

GARMIN LTD  
Form 10-Q  
October 26, 2016

United States

**Securities and Exchange Commission**

**Washington, D.C. 20549**

**FORM 10-Q**

**<sup>x</sup> QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the quarterly period ended September 24, 2016

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**

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(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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" 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 ☐

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 24, 2016

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

Garmin Ltd.

Form 10-Q

Quarter Ended September 24, 2016

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**Part I - Financial Information****Item I - Condensed Consolidated Financial Statements****Garmin Ltd. And Subsidiaries****Condensed Consolidated Balance Sheets****(In thousands, except per share information)**

|                                           | (Unaudited)      |                      |
|-------------------------------------------|------------------|----------------------|
|                                           | Sept 24,<br>2016 | December 26,<br>2015 |
| Assets                                    |                  |                      |
| Current assets:                           |                  |                      |
| Cash and cash equivalents                 | \$ 912,559       | \$ 833,070           |
| Marketable securities                     | 201,560          | 215,161              |
| Accounts receivable, net                  | 461,355          | 531,481              |
| Inventories, net                          | 534,683          | 500,554              |
| Deferred costs                            | 46,569           | 49,176               |
| Prepaid expenses and other current assets | 90,733           | 81,645               |
| Total current assets                      | 2,247,459        | 2,211,087            |
| Property and equipment, net               | 454,246          | 446,089              |
| Marketable securities                     | 1,327,347        | 1,343,387            |
| Restricted cash                           | 265              | 259                  |
| Noncurrent deferred income tax            | 121,084          | 116,518              |
| Noncurrent deferred costs                 | 51,395           | 38,769               |
| Intangible assets, net                    | 301,983          | 245,552              |
| Other assets                              | 88,127           | 97,730               |
| Total assets                              | \$ 4,591,906     | \$ 4,499,391         |
| Liabilities and Stockholders' Equity      |                  |                      |
| Current liabilities:                      |                  |                      |
| Accounts payable                          | \$ 148,030       | \$ 178,905           |
| Salaries and benefits payable             | 86,104           | 70,601               |
| Accrued warranty costs                    | 38,872           | 30,449               |
| Accrued sales program costs               | 49,172           | 67,613               |
| Deferred revenue                          | 146,384          | 164,982              |
| Accrued royalty costs                     | 34,801           | 30,310               |
| Accrued advertising expense               | 22,775           | 33,547               |
| Other accrued expenses                    | 81,313           | 74,926               |

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|                                                                                                                        |              |              |
|------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Income taxes payable                                                                                                   | 24,004       | 21,674       |
| Dividend payable                                                                                                       | 288,540      | 192,991      |
| Total current liabilities                                                                                              | 919,995      | 865,998      |
| Deferred income taxes                                                                                                  | 56,463       | 56,210       |
| Non-current income taxes                                                                                               | 117,276      | 101,689      |
| Non-current deferred revenue                                                                                           | 134,236      | 128,731      |
| Other liabilities                                                                                                      | 1,707        | 1,637        |
| Stockholders' equity:                                                                                                  |              |              |
| Shares, CHF 0.10 par value, 198,077 shares authorized and issued; and 188,446 shares outstanding at September 24, 2016 |              |              |
| Shares, CHF 10.00 par value, 208,077 shares authorized and issued; and 189,722 shares outstanding at December 26, 2015 | 17,979       | 1,797,435    |
| Additional paid-in capital                                                                                             | 1,862,801    | 62,239       |
| Treasury stock                                                                                                         | (464,163 )   | (414,637 )   |
| Retained earnings                                                                                                      | 1,919,846    | 1,930,517    |
| Accumulated other comprehensive income                                                                                 | 25,766       | (30,428 )    |
| Total stockholders' equity                                                                                             | 3,362,229    | 3,345,126    |
| Total liabilities and stockholders' equity                                                                             | \$ 4,591,906 | \$ 4,499,391 |

*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   |                  |
|---------------------------------------------|------------------|------------------|------------------|------------------|
|                                             | Sept 24,<br>2016 | Sept 26,<br>2015 | Sept 24,<br>2016 | Sept 26,<br>2015 |
| Net sales                                   | \$722,250        | \$679,690        | \$2,157,898      | \$2,038,913      |
| Cost of goods sold                          | 316,270          | 317,500          | 949,110          | 913,352          |
| Gross profit                                | 405,980          | 362,190          | 1,208,788        | 1,125,561        |
| Advertising expense                         | 32,956           | 36,887           | 109,441          | 110,352          |
| Selling, general and administrative expense | 96,959           | 94,057           | 296,246          | 290,359          |
| Research and development expense            | 116,449          | 105,789          | 339,008          | 321,031          |
| Total operating expense                     | 246,364          | 236,733          | 744,695          | 721,742          |
| Operating income                            | 159,616          | 125,457          | 464,093          | 403,819          |
| Other income (expense):                     |                  |                  |                  |                  |
| Interest income                             | 8,226            | 6,851            | 24,109           | 22,295           |
| Foreign currency gains (losses)             | (19,421 )        | 30,573           | (30,003 )        | (14,177 )        |
| Other income                                | 1,344            | 2,010            | 2,914            | 2,707            |
| Total other income (expense)                | (9,851 )         | 39,434           | (2,980 )         | 10,825           |
| Income before income taxes                  | 149,765          | 164,891          | 461,113          | 414,644          |
| Income tax provision                        | 24,711           | 45,592           | 86,904           | 90,800           |
| Net income                                  | \$125,054        | \$119,299        | \$374,209        | \$323,844        |
| Net income per share:                       |                  |                  |                  |                  |
| Basic                                       | \$0.66           | \$0.63           | \$1.98           | \$1.69           |
| Diluted                                     | \$0.66           | \$0.63           | \$1.98           | \$1.69           |
| Weighted average common shares outstanding: |                  |                  |                  |                  |
| Basic                                       | 188,692          | 190,342          | 189,027          | 191,068          |
| Diluted                                     | 189,238          | 190,822          | 189,376          | 191,523          |
| Dividends declared per share                |                  |                  | \$2.04           | \$2.04           |

*See accompanying notes.*

**Garmin Ltd. And Subsidiaries**

**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

**(In thousands)**

|                                                                                         | 13-Weeks Ended   |                  | 39-Weeks Ended   |                  |
|-----------------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                                                         | Sept 24,<br>2016 | Sept 26,<br>2015 | Sept 24,<br>2016 | Sept 26,<br>2015 |
| Net income                                                                              | \$ 125,054       | \$ 119,299       | \$ 374,209       | \$ 323,844       |
| Foreign currency translation adjustment                                                 | 29,598           | (55,161 )        | 41,760           | (34,690 )        |
| Change in fair value of available-for-sale marketable securities, net of deferred taxes | (2,429 )         | 7,937            | 14,434           | 8,970            |
| Comprehensive income                                                                    | \$ 152,223       | \$ 72,075        | \$ 430,403       | \$ 298,124       |

*See accompanying notes.*

**Garmin Ltd. And Subsidiaries****Condensed Consolidated Statements of Cash Flows (Unaudited)****(In thousands)**

|                                                                                   | 39-Weeks Ended   |                  |
|-----------------------------------------------------------------------------------|------------------|------------------|
|                                                                                   | Sept 24,<br>2016 | Sept 26,<br>2015 |
| Operating activities:                                                             |                  |                  |
| Net income                                                                        | \$374,209        | \$323,844        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |                  |
| Depreciation                                                                      | 40,327           | 37,936           |
| Amortization                                                                      | 22,215           | 20,447           |
| Loss (gain) on sale or disposal of property and equipment                         | 155              | (190 )           |
| Provision for doubtful accounts                                                   | 2,559            | (1,781 )         |
| Deferred income taxes                                                             | (6,821 )         | 5,796            |
| Unrealized foreign currency loss                                                  | 19,536           | 30,473           |
| Provision for obsolete and slow moving inventories                                | 20,943           | 9,925            |
| Stock compensation expense                                                        | 29,211           | 19,596           |
| Realized gain on marketable securities                                            | (1,068 )         | (76 )            |
| Changes in operating assets and liabilities:                                      |                  |                  |
| Accounts receivable                                                               | 76,372           | 123,875          |
| Inventories                                                                       | (41,002 )        | (111,008 )       |
| Other current and non-current assets                                              | 3,400            | (110,695 )       |
| Accounts payable                                                                  | (40,694 )        | 16,864           |
| Other current and non-current liabilities                                         | 1,942            | (44,636 )        |
| Deferred revenue                                                                  | (13,660 )        | (49,790 )        |
| Deferred cost                                                                     | (9,906 )         | 7,080            |
| Income taxes payable                                                              | 14,648           | (155,529 )       |
| Net cash provided by operating activities                                         | 492,366          | 122,131          |
| Investing activities:                                                             |                  |                  |
| Purchases of property and equipment                                               | (42,157 )        | (53,297 )        |
| Proceeds from sale of property and equipment                                      | 15               | 670              |
| Purchase of intangible assets                                                     | (4,706 )         | (2,817 )         |
| Purchase of marketable securities                                                 | (739,676)        | (649,881 )       |
| Redemption of marketable securities                                               | 772,733          | 720,717          |
| Change in restricted cash                                                         | (6 )             | 48               |
| Acquisitions, net of cash acquired                                                | (62,137 )        | (12,632 )        |
| Net cash (used in) provided by investing activities                               | (75,934 )        | 2,808            |
| Financing activities:                                                             |                  |                  |
| Dividends paid                                                                    | (289,331)        | (281,247 )       |
| Purchase of treasury stock under share repurchase plan                            | (65,221 )        | (108,057 )       |

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|                                                                   |           |            |
|-------------------------------------------------------------------|-----------|------------|
| Purchase of treasury stock related to equity awards               | (184 )    | (241 )     |
| Proceeds from issuance of treasury stock related to equity awards | 10,210    | 8,554      |
| Tax benefit from issuance of equity awards                        | 365       | 1,257      |
| Net cash used in financing activities                             | (344,161) | (379,734 ) |
| Effect of exchange rate changes on cash and cash equivalents      | 7,218     | (26,566 )  |
| Net increase (decrease) in cash and cash equivalents              | 79,489    | (281,361 ) |
| Cash and cash equivalents at beginning of period                  | 833,070   | 1,196,268  |
| Cash and cash equivalents at end of period                        | \$912,559 | \$914,907  |

*See accompanying notes.*

**Garmin Ltd. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**September 24, 2016**

**(In thousands, except per share information)**

**1. 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 24, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The condensed consolidated balance sheet at December 26, 2015 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 26, 2015.

