

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)

Garmin Ltd.

Form 10-Q

Quarter Ended September 29, 2018

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## 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

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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.

## 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
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See accompanying notes.

Garmin Ltd. And Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	13-Weeks Ended		39-Weeks Ended	
	September	September	September	September
	29,	30,	29,	30,
	2018	2017	2018	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.

## 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

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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 <sup>(1)</sup>	Impact	As reported	Restated <sup>(1)</sup>	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

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 (1) 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 <sup>(2)</sup>	Impact	As reported	Restated <sup>(2)</sup>	Impact
Current assets:						

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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)



	52-Weeks Ended December 30, 2017			53-Weeks Ended December 31, 2016		
	As reported	Restated <sup>(2)</sup>	Impact	As reported	Restated <sup>(2)</sup>	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

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 (2) 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					Total
	Outdoor	Fitness	Marine	Auto	Aviation	
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



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Operating income	78,972	37,378	13,908	15,032	50,669	195,959
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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	September	September	September
	29,	30,	29,	30,
	2018	2017	2018	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	September
	29,	30,
	2018	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)

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Balance - end of period	\$35,960	\$ 35,669
	39-Weeks Ended	
	September	September
	29,	30,
	2018	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



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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)	\$791,076

As of December 30, 2017	
Less than 12 Consecutive Months	12 Consecutive Months or Longer

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	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$(111 )	\$12,966	\$(143 )	\$6,371
Agency securities	(168 )	16,097	(663 )	25,972
Mortgage-backed securities	(503 )	19,628	(5,365 )	153,835
Corporate securities	(4,562)	439,174	(9,228 )	347,052
Municipal securities	(1,027)	125,819	(977 )	38,167
Other	(2,219)	136,147	(4 )	2,579
Total	\$(8,590)	\$749,831	\$(16,380)	\$573,976

The amortized cost and fair value of marketable securities at September 29, 2018, by maturity, are shown below.

	Amortized Cost	Fair Value
Due in one year or less	\$ 174,578	\$ 173,697
Due after one year through five years	1,228,112	1,189,069
Due after five years through ten years	120,883	112,042
	\$ 1,523,573	\$ 1,474,808

### 9. Accumulated Other Comprehensive Income

The following provides required disclosure of changes in accumulated other comprehensive income (AOCI) balances by component for the 13-week and 39-week periods ended September 29, 2018:

	<b>13-Weeks Ended September 29, 2018</b>		
	<b>Foreign</b>	<b>Net unrealized</b>	<b>Total</b>
	<b>Currency gains (losses) on</b>	<b>Translation available-for-sale</b>	
	<b>Adjustment</b>	<b>securities</b>	
Beginning Balance	\$52,924	\$ (43,192)	) \$9,732
Other comprehensive income before reclassification, net of income tax benefit of \$107	(3,940)	(1,353)	) (5,293)
Amounts reclassified from accumulated other comprehensive income	—	185	185
Net current-period other comprehensive income	(3,940)	(1,168)	) (5,108)
Reclassification of tax effects due to adoption of ASU 2018-02	—	—	—
Ending Balance	\$48,984	\$ (44,360)	) \$4,624

	<b>39-Weeks Ended September 29, 2018</b>		
	<b>Foreign</b>	<b>Net unrealized</b>	<b>Total</b>
	<b>Currency gains (losses) on</b>	<b>Translation available-for-sale</b>	
	<b>Adjustment</b>	<b>securities</b>	
Beginning Balance	\$79,292	\$ (22,864)	) \$56,428
Other comprehensive income before reclassification, net of income tax benefit of \$3,014	(30,308)	(21,490)	) (51,798)
Amounts reclassified from accumulated other comprehensive income	—	446	446
Net current-period other comprehensive income	(30,308)	(21,044)	) (51,352)
Reclassification of tax effects due to adoption of ASU 2018-02	—	(452)	) (452)

Ending Balance	\$48,984	\$ (44,360	) \$4,624
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The following provides required disclosure of reporting reclassifications out of AOCI for the 13-week and 39-week periods ended September 29, 2018:

### 13-Weeks Ended September 29, 2018

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on available-for-sale securities	\$ (250	) Other income (expense)
	65	Income tax benefit (provision)
	\$ (185	) Net of tax

### 39-Weeks Ended September 29, 2018

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on available-for-sale securities	\$(481	) Other income (expense)
	35	Income tax benefit (provision)
	\$(446	) Net of tax

## 10. Revenue

In order to further depict how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors, we disaggregate revenue (or “net sales”) by geographic region, major product category, and pattern of recognition.

Disaggregated revenue by geographic region (Americas, APAC, and EMEA) is presented in Note 4 – Segment Information. The Company has identified six major product categories – aviation, marine, outdoor, fitness, auto PND, and auto OEM. Note 4 also contains disaggregated revenue information of the aviation, marine, outdoor and fitness

major product categories. Auto segment revenue presented in Note 4 is comprised of the auto PND and auto OEM major product categories as depicted below.

