UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______to ______.

Commission File Number: 0-21810

GENTHERM INCORPORATED
(Exact name of registrant as specified in its charter)

Michigan **(State or other jurisdiction of incorporation or organization)**	**95-4318554** **(I.R.S. Employer Identification No.)**
21680 Haggerty Road, Northville, MI **(Address of principal executive offices)**	**48167** **(Zip Code)**

Registrant's telephone number, including area code: (248) 504-0500

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, no par value	THRM	NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

At October 25, 2019, there were 32,659,545 issued and outstanding shares of Common Stock of the registrant.

GENTHERM INCORPORATED

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GENTHERM INCORPORATED

CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30, 2019	December 31, 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 45,200	$ 39,620
Restricted cash	2,504	—
Accounts receivable, less allowance of $1,040 and $851, respectively	170,823	166,858
Inventory:		
Raw materials	65,337	61,679
Work in process	6,863	5,939
Finished goods	46,591	44,917
Inventory, net	118,791	112,535
Derivative financial instruments	897	92
Prepaid expenses and other assets	39,884	54,271
Assets held for sale	6,742	69,699
Total current assets	384,841	443,075
Property and equipment, net	162,783	171,380
Goodwill	63,501	55,311
Other intangible assets, net	51,338	56,385
Operating lease right-of-use assets	12,136	—
Deferred financing costs	1,692	647
Deferred income tax assets	54,380	64,024
Other non-current assets	7,000	12,225
Total assets	$ 737,671	$ 803,047
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 89,293	$ 93,113
Accrued liabilities	67,482	65,808
Current lease liabilities	4,483	—
Current maturities of long-term debt	2,500	3,413
Liabilities held for sale	6,742	13,062
Total current liabilities	170,500	175,396
Pension benefit obligation	6,596	7,211
Non-current lease liabilities	7,391	—
Long-term debt, less current maturities	97,123	136,477
Deferred income tax liabilities	1,142	1,177
Other non-current liabilities	3,326	3,087
Total liabilities	$ 286,078	$ 323,348
Shareholders' equity:		
Common Stock:		
No par value; 55,000,000 shares authorized, 32,741,826 and 33,856,629 issued and outstanding at September 30, 2019 and December 31, 2018, respectively	103,781	140,300
Paid-in capital	11,348	14,934
Accumulated other comprehensive loss	(54,814)	(39,500)
Accumulated earnings	391,278	363,965
Total shareholders' equity	451,593	479,699
Total liabilities and shareholders' equity	$ 737,671	$ 803,047

See accompanying notes to the consolidated condensed financial statements.

GENTHERM INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (LOSS)
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Product revenues	$ 240,056	$ 261,504	$ 741,303	$ 792,490
Cost of sales	165,364	185,800	518,590	558,452
Gross margin	74,692	75,704	222,713	234,038
Operating expenses:				
Net research and development expenses	18,838	19,056	56,990	63,382
Selling, general and administrative expenses	26,861	35,117	91,683	105,803
Restructuring expenses	8,664	5,818	11,809	12,898
Total operating expenses	54,363	59,991	160,482	182,083
Operating income	20,329	15,713	62,231	51,955
Interest expense	(1,148)	(1,241)	(3,756)	(3,661)
Foreign currency gain	4,083	125	3,482	721
Gain on sale of business	—	—	4,970	—
Impairment loss	(837)	(11,476)	(21,206)	(11,476)
Other income	231	212	545	1,538
Earnings before income tax	22,658	3,333	46,266	39,077
Income tax expense	6,771	3,688	19,214	9,807
Net income (loss)	$ 15,887	$ (355)	$ 27,052	$ 29,270
Basic earnings (loss) per share	$ 0.48	$ (0.01)	$ 0.81	$ 0.80
Diluted earnings (loss) per share	$ 0.48	$ (0.01)	$ 0.81	$ 0.80
Weighted average number of shares – basic	32,839	36,104	33,283	36,364
Weighted average number of shares – diluted	32,933	36,448	33,419	36,470

See accompanying notes to the consolidated condensed financial statements.

GENTHERM INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Net income (loss)	$ 15,887	$ (355)	$ 27,052	$ 29,270
Other comprehensive income (loss), gross of tax:				
Foreign currency translation adjustments loss	(14,857)	(3,266)	(15,454)	(14,519)
Unrealized (loss) gain on foreign currency derivative securities	(257)	1,753	806	2,304
Unrealized loss on commodity derivative securities	—	—	—	(218)
Other comprehensive loss, gross of tax	$ (15,114)	$ (1,513)	$ (14,648)	$ (12,433)
Other comprehensive income (loss), related tax effect:				
Cumulative effect of accounting change due to ASU 2018-02	—	—	—	(40)
Foreign currency translation adjustments loss	(315)	15	(489)	(217)
Unrealized (loss) gain on foreign currency derivative securities	55	(536)	(177)	(684)
Unrealized loss on commodity derivative securities	—	—	—	(59)
Other comprehensive loss, related tax effect	$ (260)	$ (521)	$ (666)	$ (1,000)
Other comprehensive loss, net of tax	$ (15,374)	$ (2,034)	$ (15,314)	$ (13,433)
Comprehensive income (loss)	$ 513	$ (2,389)	$ 11,738	$ 15,837

See accompanying notes to the consolidated condensed financial statements.

GENTHERM INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Operating Activities:		
Net income	$ 27,052	$ 29,270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,281	38,721
Deferred income taxes	5,072	(19)
Stock compensation	5,268	6,360
Defined benefit plan income	(754)	(219)
Provision of doubtful accounts	209	247
Loss on sale of property and equipment	319	2,273
Operating lease expense	4,477	—
Impairment loss	21,206	11,476
Gain on sale of business	(4,970)	—
Other	189	—
Changes in assets and liabilities:		
Accounts receivable	(6,170)	(13,855)
Inventory	(5,512)	(3,510)
Prepaid expenses and other assets	9,594	(7,867)
Accounts payable	(3,097)	8,376
Accrued liabilities	(2,172)	(712)
Net cash provided by operating activities	83,992	70,541
Investing Activities:		
Proceeds from the sale of property and equipment	137	703
Proceeds from sale of a business	47,500	—
Acquisition of subsidiary, net of cash acquired	(14,823)	(15)
Purchases of property and equipment	(18,340)	(31,815)
Net cash provided by (used in) investing activities	14,474	(31,127)
Financing Activities:		
Borrowing of debt	29,470	18,000
Repayments of debt	(69,049)	(61,210)
Cash paid for financing costs	(1,278)	—
Cash paid for the cancellation of restricted stock	(1,213)	(882)
Proceeds from the exercise of Common Stock options	13,879	14,062
Repurchase of Common Stock	(58,040)	(64,151)
Net cash used in financing activities	(86,231)	(94,181)
Foreign currency effect	(4,151)	(1,253)
Net increase (decrease) in cash, cash equivalents and restricted cash	8,084	(56,020)
Cash, cash equivalents and restricted cash at beginning of period	39,620	103,172
Cash, cash equivalents and restricted cash at end of period	$ 47,704	$ 47,152
Supplemental disclosure of cash flow information:		
Cash paid for taxes	$ 6,676	$ 19,255
Cash paid for interest	$ 3,437	$ 3,617
Supplemental disclosure of non-cash transactions:		
Common Stock issued to Board of Directors and employees	$ 4,576	$ 3,893

See accompanying notes to the consolidated condensed financial statements.

GENTHERM INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock		Paid-in	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Capital	Income (Loss)	Earnings	Total
Balance at December 31, 2018	33,857	$ 140,300	$ 14,934	$ (39,500)	$ 363,965	$ 479,699
Cumulative effect of accounting change due to adoption of ASU 2016-02	—	—	—	—	261	261
Stock repurchase	(200)	(8,040)	—	—	—	(8,040)
Exercise of Common Stock options for cash	13	1,021	(807)	—	—	214
Cancellation of restricted stock	(17)	(376)	—	—	—	(376)
Stock option compensation	—	—	386	—	—	386
Common Stock issued to Board of Directors and employees	—	1,581	—	—	—	1,581
Currency translation, net	—	—	—	(4,251)	—	(4,251)
Foreign currency hedge, net	—	—	—	599	—	599
Net income	—	—	—	—	8,414	8,414
Balance at March 31, 2019	33,653	$ 134,486	$ 14,513	$ (43,152)	$ 372,640	$ 478,487
Stock repurchase	(630)	(25,000)	—	—	—	(25,000)
Exercise of Common Stock options for cash	116	4,936	(379)	—	—	4,557
Cancellation of restricted stock	(21)	(550)	—	—	—	(550)
Stock option compensation	—	—	(114)	—	—	(114)
Common Stock issued to Board of Directors and employees	30	1,438	—	—	—	1,438
Currency translation, net	—	—	—	3,480	—	3,480
Foreign currency hedge, net	—	—	—	232	—	232
Net income	—	—	—	—	2,751	2,751
Balance at June 30, 2019	33,148	$ 115,310	$ 14,020	$ (39,440)	$ 375,391	$ 465,281
Stock repurchase	(635)	(25,000)	—	—	—	(25,000)
Exercise of Common Stock options for cash	228	12,201	(3,093)	—	—	9,108
Cancellation of restricted stock	(12)	(287)	—	—	—	(287)
Stock option compensation	—	—	421	—	—	421
Common Stock issued to Board of Directors and employees	13	1,557	—	—	—	1,557
Currency translation, net	—	—	—	(15,172)	—	(15,172)
Foreign currency hedge, net	—	—	—	(202)	—	(202)
Net income	—	—	—	—	15,887	15,887
Balance at September 30, 2019	32,742	$ 103,781	$ 11,348	$ (54,814)	$ 391,278	$ 451,593

See accompanying notes to the consolidated condensed financial statements.

GENTHERM INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)
(In thousands)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings	Total
Balance at December 31, 2017	36,761	$ 265,048	$ 15,625	$ (20,444)	$ 293,645	$ 553,874
Cumulative effect of accounting change due to adoption of ASU 2014-09	—	—	—	—	(3,264)	(3,264)
Cumulative effect of accounting change due to adoption of ASU 2016-16	—	—	—	—	31,645	31,645
Cumulative effect of accounting change due to adoption of ASU 2018-02	—	—	—	(40)	40	—
Exercise of Common Stock options for cash	57	1,061	(310)	—	—	751
Cancellation of restricted stock	(24)	(659)	—	—	—	(659)
Stock option compensation	—	—	840	—	—	840
Common stock issued to Board of Directors and employees	—	1,362	—	—	—	1,362
Currency translation, net	—	—	—	11,665	—	11,665
Foreign currency hedge, net	—	—	—	1,545	—	1,545
Commodity hedge, net	—	—	—	(277)	—	(277)
Net income	—	—	—	—	12,966	12,966
Balance at March 31, 2018	36,794	266,812	16,155	(7,551)	335,032	610,448
Stock repurchase	(629)	(20,241)	—	—	—	(20,241)
Exercise of Common Stock options for cash	241	5,335	(1,120)	—	—	4,215
Cancellation of restricted stock	(25)	(223)	—	—	—	(223)
Stock option compensation	—	—	803	—	—	803
Common stock issued to Board of Directors and employees	20	1,057	—	—	—	1,057
Currency translation, net	—	—	—	(23,150)	—	(23,150)
Foreign currency hedge, net	—	—	—	(1,142)	—	(1,142)
Net income	—	—	—	—	16,659	16,659
Balance at June 30, 2018	36,401	252,740	15,838	(31,843)	351,691	588,426
Stock repurchase	(938)	(47,111)	—	—	—	(47,111)
Exercise of Common Stock options for cash	284	11,466	(2,368)	—	—	9,098
Stock option compensation	—	—	823	—	—	823
Common stock issued to Board of Directors and employees	2	1,474	—	—	—	1,474
Currency translation, net	—	—	—	(3,251)	—	(3,251)
Foreign currency hedge, net	—	—	—	1,217	—	1,217
Net income	—	—	—	—	(355)	(355)
Balance at September 30, 2018	35,749	$ 218,569	$ 14,293	$ (33,877)	$ 351,336	$ 550,321

See accompanying notes to the consolidated condensed financial statements.

Note 1 – Overview

Gentherm Incorporated is a global developer and marketer of innovative thermal management technologies for a broad range of heating and cooling and temperature control applications. Unless the context otherwise requires, the terms "Gentherm", "Company", "we", "us" and "our" used herein refer to Gentherm Incorporated and its consolidated subsidiaries. Our products provide solutions for automotive passenger climate comfort and convenience, battery thermal management and cell connecting systems, as well as patient temperature management within the health care industry. Our automotive products can be found on the vehicles of nearly all major automotive manufacturers operating in North America, Europe and Asia. We operate in locations aligned with our major customers' product strategies to provide locally enhanced design, integration and production capabilities and to identify future thermal technology product opportunities in both automotive and other markets. The Company is also developing a number of new technologies and products that will help enable improvements to existing products and to create new product applications for existing and new markets.