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 24, 2016 and September 26, 2015 both contain operating results for 13 weeks. The Company's fiscal quarter and year ending December 31, 2016 will contain operating results for 14 weeks and 53 weeks, respectively.

At the Company's Annual General Meeting on June 10, 2016, the Company's shareholders approved the cancellation of 10,000 registered shares of the Company held by the Company (the "Formation Shares") and the reduction in par value

of each share of the Company from CHF 10 to CHF 0.10 and the amendment of the Company's Articles of Association to effect a corresponding share capital reduction. The Company completed the cancellation of the Formation Shares and the reduction in par value of each share and the corresponding reduction of the Company's issued share capital during the quarter ended September 24, 2016. The related reduction of share capital and corresponding increase to additional paid-in capital is reflected within the condensed consolidated balance sheet as of September 24, 2016.

**2.**

**Inventories**

The components of inventories consist of the following:

|                            | September 24,<br>2016 | December 26,<br>2015 |
|----------------------------|-----------------------|----------------------|
| Raw materials              | \$ 153,247            | \$ 203,173           |
| Work-in-process            | 74,563                | 69,690               |
| Finished goods             | 353,071               | 273,762              |
| Inventory reserves         | (46,198)              | (46,071)             |
| Inventory, net of reserves | \$ 534,683            | \$ 500,554           |

### 3. Earnings Per Share

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

|                                                                                                     | 13-Weeks Ended  |                 |
|-----------------------------------------------------------------------------------------------------|-----------------|-----------------|
|                                                                                                     | Sep 24,<br>2016 | Sep 26,<br>2015 |
| Numerator:                                                                                          |                 |                 |
| Numerator for basic and diluted net income per share - net income                                   | \$125,054       | \$119,299       |
| Denominator:                                                                                        |                 |                 |
| Denominator for basic net income per share – weighted-average common shares                         | 188,692         | 190,342         |
| Effect of dilutive securities – stock options, stock appreciation rights and restricted stock units | 546             | 480             |
| Denominator for diluted net income per share – adjusted weighted-average common shares              | 189,238         | 190,822         |
| Basic net income per share                                                                          | \$0.66          | \$0.63          |
| Diluted net income per share                                                                        | \$0.66          | \$0.63          |
|                                                                                                     |                 |                 |
|                                                                                                     | 39-Weeks Ended  |                 |
|                                                                                                     | Sep 24,<br>2016 | Sep 26,<br>2015 |
| Numerator:                                                                                          |                 |                 |
| Numerator for basic and diluted net income per share - net income                                   | \$374,209       | \$323,844       |
| Denominator:                                                                                        |                 |                 |
| Denominator for basic net income per share – weighted-average common shares                         | 189,027         | 191,068         |
| Effect of dilutive securities – stock options, stock appreciation rights and restricted stock units | 349             | 455             |
| Denominator for diluted net income per share – adjusted weighted-average common shares              | 189,376         | 191,523         |
| Basic net income per share                                                                          | \$1.98          | \$1.69          |
| Diluted net income per share                                                                        | \$1.98          | \$1.69          |

There were 3,170 and 4,075 anti-dilutive stock options, stock appreciation rights and restricted stock units (collectively “equity awards”) outstanding during the 13-week periods ended September 24, 2016 and September 26, 2015, respectively.

There were 3,696 and 4,108 anti-dilutive equity awards outstanding during the 39-week periods ended September 24, 2016 and September 26, 2015, respectively.

There were 26 and 5 shares issued as a result of exercises and releases of equity awards for the 13-week periods ended September 24, 2016 and September 26, 2015, respectively.

There were 39 and 133 shares issued as a result of exercises and releases of equity awards for the 39-week periods ended September 24, 2016 and September 26, 2015, respectively.

There were 285 employee stock purchase plan (ESPP) shares issued from outstanding Treasury stock during the 39-week period ended September 24, 2016.

There were 214 ESPP shares issued from outstanding Treasury stock during the 39-week period ended September 26, 2015.

#### **4. Segment Information**

The Company has identified five reportable segments – Auto, Aviation, Marine, Outdoor and Fitness. The Company’s Chief Operating Decision Maker (CODM) assesses segment performance and allocates resources to each segment individually.

Net sales, gross profit, and operating income for each of the Company’s reportable segments are presented below. In 2016 the Company moved action camera related revenue and expenses from the Outdoor segment to the Auto segment, allowing for alignment and synergies with other camera-based efforts occurring within the Auto segment. The overall impact of the move was immaterial. However, action camera related operating results for the 13-weeks and 39-weeks ended September 26, 2015 have been recast to conform to the current year presentation.

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Reportable Segments

|  | Outdoor | Fitness | Marine | Auto | Aviation | Total |
|--|---------|---------|--------|------|----------|-------|
|--|---------|---------|--------|------|----------|-------|

13-Weeks Ended September 24, 2016

|                  |           |           |          |           |           |           |
|------------------|-----------|-----------|----------|-----------|-----------|-----------|
| Net sales        | \$141,006 | \$189,161 | \$70,010 | \$214,637 | \$107,436 | \$722,250 |
| Gross profit     | \$88,497  | \$103,363 | \$39,891 | \$93,638  | \$80,591  | \$405,980 |
| Operating income | \$49,271  | \$44,774  | \$10,332 | \$24,795  | \$30,444  | \$159,616 |

13-Weeks Ended September 26, 2015

|                  |           |           |          |           |          |           |
|------------------|-----------|-----------|----------|-----------|----------|-----------|
| Net sales        | \$109,863 | \$143,216 | \$62,315 | \$270,064 | \$94,232 | \$679,690 |
| Gross profit     | \$66,442  | \$77,261  | \$34,115 | \$114,331 | \$70,041 | \$362,190 |
| Operating income | \$37,409  | \$26,577  | \$5,737  | \$32,012  | \$23,722 | \$125,457 |

39-Weeks Ended September 24, 2016

|                  |           |           |           |           |           |             |
|------------------|-----------|-----------|-----------|-----------|-----------|-------------|
| Net sales        | \$370,929 | \$544,434 | \$264,489 | \$655,963 | \$322,083 | \$2,157,898 |
| Gross profit     | \$232,652 | \$295,463 | \$148,554 | \$292,770 | \$239,349 | \$1,208,788 |
| Operating income | \$125,721 | \$114,422 | \$49,172  | \$82,984  | \$91,794  | \$464,093   |

39-Weeks Ended September 26, 2015

|                  |           |           |           |           |           |             |
|------------------|-----------|-----------|-----------|-----------|-----------|-------------|
| Net sales        | \$291,299 | \$432,859 | \$230,325 | \$789,870 | \$294,560 | \$2,038,913 |
| Gross profit     | \$181,525 | \$248,795 | \$128,204 | \$351,223 | \$215,814 | \$1,125,561 |
| Operating income | \$98,135  | \$94,286  | \$34,204  | \$99,887  | \$77,307  | \$403,819   |

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 and property and equipment, net by geographic area are as follows as of and for the 39-week periods ended September 24, 2016 and September 26, 2015. Note that APAC includes Asia Pacific and Australian Continent and EMEA includes Europe, the Middle East and Africa:

|                                 | Americas    | APAC      | EMEA      | Total       |
|---------------------------------|-------------|-----------|-----------|-------------|
| September 24, 2016              |             |           |           |             |
| Net sales to external customers | \$1,073,610 | \$274,083 | \$810,205 | \$2,157,898 |
| Property and equipment, net     | \$297,747   | \$117,301 | \$39,198  | \$454,246   |
| September 26, 2015              |             |           |           |             |
| Net sales to external customers | \$1,057,359 | \$237,202 | \$744,352 | \$2,038,913 |
| Property and equipment, net     | \$282,930   | \$108,650 | \$47,514  | \$439,094   |

## 5. Warranty Reserves

The Company's products sold are generally covered by a warranty for periods ranging from one to two 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 24, 2016 | September 26, 2015 |
| Balance - beginning of period               | \$34,670           | \$ 26,101          |
| Accrual for products sold during the period | 15,859             | 8,075              |
| Expenditures                                | (11,657)           | (9,527)            |
| Balance - end of period                     | \$38,872           | \$ 24,649          |
|                                             | 39-Weeks Ended     |                    |
|                                             | September 24, 2016 | September 26, 2015 |
| Balance - beginning of period               | \$30,449           | \$ 27,609          |

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|                                             |          |           |   |
|---------------------------------------------|----------|-----------|---|
| Accrual for products sold during the period | 46,170   | 25,165    |   |
| Expenditures                                | (37,747) | (28,125   | ) |
| Balance - end of period                     | \$38,872 | \$ 24,649 |   |

**6. Commitments and Contingencies**

The Company is party to certain commitments, which include purchases of raw materials, advertising expenditures, investments in certain low income housing tax credit projects, and other indirect purchases in connection with conducting our business. The aggregate amount of purchase orders and other commitments open as of September 24, 2016 was approximately \$277,041. 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.

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 basis, developments in legal proceedings, investigations or claims that could affect the amount of any accrual or disclosure. The assessment regarding whether a loss is probable or a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events.

