, our largest customer, 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, etc.

**Pricing Pressures.** In addition to price reductions over the life of our long-term agreements, we continue to experience 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 productivity and manufacturing yield improvements, engineering and purchasing cost reductions, and increases in unit sales volume, which has been a challenge. In addition, profit pressures at certain automakers are resulting in increased cost reduction efforts by them, including requests for additional price reductions, decontenting certain features from vehicles, and warranty cost-sharing programs, any of which could adversely impact our sales growth, margins, profitability and, as a result, our share price.

## RISK FACTORS (continued)

**Credit Risk.** In light of the financial stresses within the worldwide automotive industry, certain automakers and tier one mirror customers have already declared bankruptcy or may be considering bankruptcy. Should one or more of our larger customers declare bankruptcy, it could adversely impact the collectibility of our accounts receivable, bad debt expense and net income.

**Supply Chain Disruptions.** Due to the just-in-time supply chains within the automotive industry, a disruption in a supply chain caused by an unrelated supplier due to bankruptcy, work stoppages, strikes, etc. could disrupt our shipments to one or more automaker customers, which could adversely affect our sales, margins, profitability and, as a result, our share price.

**Competition.** We recognize that Magna Donnelly, our main competitor and a wholly-owned subsidiary of Magna International, is considerably larger than our Company 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.

**New Technology and Product Development.** We continue to invest a significant portion of our annual sales in engineering, research and development projects. Should these efforts ultimately prove unsuccessful, our sales, net income and, as a result, our share price will be adversely affected.

**Intellectual Property.** We believe that our patents and trade secrets provide us with a significant competitive advantage in automotive rearview mirrors. The loss of any significant combination of patents and trade secrets could adversely affect our sales, margins, profitability and, as a result, share price.

**Intellectual Property Litigation and Infringement Claims.** A successful claim of patent or other intellectual property infringement against us could affect our profitability and 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 and the uncertainty of intellectual property litigation increases these risks. Any of these adverse consequences could potentially have an effect on Gentex's business, financial condition and results of operations.

**Business Disruptions.** Manufacturing of our proprietary products employing electro-optic technology are performed at the Company's five 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 these potential costs. Our inability to conduct normal business operations for a period of time may have an adverse impact on long-term operating results.

**Other.** Other issues and uncertainties which could adversely impact our sales, margins, profitability and, as a result, our share price include:

- Changes in worldwide economic conditions, currency exchange rates, war or significant terrorist acts, which could affect worldwide automotive sales and production levels.
- Changes in the commodity prices of the materials used in our products. We continue to experience some pressure for select raw material cost increases.
- Manufacturing yield issues may negatively impact our margins and profitability. We continue to experience some manufacturing yield issues on certain lines.
- Our ability to attract or retain key employees to operate our manufacturing facilities and corporate office. We are dependent on the services of our management team. Losing one or more 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 and bylaws, the laws of Michigan, and our Shareholder Protection Rights Plan include provisions which are designed to provide our board of directors with 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. The provisions also could diminish the opportunities for a holder of our common stock to participate in tender offers, including tender offers at a price above the then current price for our common stock. These provisions could also prevent transactions in which our shareholders might otherwise receive a premium for their shares over then current market prices, and may limit the ability of our shareholders to approve transactions that they may deem to be in their best interests.

All of these provisions may have the effect of delaying or preventing a change in control at the company level without action by our shareholders, and therefore, could adversely affect the price of our common stock.

**Fluctuations in Market Price.** The market price for our common stock has fluctuated, ranging between \$12.74 and \$21.00 for 2006. 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:

- 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;
- the size of the public float of our common stock;
- market conditions, including the industry in which we operate, and
- general economic conditions.

# CONSOLIDATED BALANCE SHEETS

As of December 31, 2006 and 2005

	2006	2005
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$245,499,783	\$439,681,693
Short-term investments	82,727,927	67,331,928
Accounts receivable	58,337,396	60,924,437
Inventories	48,805,398	39,836,822
Prepaid expenses and other	11,507,590	11,212,647
Total current assets	446,878,094	618,987,527
<b>Plant and equipment:</b>		
Land, buildings and improvements	95,998,488	57,544,173
Machinery and equipment	231,526,281	196,878,770
Construction-in-process	12,393,019	40,858,633
	339,917,788	295,281,576
Less-Accumulated depreciation and amortization	(155,783,415)	(131,251,235)
	184,134,373	164,030,341
<b>Other Assets:</b>		
Long-term investments	146,215,929	132,524,966
Patents and other assets, net	7,800,004	7,102,968
	154,015,933	139,627,934
	\$785,028,400	\$922,645,802
<b>LIABILITIES AND SHAREHOLDERS' INVESTMENT</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 23,881,973	\$ 23,607,927
Accrued liabilities:		
Salaries, wages and vacation	4,288,825	3,798,648
Income taxes	4,744,765	2,739,364
Royalties	5,091,886	7,467,491
Dividends declared	13,535,237	14,043,959
Other	5,820,292	6,430,870
Total current liabilities	57,362,978	58,088,259
<b>Deferred Income Taxes</b>	24,971,133	22,962,168
<b>Shareholders' Investment:</b>		
Preferred stock, no par value, 5,000,000 shares authorized; none issued or outstanding	-	-
Common stock, par value \$.06 per share; 200,000,000 shares authorized	8,548,571	9,362,639
Additional paid-in capital	196,901,488	194,476,306
Retained earnings	472,192,400	623,301,775
Deferred compensation	-	(4,847,659)
Accumulated other comprehensive income:		
Unrealized gain on investments	23,246,788	18,795,360
Cumulative translation adjustment	1,805,042	506,954
Total shareholders' investment	702,694,289	841,595,375
	\$785,028,400	\$922,645,802

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
<b>Net Sales</b>	<b>\$572,267,073</b>	<b>\$536,483,974</b>	<b>\$505,666,335</b>
<b>Cost of Goods Sold</b>	<b>373,163,484</b>	<b>337,843,632</b>	<b>297,920,747</b>
Gross profit	199,103,589	198,640,342	207,745,588
<b>Operating Expenses:</b>			
Engineering, research and development	41,773,792	35,059,401	30,833,627
Selling, general and administrative	30,882,821	27,286,404	26,845,748
Total operating expenses	72,656,613	62,345,805	57,679,375
Income from operations	126,446,976	136,294,537	150,066,213
<b>Other Income:</b>			
Interest and dividend income	24,004,833	20,289,908	10,642,129
Other, net	8,521,789	3,310,066	5,024,176
Total other income	32,526,622	23,599,974	15,666,305
Income before provision for income taxes	158,973,598	159,894,511	165,732,518
<b>Provision for income taxes</b>	<b>50,212,596</b>	<b>50,367,000</b>	<b>53,076,000</b>
<b>Net income</b>	<b>\$ 108,761,002</b>	<b>\$ 109,527,511</b>	<b>\$ 112,656,518</b>
<b>Earnings per share:</b>			
Basic	\$ 0.74	\$ 0.70	\$ 0.73
Diluted	\$ 0.73	\$ 0.70	\$ 0.72
<b>Cash Dividends Declared per share</b>	<b>\$ 0.37</b>	<b>\$ 0.35</b>	<b>\$ 0.32</b>