Basis of Presentation

The unaudited consolidated condensed financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations. The information furnished in the consolidated condensed financial statements include all adjustments (consisting of only normal, recurring adjustments), considered necessary to present fairly the results of operations, financial position and cash flows of the Company. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2018. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

Certain amounts in the prior period's financial statements have been reclassified to conform with the current period presentation. Notably, $2,565 and $7,883 in customer relationship amortization was reclassified from product revenues to selling, general and administrative expenses for the three and nine months ended September 30, 2018, respectively.

In preparing these financial statements, management was required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are based on our historical experience, the terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and suppliers and information available from other outside sources, as appropriate. However, these estimates and assumptions are subject to an inherent degree of uncertainty. As a result, actual results in these areas may differ significantly from our estimates.

Note 2 – New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Leases

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standard Update ("ASU") 2016-02, "Leases (Topic 842)" (as amended, "ASU 2016-02"). ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset on the balance sheet for all leases, except for short-term leases with terms of twelve months or less. The lease liability represents the lessee's obligation to make lease payments arising from a lease, and is measured as the present value of the lease payments. The right-of-use asset represents the lessee's right to use a specified asset for the lease term, and is measured at the lease liability amount, adjusted for lease prepayment, lease incentives received and the lessee's initial direct costs. Leases are to be classified as finance or operating leases, with classification affecting the pattern and classification of expense recognition in the statement of income (loss).

The Company adopted ASU 2016-02 on January 1, 2019, by applying the modified retrospective method and recognized a cumulative-effect adjustment to the opening balance in retained earnings. Financial information has not been updated and disclosure under the new standard have not been provided to dates and periods before January 1, 2019, and the Company's reporting for the comparative periods in the consolidated financial statements will continue to be in accordance with Accounting Standards Codification Topic 840, Leases ("ASC 840").

(In thousands, except share and per share data)

ASU 2016-02 did not have an impact on our consolidated condensed statements of income for the three and nine months ended September 30, 2019, but had a significant impact on our consolidated condensed balance sheet as of September 30, 2019. The cumulative effects of the changes made to the Company's consolidated condensed balance sheet as of January 1, 2019 for the adoption of ASU 2016-02 were as follows:

	Balance as of December 31, 2018	Adjustments due to adoption of ASU 2016-02	Balance as of January 1, 2019
Prepaid expenses and other assets	54,271	(74)	54,197
Assets held for sale	69,699	4,127	73,826
Operating lease right-of-use assets	—	13,019	13,019
Liabilities held for sale	13,062	4,136	17,198
Deferred tax liabilities	1,177	114	1,291
Non-current lease liabilities	—	12,561	12,561
Accumulated earnings	363,965	261	364,226

The Company elected the package of practical expedients provided in ASU 2016-02, which permits a lessee to not reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. Gentherm elected the use-of-hindsight to determine whether lease terms included periods covered by the lessee's option to extend or terminate a lease, whether to purchase the underlying asset at the end of the lease agreement, and in assessing impairment of operating lease right-of-use assets. Finally, Gentherm elected to not assess whether existing or expired land easements that were not previously accounted for as leases are or contain a lease. Land easements previously accounted for as leases were not eligible for this practical expedient.

Recently Issued Accounting Pronouncements Not Yet Adopted

Expected Credit Losses

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019. Early adoption of the amendments in this update is permitted. We are currently in the process of determining the impact the implementation of ASU 2016-13 will have on the Company's financial statements and note disclosures.

Cloud Computing Arrangements That Are Service Contracts

In August 2018, the FASB issued ASU 2018-15, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." ASU 2018-15 requires implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement if those costs would be capitalized by the customer in a software licensing arrangement under the internal-use software guidance. ASU 2018-15 is effective for annual and interim periods beginning after December 15, 2019. Early adoption of the amendments in this update is permitted. We are currently in the process of determining the impact the implementation of ASU 2018-15 will have on the Company's financial statements and note disclosures.

Retirement Benefits

In August 2018, the FASB issued ASU 2018-14, "Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans." ASU 2018-14 removes certain disclosure requirements, including (i) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, and (ii) the amount and timing of plan assets expected to be returned to the employer. ASU 2018-14 also adds new disclosure requirements, including (i) the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and (ii) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. ASU 2018-14 is effective for annual periods ending after December 15, 2020. Early adoption of the amendments in this update is permitted. We are currently in the process of determining the impact the implementation of ASU 2018-14 will have on the Company's financial statement note disclosures.

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 removes certain disclosure requirements, including (i) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (ii) the policy for timing of transfer between levels, and (iii) the valuation processes for Level 3 fair value measurements. ASU 2018-13 also adds new disclosure requirements, including (i) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and (ii) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for annual and interim periods beginning after December 15, 2019. Early adoption of disclosures that are removed is permitted, but adoption is delayed for the new additional disclosures until their effective date. We are currently in the process of determining the impact the implementation of ASU 2018-13 will have on the Company's financial statement note disclosures.

Note 3 – Acquisitions and Divestitures

Divestiture of Cincinnati Sub-Zero Industrial Chamber Business (CSZ-IC)

On February 1, 2019, as part of the Company's Fit-for-Growth initiative to eliminate investments in non-core businesses, we completed the sale of the Cincinnati Sub-Zero industrial chamber business ("CSZ-IC") and former Cincinnati Sub-Zero headquarters facility to Weiss Technik North America, Inc. for total cash proceeds of $47,500, including $2,500 of cash proceeds placed into an escrow account for a period of up to one year as partial security for the Company's obligations under the sale agreement. In connection with the sale, Gentherm entered into an operating lease agreement for a portion of the office and manufacturing building space purchased by Weiss Technik North America, Inc. The Company recognized a $4,970 pre-tax gain on the sale of CSZ-IC during the nine months ended September 30, 2019.

Acquisition of Stihler Electronic GmbH

On April 1, 2019, Gentherm acquired Stihler Electronic GmbH ("Stihler"), a leading developer and manufacturer of patient and blood temperature management systems, for a purchase price of $15,476, net of cash acquired and including $653 of contingent consideration to be paid upon achievement of a milestone that must be completed by September 2020. In addition, the purchase agreement includes a contingent payment of $653 to be paid if the selling shareholder remains employed by Stihler through December 2020. This amount will be recorded as a component of selling, general and administrative expenses ratably over the service period. The results of operations of Stihler are reported within the Company's Industrial segment from the date of acquisition. During the three and nine months ended September 30, 2019, the Company incurred acquisition-related costs of approximately $19 and $399, respectively. These amounts were recorded as incurred, within the Company's consolidated statements of income.

(In thousands, except share and per share data)

The acquisition was accounted for as a business combination, with the total purchase price allocated on a preliminary basis using information available in the second quarter of 2019. The preliminary purchase price and related allocation to the acquired net assets of Stihler, based on their estimated fair values as of the acquisition date, are shown below:

Purchase price, cash consideration, net of cash acquired	$	14,823
Purchase price, fair value of contingent consideration		653
Total purchase price, net of cash acquired		15,476
Accounts receivable	$	883
Inventory		1,698
Prepaid expenses and other assets		241
Operating lease right-of-use assets		263
Property and equipment		260
Other intangible assets		4,380
Goodwill		9,816
Assumed liabilities		(2,065)
Net assets acquired	$	15,476

Other intangible assets primarily include amounts recognized for the fair value of customer-related intangible assets, which will be amortized over their estimated useful lives of approximately 9 years. The estimated fair value of these assets was based on third-party valuations and management's estimates, generally utilizing an income approach. Goodwill recognized in this transaction is primarily attributable to intangible assets that do not qualify for separate recognition. It is estimated that $2,524 of the goodwill recognized will be deductible for income tax purposes.

The purchase price and related allocation are preliminary and could be revised for up to one year from the acquisition date as a result of adjustments made to the purchase price, additional information obtained regarding liabilities assumed, including, but not limited to, contingent liabilities, revisions of provisional estimates of fair values, including, but not limited to, the completion of independent appraisals and valuations related to property, plant and equipment and intangible assets, and certain tax attributes.

The pro forma effect of the Stihler acquisition does not materially impact the Company's reported results for any period presented, and as a result no pro forma financial statements are presented.

(In thousands, except share and per share data)

Note 4 – Assets and Liabilities Held for Sale

During 2018, the Company determined that its Gentherm Global Power Technologies (“GPT”) business met the held for sale criteria and recognized $2,190 in impairment loss.

During 2019, the Company continued to assess the fair value of the GPT disposal group, less costs to sell, at each reporting period. As a result of these fair value measurements, the Company recorded additional impairment losses of $837 and $16,720 for the three and nine months ended September 30, 2019, respectively. Additionally, during the first quarter of 2019, the Company determined that an equity investment met the held for sale criteria and recognized impairment losses of $0 and $4,486 for the three and nine months ended September 30, 2019, respectively.

Subsequent to the end of the Company's third quarter, effective October 1, 2019, the Company completed the divesture of GPT. The Company expects to record approximately $6,000 pre-tax loss on sale, in the fourth quarter of 2019, which includes approximately $4,000 related to the release of previously deferred foreign currency translation losses recorded in accumulated other comprehensive loss.

The assets and liabilities of the GPT disposal group classified as held for sale as of September 30, 2019 are as follows:

Cash	$	1,422
Accounts receivable, net		2,238
Inventory, net		4,936
Prepaid expenses and other assets		215
Operating lease right-of-use assets		3,926
Investment		—
Property and equipment, net		7,356
Other intangible assets, net		1,033
Deferred income tax assets		4,371
Impairment loss		(18,910)
Total assets held for sale	$	6,587
Accounts payable		420
Accrued liabilities		2,238
Operating lease liabilities		3,929
Total liabilities held for sale	$	6,587

The equity investment described above, does not have a readily determinable fair value and is measured at cost, less impairments, adjusted for observable price changes in orderly transactions for identical or similar investments of the same issuer.

Note 5 – Restructuring

Manufacturing Footprint Rationalization

On September 23, 2019, the Company committed to a restructuring plan to improve the Company’s manufacturing productivity and rationalize its footprint. Under this plan, the Company will relocate and consolidate certain existing automotive manufacturing and, as a result, certain other activities, overall reducing the number of plants by two. During the third quarter of 2019, the Company recognized expense of $5,200 for employee separation costs that will be paid pursuant to the terms of statutory requirements of the affected locations. Additionally, the Company recognized $1,612 of accelerated depreciation and fixed asset impairment.

The Company expects to incur total costs of between $20,000 and $24,000, of which between $17,000 and $21,000 are expected to be cash expenditures. The total expected costs include employee separation costs of between $9,000 and $11,000, capital expenditures of between $4,500 and $5,500 and non-cash expenses for accelerated depreciation and impairment of fixed assets of approximately $3,000. The Company also expects to incur other transition costs including recruiting, relocation, and machinery and equipment move and set up costs of between $3,500 and $4,500. The actions under this plan are expected to be substantially completed by the end of 2021. The actual timing, costs and savings of the Plan may differ materially from the Company’s current expectations and estimates.

(In thousands, except share and per share data)

Other Restructuring Activities

As part of the Company's continued efforts to optimize its cost structure, the Company has undertaken several discrete restructuring actions. During the three and nine months ended September 30, 2019, the Company recognized $1,467 and $2,726 of employee separation costs, respectively, and $385 and $734 of other related costs, respectively. These restructuring expenses were primarily associated with restructuring actions focused on the rotation of our manufacturing footprint to lower cost locations and the reduction of global overhead costs. These discrete restructuring actions are expected to approximate the total cumulative costs for those actions. The Company will continue to explore opportunities to improve its future profitability and competitiveness. These actions may result in the recognition of additional restructuring charges that could be material.

During the three and nine months ended September 30, 2018, the Company recognized $3,303 and $5,040 of employee separation costs, respectively, and $1,332 and $2,831 of other related costs, respectively.

Advanced Research and Development Rationalization and Site Consolidation

In June 2018, Gentherm completed the sale of its battery management systems division located in Irvine, California. A loss on the sale of $1,107 was recognized in restructuring expenses during nine months ended September 30, 2018. An additional asset impairment loss of $0 and $425 was recognized during the three and nine months ended September 30, 2019.

During the three and nine months ended September 30, 2018, Gentherm recognized employees separation costs of $157 and $1,038, respectively, and $589 and $1,024 of other related costs associated with the closure of two leased facilities located in Azusa, California. The Company also recognized $50 and $1,250 for the three and nine months ended September 30, 2018, for the disposal of long-lived assets controlled and used in Azusa, California.

The Company has recorded approximately $4,669 of restructuring expenses since inception of this program and it is considered complete.

GPT and CSZ-IC

During 2018, Gentherm launched a program to actively market GPT and CSZ-IC. Costs associated with the divestiture process were classified as restructuring.

During the three and nine months ended September 30, 2019, the Company recognized $0 and $251 of employee separation costs, respectively, and $0 and $861 of other related costs, respectively.

During the three and nine months ended September 30, 2018, the Company recognized $262 and $472 of employee separation costs, and $125 and $125 of other related costs, respectively.