Management of the Company currently does not believe there is at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of recorded accruals, with respect to loss contingencies individually and in the aggregate, for the fiscal quarter ended September 24, 2016. The results of legal proceedings, investigations and claims, however, cannot be predicted with certainty. Although management considers the likelihood to be remote, an adverse resolution of one or more of such matters in excess of management's expectations could have a material adverse effect on the Company's results of operations in a particular quarter or fiscal year.

The Company settled or resolved certain matters during the fiscal quarter ended September 24, 2016 that did not individually or in the aggregate have a material impact on the Company's financial condition or results of operations.

## **7. Income Taxes**

The Company's income tax expense decreased from \$45,592 to \$24,711 for the 13-week period ended September 24, 2016, compared to the 13-week period ended September 26, 2015. The effective tax rate decreased to 16.5% in the third quarter of 2016, compared to 27.6% in the third quarter of 2015 primarily due to shifts in the projected income mix by jurisdiction during the third quarter of 2016 compared to the third quarter of 2015. The decrease in the effective tax rate was also a result of the permanent extension of the U.S. research and development tax credit legislation, which had not yet been extended in the third quarter of 2015.

The Company's income tax expense decreased from \$90,800 to \$86,904 for the first three quarters of 2016, compared to the first three quarters of 2015. The effective tax rate decreased to 18.8% for the first three quarters of 2016, compared to 21.9% in the first three quarters of 2015 primarily due to shifts in the projected income mix by jurisdiction for 2016 compared to the projection at third quarter of 2015. The decrease in the effective tax rate was also a result of the permanent extension of the U.S. research and development tax credit legislation, which had not yet been extended in the third quarter of 2015.

## **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 estimated fair value on a recurring basis are summarized below:

| Fair Value Measurements as<br>of September 24, 2016 |             |         |             |         |
|-----------------------------------------------------|-------------|---------|-------------|---------|
|                                                     | Total       | Level 1 | Level 2     | Level 3 |
| U.S. Treasury securities                            | \$28,884    | \$ -    | \$28,884    | \$ -    |
| Agency securities                                   | 69,674      | -       | 69,674      | -       |
| Mortgage-backed securities                          | 255,568     | -       | 255,568     | -       |
| Corporate securities                                | 908,400     | -       | 908,400     | -       |
| Municipal securities                                | 189,067     | -       | 189,067     | -       |
| Other                                               | 77,314      | -       | 77,314      | -       |
| Total                                               | \$1,528,907 | \$ -    | \$1,528,907 | \$ -    |

| Fair Value Measurements as<br>of December 26, 2015 |             |         |             |         |
|----------------------------------------------------|-------------|---------|-------------|---------|
|                                                    | Total       | Level 1 | Level 2     | Level 3 |
| U.S. Treasury securities                           | \$27,731    | \$ -    | \$27,731    | \$ -    |
| Agency securities                                  | 208,631     | -       | 208,631     | -       |
| Mortgage-backed securities                         | 370,232     | -       | 370,232     | -       |
| Corporate securities                               | 648,590     | -       | 648,590     | -       |
| Municipal securities                               | 223,562     | -       | 223,562     | -       |
| Other                                              | 79,802      | -       | 79,802      | -       |
| Total                                              | \$1,558,548 | \$ -    | \$1,558,548 | \$ -    |

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

Available-For-Sale Securities as  
of September 24, 2016

|                               | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses- OTTI<br>(1) | Gross<br>Unrealized<br>Losses- Other<br>(2) | Estimated Fair<br>Value<br>(Net Carrying<br>Amount) |
|-------------------------------|-------------------|------------------------------|--------------------------------------------|---------------------------------------------|-----------------------------------------------------|
| U.S. Treasury securities      | \$28,818          | \$ 109                       | \$ -                                       | \$ (43                                      | ) \$ 28,884                                         |
| Agency securities             | 69,603            | 139                          | (0                                         | ) (68                                       | ) 69,674                                            |
| Mortgage-backed<br>securities | 256,470           | 683                          | (429                                       | ) (1,156                                    | ) 255,568                                           |
| Corporate securities          | 909,648           | 3,403                        | (685                                       | ) (3,966                                    | ) 908,400                                           |
| Municipal securities          | 188,475           | 1,148                        | (2                                         | ) (554                                      | ) 189,067                                           |
| Other                         | 77,295            | 32                           | (6                                         | ) (7                                        | ) 77,314                                            |
| Total                         | \$1,530,309       | \$ 5,514                     | \$ (1,122                                  | ) \$ (5,794                                 | ) \$ 1,528,907                                      |

Available-For-Sale Securities as  
of December 26, 2015

|                               | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses- OTTI <sup>(1)</sup> | Gross<br>Unrealized<br>Losses- Other <sup>(2)</sup> | Estimated Fair<br>Value<br>(Net Carrying<br>Amount) |
|-------------------------------|-------------------|------------------------------|----------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| U.S. Treasury securities      | \$27,772          | \$ 27                        | \$ -                                               | \$ (68                                              | ) \$ 27,731                                         |
| Agency securities             | 211,248           | 105                          | (2,409                                             | ) (313                                              | ) 208,631                                           |
| Mortgage-backed<br>securities | 376,801           | 191                          | (1,210                                             | ) (5,550                                            | ) 370,232                                           |
| Corporate securities          | 656,447           | 179                          | (1,635                                             | ) (6,401                                            | ) 648,590                                           |
| Municipal securities          | 223,991           | 636                          | (9                                                 | ) (1,056                                            | ) 223,562                                           |
| Other                         | 79,853            | 4                            | (14                                                | ) (41                                               | ) 79,802                                            |
| Total                         | \$1,576,112       | \$ 1,142                     | \$ (5,277                                          | ) \$ (13,429                                        | ) \$ 1,558,548                                      |

(1) Represents impairment not related to credit for those investment securities that have been determined to be other-than-temporarily impaired.

(2) Represents unrealized losses on investment securities that have not been determined to be other-than-temporarily impaired.

The Company's investment policy requires investments to be rated A or better with the objective of minimizing the potential risk of principal loss. The fair value of the 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 a material unrealized loss shown in the table above and it is not more likely than not that the Company will be required to sell the investment before recovery of their amortized costs bases, 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 2015 and the 39-week period ending September 24, 2016, the Company did not record any material impairment charges on its outstanding securities.

The amortized cost and estimated fair value of the securities at an unrealized loss position at September 24, 2016 were \$692,047 and \$685,131 respectively. Approximately 34.7% of securities in our portfolio were at an unrealized loss position at September 24, 2016. 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 24, 2016 and December 26, 2015:

| As of September 24, 2016           |                             |            |                                 |  |            |
|------------------------------------|-----------------------------|------------|---------------------------------|--|------------|
| Less than 12<br>Consecutive Months |                             |            | 12 Consecutive Months or Longer |  |            |
|                                    | <b>Gross<br/>Unrealized</b> | Fair Value | <b>Gross<br/>Unrealized</b>     |  | Fair Value |
|                                    | <b>Losses</b>               |            | <b>Losses</b>                   |  |            |
| U.S. Treasury securities           | \$(43 )                     | \$ 11,468  | \$ -                            |  | \$ -       |
| Agency securities                  | (68 )                       | 28,531     | -                               |  | -          |
| Mortgage-backed securities         | (649 )                      | 96,968     | (936 )                          |  | 63,416     |
| Corporate securities               | (3,210)                     | 361,653    | (1,441 )                        |  | 44,097     |
| Municipal securities               | (513 )                      | 61,278     | (43 )                           |  | 5,752      |
| Other                              | (1 )                        | 2,187      | (12 )                           |  | 9,781      |
| Total                              | \$(4,484)                   | \$ 562,085 | \$ (2,432 )                     |  | \$ 123,046 |

| As of December 26, 2015            |                             |              |                                 |  |            |
|------------------------------------|-----------------------------|--------------|---------------------------------|--|------------|
| Less than 12<br>Consecutive Months |                             |              | 12 Consecutive Months or Longer |  |            |
|                                    | <b>Gross<br/>Unrealized</b> | Fair Value   | <b>Gross<br/>Unrealized</b>     |  | Fair Value |
|                                    | <b>Losses</b>               |              | <b>Losses</b>                   |  |            |
| U.S. Treasury securities           | \$(68 )                     | \$ 22,184    | \$ -                            |  | \$ -       |
| Agency securities                  | (691 )                      | 117,803      | (2,031 )                        |  | 69,418     |
| Mortgage-backed securities         | (4,571 )                    | 263,735      | (2,189 )                        |  | 83,722     |
| Corporate securities               | (6,719 )                    | 521,731      | (1,317 )                        |  | 50,374     |
| Municipal securities               | (1,035 )                    | 116,033      | (30 )                           |  | 6,557      |
| Other                              | (29 )                       | 14,666       | (26 )                           |  | 14,927     |
| Total                              | \$(13,113)                  | \$ 1,056,152 | \$ (5,593 )                     |  | \$ 224,998 |

The amortized cost and estimated fair value of marketable securities at September 24, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

|                         | Cost      | Estimated<br>Fair Value |
|-------------------------|-----------|-------------------------|
| Due in one year or less | \$201,478 | \$201,560               |

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|                                        |             |             |
|----------------------------------------|-------------|-------------|
| Due after one year through five years  | 1,082,666   | 1,084,064   |
| Due after five years through ten years | 234,596     | 231,764     |
| Due after ten years                    | 11,569      | 11,519      |
|                                        | \$1,530,309 | \$1,528,907 |

## 9.Share Repurchase Plan

On February 13, 2015, the Board of Directors approved a share repurchase program authorizing the Company to repurchase up to \$300,000 of the common shares of Garmin Ltd. The repurchases may be made from time to time as market and business conditions warrant on the open market or in negotiated transactions in compliance with the SEC's Rule 10b-18. The timing and amounts of any repurchases will be determined by the Company's management depending on market conditions and other factors including price, regulatory requirements and capital availability. The program does not require the purchase of any minimum number of shares and may be suspended or discontinued at any time. The share repurchase authorization expires on December 31, 2016. As of September 24, 2016, the Company had repurchased 4,729 shares using cash of \$196,633. There remains approximately \$103,367 available to repurchase additional shares under this authorization.

