GARMIN LTD
Form 10-Q
October 31, 2018

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 29, 2018

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 0-31983

GARMIN LTD.

(Exact name of Company as specified in its charter)

Switzerland	**98-0229227**
(State or other jurisdiction	(I.R.S. Employer identification no.)

of incorporation or organization)
Mühlentalstrasse 2

8200 Schaffhausen N/A

Switzerland (Zip Code)

(Address of principal executive offices)

Company's telephone number, including area code: **+41 52 630 1600**

Indicate by check mark whether the Company (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 Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if a smaller reporting company)
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. YES NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Number of shares outstanding of the registrant's common shares as of October 29, 2018

CHF 0.10 par value: 198,077,418 (including treasury shares)

1

Garmin Ltd.

Form 10-Q

Quarter Ended September 29, 2018

Table of Contents

Part I - Financial Information

Item I - Condensed Consolidated Financial Statements

Garmin Ltd. And Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except per share information)

	September 29, 2018	December 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	$1,056,397	$891,488
Marketable securities	173,697	161,687
Accounts receivable, net	467,784	590,882
Inventories	556,640	517,644
Deferred costs	28,235	30,525
Prepaid expenses and other current assets	117,866	153,912
Total current assets	2,400,619	2,346,138
Property and equipment, net	650,805	595,684
Restricted cash	145	271
Marketable securities	1,301,111	1,260,033
Deferred income taxes	186,445	195,981
Noncurrent deferred costs	29,732	33,029
Intangible assets, net	424,776	409,801
Other assets	102,334	107,352
Total assets	$5,095,967	$4,948,289
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$197,069	$169,640
Salaries and benefits payable	101,190	102,802
Accrued warranty costs	35,960	36,827
Accrued sales program costs	59,708	93,250
Deferred revenue	97,604	103,140
Accrued royalty costs	27,213	32,204
Accrued advertising expense	24,213	30,987
Other accrued expenses	67,426	93,652
Income taxes payable	43,519	33,638
Dividend payable	200,124	95,975

Total current liabilities	854,026	792,115
Deferred income taxes	82,846	76,612
Noncurrent income taxes	126,893	138,295
Noncurrent deferred revenue	77,634	87,060
Other liabilities	1,860	1,788
Stockholders' equity:		
Shares, CHF 0.10 par value, 198,077 shares authorized and issued; 188,809 shares outstanding at September 29, 2018; and 188,189 shares outstanding at December 30, 2017;	17,979	17,979
Additional paid-in capital	1,842,551	1,828,386
Treasury stock	(433,274)	(468,818)
Retained earnings	2,520,828	2,418,444
Accumulated other comprehensive income	4,624	56,428
Total stockholders' equity	3,952,708	3,852,419
Total liabilities and stockholders' equity	$5,095,967	$4,948,289

See accompanying notes.

3

Garmin Ltd. And Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

(In thousands, except per share information)

	13-Weeks Ended		39-Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net sales	$810,011	$751,244	$2,415,336	$2,224,241
Cost of goods sold	329,264	313,721	984,783	929,782
Gross profit	480,747	437,523	1,430,553	1,294,459
Advertising expense	31,140	32,449	100,000	105,983
Selling, general and administrative expense	114,669	101,794	352,234	309,095
Research and development expense	138,979	129,632	422,649	379,083
Total operating expense	284,788	263,875	874,883	794,161
Operating income	195,959	173,648	555,670	500,298
Other income (expense):				
Interest income	11,089	9,207	32,310	26,931
Foreign currency (losses) gains	(6,868)	8,579	(3,405)	(13,808)
Other income (expense)	1,147	(1,520)	6,800	(805)
Total other income (expense)	5,368	16,266	35,705	12,318
Income before income taxes	201,327	189,914	591,375	512,616
Income tax provision (benefit)	17,113	38,840	87,445	(53,840)
Net income	$184,214	$151,074	$503,930	$566,456
Net income per share:				
Basic	$0.98	$0.81	$2.67	$3.01
Diluted	$0.97	$0.80	$2.66	$3.00
Weighted average common shares outstanding:				
Basic	188,799	187,616	188,554	187,902
Diluted	190,005	188,490	189,586	188,671

Dividends declared per share	$—	$—	$2.12	$2.04

See accompanying notes.

