

GARMIN LTD  
Form 10-K  
February 19, 2014

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 28, 2013

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 registrant as specified in its charter)

**Switzerland**

(State or other jurisdiction  
of incorporation or organization)

**Mühlentalstrasse 2  
8200 Schaffhausen**

**Switzerland**

(Address of principal executive offices)

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

**98-0229227**

(I.R.S. Employer Identification No.)

N/A

(Zip Code)

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

**Registered Shares, CHF 10.00 Per Share Par Value**

(Title of each class)

**NASDAQ Global Select Market**

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

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

Edgar Filing: GARMIN LTD - Form 10-K

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting company

(Do not check if a 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

Aggregate market value of the common shares held by non-affiliates of the registrant as of June 29, 2013 (based on the closing price of the registrant's common shares on the Nasdaq Stock Market for that date) was \$4,587,922,161.

Number of shares outstanding of the registrant's common shares as of February 13, 2014:

Registered Shares, CHF 10.00 par value 208,077,418 (including treasury shares)

**Documents incorporated by reference:**

Portions of the following document are incorporated herein by reference into Part III of the Form 10-K as indicated:

**Document**

Company's Definitive Proxy Statement for the 2014 Annual Meeting of Shareholders which will be filed no later than 120 days after December 28, 2013.

**Part of Form 10-K into  
which Incorporated  
Part III**

**Garmin Ltd.**

**2013 Form 10-K Annual Report**

**Table of Contents**

Cautionary Statement With Respect To Forward-Looking Comments	3
---	---

**Part I**

Item 1.	Business	3
Item 1A.	Risk Factors	17
Item 1B.	Unresolved Staff Comments	28
Item 2.	Properties	28
Item 3.	Legal Proceedings	29
Item 4.	Mine Safety Disclosures	34
	Executive Officers of the Registrant	34

**Part II**

Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	35
Item 6.	Selected Financial Data	36
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	58
Item 8.	Financial Statements and Supplementary Data	60
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	93
Item 9A.	Controls and Procedures	93
Item 9B.	Other Information	95

**Part III**

Item 10.	Directors, Executive Officers and Corporate Governance	96
Item 11.	Executive Compensation	97
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	97
Item 13.	Certain Relationships and Related Transactions, and Director Independence	98
Item 14.	Principal Accounting Fees and Services	98

**Part IV**

Item 15.	Exhibits, Financial Statement Schedules	99
	Signatures	105

## CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING COMMENTS

The discussions set forth in this Annual Report on Form 10-K contain statements concerning potential future events. Such forward-looking statements are based upon assumptions by the Company's management, as of the date of this Annual Report, including assumptions about risks and uncertainties faced by the Company. In addition, management may make forward-looking statements orally or in other writings, including, but not limited to, in press releases, in the annual report to shareholders and in the Company's other filings with the Securities and Exchange Commission. 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. Forward-looking statements include any discussion of the trends and other factors that drive our business and future results in "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations." Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their date. If any of management's assumptions prove incorrect or should unanticipated circumstances arise, the Company's 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 under Item 1A "Risk Factors." Readers are strongly encouraged to consider those factors when evaluating any forward-looking statements concerning the Company. The Company does not undertake to update any forward-looking statements in this Annual Report to reflect future events or developments.

### Part I

#### Item 1. Business

This discussion of the business of Garmin Ltd. ("Garmin" or the "Company") should be read in conjunction with, and is qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7 herein and the information set forth in response to Item 101 of Regulation S-K in such Item 7 is incorporated herein by reference in partial response to this Item 1. Garmin has identified five operating segments for external reporting purposes: Auto/Mobile, Aviation, Marine, Outdoor and Fitness. There are three operating segments (Auto PND, Auto OEM and Mobile) that are not reported separately but are aggregated within the Auto/Mobile reportable segment. Each operating segment is individually reviewed and evaluated by our Chief Operating Decision Maker (CODM), who allocates resources and assesses performance of each segment individually. The segment and geographic information included in Item 8, "Financial Statements and Supplementary Data," under Note 8 is incorporated herein by reference in partial response to this Item 1.

Garmin was incorporated in Switzerland on February 9, 2010 as successor to Garmin Ltd., a Cayman Islands company ("Garmin Cayman"). Garmin Cayman was incorporated on July 24, 2000 as a holding company for Garmin Corporation, a Taiwan corporation, in order to facilitate a public offering of Garmin Cayman shares in the United States. On June 27, 2010, Garmin became the ultimate parent holding company of the Garmin group of companies pursuant to a share exchange transaction effected for the purpose of changing the place of incorporation of the ultimate parent holding company of the Garmin group from the Cayman Islands to Switzerland (the "Redomestication"). Pursuant to the Redomestication, all issued and outstanding Garmin Cayman common shares were transferred to Garmin and each common share, par value U.S. \$0.005 per share, of Garmin Cayman was exchanged for one registered share, par value 10 Swiss francs (CHF) per share, of Garmin. Garmin owns, directly or indirectly, all of the operating companies in the Garmin group.

Garmin's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statement and Forms 3, 4 and 5 filed by Garmin's directors and executive officers and all amendments to those reports will be made available free of charge through the Investor Relations section of Garmin's website (<http://www.garmin.com>) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and

Exchange Commission (the "SEC"). The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The reference to Garmin's website address does not constitute incorporation by reference of the information contained on this website, and such information should not be considered part of this report on Form 10-K.

## **Company Overview**

Garmin is a leading, worldwide provider of navigation, communication and information devices and applications, many of which are enabled by Global Positioning System (GPS) technology. Garmin designs, develops, manufactures and markets a diverse family of hand-held, portable and fixed-mount GPS-enabled products and other navigation, communications and information products for the automotive/mobile, outdoor, fitness, marine, and general aviation markets.

### **Overview of the Global Positioning System**

The Global Positioning System is a worldwide navigation system which enables the precise determination of geographic location using established satellite technology. The system consists of a constellation of orbiting satellites. The satellites and their ground control and monitoring stations are maintained and operated by the United States Department of Defense, which maintains an ongoing satellite replenishment program to ensure continuous global system coverage. Access to the system is provided free of charge by the U.S. government.

Prior to May 2000, the U.S. Department of Defense intentionally degraded the accuracy of civilian GPS signals in a process known as Selective Availability (SA) for national security purposes. SA variably degraded GPS position accuracy to a radius of 100 meters. On May 2, 2000, the U.S. Department of Defense discontinued SA. In a presidential policy statement issued in December 2004, the Bush administration indicated that the U.S. does not intend to implement SA again and is committed to preventing hostile use of GPS through regional denial of service, minimizing the impact to peaceful users. With SA removed, a GPS receiver can calculate its position to an accuracy of approximately 10 meters or less, enhancing the utility of GPS for most applications.

The accuracy and utility of GPS can be enhanced through augmentation techniques which compute any remaining errors in the signal and broadcast these corrections to a GPS device. The Federal Aviation Administration ("FAA") has developed a Wide Area Augmentation System (WAAS) comprising ground reference stations and additional satellites that improve the accuracy of GPS positioning available in the United States and most of Canada and Mexico to approximately 3 meters. WAAS supports the use of GPS as the primary means of enroute, terminal and approach navigation for aviation in the United States. The increased accuracy offered by WAAS also enhances the utility of WAAS-enabled GPS receivers for consumer applications. The FAA announced on July 11, 2003 that the WAAS system had achieved initial operating capability and that the system was available for instrument flight use with appropriately certified avionics equipment. Since that time, the FAA has installed additional ground reference stations and has launched additional WAAS satellites.

Japan's MTSAT-based Satellite Augmentation System (MSAS) achieved initial operating capability for en route, terminal and approach navigation for aviation on September 27, 2007. The European Geostationary Navigation Overlay Service (EGNOS) aviation Safety of Life (SoL) service achieved initial operating capability for en route, terminal, and approach navigation on March 2, 2011.

### **Recent Developments in the Company's Business**

Since the inception of its business, Garmin has delivered over 126 million products, which includes the delivery of almost 14 million products during 2013.



### ***Automotive/Mobile Product Introductions***

In January 2013 Garmin announced the 2013 line of nüvi® personal navigation devices. New features in the 2013 line include Garmin Real Directions which guides drivers by telling them to turn at recognizable landmarks, buildings, stop signs and traffic lights, and Active Lane Guidance which features voice prompts and visual lane animation. In addition, the 2013 line of nüvis feature an all new design and larger screens that range from 4.3 to 7 inches.

In June 2013 Garmin announced the RV 760LMT, which is Garmin's first navigator created specifically for the RV lifestyle. The RV 760LMT comes with a large 7" display, detailed maps for the U.S. and Canada that include RV-related restrictions, such as bridge heights, for most major roads and highways, and a directory of nearly 20,000 RV parks and services in the U.S. and Canada.

During 2013 Garmin also introduced HUD, which is Garmin's first portable head-up display for smartphone navigation apps. HUD projects navigation directions onto a transparent film on the vehicle's windshield or an attached reflector lens for the driver's easy viewing.

### ***Outdoor Product Introductions***

In June 2013 Garmin announced Monterra, which is Garmin's first Wi-Fi enabled outdoor handheld GPS that combines Garmin's location and mapping capabilities and the Android operating system. It has a sunlight-readable touchscreen and users can access the Google Play Store and download apps on the device.

Garmin expanded its line of products for golfers in 2013 with the introduction of the Approach® S4 touchscreen GPS golf watch that comes preloaded with 30,000 worldwide golf courses and provides enhanced battery performance and the ability to display emails, text messages and alerts.

In August 2013, Garmin announced VIRB, its first HD 1080p action camera series. VIRB has a 1.4 inch Chroma display, digital image stabilization and lens distortion correction, and it can take high quality still photographs while the video camera is recording. VIRB Elite incorporates all of these features and adds built-in Wi-Fi, data sensors and a high-sensitivity GPS receiver.