	Auto Revenue by Major Product Category					
	13-Weeks Ended			39-Weeks Ended		
	September 29, 2018		September 30, 2017		September 29, 2018	
		%		%		%
Auto PND	64%	70 %	66%	69 %		
Auto OEM	36%	30 %	34%	31 %		

A large majority of the Company's sales are recognized on a point in time basis, usually once the product is shipped and title and risk of loss have transferred to the customer. Sales recognized over a period of time are primarily within the auto segment and relate to performance obligations that are satisfied over the life of the product or contractual service period. Revenue disaggregated by the timing of transfer of the goods or services is presented in the table below:

	13-Weeks Ended		39-Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Point in time	\$761,216	\$708,854	\$2,286,740	\$2,098,468
Over time	48,795	42,390	128,596	125,773
Net sales	\$810,011	\$751,244	\$2,415,336	\$2,224,241

Transaction price and costs associated with the Company's unsatisfied performance obligations are reflected as deferred revenue and deferred costs, respectively, on the Company's Condensed Consolidated Balance Sheets. Such amounts are recognized ratably over the applicable service period or estimated useful life. Changes in deferred revenue and costs during the 39-weeks ended September 29, 2018 are presented below:

	39-Weeks Ended September 29, 2018	
	Deferred Revenue <sup>(1)</sup>	Deferred Costs <sup>(2)</sup>
Balance, beginning of period	\$ 190,200	\$ 63,554
Deferrals in period	113,634	27,445
Recognition of deferrals in period	(128,596)	(33,032)
Balance, end of period	\$ 175,238	\$ 57,967

<sup>(1)</sup> Deferred revenue is comprised of both Deferred revenue and Noncurrent deferred revenue per the Condensed



Consolidated  
Balance  
Sheets

(2) Deferred  
costs are  
comprised of  
both Deferred  
costs and  
Noncurrent  
deferred costs  
per the  
Condensed  
Consolidated  
Balance  
Sheets

Of the \$128,596 of deferred revenue recognized in the 39-weeks ended September 29, 2018, \$88,775 was deferred as of the beginning of the period.

Approximately two-thirds of the \$175,238 of deferred revenue at the end of the period, September 29, 2018, is recognized ratably over a period of three years or less.

## **11. Recently Issued Accounting Pronouncements Not Yet Adopted**

### *Leases*

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The FASB subsequently issued Accounting Standards Update No. 2018-10 and Accounting Standards Update No. 2018-11 in July 2018, which provide clarifications and improvements to ASU 2016-02 (collectively, the “new lease standard”). Accounting Standards Update No. 2018-11 also provides the optional transition method which allows companies to apply the new lease standard at the adoption date instead of at the earliest comparative period presented. The new lease standard requires lessees to present a right-of-use asset and a corresponding lease liability on the balance sheet. Lessor accounting is substantially unchanged compared to the current accounting guidance. Additional footnote disclosures related to leases will also be required. The new lease standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018.

The Company will adopt the new lease standard at the beginning of the 2019 fiscal year using the optional transition method. The Company plans on electing the package of transitional practical expedients upon adoption which, among other provisions, allows the Company to carry forward historical lease classification. The new lease standard will result in increases to the assets and liabilities on the Company's consolidated balance sheets, as the majority of the Company's leases are classified as operating leases. The Company continues to evaluate the full quantitative impact of adopting the new lease standard. The Company is also in the process of implementing changes to accounting policies, processes, systems, and internal controls in conjunction with adopting the new lease standard.

#### *Receivables – Nonrefundable Fees and Other Costs*

In March 2017, the FASB issued Accounting Standards Update No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities* (“ASU 2017-08”), which shortens the amortization period for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. Callable debt securities held at a discount continue to be amortized to maturity. ASU 2017-08 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **Overview**

The discussion set forth below, as well as other portions of this Quarterly Report, contains statements concerning potential future events. Such forward-looking statements are based upon assumptions by management, as of the date of this Quarterly Report, including assumptions about risks and uncertainties faced by the Company. Readers can identify these forward-looking statements by their use of such verbs as expects, anticipates, believes or similar verbs or conjugations of such verbs. If any of the Company's assumptions prove incorrect or should unanticipated circumstances arise, actual results could materially differ from those anticipated by such forward-looking statements. The differences could be caused by a number of factors or combination of factors including, but not limited to, those factors identified in the Company's Annual Report on Form 10-K for the year ended December 30, 2017. This report has been filed with the Securities and Exchange Commission (the “SEC” or the “Commission”) in Washington, D.C. and can be obtained by contacting the SEC's public reference operations or obtaining it through the SEC's website at <http://www.sec.gov>. Readers are strongly encouraged to consider those factors when evaluating any forward-looking statement concerning the Company. The Company will not update any forward-looking statements in this Quarterly Report to reflect future events or developments.

The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto included in this Form 10-Q and the audited financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 30, 2017.

The Company is a leading worldwide provider of navigation, communications and information devices, most of which are enabled by Global Positioning System, or GPS, technology. We operate in five reportable segments, the outdoor, fitness, marine, auto and aviation markets. The Company's segments offer products through its network of independent dealers and distributors. However, the nature of products and types of customers for the five segments may vary significantly. As such, the segments are managed separately.

The Company adopted the new accounting standard for revenue recognition, as discussed in Note 1 – Accounting Policies of the Notes to Condensed Consolidated Financial Statements, effective beginning with the Company's first quarter of 2018. Adoption of the new revenue recognition standard was applied using the full retrospective method, and information for prior periods within Results of Operations have been restated accordingly.