4

Garmin Ltd. And Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	13-Weeks Ended		39-Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net income	$184,214	$151,074	$503,930	$566,456
Foreign currency translation adjustment	(3,940)	5,689	(30,308)	71,591
Change in fair value of available-for-sale marketable securities, net of deferred taxes	(1,168)	536	(21,044)	11,938
Comprehensive income	$179,106	$157,299	$452,578	$649,985

See accompanying notes.

5

Garmin Ltd. And Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	39-Weeks Ended	
	September 29, 2018	September 30, 2017
Operating activities:		
Net income	$503,930	$566,456
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	47,902	44,011
Amortization	23,574	19,688
Gain on sale or disposal of property and equipment	(491)	(184)
Provision for doubtful accounts	1,265	551
Provision for obsolete and slow moving inventories	17,719	16,504
Unrealized foreign currency loss	4,158	17,786
Deferred income taxes	20,177	(143,314)
Stock compensation expense	42,094	32,441
Realized losses on marketable securities	481	594
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	111,955	84,982
Inventories	(69,139)	(86,631)
Other current and non-current assets	5,102	(9,635)
Accounts payable	32,601	(24,526)
Other current and non-current liabilities	(57,245)	(37,403)
Deferred revenue	(14,923)	(21,478)
Deferred costs	5,581	3,459
Income taxes payable	27,041	(724)
Net cash provided by operating activities	701,782	462,577
Investing activities:		
Purchases of property and equipment	(122,846)	(85,211)
Proceeds from sale of property and equipment	1,296	264
Purchase of intangible assets	(2,982)	(9,069)
Purchase of marketable securities	(314,179)	(438,046)
Redemption of marketable securities	229,066	455,376
Acquisitions, net of cash acquired	(29,170)	(12,400)
Net cash used in investing activities	(238,815)	(89,086)
Financing activities:		
Dividends	(296,149)	(287,318)
Proceeds from issuance of treasury stock related to equity awards	14,524	10,316

Purchase of treasury stock related to equity awards	(6,909)	(3,587)
Purchase of treasury stock under share repurchase plan	—	(74,523)
Net cash used in financing activities	(288,534)	(355,112)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(9,650)	26,021
Net increase in cash, cash equivalents, and restricted cash	164,783	44,400
Cash, cash equivalents, and restricted cash at beginning of period	891,759	846,996
Cash, cash equivalents, and restricted cash at end of period	$1,056,542	$891,396

See accompanying notes.

Garmin Ltd. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 29, 2018

(In thousands, except per share information)

1. Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Additionally, the condensed consolidated financial statements should be read in conjunction with Item 2 of Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in this Form 10-Q. Operating results for the 13-week and 39-week periods ended September 29, 2018 are not necessarily indicative of the results that may be expected for the year ending December 29, 2018.

The condensed consolidated balance sheet at December 30, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 30, 2017.

The Company’s fiscal year is based on a 52-53 week period ending on the last Saturday of the calendar year. Therefore, the financial results of certain 53-week fiscal years, and the associated 14-week quarters, will not be exactly comparable to the prior and subsequent 52-week fiscal years and the associated 13-week quarters. The quarters ended September 29, 2018 and September 30, 2017 both contain operating results for 13 weeks.

As previously announced and discussed below within the “Recently Adopted Accounting Standards” section of this footnote, effective beginning in the 2018 fiscal year, we adopted the requirements of Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), using the full retrospective method. All amounts and disclosures set forth in this Form 10-Q reflect these changes. Further, as a result of the adoption of certain other accounting standards described below, effective beginning in the 2018 fiscal year, certain amounts in prior periods have been reclassified to conform to the current period presentation.

Recently Adopted Accounting Standards

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which supersedes previous revenue recognition guidance. The FASB issued several updates amending or relating to ASU 2014-09 (collectively, the “new revenue standard”). The Company has adopted the new revenue standard effective beginning in the 2018 fiscal year using the full retrospective method, which requires the Company to restate each prior reporting period presented in future financial statement issuances. The impacts of the new revenue standard relate to our accounting for certain arrangements within the auto segment.

A portion of the Company’s auto segment contracts have historically been accounted for under Accounting Standards Codification (ASC) Topic 985-605 Software-Revenue Recognition (Topic 985-605). Under Topic 985-605, the Company deferred revenue and associated costs of all elements of multiple-element software arrangements if vendor-specific objective evidence of fair value (VSOE) could not be established for an undelivered element (e.g. map updates). In applying the new revenue standard to certain contracts that include both software licenses and map updates, we will recognize the portion of revenue and costs related to the software license at the time of delivery rather than ratably over the map update period.