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT

For the years ended December 31, 2006, 2005, and 2004

	Common Stock Shares	Common Stock Amount
BALANCE AS OF DECEMBER 31, 2003	77,040,816	\$4,622,449
Issuance of common stock and the tax benefit of stock plan transactions	825,935	49,566
Dividends declared (\$0.32 per share)	-	-
Amortization of deferred compensation	-	-
Comprehensive income:		
Net income	-	-
Other comprehensive income (loss):		
Foreign currency translation adjustment	-	-
Unrealized gain on investments, net of tax of \$2,098,093	-	-
Other comprehensive income	-	-
Comprehensive income	-	-
BALANCE AS OF DECEMBER 31, 2004	77,866,751	4,672,005
Issuance of common stock and the tax benefit of stock plan transactions	1,652,948	99,177
2-for-1 Common stock split	78,020,342	4,681,221
Repurchases of common stock	(1,496,059)	(89,764)
Dividends declared (\$0.35 per share)	-	-
Amortization of deferred compensation	-	-
Comprehensive income:		
Net income	-	-
Other comprehensive income (loss):		
Foreign currency translation adjustment	-	-
Unrealized gain on investments, net of tax of \$1,743,097	-	-
Other comprehensive income	-	-
Comprehensive income	-	-
BALANCE AS OF DECEMBER 31, 2005	156,043,982	9,362,639
Reclassification of Deferred Compensation upon adopting (SFAS No. 123(R))	-	-
Issuance of common stock and the tax benefit of stock plan transactions	1,637,883	98,273
Stock-based compensation expense related to stock options, employee stock purchases and restricted stock	-	-
Repurchases of common stock	(15,205,684)	(912,341)
Dividends declared (\$0.37 per share)	-	-
Comprehensive income:		
Net income	-	-
Other comprehensive income (loss):		
Foreign currency translation adjustment	-	-
Unrealized gain on investments, net of tax of \$2,396,923	-	-
Other comprehensive income	-	-
Comprehensive income	-	-
BALANCE AS OF DECEMBER 31, 2006	142,476,181	\$8,548,571

The accompanying notes are an integral part of these consolidated financial statements.

Additional Paid-In Capital	Comprehensive Income (Loss)	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Investment
\$152,874,325		\$528,358,825	\$(4,658,450)	\$12,446,182	\$693,643,331
22,391,789		-	(2,323,123)	-	20,118,222
-		(49,469,017)	-	-	(49,469,017)
-		-	1,573,722	-	1,573,722
-	\$112,656,518	112,656,518	-	-	112,656,518
-	860,738	-	-	-	-
-	3,896,458	-	-	-	-
-	<u>4,757,196</u>	-	-	4,757,196	4,757,196
-	<u>\$117,413,714</u>	-	-	-	-
175,266,114		591,546,326	(5,407,851)	17,203,378	783,279,972
25,641,802		-	(1,069,507)	-	24,671,472
(4,681,221)					-
(1,750,389)		(23,374,420)	-	-	(25,214,573)
-	-	(54,397,642)	-	-	(54,397,642)
-	-	-	1,629,699	-	1,629,699
-	\$109,527,511	109,527,511	-	-	109,527,511
-	(1,138,244)	-	-	-	-
-	<u>3,237,180</u>	-	-	-	-
-	<u>2,098,936</u>	-	-	2,098,936	2,098,936
-	<u>\$111,626,447</u>	-	-	-	-
194,476,306		623,301,775	(4,847,659)	19,302,314	841,595,375
(4,847,659)		-	4,847,659	-	-
18,854,905		-	-	-	18,953,178
8,481,871		-	-	-	8,481,871
(20,063,935)		(205,874,977)	-	-	(226,851,253)
-		(53,995,400)	-	-	(53,995,400)
-	\$108,761,002	108,761,002	-	-	108,761,002
-	1,298,088	-	-	-	-
-	<u>4,451,428</u>	-	-	-	-
-	<u>5,749,516</u>	-	-	5,749,516	5,749,516
-	<u>\$114,510,518</u>	-	-	-	-
<b>\$196,901,488</b>		<b>\$472,192,400</b>	<b>\$ -</b>	<b>\$25,051,830</b>	<b>\$702,694,289</b>

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31,

	2006	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 108,761,002	\$ 109,527,511	\$ 112,656,518
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	27,762,710	23,823,327	21,740,832
Loss on disposal of assets	117,872	420,522	88,679
Gain on sale of investments	(11,041,851)	(5,710,679)	(5,655,756)
Loss on sale of investments	4,674,676	2,511,060	2,351,347
Deferred income taxes	(1,754,219)	(2,172,589)	2,403,593
Stock-based compensation expense related to employee stock options, employee stock purchases and restricted stock	8,481,871	1,629,699	1,573,722
Tax benefit of stock plan transactions	0	3,180,230	3,511,622
Excess tax benefits from stock based compensation	(235,410)	0	0
Change in operating assets and liabilities:			
Accounts receivable	2,587,041	(4,832,107)	2,863,493
Inventories	(8,968,576)	(9,236,033)	(9,662,093)
Prepaid expenses and other	1,071,317	491,532	627,997
Accounts payable	274,046	3,758,358	1,590,458
Accrued liabilities	(290,328)	2,853,627	(2,721,956)
Net cash by operating activities	131,440,151	126,244,458	131,368,456
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Activity in available-for-sale securities:			
Sales proceeds	60,550,849	30,057,962	31,101,380
Maturities and calls	64,240,000	101,159,061	78,792,849
Purchases	(140,662,282)	(101,378,452)	(105,551,220)
Plant and equipment additions	(48,193,083)	(53,533,235)	(30,535,174)
Proceeds from sale of plant and equipment	500,665	1,141,013	56,500
Decrease (increase) in other assets	308,855	(2,046,876)	(1,001,902)
Net cash provided by (used for) investing activities	(63,254,996)	(24,600,527)	(27,137,567)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Issuance of common stock from stock plan transactions	18,953,178	21,491,243	16,606,601
Cash dividends paid	(54,704,400)	(53,777,627)	(47,961,742)
Repurchases of common stock	(226,851,253)	(25,214,573)	0
Excess tax benefits from stock based compensation	235,410	0	0
Net cash provided by (used for) financing activities	(262,367,065)	(57,500,957)	(31,355,141)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(194,181,910)</b>	<b>44,142,974</b>	<b>72,875,748</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of period</b>	<b>439,681,693</b>	<b>395,538,719</b>	<b>322,662,971</b>
<b>CASH AND CASH EQUIVALENTS, End of period</b>	<b>\$245,499,783</b>	<b>\$439,681,693</b>	<b>\$395,538,719</b>

The accompanying notes are an integral part of these consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

**The Company.** Gentex Corporation designs, develops, manufactures and markets proprietary electro-optical products: automatic-dimming rearview mirrors for the automotive industry and fire protection products for the commercial building industry. A substantial portion of the Company's net sales and accounts receivable result from transactions with domestic and foreign automotive manufacturers and tier one suppliers. The Company's fire protection products are primarily sold to domestic distributors and original equipment manufacturers of fire and security systems. The Company does not require collateral or other security for trade accounts receivable.