**10. 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 24, 2016:

**13-Weeks Ended September 24, 2016**

|                                                                  | Gross<br>unrealized                                        |             | Net unrealized<br>gains               |   |            |
|------------------------------------------------------------------|------------------------------------------------------------|-------------|---------------------------------------|---|------------|
|                                                                  | Foreign<br>Currency losses on<br>available-<br>Translation |             | (losses) on<br>available-<br>for-sale |   | Total      |
|                                                                  | Adjustment securities-                                     |             | securities-                           |   |            |
|                                                                  | OTTI <sup>(3)</sup>                                        |             | Other <sup>(4)</sup>                  |   |            |
| Balance - beginning of period                                    | \$(1,945 )                                                 | \$ (1,166 ) | ) \$ 1,708                            |   | \$(1,403 ) |
| Other comprehensive income before reclassification               | 29,598                                                     | 44          | (1,626                                | ) | 28,016     |
| Amounts reclassified from accumulated other comprehensive income | -                                                          | -           | (847                                  | ) | (847 )     |
| Net current-period other comprehensive income                    | 29,598                                                     | 44          | (2,473                                | ) | 27,169     |
| Balance - end of period                                          | \$27,653                                                   | \$ (1,122   | ) \$ (765                             | ) | \$25,766   |

**39-Weeks Ended September 26, 2016**

|                                                                  |                                                  | Gross<br>unrealized                                | Net unrealized<br>gains                              |              |
|------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|------------------------------------------------------|--------------|
|                                                                  | Foreign<br>Currency<br>Translation<br>Adjustment | losses on<br>available-<br>for-sale<br>securities- | (losses) on<br>available-<br>for-sale<br>securities- | Total        |
|                                                                  |                                                  | OTTI <sup>(3)</sup>                                | Other <sup>(4)</sup>                                 |              |
| Balance - beginning of period                                    | \$(14,107)                                       | \$ (5,277                                          | ) \$ (11,044                                         | ) \$(30,428) |
| Other comprehensive income before reclassification               | 41,760                                           | 4,155                                              | 11,622                                               | 57,537       |
| Amounts reclassified from accumulated other comprehensive income | -                                                | -                                                  | (1,343                                               | ) (1,343 )   |
| Net current-period other comprehensive income                    | 41,760                                           | 4,155                                              | 10,279                                               | 56,194       |
| Balance - end of period                                          | \$27,653                                         | \$ (1,122                                          | ) \$ (765                                            | ) \$25,766   |

(3) Represents the change in impairment, not related to credit, for those investment securities that have been determined to be other-than-temporarily impaired.

(4) Represents the change in unrealized gains (losses) on investment securities that have not been determined to be other-than-temporarily impaired.

The following provides required disclosure of reporting reclassifications out of AOCI for the 13-week and 39-week periods ended September 24, 2016:

13-Weeks Ended September 24, 2016

| <b>Details about</b>                                       | <b>Amount Reclassified</b> | <b>Affected Line Item</b>        |
|------------------------------------------------------------|----------------------------|----------------------------------|
| <b>Accumulated Other</b>                                   | <b>from Accumulated</b>    | <b>in the Statement</b>          |
| <b>Comprehensive Income</b>                                | <b>Other Comprehensive</b> | <b>Where Net Income</b>          |
| <b>Components</b>                                          | <b>Income</b>              | <b>is Presented</b>              |
| Unrealized gains (losses) on available-for-sale securities | \$ 880                     | Other income (expense)           |
|                                                            | (33                        | ) Income tax (provision) benefit |
|                                                            | \$ 847                     | Net of tax                       |

39-Weeks Ended September 24, 2016

| <b>Details about</b>                                       | <b>Amount Reclassified</b> | <b>Affected Line Item</b>      |
|------------------------------------------------------------|----------------------------|--------------------------------|
| <b>Accumulated Other</b>                                   | <b>from Accumulated</b>    | <b>in the Statement</b>        |
| <b>Comprehensive Income</b>                                | <b>Other Comprehensive</b> | <b>Where Net Income</b>        |
| <b>Components</b>                                          | <b>Income</b>              | <b>is Presented</b>            |
| Unrealized gains (losses) on available-for-sale securities | \$ 1,068                   | Other income (expense)         |
|                                                            | 275                        | Income tax (provision) benefit |
|                                                            | \$ 1,343                   | Net of tax                     |

## 11. Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which supersedes previous revenue recognition guidance. ASU 2014-09 requires that a company will recognize revenue at an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring goods or services to a customer. The new standard may be applied retrospectively to each prior period presented or in a modified retrospective approach in which the cumulative effect will be recognized as of the date of adoption. Additional updates to Topic 606 issued by the FASB in 2015 and 2016 include the following:

ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (“ASU 2015-14”), which defers the effective date of the new guidance such that the new provisions will now be required for fiscal years, and interim periods within those years, beginning after December 15, 2017

ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (“ASU 2016-08”), which clarifies the implementation guidance on principal versus agent considerations (reporting revenue gross versus net).

ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”), which clarifies the implementation guidance on identifying performance obligations and classifying licensing arrangements

ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”), which clarifies the implementation guidance in a number of other areas.

The Company is currently evaluating the impact of adopting the new revenue standards on its consolidated financial statements.

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. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

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. ASU 2016-02 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. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which is intended to simplify the accounting for share-based payment awards. The standard includes provisions addressing income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company does not intend to early adopt ASU 2016-09, rather, adoption will occur in the fiscal year ending December 30, 2017. ASU 2016-09 requires that tax effects from stock-based compensation be recognized in the income tax provision, as these amounts are currently recognized in additional paid-in capital. The Company believes this aspect of the standard may have a material effect on the income tax provision within the consolidated statements of income in future periods. Furthermore, under ASU 2016-09, excess income tax benefits from stock-based compensation arrangements are classified as a cash flow from operations, rather than as a cash flow from financing activities. The Company will apply both changes prospectively. The Company is currently unable to reasonably estimate the impact of these changes due to the dependency of these items on the underlying share price of the Company.

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. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

## **12. Subsequent Events**

On September 30, 2016, the Company acquired the shares of Iiyonet, Inc., a key distributor of Garmin’s consumer products in Japan. This acquisition was not material.

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

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 26, 2015. 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 26, 2015.

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 business 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.

## Results of Operations

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

|                                     | 13-Weeks Ended |    |                    |   |
|-------------------------------------|----------------|----|--------------------|---|
|                                     | September      |    | September 26, 2015 |   |
|                                     | 24,            |    |                    |   |
|                                     | 2016           |    |                    |   |
| Net sales                           | 100            | %  | 100                | % |
| Cost of goods sold                  | 44             | %  | 47                 | % |
| Gross profit                        | 56             | %  | 53                 | % |
| Advertising                         | 5              | %  | 5                  | % |
| Selling, general and administrative | 13             | %  | 14                 | % |
| Research and development            | 16             | %  | 16                 | % |
| Total operating expenses            | 34             | %  | 35                 | % |
| Operating income                    | 22             | %  | 18                 | % |
| Other income (expense), net         | (1)            | )% | 6                  | % |
| Income before income taxes          | 21             | %  | 24                 | % |
| Provision for income taxes          | 3              | %  | 7                  | % |
| Net income                          | 17             | %  | 18                 | % |

|                                     | 39-Weeks Ended |   |                    |   |
|-------------------------------------|----------------|---|--------------------|---|
|                                     | September      |   | September 26, 2015 |   |
|                                     | 24,            |   |                    |   |
|                                     | 2016           |   |                    |   |
| Net sales                           | 100            | % | 100                | % |
| Cost of goods sold                  | 44             | % | 45                 | % |
| Gross profit                        | 56             | % | 55                 | % |
| Advertising                         | 5              | % | 5                  | % |
| Selling, general and administrative | 14             | % | 14                 | % |
| Research and development            | 16             | % | 16                 | % |

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|                             |    |   |    |   |
|-----------------------------|----|---|----|---|
| Total operating expenses    | 35 | % | 35 | % |
| Operating income            | 22 | % | 20 | % |
| Other income (expense), net | 0  | % | 1  | % |
| Income before income taxes  | 21 | % | 20 | % |
| Provision for income taxes  | 4  | % | 4  | % |
| Net income                  | 17 | % | 16 | % |

The Company manages its operations in five segments: outdoor, fitness, marine, auto, and aviation, and each of its segments employs the same accounting policies. 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 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.

In 2016 the Company moved action camera related revenue and expenses from the Outdoor segment to the Auto segment, allowing for alignment and synergies with other camera-based efforts occurring within the Auto segment. The overall impact of the move was immaterial. However, action camera related operating results for the 13-weeks and 39-weeks ended September 26, 2015 have been recast to conform to the current year presentation.