Additionally, for certain multiple-element arrangements within the Company's auto segment, the Company's policy has been to allocate consideration to traffic services and recognize the revenue and associated cost of royalties ratably over the estimated life of the underlying product. Under the new revenue standard, we will recognize revenue and associated costs of royalties related to certain traffic services at the time of hardware and/or software delivery. Specifically, the new revenue standard emphasizes the timing of the Company's performance, and upon delivery of the navigation device and/or software, the Company has fully performed its obligation with respect to the design and production of the product to receive and interpret the broadcast traffic signal for the benefit of the end user.

The changes in accounting policy described above collectively result in reductions to deferred costs (asset) and deferred revenue (liability) balances, and accelerate the recognition of revenue and deferred costs in the auto segment going forward.

Summarized financial information depicting the impact of the new revenue standard is presented below. The Company's historical net cash flows provided by or used in operating, investing, and financing activities are not impacted by adoption of the new revenue standard.

	13-Weeks Ended September 30, 2017			39-Weeks Ended September 30, 2017		
	As reported	Restated(1)	Impact	As reported	Restated(1)	Impact
Net sales	$743,077	$751,244	$8,167	$2,198,508	$2,224,241	$25,733
Gross profit	433,665	437,523	3,858	1,283,646	1,294,459	10,813
Operating income	169,790	173,648	3,858	489,485	500,298	10,813
Income tax provision (benefit)	38,643	38,840	197	(54,372)	(53,840)	532
Net income	$147,413	$151,074	$3,661	$556,175	$566,456	$10,281
Diluted net income per share	$0.78	$0.80	$0.02	$2.95	$3.00	$0.05

(1) The Restated results presented above are restated under ASC Topic 606. Amounts related to the income tax effect of the new standard that were previously disclosed as the anticipated adoption impact in our press release attached as Exhibit 99.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission (SEC) on February 21, 2018 have been revised in this Note by immaterial amounts in connection with our adoption of ASC Topic 606.

	December 30, 2017			December 31, 2016		
	As reported	Restated(2)	Impact	As reported	Restated(2)	Impact
Current assets:						

Deferred costs	$48,312	$30,525	$(17,787)	$47,395	$34,665	$(12,730)
Total current assets	2,363,925	2,346,138	(17,787)	2,263,016	2,250,286	(12,730)
Deferred income taxes	199,343	195,981	(3,362)	110,293	107,655	(2,638)
Noncurrent deferred costs	73,851	33,029	(40,822)	56,151	30,934	(25,217)
Total assets	$5,010,260	$4,948,289	$(61,971)	$4,525,133	$4,484,549	$(40,584)
Current liabilities:						
Deferred revenue	139,681	103,140	(36,541)	146,564	118,496	(28,068)
Total current liabilities	828,656	792,115	(36,541)	782,735	754,667	(28,068)
Deferred income taxes	75,215	76,612	1,397	61,220	62,617	1,397
Non-current deferred revenue	163,840	87,060	(76,780)	140,407	91,238	(49,169)
Retained earnings	2,368,874	2,418,444	49,570	2,056,702	2,092,221	35,519
Accumulated other comprehensive income	56,045	56,428	383	(36,761)	(37,024)	(263)
Total stockholders' equity	3,802,466	3,852,419	49,953	3,418,003	3,453,259	35,256
Total liabilities and stockholders' equity	$5,010,260	$4,948,289	$(61,971)	$4,525,133	$4,484,549	$(40,584)

8

	52-Weeks Ended December 30, 2017			53-Weeks Ended December 31, 2016		
	As reported	Restated(2)	Impact	As reported	Restated(2)	Impact
Net sales	$3,087,004	$3,121,560	$34,556	$3,018,665	$3,045,797	$27,132
Gross profit	1,783,164	1,797,941	14,777	1,679,570	1,688,525	8,955
Operating income	668,860	683,637	14,777	623,909	632,864	8,955
Income tax (benefit) provision	(12,661)	(11,936)	725	118,856	120,901	2,045
Net income	$694,955	$709,007	$14,052	$510,814	$517,724	$6,910
Diluted net income per share	$3.68	$3.76	$0.08	$2.70	$2.73	$0.03

(2) The Restated results presented above are restated under ASC Topic 606. Amounts related to the income tax effect of the new standard that were previously disclosed as the anticipated adoption impact in Note 2, Summary of Significant Accounting Policies, in the notes to the consolidated financial statements of our fiscal 2017 Annual Report on Form 10-K filed with the SEC on February 21, 2018 have been revised in this Note by immaterial amounts in connection with our adoption of ASC Topic 606.