In October 2013 Garmin announced tactix, which is a rugged high-sensitivity GPS navigator inspired by the requirements of law enforcement and police special operations. It includes an altimeter, barometer, 3-axis compass and extensive tracking capabilities.

Garmin expanded its line of Delta training collars for dogs during 2013 with the introduction of Delta Upland, which is a highly versatile system for sporting dogs that combines an electronic training collar, a Bark Limiter, and a remote beeper to help locate dogs that are out of sight.

### ***Fitness Product Introductions***

Garmin expanded its line of Forerunner® running watches in 2013 with the introduction of the Forerunner 620 and Forerunner 220. Both models have a one-inch Chroma color display, and the Forerunner 620 offers advanced features like recovery advisor, race predictor and VO2 max estimate. Garmin also expanded its line of Edge® cycling computers during 2013 with the introduction of Edge Touring and Edge Touring Plus, which are GPS navigators designed for touring cyclists, commuters, and mountain bikers.

In August 2013 Garmin announced the availability of Vector, which is a high-precision pedal-based power meter designed specifically for cyclists. It provides power data and measures and presents right and left leg power balance to ANT+ compatible devices.

***Marine Product Introductions***

In February 2013 Garmin announced the GPSMAP® 8000 series. The GPSMAP 8000 Glass Helm series provides a fully integrated glass display and a flat-mounting option that transforms the vessel's bridge into a glass helm. In November 2013 Garmin announced Garmin Helm, which is a free mobile application that allows boaters to view and control their multi-function Garmin chartplotters from their mobile device. Also in February 2014 Garmin introduced LakeVü HD and LakeVü HD Ultra, Garmin's most detailed lake cartography ever created, as well as DownVü and SideVü, which is Garmin's down and side-scanning sonar technology that provides high resolution imagery.

In November 2013 Garmin announced the GPSMAP 800 and 1000 series of combination chartplotter and fishfinder products. The GPSMAP 800 has an 8-inch display, and the GPSMAP 1000 has a 10-inch display. Both are equipped with built-in 1kW traditional sonar capability, built-in CHIRP and DownVü and support for SideVü with CHIRP.

Garmin introduced the quatix during 2013, which is Garmin's first GPS watch designed for mariners, both power and sail. The quatix combines pivotal marine features and provides both navigation and sailing capabilities while integrating Garmin's GPS technology and interface.

### ***Aviation Product Introductions***

During 2013 Garmin introduced a new series of aviation VHF COM and NAV/COM radios, called the GTR and GNC series. Garmin also introduced the GRA 5500, which is a high-performance, all-digital radar altimeter for transport category, helicopter, business and general aviation aircraft.

In March 2013 Garmin announced seven new, affordable products for experimental and light sport aircraft that offer enhanced capabilities, reduced weight and simplified installation. In July 2013 Garmin enhanced its experimental and light sport aircraft offerings with the GTR 200 panel mount communication radio.

Garmin announced D2 in October 2013, which is a premium watch designed specifically for aviators.

### **Products**

Garmin offers a broad range of solutions across its reportable segments as outlined below. In general, Garmin believes that its products are known for their value, high performance, ease of use, innovation, and ergonomics.

#### ***Automotive/Mobile***

Garmin offers a broad range of automotive navigation products, as well as a variety of products and applications designed for the mobile GPS market. Garmin currently offers to consumers around the world:

#### **Personal Navigation Devices (PND)**

PNDs combine a full-featured GPS navigator (with built-in maps) with Garmin's uniquely simple user interface. PNDs are sold under the nüvi, zūmo®, dezl, and fleet brand names. The zūmo series offers motorcycle-specific features, the dezl series offers over-the-road trucking features while the fleet series delivers an integrated tracking and dispatch fleet system. Across the expansive product portfolio, Garmin offers features such as wide screen displays, integrated traffic receivers for traffic avoidance (including some models with lifetime traffic updates), bundled lifetime map updates, spoken street names, voice activated navigation, speed limit indication, lane assist with PhotoReal junction views - thousands of high quality photos of actual upcoming junctions, 3-D building view, and Bluetooth® hands-free capability. In fiscal years 2013, 2012 and 2011, the nüvi class of products represented approximately 34%, 43%, and 48% of Garmin's total consolidated revenues, respectively.

## **Mobile Applications**

Garmin offers mobile applications under the following brand names: StreetPilot® and NAVIGON®. The applications are offered across a broad range of smartphones and tablets including iOS, Android and Windows enabled devices. These applications provide users turn-by-turn, voice-prompted directions and other advanced Garmin navigation features including Reality View Pro junction information and traffic information. Some are offered as onboard solutions in which mapping is downloaded to the user's device and always available while some are offboard solutions in which mapping is available via a server utilizing the mobile connectivity of the device.

## ***Outdoor***

Garmin offers a broad range of products designed for use in outdoor activities. Garmin currently offers to consumers around the world:

### **Outdoor Handhelds**

Outdoor handhelds range from basic waypoints navigation capabilities to advanced color touchscreen devices offering barometric altimeter, 3-axis compass, camera, microSD card slot for optional customized maps and other features. Outdoor handhelds are sold under the Dakota®, Oregon®, Rino®, Montana, Monterra, eTrex®, and GPSMAP® brand names. Each series of products is designed to serve various price points and niche activity categories. The Rino series of handhelds additionally offers two-way Family Radio Service (FRS) and General Mobile Radio Service (GMRS) that integrate two-way voice communications. The Monterra is Garmin's first Wi-Fi enabled, Android-based outdoor handheld GPS.

### **Wrist-worn Devices-**

Garmin offers GPS wrist watches for outdoor activity, as well as military, law enforcement and special operations. The fenix provides comprehensive navigation and tracking functionalities, as well as trip information, such as heading, elevation and weather changes. The tactix adds additional features inspired by the requirements of law enforcement and police special operations.

### **Golf Devices -**

The Approach® series of golf-focused devices includes both handhelds and wrist-worn products with up to 30,000 preloaded worldwide golf courses. The offerings range from basic display of yardages to the front, back and middle of greens to advanced, touchscreen devices providing measurement of individual shot distances and display of the exact yardage to fairways, hazards and greens. A statistic-tracking feature allows users to track and analyze their golf statistics. Some devices include manual pin positioning, which allows users to tap and drag the flag on the green for precise yardage to the flag, and the ability to display emails, text messages and alerts.

### **Dog Tracking and Training/Pet Obedience Devices -**

Garmin offers a series of dog-focused products providing a range of functionality including GPS-enabled dog tracking, electronic dog training, and electronic bark correction. The products are offered under the Astro®, Alpha, Bark Limiter and Delta brand names. The Astro series can pinpoint up to ten dogs' positions at one time through all-weather collars and a handheld system, which features many of our outdoor capabilities including: barometric altimeter, electronic compass, microSD slot, area calculator and a waterproof exterior. Alpha combines the tracking capabilities of Astro with electronic dog training. The Bark Limiter is an intuitive electronic bark correction device. The Delta series of training collars offers a remote training device without tracking capability.



### **Action Cameras -**

Garmin offers VIRB and VIRB Elite, HD 1080p action cameras. VIRB has a 1.4 inch Chroma display, digital image stabilization and lens distortion correction, and it can take high quality still photographs while the video camera is recording. VIRB Elite incorporates all of these features and adds built-in Wi-Fi, data sensors and a high-sensitivity GPS receiver.

### ***Fitness***

Garmin offers a broad range of products designed for use in fitness and wellness activities. Garmin currently offers to consumers around the world:

### **Running/Multi-Sport Watches**

The Forerunner® series offers compact, lightweight training assistants for athletes with integrated GPS sensor that provide time, speed, distance, pace and other data. Some models also offer a heart rate monitoring function and heart-rate based calorie computation. All models allow runners to upload their data to Garmin Connect, where they can store, analyze and share their workout data. Additional advanced features include: Virtual Racer, which allows runners to race against their previous best times, recovery advisor, race predictor and VO2 max estimate. The Forerunner 310XT and 910XT are designed specifically for triathletes. These all-in-one GPS-enabled devices provide detailed swim metrics and track distance, speed/pace, elevation and heart rate for running and cycling.

### **Cycling Computers -**

The Edge® series measures speed, distance, time, calories burned, climb and descent, and altitude offering an integrated personal training system designed for cyclists. In addition, Garmin offers devices geared toward performance-driven cyclists offering real-time connectivity through a smartphone, providing live tracking, social media sharing and real-time weather updates.

### **Cycling Power Meter -**

Garmin offers Vector, which is a high-precision pedal-based power meter designed specifically for cyclists. It provides power data and measures and presents right and left leg power balance to ANT+ compatible devices.

### **Swimming Watch -**

Garmin Swim is a watch designed for swimming pool use and allows users to track stroke type, stroke count, distance, pace and lengths. Users can also upload their swim data to Garmin Connect, where they can store, analyze and share the data.

### **Wellness Devices -**

Garmin has introduced vívofit and vívoki to address the growing wellness monitoring market. The vívofit fitness band provides a personalized daily goal, tracks progress and reminds users when it's time to move. The device features a curved display that shows steps, goal countdown, calories, distance, time of day and heart rate when paired with a monitor. Vívoki provides similar tracking capabilities in a small form factor that lacks a display. This offering is designed to be a lower cost solution for corporate wellness programs. Both devices pair with Garmin Connect to offer analysis and tracking.



## **Garmin Connect**

Garmin Connect is a web-based analytic tool where users can store, analyze and share fitness and wellness data. The companion mobile application also provides real-time weather data and allows users to wirelessly download courses to some devices.

