

GARMIN LTD
Form 10-Q
October 26, 2016

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

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

(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, 2016	December 26, 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, 2016	Sept 26, 2015	Sept 24, 2016	Sept 26, 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, 2016	Sept 26, 2015	Sept 24, 2016	Sept 26, 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, 2016	Sept 26, 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, 2016	December 26, 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		