Financial Instruments – Recognition, Measurement, Presentation, and Disclosure

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Company has adopted the new standard effective beginning in the 2018 fiscal year. The adoption did not have a material impact on the Company's financial position or results of operations.

Statement of Cash Flows

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"), which adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The standard addresses eight specific cash flow issues with the objective of reducing diversity in practice. In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), which requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling changes in the total amounts within the statement of cash flows. The Company has adopted the new standards effective beginning in the 2018 fiscal year. The adoption of ASU 2016-15 did not have a material impact to the Company's statements of cash flows. The amendments of ASU 2016-18 were applied using a retrospective transition method, resulting in immaterial changes to the presentation of the Company's statements of cash flows.

The total of cash and cash equivalents and restricted cash balances presented on the condensed consolidated balance sheet reconciles to the total cash, cash equivalents, and restricted cash shown in the condensed consolidated statements of cash flows.

Income Taxes

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory (“ASU 2016-16”), which requires recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Company has adopted the new standard effective beginning in the 2018 fiscal year, which resulted in a reclassification of approximately $1,700 of certain prepaid tax balances in a cumulative effect to retained earnings as of the date of adoption.

Income Statement – Reporting Comprehensive Income

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”), which allows for stranded tax effects in accumulated other comprehensive income resulting from the U.S. Tax Cuts and Jobs Act to be reclassified to retained earnings. The Company has elected to early adopt the new standard effective beginning in the 2018 fiscal year, resulting in reclassification of approximately $452 from accumulated other comprehensive income into retained earnings. The tax effects that were reclassified only relate to amounts resulting from the U.S. Tax Cuts and Jobs Act.

Significant Accounting Policies

For a description of the significant accounting policies and methods used in the preparation of the Company’s condensed consolidated financial statements, refer to Note 2, “Summary of Significant Accounting Policies” in the Notes to the Consolidated Financial Statements in Part II, Item 8 of the Company’s Annual Report on Form 10-K for the fiscal year ended December 30, 2017. Other than the policies discussed below, there were no material changes to the Company’s significant accounting policies during the 39-week period ended September 29, 2018.

Revenue Recognition

The Company recognizes revenue upon the transfer of control of promised products or services to the customer in an amount that depicts the consideration the Company expects to be entitled to for the related products or services. For the large majority of the Company’s sales, transfer of control occurs once product has shipped and title and risk of loss have transferred to the customer. The Company offers certain tangible products with ongoing services promised over a period of time, typically the useful life of the related tangible product. When we have identified such services as both capable of being distinct and separately identifiable from the related tangible product, the associated revenue allocated to such services is recognized over time. The Company generally does not offer specified or unspecified upgrade rights to its customers in connection with software sales.

For products that include tangible hardware that contains software essential to the tangible product’s functionality and ongoing services identified as separately identifiable performance obligations, the Company allocates revenue to all performance obligations based on their relative standalone selling prices (“SSP”), with the amounts allocated to ongoing services deferred and recognized over a period of time. These ongoing services primarily consist of the Company’s contractual promises to provide personal navigation device (PND) users with lifetime map updates (LMU) and server-based traffic services. In addition, we provide map update services (map care) over a contractual period in certain hardware and software contracts with original equipment manufacturers (OEMs). The Company has determined that directly observable prices do not exist for LMU, map care, or server-based traffic, as stand-alone and unbundled unit sales do not occur on more than a limited basis. Therefore, the Company uses the expected cost plus a margin as the primary indicator to calculate relative SSP of the LMU, map care, and traffic performance obligations. The revenue and associated costs allocated to the LMU, map care, and/or the server-based traffic service are deferred and recognized ratably over the estimated life of the products of approximately 3 years for PNDs, or the estimated map care period in OEM contracts of 3-10 years as we believe our efforts as it relates to providing these services are spread evenly throughout the performance period. In addition to the products listed above, the Company has offered certain other products with ongoing performance obligations including mobile applications, incremental navigation and/or communication service subscriptions, aviation database subscriptions, and extended warranties that are individually immaterial.