## ***Marine***

Garmin offers a broad range of products designed for use in the recreational marine industry. Garmin currently offers to consumers around the world:

### **Chartplotters and Multi-Function Displays (MFDs) -**

Garmin offers numerous chartplotters/MFDs under the GPSMAP® brand name. The offerings range from 4-inch helm-mounted products to 15-inch fully-integrated Glass Helm offerings. Cartography options range from US coastal and lake mapping to worldwide basemaps to highly detailed BlueChart® g2 Vision charts offering high-resolution satellite imagery, 3-D map perspective and aerial reference photos to LakeVü HD and LakeVü HD Ultra, Garmin's most detailed lake cartography ever created. Additional advanced features and connectivity available include: Garmin's G Motion technology, which delivers ultra-smooth map panning and zooming, optional wireless remote and a wireless mouse and expanded "plug-and-play" access to onboard sensors, with NMEA 2000 and Garmin Marine Network connectivity (the Garmin Marine Network is a system that combines GPS, radar, XM WX Satellite Weather, sonar, and other data).

### **Fishfinders**

Garmin offers two series of fishfinders. The echo series are standalone fishfinders ranging from grayscale displays to the highest-end echo 550C, which features a video-quality 640x480 pixel 5-inch VGA screen, a powerful 500-watt sonar transmitter, and offers fish arch display and bottom tracking as deep as 1,900 feet. The echoMap series provides chartplotter and fishfinder capabilities in a single device.

### **Sounders**

Garmin offers "black-box" sounders which interface with Garmin MFDs to enhance their utility by providing the depth sounder and fish finder functions in a remote mounted package.

### **Autopilot Systems -**

Garmin offers full-featured marine autopilot systems designed for sailboats and powerboats. The systems incorporate such features as: Garmin's patented Shadow Drive technology, which automatically disengages the autopilot if the helm is turned, remote steering and speed control, and integration with the Volvo Penta IPS steering and propulsion system. Garmin has also introduced steer-by-wire autopilot capabilities for various steering systems.

### **Radar -**

Garmin offers both radomes and open array radar products with compatibility to any network-compatible Garmin chartplotter so that the chartplotter can double as the radar screen. The Garmin radar solutions have a nautical mile range of 36-72 nm.



### **Instruments -**

Garmin offers NMEA 2000 and NMEA 0183 compliant instrument displays that show data from multiple remote sensors on one screen. Mariners can display instrument data such as depth, speed through the water, water temperature, fuel flow rate, engine data, fuel level, wind direction and more, depending upon what sensors are connected.

### **Radios -**

Garmin provides marine radios with differing feature sets for the radio needs of all types of mariners. The entry-level radio is NMEA 0183 compatible, while the premium radio is designed for 35+ foot boats, is NMEA 2000 and NMEA 0183 compatible, offers multi-station support, and monitors all AIS channels at the same time.

### **Handhelds and Wrist-worn Devices**

Garmin offers a marine-friendly GPS handheld featuring a 3-axis tilt-compensated electronic compass, wireless data transfer between compatible units and preloaded cartography for the coastal United States. Also offered for mariners is the quatix , Garmin's first GPS watch designed for mariners, combining marine features and navigation and sailing capabilities while integrating Garmin's GPS technology and interface.

### **Sailing**

In September 2012, Garmin acquired Nexus Marine AB, a leading supplier of instrumentation for the sailing and yachting market. Nexus designs and manufactures sailing instrumentation systems, and it also supplies binoculars, accessories and Silva branded marine compasses.

### ***Aviation***

Garmin's aviation product line includes GPS-enabled navigation, VHF communications transmitters/receivers, multi-function displays, electronic flight instrumentation systems (EFIS), automatic flight control systems, traffic advisory systems and traffic collision avoidance systems, terrain awareness and warning systems, instrument landing system (ILS) receivers, surveillance products, audio panels, cockpit datalink systems and more. The list below includes a sampling of some of the aviation capabilities currently offered by Garmin:

### **Integrated Avionics Systems/Flight Decks -**

Garmin offers a range of integrated glass avionics from the G3X for the experimental and light-sport aircraft market to the G5000 for the business jet market. Basic capabilities integrated include: navigation, communication, attitude, weather, terrain, traffic, surveillance and engine information on large high-resolution color displays. More advanced features include: Garmin's 3-D synthetic vision technology (SVT ), weather, Garmin's electronic stability and protection system (ESP), electronic flight charts and touchscreen controls, which utilize patent pending, infrared touchscreen technology, audio and visual feedback, and animation to help pilots know exactly how the system is responding to their input.

Garmin offers similar integrated glass avionics for the helicopter market through the G500H, G1000H<sup>®</sup> and G5000H<sup>®</sup>. Basic and advanced capabilities are similar to those offered to the aircraft market. The helicopter offerings have been optimized for rotorcraft and offer features like helicopter synthetic vision technology (HSVT), helicopter-specific databases with over 7,000 heliports and nearly 30,000 additional low-altitude obstacles, XM WX Satellite Weather with NEXRAD, and the ability to display video from a forward looking infrared (FLIR) camera or other video sources.

Garmin also offers all-glass integrated avionics to the retrofit market through the G500 and G600. These solutions provide electronic flight displays that work with separate Garmin avionics to provide essential information such as attitude, air data, weather, terrain and traffic. In addition, upgraded systems also allow for the display and control of such data as altitude preselects and vertical speed, DME distance, analog radar altitude, and analog navigation data.

### **Panel-mount aviation products -**

#### **GPS/Navigation/Communication Solutions**

Garmin provides certified GPS navigation receivers, traditional VHF navigation receivers, instrument landing systems receivers and VHF communication transmitters/receivers. Features available in different GNC, GTR, GNS and GTN series models include 4-color map graphics, GPS, communication and navigation capabilities, touchscreen operation, graphical flight planning with vector airways and high-altitude jet routes, remote transponder, remote audio control, SafeTaxi<sup>®</sup> and electronic chart capabilities. Helicopter Terrain Awareness and Warning System (HTAWS) is an option providing graphical and audible alerts of potential terrain and obstacle conflicts along the flight path.

#### **Traffic Solutions -**

Garmin offers traffic avoidance products combining active and passive surveillance data to pinpoint specific traffic threats. These capabilities are part of our GTS series of systems. The systems use Garmin's patent-pending CLEAR CAS technology and correlate automatic dependent surveillance broadcast (ADS-B) with radar targets. The offerings include solutions for both the recreational and transport category of aircraft.

#### **Audio Solutions -**

The GMA series are audio panels ranging from offerings with basic capabilities for the recreational pilot to advanced capabilities including voice recognition, 3D spatial audio processing, advanced auto squelch, ambient noise based volume adjustment and independent pilot/co-pilot communications capabilities.

#### **Transponder Solutions -**

Garmin provides a range of transponder solutions in the GTX series. The FAA-certified transponders transmit altitude or flight identification to air traffic control radar systems or other aircraft's air traffic avoidance devices. Newer transponders offer data link capability, including local air traffic information at FAA radar sites equipped with Traffic Information Service (TIS) and a pathway to ADS-B compliance for the Next Generation airspace system, via transmission of traffic surveillance data such as aircraft flight ID, position, altitude, velocity, climb/descent, and heading information. Garmin offers solutions to both recreational and transport aircraft.

### **ADS-B Solutions -**

Garmin offers an FAA certified ADS-B product within the GDL® series. Capabilities include GPS satellite navigation with datalink communications to deliver interactive traffic and hazard surveillance.

### **Weather Solutions -**

Weather capabilities are delivered within our GDL, GSR and GWX series. The solutions range from offering XM WX satellite real-time weather information to the aircraft via panel-mounted devices from Garmin to on-demand global weather information, text/voice communications and near real-time position tracking through the Iridium satellite network (subscription required). Also available in the GWX series are all-in-one antenna/receiver/transmitters that bring real-time weather to Garmin's multi-function displays and Integrated Avionics Systems, as well as advanced Doppler-enabled features.

### **Portable and Wrist-worn Solutions -**

Garmin offers the aera® series and GPSMAP 695/696 as portable avionics solutions. The aera series combines an aviation portable with a full-featured automotive GPS. These touchscreen products come with automotive maps, a terrain/obstacles aviation database, and a patented instrument display. Advanced features include: a digital document viewer, a scratch pad, pre-loaded geo-referenced charts, and XM radio and weather. The GPSMAP series offers detailed electronic charts, airways and IFR map mode. Other features available include: XM radio and XM WX Satellite Weather. Garmin announced D2 in October 2013, which is a premium watch designed specifically for aviators.

### **Mobile Application -**

Garmin Pilot is a premium flight planning, flight plan filing, and pre-flight weather application for display on iOS and Android-based mobile devices. It provides instant access to comprehensive U.S. and Canada weather data, winds and temperature aloft, and lightning data.

### **Sales and Marketing**

Garmin's non-aviation products are sold in approximately 100 countries through a worldwide network of approximately 4,000 independent dealers and distributors, who meet our sales and customer service qualifications. No single customer's purchases represented 10% or more of Garmin's consolidated revenues in the fiscal year ended December 28, 2013. Marketing support is provided geographically from Garmin's offices around the world. Garmin's distribution strategy is intended to increase Garmin's global penetration and presence while maintaining high quality standards to ensure end-user satisfaction.

Garmin's U.S. consumer product sales are handled through its network of dealers and distributors who are serviced by a staff of regional sales managers and in-house sales associates. Garmin's Europe, Middle East, Australia/New Zealand and Africa consumer product sales are handled through our in-country subsidiaries or local distributors who resell to dealers. Working closely with Garmin's in-house sales and marketing staff in the U.K. and U.S., these in-country subsidiaries or independent distributors are responsible for inventory levels and staff training requirements at each retail location. Garmin's Taiwan-based marketing team handles the Company's Asia sales and marketing effort. Some of Garmin's larger consumer products dealers and distributors include:

- *Amazon.com* internet retailer;
- *Best Buy* one of the largest U.S. and Canadian electronics retailers;
- *Costco* an international chain of membership warehouses that carry quality, brand name merchandise;

- *Halford's* a large European retailer specializing in car parts and accessories; and
- *Wal-Mart* the world's largest mass retailer.