The Company has recorded approximately $2,173 of restructuring expenses since inception of this program and it is considered substantially complete.

Restructuring Expenses By Reporting Segment

The following table summarizes restructuring activity for the three and nine months ended September 30, 2019 and 2018 by reporting segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Automotive	$ 7,820	$ 2,919	$ 9,016	$ 4,038
Industrial	88	1,486	1,689	5,320
Reconciling Items	756	1,413	1,104	3,540
Total	$ 8,664	$ 5,818	$ 11,809	$ 12,898

(In thousands, except share and per share data)

Restructuring Liability

Restructuring liabilities are classified as accrued liabilities on the consolidated condensed balance sheets. The following table summarizes restructuring activity for the nine months ended September 30, 2019:

	Employee Separation Costs	Accelerated Depreciation and Asset Impairment Charges	Other related costs	Total
Balance at December 31, 2018	$ 2,079	$ —	$ 468	$ 2,547
Additions, charged to restructuring expenses	8,177	2,037	1,595	11,809
Cash payments	(4,069)	—	(1,458)	(5,527)
Non-cash utilization	—	(2,037)	—	(2,037)
Reclassification to lease liability	—	—	(193)	(193)
Balance at September 30, 2019	$ 6,187	$ —	$ 412	$ 6,599

Note 6 – Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted average number of shares of stock outstanding during the period. The Company's diluted earnings per share give effect to all potential Common Stock outstanding during a period that do not have an anti-dilutive impact to the calculation. In computing the diluted earnings per share, the treasury stock method is used in determining the number of shares assumed to be issued from the exercise of Common Stock equivalents.

The following summarizes the Common Stock included in the basic and diluted shares, as disclosed on the face of the consolidated condensed statements of income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted average number of shares for calculation of basic EPS	32,838,636	36,103,520	33,282,584	36,364,380
Stock options, restricted stock awards and restricted stock units under equity incentive plans	94,043	344,642	135,971	105,379
Weighted average number of shares for calculation of diluted EPS	32,932,679	36,448,162	33,418,555	36,469,759

The following table represents Common Stock issuable upon the exercise of certain stock options that have been excluded from the diluted earnings calculation because the effect of their inclusion would be anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Stock options outstanding for equity incentive plans	441,435	12,000	441,435	1,359,250

(In thousands, except share and per share data)

Note 7 – Segment Reporting

Segment information is used by management for making strategic operating decisions for the Company. Management evaluates the performance of the Company's segments based primarily on operating income or loss.

The Company's reportable segments are as follows:

- *Automotive* – this segment represents the design, development, manufacturing and sales of automotive climate control seat (CCS) products, seat heaters, steering wheel heaters, automotive cables, battery thermal management (BTM), electronics and other automotive products.
- *Industrial* – the combined operating results of GPT, Gentherm Medical and Gentherm's advanced research and development division. We perform advanced research and development on thermal management systems, including those that utilize new proprietary comfort software algorithms, to enhance the efficiency and functionality of our automotive heating and cooling products. Unlike research and development that relates to a specific product application for a customer, advanced research and development activities affect products and technologies that are not currently generating product revenues. The segment includes government sponsored research projects.
- *Reconciling Items* – include corporate selling, general and administrative costs and acquisition transaction costs.

The tables below present segment information about the reported product revenues, depreciation and amortization and operating income (loss) of the Company for three and nine months ended September 30, 2019 and 2018. With the exception of goodwill, asset information by segment is not reported since the Company does not manage assets at a segment level.

Three Months Ended September 30,	Automotive	Industrial(1)	Reconciling Items	Consolidated Total
2019:				
Product revenues	$ 228,243	$ 11,813	$ —	$ 240,056
Depreciation and amortization	10,170	480	414	11,064
Operating income (loss)	36,629	(3,496)	(12,804)	20,329
2018:				
Product revenues(1)	$ 238,849	$ 22,655	$ —	$ 261,504
Depreciation and amortization	11,060	1,170	668	12,898
Operating income (loss)	37,908	(4,335)	(17,860)	15,713

Nine Months Ended September 30,	Automotive	Industrial(1)	Reconciling Items	Consolidated Total
2019:				
Product revenues	$ 700,300	$ 41,003	$ —	$ 741,303
Depreciation and amortization	30,660	1,319	1,302	33,281
Operating income (loss)	114,456	(12,131)	(40,094)	62,231
2018:				
Product revenues(1)	$ 724,420	$ 68,070	$ —	$ 792,490
Depreciation and amortization	32,839	3,822	2,060	$ 38,721
Operating income (loss)	116,312	(18,896)	(45,461)	51,955

(1) Industrial segment includes $3,418 and $30,460 in product revenues, $0 and $1,894 in depreciation and amortization, and $206 and $659 in operating income from CSZ-IC for the nine months ended September 30, 2019 and 2018, respectively.

(In thousands, except share and per share data)

Automotive and Industrial segment product revenues by product category for the three and nine months ended September 30, 2019 and 2018 are as follows:

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Climate Control Seats (CCS)	$ 88,133	$ 97,578	$ 270,924	$ 276,191
Seat Heaters	71,030	70,768	218,578	235,164
Steering Wheel Heaters	16,621	18,095	49,620	53,192
Automotive Cables	20,361	24,961	66,316	77,471
Battery Thermal Management (BTM)[a]	11,890	7,461	31,531	18,863
Electronics	11,729	12,590	36,035	44,409
Other Automotive	8,479	7,396	27,296	19,130
Subtotal Automotive	$ 228,243	$ 238,849	$ 700,300	$ 724,420
Remote Power Generation (GPT)	3,477	4,378	11,181	14,310
Industrial Chambers	—	9,829	3,418	30,460
Gentherm Medical	8,336	8,448	26,404	23,300
Subtotal Industrial	$ 11,813	$ 22,655	$ 41,003	$ 68,070
Total Company	$ 240,056	$ 261,504	$ 741,303	$ 792,490

a) Battery Thermal Management or BTM product revenues include Gentherm's automotive grade, low cost, heat resistant fans and blowers used by customer for battery cooling through ventilation and production level shipments of the advanced TED based active cool system.

Total product revenues information by geographic area is as follows (based on shipment destination):

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
United States	$ 111,570	$ 125,936	$ 340,656	$ 369,798
Germany	20,379	22,681	63,889	68,670
Japan	20,508	16,672	59,102	43,520
China	17,591	22,756	49,598	71,887
South Korea	14,543	12,814	45,098	42,419
Czech Republic	8,805	10,742	30,956	33,563
Canada	8,833	7,778	29,226	33,482
United Kingdom	8,315	9,037	23,980	28,349
Other	29,512	33,088	98,798	100,802
Total Non-U.S.	$ 128,486	$ 135,568	$ 400,647	$ 422,692
	$ 240,056	$ 261,504	$ 741,303	$ 792,490

(In thousands, except share and per share data)

Note 8 – Revenue Recognition

The aggregate amount of transaction price allocated to material rights that remain unsatisfied as of September 30, 2019 is $747. We expect to recognize into revenue, 42% of this balance in the next 3 months, and the remaining 33%, 9%, 9% and 7% in 2020, 2021, 2022 and 2023, respectively.

Unearned revenue related to the Automotive segment was $747 and $1,597 as of September 30, 2019 and December 31, 2018, respectively.

Changes in unearned revenue were as follows:

Nine Months Ended September 30, 2019		
Balance, beginning of period	$	1,597
Additions to unearned revenue		549
Reclassified to revenue		(1,211)
Reclassified to held for sale		(168)
Currency impacts		(20)
Balance, end of period	$	747

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods.

Total costs to obtain a contract that were recognized on the consolidated condensed balance sheets as of September 30, 2019 and December 31, 2018 were immaterial.

Note 9 – Income Taxes

At the end of each interim period, the Company makes its best estimate of the annual expected effective income tax rate and applies that rate to its ordinary year-to-date earnings or loss. The income tax provision or benefit related to unusual or infrequent items, if applicable, that will be separately reported or reported net of their related tax effects are individually computed and recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates, tax status, judgment on the realizability of a beginning-of-the-year deferred tax asset in future years or income tax contingencies is recognized in the interim period in which the change occurs.

The computation of the annual expected effective income tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected pre-tax income (or loss) for the year, projections of the proportion of income (and/or loss) earned and taxed in respective jurisdictions, permanent and temporary differences, and the likelihood of the realizability of deferred tax assets generated in the current year. Jurisdictions with a projected loss for the year or a year-to-date loss for which no tax benefit or expense can be recognized due to a valuation allowance are excluded from the estimated annual effective tax rate. The impact of such an exclusion could result in a higher or lower effective tax rate during a particular quarter, based upon the composition and timing of actual earnings compared to annual projections. The estimates used to compute the provision or benefit for income taxes may change as new events occur, additional information is obtained or as our tax environment changes. To the extent that the expected annual effective income tax rate changes, the effect of the change on prior interim periods is included in the income tax provision in the period in which the change in estimate occurs.

A summary of the provision for income taxes and the corresponding effective tax rate for the three and nine months ended September 30, 2019 and September 30, 2018, is shown below (in thousands, except effective tax rates):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Income tax expense	$ 6,771	$ 3,688	$ 19,214	$ 9,807
Earnings before income tax	$ 22,658	$ 3,333	$ 46,266	$ 39,077
Effective tax rate	29.9%	110.7%	41.5%	25.1%
Income tax expense excluding impairment loss	$ 6,771	$ 3,688	$ 19,214	$ 9,807
Earnings before income tax excluding impairment loss	$ 23,495	$ 14,809	$ 67,472	$ 50,553
Effective tax rate excluding impairment loss	28.8%	24.9%	28.5%	19.4%

For the nine months ended September 30, 2019, the Company recognized a loss of $21,206 related to an impairment loss for which no tax benefit was provided. Similarly, for the nine months ended September 30, 2018, the Company recognized a loss of $11,476 related to a non-deductible impairment loss. Income tax expense, earnings before income tax and effective tax rate excluding the impairment loss are noted above.

The Company's effective tax rate for the three months ended September 30, 2018 included a discrete benefit related to stock-based compensation. For the nine months ended September 30, 2018, the Company's effective tax rate included a discrete benefit related to certain intercompany transactions which disproportionately benefited lower tax rate jurisdictions.

The annual effective tax rates differ from the U.S. statutory rate primarily due to foreign rates which differ from those in the U.S., U.S. taxes on foreign earnings, the realization of certain business tax credits, including research and development and foreign tax credits, and the applicable withholding taxes on the projected future repatriations of the earnings from the Company's non-U.S. operations that are not considered permanently reinvested.

Note 10 – Goodwill

A summary of changes in the carrying amount of goodwill, by operating segment, for the nine months ended September 30, 2019 is as follows:

Nine Months Ended September 30, 2019	Automotive	Industrial	Total
Balance, beginning of period	$ 37,533	$ 17,778	$ 55,311
Stihler acquisition	—	9,816	9,816
Currency impact	(1,388)	(238)	(1,626)
Balance, end of period	$ 36,145	$ 27,356	$ 63,501

Note 11 – Debt

Amended Credit Agreement

As of December 31, 2018, the Company, together with certain direct and indirect subsidiaries, had a credit agreement (the "Credit Agreement") which included a revolving credit note ("U.S. Revolving Note") with a maximum borrowing capacity of $350,000.

On June 27, 2019, the Company entered into an Amended and Restated Credit Agreement (the "Amended Credit Agreement") with a consortium of lenders and Bank of America, N.A. as administrative agent. The Amended Credit Agreement amends and restates in its entirety the Credit Agreement. The outstanding principal and interest of the U.S. Revolving Note under the Credit Agreement continued and constitute obligations under the Amended Credit Agreement.

The Amended Credit Agreement increased the U.S. Revolving Note from $350,000 to $475,000 and extended the maturity from March 17, 2021 to June 27, 2024. Subject to specified conditions, the Company can increase the U.S. Revolving Note or incur secured term loans in an aggregate amount of $175,000.

The U.S. borrowers and guarantors participating in the Amended Credit Agreement have entered into a related amended and restated pledge and security agreement. The amended and restated security agreement grants a security interest to the lenders in substantially all of the personal property of the Company and its U.S. subsidiaries designated as borrowers to secure their respective obligations under the Amended Credit Agreement, including the stock and membership interests of specified subsidiaries (limited to 66% of the stock in the case of certain non-U.S. subsidiaries). In addition to the security obligations, all obligations under the Amended Credit Agreement are unconditionally guaranteed by certain of the Company's subsidiaries. The Amended Credit Agreement restricts the amount of dividend payments the Company can make to shareholders.

The Amended Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative and negative covenants, and contain customary events of default. The Amended Credit Agreement also requires the Company to maintain a minimum Consolidated Interest Coverage Ratio and Consolidated Leverage Ratio, as defined in the agreement.