Significant accounting policies of the Company not described elsewhere are as follows:

**Consolidation.** The consolidated financial statements include the accounts of Gentex Corporation and all of its wholly-owned subsidiaries (together the "Company"). All significant intercompany accounts and transactions have been eliminated.

**Cash Equivalents.** Cash equivalents consist of funds invested in bank accounts and money market funds that have daily liquidity.

**Investments.** At December 31, 2006, investment securities are available for sale and are stated at fair value based on quoted market prices. Adjustments to the fair value of investments are recorded as increases or decreases, net of income taxes, within accumulated other comprehensive income (loss) in shareholders' investment.

The amortized cost, unrealized gains and losses, and market value of investment securities are shown as of December 31, 2006 and 2005:

2006	Cost	Unrealized		Market Value
		Gains	Losses	
Government Agency	\$ 8,992,336	\$ -	\$ (3,796)	\$ 8,988,540
Certificates of Deposit	71,200,000	-	-	71,200,000
Corporate Bonds	297,579	-	(4,926)	292,653
Other Fixed Income	2,539,387	-	-	2,539,387
Equity	110,150,262	36,173,199	(400,185)	145,923,276
	<u>\$ 193,179,564</u>	<u>\$ 36,173,199</u>	<u>\$(408,907)</u>	<u>\$228,943,856</u>

2005				
U.S. Government	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000
Government Agency	18,024,332	-	(33,462)	17,990,870
Certificates of Deposit	26,200,000	-	-	26,200,000
Corporate Bonds	17,288,250	-	(93,899)	17,194,351
Other Fixed Income	1,215,708	-	-	1,215,708
Equity	103,212,665	30,802,826	(1,759,526)	132,255,965
	<u>\$170,940,955</u>	<u>\$30,802,826</u>	<u>\$(1,886,887)</u>	<u>\$199,856,894</u>

Unrealized losses on investments as of December 31, 2006, are as follows:

	Aggregate Unrealized Losses	Aggregate Fair Value
Less than one year	\$351,434	\$7,451,508
Greater than one year	57,473	10,210,915

Management has reviewed the unrealized losses in the Company's fixed-income and equity securities as of December 31, 2006, and has determined that they are temporary in nature; accordingly, no losses have been recognized in income as of December 31, 2006.

Fixed income securities as of December 31, 2006, have contractual maturities as follows:

Due within one year	\$ 82,731,723
Due between one and five years	297,579
Due over five years	-
	<u>\$83,029,302</u>

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

**Fair Value of Financial Instruments** The Company's financial instruments consist of cash and cash equivalents, investments, accounts receivable and accounts payable. The Company's estimate of the fair values of these financial instruments approximates their carrying amounts at December 31, 2006 and 2005.

**Inventories.** Inventories include material, direct labor and manufacturing overhead and are valued at the lower of first-in, first-out (FIFO) cost or market. Inventories consisted of the following as of December 31, 2006 and 2005:

	2006	2005
Raw materials	\$ 31,727,666	\$ 24,628,200
Work-in-process	4,681,714	3,739,394
Finished goods	12,396,018	11,469,228
	<b>\$48,805,398</b>	<b>\$39,836,822</b>

Allowances for slow-moving and obsolete inventories were not significant as of December 31, 2006 and 2005.

**Plant and Equipment.** Plant and equipment are stated at cost. Depreciation and amortization are computed for financial reporting purposes using the straight-line method, with estimated useful lives of 7 to 40 years for buildings and improvements, and 3 to 10 years for machinery and equipment.

**Impairment or Disposal of Long-Lived Assets.** The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are determined to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

**Patents.** The Company's policy is to capitalize costs incurred to obtain patents. The cost of patents is amortized over their useful lives. The cost of patents in process is not amortized until issuance. Accumulated amortization was approximately \$3,510,000 and \$3,218,000 at December 31, 2006 and 2005, respectively. At December 31, 2006, patents had a weighted average amortization life of 13 years. Patent amortization expense was approximately \$292,000, \$233,000, and \$193,000 in 2006, 2005 and 2004, respectively. For each of the next five years, patent amortization expense will approximate \$362,000 annually.

**Revenue Recognition.** The Company's revenue is generated from sales of its products. Sales are recognized when the product is shipped and legal title has passed to the customer. The Company does not generate sales from arrangements with multiple deliverables.

**Advertising and Promotional Materials.** All advertising and promotional costs are expensed as incurred and amounted to approximately \$1,250,000, \$1,458,000 and \$1,314,000, in 2006, 2005 and 2004, respectively.

**Repairs and Maintenance.** Major renewals and improvements of property and equipment are capitalized, and repairs and maintenance are expensed as incurred. The Company incurred expenses relating to the repair and maintenance of plant and equipment of approximately \$6,727,000, \$5,770,000 and \$5,171,000, in 2006, 2005 and 2004, respectively.

**Self-Insurance.** The Company is self-insured for a portion of its risk on workers' compensation and employee medical costs. The arrangements provide for stop loss insurance to manage the Company's risk. Operations are charged with the cost of claims reported and an estimate of claims incurred but not reported based upon historical claims lag information and other data.

**Product Warranty.** The Company periodically incurs product warranty costs. Any liabilities associated with product warranty are estimated based on known facts and circumstances and are not significant at December 31, 2006 and 2005. The Company does not offer extended warranties on its products.

**Earnings Per Share.** The following table reconciles the numerators and denominators used in the calculations of basic and diluted earnings per share (EPS) for each of the last three years:

	2006	2005	2004
Numerators			
Numerator for both basic and diluted EPS, net income	\$108,761,002	\$109,527,511	\$112,656,518
Denominators:			
Denominator for basic EPS, weighted-average common shares outstanding	147,950,666	155,438,834	154,321,342
Potentially dilutive shares resulting from stock option plans	543,697	1,591,790	2,399,890
Denominator for diluted EPS	<b>148,494,363</b>	<b>157,030,624</b>	<b>156,721,232</b>

For the years ended December 31, 2006, 2005 and 2004, 6,564,622, 3,517,373 and 1,512,782 shares, respectively, related to stock option plans were not included in diluted average common shares outstanding because their effect would be antidilutive

**Other Comprehensive Income (Loss).** Comprehensive income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For the Company, comprehensive income represents net income adjusted for unrealized gains and losses on certain investments and foreign currency translation adjustments.

**Foreign Currency Translation.** The financial position and results of operations of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities are translated at the exchange rate in effect at year-end. Income statement accounts are translated at the average rate of exchange in effect during the year. The resulting translation adjustment is recorded as a separate component of shareholders' investment. Gains and losses arising from re-measuring foreign currency transactions into the appropriate currency are included in the determination of net income.

**Stock-Based Compensation Plans.** At December 31, 2006, the Company had two stock option plans, a restricted plan and an employee stock purchase plan, which are described more fully in Note 6. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" (SFAS 123(R)) utilizing the modified prospective approach. Prior to the adoption of SFAS 123(R) we accounted for stock option grants under the recognition and measurement principles of APB Opinion No. 25 (Accounting for Stock Issued to Employees) and related interpretations, and accordingly, recognized no compensation expense for stock option grants in net income.

Under the modified prospective approach, SFAS 123(R) applies to new awards and to awards that were outstanding on December 31, 2005. Under the modified prospective approach, compensation cost recognized in 2006 includes compensation cost for all share-based payments granted prior to, but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123 (R). Prior periods were not restated to reflect the impact of adopting the new standard.