**Comparison of 13-weeks ended September 24, 2016 and September 26, 2015**

*(Amounts included in the following discussion are stated in thousands unless otherwise indicated)*

**Net Sales**

|          | 13-weeks ended September 24, 2016 |               | 13-weeks ended September 26, 2015 |               | Year over Year |          |   |
|----------|-----------------------------------|---------------|-----------------------------------|---------------|----------------|----------|---|
|          | Net Sales                         | % of Revenues | Net Sales                         | % of Revenues | \$ Change      | % Change |   |
| Outdoor  | \$ 141,006                        | 19            | % \$ 109,863                      | 16            | % \$31,143     | 28       | % |
| Fitness  | 189,161                           | 26            | % 143,216                         | 21            | % 45,945       | 32       | % |
| Marine   | 70,010                            | 10            | % 62,315                          | 9             | % 7,695        | 12       | % |
| Auto     | 214,637                           | 30            | % 270,064                         | 40            | % (55,427)     | -21      | % |
| Aviation | 107,436                           | 15            | % 94,232                          | 14            | % 13,204       | 14       | % |
| Total    | \$ 722,250                        | 100           | % \$ 679,690                      | 100           | % \$42,560     | 6        | % |

Net sales increased 6% for the 13-week period ended September 24, 2016 when compared to the year-ago quarter. All segments, excluding Auto grew in the quarter. Auto revenue remains the largest portion of our revenue mix at 30% in the third quarter of 2016 compared to 40% in the third quarter of 2015.

Total unit sales decreased slightly to 3,848 in the third quarter of 2016 from 3,861 in the same period of 2015.

Auto segment revenue decreased 21% from the year-ago quarter, primarily due to the ongoing PND market contraction and additional revenue deferrals with certain OEM products when compared to third quarter 2015. Revenues in our fitness segment increased 32% from the year-ago quarter on the strength of activity trackers, running, and cycling products. Revenues in our outdoor segment increased 28% from the year-ago quarter primarily driven by growth in our wearable category and the newly acquired DeLorme product lines. Revenues in our marine segment increased 12% from the year-ago quarter primarily due to increases in chartplotters, fish finders, and entertainment systems. Aviation revenues increased 14% from the year-ago quarter due to growth in both OEM and Aftermarket sales.

### *Cost of Goods Sold*

|          | 13-weeks ended September 24, 2016 |               | 13-weeks ended September 26, 2015 |               | Year over Year |          |   |
|----------|-----------------------------------|---------------|-----------------------------------|---------------|----------------|----------|---|
|          | Cost of Goods                     | % of Revenues | Cost of Goods                     | % of Revenues | \$ Change      | % Change |   |
| Outdoor  | \$ 52,509                         | 37            | % \$ 43,421                       | 40            | % \$9,088      | 21       | % |
| Fitness  | 85,798                            | 45            | % 65,955                          | 46            | % 19,843       | 30       | % |
| Marine   | 30,119                            | 43            | % 28,200                          | 45            | % 1,919        | 7        | % |
| Auto     | 120,999                           | 56            | % 155,733                         | 58            | % (34,734)     | -22      | % |
| Aviation | 26,845                            | 25            | % 24,191                          | 26            | % 2,654        | 11       | % |
| Total    | \$ 316,270                        | 44            | % \$ 317,500                      | 47            | % \$(1,230 )   | 0        | % |

Cost of goods sold decreased 290 basis points as a percentage of revenue from the year-ago quarter with decreases across all segments. In absolute dollars third quarter 2016 cost of goods sold was \$1.2 million lower than the prior year quarter, or relatively flat on a percentage change basis.

In the auto segment, the decrease of 22% in cost of goods sold reflects lower PND shipments. In the outdoor and fitness segments, the increases of 21% and 30% in cost of goods sold, respectively, primarily reflect strong volume growth. In the marine and aviation segments, the increases of 7% and 11% in cost of goods sold, respectively, reflect volume growth.

**Gross Profit**

|          | 13-weeks ended September 24, 2016 |               |   | 13-weeks ended September 26, 2015 |               | Year over Year |          |   |
|----------|-----------------------------------|---------------|---|-----------------------------------|---------------|----------------|----------|---|
|          | Gross Profit                      | % of Revenues |   | Gross Profit                      | % of Revenues | \$ Change      | % Change |   |
| Outdoor  | \$ 88,497                         | 63            | % | \$ 66,442                         | 60            | % \$22,055     | 33       | % |
| Fitness  | 103,363                           | 55            | % | 77,261                            | 54            | % 26,102       | 34       | % |
| Marine   | 39,891                            | 57            | % | 34,115                            | 55            | % 5,776        | 17       | % |
| Auto     | 93,638                            | 44            | % | 114,331                           | 42            | % (20,693)     | -18      | % |
| Aviation | 80,591                            | 75            | % | 70,041                            | 74            | % 10,550       | 15       | % |
| Total    | \$ 405,980                        | 56            | % | \$ 362,190                        | 53            | % \$43,790     | 12       | % |

Gross profit dollars in the third quarter of 2016 increased 12% while gross profit margin increased 290 basis points compared to the third quarter of 2015. All segments had increases in gross margin rate.

**Advertising Expense**

| 13-weeks ended September 24, 2016 |           |               | 13-weeks ended September 26, 2015 |    |               | Year over Year |        |  |
|-----------------------------------|-----------|---------------|-----------------------------------|----|---------------|----------------|--------|--|
| Advertising                       |           |               | Advertising                       |    |               | \$             | %      |  |
| Expense                           |           | % of Revenues | Expense                           |    | % of Revenues | Change         | Change |  |
| Outdoor                           | \$ 6,459  | 5             | % \$ 5,704                        | 5  | % \$ 755      | 13             | %      |  |
| Fitness                           | 14,616    | 8             | % 16,394                          | 11 | % (1,778 )    | -11            | %      |  |
| Marine                            | 2,941     | 4             | % 3,220                           | 5  | % (279 )      | -9             | %      |  |
| Auto                              | 6,992     | 3             | % 10,229                          | 4  | % (3,237 )    | -32            | %      |  |
| Aviation                          | 1,948     | 2             | % 1,340                           | 1  | % 608         | 45             | %      |  |
| Total                             | \$ 32,956 | 5             | % \$ 36,887                       | 5  | % \$(3,931 )  | -11            | %      |  |

Advertising expense decreased 11% in absolute dollars and was relatively flat as a percent of revenues. The decrease in absolute dollars was primarily in auto.

**Selling, General and Administrative Expense**

| 13-weeks ended September 24, 2016 |           |               | 13-weeks ended September 26, 2015 |    |               | Year over Year |        |  |
|-----------------------------------|-----------|---------------|-----------------------------------|----|---------------|----------------|--------|--|
| Selling, General &                |           |               | Selling, General &                |    |               | \$             | %      |  |
| Admin. Expenses                   |           | % of Revenues | Admin. Expenses                   |    | % of Revenues | Change         | Change |  |
| Outdoor                           | \$ 20,074 | 14            | % \$ 14,099                       | 13 | % \$ 5,975    | 42             | %      |  |
| Fitness                           | 27,294    | 14            | % 21,458                          | 15 | % 5,836       | 27             | %      |  |
| Marine                            | 13,041    | 19            | % 12,119                          | 19 | % 922         | 8              | %      |  |
| Auto                              | 30,875    | 14            | % 40,030                          | 15 | % (9,155 )    | -23            | %      |  |
| Aviation                          | 5,675     | 5             | % 6,351                           | 7  | % (676 )      | -11            | %      |  |
| Total                             | \$ 96,959 | 13            | % \$ 94,057                       | 14 | % \$ 2,902    | 3              | %      |  |

Selling, general and administrative expense increased 3% in absolute dollars and decreased 40 basis points as a percent of revenues compared to the year-ago quarter. The absolute dollar increase is primarily due to increased bad debt expense and IT related costs. Variances by segment are primarily due to the allocation of certain selling, general and administrative expenses based on percentage of total revenues.

**Research and Development Expense**

| 13-weeks ended September 24, 2016 |            |               | 13-weeks ended September 26, 2015 |    |               | Year over Year |          |
|-----------------------------------|------------|---------------|-----------------------------------|----|---------------|----------------|----------|
| Research & Development            |            | % of Revenues | Research & Development            |    | % of Revenues | \$ Change      | % Change |
| Outdoor                           | \$ 12,693  | 9             | % \$ 9,230                        | 8  | %             | \$ 3,463       | 38 %     |
| Fitness                           | 16,679     | 9             | % 12,832                          | 9  | %             | 3,847          | 30 %     |
| Marine                            | 13,577     | 19            | % 13,039                          | 21 | %             | 538            | 4 %      |
| Auto                              | 30,976     | 14            | % 32,060                          | 12 | %             | (1,084 )       | -3 %     |
| Aviation                          | 42,524     | 40            | % 38,628                          | 41 | %             | 3,896          | 10 %     |
| Total                             | \$ 116,449 | 16            | % \$ 105,789                      | 16 | %             | \$ 10,660      | 10 %     |

Research and development expense increased 10% due to ongoing development activities for new products. In absolute dollars, research and development costs increased \$10.7 million when compared with the year-ago quarter and were stable as a percent of revenue. Our research and development spending is focused on product development, improving existing software capabilities, and exploring new categories.

**Operating Income**

| 13-weeks ended September 24, 2016 |            |               | 13-weeks ended September 26, 2015 |    |               | Year over Year |          |
|-----------------------------------|------------|---------------|-----------------------------------|----|---------------|----------------|----------|
| Operating Income                  |            | % of Revenues | Operating Income                  |    | % of Revenues | \$ Change      | % Change |
| Outdoor                           | \$ 49,271  | 35            | % \$ 37,409                       | 34 | %             | \$ 11,862      | 32 %     |
| Fitness                           | 44,774     | 24            | % 26,577                          | 19 | %             | 18,197         | 68 %     |
| Marine                            | 10,332     | 15            | % 5,737                           | 9  | %             | 4,595          | 80 %     |
| Auto                              | 24,795     | 12            | % 32,012                          | 12 | %             | (7,217 )       | -23 %    |
| Aviation                          | 30,444     | 28            | % 23,722                          | 25 | %             | 6,722          | 28 %     |
| Total                             | \$ 159,616 | 22            | % \$ 125,457                      | 18 | %             | \$ 34,159      | 27 %     |

Operating income increased 27% in absolute dollars and 360 basis points as a percent of revenue when compared to the third quarter of 2015. The increase in operating income is due to revenue growth and an improved gross margin percentage partially offset by an increase in operating expense.