Under the Amended Credit Agreement, U.S. Dollar denominated loans bear interest at either a base rate ("Base Rate Loans") or Eurocurrency rate ("Eurocurrency Rate Loans"), plus a margin ("Applicable Rate"). The rate for Base Rate Loans is equal to the highest of the Federal Funds Rate (1.90% at September 30, 2019) plus 0.50%, Bank of America's prime rate (5.00% at September 30, 2019), or the Eurocurrency rate (0.00% at September 30, 2019) plus 1.00%. The rate for Eurocurrency Rate Loans denominated in U.S. Dollars is equal to the London Interbank Offered Rate (2.02% at September 30, 2019). All loans denominated in a currency other than the U.S. Dollar must be Eurocurrency Rate Loans. Interest is payable at least quarterly.

The Applicable Rate varies based on the Consolidated Leverage Ratio reported by the Company. As long as the Company is not in default of the terms and conditions of the Amended Credit Agreement, the lowest and highest possible Applicable Rate is 1.25% and 2.25%, respectively, for Eurocurrency Rate Loans and 0.25% and 1.25%, respectively, for Base Rate Loans.

In connection with the Amended Credit Agreement, the Company incurred debt issuance costs of $1,278 which have been capitalized and will be amortized into interest expense over the term of the credit facility.

The Company also has two fixed interest rate loans with the German Investment Corporation ("DEG"), a subsidiary of KfW Banking Group, a Germany government-owned development bank.

DEG China Loan

The first DEG loan, a loan we used to fund capital investments in China (the "DEG China Loan"), was subject to semi-annual principal payments that began March 2015 and ended in September 2019. During the third quarter of 2019, the DEG China Loan was paid in full.

DEG Vietnam Loan

The Company's second fixed interest rate loan agreement with DEG was used to finance the construction and set up of the Vietnam production facility ("DEG Vietnam Loan"). The DEG Vietnam Loan is subject to semi-annual principal payments that began November 2017 and will end May 2023. Under the terms of the DEG Vietnam Loan, the Company must maintain a minimum Equity Ratio and Enhanced Equity Ratio, as defined by the DEG Vietnam Loan agreement, based on the financial statements of Gentherm's wholly owned subsidiary, Gentherm Vietnam Co. Ltd.

(In thousands, except share and per share data)

Undrawn borrowing capacity under the U.S. Revolving Note was $385,129 as of September 30, 2019. The following table summarizes the Company's debt as of September 30, 2019 and December 31, 2018:

	September 30, 2019		December 31, 2018
	Interest Rate	Principal Balance	Principal Balance
Amended Credit Agreement:			
U.S. Revolving Note (U.S. Dollar Denominations)	3.29%	$ 70,000	$ 122,000
U.S. Revolving Note (Euro Denominations)	1.25%	19,623	5,727
DEG China Loan	—	—	913
DEG Vietnam Loan	5.21%	10,000	11,250
Total debt		99,623	139,890
Current portion		(2,500)	(3,413)
Long-term debt, less current maturities		$ 97,123	$ 136,477

The scheduled principal maturities of our debt as of September 30, 2019 are as follows:

Year	U.S. Revolving Note	DEG Vietnam Note	Total
Remainder of 2019	$ —	$ 1,250	$ 1,250
2020	—	2,500	2,500
2021	—	2,500	2,500
2022	—	2,500	2,500
2023	—	1,250	1,250
2024	89,623	—	89,623
Total	$ 89,623	$ 10,000	$ 99,623

As of September 30, 2019, we were in compliance, in all material respects, with all terms as outlined in the Amended Credit Agreement and DEG Vietnam Loan.

Note 12 – Financial Instruments

Cash, cash equivalents and restricted cash

The Company has cash that is legally restricted as to use or withdrawal. A reconciliation of cash and cash equivalents on the consolidated condensed balance sheets to cash, cash equivalents and restricted cash presented on the consolidated condensed statements of cash flows is as follows:

	September 30, 2019	December 31, 2018	September 30, 2018	December 31, 2017
Cash and cash equivalents presented in the consolidated condensed balance sheets	$ 45,200	$ 39,620	$ 47,152	$ 103,172
Restricted cash	2,504	—	—	—
Cash, cash equivalents and restricted cash presented in the consolidated condensed statements of cash flows	$ 47,704	$ 39,620	$ 47,152	$ 103,172

(In thousands, except share and per share data)

Derivative Financial Instruments

We are exposed to market risk from changes in foreign currency exchange rates, short-term interest rates and price fluctuations of certain material commodities such as copper. Market risks for changes in interest rates relate primarily to our debt obligations under our Amended Credit Agreement. Foreign currency exchange risks are attributable to sales to foreign customers and purchases from foreign suppliers not denominated in a location's functional currency, foreign plant operations, intercompany indebtedness, intercompany investments and include exposures to the European Euro, Mexican Peso, Canadian Dollar, Hungarian Forint, Macedonian Denar, Ukrainian Hryvnia, Japanese Yen, Chinese Renminbi, Korean Won and Vietnamese Dong.

The Company regularly enters into derivative contracts with the objective of managing its financial and operational exposure arising from these risks by offsetting gains and losses on the underlying exposures with gains and losses on the financial instruments used to hedge them. The maximum length of time over which we hedge our exposure to foreign currency exchange risks is one year. We had foreign currency derivative contracts with a notional value of $25,210 and $33,250 outstanding as of September 30, 2019 and December 31, 2018, respectively.

The maximum length of time over which we hedge our exposure to price fluctuations in material commodities is two years. No commodity swap contracts were outstanding at September 30, 2019 or at December 31, 2018.

We do not enter into derivative financial instruments for speculative or trading purposes. Our hedging relationships are formally documented at the inception of the hedge, and hedges must be highly effective in offsetting changes to future cash flows on hedged transactions both at the inception of a hedge and on an ongoing basis to be designated for hedge accounting treatment. For derivative contracts which can be classified as a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded to accumulated other comprehensive loss in the consolidated balance sheet. When the underlying hedge transaction is realized, the gain or loss included in accumulated other comprehensive loss is recorded in earnings in the consolidated statements of income on the same line as the gain or loss on the hedged item attributable to the hedged risk. We record the ineffective portion of foreign currency hedging instruments, if any, to foreign currency gain (loss) in the consolidated statements of income. See Note 14 for the amount of unrealized loss associated with foreign currency derivatives previously reported in accumulated other comprehensive loss that was reclassified into earnings during 2019. Though we continuously monitor the hedging program, derivative positions and hedging strategies, foreign currency forward exchange agreements have not always been designated as hedging instruments for accounting purposes.

The Company uses an income approach to value derivative instruments, analyzing quoted market prices to calculate the forward values and then discounts such forward values to the present value using benchmark rates at commonly quoted intervals for the instrument's full term.

Information related to the recurring fair value measurement of derivative instruments in our consolidated condensed balance sheet as of September 30, 2019 is as follows:

			Asset Derivatives		Liability Derivatives		
	Hedge Designation	Fair Value Hierarchy	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Net Asset/ (Liabilities)
Foreign currency derivatives	Cash flow hedge	Level 2	Current assets	$ 897	Current liabilities	$ —	$ 897

Information relating to the effect of derivative instruments on our consolidated condensed statements of income is as follows:

	Location	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Foreign currency derivatives	Cost of sales	$ 328	$ 391	$ 1,003	$ (214)
	Selling, general and administrative	—	—	—	75
	Other comprehensive income	(257)	1,753	806	2,304
	Foreign currency gain (loss)	18	11	(51)	58
Total foreign currency derivatives		$ 89	$ 2,155	$ 1,758	$ 2,223
Commodity derivatives	Cost of sales	$ —	$ —	$ —	$ 145
	Other comprehensive income	—	—	—	$ (218)
Total commodity derivatives		$ —	$ —	$ —	$ (73)

We did not incur any hedge ineffectiveness during the three and nine months ended September 30, 2019 and 2018.

Note 13 – Fair Value Measurements

The Company bases fair value on a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We have adopted a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Inputs, other than quoted market prices included in Level 1, that are observable either directly or indirectly for the asset or liability.

Level 3: Unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and also considers counterparty credit risk in its assessment of fair value.

Items Measured at Fair Value on a Recurring Basis

Except for derivative instruments (see Note 12) and the held for sale disposal group (see Note 4), the Company had no material financial assets and liabilities that are carried at fair value at September 30, 2019 and December 31, 2018. The carrying amounts of financial instruments comprising cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate their fair values due to the relatively short maturity of such instruments.

Items Measured at Fair Value on a Nonrecurring Basis

The Company measures certain assets and liabilities at fair value on a non-recurring basis, which are not included above. For further information related to assets and liabilities measured at fair value on a non-recurring basis, see Note 3, "Acquisitions and Divestitures" and Note 4, “Assets and Liabilities Held for Sale”.

As of September 30, 2019, there were no additional significant assets or liabilities measured at fair value on a non-recurring basis.

Items Not Carried at Fair Value

The Company uses an income valuation technique to measure the fair values of its debt instruments by converting amounts of future cash flows to a single present value amount using rates based on current market expectations (Level 2 inputs). As of September 30, 2019, and December 31, 2018, the carrying values of the indebtedness under the Company’s Amended Credit Agreement and Credit Agreement, respectively, were not materially different than their estimated fair values because the interest rates on variable rate debt approximated rates currently available to the Company (see Note 11). Discount rates used to measure the fair value of the DEG Vietnam Loan and DEG China Loan are based on quoted swap rates. As of September 30, 2019, the carrying value and estimated fair value of the DEG Vietnam Loan were $10,000 and $10,213, respectively. As of December 31, 2018, the carrying value of the DEG Vietnam Loan and DEG China Loan were $11,250 and $913, respectively, as compared to an estimated fair value of $11,100 and $900, respectively.

(In thousands, except share and per share data)

Note 14 – Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Reclassification adjustments and other activities impacting accumulated other comprehensive income (loss) during the three and nine months ended September 30, 2019 and 2018 are as follows:

	Defined Benefit Pension Plans	Foreign Currency Translation Adjustments	Foreign Currency Hedge Derivatives	Total
Balance at June 30, 2019	$ (2,339)	$ (37,928)	$ 827	$ (39,440)
Other comprehensive income (loss) before reclassifications	—	(14,857)	167	(14,690)
Income tax effect of other comprehensive income (loss) before reclassifications	—	(315)	(36)	(351)
Amounts reclassified from accumulated other comprehensive income (loss) into net income (loss)	—	—	(424) a	(424)
Income taxes reclassified into net income (loss)	—	—	91	91
Net current period other comprehensive income (loss)	—	(15,172)	(202)	(15,374)
Balance at September 30, 2019	$ (2,339)	$ (53,100)	$ 625	$ (54,814)

(a) The amounts reclassified from accumulated other comprehensive income (loss) are included in cost of sales.

	Defined Benefit Pension Plans	Foreign Currency Translation Adjustments	Foreign Currency Hedge Derivatives	Total
Balance at June 30, 2018	$ (2,406)	$ (29,040)	$ (397)	$ (31,843)
Other comprehensive income (loss) before reclassifications	—	(3,266)	1,586	(1,680)
Income tax effect of other comprehensive income (loss) before reclassifications	—	15	(491)	(476)
Amounts reclassified from accumulated other comprehensive income (loss) into net income (loss)	—	—	167 a	167
Income taxes reclassified into net income (loss)	—	—	(45)	(45)
Net current period other comprehensive income (loss)	—	(3,251)	1,217	(2,034)
Balance at September 30, 2018	$ (2,406)	$ (32,291)	$ 820	$ (33,877)

(a) The amounts reclassified from accumulated other comprehensive income (loss) are included in cost of sales.

	Defined Benefit Pension Plans	Foreign Currency Translation Adjustments	Foreign Currency Hedge Derivatives	Total
Balance at December 31, 2018	$ (2,339)	$ (37,157)	$ (4)	$ (39,500)
Other comprehensive income (loss) before reclassifications	—	(15,454)	1,359	(14,095)
Income tax effect of other comprehensive income (loss) before reclassifications	—	(489)	(296)	(785)
Amounts reclassified from accumulated other comprehensive income (loss) into net income (loss)	—	—	(553) a	(553)
Income taxes reclassified into net income (loss)	—	—	119	119
Net current period other comprehensive income (loss)	—	(15,943)	629	(15,314)
Balance at September 30, 2019	$ (2,339)	$ (53,100)	$ 625	$ (54,814)

(a) The amounts reclassified from accumulated other comprehensive income (loss) are included in cost of sales.

(In thousands, except share and per share data)

	Defined Benefit Pension Plans	Foreign Currency Translation Adjustments	Commodity Hedge Derivatives	Foreign Currency Hedge Derivatives	Total
Balance at December 31, 2017	$ (2,366)	$ (17,555)	$ 277	$ (800)	$ (20,444)
Cumulative effect of accounting change due to adoption of ASU 2018-02	(40)	—	—	—	(40)
Other comprehensive income (loss) before reclassifications	—	(14,519)	—	2,048	(12,471)
Income tax effect of other comprehensive income (loss) before reclassifications	—	(217)	—	(615)	(832)
Amounts reclassified from accumulated other comprehensive income (loss) into net income (loss)	—	—	(218) a	256 a	38
Income taxes reclassified into net income (loss)	—	—	(59)	(69)	(128)
Net current period other comprehensive income (loss)	(40)	(14,736)	(277)	1,620	(13,433)
Balance at September 30, 2018	$ (2,406)	$ (32,291)	$ —	$ 820	$ (33,877)

(a) The amounts reclassified from accumulated other comprehensive income (loss) are included in cost of sales.