The Company records revenue net of sales tax and variable consideration such as trade discounts and customer returns. Payment is due typically within 90 days or less of shipment of product, or upon the grant of a given software license (as applicable). The Company records estimated reductions to revenue in the form of variable consideration for customer sales programs, returns and incentive offerings including rebates, price protection (product discounts offered to retailers to assist in clearing older products from their inventories in advance of new product releases), promotions and other volume-based incentives. The reductions to revenue are based on estimates and judgments using historical experience and expectation of future conditions. Changes in these estimates could negatively affect the Company’s operating results. These incentives are reviewed periodically and, with the exceptions of price protection and certain other promotions, typically accrued for on a percentage of sales basis.

Deferred Revenue and Costs

Deferred revenue consists primarily of the transaction price allocated to performance obligations that are recognized over a period of time basis as discussed in the *Revenue Recognition* portion of this footnote. Billings associated with such items are typically completed upon the transfer of control of promised products or services to the customer and recorded to accounts receivable until payment is received. Deferred costs primarily refer to the royalties incurred by the Company associated with the aforementioned unsatisfied performance obligations, which are amortized over the same period as the revenue is recognized. The Company typically pays the associated royalties either monthly or quarterly in arrears, on a per item shipped or installed basis.

The Company applies a practical expedient, as permitted within ASC 340, to expense as incurred the incremental costs to obtain a contract when the amortization period of the asset that would have otherwise been recognized is one year or less.

Shipping and Handling Costs

Shipping and handling activities are typically performed before the customer obtains control of the good, and the related costs are therefore expensed as incurred. Shipping and handling costs are included in cost of goods sold in the accompanying condensed consolidated financial statements.

2. Inventories

The components of inventories consist of the following:

	September 29, 2018	December 30, 2017
Raw materials	$ 203,472	$ 179,659
Work-in-process	92,050	75,754
Finished goods	261,118	262,231
Inventories	$ 556,640	$ 517,644

3. Earnings Per Share

The following table sets forth the computation of basic and diluted net income per share:

	13-Weeks Ended	
	September 29, 2018	September 30, 2017
Numerator:		
Numerator for basic and diluted net income per share - net income	$184,214	$151,074
Denominator:		
Denominator for basic net income per share – weighted-average common shares	188,799	187,616
Effect of dilutive securities – stock options, stock appreciation rights and restricted stock units	1,206	874
Denominator for diluted net income per share – adjusted weighted-average common shares	190,005	188,490
Basic net income per share	$0.98	$0.81
Diluted net income per share	$0.97	$0.80

	39-Weeks Ended	
	September 29, 2018	September 30, 2017
Numerator:		
Numerator for basic and diluted net income per share - net income	$503,930	$566,456
Denominator:		
Denominator for basic net income per share – weighted-average common shares	188,554	187,902
Effect of dilutive securities – stock options, stock appreciation rights and restricted stock units	1,032	769
Denominator for diluted net income per share – adjusted weighted-average common shares	189,586	188,671
Basic net income per share	$2.67	$3.01
Diluted net income per share	$2.66	$3.00

There were no anti-dilutive stock options, stock appreciation rights and restricted stock units (collectively "equity awards") outstanding during the 13-week period ended September 29, 2018 and 1,051 anti-dilutive equity awards outstanding during the 13-week period ended September 30, 2017.

There were no anti-dilutive equity awards outstanding during the 39-week period ended September 29, 2018 and 1,567 anti-dilutive equity awards outstanding during the 39-week period ended September 30, 2017.

There were 12 and 2 net shares issued as a result of exercises and releases of equity awards for the 13-week periods ended September 29, 2018 and September 30, 2017, respectively.

There were 390 and 161 net shares issued as a result of exercises and releases of equity awards for the 39-week periods ended September 29, 2018 and September 30, 2017, respectively.

There were 230 employee stock purchase plan (ESPP) shares issued from outstanding Treasury stock during the 39-week period ended September 29, 2018.