***Other Income (Expense)***

|                                 | 13-weeks ended<br>September 24, 2016 | 13-weeks ended<br>September 26, 2015 |
|---------------------------------|--------------------------------------|--------------------------------------|
| Interest Income                 | \$ 8,226                             | \$ 6,851                             |
| Foreign Currency gains (losses) | (19,421)                             | ) 30,573                             |
| Other                           | 1,344                                | 2,010                                |
| Total                           | \$ (9,851)                           | ) \$ 39,434                          |

The average return on cash and investments during the third quarter of 2016 was 1.5% compared to 1.1% during the same quarter of 2015. Higher interest income in the third quarter of 2016, as compared to the same period of 2015, is attributable to an increased rate of return on investments.

Foreign currency gains and losses of the Company are typically driven by movements in the Taiwan Dollar and the Euro 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. The Euro is the functional currency of most other European subsidiaries. The majority of the Company's consolidated foreign currency gains or losses results from the exchange rate impact on the significant cash, receivables, and payables held in a currency other than the functional currency at one of the Company's subsidiaries. Currency fluctuations related to currencies other than the Taiwan Dollar and the Euro are not expected to have a material impact on the Company's financial statements.

The \$19.4 million currency loss in the third quarter of 2016 was primarily due to the weakening of the U.S. Dollar against the Taiwan Dollar. During the third quarter of 2016, the U.S. Dollar weakened 3.5% against the Taiwan Dollar, resulting in a loss of \$20.9 million, while the U.S. Dollar weakened 1.0% against the Euro, resulting in a gain of \$2.6 million. The remaining net currency loss of \$1.1 million is related to other currencies and timing of transactions.

The \$30.6 million currency gain in the third quarter 2015 was due to the U.S. Dollar strengthening against the Taiwan Dollar while the U.S. Dollar weakened slightly against the Euro. During the third quarter of 2015, the U.S. Dollar strengthened 6.5% compared to the Taiwan Dollar resulting in a gain of \$41.1 million while the U.S. Dollar weakened 0.1% against the Euro resulting in a gain of \$0.3 million. The remaining net currency loss of \$10.8 million is related to other currencies and timing of transactions.

***Income Tax Provision***

The Company's income tax expense decreased from \$45.6 million to \$24.7 million for the 13-week period ended September 24, 2016, compared to the 13-week period ended September 26, 2015. The effective tax rate decreased to 16.5% in the third quarter of 2016, compared to 27.6% in the third quarter of 2015 primarily due to shifts in the projected income mix by jurisdiction during the third quarter of 2016 compared to the third quarter of 2015. The decrease in the effective tax rate was also a result of the permanent extension of the U.S. research and development tax credit legislation, which had not yet been extended in the third quarter of 2015.

***Net Income***

As a result of the above, net income for the 13-weeks ended September 24, 2016 was \$125.1 million compared to \$119.3 million for the 13-week period ended September 26, 2015, an increase of \$5.8 million.

**Comparison of 39-Weeks Ended September 24, 2016 and September 26, 2015**

*(Amounts included in the following discussion are stated in thousands unless otherwise indicated)*

***Net Sales***

|          | 39-weeks ended September 24, 2016 |               |   | 39-weeks ended September 26, 2015 |               | Year over Year |          |   |
|----------|-----------------------------------|---------------|---|-----------------------------------|---------------|----------------|----------|---|
|          | Net Sales                         | % of Revenues |   | Net Sales                         | % of Revenues | \$ Change      | % Change |   |
| Outdoor  | \$ 370,929                        | 17            | % | \$ 291,299                        | 14            | % \$79,630     | 27       | % |
| Fitness  | 544,434                           | 26            | % | 432,859                           | 21            | % 111,575      | 26       | % |
| Marine   | 264,489                           | 12            | % | 230,325                           | 11            | % 34,164       | 15       | % |
| Auto     | 655,963                           | 30            | % | 789,870                           | 39            | % (133,907)    | -17      | % |
| Aviation | 322,083                           | 15            | % | 294,560                           | 15            | % 27,523       | 9        | % |
| Total    | \$ 2,157,898                      | 100           | % | \$ 2,038,913                      | 100           | % \$118,985    | 6        | % |

Net sales increased 6% for the 39-week period ended September 24, 2016 when compared to the prior year period. All segments had an increase in revenue except for auto. Auto revenue remains the largest portion of our revenue mix at 30% in the first three quarters of 2016 compared to 39% in the first three quarters of 2015.

Total unit sales increased 3% to 11,374 in the first three quarters of 2016 from 11,055 in the same period of 2015.

Auto segment revenue decreased 17% from the year-ago period, primarily due to the ongoing PND market contraction and additional revenue deferrals with certain OEM products when compared to first three quarters of 2015. Outdoor revenue increased 27% primarily driven by growth in our wearables and the newly acquired DeLorme product lines. Fitness revenues increased 26% due to growth of our activity tracker, running, and cycling categories. Revenues in our marine segment increased 15% primarily due to increases in chartplotters, fish finders, and entertainment systems compared to the first three quarters of 2015. Aviation revenues increased 9% from the year-ago period due to growth in both OEM and Aftermarket sales.

***Cost of Goods Sold***

|                                   |                                   |                |
|-----------------------------------|-----------------------------------|----------------|
| 39-weeks ended September 24, 2016 | 39-weeks ended September 26, 2015 | Year over Year |
|-----------------------------------|-----------------------------------|----------------|

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|          | Cost of Goods | % of<br>Revenues | Cost of Goods | % of<br>Revenues | \$ Change  | %<br>Change |   |
|----------|---------------|------------------|---------------|------------------|------------|-------------|---|
| Outdoor  | \$ 138,277    | 37               | % \$ 109,774  | 38               | % \$28,503 | 26          | % |
| Fitness  | 248,971       | 46               | % 184,064     | 43               | % 64,907   | 35          | % |
| Marine   | 115,935       | 44               | % 102,121     | 44               | % 13,814   | 14          | % |
| Auto     | 363,193       | 55               | % 438,647     | 56               | % (75,454) | -17         | % |
| Aviation | 82,734        | 26               | % 78,746      | 27               | % 3,988    | 5           | % |
| Total    | \$ 949,110    | 44               | % \$ 913,352  | 45               | % \$35,758 | 4           | % |

Cost of goods sold increased 4% in absolute dollars for the first three quarters of 2016 when compared to the year ago period.

In the auto segment, the cost of goods decline reflects lower PND shipments. In the outdoor and fitness segments, the increases of 26% and 35% in cost of goods sold, respectively, primarily reflect strong volume growth. In the marine and aviation segments, the increases of 14% and 5% in cost of goods sold, respectively, reflect volume growth.

**Gross Profit**

|          | 39-weeks ended September 24, 2016 |               |   | 39-weeks ended September 26, 2015 |               | Year over Year |          |   |
|----------|-----------------------------------|---------------|---|-----------------------------------|---------------|----------------|----------|---|
|          | Gross Profit                      | % of Revenues |   | Gross Profit                      | % of Revenues | \$ Change      | % Change |   |
| Outdoor  | \$ 232,652                        | 63            | % | \$ 181,525                        | 62            | % \$51,127     | 28       | % |
| Fitness  | 295,463                           | 54            | % | 248,795                           | 57            | % 46,668       | 19       | % |
| Marine   | 148,554                           | 56            | % | 128,204                           | 56            | % 20,350       | 16       | % |
| Auto     | 292,770                           | 45            | % | 351,223                           | 44            | % (58,453 )    | -17      | % |
| Aviation | 239,349                           | 74            | % | 215,814                           | 73            | % 23,535       | 11       | % |
| Total    | \$ 1,208,788                      | 56            | % | \$ 1,125,561                      | 55            | % \$83,227     | 7        | % |

Gross profit dollars in the first three quarters of 2016 increased 7% while gross profit margin increased 80 basis points compared to the first three quarters of 2015. Fitness margin declined to 54% due to product mix. All other segment gross margin rates are relatively consistent between the first three quarters of 2016 compared to the first three quarters of 2015.

**Advertising Expense**

|          | 39-weeks ended September 24, 2016 |               |   | 39-weeks ended September 26, 2015 |               | Year over Year |          |   |
|----------|-----------------------------------|---------------|---|-----------------------------------|---------------|----------------|----------|---|
|          | Advertising Expense               | % of Revenues |   | Advertising Expense               | % of Revenues | \$ Change      | % Change |   |
| Outdoor  | \$ 18,319                         | 5             | % | \$ 16,059                         | 6             | % \$2,260      | 14       | % |
| Fitness  | 51,844                            | 10            | % | 47,519                            | 11            | % 4,325        | 9        | % |
| Marine   | 12,267                            | 5             | % | 13,020                            | 6             | % (753 )       | -6       | % |
| Auto     | 21,790                            | 3             | % | 29,260                            | 4             | % (7,470 )     | -26      | % |
| Aviation | 5,221                             | 2             | % | 4,494                             | 2             | % 727          | 16       | % |
| Total    | \$ 109,441                        | 5             | % | \$ 110,352                        | 5             | % \$(911 )     | -1       | % |

Advertising expense decreased 1% in absolute dollars and was relatively flat as a percent of revenue compared to the year-ago period. The decrease in absolute dollars is primarily attributable to auto partially offset by fitness and outdoor.