As a result of adopting SFAS 123(R) on January 1, 2006, the Company's income before taxes, net income and basic and diluted earnings per share for the year ended December 31, 2006, were \$7,058,135, \$4,554,731 and \$.03 lower, respectively, than if we had continued to account for stock-based compensation under APB Opinion No. 25 for our stock option grants. Compensation cost capitalized as part of inventory as of December 31, 2006, was \$95,111. The cumulative effect of the change in accounting for forfeitures was not material.

We receive a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the options are sold over the exercise price of the options. Prior to the adoption of SFAS 123(R), we reported all tax benefits resulting from the exercise of stock options as operating cash flows in our consolidated statement of cash flows. In accordance with SFAS 123(R), for the twelve months ended December 31, 2006, we revised our consolidated statement of cash flows presentation to report the tax benefits from the exercise of stock options as financing cash flows. For the twelve months ended December 31, 2006, \$235,410 of tax benefits from the exercise of stock options and vested restricted stock were reported as financing cash flows rather than operating cash flows.

Net cash proceeds from the exercise of stock options and employee stock purchases were \$18,953,178 for the year ended December 31, 2006. The actual income tax benefit realized from stock option exercises and vested restricted stock were \$1,608,341 for the year.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation:

	2005	2004
Net income as reported	\$109,527,511	\$112,656,518
Deduct: Total stock-based employee compensation expense determined under fair value-based method of all awards, net of tax effects	(19,982,017)	(14,541,115)
Pro forma net income	<u>\$ 89,545,494</u>	<u>\$98,115,403</u>
Earnings per share:		
Basic - as reported	\$ 0.70	\$ 0.73
Basic - pro forma	0.58	0.64
Diluted - as reported	\$ 0.70	\$ 0.72
Diluted pro forma	0.57	0.63

On March 30, 2005, in response to the required implementation of SFAS No. 123(R), the Company accelerated the vesting of current "under water" stock options. As a result of the vesting acceleration, approximately 2.3 million shares became immediately exercisable and an additional approximate \$13.6 million of proforma stock-based employee compensation expense was recognized in the first quarter 2005, that otherwise would have been recognized as follows: \$6.1 million in 2005; \$4.5 million in 2006; \$2.2 million in 2007 and \$0.8 million in 2008-2009. The objective of this Company action was primarily to avoid recognizing compensation expense associated with these options in future financial statements, upon the Company's adoption of SFAS 123(R), effective January 1, 2006. In addition, the Company also received shareholder approval of an amendment to its Employee Stock Option Plan to allow the grant of non-qualified stock options.

**Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**New Accounting Standards.** In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB statement No. 109, "Accounting for Income Taxes." Interpretation No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of Interpretation No. 48 is not expected to have any significant effect on the Company's consolidated financial position or results of operations.

## (2) LINE OF CREDIT

The Company has available an unsecured \$5,000,000 line of credit from a bank at an interest rate equal to the lower of the bank's prime rate or 1.5% above the LIBOR rate. No borrowings were outstanding under this line in 2006 or 2005. No compensating balances are required under this line.

## (3) INCOME TAXES

The provision for income taxes is based on the earnings reported in the accompanying consolidated financial statements. The Company recognizes deferred income tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred income tax liabilities and assets are determined based on the cumulative temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. Deferred income tax expense is measured by the net change in deferred income tax assets and liabilities during the year.

The components of the provision for income taxes are as follows:

	2006	2005	2004
Currently payable:			
Federal	\$51,411,596	\$52,375,000	\$50,497,000
State	144,000	(246,000)	167,000
Foreign	411,000	411,000	8,000
Total	51,966,596	52,540,000	50,672,000
Net deferred:			
Primarily federal	(1,754,000)	(2,173,000)	2,404,000
Provision for income taxes	\$50,212,596	\$50,367,000	\$53,076,000

The currently payable provision is further reduced by the tax benefits associated with the exercise, vesting or disposition of stock under the stock plans described in Note 6. These reductions totaled approximately \$1,608,000, \$3,180,000 and \$3,512,000 in 2006, 2005 and 2004, respectively, and were recognized as an adjustment of additional paid-in capital.

### (3) INCOME TAXES (continued)

The effective income tax rates are different from the statutory federal income tax rates for the following reasons:

	2006	2005	2004
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	0.1	(0.1)	0.1
Foreign source exempted income	(2.0)	(2.4)	(2.8)
Domestic production exclusion	(1.0)	(0.9)	-
Tax-exempt investment income	(0.5)	(0.6)	(0.2)
Other	-	0.5	(0.1)
Effective income tax rate	31.6%	31.5%	32.0%

The tax effect of temporary differences which give rise to deferred income tax assets and liabilities at December 31, 2006 and 2005, are as follows:

	2006		2005	
	Current	Non-Current	Current	Non-Current
Assets:				
Accruals not currently deductible	\$2,676,168	\$ 164,603	\$ 2,755,501	\$ 164,603
Stock-based compensation	1,530,018	1,405,334	-	1,294,506
Other	2,038,409	14,147	2,056,759	5,010
Total deferred income tax assets	6,244,595	1,584,084	4,812,260	1,464,119
Liabilities:				
Excess tax over book depreciation	-	(12,759,431)	-	(13,286,196)
Patent costs	-	(1,278,283)	-	(1,019,513)
Unrealized gain on investments	-	(12,517,503)	-	(10,120,578)
Other	(779,998)	-	(713,923)	-
Net deferred income taxes	\$5,464,597	\$(24,971,133)	\$ 4,098,337	\$(22,962,168)

Income taxes paid in cash were approximately \$49,061,000, \$47,582,000 and \$48,556,000, in 2006, 2005 and 2004, respectively.

### (4) EMPLOYEE BENEFIT PLAN

The Company has a 401(k) retirement savings plan in which substantially all of its employees may participate. The plan includes a provision for the Company to match a percentage of the employee's contributions at a rate determined by the Company's Board of Directors. In 2006, 2005 and 2004, the Company's contributions were approximately \$1,715,000, \$1,601,000 and \$1,306,000, respectively.

The Company does not provide health care benefits to retired employees.

### (5) SHAREHOLDER PROTECTION RIGHTS PLAN

The Company has a Shareholder Protection Rights Plan (the Plan). The Plan is designed to protect shareholders against unsolicited attempts to acquire control of the Company in a manner that does not offer a fair price to all shareholders.

Under the Plan, one purchase Right automatically trades with each share of the Company's common stock. Each Right entitles a shareholder to purchase 1/100 of a share of junior participating preferred stock at a price of \$55, if any person or group attempts certain hostile takeover tactics toward the Company. Under certain hostile takeover circumstances, each Right may entitle the holder to purchase the Company's common stock at one-half its market value or to purchase the securities of any acquiring entity at one-half their market value. Rights are subject to redemption by the Company at \$.0025 per Right and, unless earlier redeemed, will expire on March 29, 2011. Rights beneficially owned by holders of 15 percent or more of the Company's common stock, or their transferees, automatically become void.