## Results of Operations

The following table sets forth the Company's results of operations as a percent of net sales during the periods shown (the table may not foot due to rounding):

	13-Weeks Ended			
	September 29, 2018		September 30, 2017	
Net sales	100	%	100	%
Cost of goods sold	41	%	42	%
Gross profit	59	%	58	%
Advertising expense	4	%	4	%
Selling, general and administrative expense	14	%	14	%
Research and development expense	17	%	17	%
Total operating expense	35	%	35	%
Operating income	24	%	23	%
Other income (expense)	1	%	2	%
Income before income taxes	25	%	25	%
Income tax provision	2	%	5	%
Net income	23	%	20	%

	39-Weeks Ended			
	September 29, 2018		September 30, 2017	
Net sales	100	%	100	%
Cost of goods sold	41	%	42	%
Gross profit	59	%	58	%
Advertising expense	4	%	5	%
Selling, general and administrative expense	15	%	14	%
Research and development expense	17	%	17	%
Total operating expense	36	%	36	%
Operating income	23	%	22	%
Other income (expense)	1	%	1	%
Income before income taxes	24	%	23	%
Income tax provision (benefit)	4	%	(2)	(%)
Net income	21	%	25	%

Allocation of certain research and development expenses, and selling, general, and administrative expenses are made to each segment on a percent of revenue basis. The segment table located in Note 4 to the Condensed Consolidated

Financial Statements sets forth the Company's results of operations (in thousands) including net sales, gross profit, and operating income for each of the Company's five segments during the periods shown. For each line item in the table, the total of the outdoor, fitness, marine, auto, and aviation segments' amounts equals the amount in the condensed consolidated statements of income included in Item 1.

**Comparison of 13-Weeks ended September 29, 2018 and September 30, 2017***(Amounts included in the following discussion are stated in thousands unless otherwise indicated)***Net Sales**

	13-Weeks ended September 29, 2018			13-Weeks ended September 30, 2017			Year over Year	
	Net Sales	% of Revenue		Net Sales	% of Revenue	\$ Change	% Change	
Outdoor	\$ 209,415	26 %		\$ 184,937	25 %	\$24,478	13 %	
Fitness	190,185	24 %		167,147	22 %	23,038	14 %	
Marine	98,770	12 %		77,312	10 %	21,458	28 %	
Auto	165,214	20 %		197,220	26 %	(32,006)	(16 %)	
Aviation	146,427	18 %		124,628	17 %	21,799	17 %	
Total	\$ 810,011	100 %		\$ 751,244	100 %	\$58,767	8 %	

Net sales increased 8% for the 13-week period ended September 29, 2018 when compared to the year-ago quarter. The outdoor, aviation, marine, and fitness segments collectively increased by 16%, contributing 80% of total revenue. Outdoor was the largest portion of our revenue mix at 26% in the third quarter of 2018 compared to 25% in the third quarter of 2017. Auto revenue represented the largest portion of our revenue mix in the third quarter of 2017 at 26% and declined to 20% in the third quarter of 2018.

Total unit sales in the third quarter of 2018 increased to 3,527 when compared to total unit sales of 3,492 in the third quarter of 2017.

Auto segment revenue decreased 16% from the year-ago quarter, primarily due to the ongoing PND market contraction. Outdoor, fitness, marine, and aviation segment revenue increased 13%, 14%, 28%, and 17%, respectively, when compared to the year-ago quarter. The current quarter marine segment increase was primarily driven by sales from recent acquisitions, in addition to sales growth across most product lines. The outdoor and fitness segment revenue increases were primarily driven by strong sales in wearables. The aviation segment revenue increase was driven by increased sales across most product lines within the segment.

**Cost of Goods Sold**

Year over Year

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	13-Weeks ended September 29, 2018		13-Weeks ended September 30, 2017		\$ Change	% Change
	Cost of Goods	% of Revenue	Cost of Goods	% of Revenue		
Outdoor	\$72,744	35 %	\$66,762	36 %	\$5,982	9 %
Fitness	86,744	46 %	71,012	42 %	15,732	22 %
Marine	40,262	41 %	32,738	42 %	7,524	23 %
Auto	94,289	57 %	109,401	55 %	(15,112)	(14 %)
Aviation	35,225	24 %	33,808	27 %	1,417	4 %
Total	\$329,264	41 %	\$313,721	42 %	\$15,543	5 %

Cost of goods sold increased 5% in absolute dollars compared to the prior year quarter. The increase in revenue outpaced the increase in cost of goods sold, which resulted in a 110 basis point decrease in cost of goods sold as a percent of revenue compared to the year-ago quarter.

In the auto segment, cost of goods sold continued to decline with revenue declines and the slight increase of cost of goods sold as a percent of revenue was primarily due to product mix and promotional activity during the third quarter of 2018. In the marine segment, the decrease in cost of goods sold as a percent of revenue primarily resulted from the favorable impact of higher margin Navionics sales on product mix. The outdoor segment decrease in cost of goods sold as a percent of revenue was primarily due to product mix. The fitness segment increase in cost of goods sold as a percent of revenue was primarily driven by product mix. The aviation segment decrease in cost of goods as a percent of revenue was primarily driven by a reduction in warranty costs compared to the year-ago quarter.