***Selling, General and Administrative Expenses***

|          | 39-weeks ended September 24, 2016  |               | 39-weeks ended September 26, 2015  |               | Year over Year |     |          |
|----------|------------------------------------|---------------|------------------------------------|---------------|----------------|-----|----------|
|          | Selling, General & Admin. Expenses |               | Selling, General & Admin. Expenses |               | \$ Change      |     | % Change |
|          |                                    | % of Revenues |                                    | % of Revenues |                |     |          |
| Outdoor  | \$ 54,321                          | 15            | % \$ 39,880                        | 14            | % \$ 14,441    | 36  | %        |
| Fitness  | 82,104                             | 15            | % 68,661                           | 16            | % 13,443       | 20  | %        |
| Marine   | 46,579                             | 18            | % 41,396                           | 18            | % 5,183        | 13  | %        |
| Auto     | 94,665                             | 14            | % 121,752                          | 15            | % (27,087)     | -22 | %        |
| Aviation | 18,577                             | 6             | % 18,670                           | 6             | % (93 )        | 0   | %        |
| Total    | \$ 296,246                         | 14            | % \$ 290,359                       | 14            | % \$ 5,887     | 2   | %        |

Selling, general and administrative expense increased 2% in absolute dollars and decreased 50 basis points as a percent of revenues compared to the year-ago period. The absolute dollar increase is primarily due to increased bad debt expense and IT related costs. Variances by segment are primarily due to the allocation of certain selling, general and administrative expenses based on percentage of total revenues.

**Research and Development Expense**

|          | 39-weeks ended September 24, 2016 |               | 39-weeks ended September 26, 2015 |               | Year over Year |          |   |
|----------|-----------------------------------|---------------|-----------------------------------|---------------|----------------|----------|---|
|          | Research & Development            | % of Revenues | Research & Development            | % of Revenues | \$ Change      | % Change |   |
| Outdoor  | \$ 34,291                         | 9             | % \$ 27,451                       | 9             | % \$ 6,840     | 25       | % |
| Fitness  | 47,093                            | 9             | % 38,329                          | 9             | % 8,764        | 23       | % |
| Marine   | 40,536                            | 15            | % 39,584                          | 17            | % 952          | 2        | % |
| Auto     | 93,331                            | 14            | % 100,324                         | 13            | % (6,993 )     | -7       | % |
| Aviation | 123,757                           | 38            | % 115,343                         | 39            | % 8,414        | 7        | % |
| Total    | \$ 339,008                        | 16            | % \$ 321,031                      | 16            | % \$ 17,977    | 6        | % |

Research and development expense increased 6% due to ongoing development activities for new products. In absolute dollars, research and development costs increased \$18.0 million when compared with the year-ago period and remained relatively flat as a percent of revenues compared to the year-ago period. Our research and development spending is focused on product development, improving existing software capabilities, and exploring new categories.

**Operating Income**

|          | 39-weeks ended September 24, 2016 |               | 39-weeks ended September 26, 2015 |               | Year over Year |          |   |
|----------|-----------------------------------|---------------|-----------------------------------|---------------|----------------|----------|---|
|          | Operating Income                  | % of Revenues | Operating Income                  | % of Revenues | \$ Change      | % Change |   |
| Outdoor  | \$ 125,721                        | 34            | % \$ 98,135                       | 34            | % \$ 27,586    | 28       | % |
| Fitness  | 114,422                           | 21            | % 94,286                          | 22            | % 20,136       | 21       | % |
| Marine   | 49,172                            | 19            | % 34,204                          | 15            | % 14,968       | 44       | % |
| Auto     | 82,984                            | 13            | % 99,887                          | 13            | % (16,903 )    | -17      | % |
| Aviation | 91,794                            | 29            | % 77,307                          | 26            | % 14,487       | 19       | % |
| Total    | \$ 464,093                        | 22            | % \$ 403,819                      | 20            | % \$ 60,274    | 15       | % |

Operating income increased 15% in absolute dollars and 170 basis points as a percent of revenue when compared to the year-ago period. Revenue growth with a relatively flat gross margin percentage contributed to the growth, slightly offset by increased operating expenses, as discussed above.

***Other Income (Expense)***

|                                | 39-weeks ended<br>September 24, 2016 | 39-weeks ended<br>September 26, 2015 |
|--------------------------------|--------------------------------------|--------------------------------------|
| Interest Income                | \$ 24,109                            | \$ 22,295                            |
| Foreign Currency gains(losses) | (30,003 )                            | (14,177 )                            |
| Other                          | 2,914                                | 2,707                                |
| Total                          | \$ (2,980 )                          | \$ 10,825                            |

The average return on cash and investments during the first three quarters of 2016 was 1.4% compared to 1.2% during the same period of 2015. The increase in interest income is attributable to an increased rate of return on investments.

The \$30.0 million currency loss in the first three quarters of 2016 was primarily due to the weakening of the U.S. Dollar against the Taiwan Dollar. During the first three quarters of 2016, the U.S. Dollar weakened 5.0% against the Taiwan Dollar resulting in a loss of \$32.1 million, while the U.S. Dollar weakened 2.3% against the Euro, resulting in a gain of \$3.3 million. The remaining net currency loss of \$1.2 million is related to other currencies and timing of transactions.

The majority of the \$14.2 million currency loss in the first three quarters of 2015 was due to the strengthening of the U.S. Dollar against both the Euro and the Taiwan Dollar. During the first three quarters of 2015, the U.S. Dollar strengthened 8.2% compared to the Euro resulting in a loss of \$24.7 million while strengthening against the Taiwan Dollar by 4.1% resulting in a gain of \$20.6 million. The remaining net currency loss of \$10.1 million is related to other currencies and timing of transactions.

***Income Tax Provision***

The Company's income tax expense decreased from \$90.8 million to \$86.9 million for the first three quarters of 2016, compared to the first three quarters of 2015. The effective tax rate decreased to 18.8% for the first three quarters of 2016, compared to 21.9% in the first three quarters of 2015 primarily due to shifts in the projected income mix by jurisdiction for 2016 compared to the projection at third quarter of 2015. The decrease in the effective tax rate was also a result of the permanent extension of the U.S. research and development tax credit legislation, which had not yet been extended in the third quarter of 2015.

***Net Income***

Net income for the 39-week period ended September 24, 2016 was \$374.2 million compared to \$323.8 million for the 39-week period ended September 26, 2015, an increase of \$50.4 million.

**Liquidity and Capital Resources*****Operating Activities***

|                                           | 39-Weeks Ended   |                  |
|-------------------------------------------|------------------|------------------|
|                                           | Sept 24,<br>2016 | Sept 26,<br>2015 |
| (In thousands)                            |                  |                  |
| Net cash provided by operating activities | \$492,366        | \$122,131        |

The \$370.2 million increase in cash provided by operating activities in the first three quarters of 2016 compared to the first three quarters of 2015 was primarily due to the following:

- the impact of income taxes payable providing \$170.2 million more cash, primarily related to the timing of 2015 income tax payments associated with the inter-company restructuring that was announced in the third quarter of 2014
- other current and noncurrent assets providing \$114.1 million more cash primarily related to the timing of payments for royalties
- inventories providing \$70.0 million more cash primarily due to reduced purchases of raw materials
- net income increasing \$50.4 million as discussed in the Results of Operations section above

other current and noncurrent liabilities providing \$46.6 million more cash primarily due to timing of payments for royalties and deferred revenue providing \$36.1 million more working capital benefit due to the net decrease in amortization of previously deferred revenue and additional revenue deferrals associated with certain auto OEM products

Partially offset by:

· accounts payable providing \$57.6 million less cash primarily due to the timing of purchases  
accounts receivable providing \$47.5 million less working capital benefit primarily due to the net decrease in utilization of rebates receivable associated with royalties, partially offset by increased collections of trade receivables and

***Investing Activities***

|                                                     | 39-Weeks Ended   |                  |
|-----------------------------------------------------|------------------|------------------|
|                                                     | Sept 24,<br>2016 | Sept 26,<br>2015 |
| (In thousands)                                      |                  |                  |
| Net cash (used in) provided by investing activities | \$(75,934)       | \$ 2,808         |

The \$78.7 million decrease in cash provided by investing activities in the first three quarters of 2016 compared to first three quarters of 2015 was primarily due to the following:

- decreased net redemptions of marketable securities of \$37.8 million and
- increased cash payments for acquisitions of \$49.5 million

Partially offset by:

- decreased purchases of property and equipment of \$11.1 million

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 returns on cash and investments during first three quarters of 2016 and 2015 were approximately 1.4% and 1.2%, respectively.

***Financing Activities***

|                                       | 39-Weeks Ended   |                  |
|---------------------------------------|------------------|------------------|
|                                       | Sept 24,<br>2016 | Sept 26,<br>2015 |
| (In thousands)                        |                  |                  |
| Net cash used in financing activities | \$(344,161)      | \$(379,734)      |

The \$35.6 million decrease in cash used in financing activities in the first three quarters of 2016 compared to first three quarters of 2015 was primarily due to the following:

- decreased purchases of treasury stock of \$42.8 million under our share repurchase authorization

Partially offset by:

- increased dividend payments of \$8.1 million due to the year-over-year increase of our dividend rate

We currently use cash flow from operations to fund our capital expenditures, to support our working capital requirements, to pay dividends, and to fund share repurchases. We expect that future cash requirements will principally be for capital expenditures, working capital, payment of dividends declared, share repurchases and the funding of strategic acquisitions. 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.

#### ***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements.

### **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 26, 2015. There have been no material changes during the 13-week and 39-week periods ended September 24, 2016 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 24, 2016, 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 24, 2016 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 24, 2016 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 26, 2015 and the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 25, 2016.

*Garmin Switzerland GmbH and Garmin Corporation v. Navico, Inc., C-MAP USA, Inc. and C-MAP/ Commercial Ltd..*

On October 17, 2016 Garmin Switzerland GmbH and Garmin Corporation filed a complaint for patent infringement and trademark infringement against Navico, Inc., C-MAP USA, Inc. and C-MAP/ Commercial, Inc. in the United States District Court for the District of Kansas. The lawsuit claims that Navico infringes Garmin's US Patent No.7,268,703 ("the '703 patent") relating to marine autoguidance) and Garmin's US Patent No. 6,459,987. ("the '987 patent") relating to trackback features, and that Navico infringes Garmin's US trademark registration for "TracBack" by Navico's use of the trademark "TrackBack". In addition the lawsuit claims that Navico's use of the "Trackback" trademark constitutes common law trademark infringement and false designation and unfair competition under federal law by Navico and unfair business practices and unfair competition by Navico under Kansas law. The lawsuit also claims that C-MAP infringes the '703 patent. The lawsuit claims damages, and injunctive relief.