## (6) STOCK-BASED COMPENSATION PLANS

**Employee Stock Option Plan.** In 2004, a new Employee Stock Option Plan was approved, replacing the prior plan. The Company may grant options for up to 18,000,000 shares under its new Employee Stock Option Plan. The Company has granted options on 5,460,775 shares (net of shares from canceled options) under the new plan through December 31, 2006. Under the plans, the option exercise price equals the stock's market price on date of grant. The options vest after one to five years, and expire after five to seven years.

The fair value of each option grant in the Employee Stock Option Plan was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the indicated periods:

	2006	2005	2004
Dividend yield	2.0%	2.0%	1.8%
Expected volatility	30.0%	36.3%	48.5%
Risk-free interest rate	4.8%	4.1%	3.4%
Expected term of options (in years)	4.5	4.4	4.4
Weighted-average grant-date fair value	\$4	\$4	\$7

The Company determined that all employee groups exhibit similar exercise and post-vesting termination behavior to determine the expected term.

As of December 31, 2006, there was \$9,401,859 of unrecognized compensation cost related to share-based payments which is expected to be recognized over the remaining vesting periods, with a weighted-average period of 4.2 years.

A summary of the status of the Company's employee stock option plan at December 31, 2006, 2005, and 2004, and changes during the same periods are presented in the tables and narrative below:

	2006				2005				2004			
	Shares (000)	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contract Life	Aggregate Intrinsic Value \$000	Shares (000)	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contract Life	Aggregate Intrinsic Value \$000	Shares (000)	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contract Life	Aggregate Intrinsic Value \$000
Outstanding at Beginning of Year	10,510	\$17			10,586	\$16			9,102	\$14		
Granted	1,691	15			1,931	17			2,864	19		
Exercised	(1,320)	13		\$4,205	(1,580)	12		\$9,152	(1,258)	12		\$8,865
Forfeited	(481)	18			(427)	18			(122)	16		
Outstanding at End of Year	10,400	17	2.9 Yrs	\$5,614	10,510	17	3.2 Yrs	\$33,881	10,586	16	3.4 Yrs	\$33,116
Exercisable at End of Year	6,904	\$17	2.2 Yrs	\$3,690	7,440	\$17	2.8 Yrs	\$23,525	3,988	\$14	2.2 Yrs	\$19,107

A summary of the status of the Company's non-vested employee stock option activity for the years ended December 31, 2006, 2005, and 2004, are presented in the table and narrative below:

	2006		2005		2004	
	Shares (000)	Wtd. Avg. Grant Date Fair Value	Shares (000)	Wtd. Avg. Grant Date Fair Value	Shares (000)	Wtd. Avg. Grant Date Fair Value
Nonvested stock options at Beginning of Year	3,069	\$6	6,598	\$7	5,911	\$7
Granted	1,691	4	1,931	4	2,864	7
Vested	(1,124)	6	(5,345)	7	(2,063)	7
Forfeited	(140)	5	(115)	6	(114)	7
Nonvested stock options at End of Year	3,496	\$5	3,069	\$6	6,598	\$7

**Non-employee Director Stock Option Plan.** The Company has a Non-employee Director Stock Option Plan covering 1,000,000 shares that was approved, replacing a prior plan. The Company has granted options on 315,240 shares (net of shares from canceled options) under the current plan through December 31, 2006. Under the plan, the option exercise price equals the stock's market price on date of grant. The options vest after six months, and expire after ten years.

The fair value of each option grant in the Nonemployee Director Stock Option Plans was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the indicated periods:

	2006	2005	2004
Dividend yield	1.8%	1.9%	1.7%
Expected volatility	30.7%	42.3%	49.2%
Risk-free interest rate	5.0%	4.1%	4.9%
Expected term of options (in years)	8.9	8.6	8.5
Weighted-average grant-date fair value	\$6	\$8	\$9

As of December 31, 2006, there was no unrecognized compensation cost related to share-based payments under this plan.

A summary of the status of the Company's Non-employee Director Stock Option Plan at December 31, 2006, 2005, and 2004, and changes during the same periods are presented in the tables and narrative below:

	2006				2005				2004			
	Shares (000)	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contract Life	Aggregate Intrinsic Value \$000	Shares (000)	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contract Life	Aggregate Intrinsic Value \$000	Shares (000)	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contract Life	Aggregate Intrinsic Value \$000
<b>Outstanding at Beginning of Year</b>	445	\$14			510	\$13			626	\$9		
<b>Granted</b>	48	15			48	18			96	18		
<b>Exercised</b>	(80)	6		\$662	(101)	10		\$756	(212)	5		\$2,940
<b>Forfeited</b>	(72)	16			(12)	18			0	0		
<b>Outstanding at End of Year</b>	<u>341</u>	<u>15</u>	<u>6.1 Yrs</u>	<u>\$450</u>	<u>445</u>	<u>14</u>	<u>5.6 Yrs</u>	<u>\$2,617</u>	<u>510</u>	<u>13</u>	<u>5.8 Yrs</u>	<u>\$2,992</u>
<b>Exercisable at End of Year</b>	341	\$15	6.1 Yrs	\$450	445	\$14	5.6 Yrs	\$2,617	510	\$13	5.8 Yrs	\$2,992

A summary of the status of the Company's non-vested non-employee director stock option plan activity for the years ended December 31, 2006, 2005, and 2004, are presented in the table and narrative below:

	2006		2005		2004	
	Shares (000)	Wtd. Avg. Grant Date Fair Value	Shares (000)	Wtd. Avg. Grant Date Fair Value	Shares (000)	Wtd. Avg. Grant Date Fair Value
Nonvested stock options at Beginning of Year	0	\$0	0	\$0	6	\$11
Granted	48	6	48	8	96	9
Vested	(48)	6	(48)	8	(102)	9
Forfeited	0	0	0	0	0	0
Nonvested stock options at End of Year	<u>0</u>	<u>\$0</u>	<u>0</u>	<u>\$0</u>	<u>0</u>	<u>\$0</u>

## **(6) STOCK-BASED COMPENSATION PLANS** (continued)

**Employee Stock Purchase Plan.** In 2003, a new Employee Stock Purchase Plan covering 1,200,000 shares was approved, replacing a prior plan. The Company has sold to employees 130,876 shares, 135,409 shares and 111,808 shares under the new plan in 2006, 2005, and 2004, respectively, and has sold a total of 441,127 shares under the new plan through December 31, 2006. The Company sells shares at 85% of the stock's market price at date of purchase. The weighted average fair value of shares sold in 2006 was approximately \$13.08.

**Restricted Stock Plan.** The Company has a Restricted Stock Plan covering 1,000,000 shares of common stock that was approved, the purpose of which is to permit grants of shares, subject to restrictions, to key employees of the Company as a means of retaining and rewarding them for long-term performance and to increase their ownership in the Company. Shares awarded under the plan entitle the shareholder to all rights of common stock ownership except that the shares may not be sold, transferred, pledged, exchanged or otherwise disposed of during the restriction period. The restriction period is determined by a committee, appointed by the Board of Directors, but may not exceed ten years. The Company has 572,910 shares outstanding as of December 31, 2006. During 2006, 2005, and 2004, 182,530, 80,700, and 122,520 shares, respectively, were granted with a restriction period of five years at market prices ranging from \$14.00 to \$17.09 in 2006, \$15.93 to \$19.50 in 2005, and \$17.37 to \$21.10 in 2004 and has unearned stock-based compensation of \$5,495,816 associated with these restricted stock grants. The unearned stock-based compensation related to these grants is being amortized to compensation expense over the applicable restriction periods. Amortization of restricted stock for 2006 was \$1,423,736.