**Gross Profit**

	13-Weeks ended September 29, 2018			13-Weeks ended September 30, 2017			Year over Year		
	Gross Profit	% of Revenue		Gross Profit	% of Revenue		\$ Change	% Change	
Outdoor	\$ 136,671	65	%	\$ 118,175	64	%	\$18,496	16	%
Fitness	103,441	54	%	96,135	58	%	7,306	8	%
Marine	58,508	59	%	44,574	58	%	13,934	31	%
Auto	70,925	43	%	87,819	45	%	(16,894)	(19)	%
Aviation	111,202	76	%	90,820	73	%	20,382	22	%
Total	\$ 480,747	59	%	\$ 437,523	58	%	\$43,224	10	%

Gross profit dollars in the third quarter of 2018 increased 10% while gross margin increased 110 basis points compared to the year-ago quarter. Gross margin in the fitness and auto segments decreased compared to the year-ago quarter, while gross margin in the outdoor, marine, and aviation segments increased compared to the year-ago quarter, as a result of the reasons discussed above.

**Advertising Expense**

	13-Weeks ended September 29, 2018			13-Weeks ended September 30, 2017			Year over Year		
	Advertising Expense	% of Revenue		Advertising Expense	% of Revenue		\$ Change	% Change	
Outdoor	\$ 9,455	5	%	\$ 8,092	4	%	\$1,363	17	%
Fitness	12,296	6	%	14,089	8	%	(1,793)	(13)	%
Marine	3,594	4	%	2,618	3	%	976	37	%
Auto	4,180	3	%	6,340	3	%	(2,160)	(34)	%
Aviation	1,615	1	%	1,310	1	%	305	23	%
Total	\$ 31,140	4	%	\$ 32,449	4	%	\$(1,309)	(4)	%

Advertising expense decreased 4% in absolute dollars and was relatively flat as a percent of revenue compared to the year-ago quarter. The total absolute dollar decrease was driven primarily by decreased media advertising in the auto and fitness segments, partially offset by increased media advertising in the outdoor and marine segments.

**Selling, General and Administrative Expense**



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	13-Weeks ended September 29, 2018		13-Weeks ended September 30, 2017		Year over Year			
	Selling, General & Admin. Expenses	% of Revenue	Selling, General & Admin. Expenses	% of Revenue	\$ Change	% Change		
Outdoor	\$ 31,240	15 %	\$ 27,574	15 %	\$ 3,666	13	%	
Fitness	31,370	16 %	27,858	17 %	3,512	13	%	
Marine	21,704	22 %	8,681	11 %	13,023	150	%	
Auto	21,418	13 %	30,231	15 %	(8,813 )	(29	%)	
Aviation	8,937	6 %	7,450	6 %	1,487	20	%	
Total	\$ 114,669	14 %	\$ 101,794	14 %	\$ 12,875	13	%	

Selling, general and administrative expense increased 13% in absolute dollars and was relatively flat as a percent of revenue compared to the year-ago quarter. The absolute dollar increase in the third quarter of 2018 was primarily attributable to personnel costs and expenses from recent acquisitions. The increase in absolute dollars and as a percent of revenue in the marine segment was primarily attributable to expenses associated with recent acquisitions and the reduced legal related costs in the year-ago quarter. The decrease in absolute dollars and as a percent of revenue in the auto segment was primarily attributable to a current quarter reduction in legal related costs compared to the year-ago quarter.

**Research and Development Expense**

	13-Weeks ended September 29, 2018			13-Weeks ended September 30, 2017			Year over Year		
	Research & Development	% of Revenue		Research & Development	% of Revenue		\$ Change	% Change	
Outdoor	\$ 17,004	8	%	\$ 14,699	8	%	\$2,305	16	%
Fitness	22,397	12	%	20,696	12	%	1,701	8	%
Marine	19,302	20	%	14,855	19	%	4,447	30	%
Auto	30,295	18	%	31,419	16	%	(1,124)	(4)	(%)
Aviation	49,981	34	%	47,963	38	%	2,018	4	%
Total	\$ 138,979	17	%	\$ 129,632	17	%	\$9,347	7	%

Research and development expense increased \$9.3 million in absolute dollars and was relatively flat as a percent of revenue compared to the year-ago quarter. This increase in absolute dollars was primarily due to higher engineering personnel costs related to wearable and aviation product offerings and expenses resulting from recent acquisitions within the marine segment. Our research and development spending is focused on product development, improving existing software capabilities, and exploring new categories.

**Operating Income**

	13-Weeks ended September 29, 2018			13-Weeks ended September 30, 2017			Year over Year		
	Operating Income	% of Revenue		Operating Income	% of Revenue		\$ Change	% Change	
Outdoor	\$ 78,972	38	%	\$ 67,810	37	%	\$11,162	16	%
Fitness	37,378	20	%	33,492	20	%	3,886	12	%
Marine	13,908	14	%	18,420	24	%	(4,512)	(24)	(%)
Auto	15,032	9	%	19,829	10	%	(4,797)	(24)	(%)
Aviation	50,669	35	%	34,097	27	%	16,572	49	%
Total	\$ 195,959	24	%	\$ 173,648	23	%	\$22,311	13	%

Operating income increased 13% in absolute dollars and increased 110 basis points as a percent of revenue when compared to the year-ago quarter. The growth in operating income in absolute dollars and as a percent of revenue was primarily attributable to revenue growth and increased gross margins, as discussed above.