Garmin's retrofit avionics and aviation portable products are sold through select aviation distributors around the world and, in the case of aviation portable products, also through catalogs and pilot shops. Garmin's largest aviation distributors include Aircraft Spruce & Specialty Co., Elliott Aviation, Gulf Coast Avionics Corp., Sarasota Avionics, and Sportsman's Market. Avionics distributors have the training, equipment and certified staff required for at-airport installation of Garmin's avionics equipment.

In addition to the traditional distribution channels mentioned, Garmin has many relationships with original equipment manufacturers (OEMs). In the automotive/mobile segment, Garmin's products are sold globally to automotive and motorcycle OEMs, either directly or through tier 2 sourcing. Some of Garmin's larger OEM relationships include Chrysler, Suzuki, Volkswagen, Harley-Davidson, BMW Motorrad, Mercedes Benz, Bombardier, and Polaris. In the marine segment, Garmin's products are standard equipment on various models of boats. Some of the larger OEM relationships include Ranger Tugs, Cutwater Boats (a Division of Fluid Motion, LLC), Bayliner Boats (a division of Brunswick Corporation), Bavaria Yacht, Chaparral Boats, Inc., Andros Boats, Inc., Edgewater Boats, LLC, Bennington Marine, LLC, Cigarette Racing Team, LLC, Cobalt Boats, LLC, G3 Boats (a division of Yamaha Motor Corp.), Gulf Craft, Inc., Fairline Boats, Ltd., Inha Works Ltd. and Regal Marine Industries, Inc. In the aviation market, Garmin's avionics are either standard equipment or options on various models of aircraft. Some of the larger OEM relationships include AgustaWestland, Bombardier, Bell Helicopter Textron, Inc., Cessna Aircraft Company, Cirrus Aircraft, Embraer SA, Eurocopter, an EADS Company, Beechcraft Corporation, Pilatus Aircraft Ltd, Piper Aircraft, Inc., Quest Aircraft Company, and Robinson Helicopter Company.

## **Competition**

In general, we operate in highly competitive markets though competitive conditions do vary among our diverse products and geographies. Garmin believes the principal competitive factors impacting the market for its products are design, functionality, quality and reliability, customer service, brand, price, time-to-market and availability. Garmin believes that it generally competes favorably in each of these areas and as such, is generally a significant competitor in each of our major markets.

Garmin believes that its principal competitors for portable automotive products are TomTom N.V. and MiTAC Digital Corporation (MiTAC) (which distributes products under the brand names of Magellan, Mio, and Navman). Garmin believes that its principal competitors for outdoor product lines are Bushnell, Delorme, Lowrance Electronics, Inc., a subsidiary of Navico ("Lowrance") Magellan, a subsidiary of MiTAC, and Woodman Labs Inc. dba GoPro. For mobile products Garmin believes that its principal competitors are Google Inc., Apple Inc. and Telenav Inc. Garmin believes that its principal competitors for fitness products are Bryton Corp., Fitbit Inc., Nike, Inc., Polar Electro Oy, Sigma Sports, Suunto Oy and Timex Corp. For marine products, Garmin believes that its principal competitors are Furuno Electronic Company, the Humminbird division of Johnson Outdoors, Inc., Navico and Raymarine Inc. For Garmin's aviation product lines, Garmin considers its principal competitors to be Aspen Avionics, Avidyne Corporation, Chelton Flight Systems, CMC Electronics, Free Flight Systems, Honeywell, Inc., L-3 Avionics Systems, Rockwell Collins, Inc., Sagem Avionics, Inc. and Universal Avionics Systems Corporation.

## **Research and Development**

Garmin's product innovations are driven by its strong emphasis on research and development and the close partnership between Garmin's engineering and manufacturing teams. Garmin's products are created by its engineering and development staff, which numbered 3,168 people worldwide as of December 28, 2013. Garmin's manufacturing staff includes manufacturing process engineers who work closely with Garmin's design engineers to ensure manufacturability and manufacturing cost control for its products. Garmin's development staff includes industrial designers, as well as software engineers, electrical engineers, mechanical engineers and cartographic engineers. Garmin believes the industrial design of its products has played an important role in Garmin's success. Once a development project is initiated and approved, a multi-disciplinary team is created to design the product and transition

it into manufacturing.

13

Below is a table of Garmin's expenditures on research and development over the last three fiscal years.

(\$'s in thousands)	December 28, 2013		December 29, 2012		December 31, 2011
Research and development	\$ 364,923		\$ 325,773		\$ 298,584
Percent of net sales	13.9	%	12.0	%	10.8

## Manufacturing and Operations

Garmin believes that one of its core competencies and strengths is its manufacturing capability at its Sijhih, Jhongli and LinKou, Taiwan facilities, its Olathe, Kansas facility, and its Salem, Oregon facility. Garmin believes that its vertically integrated approach has provided it the following benefits with respect to all products other than a few select marine products (VHF radios and AIS receivers) and our accessory products, which are manufactured by one or more third parties.

**Reduced time-to-market.** Utilizing concurrent engineering techniques, Garmin's products are introduced to production at an early development stage and the feedback provided by manufacturing is incorporated into the design before mass production begins. In this manner, Garmin attempts to reduce the time required to move a product from its design phase to mass production deliveries.

**Design and process optimization.** Garmin uses its manufacturing resources to rapidly prototype design concepts, products and processes in order to achieve higher efficiency, improved quality and yields, lower cost and better value for customers. Garmin's ability to fully explore product design and manufacturing process concepts has enabled it to optimize its designs to minimize size and weight in GPS devices that are functional, waterproof, and rugged.

**Logistical agility.** Operating our own manufacturing and distribution facilities helps Garmin minimize problems, such as component shortages and long component lead times which are common in the electronics industry. Many products can be re-engineered to bypass component shortages or reduce cost and the new designs can be delivered to market quickly. Garmin reacts rapidly to changes in market demand by striving to maintain a safety stock of long-lead components and by rescheduling components from one product line to another. Operating our own manufacturing facilities also allows Garmin to quickly adjust the mix of product production, helping to foster faster delivery response to the customer.

Garmin's design, manufacturing, distribution, and servicing processes in our US, Taiwan, and UK facilities are certified to ISO 9001, an international quality standard developed by the International Organization for Standardization. Garmin's automotive operations in Taiwan and Olathe have also achieved TS 16949 certification, a quality standard for automotive suppliers. In addition, Garmin's aviation operations have achieved certification to AS9100, the quality standard for the aviation industry.

Garmin International, Inc., Garmin (Europe) Ltd and Garmin Corporation have also achieved certification of their environmental management systems to the ISO14001 standard. This certification recognizes that Garmin's subsidiaries have systems and processes in place to minimize or prevent harmful effects on the environment and to strive continually to improve its environmental performance.

## Materials

Although most components essential to Garmin's business are generally available from multiple sources, certain key components, including, but not limited to, microprocessors, certain liquid crystal displays (LCDs), and certain application-specific integrated circuits (ASICs) are currently obtained by the Company from single or limited sources, which subjects Garmin to supply and pricing risks. Many of these and other key components that are

available from multiple sources, including, but not limited to, NAND flash memory, dynamic random access memory (DRAM), GPS chipsets and certain LCDs, are subject at times to industry-wide shortages and commodity pricing fluctuations.

Garmin and other participants in the personal computer, tablet, mobile communication, aviation electronics and consumer electronics industries also compete for various components with other industries that have experienced increased demand for their products. In addition, Garmin uses some custom components that are not common to the rest of the personal computer, tablet, mobile communication and consumer electronics industries, and new products introduced by the Company often utilize custom components available from only one source until Garmin has evaluated whether there is a need for, and subsequently qualifies, additional suppliers. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. Garmin makes efforts to manage risks in these areas through the use of supply agreements for strategically important components. Nevertheless, if Garmin's supply of a key single-sourced component for a new or existing product was delayed or constrained, if such components were available only at significantly higher prices, or if a key manufacturing vendor delayed shipments of completed products to Garmin, Garmin's financial condition and operating results could be materially adversely affected. Garmin's business and financial performance could also be adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers decided to concentrate on the production of common components instead of components customized to meet Garmin's requirements.

### **Seasonality**

Our sales are subject to seasonal fluctuation. Sales of our consumer products are generally higher in the fourth quarter, due to increased demand during the holiday buying season, and, to a lesser extent, the second quarter, due to increased demand during the spring and summer season and the Father's Day/graduation buying season. Sales of consumer products are also influenced by the timing of the release of new products. Our aviation products do not experience much seasonal variation, but are more influenced by the timing of the release of new products when the initial demand is typically the strongest.

### **Backlog**

Our sales are generally of a consumer nature and there is a relatively short cycle between order and shipment. Therefore, we believe that backlog information is not material to the understanding of our business. We typically ship most orders within 72 hours of receipt.

### **Intellectual Property**

Our success and ability to compete is dependent in part on our proprietary technology. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements, to establish and protect our proprietary rights. In addition, Garmin often relies on licenses of intellectual property for use in its business. For example, Garmin obtains licenses for digital cartography technology for use in our products from various sources.

As of February 1, 2014, Garmin's worldwide IP portfolio includes over 820 patent and 470 trademark registrations issued worldwide. For the past seven years Garmin has been selected as a constituent of the Ocean Tomo® 300 Patent Index which recognizes companies with high intellectual property value. We believe that our continued success depends on the intellectual skills of our employees and their ability to continue to innovate. Garmin will continue to file and prosecute patent applications when appropriate to attempt to protect Garmin's rights in its proprietary technologies.