## **(7) STOCK SPLIT**

On April 1, 2005, the Company's Board of Directors declared a two-for-one stock split effected in the form of a 100% common stock dividend to shareholders of record on May 6, 2005. The stock split increased the number of shares of common stock then outstanding from 78,020,342 to 156,040,684.

Earnings per share and all share data have been restated in all prior periods to reflect these stock splits.

## **(8) CONTINGENCIES**

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

## (9) SEGMENT REPORTING

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," requires that a public enterprise report financial and descriptive information about its reportable operating segments subject to certain aggregation criteria and quantitative thresholds. Operating segments are defined by SFAS No. 131 as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-makers in deciding how to allocate resources and in assessing performance.

	2006	2005	2004
<b>Revenue:</b>			
Automotive Products			
United States	\$230,152,102	\$236,708,606	\$230,075,562
Germany	127,531,636	99,339,847	86,432,114
Japan	56,547,995	52,215,691	54,336,447
Other	134,172,464	124,532,388	112,306,599
Fire Protection Products	23,862,876	23,687,442	22,515,613
Total	\$572,267,073	\$536,483,974	\$505,666,335
Income from Operations:			
Automotive Products	\$121,766,143	\$131,165,600	\$145,622,021
Fire Protection Products	4,680,833	5,128,937	4,444,192
Total	\$126,446,976	\$136,294,537	\$150,066,213
Assets:			
Automotive Products	\$275,022,400	\$248,568,391	\$202,052,906
Fire Protection Products	5,090,934	4,334,747	4,252,818
Other	504,915,066	669,742,664	650,553,704
Total	\$785,028,400	\$922,645,802	\$856,859,428
Depreciation & Amortization:			
Automotive Products	\$25,218,267	\$21,407,276	\$19,323,047
Fire Protection Products	253,879	207,336	228,844
Other	2,290,564	2,208,715	2,188,941
Total	\$27,762,710	\$23,823,327	\$21,740,832
Capital Expenditures:			
Automotive Products	\$45,846,127	\$52,966,667	\$29,233,220
Fire Protection Products	868,296	131,821	251,492
Other	1,478,660	434,747	1,050,462
Total	\$48,193,083	\$53,533,235	\$30,535,174

Other assets are principally cash and cash equivalents, investments, deferred income taxes and corporate fixed assets. Substantially all long-lived assets are located in the U.S.

Automotive Products revenues in the "Other" category are sales to automotive manufacturing plants in Canada, Mexico and Korea, as well as other foreign automotive customers. Most of the Company's non-U.S. sales are invoiced and paid in U.S. dollars. During 2006, approximately 13% of the Company's net sales were invoiced and paid in European euros.

During the years presented, the Company had four automotive customers, which individually accounted for 10% or more of net sales as follows:

	Customer			
	1	2	3	4
2006	22%	15%	13%	12%
2005	24%	12%	14%	11%
2004	31%	13%	13%	*

\* Less than 10%

## Report of Independent Registered Public Accounting Firm

To 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, 2006 and 2005, and the related consolidated statements of income, shareholders' investment and cash flows for each of the three years in the period ended December 31, 2006. 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 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 at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 2006 the Company changed its method of accounting for share-based payments in connection with the required adoption of Statement of Financial Accounting Standards No. 123(R).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Gentex Corporation's internal control over financial reporting as of December 31, 2006, 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 9, 2007, expressed an unqualified opinion thereon.

*Ernst + Young LLP*

Grand Rapids, Michigan  
February 9, 2007

## 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 Control -- Integrated Framework our management concluded that our internal control over financial reporting was effective as of December 31, 2006. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its attestation report on management's assessment, which is included on page 37 of this report.

# Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

To The Board of Directors and Shareholders of Gentex Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Gentex Corporation maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Gentex Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Gentex Corporation maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Gentex Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2006 consolidated financial statements of Gentex Corporation and subsidiaries and our report dated February 9, 2007, expressed an unqualified opinion thereon.

*Ernst & Young LLP*

Grand Rapids, Michigan  
February 9, 2007

## INFORMATION REGARDING COMMON STOCK

The Company's common stock trades on The Nasdaq Global Select Market. As of February 1, 2007, there were 2,340 recordholders of the Company's common stock. Ranges of high and low sale prices (adjusted for 2-for-1 stock split in May 2005) 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
2005	First	\$18.25	\$15.73
	Second	19.45	15.53
	Third	20.32	16.23
	Fourth	19.99	15.38
2006	First	\$21.00	\$15.71
	Second	17.47	13.65
	Third	15.34	12.74
	Fourth	17.46	13.89

In August 2003, the Company announced a change in the Company's cash dividend policy and declared an initial quarterly cash dividend of \$0.075 per share payable in October 2003. In August 2004, the Company's Board of Directors approved an increase on the quarterly dividend rate of \$0.085. In August 2005, the Company's Board of Directors approved a continuing resolution to pay a quarterly dividend of \$0.09 per share until the Board takes other action with respect to the payment of dividends. In August 2006, the Company's Board of Directors approved a continuing resolution to pay a quarterly dividend at an increased rate of \$0.095 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 at its current level and will consider future dividend increases based on the Company's profitability, cash flow and other business factors.

On April 1, 2005, the Company's Board of Directors declared a two-for-one stock split effected in the form of a 100% common stock dividend to shareholders of record on May 6, 2005. The stock split increased the number of shares of common stock then outstanding from 78,020,342 to 156,040,684. Earnings per share and all share data have been restated in all prior periods to reflect these stock splits.

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. This share repurchase plan does not have an expiration date. During the quarter ended March 31, 2003, the Company repurchased 830,000 shares (post-split) at a cost of approximately \$10,247,000. On July 20, 2005, the Company announced that it had raised the price at which the Company may repurchase shares under the existing plan. During the quarter ended September 30, 2005, the Company repurchased approximately 1,496,000 shares at a cost of approximately \$25,215,000. 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. During 2006, the Company repurchased approximately 15,206,000 shares at a cost of approximately \$226,851,000. Approximately 6,468,000 shares remain authorized to be repurchased under the plan.

## QUARTERLY RESULTS OF OPERATIONS

(in thousands except per share data)

	First		Second		Third		Fourth	
	2006	2005	2006	2005	2006	2005	2006	2005
Net Sales	\$139,021	\$127,642	\$142,391	\$132,384	\$141,266	\$138,115	\$149,590	\$138,343
Gross Profit	48,233	48,053	50,896	49,566	47,879	51,196	52,096	49,826
Operating Income	30,282	33,236	33,421	33,756	29,605	35,293	33,139	34,009
Net Income	26,371	25,933	27,236	26,041	24,338	27,936	30,816	29,618
Earnings Per Share*	\$ .17	\$ .17	\$ .18	\$ .17	\$ .17	\$ .18	\$ .22	\$ .19

\*Diluted, adjusted for 2-for-1 stock split in May 2005.

## STOCK PERFORMANCE SUMMARY

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 2001, and reinvestment of dividends in all cases.