We expect all of the existing gains and losses related to foreign currency derivatives reported in accumulated other comprehensive loss as of September 30, 2019 to be reclassified into earnings during the next twelve months. See Note 12 for additional information about derivative financial instruments and the effects from reclassification to net income (loss).

Note 15 – Leases

The Company has operating leases for office, manufacturing and research and development facilities, as well as land leases for certain manufacturing facilities that are accounted for as operating leases. We also have operating leases for office equipment and automobiles. Excluding land leases, our leases have remaining lease terms ranging from less than 1 year to 7 years and may include options to extend the lease for an additional term equal to the original term of the lease. Land leases have remaining lease terms that range from 41 to 44 years and some which specify that the end of the lease term is at the discretion of the lessee. We do not have lease arrangements with related parties.

Accounting Policy

The Company determines whether a contractual arrangement is or contains a lease at inception. Leases that are operating in nature are recognized in operating lease right-of-use assets, current lease liabilities and non-current lease liabilities on our consolidated condensed balance sheets. While Gentherm is not currently party to any leases that qualify as financing leases, right-of-use assets and liabilities recognized from financing leases would be presented separately from the right-of-use assets and liabilities recognized from operating leases on our consolidated condensed balance sheet.

Lease liabilities are measured initially at the present value of the sum of the future minimum rental payments at the commencement date of the lease. Lease payments that will vary in the future due to changes in facts and circumstances are excluded from the calculation of rental payments, unless those variable payments are based on an index or rate. Rental payments are discounted using an incremental borrowing rate based on the Company’s credit rating, determined on a fully collateralized loan basis from information available at commencement date, and the duration of the lease term (the “reference rate”). Judgement is used to assess the importance of risk factor inputs during the computation of the Company’s credit rating. For significant leases at foreign subsidiaries denominated in U.S. Dollars, a risk premium associated with the borrower subsidiary’s country is added to the reference rate. For significant leases at foreign subsidiaries denominated in a foreign currency, the U.S. Dollar risk free rate with a duration similar to that of the lease term is subtracted from the reference rate and a corresponding foreign currency risk free rate with a duration similar to that of the lease term is added to the reference rate. Judgement is used to determine whether foreign subsidiary leases are significant.

(In thousands, except share and per share data)

Operating lease right-of-use assets are measured at the amount of the lease liability, adjusted for prepaid or accrued lease payments, lease incentive received, and initial direct costs incurred, as applicable. Periods covered by an option to extend the lease are initially included in the measurement of an operating lease right-of-use asset and lease liability only when it is reasonably certain we will exercise the option. Gentherm's lease agreements do not contain residual value guarantees or impose restrictions or covenants on the Company.

For all classes of underlying assets, the Company accounts for leases that contain separate lease and nonlease components as containing a single lease component. The Company does not recognize lease right-of-use assets and lease liabilities from leases with an original lease term of 12 months or less and, instead, recognizes rent payments on a straight-line basis over the lease term in the Company's consolidated condensed statements of income (loss). See Note 2 to our consolidated condensed financial statements for description of the impacts that resulted from the adoption of a new lease standard.

Components of lease expense for the nine months ended September 30, 2019 are as follows:

Lease cost:		
Operating lease cost	$	4,477
Short-term lease cost		2,678
Sublease income		(91)
Total lease cost	$	7,064

Weighted-average remaining lease term and discount rate is as follows:

Weighted Average Remaining Lease Term:	
Operating leases	4.6
Weighted Average Discount Rate:	
Operating leases	5.45%

Other information:

Supplemental Cash Flow Information:		
Gain on sale and leaseback transactions, net	$	207
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	4,539
Right-of-use lease assets obtained in exchange for lease obligations:		
Operating leases	$	3,339

A summary of operating leases as of September 30, 2019, under all non-cancellable operating leases with terms exceeding one year is as follows:

2019 (excluding the nine months ended September 30, 2019)	$	1,393
2020		4,570
2021		2,674
2022		1,550
2023		790
2024 or later		2,600
Total future minimum lease payments	$	13,577
Less imputed interest		(1,703)
Total	$	11,874

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Report contains forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent our goals, beliefs, plans and expectations about our prospects for the future and other future events, such as our ability to execute our strategic plan and Manufacturing Footprint Rationalization restructuring plan, our ability to finance sufficient working capital, the amount of availability under the Amended Credit Agreement and other indebtedness, our ability to continue to maintain or increase sales and profits of our operations, and the sufficiency of our cash balances and cash generated from operating, investing and financing activities for our future liquidity and capital resource needs. Reference is made in particular to forward-looking statements included in this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Such statements may be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "anticipate", "intend", "continue", or similar terms, variations of such terms or the negative of such terms. The forward-looking statements included in this Report are made as of the date hereof or as of the date specified herein and are based on management's current expectations and beliefs. Such statements are subject to a number of assumptions, risks, uncertainties and other factors, which are set forth in "Item 1A. Risk Factors" and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2018, and subsequent reports filed with the Securities and Exchange Commission, and which could cause actual results to differ materially from that described in the forward-looking statements. In addition, such forward-looking statements do not include the potential impact of any business combinations, acquisitions, divestitures, strategic investments and other significant transactions that may be completed after the date hereof, each of which may present material risks to the Company's business and financial results. Except as required by law, we expressly disclaim any obligation or undertaking to update any forward-looking statements to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by, our consolidated financial statements and related notes thereto included elsewhere in this Report and in our Annual Report on Form 10-K for the year ended December 31, 2018.

Overview

Gentherm Incorporated is a global developer and marketer of innovative thermal management technologies for a broad range of heating and cooling and temperature control applications. Unless the context otherwise requires, the terms "Gentherm", "Company", "we", "us" and "our" used herein refer to Gentherm Incorporated and its consolidated subsidiaries. Our products provide solutions for automotive passenger climate comfort and convenience, battery thermal management and cell connecting systems, as well as patient temperature management within the health care industry. Our automotive products can be found on the vehicles of nearly all major automotive manufacturers operating in North America, Europe and Asia. We operate in locations aligned with our major customers' product strategies to provide locally enhanced design, integration and production capabilities and to identify future thermal technology product opportunities in both automotive and other markets. The Company is also developing a number of new technologies and products that will help enable improvements to existing products and to create new product applications for existing and new markets.

Our automotive products are sold to automobile and light truck OEMs or their tier one suppliers. Inherent to the automotive supplier market are costs and commitments that are incurred well in advance of the receipt of orders and resulting revenues from customers. This is due in part to automotive manufacturers requiring the design, coordination and testing of proposed new components and sub-systems. Revenues from these expenditures are typically not realized for two to three years due to this development cycle.

Reportable Segments

The Company has two reportable segments for financial reporting purposes: Automotive and Industrial. See Note 7 to the consolidated condensed financial statements for a description of our reportable segments as well as their proportional contribution to the Company's reported product revenues and operating income. The financial information used by our chief operating decision maker to assess operating performance and allocate resources is based on these reportable segments.

Sale of Cincinnati Sub-Zero Industrial Chamber Business (CSZ-IC)

On February 1, 2019, as part of the Company's Fit-for-Growth initiative to eliminate investments in non-core businesses, we completed the sale of the Cincinnati Sub-Zero industrial chamber business ("CSZ-IC") and former Cincinnati Sub-Zero headquarters facility to Weiss Technik North America, Inc. for total cash proceeds of $47.5 million, including $2.5 million of cash proceeds placed into an escrow account for a period of up to one year as partial security for the Company's obligations under the sale agreement. In connection with the sale, Gentherm entered into an operating lease agreement for a portion of the office and manufacturing building space purchased by Weiss Technik North America, Inc. The Company recognized a $4,970 million pre-tax gain on the sale of CSZ-IC during the nine-months ended September 30, 2019.

Manufacturing Footprint Rationalization

On September 23, 2019, the Company committed to a restructuring plan to improve the Company's manufacturing productivity and rationalize its footprint. Under this plan, the Company will relocate and consolidate certain existing automotive manufacturing and, as a result, certain other activities, overall reducing the number of plants by two. The Company expects to incur total costs of between $20.0 million and $24.0 million, of which between $17.0 million and $21.0 million are expected to be cash expenditures. The total expected costs include employee separation costs of between $9.0 million and $11.0 million, capital expenditures of between $4.5 million and $5.5 million and non-cash expenses for accelerated depreciation and impairment of fixed assets of approximately $3.0 million. The Company also expects to incur other transition costs including recruiting, relocation, and machinery and equipment move and set up costs of between $3.5 million and $4.5 million. The actions under this plan are expected to be substantially completed by the end of 2021. The actual timing, costs and savings of the Plan may differ materially from the Company's current expectations and estimates

During the third quarter of 2019, the Company recognized expense of $5.2 million for employee separation costs that will be paid pursuant to the terms of statutory requirements of the affected locations. Additionally, the Company recognized $1.6 million of accelerated depreciation and fixed asset impairment.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. For discussion of our significant accounting policies, see Note 2, "Summary of Significant Accounting Policies and Basis of Presentation," to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018. With the exception of leases, there have been no significant accounting policy changes during the nine-months ended September 30, 2019. See Note 2 for information about the adoption of ASU 2016-02, "Leases".

Results of Operations Third Quarter 2019 Compared with Third Quarter 2018

Product revenues. Product revenues by product category, in thousands, for the three-months ended September 30, 2019 ("Third Quarter 2019") and 2018 ("Third Quarter 2018") are as follows:

	Three Months Ended September 30,		
	2019	2018	% Change
Climate Control Seats (CCS)	$ 88,133	$ 97,578	(9.7)%
Seat Heaters	71,030	70,768	0.4%
Steering Wheel Heaters	16,621	18,095	(8.1)%
Automotive Cables	20,361	24,961	(18.4)%
Battery Thermal Management (BTM)(a)	11,890	7,461	59.4%
Electronics	11,729	12,590	(6.8)%
Other Automotive	8,479	7,396	14.6%
Subtotal Automotive	$ 228,243	$ 238,849	(4.4)%
Remote Power Generation (GPT)	3,477	4,378	(20.6)%
Industrial Chambers	—	9,829	(100.0)%
Gentherm Medical	8,336	8,448	(1.3)%
Subtotal Industrial	$ 11,813	$ 22,655	(47.9)%
Total Company	$ 240,056	$ 261,504	(8.2)%

a) Battery Thermal Management or BTM product revenues include Gentherm's automotive grade, low cost, heat resistant fans and blowers used by customer for battery cooling through ventilation and production level shipments of the advanced TED based active cool system.

Product revenues for the Third Quarter 2019 were $240.1 million compared with product revenues of $261.5 million during Third Quarter 2018, a decrease of $21.4 million, or 8.2%. The decrease included lower revenues in the automotive segment, which decreased by $10.6 million, or 4.4%, to $228.2 million, and lower industrial segment product revenues which decreased $10.8 million, or 47.9%, to $11.8 million.

Our automotive segment revenues decreased primarily due to unfavorable foreign currency, automotive volumes, and pricing. Unfavorable currency decreased revenues by $3.8 million, primarily attributable to the Euro, Chinese Renminbi and Korean Won. Unfavorable automotive volumes decreased revenues by $3.6 million, including the impact of the strike at General Motors which decreased revenues by approximately $3 million. Other reductions, primarily associated with reduced customer pricing, decreased revenues by $3.2 million.

Our industrial segment revenues decreased primarily due to the absence of revenue from CSZ-IC, which was sold on February 1, 2019, as well as lower revenue from GPT. Additionally, excluding the impact of the Stihler acquisition, Gentherm Medical revenue decreased approximately $1.5 million.

Cost of Sales. Cost of sales was $165.4 million during Third Quarter 2019 compared to $185.8 million during Third Quarter 2018, a decrease of $20.4 million, or 11.0%. This decrease was primarily associated with the sale of CSZ-IC in the first quarter of 2019, favorable currency impact, decreases in automotive volumes and operational performance improvements, including Fit-for-Growth. Additionally, the Third Quarter 2019 included a one-time benefit of approximately $1 million related to the release of an automotive warranty accrual upon resolution of a prior year quality issue. These items were offset by higher labor costs in Mexico, Macedonia and China.

The sale of CSZ-IC decreased cost of sales by $7.6 million. Operational performance improvements decreased cost of sales by $8.2 million, primarily attributable to decreases in overtime, expedited freight, material costs and quality costs. Favorable currency decreased cost of sales by $2.2 million primarily attributable to the Euro, Chinese Renminbi and Mexican Peso.

Net Research and Development Expenses. Net research and development expenses were $18.8 million during Third Quarter 2019 compared to $19.1 million during Third Quarter 2018, a decrease of $0.3 million, or 1.1%. The decrease in net research and development expenses is primarily related to lower incentive compensation costs and the Company's focused portfolio and Fit-for-Growth cost reduction initiatives. These decreases in expense are offset by decreases in reimbursed research and development.