There is no assurance that our current patents, or patents which we may later acquire, may successfully withstand any challenge, in whole or in part. It is also possible that any patent issued to us may not provide us with any competitive advantages, or that the patents of others will preclude us from manufacturing and marketing certain products. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity.

## **Regulations**

The telecommunications industry is highly regulated, and the regulatory environment in which Garmin operates is subject to change. In accordance with the United States' Federal Communications Commission (FCC) rules and regulations, wireless transceiver products are required to be certified by the FCC and comparable authorities in foreign countries where they are sold. Garmin's products sold in Europe are required to comply with relevant directives of the European Commission. A delay in receiving required certifications for new products, or enhancements to Garmin's products, or losing certification for Garmin's existing products could adversely affect our business. In addition, aviation products that are intended for installation in "type certificated aircraft" are required to be certified by the FAA, its European counterpart, the European Aviation Safety Agency, and other comparable organizations before they can be used in an aircraft.

Because Garmin Corporation, one of the Company's principal subsidiaries, is located in Taiwan, foreign exchange control laws and regulations of Taiwan with respect to remittances into and out of Taiwan may have an impact on Garmin's operations. The Taiwan Foreign Exchange Control Statute, and regulations thereunder, provides that all foreign exchange transactions must be executed by banks designated to handle such business by the Ministry of Finance of Taiwan and by the Central Bank of the Republic of China (Taiwan), also referred to as the CBC. Current regulations favor trade-related foreign exchange transactions. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, while all foreign currency needed for the import of merchandise and services may be purchased freely from the designated foreign exchange banks. Aside from trade-related foreign exchange transactions, Taiwan companies and residents may, without foreign exchange approval, remit outside and into Taiwan foreign currencies of up to \$50 million and \$5 million respectively, or their equivalent, each calendar year. Currency conversions within the limits are processed by the designated banks and do not have to be reviewed and approved by the CBC. The above limits apply to remittances involving a conversion between New Taiwan Dollars and U.S. Dollars or other foreign currencies. The CBC typically approves foreign exchange in excess of the limits if a party applies with the CBC for review and presents legitimate business reasons justifying the currency conversion. A requirement is also imposed on all enterprises to register all medium and long-term foreign debt with the CBC.

## **Environmental Matters**

Garmin's operations are subject to various environmental laws, including laws addressing air and water pollution and management of hazardous substances and wastes. Substantial noncompliance with applicable environmental laws could have a material adverse effect on our business. Currently, we do not anticipate material capital expenditures for environmental control facilities.

Environmental regulation of Garmin's products is increasing. Many of Garmin's products are subject to laws relating to the chemical and material composition of our products and their energy efficiency. Garmin is also subject to laws requiring manufacturers to be financially responsible for collection, recovery and recycling of wastes from certain electronic products. Compliance with current environmental laws does not have a material impact on our business, but the impact of future enactment of environmental laws cannot yet be fully determined and could be substantial.

Garmin has implemented multiple Environmental Management System (EMS) policies in accordance with the International Organization for Standardization (ISO) 14001 standard for Environmental Health and Safety Management. Garmin's EMS policies set forth practices, standards, and procedures to ensure compliance with applicable environmental laws and regulations at Garmin's Kansas headquarters facility, Garmin's European headquarters facility, and Garmin's Taiwan manufacturing facility.

Regulatory and “Green Procurement” demands from our customers are also increasing; particularly in the areas of restricted substance use and environmentally-friendly design and manufacture initiatives. The overall impacts of these customer requirements cannot yet be established. Garmin is committed to improving our products and processes to meet our customer needs.

## **Employees**

As of December 28, 2013, Garmin had 10,086 full and part-time employees worldwide, of whom 3,804 were in the United States, 75 were in Canada, 4,687 were in Taiwan, 1,117 were in Europe, and 403 were in other global locations. Except for some of Garmin’s employees in Brazil and Sweden, none of Garmin’s employees are represented by a labor union and none of Garmin's North American or Taiwan employees are covered by a collective bargaining agreement. Garmin considers its employee relations to be good.

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

*The risks described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. If any of the following risks occur, our business, financial condition or operating results could be materially adversely affected.*

### ***Risks Related to the Company***

**The demand for personal navigation devices (PNDs) has been and continues to be reduced by replacement technologies becoming available on mobile devices and factory-installed systems in new autos.**

From 2005 to 2008, we experienced substantial growth in the automotive/mobile segment. This has resulted in GPS/navigation technologies being incorporated into competing devices such as mobile handsets, tablets, and new automobiles through factory-installed systems. Mobile handsets and tablets are frequently GPS-enabled and many companies are now offering navigation software for these mobile devices. The acceptance of this technology by consumers has halted our growth in this segment and reduced margins. Navigation systems are also becoming more prevalent as optional equipment on new automobiles. Increased navigation penetration on mobile handsets and in new automobiles is expected to cause further declines in sales of our portable navigation devices and could further reduced margins.

**Our financial results are dependent on the automotive/mobile segment, which represents approximately 50% of our revenues, is maturing and expected to further decline in 2014.**

We experienced substantial growth through 2008 in the automotive/mobile segment of our business as the products became mass-market consumer electronics in both Europe and North America. This market has peaked as penetration rates increased and competing technologies emerged. This has resulted in, and could continue to result in, lower revenues for this segment and lower earnings per share.

**Economic 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 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 retailer 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 affect on our results of operations.



**Gross margins for our products may fluctuate or erode.**

Gross margins in some of our segments have declined in recent years and could further decline in the future due to competitive price reductions that are not fully offset by material cost reductions. In addition, our overall gross margin may fluctuate from period to period due to a number of factors, including product mix, competition and unit volumes. In particular, the average selling prices of a specific product tend to decrease over that product's life. To offset such decreases, we intend to rely primarily on component cost reduction, obtaining yield improvements and corresponding cost reductions in the manufacturing of existing products and on introducing new products that incorporate advanced features and therefore can be sold at higher average selling prices. However, there can be no assurance that we will be able to obtain any such yield improvements or cost reductions or introduce any such new products in the future. To the extent that such cost reductions and new product introductions do not occur in a timely manner or our products do not achieve market acceptance, our business, financial condition and results of operations could be materially adversely affected.

**Changes in our United States federal income tax classification or in applicable tax laws could result in adverse tax consequences to our shareholders.**

We do not believe that we, or any of our United States or non-United States subsidiaries, are currently a "passive foreign investment company" for United States federal income tax purposes. We do not expect to become a passive foreign investment company. However, because the passive foreign investment company determination is made annually based on whether the company's income or assets meet certain thresholds as determined under United States federal tax principles which are based on facts and circumstances that may be beyond our control, we cannot assure that we will not become a passive foreign investment company in the future. If we are a passive foreign investment company in any year, then any of our shareholders that is a United States person could be liable to pay tax on their pro rata share of our income plus an interest charge upon some distributions by us or when that shareholder sells our common shares at a gain. Further, if we are classified as a passive foreign investment company in any year in which a United States person is a shareholder, we generally will continue to be treated as a passive foreign investment company with respect to such shareholder in all succeeding years, regardless of whether we continue to satisfy the income or asset tests mentioned above.

We do not believe that we, or any of our United States or non-United States subsidiaries, are currently a Controlled Foreign Corporation (CFC) for United States federal income tax purposes. We do not expect to become a CFC. The CFC determination is made daily based on whether the United States shareholders own more than fifty percent of the voting power or value of the Company. Only United States persons that own ten percent or more of the voting power of the Company's shares qualify as United States shareholders. If the Company were to be classified as a CFC for an uninterrupted thirty day period in any year, the Company's shareholders that qualify as United States shareholders could be liable to pay US income tax at ordinary income tax rates on their pro-rata share of certain categories of the Company's income for the period in which the Company is classified as a CFC. As the Company cannot control the ownership of the Company's stock nor can the Company control which shareholders participate in the Company's stock buyback program, ownership changes could result that create United States shareholders which increase the risk of Garmin being treated as a CFC.

Legislative proposals have been considered in the United States within the past few years that could increase the United States tax burden of corporations with international operations and could broaden the circumstances under which foreign corporations could be considered resident in the United States. Legislative proposals are being considered in Switzerland that could make significant changes in the corporate tax regime and increase the taxes applicable to us in Switzerland. Our tax position could be adversely impacted by changes in Swiss, United States or foreign tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof by any tax authority. We cannot predict the outcome of any specific legislative proposals.



**If we are not successful in the continued development, introduction or timely manufacture of new products, demand for our products could decrease.**

We expect that a significant portion of our future revenue will continue to be derived from sales of newly introduced products. The market for our products is characterized by rapidly changing technology, evolving industry standards and changes in customer needs. If we fail to introduce new products, or to modify or improve our existing products, in response to changes in technology, industry standards or customer needs, our products could rapidly become less competitive or obsolete. We must continue to make significant investments in research and development in order to continue to develop new products, enhance existing products and achieve market acceptance for such products. However, there can be no assurance that development stage products will be successfully completed or, if developed, will achieve significant customer acceptance.

If we are unable to successfully develop and introduce competitive new products, and enhance our existing products, our future results of operations would be adversely affected. Our pursuit of necessary technology may require substantial time and expense. We may need to license new technologies to respond to technological change. These licenses may not be available to us on terms that we can accept or may materially change the gross profits that we are able to obtain on our products. We may not succeed in adapting our products to new technologies as they emerge. Development and manufacturing schedules for technology products are difficult to predict, and there can be no assurance that we will achieve timely initial customer shipments of new products. The timely availability of these products in volume and their acceptance by customers are important to our future success. From time to time we have experienced delays in shipping certain of our new products and any future delays, whether due to product development delays, manufacturing delays, lack of market acceptance, delays in regulatory approval, or otherwise, could have a material adverse effect on our results of operations.