# Corporate Data

## Corporate Headquarters

Gentex Corporation  
600 N. Centennial Street  
Zeeland, Michigan 49464  
616-772-1800

## Analyst/Investor Contact

Connie Hamblin,  
Corporate Secretary and Vice  
President, Investor Relations  
and Corporate Communications  
Gentex Corporation  
600 N. Centennial Street  
Zeeland, Michigan 49464  
616-772-1800

## Legal Counsel

Varnum Riddering, Schmidt  
and Howlett LLP  
Bridgewater Place  
333 Bridge Street, N.W.  
Grand Rapids, Michigan 49503

## Independent Registered Public Accounting Firm

Ernst & Young LLP  
Suite 1000  
171 Monroe Avenue, N.W.  
Grand Rapids, Michigan 49503

## Form 10-K

The Company's Annual Report  
filed with the Securities Exchange  
Commission on Form 10-K will  
be provided without charge to any  
shareholder upon written request.  
It is also available electronically  
through the Company's web site  
at <http://www.gentex.com>.

## Gentex Common Stock

The Company's common stock trades on The  
NASDAQ Global Select Market. The common  
stock has traded under the symbol GNTX  
since December 1981. As of February 1,  
2007, the Company's 142,651,911 shares of  
common stock were owned by 2,340  
recordholders.

The Company does not have a  
direct stock purchase plan. Shares  
of the Company's common stock must be  
purchased through a stock broker or other  
registered securities representative.

Inquiries or address changes related to  
stock certificates should be directed to  
American Stock Transfer & Trust Company.

## Transfer Agent

American Stock Transfer  
& Trust Company  
59 Maiden Lane  
New York, New York 10038  
800-937-5449

## Annual Meeting

The Annual Meeting of Shareholders  
of Gentex Corporation will be held at 4:30  
p.m. EST, Thursday, May 10, 2007, at The  
Pinnacle Center, Hudsonville, Michigan.

## Vote Your Shares Online

To register to vote your shares online, visit  
the following Internet address and follow  
the directions on this site:

<https://icsdelivery.com/gntx/index.html>.

## Gentex Market Participants

*As of February 1, 2007*

A. G. Edwards & Sons, Inc.  
Ameritrade, Inc  
Assent LLC  
Automated Trading Desk  
B-Trade Services LLC  
Banc of America Securities  
Barclays Capital Inc.  
Bats Trading, Inc.  
Bear, Stearns and Co Inc  
Bernard L. Madoff  
Biremis, Corp.  
BMO Capital Markets Corp.  
BNY Brokerage LLC.  
Calyon Securities (USA) Inc.  
Canaccord Adams Inc.  
Cantor, Fitzgerald & Co.  
Capital Institutional Svc  
Charles Schwab & Co., Inc.  
CIBC World Markets Corp.  
Citadel Derivatives Group LLC  
Citadel Trading Group LLC  
Citadel Global Markets Inc.  
Citigroup Global Markets Inc.  
Coker & Palmer  
Conifer Future Trade, LLC  
Cowen and Company, LLC  
Credit Suisse Securities USA

Cyberbroker, Inc.  
Deutsche Banc Alex Brown  
Direct Edge ECN LLC  
E-Trade Capital Markets LLC  
EBX LLC  
Electronic Brokerage Services  
EWT, LLC  
First Clearing, LLC  
Fox River Execution Technology  
Friedman Billings Ramsey & Co.  
Genesis Securities, LLC  
GLB Trading, Inc.  
Goldman, Sachs & Co.  
Hill, Thompson, Magid and Co.  
Hudson Securities, Inc.  
Instinet, LLC  
Interactive Brokers LLC  
Investment Technology Group  
J.J.B. Hilliard, W.L. Lyons  
J.P. Morgan Securities Inc.  
J.P.R. Capital Corp.  
Jane Street Capital, LLC  
Jane Street Markets  
Jefferies & Company, Inc.  
Jefferies Execution Services  
JMP Securities LLC  
Knight Equity Markets, L.P.

Lehman Brothers Inc.  
Lek, Schoenau & Co, Inc  
Lightspeed Professional  
Lime Brokerage LLC  
Liquidnet, Inc.  
Maple Partners USA, Inc.  
Maxim Group LLC  
MB Trading  
McDonald Investments Inc.  
Merrill Lynch Pro. Clearing  
Merrill Lynch, Pierce, Fenner  
Millenco  
Morgan Stanley & Co., Inc.  
NASDAQ Execution Services  
National Financial Services  
Nomura Securities Int'l Inc.  
Nova Fund L.P.  
NYFIX Millennium, L.L.C.  
Octeg, LLC  
On-Line Investment Services  
Penson Financial Services Inc  
Pershing LLC  
Pipeline Trading Systems LLC  
Prudential Equity Group, LLC  
Pulse Trading LLC  
Quantlab Securities  
RBC Capital Markets Corp

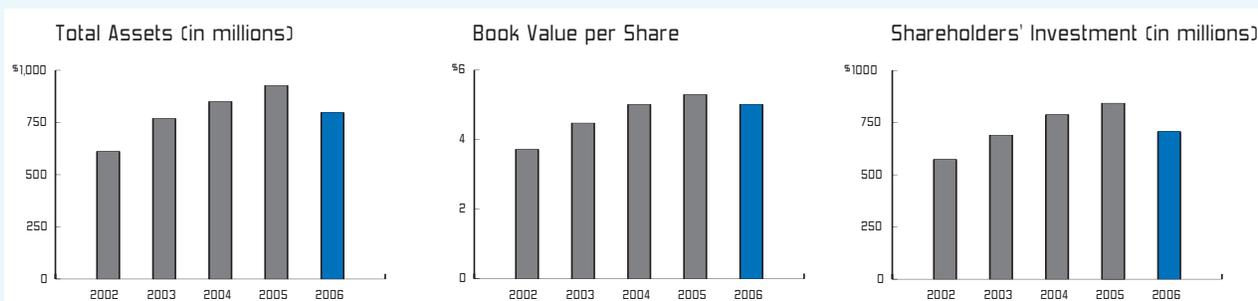
Robert W. Baird & Co Inc  
Rochdale Securities, LLC  
Rom-Bo Trading Co.  
Sanford C. Bernstein & Co.  
SG Americas Securities LLC  
State Street Brokerage Svcs.  
Stifel Nicolaus & Co.  
SunTrust Capital Markets Inc.  
Susquehanna Capital Group  
TD Ameritrade, Inc.  
The Benchmark Company, LLC  
Thomas Weisel Partners  
Timber Hill Inc.  
Torc Investments and Research  
Track ECN  
Tradestation Securities Inc.  
UBS Securities, LLC  
UNX, Inc.  
Wachovia Capital Markets  
Wedbush Morgan Securities Inc  
Weeden and Co. Inc.  
William Blair & Co.  
Wolverine Execution Services  
Wood Gundy Corp.