Reimbursed research and development totaled $3.2 million during Third Quarter 2019 compared to $5.5 million during Third Quarter 2018.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $26.9 million during Third Quarter 2019 compared to $35.1 million during Third Quarter 2018, a decrease of $8.2 million, or 23.4%. The decrease was primarily related to the sale of CSZ-IC on February 1, 2019, lower incentive compensation costs and the Company's focused portfolio and Fit-for-Growth cost reduction initiatives. Additionally, Third Quarter 2018 included a $3.3 million mark-to-market charge on cash paid stock options that did not repeat in Third Quarter 2019.

Restructuring expenses. The Company recognized $8.7 million in restructuring expenses during Third Quarter 2019 primarily associated with the Manufacturing Footprint Rationalization restructuring program. Total restructuring expenses included $6.7 million of employee separation costs, $1.6 million of accelerated depreciation and fixed asset impairment and $0.4 of other related costs.

Foreign currency gain. During Third Quarter 2019 we incurred a net foreign currency gain of $4.1 million which included a net realized gain of $0.5 million and a net unrealized gain of $3.6 million.

Impairment loss. During Third Quarter 2019, the Company recorded an impairment loss totaling $0.8 million associated with the Company's plans to divest GPT. The loss is not expected to be deductible for income tax purposes.

Income Tax Expense. We recorded an income tax expense of $6.8 million during Third Quarter 2019 on earnings before income tax of $22.7 million. The pre-tax earnings amount included the non-deductible impairment loss of $0.8 million. Adjusted for the impairment loss, the effective tax rate was 28.8% for the Third Quarter 2019. During Third Quarter 2018, we recorded an income tax expense of $3.7 million on earnings before tax of $3.3 million. The pre-tax earnings amount included the non-deductible impairment loss of $11.5 million. Adjusted for the impairment loss, the effective tax rate was 24.9% for the Third Quarter 2018. The effective tax rate for Third Quarter 2018 differed from the Federal statutory rate of 21% primarily due to increased international provisions from the U.S. tax reform, such as global intangible low-tax income ("GILTI"), enacted in December 2017, partly offset by favorable excess tax benefits on stock option exercises and certain intercompany transactions which disproportionately benefited lower tax rate jurisdictions. The effective tax rate for Third Quarter 2019 was higher than the Federal statutory rate of 21% primarily due to the impact of higher statutory rates for our subsidiaries operating in foreign jurisdictions and effects from the U.S. tax reform, such as GILTI.

Results of Operations Year to Date 2019 Compared with Year to Date 2018

Product revenues. Product revenues by product category, in thousands, for the nine-months ended September 30, 2019 (“YTD 2019”) and 2018 (“YTD 2018”) are as follows:

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	% Change
Climate Control Seats (CCS)	$ 270,924	$ 276,191	(1.9)%
Seat Heaters	218,578	235,164	(7.1)%
Steering Wheel Heaters	49,620	53,192	(6.7)%
Automotive Cables	66,316	77,471	(14.4)%
Battery Thermal Management (BTM)(a)	31,531	18,863	67.2%
Electronics	36,035	44,409	(18.9)%
Other Automotive	27,296	19,130	42.7%
Subtotal Automotive	$ 700,300	$ 724,420	(3.3)%
Remote Power Generation (GPT)	11,181	14,310	(21.9)%
Industrial Chambers	3,418	30,460	(88.8)%
Gentherm Medical	26,404	23,300	13.3%
Subtotal Industrial	$ 41,003	$ 68,070	(39.8)%
Total Company	$ 741,303	$ 792,490	(6.5)%

a) Battery Thermal Management or BTM product revenues include Gentherm’s automotive grade, low cost, heat resistant fans and blowers used by customer for battery cooling through ventilation and production level shipments of the advanced TED based active cool system.

Product revenues during YTD 2019 were $741.3 million compared with product revenues of $792.5 million during YTD 2018, a decrease of $51.2 million, or 6.5%. The decrease included lower revenues in the automotive segment, which decreased by $24.1 million, or 3.3%, to $700.3 million and lower industrial segment product revenues which decreased $27.1 million, or 39.8%, to $41.0 million.

Our automotive segment revenues decreased primarily due to unfavorable foreign currency and pricing offset by increased volumes. Unfavorable currency decreased revenues by $16.7 million, primarily attributable to the Euro, Chinese Renminbi and Korean Won. Favorable volumes increased revenues by $1.6 million. Other reductions primarily associated with customer pricing, decreased revenues by $9.0 million.

Our industrial segment revenues decreased primarily due to the sale of CSZ-IC on February 1, 2019, as well as lower revenue from GPT. These decreases were partially offset by increased revenue from Gentherm Medical.

Cost of Sales. Cost of sales was $518.6 million during YTD 2019 compared to $558.5 million during YTD 2018, a decrease of $39.9 million, or 7.1%. This decrease was primarily associated with the sale of CSZ-IC in the first quarter of 2019, favorable currency impact and operational improvements, including Fit-for-Growth. These items were offset by increased U.S. tariffs, automotive volumes and higher labor costs in Mexico, Macedonia and China.

The sale of CSZ-IC decreased cost of sales by $20.8 million. Operational performance improvements decreased cost of sales by $19.1 million, primarily attributable to decreases in headcount, overtime, expedited freight and material costs. Favorable currency decreased cost of sales by $10.3 million primarily attributable to the Euro, Chinese Renminbi and Mexican Peso.

Net Research and Development Expenses. Net research and development expenses were $57.0 million during YTD 2019 compared to $63.4 million during YTD 2018, a decrease of $6.4 million, or 10.1%. The decrease in net research and development expenses is primarily related to the Company’s focused portfolio and Fit-for-Growth cost reduction initiatives.

Reimbursed research and development totaled $12.0 million during YTD 2019 compared to $12.5 million during YTD 2018.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $91.7 million during YTD 2019, a decrease of $14.1 million, or 13.3%, from $105.8 million during YTD 2018. The decrease was primarily related to the sale of CSZ-IC on February 1, 2019 and the Company’s focused portfolio and Fit-for-Growth cost reduction initiatives.

Restructuring expenses. The Company recognized $11.8 million in restructuring expenses during YTD 2019 primarily associated with the Manufacturing Footprint Rationalization restructuring program and other discrete restructuring actions which represented $6.8 million and $3.4 million, respectively. Total costs for the YTD 2019 included $8.2 million of employee separation costs, $2.0 million of accelerated depreciation and impairment charges and $1.6 million of other related costs.

Foreign currency gain (loss). During YTD 2019 we incurred a net foreign currency gain of $3.5 million which included a net realized loss of $1.0 million and a net unrealized gain of $4.5 million.

Gain on sale of business. On February 1, 2019, as part of Company's Fit-for-Growth initiative to eliminate investments in non-core businesses, we completed the sale of the CSZ-IC and former Cincinnati Sub-Zero headquarters facility to Weiss Technik North America, Inc. for total cash proceeds of $47.5 million, including $2.5 million of cash proceeds that were placed into an escrow account for a period of up to one year. The Company recognized a pre-tax gain of $5.0 million on the sale of CSZ-IC during the nine months ended September 30, 2019.

Impairment loss. During the YTD 2019, the Company recorded an impairment loss totaling $21.2 million associated with the Company's plans to divest GPT. The loss is not expected to be deductible for income tax purposes.

Income Tax Expense. We recorded an income tax expense of $19.2 million during YTD 2019 on earnings before income tax of $46.3 million. The pre-tax earnings amount included the non-deductible impairment loss of $21.2 million. Adjusted for the impairment loss, the effective tax rate was 28.5% for the YTD 2019. During YTD 2018, we recorded an income tax expense of $9.8 million on earnings before tax of $39.1 million. The pre-tax earnings amount included the non-deducible impairment loss of $11.5 million. Adjusted for the impairment loss, the effective tax rate was 19.4% for YTD 2018. The effective tax rate for YTD 2018 differed from the Federal statutory rate of 21% primarily due to the impact of discrete adjustments, including favorable excess tax benefits on stock option exercises and certain intercompany transaction which disproportionately benefited lower tax rate jurisdictions which were partially offset by the international provisions from the US tax reform, such as GILTI, enacted in December 2017. The effective tax rate for YTD 2019 was higher than the Federal statutory rate of 21% primarily due to the impact of higher statutory rates for our subsidiaries operating in foreign jurisdictions and effects from the U.S. tax reform, such as GILTI.

Liquidity and Capital Resources

Cash and Cash Flows

The Company has funded its financial needs primarily through cash flows from operating activities and equity and debt financings. Our new strategic plan sets forth a capital allocation strategy that includes a targeted debt-to-earnings leverage ratio and allows for some of our cash flows to be paid back to investors through Common Stock repurchases. On June 25, 2018, our Board of Directors increased the Company's stock repurchase authorization to $300 million, of which $88.6 million of availability remained as of September 30, 2019. This authorization expires on December 16, 2020. Based on its current operating plan, management believes cash and cash equivalents at September 30, 2019, together with cash flows from operating activities, and borrowings available under our credit agreement, are sufficient to meet operating and capital expenditure needs, and to service debt, for at least the next 12 months. However, if cash flows from operations decline, we may need to obtain alternative sources of capital and reduce or delay capital expenditures, acquisitions and investments, all of which could impede the implementation of our business strategy and adversely affect our results of operations and financial condition. In addition, it is likely that we will need to complete one or more equity or debt financings if we consummate any significant acquisition or several smaller acquisitions. There can be no assurance that such capital will be available at all or on reasonable terms, which could adversely affect our future operations and business strategy.

The following table represents our cash and cash equivalents and restricted cash:

	Nine Months Ended September 30,	
	2019	2018
	(In thousands)	
Cash, cash equivalents and restricted cash at beginning of period	$ 39,620	$ 103,172
Cash provided by operating activities	83,992	70,541
Cash provided by (used in) investing activities	14,474	(31,127)
Cash used in financing activities	(86,231)	(94,181)
Foreign currency effect on cash and cash equivalents	(4,151)	(1,253)
Cash, cash equivalents and restricted cash at end of period	$ 47,704	$ 47,152

Cash Flows From Operating Activities

We manage our cash, cash equivalents and restricted cash in order to fund operating requirements and preserve liquidity to take advantage of future business opportunities. The following table compares the cash flows from operating activities during YTD 2019 and YTD 2018:

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Change
	(In thousands)		
Operating Activities:			
Net income	$ 27,052	$ 29,270	$ (2,218)
Non-cash adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	33,281	38,721	(5,440)
Deferred income taxes	5,072	(19)	5,091
Stock compensation	5,268	6,360	(1,092)
Defined benefit plan income	(754)	(219)	(535)
Provision for doubtful accounts	209	247	(38)
Loss on sale of property and equipment	319	2,273	(1,954)
Operating lease expense	4,477	—	4,477
Impairment loss	21,206	11,476	9,730
Gain on sale of business	(4,970)	—	(4,970)
Other	189	—	189
Net income before changes in operating assets and liabilities	91,349	88,109	3,240
Changes in operating assets and liabilities:			
Accounts receivable	(6,170)	(13,855)	7,685
Inventory	(5,512)	(3,510)	(2,002)
Prepaid expenses and other assets	9,594	(7,867)	17,461
Accounts payable	(3,097)	8,376	(11,473)
Accrued liabilities	(2,172)	(712)	(1,460)
Net cash provided by operating activities	$ 83,992	$ 70,541	$ 13,451

Cash provided by operating activities during YTD 2019 was $84.0 million, representing an increase of $13.5 million from cash provided by operating activities during YTD 2018, which was $70.5 million. The following table highlights significant differences between the operating cash flows for the nine months ended September 30, 2019 and 2018, respectively:

	(In thousands)
Net cash provided by operating activities during YTD 2018	$ 70,541
Decrease from lower net income before changes in operating assets and liabilities	3,240
Changes in working capital, net	20,493
Changes in other assets and liabilities, net	(10,282)
Net cash provided by operating activities during YTD 2019	$ 83,992

Net cash provided by operating activities before changes in operating assets and liabilities increased during YTD 2019 due to non-cash impairment losses of $21.2 million, partially offset by a $5.0 gain recognized on the sale of CSZ-IC. Additionally, working capital, net provided unfavorable cash flows related to accounts payable and accrued liabilities and favorable amounts related to accounts receivable, inventory and prepaid expenses and other assets.