**Other Income (Expense)**

	13-Weeks ended September 29, 2018	13-Weeks ended September 30, 2017
Interest income	\$ 11,089	\$ 9,207
Foreign currency (losses) gains	(6,868 )	8,579
Other	1,147	(1,520 )
Total	\$ 5,368	\$ 16,266

The average return on cash and investments, including interest and capital gains/losses, during the third quarter of 2018 was 1.8% compared to 1.6% during the same quarter of 2017. Interest income increased primarily due to slightly higher yields on fixed-income securities.

Foreign currency gains and losses for the Company are typically driven by movements in the Taiwan Dollar, Euro, and British Pound Sterling in relation to the U.S. Dollar. The Taiwan Dollar is the functional currency of Garmin Corporation, the U.S. Dollar is the functional currency of Garmin (Europe) Ltd., and the Euro is the functional currency of most of our other European subsidiaries, although some transactions and balances are denominated in British Pounds. The majority of the Company's consolidated foreign currency gain or loss is typically driven by the significant cash and marketable securities, receivables and payables held in a currency other than the functional currency at a given legal entity. Due to the relative size of the entities using a functional currency other than the Taiwan Dollar, Euro, and British Pound Sterling, currency fluctuations related to these entities are not expected to have a material impact on the Company's financial statements.

The \$6.9 million currency loss recognized in the third quarter of 2018 was primarily due to the strengthening of the U.S. Dollar against the Euro and British Pound Sterling within the 13-weeks ended September 29, 2018. During this period, the U.S. Dollar strengthened 0.7% against the Euro and 1.3% against the British Pound Sterling, resulting in losses of \$2.7 million and \$0.6 million, respectively, while the U.S. Dollar remained relatively flat against the Taiwan Dollar. The remaining net currency loss of \$3.6 million was related to other currencies and timing of transactions.

The \$8.6 million currency gain recognized in the third quarter of 2017 was primarily due to the weakening of the U.S. Dollar against the Euro and the British Pound Sterling, partially offset by the U.S. Dollar weakening against the Taiwan Dollar within the 13-weeks ended September 30, 2017. During this period, the U.S. Dollar weakened 3.4% against the Euro and 2.8% against the British Pound Sterling, resulting in gains of \$8.0 million and \$0.7 million, respectively, while the U.S. Dollar weakened 0.3% against the Taiwan Dollar, resulting in a loss of \$1.6 million. The remaining net currency gain of \$1.5 million was related to other currencies and timing of transactions.

### ***Income Tax Provision***

The Company recorded income tax expense of \$17.1 million in the 13-week period ended September 29, 2018, compared to income tax expense of \$38.8 million 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.

### ***Net Income***

As a result of the above, net income for the 13-weeks ended September 29, 2018 was \$184.2 million compared to \$151.1 million for the 13-week period ended September 30, 2017, an increase of \$33.1 million.

### **Comparison of 39-Weeks Ended September 29, 2018 and 39-Weeks Ended September 30, 2017**

#### ***Net Sales***

39-Weeks ended September 29, 2018	39-Weeks ended September 30, 2017	Year over Year
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	Net Sales	% of Revenue	Net Sales	% of Revenue	\$ Change	% Change		
Outdoor	\$ 555,314	23	% \$ 495,589	22	% \$59,725	12	%	
Fitness	581,315	24	% 485,999	22	% 95,316	20	%	
Marine	346,908	14	% 290,302	13	% 56,606	19	%	
Auto	486,653	20	% 580,792	26	% (94,139 )	(16)	(%)	
Aviation	445,146	19	% 371,559	17	% 73,587	20	%	
Total	\$ 2,415,336	100	% \$ 2,224,241	100	% \$191,095	9	%	

Net sales increased 9% for the 39-week period ended September 29, 2018 when compared to the year-ago period. The outdoor, aviation, marine, and fitness segments collectively increased by 17%, contributing 80% of total revenue. Fitness was the largest portion of our revenue mix at 24% in the first three quarters of 2018 compared to 22% in the first three quarters of 2017. Auto revenue represented the largest portion of our revenue mix in the first three quarters of 2017 at 26% and declined to 20% in the first three quarters of 2018.

Total unit sales in the first three quarters of 2018 decreased to 10,266 when compared to the total unit sales of 10,495 in the first three quarters of 2017. The decrease in units sold despite the increase in revenue was primarily attributable to segment mix.

Auto segment revenue decreased 16% from the year-ago period, primarily due to the ongoing PND market contraction. Outdoor, fitness, marine, and aviation segment revenue increased 12%, 20%, 19%, and 20%, respectively, from the year-ago period. The marine segment revenue increase was primarily driven by sales from recent acquisitions. The aviation segment revenue increase was primarily driven by strong growth across all product lines. The outdoor and fitness segment revenue increases were primarily driven by growth in wearables.

**Cost of Goods Sold**

	39-Weeks ended September 29, 2018		39-Weeks ended September 30, 2017		Year over Year	
Cost of Goods		% of Revenue	Cost of Goods	% of Revenue	\$ Change	% Change
Outdoor	\$ 196,485	35 %	\$ 176,132	36 %	\$20,353	12 %
Fitness	254,842	44 %	209,985	43 %	44,857	21 %
Marine	142,932	41 %	123,612	43 %	19,320	16 %
Auto	279,264	57 %	323,048	56 %	(43,784)	(14 %)
Aviation	111,260	25 %	97,005	26 %	14,255	15 %
Total	\$ 984,783	41 %	\$ 929,782	42 %	\$55,001	6 %

Cost of goods sold increased 6% in absolute dollars for the 39-week period ended September 29, 2018 when compared to the year-ago period. The increase in revenue outpaced the increase in cost of goods sold, which resulted in a 100 basis point decrease in cost of goods sold as a percent of revenue compared to the year-ago period.