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## -Year Summary of Financial Data

Summary of Operations For The Year	2006	2005	2004	2003	2002	2001
Net sales	\$572,267	\$536,484	\$505,666	\$469,019	\$395,258	\$310,305
Cost of goods sold	373,163	337,844	297,920	272,518	235,611	188,302
Gross profit	199,104	198,640	207,746	196,501	159,647	122,003
Gross profit margin	34.8%	37.0%	41.1%	41.9%	40.4%	39.3%
Research and development expenses	41,774	35,059	30,834	26,614	22,973	20,685
Selling, general & administrative expenses	30,883	27,286	26,846	23,312	21,474	19,259
Operating income	126,447	136,295	150,066	146,575	115,200	82,059
Percent of net sales	22.1%	25.4%	29.7%	31.3%	29.1%	26.4%
Interest expense	-	-	-	-	-	-
Interest and other income	32,527	23,600	15,666	11,589	11,873	14,558
Income before taxes	158,974	159,895	165,733	158,164	127,073	96,618
Percent of net sales	27.8%	29.8%	32.8%	33.7%	32.1%	31.1%
Income taxes	50,213	50,367	53,076	51,403	41,302	31,401
Tax rate	31.6%	31.5%	32.0%	32.5%	32.5%	32.5%
Net income	108,761	109,528	112,657	106,761	85,771	65,217
Percent of net sales	19.0%	20.4%	22.3%	22.8%	21.7%	21.0%
Return on average equity	14.1%	13.5%	15.3%	16.8%	16.3%	14.8%
Earnings per share - diluted	\$ 0.73	\$ 0.70	\$ 0.72	\$ 0.69	\$ 0.56	\$ 0.43
Price/earnings ratio range	29-17	29-22	33-21	33-17	30-21	40-21
Wtd. avg. common shares outstanding - diluted	148,494	157,031	156,721	155,369	153,205	151,744
Capital expenditures	\$ 48,193	\$ 53,533	\$ 30,535	\$ 22,248	\$ 32,561	\$ 45,298
<b>Financial Position At Year-End</b>						
Cash and short-term investments	\$328,228	\$ 507,014	\$494,880	\$393,607	\$ 215,651	\$205,644
Long-term investments	146,216	132,525	122,174	145,616	203,359	132,771
Total current assets	446,878	618,988	592,609	485,349	276,798	259,858
Total current liabilities	57,363	58,088	50,856	50,480	29,060	20,985
Working capital	389,515	560,900	541,753	434,869	247,738	238,873
Plant and equipment - net	184,134	164,030	135,649	126,807	124,983	110,862
Total assets	785,028	922,646	856,859	762,530	609,173	506,823
Long-term debt, including current maturities	-	-	-	-	-	-
Shareholders' investment	\$702,694	\$841,595	\$783,280	\$693,643	\$573,640	\$ 479,001
Debt/equity ratio (including current maturities)	-	-	-	-	-	-
Common shares outstanding	142,476	156,044	155,734	154,082	152,443	150,344
Book value per share	\$ 4.93	\$ 5.39	\$ 5.03	\$ 4.50	\$ 3.76	\$ 3.19
Cash dividends declared per share	\$ 0.37	\$ 0.35	\$ 0.32	\$ 0.15	\$ -	\$ -

In thousands, except Gross profit margin, Percent of net sales on Operating income and Net income, Tax rate, Return on average equity, Per share data, Price/earnings ratio and Debt/equity ratio. All per share data has been adjusted to reflect the two-for-one stock splits effected in the form of 100 percent common stock dividends issued to shareholders in June 1993, June 1996, June 1998 and May 2005.



	2000	1999	1998	1997	1996	1995	1994	1993	1992
	\$ 297,421	\$ 262,155	\$ 222,292	\$ 186,328	\$ 148,708	\$ 111,566	\$ 89,762	\$ 63,664	\$ 45,106
	172,468	148,820	131,901	118,941	93,583	67,767	51,319	38,452	28,949
	124,953	113,335	90,391	67,387	55,125	43,799	38,443	25,212	16,157
	42.0%	43.2%	40.7%	36.2%	37.1%	39.3%	42.8%	39.6%	35.8%
	16,901	13,755	10,984	9,079	7,538	5,958	4,904	4,176	3,840
	17,641	14,058	12,065	10,825	15,748 <sup>1</sup>	12,879	10,567	7,182	5,458
	90,411	85,522	67,343	47,482	31,840	24,962	22,972	13,854	6,860
	30.4%	32.6%	30.3%	25.5%	21.4%	22.4%	25.6%	21.8%	15.2%
	-	-	-	-	-	-	-	8	173
	14,112	10,693	7,320	4,707	3,642	2,969	1,698	900	874
	104,523	96,216	74,663	52,189	35,482	27,931	24,670	14,746	7,561
	35.1%	36.7%	33.6%	28.0%	23.9%	25.0%	27.5%	23.2%	16.8%
	33,979	31,352	24,356	16,959	11,519	9,036	8,204	4,901	2,495
	32.5%	32.6%	32.6%	32.5%	32.5%	32.4%	33.3%	33.2%	33.0%
	70,544	64,864	50,307	35,230	23,963 <sup>2</sup>	18,895	16,466	9,845	5,066
	23.7%	24.7%	22.6%	18.9%	16.1%	16.9%	18.3%	15.5%	11.2%
	19.6%	23.4%	24.5%	23.4%	21.5% <sup>2</sup>	22.7%	27.2%	23.2%	15.9%
	\$ 0.47	\$ 0.43	\$ 0.34	\$ 0.24	\$ 0.17 <sup>2</sup>	\$ 0.14	\$ 0.12	\$ 0.07	\$ 0.04
	43-17	41-19	32-16	28-17	40-16	25-14	36-19	60-17	41-21
	151,036	149,993	147,233	143,923	142,049	137,022	135,951	133,949	128,764
	\$ 21,617	\$ 21,968	\$ 24,596	\$ 16,383	\$ 16,424	\$ 4,862	\$ 6,160	\$ 3,393	\$ 4,192
	\$ 138,443	\$ 94,734	\$ 74,063	\$ 41,131	\$ 48,534	\$ 34,277	\$ 19,331	\$ 13,307	\$ 7,751
	153,016	125,817	78,744	70,291	33,945	32,146	26,282	13,612	6,981
	190,556	138,216	115,357	75,919	72,696	68,611	36,685	27,067	17,812
	19,691	16,470	14,847	14,591	11,361	14,050	8,986	5,530	4,044
	170,865	121,746	100,510	61,328	61,335	42,011	27,699	21,537	13,768
	81,920	71,338	59,360	42,239	31,575	18,942	17,173	13,699	12,504
	428,129	337,673	254,890	189,783	140,378	109,244	80,739	55,191	40,256
	-	-	-	-	-	-	-	-	-
	\$ 402,104	\$ 317,051	\$ 237,008	\$ 173,205	\$ 127,804	\$ 94,672	\$ 71,375	\$ 49,547	\$ 35,450
	-	-	-	-	-	-	-	-	-
	148,582	146,825	144,518	141,597	138,997	135,167	132,076	129,694	127,019
	\$ 2.71	\$ 2.16	\$ 1.64	\$ 1.22	\$ 0.92	\$ 0.70	\$ 0.54	\$ 0.38	\$ 0.28
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<sup>1</sup> Includes litigation settlements of \$4,000,000 in 1996.

<sup>2</sup> Excluding the patent litigation settlement, net income would have been \$26,643,000; earnings per share would have been \$0.19; and ROE would have been 24.0%.

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In memoriam:  
Our good friend and  
trusted colleague,

**J. Terry Moran**  
1941 – 2006



**GENTEX**  
CORPORATION

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