The following table illustrates changes in working capital during YTD 2019:

		(In thousands)
Working capital at December 31, 2018	$	267,679
Increase in cash, cash equivalents and restricted cash		6,340
Impairment loss on assets classified as held for sale		(21,206)
Foreign currency effect on working capital		(5,044)
Increase in accounts receivable		6,454
Decrease in tax receivables		(9,137)
Increase in inventory		6,376
Decrease in prepaid expenses and other assets		(3,110)
Decrease in accounts payable		2,591
Increase in accrued liabilities		(5,780)
Decrease in working capital due to the sale of a business		(42,530)
Increase in net current assets classified as held for sale		6,505
Increase in working capital from acquisition of new company		5,203
Working capital at September 30, 2019	$	214,341

The following table highlights significant transactions that contributed to the increase in cash, cash equivalents and restricted cash during the nine-months ended September 30, 2019:

		(in Thousands)
Net cash provided by operating activities	$	83,992
Purchases of property and equipment		(18,340)
Repayments of Debt		(69,049)
Borrowings from U.S. Revolving Note		29,470
Stock repurchases		(58,040)
Proceeds from the exercise of common stock options		13,879
Proceeds from the sale of CSZ-IC		47,500
Cash paid for acquisition of subsidiary		(14,823)
Other items		(8,249)
Increase in cash	$	6,340

In addition to these transactions, working capital was impacted by increases in accounts receivable, inventory, accrued liabilities, and decreases in prepaid expenses and other assets, accounts payable, and tax receivables. The changes in current assets and liabilities reflect the classification of additional assets related to GPT (disposal group) as held for sale during YTD 2019. All assets and liabilities of the disposal group are classified as held for sale within current assets and current liabilities, respectively, on the Company's consolidated balance sheet as of September 30, 2019. See Note 4 to our consolidated condensed financial statement for additional information about the assets and liabilities classified as held for sale.

Cash Flows From Investing Activities

Cash provided by investing activities was $14.5 million during YTD 2019, reflecting cash proceeds of $47.5 million related to the sale of CSZ-IC, offset by the acquisition of Stihler for $14.8 million and the purchases of property and equipment related to the expansion of production capacity, totaling $18.3 million.

Cash Flows From Financing Activities

Cash used in financing activities was $86.2 million during YTD 2019, reflecting payments of principal on the U.S. Revolving Note, the DEG China Loan and the DEG Vietnam Loan totaling $69.0 million in aggregate partially offset by additional borrowings on the U.S. Revolving Note totaling $29.5 million. As of September 30, 2019, the total availability under the U.S. Revolving Note was $385.1 million. Cash was also paid in YTD 2019 for the repurchase of Common Stock totaling $58.0 million, financing costs incurred with for the Amended and Restated Credit Agreement totaling $1.3 million and cancellations of restricted stock awards totaling $1.2 million, partially offset by proceeds from the exercise of common stock options totaling $13.9 million.

Off-Balance Sheet Arrangements

We use letters of credit to guarantee our performance under specific construction contracts executed by our subsidiaries, GPT and Gentherm Medical. The expiration dates of the letter of credit contracts coincide with the expected completion date of the contract. Extensions are normally made if performance obligations continue beyond the expected completion date. At September 30, 2019, we had outstanding letters of credit of $72 thousand, a decrease from $455 thousand at December 31, 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to our debt obligations and foreign currency contracts. We have in the past, and may in the future, place our investments in bank certificates of deposits, debt instruments of the U.S. government, and in high-quality corporate issuers.

We are exposed to market risk from changes in foreign currency exchange rates, short-term interest rates and price fluctuations of certain material commodities such as copper. Market risks for changes in interest rates relate primarily to our debt obligations under our Amended Credit Agreement. Foreign currency exchange risks are attributable to sales to foreign customers and purchases from foreign suppliers not denominated in a location's functional currency, foreign plant operations, intercompany indebtedness, intercompany investments and include exposures to the Euro, Mexican Peso, Canadian Dollar, Hungarian Forint, Macedonian Denar, Ukrainian Hryvnia, Japanese Yen, Chinese Renminbi, Korean Won and Vietnamese Dong.

The Company regularly enters into derivative contracts with the objective of managing its financial and operational exposure arising from these risks by offsetting gains and losses on the underlying exposures with gains and losses on the financial instruments used to hedge them. The maximum length of time over which we hedge our exposure to foreign currency exchange risks is one year. We had foreign currency derivative contracts with a notional value of $25.2 million and $33.3 million outstanding at September 30, 2019 and December 31, 2018, respectively.

The maximum length of time over which we hedge our exposure to price fluctuations in material commodities is two years. No commodity swap contracts were outstanding at September 30, 2019 or at December 31, 2018.

We do not enter into derivative financial instruments for speculative or trading purposes. Our hedging relationships are formally documented at the inception of the hedge, and hedges must be highly effective in offsetting changes to future cash flows on hedged transactions both at the inception of a hedge and on an ongoing basis to be designated for hedge accounting treatment. For derivative contracts which can be classified as a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded to accumulated other comprehensive loss in the consolidated condensed balance sheets. When the underlying hedge transaction is realized, the gain or loss included in accumulated other comprehensive loss is recorded in earnings in the consolidated condensed statements of income on the same line as the gain or loss on the hedged item attributable to the hedged risk. We record the ineffective portion of foreign currency hedging instruments, if any, to foreign currency (loss) gain in the consolidated condensed statements of income. Though we continuously monitor the hedging program, derivative positions and hedging strategies, foreign currency forward exchange agreements have not always been designated as hedging instruments for accounting purposes.

The Company uses an income approach to value derivative instruments, analyzing quoted market prices to calculate the forward values and then discounts such forward values to the present value using benchmark rates at commonly quoted intervals for the instrument's full term. Information related to the fair values of all derivative instruments in our consolidated condensed balance sheet as of September 30, 2019 is set forth in Note 12 to the consolidated condensed financial statements included herein.

Interest Rate Sensitivity

The table presents principal cash flows and related weighted average interest rates by expected maturity dates for each of the Company's debt obligations. The information is presented in U.S. dollar equivalents, which is the Company's reporting currency. The instruments actual cash flows are denominated in U.S. dollars ($USD) or Euros (€EUR), as indicated in parentheses.

September 30, 2019

	Expected Maturity Date							
	2019	2020	2021	2022	2023	2024	Total	Fair Value
	(In thousands except rate information)							
Liabilities								
Long Term Debt:								
Variable Rate (€EUR)	$ —	—	—	—	—	19,623	$ 19,623	$ 19,623
Variable Interest Rate as of September 30, 2019						1.25%	1.25%	
Variable Rate ($USD)		—	—	—	—	70,000	$ 70,000	$ 70,000
Variable Interest Rate as of September 30, 2019						3.29%	3.29%	
Fixed Rate ($USD)	$ 1,250	$ 2,500	$ 2,500	$ 2,500	$ 1,250	—	$ 10,000	$ 10,213
Fixed Interest Rate	5.21%	5.21%	5.21%	5.21%	5.21%		5.21%	

Exchange Rate Sensitivity

The table below provides information about the Company's foreign currency forward exchange rate agreements that are sensitive to changes in foreign currency exchange rates. The table presents the notional amounts and weighted average exchange rates by expected (contractual) maturity dates for each type of foreign currency forward exchange agreement. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract.

September 30, 2019

	Expected Maturity or Transaction Date			
Anticipated Transactions And Related Derivatives	**2019**	**2020**	**Total**	**Fair Value**
	(In thousands except rate information)			
$U.S. functional currency				
Forward Exchange Agreements:				
(Receive MXN/Pay USD$)				
Total Contract Amount	$ 10,726	$ 14,484	$ 25,210	$ 897
Average Contract Rate	20.98	20.71	20.83	

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018, we identified a material weakness related to Information Technology General Controls ("ITGC") at our wholly owned subsidiary, Gentherm Medical, LLC (formerly, Cincinnati Sub-Zero Products, LLC), which did not operate in a way to appropriately restrict elevated access and address segregation of duty conflicts at both the information technology and end user levels.

During the nine months ended September 30, 2019, in response to this material weakness, the Company implemented a remediation plan which included development of enhanced risk assessment procedures and controls over the monitoring of elevated access and segregations of duty conflicts. We completed our testing of the operating effectiveness of the enhanced controls and found them to be effective as of September 30, 2019. As a result, we have concluded that the material weakness has been remediated as of September 30, 2019.

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2019, our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

Except for the changes in connection with our implementation of the remediation plan discussed above, there were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2019, that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to litigation from time to time in the ordinary course of business, however there is no current material pending litigation to which we are a party and no material legal proceeding was terminated, settled or otherwise resolved during the nine months ended September 30, 2019.

ITEM 1A. RISK FACTORS

There were no material changes in our risk factors previously disclosed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018. You should carefully consider the risks and uncertainties described therein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities During Third Quarter 2019

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (2)
July 1, 2019 to July 31, 2019	213,565	$ 40.20	213,565	104,974,519
August 1, 2019 to August 31, 2019	225,398	$ 37.77	225,398	96,463,515
September 1, 2019 to September 30, 2019	195,662	$ 40.50	195,662	88,559,879

(1) All shares were purchased on the open-market in accordance with Gentherm’s Stock Repurchase Program, including, in part, pursuant to a plan adopted by the Company in accordance with Rule 10b5-1 promulgated by the U.S. Securities and Exchange Commission.

(2) The Stock Repurchase Program authorizes Gentherm to repurchase shares up to $300 million. The Stock Repurchase Program expires on December 16, 2020. The authorization of this Stock Repurchase Program does not require that the Company repurchase any specific dollar value or number of shares and may be modified, extended or terminated by the Company’s Board of Directors at any time.

ITEM 6. EXHIBITS

Exhibits to this Report are as follows:

			Incorporated by Reference			
Exhibit Number	Exhibit Description	Filed Herewith	Form	Period Ending	Exhibit / Appendix Number	Filing Date
10.1*	Employment Contract between Gentherm GmbH and Thomas Stocker, effective [September 1, 2019]	X				
31.1	Section 302 Certification – CEO	X				
31.2	Section 302 Certification – CFO	X				
32.1**	Section 906 Certification – CEO	X				
32.2**	Section 906 Certification – CFO	X				
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X				
101.SCH	Inline XBRL Taxonomy Extension Schema Document.	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	X				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	X				
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	X				

* Indicates management contract or compensatory plan or arrangement

** Documents are furnished not filed

SIGNATURES

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

Gentherm Incorporated

/s/ PHILLIP EYLER

Phillip Eyler
President and Chief Executive Officer
(Principal Executive Officer)

Date: October 29, 2019

/s/ MATTEO ANVERSA

Matteo Anversa
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: October 29, 2019

Technology to the next degree™

EMPLOYMENT CONTRACT

between

Gentherm GmbH

Rudolf-Diesel-Str. 12, 85235 Odelzhausen

- employer –

and

Mr. Thomas Stocker
residing at: Kerbelweg 28, 80995 Munich
- employee -

- the employer and the employee are also referred to as the "parties" in the following -

(This note does not apply in English as we do not distinguish between the genders in nouns (employee))

1. Beginning of Employment

1.1 The employee begins non-tariff employment effective September 1, 2019.

1.2 The employee is in a management position pursuant to § 5 paragraphs 3 and 4 of the (German) Works Constitution Act.

2. Duration of Employment

2.1 The period of employment is indefinite.

2.2 However, it is automatically terminated i.e. with no requirement of advance notice, at the end of the month,

2.2.1 in which the employee reaches the legal retirement age which entitles him to an undiminished retirement pension or

2.2.2 in which he draws a retirement pension.

3. Place of Employment

The employee's primary place of employment is Odelzhausen with the condition that the employer may assign him a different workplace (see item 4.2).

The employee will also be required to undertake business trips in the course of his duties. Business trips may be either domestic or abroad and, in individual cases, may extend over a period of multiple weeks.

4. Title, Nature of the Employment, Relocation Clause

Employment is with the title of "Senior Vice President and Managing Director Europe, Automotive Climate & Comfort."

4.1 The employee's duties are defined in a job description to be given to the employee within one month after recruitment at the latest.

4.2 The employer reserves the right to transfer the employee at any time to a different area of responsibility and duties which are, at least, commensurate with his capabilities and qualifications and to transfer the employee within the company, including to a different work location, provided, of course, that the interest of the employee is taken appropriately into consideration. The employee's title may also be altered accordingly.

5. Salary, Overtime Compensation

5.1 The employee will receive a gross annual salary of 400,000.00 (in words: four hundred thousand) euros. The annual fixed salary will be paid in twelve equal monthly installments, minus the statutory deductions, at the end of each calendar month.

5.2 The salary payment will be made subsequently at the end of each month by transfer to a German bank account to be named by the employee in due time.

5.3 Pursuant to the Senior Level Bonus program (see Appendix 1) of Gentherm Incorporated and its subsidiaries (in accordance with the current version respectively) and dependent on the achievement of the financial objectives the Gentherm group specified, the employee is entitled to a performance-related variable bonus beginning with fiscal year 2020. In the event of a 100% fulfillment of the objectives, the bonus is equal to 50% of the employee's annual fixed salary.

The employee will receive a gross one-time "signing bonus" of 200,000.00 (in words: two hundred thousand) euros. Taxes and additional deductions to which the signing bonus is subject are the employee's responsibility. The employer will pay the signing bonus, minus the related taxes and social security contributions (which the employer will direct to the appropriate authorities) to the employee within 30 calendar days after the beginning of employment. The employee must repay the signing bonus to the employer if the employee terminates his employment within 24 months of beginning. In this case, the amount the employee must repay to the employer is reduced by 1/24 for every full month of employment (i.e. gross 8,333.33 euros per month as calculated: 200,000.00 euros divided by 24 = 8,333.33 euros).