There were 248 ESPP shares issued from outstanding Treasury stock during the 39-week period ended September 30, 2017.

4. Segment Information

The Company has identified five reportable segments – auto, aviation, marine, outdoor and fitness. Net sales ("revenue"), gross profit, and operating income for each of the Company's reportable segments are presented below.

	Reportable Segments					
	Outdoor	Fitness	Marine	Auto	Aviation	Total
13-Weeks Ended September 29, 2018						
Net sales	$209,415	$190,185	$98,770	$165,214	$146,427	$810,011
Gross profit	136,671	103,441	58,508	70,925	111,202	480,747

Operating income	78,972	37,378	13,908	15,032	50,669	195,959
13-Weeks Ended September 30, 2017						
Net sales	$184,937	$167,147	$77,312	$197,220	$124,628	$751,244
Gross profit	118,175	96,135	44,574	87,819	90,820	437,523
Operating income	67,810	33,492	18,420	19,829	34,097	173,648
39-Weeks Ended September 29, 2018						
Net sales	$555,314	$581,315	$346,908	$486,653	$445,146	$2,415,336
Gross profit	358,829	326,473	203,976	207,389	333,886	1,430,553
Operating income	194,711	123,299	54,806	31,113	151,741	555,670
39-Weeks Ended September 30, 2017						
Net sales	$495,589	$485,999	$290,302	$580,792	$371,559	$2,224,241
Gross profit	319,457	276,014	166,690	257,744	274,554	1,294,459
Operating income	176,544	89,452	60,860	61,379	112,063	500,298

Allocation of certain research and development expenses, and selling, general, and administrative expenses are made to each segment on a percent of revenue basis.

Net sales to external customers by geographic region were as follows for the 13-week and 39-week periods ended September 29, 2018 and September 30, 2017. Note that APAC includes Asia Pacific and Australian Continent and EMEA includes Europe, the Middle East and Africa:

	13-Weeks Ended		39-Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Americas	$370,239	$346,208	$1,153,330	$1,072,247
EMEA	307,087	291,703	862,116	831,687
APAC	132,685	113,333	399,890	320,307
Net sales to external customers	$810,011	$751,244	$2,415,336	$2,224,241

Net property and equipment by geographic region as of September 29, 2018 and September 30, 2017 are presented below.

	Americas	APAC	EMEA	Total
September 29, 2018				
Property and equipment, net	$403,556	$202,790	$44,459	$650,805
September 30, 2017				
Property and equipment, net	$356,351	$160,360	$37,730	$554,441

5. Warranty Reserves

The Company’s products sold are generally covered by a standard warranty for periods ranging from one to three years. The Company’s estimate of costs to service its warranty obligations are based on historical experience and expectation of future conditions and are recorded as a liability on the balance sheet. The following reconciliation provides an illustration of changes in the aggregate warranty reserve.

	13-Weeks Ended	
	September 29, 2018	September 30, 2017
Balance - beginning of period	$38,429	$37,012
Accrual for products sold during the period	13,558	16,903
Expenditures	(16,027)	(18,246)

Balance - end of period	$35,960	$35,669

	39-Weeks Ended	
	September 29, 2018	September 30, 2017
Balance - beginning of period	$36,827	$37,233
Accrual for products sold during the period	40,682	40,850
Expenditures	(41,549)	(42,414)
Balance - end of period	$35,960	$35,669

6. Commitments and Contingencies

Commitments

The Company is party to certain commitments, which include purchases of raw materials, advertising expenditures, and other indirect purchases in connection with conducting our business. The aggregate amount of purchase orders and other commitments open as of September 29, 2018 was approximately $346,000. We cannot determine the aggregate amount of such purchase orders that represent contractual obligations because purchase orders may represent authorizations to purchase rather than binding agreements. Our purchase orders are based on our current needs and are typically fulfilled within short periods of time.

Contingencies

In the normal course of business, the Company and its subsidiaries are parties to various legal claims, investigations and complaints, including matters alleging patent infringement and other intellectual property claims. The Company evaluates, on a quarterly and annual basis, developments in legal proceedings, investigations, claims, and other loss contingencies that could affect any required accrual or disclosure or estimate of reasonably possible loss or range of loss. An estimated loss from a loss contingency is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. If a range of loss is estimated, and some amount within that range appears to be a better estimate than any other amount within that range, then that amount is accrued. If no amount within the range can be identified as a better estimate than any other amount, the Company accrues the minimum amount in the range.