**If we are unable to compete effectively with existing or new competitors, our resulting loss of competitive position could result in price reductions, fewer customer orders, reduced margins and loss of market share.**

The markets for many of our products are highly competitive, and we expect competition to increase in the future. Some of our competitors have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly to new or emerging technologies or changes in customer requirements. They may also be able to devote greater resources to the development, promotion and sale of their products. Increased competition could result in price reductions, fewer customer orders, reduced margins and loss of market share. Our failure to compete successfully against current or future competitors could seriously harm our business, financial condition and results of operations.

**We rely on independent dealers and distributors to sell our products, and disruption to these channels would harm our business.**

Because we sell a majority of our products to independent dealers and distributors, we are subject to many risks, including risks related to their inventory levels and support for our products. In particular, our dealers and distributors maintain significant levels of our products in their inventories. If dealers and distributors attempt to reduce their levels of inventory or if they do not maintain sufficient levels to meet customer demand, our sales could be negatively impacted.

Many of our dealers and distributors also sell products offered by our competitors. If our competitors offer our dealers and distributors more favorable terms, those dealers and distributors may de-emphasize or decline to carry our products. In the future, we may not be able to retain or attract a sufficient number of qualified dealers and distributors. If we are unable to maintain successful relationships with dealers and distributors or to expand our distribution channels, our business will suffer.



**Our quarterly operating results are subject to fluctuations and seasonality.**

Our operating results are difficult to predict. Our future quarterly operating results may fluctuate significantly. If such operating results decline, the price of our stock would likely decline. As we have expanded our operations, our operating expenses, particularly our research and development costs, have increased as a percentage of our sales. If revenues decrease and we continue to increase research and development costs, our operating results would be negatively affected.

Historically, our revenues have been weaker in the first quarter of each fiscal year as our devices are highly consumer-oriented, and consumer buying is traditionally lower in this quarter. Sales of certain of our marine and automotive products tend to be higher in our second fiscal quarter due to increased consumer spending for such products during the recreational marine, fishing, and travel season. Sales of many of our consumer products also have been higher in our fourth fiscal quarter due to increased consumer spending patterns on electronic devices during the holiday season. In addition, we attempt to time our new product releases to coincide with relatively higher consumer spending in the second and fourth fiscal quarters, which contributes to these seasonal variations.

**Our quarterly financial statements will reflect fluctuations in foreign currency translation.**

The operation of Garmin's subsidiaries in international markets results in exposure to movements in currency exchange rates. We have experienced significant foreign currency gains and losses due to the strengthening and weakening of the U.S. dollar. The potential of volatile foreign exchange rate fluctuations in the future could have a significant effect on our results of operations.

The currencies that create a majority of the Company's exchange rate exposure are the Taiwan Dollar, Euro, and British Pound Sterling. Garmin Corporation, headquartered in Sijhih, Taiwan, uses the local currency as the functional currency. The Company translates all assets and liabilities at year-end exchange rates and income and expense accounts at average rates during the year. In order to minimize the effect of the currency exchange fluctuations on our net assets, we have elected to retain most of our Taiwan subsidiary's cash and investments in marketable securities denominated in U.S. dollars.

Nonetheless, U.S. GAAP requires the Company at the end of each accounting period to translate into Taiwan Dollars all such U.S. Dollar denominated assets held by our Taiwan subsidiary. This translation is required because the Taiwan Dollar is the functional currency of the subsidiary. This U.S. GAAP-mandated translation will cause us to recognize gain or loss on our financial statements as the Taiwan Dollar/U.S. Dollar exchange rate varies. Such gain or loss will create variations in our earnings per share. Because there is minimal cash impact caused by such exchange rate variations, management will continue to focus on the Company's operating performance before the impact of the foreign currency translation.

**If we do not correctly anticipate demand for our products, we may not be able to secure sufficient quantities or cost-effective production of our products or we could have costly excess production or inventories.**

We have generally been able to increase production to meet this increasing demand. However, the demand for our products depends on many factors and will be difficult to forecast. We expect that it will become more difficult to forecast demand as we introduce and support multiple products, as competition in the market for our products intensifies and as the markets for some of our products mature to the mass market category. Significant unanticipated fluctuations in demand could cause the following problems in our operations:

If demand increases beyond what we forecast, we would have to rapidly increase production. We would depend on suppliers to provide additional volumes of components and those suppliers might not be able to increase production rapidly enough to meet unexpected demand.



Rapid increases in production levels to meet unanticipated demand could result in higher costs for manufacturing and supply of components and other expenses. These higher costs could lower our profit margins. Further, if production is increased rapidly, manufacturing quality could decline, which may also lower our margins and reduce customer satisfaction.

If forecasted demand does not develop, we could have excess production resulting in higher inventories of finished products and components, which would use cash and could lead to write-offs of some or all of the excess inventories. Lower than forecasted demand could also result in excess manufacturing capacity or reduced manufacturing efficiencies at our facilities, which could result in lower margins.

**We have benefited in the past from Taiwan government tax incentives offered on certain high technology capital investments that may not always be available.**

Our effective tax rate is lower than the U.S. federal statutory rate, in part because we have benefited from incentives offered in Taiwan related to our high technology investments in Taiwan. The loss of these tax benefits has begun to have a negative impact on our effective tax rate and reduced benefits will continue into the future.

**We may experience unique economic and political risks associated with companies that operate in Taiwan.**

Relations between Taiwan and the People's Republic of China, also referred to as the PRC, and other factors affecting the political or economic conditions of Taiwan in the future could materially adversely affect our business, financial condition and results of operations and the market price and the liquidity of our shares. Our principal manufacturing facilities where we manufacture all of our products, except our panel-mounted aviation products, are located in Taiwan.

Taiwan has a unique international political status. The PRC asserts sovereignty over all of China, including Taiwan, certain other islands and all of mainland China. The PRC government does not recognize the legitimacy of the Taiwan government. Although significant economic and cultural relations have been established during recent years between Taiwan and the PRC, the PRC government has indicated that it may use military force to gain control over Taiwan in certain circumstances, such as the declaration of independence by Taiwan. Relations between Taiwan and the PRC have on occasion adversely affected the market value of Taiwanese companies and could negatively affect our operations in Taiwan in the future.

**Our intellectual property rights are important to our operations, and we could suffer loss if they infringe upon other's rights or are infringed upon by others.**

We rely on a combination of patents, copyrights, trademarks and trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. To this end, we hold rights to a number of patents and registered trademarks and regularly file applications to attempt to protect our rights in new technology and trademarks. However, there is no guarantee that our patent applications will become issued patents, or that our trademark applications will become registered trademarks. Moreover, even if approved, our patents or trademarks may thereafter be successfully challenged by others or otherwise become invalidated for a variety of reasons. Thus, any patents or trademarks we currently have or may later acquire may not provide us a significant competitive advantage.

Third parties may claim that we are infringing their intellectual property rights. Such claims could have a material adverse effect on our business and financial condition. From time to time we receive letters alleging infringement of patents, trademarks or other intellectual property rights. Litigation concerning patents or other intellectual property is costly and time consuming. We may seek licenses from such parties, but they could refuse to grant us a license or demand commercially unreasonable terms. We might not have sufficient resources to pay for the licenses. Such

infringement claims could also cause us to incur substantial liabilities and to suspend or permanently cease the use of critical technologies or processes or the production or sale of major products.

**We may become subject to significant product liability costs.**

If our aviation products malfunction or contain errors or defects, airplane collisions or crashes could occur resulting in property damage, personal injury or death. Malfunctions or errors or defects in our marine navigational products could cause boats to run aground or cause other wreckage, personal injury or death. If our automotive or marine products contain defects or errors in the mapping supplied by third-party map providers or if our users do not heed our warnings about the proper use of these products, collisions or accidents could occur resulting in property damage, personal injury or death. If any of these events occurs, we could be subject to significant liability for personal injury and property damage and, under certain circumstances, could be subject to a judgment for punitive damages. We maintain insurance against accident-related risks involving our products. However, there can be no assurance that such insurance would be sufficient to cover the cost of damages to others or that such insurance will continue to be available at commercially reasonable rates. In addition, insurance coverage generally will not cover awards of punitive damages and may not cover the cost of associated legal fees and defense costs, which could result in lower margins. If we are unable to maintain sufficient insurance to cover product liability costs or if our insurance coverage does not cover the award, this could have a materially adverse impact on our business, financial condition and results of operations.

**We depend on our suppliers, some of which are the sole source for specific components, and our production would be seriously harmed if these suppliers are not able to meet our demand and alternative sources are not available, or if the costs of components rise.**

We are dependent on third party suppliers for various components used in our current products. Some of the components that we procure from third party suppliers include semiconductors and electroluminescent panels, liquid crystal displays, memory chips, batteries and microprocessors. The cost, quality and availability of components are essential to the successful production and sale of our products. Some components we use are from sole source suppliers. Certain application-specific integrated circuits incorporating our proprietary designs are manufactured for us by sole source suppliers. Alternative sources may not be currently available for these sole source components.

In the past we have experienced shortages of liquid crystal displays and other components. In addition, if there are shortages in supply of components, the costs of such components may rise. If suppliers are unable to meet our demand for components on a timely basis and if we are unable to obtain an alternative source or if the price of the alternative source is prohibitive, or if the costs of components rise, our ability to maintain timely and cost-effective production of our products would be seriously harmed.