5.4 Furthermore, the employee is entitled to a "sign-on equity grant" upon beginning of employment with a "grant date value" of 220,000 euros. Additional details for the implementation and procedure of the sign-on equity grant are attached to the contract of employment in Appendix 2.

Subject to the respective approval by the Compensation Committee of the Board of Directors of Gentherm Inc., the employee is entitled to an annual “equity compensation” beginning with fiscal year 2020.

5.6 Should a pause in the employment occur for, e.g. a long-term illness without entitlement of continued payment or an unpaid vacation, there will be no entitlement to variable compensation for the time frame in question in accordance with item 5.3.

5.7 If the employee leaves the company, he is entitled to a pro-rated compensation for the current fiscal year up to the time of leaving.

5.8 The compensation paid by the employer fully encompasses compensation for any and all overtime, working on Sunday, holidays or nights.

5.9 The employee may not transfer any of his entitlements related to the employer to a third party unless the employer has given express prior approval. The employer will approve the transfer of entitlements as long as the transfer is not contradictory to the employer’s interests.

6. Company Car

The employee is entitled to provision of a company car, including for personal use, in accordance with the respectively currently valid motor vehicle regulations. The monthly financial benefit will be taxed on the respective payroll calculation. The parties will negotiate further details to the provision of the company car.

7. Reimbursement of Expenses

The employer will reimburse the employee upon presentation of proper documentation for all necessary expenses which he incurs during the orderly performance of his activities. Regarding the reimbursement of travel expenses, the relevant valid travel expense regulations and the relevant German tax directives apply.

8. Working Hours

8.1 The individual regular weekly work time is 40.0 hours. The employer is entitled to specify working time which deviates from the operational norm or the agreed-upon provision in the event of necessity.

8.2 The employee is obligated, insofar as necessary, to perform overtime (including Saturdays, Sundays and holidays) within the statutory limits.

9. Obligation to Notify and Provide Proof of Work Absence

The employee is obligated to notify the employer without delay in the event of an absence and of the foreseeable duration of the absence from work, regardless of the reason for said absence. If the absence is likely to be longer than three calendar days, doctor's statement showing the probable duration must be presented. Please refer to the relevant work regulations.

10. Vacation

10.1 The employer is entitled to the statutory minimum of 20 days vacation per calendar year based on a five-day work week (statutory minimum vacation). The employee is granted an additional 10 workdays of vacation per calendar year (contractual vacation) for a total of 30 days of vacation per year. Workdays are all days which are neither a Saturday, a Sunday nor a holiday in the employers country of registration.

10.2 The entirety of the vacation must be taken during the relevant calendar year. Carrying vacation over to the next calendar year may only be done if urgent operational or personal reasons of the employer justify it.

10.3 The vacation (statutory and contractual vacation) carried over must be taken in the first three months of the following year. Thereafter, the vacation expires.

An exception to this rule is that a statutory vacation carried over may still be taken up to March 31 of the second subsequent year if and when the employee is not able to take the statutory vacation due to a long-term illness.

10.4 Vacation taken will be charged to the statutory vacation first.

11. Probationary Period and Termination of Employment

11.1 The first six months of employment are considered a probationary period. Within the duration of this probationary period, the contract may be canceled by either party with a notification of four weeks to the end of the month.

11.2 After the lapse of the probationary period, the employment may be terminated orderly with a notification period of six months to the end of the month insofar as a longer notification period is not required by law. The right to extraordinary termination remains unaffected.

11.3 In the case of an ordinary termination, the employer has the right to indemnify the employee until termination of the contract under continuation of their current pay. Otherwise, the employer only has the right to dismiss the employee if overriding interests warranting protect of the employer's interests (e.g. betrayal of industrial secrets) make it justifiable. Any vacation and possible free-time to which the employee is entitled will be calculated onto the indemnification phase in the case of irrevocable termination.

11.4 Termination before the beginning of the contract is excluded.

11.5 Termination must occur in writing.

12. Secondary Employment

12.1 The employee provides the employer with all his working efforts as well as his full professional knowledge and skills.

12.2 The undertaking of any additional occupation, paid or unpaid, requires prior written approval of the employer. The same applies to the assumption of supervisory board, advisory council or similar functions which are not related the employer. The employer will grant approval insofar as the undertaking of such activities are not contradictory to safeguarding the interests of the employer. Publications and lectures by the employee which concern the interests of the employer or companies related to them require prior written approval of the employer. The employee must observe his obligation of secrecy within the framework of such publications and lectures. Approval of publications and lectures will be granted as long as they are not contradictory to protecting the interests of the employer.

12.3 A granted approval may be revoked at any time.

13. Non-Competition Clause

The employee is prohibited from working for third parties, regardless of whether independently, paid or otherwise (e.g. as employee, self-employed, advisor, counsel or manager) which are in direct or indirect competition with the employer ("competing companies") during the term of the employment contract. Likewise, the employee is prohibited from entering into self-employed competition with the employer as well as from establishing, acquiring or taking direct or indirect part in a competing company.

13.1 In particular, the employee is prohibited from using business opportunities of the employer for his own benefit or for the benefit of third parties.

13.2 However, the employee is permitted to acquire or hold shares or other securities which are handled on a stock exchange or other recognized securities trading center as long as his share does not amount to more than a 5% interest in the competing company.

13.3 The non-competition clause also applies in favor of companies with which the employer is affiliated pursuant to §§ 15 ff. AktG (German Stock Corporations Act).

14. Non-Disclosure

14.1 The employee is charged with strict confidentiality and prohibited from using for his own purposes or from making accessible to third parties, any and all information and circumstances, in particular, any and all business and trade secrets arising from, or in connection with his work for the employer, as well as any and all other business and trade secrets concerning the employer and enterprises related to the employer pursuant to §§ 15 ff. AktG. This also applies to any and all knowledge concerning companies or persons which are considered contractual partners or in a business relationship with the employer or their affiliated companies pursuant to §§ 15 ff. AktG which the employee obtains. If the employee has doubts about whether a circumstance is subject to secrecy, he must request clarification from the employer.

14.2 The non-disclosure obligation also applies to employees of the employer, insofar as they are not authorized to know the secret or the confidential matter because of their position.

14.3 The non-disclosure obligation also extends to secrets and confidential matters of other group companies. The same applies to secrets and confidential matters of companies affiliated with the employer pursuant to §§ 15 ff. AktG.

14.4 The non-disclosure obligation also applies after termination of employment. Insofar as the employee is unreasonably hindered in his progress by the post-contractual confidentiality obligation in accordance with items 14.1 and 14.3 of this confidentiality clause, he may demand that the employer exempt him from this obligation.

15. Contractual Penalty

The employee forfeits a contractual penalty in the amount of one month’s gross salary (fixed salary) for each violation of the non-competition clause in accordance with item 13 as well as for each violation of the non-disclosure clause according to item 14. In the case of an ongoing infringement, particularly in the case of occurrence of one of the non-competition obligations, the penalty will be reinforced for each month in which the infringement continues. Multiple violations trigger separate contractual penalties, including multiple occasions within a single month, if applicable. If, on the other hand, individual acts of infringement of the obligations under items 13 and 14 occur in the context of a permanent infringement, they are covered by the contractual penalty for the permanent injury. The assertion of damages exceeding the contractual penalty remains reserved, likewise the assertion of all other legal claims and legal consequences of an infringement (e.g. prohibitory injunctions).

16. Technical Equipment

The employee will be provided with a mobile telephone, a notebook computer and a PC exclusively for business use by the employer.

17. Surrender of Work Materials

17.1 The employee is obligated, upon request from the company, and in the event of termination of employment, without express request, to surrender any and all business papers, documents, data (e.g. customer lists, customer information, all technical drawings and plans, know-how, process technology, other technical documentation), including duplicates, copies, drafts of same, regardless of format (e.g. also electronic) and other objects which concern the employer or the companies/persons with which the employer is affiliated, which are their property or are in their possession, with which the employee has been entrusted in connection with his employment status or which he has created himself or to which the employer is for other reasons entitled, without delay.

In particular, the employee is obligated to immediately return mobile telephones, PC, notebook computer, including software, data carriers which are property of the employer or to which the employer owns the rights, at any time upon request by the employer, even without express request upon termination of employment.

17.2 In the case of indemnity of the employee, this obligation to return begins upon the beginning of the indemnity.

17.3 The employee does not have the right to exercise any right of retention.

18. Work-Related Inventions

18.1 The employee transfers all rights to work results, in particular any trademark rights, rights to use of copyrights, design rights, related property rights with respect to the copyright (including all development stages) and all other intellectual rights which he has acquired during his period of occupation exclusively to the employer, unlimited in time, space or content, if these

a) were acquired in connection with the operational activities of the employee or

b) were developed or acquired through use of material and/or work time provided by the employer, even if done outside working hours or

c) are connected with his work during the effective period of this employment contract.

18.2 This transfer also includes rights which were acquired prior to occupation for the employer, insofar as the prerequisites set forth in item 18.1 apply.

18.3 The transfer in accordance with items 18.1 and 18.2 encompasses, among others, the authority of the employer to use the domestic and foreign plants — in return for payment or free — in physical and in immaterial form to publicly reproduce, duplicate, distribute, record in digital or analog format in image, data or audio carrier of any kind and to duplicate and distribute themselves. This transfer encompasses, in particular, the authority to make use of these works interactively via electronic means on all known transmission channels such as cable, satellite, all radio transmission systems of any kind in all standards.

18.4 The provision in § 69b of the Urheberrechtsgesetzes zur Urheberschaft in Arbeits-und Dienstverhältnissen (German law concerning copyright ownership in employment and service relationships) remains undiminished.

18.5 All the above-listed rights are to be transferred to the employer upon their creation, at the latest, as exclusive rights and may be used in their totality or partially by the employer as desired as well as in the form of an exclusive or non-exclusive authorization to transfer to third parties.

18.6 The employee grants the employer the right to edit the works and other services created by him and to publish and distribute these and the thus edited or altered works.

18.7 The employer is not obligated to register or utilize the rights of usage. The right of recall under the terms of the copyright act to the employee for non-exercise of the respective rights of use is precluded for a period of five years from their transfer.

18.8 The employee is in agreement that no attribution and designation of the employee as the copyright owner within the framework of the utilization of the contractual object rights under his right of determination pursuant to § 13 paragraph 2 of the UrhG (German copyright law) will occur.

18.9 All works and other services created by the employee are a component of the work assignment as relates to § 1 paragraph 1 and is fully compensated in accordance with compensation according to item 5 of this contract.

19. Contract Modification in Written Form

Modifications or amendments to this contract must be in written form; deviating from this provision is that informally negotiated modifications or amendments to this employment contract are effective if they concern individual agreements pursuant to § 305 BGB (German Civil Code).

20. Protection of Privacy

20.1 The employee is hereby informed that his or her personal data will be processed, insofar as this is in connection with the establishment, execution or termination of the employment relationship or for the exercise or fulfillment of law or collective agreement, an operating or service agreement (collective bargaining agreement) and employees' interests. The provisions of the General Data Protection Regulation and the Federal Data Protection Act in the version applicable from May 25, 2018 must be considered.

20.2 Additionally, the employee is made aware that illegal processing of personal information is prohibited. Therefore, he is obligated to comply with this in dealing with the information of third parties.

21. Time Limits

21.1 All claims which result from employment and relate to the employment must be asserted in written form with respect to the other parties within a deadline of six months after their due date. Claims which are not asserted within six months in written form are forfeited.

21.2 The above-listed provisions do not apply to claims which may not be limited or excluded, in particular as relates to the statutory minimum wage, liability for malice or gross negligence of the contractual partner as well as damages which are based on injury to life, body or health.

22. Choice of Law

German law applies.

23. Severability Clause

Should any provision of this contract be or become invalid in whole or in part, the validity of the remaining provisions shall remain unaffected. The ineffective regulation is replaced by the legally permissible regulation, which is economically closest to the one intended by the invalid provision. The same applies to any omission.

Odelzhausen, July 05, 2019

Gentherm GmbH	Concurrence:
	Date:
/s/ Jörg Evers	/s/ Thomas Stocker
....	....
Jörg Evers	Thomas Stocker

Appendices

Exhibit 31.1

CERTIFICATION

I, Phillip Eyler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gentherm Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Phillip Eyler
Phillip Eyler
President & Chief Executive Officer
October 29, 2019

Exhibit 31.2

CERTIFICATION

I, Matteo Anversa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gentherm Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Matteo Anversa

Matteo Anversa
Executive Vice President, Chief Financial Officer
October 29, 2019

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Gentherm Incorporated (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Phillip Eyler, President & Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2). The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Phillip Eyler
Phillip Eyler
President and Chief Executive Officer
October 29, 2019

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Gentherm Incorporated (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matteo Anversa, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2). The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Matteo Anversa
Matteo Anversa
Executive Vice President, Chief Financial Officer
October 29, 2019