*ICON Health & Fitness, Inc. v. Garmin Ltd., Garmin International, Inc., and Garmin USA, Inc*

On August 8, 2016 the United States Court of Appeals for the Federal Circuit denied ICON's appeal and affirmed the ruling of the United States District Court for the District of Utah that the doctrine of issue preclusion applied to prevent ICON from relitigating the finding by another United States District Court that the only remaining ICON patent-in-suit was invalid for indefiniteness. On September 7, 2016 ICON filed a petition with the Court of Appeals for the Federal Circuit requesting a rehearing of its appeal en banc. On October 14, 2016, the Federal Circuit Court of Appeals denied ICON's petition for rehearing.

*In the Matter of Certain Marine Sonar Imaging Devices, Including Downscan and Sidescan Devices, Products Containing the Same, and Components Thereof*

On August 18, 2016 the International Trade Commission (“ITC”) granted Navico’s petition for modification of the limited exclusion order and issued a modified limited exclusion order. On August 24, 2016 Garmin filed with the ITC a motion to stay the modified limited exclusion order pending Garmin’s appeal of this order. On August 29, 2016 Garmin filed a notice of appeal against the ITC’s modified limited exclusion order to the United States Court of Appeals for the Federal Circuit (the “Federal Circuit Court of Appeals”). On August 30, 2016 Garmin filed with the Federal Circuit Court of Appeals a motion for an interim stay of the ITC’s modified exclusion order and a stay of such order pending resolution of Garmin’s appeal. On August 30, 2016 Garmin also filed with the Federal Circuit Court of Appeals a motion to expedite the schedule for Garmin’s motion for an interim stay of the ITC’s modified exclusion order and a stay of such order pending resolution of Garmin’s appeal and a motion for an expedited schedule for Garmin’s appeal against the modified limited exclusion order. On September 6, 2016 Navico filed with the ITC its opposition to Garmin’s motion for a stay of the modified limited exclusion order. On September 6, 2016 Navico filed with the Federal Circuit Court of Appeals its opposition to Garmin’s motion to expedite the schedule for Garmin’s motion for an interim stay of the ITC’s modified exclusion order and a stay of such order pending resolution of Garmin’s appeal and its opposition to Garmin’s motion for an expedited schedule for Garmin’s appeal against the modified limited exclusion order. On September 6, 2016 the ITC filed with the Federal Circuit Court of Appeals its opposition to Garmin’s motion for an interim stay of the ITC’s modified exclusion order and a stay of such order pending resolution of Garmin’s appeal and its opposition to Garmin’s motion for an expedited schedule for Garmin’s appeal against the modified limited exclusion order. On September 21, 2016 the Federal Circuit Court of Appeals granted Garmin’s motion to expedite the schedule for Garmin’s appeal against the modified limited exclusion order. On October 20, 2016, the ITC denied Garmin’s motion to stay the modified limited exclusion order pending appeal. On October 21, 2016, the Federal Circuit Court of Appeals denied Garmin’s motion to stay the modified limited exclusion order pending appeal.

On August 30, 2016, Navico filed a new request that the ITC initiate an enforcement proceeding. The ITC initiated that proceeding on October 11, 2016.

With respect to the appeal that Garmin filed with the Federal Circuit Court of Appeals on February 10, 2016, Garmin filed its opening brief on September 9, 2016, Navico filed its responsive brief on September 27, 2016 and the ITC filed its responsive brief on September 27, 2016. Garmin’s reply brief was filed on October 17, 2016.

*Navico Inc. And Navico Holding AS v. Garmin International, Inc. and Garmin USA, Inc. (U.S. District Court for the Eastern District of Texas)*

On April 1, 2016 Garmin filed a motion to transfer this action to the United States District Court for the Northern District of Oklahoma. On April 19, 2016 Navico filed an opposition to the motion to transfer and on April 29, 2016 Garmin filed a reply to this opposition. On May 29, 2016 Navico filed a sur-reply in support of its opposition. The court has scheduled a claim construction hearing for February 3, 2017 and a trial date commencing on September 5, 2017.

*Pioneer Corporation v. Iiyonet Inc.*

On August 31, 2016 the Tokyo District Court dismissed all of Pioneer's claims and held that Garmin's products do not infringe any of Pioneer's asserted patents. On September 14, 2016 Pioneer filed an appeal from this ruling.

*Visteon Global Technologies, Inc. and Visteon Technologies LLC v. Garmin International, Inc.*

On August 10, 2016 the Special Master issued a report and recommendations in which he recommended to the Court (a) the denial of two motions *in limine* filed by Visteon which had sought to exclude certain evidence from being offered at trial by Garmin and (b) the granting of Garmin's motion *in limine* to exclude certain expert testimony concerning alleged infringement of the 5,654,892 patent. On September 12, 2016 the Court issued an opinion and order in which it (a) granted Visteon's motion *in limine* to exclude evidence of the fee agreement between Visteon and its counsel, (b) denied Visteon's motion *in limine* to exclude evidence of a certain license agreement, and (c) denied Visteon's motion to exclude Garmin's expert witness on damages from testifying as to damages on behalf of Garmin. On October 14, 2016 the Court issued an order granting Garmin's motion to exclude testimony of two of Visteon's expert witnesses, including the testimony of Visteon's expert witness as to damages. On October 20, 2016, the Court adopted the Special Master's findings regarding the denied motions *in limine* but reversed the Special Master's finding on the 5,654,892 patent to allow Visteon to present use survey evidence.

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 26, 2015, as amended and supplemented by the risk factor 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 26, 2015:

**Economic, regulatory and political conditions and uncertainty could adversely affect our revenue and margins.**

Our revenue and margins depend significantly on general economic conditions and the demand for products in the markets in which we compete. Economic weakness or constrained consumer and business spending has resulted in periods of decreased revenue and in the future, could result in decreased revenue and problems with our ability to manage inventory levels and collect customer receivables. In addition, financial difficulties experienced by our retailers and OEM customers have resulted, and could result in the future, in significant bad debt write-offs and additions to reserves in our receivables and could have an adverse effect on our results of operations.

The United Kingdom (UK) held a referendum on June 23, 2016 in which a majority of voters voted to exit the European Union (EU). Due to the unprecedented nature of the proposed withdrawal, significant uncertainty exists surrounding the timing and terms of the proposed exit. We have operations in the UK and several EU member states whose currencies, namely British Pound Sterling (GBP) and Euro, economies, taxation, and trade regulation, among other factors, could be adversely impacted by the negotiations and outcomes of the UK's leaving the EU, which is likely to be a lengthy and complicated process. These events could have a material adverse effect on our business operations, 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. The share repurchase authorization expires on December 31, 2016. The following table lists the Company's share purchases during the third quarter of fiscal 2016:

| Period                               | Total # of<br>Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total Number of<br>Shares<br>Purchased as Part<br>of<br>Publicly<br>Announced Plans<br>or Programs | Maximum Number of<br>Shares<br>(or approx. Dollar Value<br>of Shares in<br>thousands) That may yet<br>be Purchased<br>Under the Plans or<br>Program |
|--------------------------------------|-----------------------------------|---------------------------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| June 26, 2016 - July 23, 2016        | 182,500                           | \$ 43.01                              | 182,500                                                                                            | \$ 115,641                                                                                                                                          |
| July 24, 2016 - August 20, 2016      | 12,500                            | \$ 45.95                              | 12,500                                                                                             | \$ 115,066                                                                                                                                          |
| August 21, 2016 - September 24, 2016 | 242,453                           | \$ 48.26                              | 242,453                                                                                            | \$ 103,367                                                                                                                                          |
| Total                                | 437,453                           | \$ 46.00                              | 437,453                                                                                            | \$ 103,367                                                                                                                                          |

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

Not applicable

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**Item 6. Exhibits**

- |                  |                                                                                                                                                                                                                                                              |
|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit<br>3.1   | Articles of Association of Garmin Ltd., as amended on June 10, 2016                                                                                                                                                                                          |
| Exhibit<br>10.1  | Garmin Ltd. Employee Stock Purchase Plan, as amended and restated on October 21, 2016.                                                                                                                                                                       |
| Exhibit<br>10.2  | Garmin Ltd. 2005 Equity Incentive Plan, as amended and restated on October 21, 2016.                                                                                                                                                                         |
| Exhibit<br>10.3  | Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan, as amended and restated on October 21, 2016.                                                                                                                                                 |
| Exhibit<br>10.4  | Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan.                                                                                                                                |
| Exhibit<br>10.5  | Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for Swiss grantees.                                                                                                                                    |
| Exhibit<br>10.6  | Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for Canadian grantees.                                                                                                                                 |
| Exhibit<br>10.7  | Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for non-Swiss and non-Canadian grantees.                                                                                                               |
| Exhibit<br>10.8  | Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to Swiss grantees who are executive officers.                      |
| Exhibit<br>10.9  | Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to Swiss grantees who are not executive officers.                  |
| Exhibit<br>10.10 | Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to Canadian grantees who are not executive officers.               |
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| Exhibit<br>10.12 | Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for awards of performance-based and time-based vesting restricted stock unit awards to non-Swiss and                                                   |

non-Canadian grantees who are not executive officers.

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

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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

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase

## **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 26, 2016

## INDEX TO EXHIBITS

### Exhibit No. Description

|               |                                                                                                                                                                                                                                                                  |
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