In the auto segment, cost of goods sold continued to decline with revenue declines, and the slight increase of cost of goods sold as a percent of revenue was primarily due to the write-down of certain product inventories in the first three quarters of 2018. In the marine segment, the decrease in cost of goods sold as a percent of revenue primarily resulted from the favorable impact of higher margin Navionics sales on product mix. The fitness segment increase in cost of goods sold as a percent of revenue was primarily driven by product mix. In the outdoor segment, cost of goods sold as a percent of revenue was relatively flat compared to the year-ago period. In the aviation segment, the decrease in cost of goods sold as a percent of revenue was primarily driven by a reduction in warranty costs compared to the year-ago period.

**Gross Profit**

	39-Weeks ended September 29, 2018		39-Weeks ended September 30, 2017		Year over Year	
Gross Profit		% of Revenue	Gross Profit	% of Revenue	\$ Change	% Change
Outdoor	\$ 358,829	65 %	\$ 319,457	64 %	\$39,372	12 %
Fitness	326,473	56 %	276,014	57 %	50,459	18 %
Marine	203,976	59 %	166,690	57 %	37,286	22 %
Auto	207,389	43 %	257,744	44 %	(50,355 )	(20 %)
Aviation	333,886	75 %	274,554	74 %	59,332	22 %
Total	\$ 1,430,553	59 %	\$ 1,294,459	58 %	\$136,094	11 %

Gross profit dollars in the 39-week period ended September 29, 2018 increased 11% while gross margin increased 100 basis points when compared to the year-ago period. Gross margin declined in the auto and fitness segments, while gross margins increased in the aviation and marine segments, as a result of the reasons discussed above. Gross margin remained relatively flat within the outdoor segment.

### *Advertising Expense*

	39-Weeks ended September 29, 2018			39-Weeks ended September 30, 2017			Year over Year	
	Advertising			Advertising			\$	%
	Expense	% of Revenue		Expense	% of Revenue		Change	Change
Outdoor	\$ 25,955	5 %	\$	26,671	5 %	\$ (716 )	(3 %)	
Fitness	40,515	7 %		45,235	9 %	(4,720)	(10 %)	
Marine	14,022	4 %		12,620	4 %	1,402	11 %	
Auto	14,100	3 %		17,236	3 %	(3,136)	(18 %)	
Aviation	5,408	1 %		4,221	1 %	1,187	28 %	
Total	\$ 100,000	4 %	\$	105,983	5 %	\$(5,983)	(6 %)	

Advertising expense decreased 6% in absolute dollars when compared to the year-ago period. The overall decrease in absolute dollars was driven primarily by decreased media advertising spend in the outdoor, fitness, and auto segments, partially offset by increased cooperative advertising within the aviation segment and expenses resulting from prior year acquisitions within the marine segment.

***Selling, General and Administrative Expense***

	39-Weeks ended September 29, 2018		39-Weeks ended September 30, 2017		Year over Year		
	Selling, General & Admin. Expenses	% of Revenue	Selling, General & Admin. Expenses	% of Revenue	\$ Change	% Change	
Outdoor	\$ 85,887	15	% \$ 74,182	15	% \$11,705	16	%
Fitness	95,462	16	% 81,537	17	% 13,925	17	%
Marine	75,841	22	% 48,798	17	% 27,043	55	%
Auto	68,465	14	% 83,620	14	% (15,155 )	(18	%)
Aviation	26,579	6	% 20,958	6	% 5,621	27	%
Total	\$ 352,234	15	% \$ 309,095	14	% \$43,139	14	%

Selling, general and administrative expense increased 14% in absolute dollars and increased 70 basis points as a percent of revenue when compared to the year-ago period. The absolute dollar increase was primarily attributable to expenses from recent acquisitions within the marine segment and personnel costs. All other segments were relatively flat as a percent of revenue.

***Research and Development Expense***

	39-Weeks ended September 29, 2018		39-Weeks ended September 30, 2017		Year over Year		
	Research & Development	% of Revenue	Research & Development	% of Revenue	\$ Change	% Change	
Outdoor	\$ 52,276	9	% \$ 42,060	8	% \$10,216	24	%
Fitness	67,197	12	% 59,790	12	% 7,407	12	%
Marine	59,307	17	% 44,412	15	% 14,895	34	%
Auto	93,711	19	% 95,509	16	% (1,798 )	(2	%)
Aviation	150,158	34	% 137,312	37	% 12,846	9	%
Total	\$ 422,649	17	% \$ 379,083	17	% \$43,566	11	%

In absolute dollars, research and development expense increased \$43.6 million when compared with the year-ago period and was relatively flat as a percent of revenue. The absolute dollar increase in research and development expenses when compared with the year-ago period was primarily due to engineering personnel costs related to our wearable and aviation product offerings and expenses resulting from prior year acquisitions within the marine segment. Our research and development spending is focused on product development, improving existing software



capabilities, and exploring new categories.