If an outcome unfavorable to the Company is determined to be probable, but the amount of loss cannot be reasonably estimated or is determined to be reasonably possible, but not probable, we disclose the nature of the contingency and an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. The Company's aggregate range of reasonably possible losses includes (1) matters where a liability has been accrued and there is a reasonably possible loss in excess of the amount accrued for that liability, and (2) matters where a loss is believed to be reasonably possible, but not probable, and a liability therefore has not been accrued. This aggregate range only represents the Company's estimate of reasonably possible losses and does not represent the Company's maximum loss exposure. The assessment regarding whether a loss is probable or reasonably possible, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. In assessing the probability of an outcome in a lawsuit, claim or assessment that could be unfavorable to the Company, we consider the following factors, among others: a) the nature of the litigation, claim, or assessment; b) the progress of the case; c) the opinions or views of legal counsel and other advisers; d) our experience in similar cases; e) the experience of other entities in similar cases; and f) how we intend to respond to the lawsuit, claim, or assessment. Costs incurred in defending lawsuits, claims or assessments are expensed as incurred.

Management of the Company currently does not believe it is reasonably possible that the Company may have incurred a material loss, or a material loss in excess of recorded accruals, with respect to loss contingencies in the aggregate, for the fiscal quarter ended September 29, 2018. The results of legal proceedings, investigations and claims, however, cannot be predicted with certainty. An adverse resolution of one or more of such matters in excess of management's expectations could have a material adverse effect in the particular quarter or fiscal year in which a loss is recorded, but based on information currently known, the Company does not believe it is likely that losses from such matters would have a material adverse effect on the Company's business or its consolidated financial position, results of operations or cash flows.

7. Income Taxes

The Company recorded income tax expense of $17,113 in the 13-week period ended September 29, 2018, compared to income tax expense of $38,840 in the 13-week period ended September 30, 2017. The effective tax rate was 8.5% in the third quarter of 2018, compared to 20.5% in the third quarter of 2017. The 1,200 basis points decrease to the third quarter of 2018 effective tax rate compared to the prior year quarter is primarily due to the reduction of the U.S. corporate tax rate and increased benefit from U.S. research and development tax credits.

The Company recorded income tax expense of $87,445 in the first three quarters of 2018, compared to an income tax benefit of $53,840 in the first three quarters of 2017, which included tax expense of $7,275 associated with the expiration of share-based awards and an income tax benefit of $168,755 primarily related to the revaluation of certain Switzerland deferred tax assets resulting from the Company’s election in the first quarter of 2017 to align certain Switzerland corporate tax positions with international tax initiatives. The effective tax rate was 14.8% in the first three quarters of 2018, compared to (10.5%) in the first three quarters of 2017. Excluding the income tax benefit of $168,755 primarily related to the revaluation of Switzerland deferred tax assets, and the $7,275 tax expense due to the expiration of share-based awards, the effective tax rate for the first three quarters of 2018 decreased 620 basis points compared to the effective tax rate in the first three quarters of 2017 primarily due to the reduction of the U.S. corporate tax rate and increased benefit from U.S. research and development tax credits.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law in the United States. Due to the complexities of the new tax legislations, the SEC has issued Staff Accounting Bulletin No. 118 (“SAB 118”) which allows for the recognition of provisional amounts during a measurement period. The Company recorded a provisional re-measurement of its deferred tax assets and liabilities in the fourth quarter of 2017. The Company filed its U.S. federal income tax return during the third quarter of 2018 which did not result in an adjustment of its provisional re-measurement of its deferred tax assets and liabilities. Income tax expense recorded in the third quarter of 2018 includes the impact of the new tax legislation as currently interpreted by the Company. The Company will continue to assess the impact of the new tax legislation, including any state tax impact or any related future regulations and rules, and will record any additional impacts as identified during the measurement period, if necessary. The Company does not expect such potential adjustments in the future periods will materially impact the Company’s financial condition or result of operations.