### *Operating Income*

	39-Weeks ended September 29, 2018			39-Weeks ended September 30, 2017			Year over Year		
	Operating			Operating			Change		
	Income	% of Revenue		Income	% of Revenue	\$	%		%
Outdoor	\$ 194,711	35	%	\$ 176,544	36	%	\$18,167	10	%
Fitness	123,299	21	%	89,452	18	%	33,847	38	%
Marine	54,806	16	%	60,860	21	%	(6,054 )	(10	%)
Auto	31,113	6	%	61,379	11	%	(30,266)	(49	%)
Aviation	151,741	34	%	112,063	30	%	39,678	35	%
Total	\$ 555,670	23	%	\$ 500,298	22	%	\$55,372	11	%

Operating income increased 11% in absolute dollars and increased 50 basis points as a percent of revenue when compared to the year-ago period. The growth in operating income on an absolute dollar basis and as a percent of revenue was the result of strong revenue growth and increased gross margins, partially offset by slightly increased operating expenses as a percent of revenue, as discussed above.

***Other Income (Expense)***

	39-Weeks ended September 29, 2018	39-Weeks ended September 30, 2017
Interest income	\$ 32,310	\$ 26,931
Foreign currency gains (losses)	(3,405 )	(13,808 )
Other	6,800	(805 )
Total	\$ 35,705	\$ 12,318

The average return on cash and investments, including interest and capital gains/losses, during the 39-week period ended September 29, 2018 was 1.8% compared to 1.5% during the same 39-week period ended September 30, 2017. Interest income increased primarily due to slightly higher yields on fixed-income securities.

The \$3.4 million currency loss recognized in the first three quarters of 2018 was primarily due to the strengthening of the U.S. Dollar against most other currencies, partially offset by the U.S. Dollar strengthening against the Taiwan Dollar within the 39-weeks ended September 29, 2018. During this period, the U.S. Dollar strengthened 2.7% against the Taiwan Dollar, resulting in a gain of \$13.6 million. This was more than offset by the U.S. Dollar strengthening 3.2% against the Euro and 3.6% against the British Pound Sterling, resulting in losses of \$7.7 million and \$0.6 million, respectively, and additional net currency losses of \$8.7 million related to other currencies and timing of transactions.

The \$13.8 million currency loss recognized in the first three quarters of 2017 was primarily due to the weakening of the U.S. Dollar against the Taiwan Dollar, partially offset by the U.S. Dollar weakening against the Euro and the British Pound Sterling within the 39-weeks ended September 30, 2017. During this period, the U.S. Dollar weakened 7.1% against the Taiwan Dollar, resulting in a loss of \$43.1 million, while the U.S. Dollar weakened 12.3% against the Euro and 8.6% against the British Pound Sterling, resulting in gains of \$22.2 million and \$4.2 million, respectively. The remaining net currency gain of \$2.9 million was related to other currencies and timing of transactions.

***Income Tax Provision***

The Company recorded income tax expense of \$87.4 million in the first three quarters of 2018, compared to an income tax benefit of \$53.8 million in the first three quarters of 2017, which included income tax expense of \$7.3

million associated with the expiration of share-based awards and an income tax benefit of \$168.8 million 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 \$168.8 million primarily related to the revaluation of Switzerland deferred tax assets, and the \$7.3 million 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.

### ***Net Income***

As a result of the above, net income for the 39-week period ended September 29, 2018 was \$503.9 million compared to \$566.5 million for the 39-week period ended September 30, 2017, a decrease of \$62.5 million.

### **Liquidity and Capital Resources**

As of September 29, 2018, we had \$2.5 billion of cash and cash equivalents and marketable securities. We primarily use cash flow from operations, and expect that future cash requirements may be used, to fund our capital expenditures, support our working capital requirements, pay dividends, fund strategic acquisitions, and fund share repurchases. We believe that our existing cash balances and cash flow from operations will be sufficient to meet our long-term projected capital expenditures, working capital and other cash requirements.

It is management's goal to invest the on-hand cash in accordance with the investment policy, which has been approved by the Board of Directors of each applicable Garmin entity holding the cash. The investment policy's primary purpose is to preserve capital, maintain an acceptable degree of liquidity, and maximize yield within the constraint of low credit risk. Garmin's average interest rate returns on cash and investments during the first three quarters of 2018 and 2017 were approximately 1.8% and 1.5%, respectively. 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. See Note 8 for additional information regarding marketable securities.

### *Operating Activities*

	39-Weeks Ended	
	September 29, 2018	September 30, 2017
(In thousands)		
Net cash provided by operating activities	\$701,782	\$462,577

The \$239.2 million increase in cash provided by operating activities in the first three quarters of 2018 compared to the first three quarters of 2017 was primarily due to the increase in cash provided by working capital of \$107.1 million (which included an increase of \$27.7 million in net receipts of accounts receivable, a decrease of \$18.7 million in cash paid for inventory, and an increase of \$57.1 million in accounts payable) and income taxes payable of \$27.8 million. Additionally, the year over year decrease in net income of \$62.5 million was offset by other non-cash adjustments to net income of \$166.9 million, including an income tax benefit of \$168.8 million recognized in the first quarter of 2017 related to the revaluation of certain Switzerland deferred tax assets.