8. Marketable Securities

The Financial Accounting Standards Board (“FASB”) ASC topic entitled Fair Value Measurements and Disclosures defines fair value as the 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 (exit price). The accounting guidance classifies the inputs used to measure fair value into the following hierarchy:

Level 1	Unadjusted quoted prices in active markets for the identical asset or liability
Level 2	Observable inputs for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability
Level 3	Unobservable inputs for the asset or liability

The Company endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Valuation is based on prices obtained from an independent pricing vendor using both market and income approaches. The primary inputs to the valuation include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, and credit spreads.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Available-for-sale securities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements as of September 29, 2018			
	Total	Level 1	Level 2	Level 3
U.S. Treasury securities	$25,040	$ —	$25,040	$ —
Agency securities	46,291	—	46,291	—
Mortgage-backed securities	140,318	—	140,318	—
Corporate securities	942,532	—	942,532	—
Municipal securities	168,588	—	168,588	—
Other	152,039	—	152,039	—
Total	$1,474,808	$ —	$1,474,808	$ —

	Fair Value Measurements as of December 30, 2017			
	Total	Level 1	Level 2	Level 3
U.S. Treasury securities	$19,337	$ —	$19,337	$ —
Agency securities	43,361	—	43,361	—
Mortgage-backed securities	174,615	—	174,615	—
Corporate securities	816,793	—	816,793	—
Municipal securities	186,105	—	186,105	—
Other	181,509	—	181,509	—
Total	$1,421,720	$ —	$1,421,720	$ —

Marketable securities classified as available-for-sale securities are summarized below:

	Available-For-Sale Securities as of September 29, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$25,499	$ —	$ (459)	$25,040
Agency securities	47,653	—	(1,362)	46,291
Mortgage-backed securities	148,837	3	(8,522)	140,318
Corporate securities	974,227	47	(31,742)	942,532
Municipal securities	172,157	3	(3,572)	168,588

Other	155,200	0	(3,161)	152,039
Total	$1,523,573	$ 53	$ (48,818)	$1,474,808

Available-For-Sale Securities as of December 30, 2017

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$19,591	$ —	$ (254)	$19,337
Agency securities	44,191	1	(831)	43,361
Mortgage-backed securities	180,470	13	(5,868)	174,615
Corporate securities	830,447	136	(13,790)	816,793
Municipal securities	187,999	110	(2,004)	186,105
Other	183,730	2	(2,223)	181,509
Total	$1,446,428	$ 262	$ (24,970)	$1,421,720

The Company's investment policy targets low risk investments with the objective of minimizing the potential risk of principal loss. The fair value of our securities varies from period to period due to changes in interest rates, in the performance of the underlying collateral and in the credit performance of the underlying issuer, among other factors. The Company does not intend to sell the securities that have an unrealized loss shown in the table above, and it is not more likely than not that the Company will be required to sell a security before recovery of its amortized costs basis, which may be maturity.

The Company recognizes the credit component of other-than-temporary impairments of debt securities in “Other Income” and the noncredit component in “Other comprehensive income (loss)” for those securities that we do not intend to sell and for which it is not more likely than not that we will be required to sell before recovery. During fiscal 2017 and the 39-week period ended September 29, 2018, the Company did not record any material impairment charges on its outstanding securities.

The amortized cost and fair value of the securities at an unrealized loss position as of September 29, 2018 were $1,480,955 and $1,432,137, respectively. Approximately 85% of securities in our portfolio were at an unrealized loss position as of September 29, 2018. We have the ability to hold these securities until maturity or their value is recovered. We do not consider these unrealized losses to be other than temporary credit losses because there has been no material deterioration in credit quality and no change in the cash flows of the underlying securities. We do not intend to sell the securities and it is not more likely than not that we will be required to sell the securities; therefore, no material impairment has been recorded in the accompanying condensed consolidated statement of income.

The cost of securities sold is based on the specific identification method.

The following tables display additional information regarding gross unrealized losses and fair value by major security type for available-for-sale securities in an unrealized loss position as of September 29, 2018 and December 30, 2017.

	As of September 29, 2018			
	Less than 12 Consecutive Months		12 Consecutive Months or Longer	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$(90)	$11,405	$(369)	$13,635
Agency securities	(48)	7,700	(1,314)	38,591
Mortgage-backed securities	(9)	513	(8,513)	139,339
Corporate securities	(9,256)	477,194	(22,486)	449,488
Municipal securities	(1,766)	106,380	(1,806)	60,281
Other	(830)	37,869	(2,331)	89,742
Total	$(11,999)	$641,061	$(36,819)	