### *Investing Activities*

	39-Weeks Ended	
	September 29, 2018	September 30, 2017
(In thousands)		
Net cash used in investing activities	\$(238,815)	\$(89,086 )

The \$149.7 million increase in cash used in investing activities in the first three quarters of 2018 compared to the first three quarters of 2017 was primarily due to increased net purchases of marketable securities of \$102.4 million and higher cash expenditures for purchases of property and equipment of \$36.6 million.

***Financing Activities***

	39-Weeks Ended	
	September 29,	September 30,
(In thousands)	2018	2017
Net cash used in financing activities	\$(288,534)	\$(355,112)

The \$66.6 million decrease in cash used in financing activities during the first three quarters of 2018 compared to the first three quarters of 2017 was primarily due to prior year treasury stock purchases of \$74.5 million under our share repurchase authorization, which expired on December 31, 2017.

### *Off-Balance Sheet Arrangements*

We do not have any off-balance sheet arrangements.

### **Critical Accounting Policies and Estimates**

#### *General*

Garmin's discussion and analysis of its financial condition and results of operations are based upon Garmin's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The presentation of these financial statements requires Garmin to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, Garmin evaluates its estimates, including those related to bad debts, inventories, investments, intangible assets, income taxes, warranty obligations, contingencies, customer sales programs and incentives, product returns, relative standalone selling prices, and progress toward completion of performance obligations in certain contracts with customers. Garmin bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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 and "Critical Accounting Policies and Estimates" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017. There were no material changes to the Company's critical accounting policies and estimates in the 13-week and 39-week periods ended September 29, 2018, other than those discussed in Note 1, "Accounting Policies".

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There are numerous market risks that can affect our future business, financial condition and results of operations. In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part II, "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended December 30, 2017. There have been no material changes during the 13-week and 39-week periods

ended September 29, 2018 in the risks described in our Annual Report on Form 10-K related to market sensitivity, inflation, foreign currency exchange rate risk and interest rate risk.

#### **Item 4. Controls and Procedures**

(a) *Evaluation of disclosure controls and procedures.* The Company maintains a system of disclosure controls and procedures that are designed to provide reasonable assurance that information, which is required to be timely disclosed, is accumulated and communicated to management in a timely fashion. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. As of September 29, 2018, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded as of September 29, 2018 that our disclosure controls and procedures were effective such that the information relating to the Company, required to be disclosed in our Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in internal control over financial reporting.* There has been no change in the Company's internal controls over financial reporting that occurred during the Company's fiscal quarter ended September 29, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Part II - Other Information**

### **Item 1. Legal Proceedings**

The following information supplements and amends the discussion set forth under Part I, Item 3 “Legal Proceedings” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 30, 2017 and the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018.

#### *PulseOn Oy v. Garmin (Europe) Ltd.*

On February 21, 2018, PulseOn Oy filed an application with the Court of Appeal in England seeking leave to appeal the judgment of the Patent Court issued on January 18, 2018, holding that no accused Garmin products infringed either of the Registered Community Designs asserted by PulseOn Oy. The hearing before the Court of Appeal is scheduled to take place on January 30, 2019. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

In the normal course of business, the Company and its subsidiaries are parties to various legal claims, actions, and complaints, including matters involving patent infringement, other intellectual property, product liability, customer claims and various other risks. It is not possible to predict with certainty whether or not the Company and its subsidiaries will ultimately be successful in any of these legal matters, or if not, what the impact might be. However, the Company’s management does not expect that the results in any of these legal proceedings will have a material adverse effect on the Company’s results of operations, financial position or cash flows.

### **Item 1A. Risk Factors**

There are many risks and uncertainties that can affect our future business, financial performance or share price. In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 30, 2017, as amended and supplemented by the risk factors set forth below. These risks, however, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.



The following is an amended and restated version of a Risk Factor included in Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the year ended December 30, 2017:

**Changes to trade regulations, including trade restrictions, sanctions, or tariffs, could significantly harm our results of operations.**

A significant portion of our global and U.S. sales are comprised of goods assembled and manufactured in our facilities in Taiwan and the People’s Republic of China, and components for a number of our goods are sourced from suppliers in the People’s Republic of China. The imposition of additional U.S. or foreign governmental controls, regulations that create new or enhanced restrictions on free trade, trade sanctions, or tariffs, particularly those applicable to goods imported from Taiwan or the People’s Republic of China, could have substantial adverse effects on our business, results of operations, and financial condition.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Items (a) and (b) are not applicable.

(c) Issuer Purchases of Equity Securities

The Board of Directors approved a share repurchase program on February 13, 2015, authorizing the Company to purchase up to \$300 million of its common shares as market and business conditions warrant. In December 2016, the Board of Directors authorized an extension through December 31, 2017 to purchase remaining common shares. The share repurchase authorization expired on December 31, 2017 with no additional shares having been repurchased during the 39-weeks ended September 29, 2018.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).

Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).

Exhibit  
31.2

Exhibit 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase

XBRL Taxonomy Extension Presentation Linkbase  
Exhibit 101.PRE

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase

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**SIGNATURES**

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

GARMIN LTD.

By/s/ Douglas G. Boessen  
Douglas G. Boessen  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

Dated: October 31, 2018

**INDEX TO EXHIBITS**

Exhibit  
No.            Description

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