**We depend on third party licensors for the digital map data contained in our automotive/mobile products, and our business and/or gross margins could be harmed if we become unable to continue licensing such mapping data or if the royalty costs for such data rise.**

We license digital mapping data for use in our products from various sources. There are only a limited number of suppliers of mapping data for each geographical region. The two largest digital map suppliers are HERE (formerly known as NAVTEQ) and Tele Atlas N.V. HERE is owned by Nokia Oyj and Tele Atlas N.V. is owned by TomTom N.V. Nokia and TomTom are both competitors of Garmin.

Although we do not foresee difficulty in continuing to license data at favorable pricing due to the long term license extension signed between Garmin and HERE in June 2010 (extending our HERE license agreement through 2017 with an option to extend through 2021), if we are unable to continue licensing such mapping data and are unable to obtain an alternative source, or if the nature of our relationships with HERE changes detrimentally, our ability to supply mapping data for use in our products would be seriously harmed.



**We may pursue strategic acquisitions, investments, strategic partnerships or other ventures, and our business could be materially harmed if we fail to successfully identify, complete and integrate such transactions.**

We intend to evaluate acquisition opportunities and opportunities to make investments in complementary businesses, technologies, services or products, or to enter into strategic partnerships with parties who can provide access to those assets, additional product or services offerings, additional distribution or marketing synergies or additional industry expertise. We may not be able to identify suitable acquisition, investment or strategic partnership candidates, or if we do identify suitable candidates in the future, we may not be able to complete those transactions on commercially favorable terms, or at all.

Any past or future acquisitions could also result in difficulties assimilating acquired employees (including cultural differences with foreign acquisitions), operations, and products and diversion of capital and management's attention away from other business issues and opportunities. Integration of acquired companies may result in problems related to integration of technology and inexperienced management teams. In addition, the key personnel of the acquired company may decide not to work for us. We may not successfully integrate internal controls, compliance under the Sarbanes-Oxley Act of 2002 and other corporate governance matters, operations, personnel or products related to acquisitions we have made in previous years or may make in the future. If we fail to successfully integrate such transactions, our business could be materially harmed.

**We may have additional tax liabilities.**

We are subject to income taxes in Switzerland, the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our income tax provision, net income or cash flows in the period or periods for which that determination is made.

**Failure to obtain required certifications of our products on a timely basis could harm our business.**

We have certain products, especially in our aviation segment, that are subject to governmental and similar certifications before they can be sold. For example, FAA certification is required for all of our aviation products that are intended for installation in type certificated aircraft. To the extent required, certification is an expensive and time-consuming process that requires significant focus and resources. An inability to obtain, or excessive delay in obtaining, such certifications could have an adverse effect on our ability to introduce new products and, for certain aviation OEM products, our customers' ability to sell airplanes. Delays in our obtaining certification for our aviation products have resulted, and may in the future result, in our being required to pay compensation to our customers. Therefore, such inability or delays could adversely affect our operating results. In addition, we cannot assure you that our certified products will not be decertified. Any such decertification could have an adverse effect on our operating results.

**Our business may suffer if we are not able to hire and retain sufficient qualified personnel or if we lose our key personnel.**

Our future success depends partly on the continued contribution of our key executive, engineering, sales, marketing, manufacturing and administrative personnel. We currently do not have employment agreements with any of our key executive officers. Swiss law prohibits us from paying severance payments to our senior executive officers, which may impair our ability to recruit for these positions. We do not have key man life insurance on any of our key executive officers and do not currently intend to obtain such insurance. The loss of the services of any of our senior

level management, or other key employees, could harm our business. Recruiting and retaining the skilled personnel we require to maintain and grow our market position may be difficult. For example, in some recent years there has been a nationwide shortage of qualified electrical engineers and software engineers who are necessary for us to design and develop new products, and therefore, it has sometimes been challenging to recruit such personnel. If we fail to hire and retain qualified employees, we may not be able to maintain and expand our business.

**There is uncertainty as to our shareholders' ability to enforce certain foreign civil liabilities in Switzerland and Taiwan.**

We are a Swiss company and a substantial portion of our assets are located outside the United States, particularly in Taiwan. As a result, it may be difficult to effect service of process within the United States upon us. In addition, there is uncertainty as to whether the courts of Switzerland or Taiwan would recognize or enforce judgments of United States courts obtained against us predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in Switzerland or Taiwan against us predicated upon the securities laws of the United States or any state thereof.

**A shut down of U.S. airspace or imposition of restrictions on general aviation would harm our business.**

Following the September 11, 2001 terrorist attacks, the FAA ordered all aircraft operating in the U.S. to be grounded for several days. In addition to this shut down of U.S. airspace, the general aviation industry was further impacted by the additional restrictions implemented by the FAA on those flights that fly utilizing Visual Flight Rules (VFR). The FAA restricted VFR flight inside 30 enhanced Class B (a 20-25 mile radius around the 30 largest metropolitan areas in the USA) airspace areas. The Aircraft Owners and Pilots Association (AOPA) estimated that these restrictions affected approximately 41,800 general aviation aircraft based at 282 airports inside the 30 enhanced Class B airspace areas. The AOPA estimates that approximately 90% of all general aviation flights are conducted VFR, and that only 15% of general aviation pilots are current to fly utilizing Instrument Flight Rules (IFR).

The shutdown of U.S. airspace following September 11, 2001 caused reduced sales of our general aviation products and delays in the shipment of our products manufactured in our Taiwan manufacturing facility to our distribution facility in Olathe, Kansas, thereby adversely affecting our ability to supply new and existing products to our dealers and distributors.

Any future shut down of U.S. airspace or imposition of restrictions on general aviation could have a material adverse effect on our business and financial results.

**A shut down of Federal Aviation Administration operations would harm our business.**

Any failure of Congress to appropriate funds for FAA operations that results in any shut down of FAA operations or furloughing of FAA employees could result in delays in the required FAA certification of our avionics products and in the production, sale and registration of aircraft that use our avionics products. Such delays could have a material adverse effect on our business and financial results.

**Many of our products rely on the Global Positioning System.**

The Global Positioning System (GPS) is a satellite-based navigation and positioning system consisting of a constellation of orbiting satellites. The satellites and their ground control and monitoring stations are maintained and operated by the United States Department of Defense. The Department of Defense does not currently charge users for access to the satellite signals. These satellites and their ground support systems are complex electronic systems subject to electronic and mechanical failures and possible sabotage. The satellites were originally designed to have lives of 7.5 years and are subject to damage by the hostile space environment in which they operate. However, of the current deployment of satellites in place, some have been operating for more than 12 years.

To repair damaged or malfunctioning satellites is currently not economically feasible. If a significant number of satellites were to become inoperable, there could be a substantial delay before they are replaced with new satellites. A reduction in the number of operating satellites may impair the current utility of the GPS system and the growth of current and additional market opportunities. GPS satellites and ground control segments are being modernized. GPS

modernization software updates can cause problems. We depend on public access to open technical specifications in advance of GPS updates.

GPS is operated by the U. S. Government, which is committed to maintenance and improvement of GPS; however if the policy were to change, and GPS were no longer supported by the U. S. Government, or if user fees were imposed, it could have a material adverse effect on our business, results of operations, and financial condition.

Some of our products also use signals from Satellite Based Augmentation Systems (SBAS) that augment GPS, such as the U.S. Wide Area Augmentation System (WAAS), Japanese MTSAT-based Satellite Augmentation System (MSAS), and European Geostationary Navigation Overlay Service (EGNOS). Any curtailment of SBAS operating capability could result in decreased user capability for many of our aviation products, thereby impacting our markets.

Any of the foregoing factors could affect the willingness of buyers of our products to select Global Positioning System-based products instead of products based on competing technologies.

**Any reallocation or repurposing of radio frequency spectrum could cause harmful interference with the reception of Global Positioning System signals. This interference could harm our business.**

Our Global Positioning System technology is dependent on the use of the Standard Positioning Service (SPS) provided by the U.S. Government's Global Positioning System satellites. The Global Positioning System operates in radio frequency bands that are globally allocated for radio navigation satellite services. International allocations of radio frequency are made by the International Telecommunications Union (ITU), a specialized technical agency of the United Nations. These allocations are further governed by radio regulations that have treaty status and which may be subject to modification every two to three years by the World Radio Communication Conference. Each country also has regulatory authority on how each band is used. In the United States, the Federal Communications Commission (FCC) and the National Telecommunications and Information Administration (NTIA) share responsibility for radio frequency allocations and spectrum usage regulations.

Any ITU or national reallocation of radio frequency spectrum, including frequency band segmentation or sharing of spectrum, or other modifications of the permitted uses of relevant frequency bands, may materially and adversely affect the utility and reliability of our products and have significant negative impacts on our business and our customers. For example, the FCC has been considering a proposal by a private party, LightSquared, to repurpose spectrum adjacent to the GPS bands for terrestrial broadband wireless operations in metropolitan areas throughout the United States. If the FCC were to permit implementation of LightSquared's proposal, terrestrial broadband wireless operations could create harmful interference to GPS receivers within range of such operations.

**Our business is subject to disruptions and uncertainties caused by war or terrorism.**

Acts of war or acts of terrorism, especially any directed at the GPS signals, could have a material adverse impact on our business, operating results, and financial condition. The threat of terrorism and war and heightened security and military response to this threat, or any future acts of terrorism, may cause a redeployment of the satellites used in GPS or interruptions of the system. To the extent that such interruptions have an effect on sales of our products, this could have a material adverse effect on our business, results of operations, and financial condition.

**Privacy concerns relating to our technology could damage our reputation and deter current and potential users from using our products and applications.**

Concerns about our practices with regard to the collection, use, disclosure, or security of personal information, user location information or other privacy related matters, even if unfounded, could damage our reputation and operating results. While we strive to comply with all applicable data protection laws and regulations, as well as our own posted privacy policies, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, or could cause us to lose users and customers, which could potentially have an adverse effect on our business.

Regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection. In addition, the interpretation and application of consumer and data protection laws in the U.S., Europe and elsewhere are often uncertain and in flux. It is possible that these laws may be interpreted and applied in a

manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

**Security breaches and other disruptions, including as a result of cyber attacks, could compromise our information and expose us to liability, which would cause our business and reputation to suffer.**

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers and suppliers, and some personally identifiable information of our customers and employees, in our facilities and on our networks. The secure processing, maintenance and transmission of this information is important to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence, which could adversely affect our business.

**We may be exposed to certain regulatory and financial risks related to climate change.**

Climate change is receiving increasing attention worldwide. Some scientists, legislators and others attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions.

Various regulatory and legislative measures to address greenhouse gas emissions are in different phases of implementation or discussion. In the aftermath of its 2009 “endangerment finding” that greenhouse gas emissions pose a threat to human health and welfare, the Environmental Protection Agency has begun to regulate greenhouse gas emissions under the authority granted to it under the Clean Air Act. At the federal legislative level, Congressional passage of legislation adopting some form of federal mandatory greenhouse gas emission reduction, such as a nationwide cap-and-trade program, does not appear likely at this time, although it could be adopted at a future date. It is also possible that Congress may pass alternative climate change bills that do not mandate a nationwide cap-and-trade program and instead focus on promoting renewable energy and energy efficiency, which could increase the cost of doing business.

Because it is uncertain what laws and regulations will be enacted, we cannot predict the potential impact of such laws and regulations on our future consolidated financial condition, results of operations or cash flows.

## ***Risks Relating to Our Shares***

**The volatility of our stock price could adversely affect investment in our common shares.**

The market price of our common shares has been, and may continue to be, highly volatile. During 2013, the closing price of our common shares ranged from a low of \$32.60 to a high of \$49.33. A variety of factors could cause the price of our common shares to fluctuate, perhaps substantially, including:

- announcements and rumors of developments related to our business, our competitors, our suppliers or the markets in which we compete;
- quarterly fluctuations in our actual or anticipated operating results;
- the availability, pricing and timeliness of delivery of components, such as flash memory and liquid crystal displays, used in our products;
- general conditions in the worldwide economy, including fluctuations in interest rates;
- changes in applicable tax laws and tax rates;
- announcements of technological innovations;

- new products or product enhancements by us or our competitors;
- product obsolescence and our ability to manage product transitions;
- developments in patents or other intellectual property rights and litigation;

- developments in our relationships with our customers and suppliers;
- research reports or opinions issued by securities analysts or brokerage houses related to Garmin, our competitors, our suppliers or our customers; and
- any significant acts of terrorism against the United States, Taiwan or significant markets where we sell our products.

In addition, in recent years the stock market in general and the markets for shares of technology companies in particular, have experienced extreme price fluctuations which have often been unrelated to the operating performance of affected companies. Any such fluctuations in the future could adversely affect the market price of our common shares.

**Our officers and directors exert substantial influence over us.**

As of January 13, 2014, current members and former members of our Board of Directors and our executive officers, together with members of their families and entities that may be deemed affiliates of or related to such persons or entities, beneficially owned approximately 40.30% of our outstanding common shares. Accordingly, these shareholders may be able to determine the outcome of corporate actions requiring shareholder approval, such as mergers and acquisitions. This level of ownership may have a significant effect in delaying, deferring or preventing a change in control of Garmin and may adversely affect the voting and other rights of other holders of our common shares.

**The rights of our shareholders are governed by Swiss law.**

The rights of our shareholders are governed by Swiss law and Garmin Ltd.'s articles of association. The rights of shareholders under Swiss law differ from the rights of shareholders of companies incorporated in other jurisdictions. For example, Swiss law allows our shareholders acting at a shareholders' meeting to authorize share capital that can be issued by the board of directors without approval of a shareholders' meeting, but this authorization is limited to 50% of the existing registered share capital and must be renewed at a shareholders' meeting at least every two years for it to continue to be available. Additionally, subject to specified exceptions, including the exceptions described in our articles of association, Swiss law grants preemptive rights to existing shareholders to subscribe for new issuances of shares and other securities. Swiss law also does not provide as much flexibility in the various terms that can attach to different classes of shares as the laws of some other jurisdictions. Swiss law also reserves for approval by shareholders certain corporate actions over which a board of directors would have authority in some other jurisdictions. For example, Swiss law provides that dividends and other distributions must be approved by shareholders at the general meeting of shareholders. These Swiss law requirements relating to our capital management may limit our flexibility, and situations may arise where greater flexibility would have provided substantial benefits to our shareholders.

**We may not be able to make distributions or repurchase shares without subjecting you to Swiss withholding tax.**

If we are unable to make distributions, if any, through a reduction of par value or to pay dividends, if any, out of qualifying capital contribution reserves, then any dividends paid by us will generally be subject to a Swiss federal withholding tax at a rate of 35%. The withholding tax must be withheld from the gross distribution and paid to the Swiss Federal Tax Administration. A U.S. holder that qualifies for benefits under the Convention between the United States of America and the Swiss Confederation for the Avoidance of Double Taxation with Respect to Taxes on Income may apply for a refund of the tax withheld in excess of the 15% treaty rate (or in excess of the 5% reduced treaty rate for qualifying corporate shareholders with at least 10% participation in our voting stock, or for a full refund in case of qualified pension funds). Payment of a capital distribution in the form of a par value reduction or a dividend out of qualifying capital contribution reserves is not subject to Swiss withholding tax. However, there can be no assurance that our shareholders will approve a reduction in par value or a dividend out of qualifying capital

contribution reserves, that we will be able to meet the other legal requirements for a reduction in par value, or that Swiss withholding rules will not be changed in the future or that a change in Swiss law will not adversely affect us or our shareholders, in particular as a result of distributions out of qualifying capital contribution reserves becoming subject to additional corporate law or other restrictions. There are currently legislative projects pending in Swiss Parliament and the Swiss federal administration that depending on their final form may limit the distribution of qualifying capital contribution reserves. In addition, over the long term, the amount of par value and qualifying capital contribution reserves available for us to use for par value reductions or dividends will be limited. If we are unable to make a distribution through a reduction in par value or to pay a dividend out of qualifying capital contribution reserves, we may not be able to make distributions without subjecting you to Swiss withholding taxes.

Under current Swiss tax law, repurchases of shares for the purposes of capital reduction are treated as a partial liquidation subject to 35% Swiss withholding tax on the difference between the par value and the repurchase price. However, the portion of the repurchase price that is attributed to qualifying capital contribution reserves of the shares repurchased will not be subject to the Swiss withholding tax. No partial liquidation treatment applies and no withholding tax is triggered if the shares are not repurchased for cancellation but held by us as treasury shares. However, should we not resell such treasury shares within six years, the withholding tax becomes due at the end of the six year period.

We may follow a share repurchase process for future share repurchases, if any, similar to a "second trading line" on the SIX Swiss Exchange in which Swiss institutional investors buy shares on the open market and sell these shares to us and are generally able to receive a refund of the Swiss withholding tax. However, if we are unable to use this process successfully, we may not be able to repurchase shares for the purposes of capital reduction without subjecting you to Swiss withholding taxes if and to the extent that the repurchase of shares is made out of retained earnings or other taxable reserves. No withholding tax would be applicable if and to the extent that qualifying capital contribution reserves are attributable to the share repurchase.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

The following are the principal properties owned or leased by the Company and its subsidiaries:

Garmin International, Inc. and Garmin USA, Inc. occupy a facility of approximately 1,120,000 square feet on 42 acres in Olathe, Kansas, where the majority of product design and development work is conducted, the majority of aviation panel-mount products are manufactured and products are warehoused, distributed, and supported for North, Central and South America. Garmin's subsidiary, Garmin Realty, LLC also owns an additional 46 acres of land on the Olathe site for future expansion. In connection with the bond financings for the facility in Olathe and the previous expansion of that facility, the City of Olathe holds the legal title to the Olathe facility which is leased to Garmin's subsidiaries by the City. Upon the payment in full of the outstanding bonds, the City of Olathe is obligated to transfer title to Garmin's subsidiaries for the aggregate sum of \$200. Garmin International, Inc. has purchased all the outstanding bonds and continues to hold the bonds until maturity in order to benefit from property tax abatement.

Garmin Corporation owns and occupies a 249,326 square foot facility in Sijhih, Taipei County, Taiwan, a 223,469 square foot facility in Jhongli, Tao-Yang County, Taiwan, and an approximately 580,000 square foot facility in LinKou, Tao-Yang County, Taiwan. In these three facilities, Garmin Corporation manufactures all of Garmin's consumer and portable aviation products and warehouses, markets and supports products for the Pacific Rim countries.

Garmin AT, Inc. leases approximately 18 acres of land in Salem, Oregon under a ground lease. This ground lease expires in 2030, but Garmin AT has the option to extend the ground lease until 2050. Garmin AT, Inc. owns and occupies an 115,000 square foot facility for office, development and manufacturing use and a 33,000 square foot aircraft hangar, flight test and certification facility on this land. Garmin AT, Inc. also leases 43,870 square feet of office space in a separate Salem, OR building for Garmin's newly-opened West Coast customer support call center.

Garmin International, Inc. leases 148,320 square feet of land at New Century Airport in Gardner, Kansas under a ground lease which expires in 2026. Garmin International, Inc. owns and occupies a 47,254 square foot aircraft hangar, flight test and certification facility on this land which is used in development and certification of aviation products. Garmin International, Inc. owns a leasehold interest in an additional 52,794 square foot aircraft hangar, flight test and certification facility at New Century Airport in Gardner which is also used in development and certification of aviation products.

Garmin Würzburg GmbH leases approximately 40,000 square feet in Würzburg, Germany for office and research and development activities. Garmin Cluj S.R.L. leases approximately 11,355 square feet in Cluj, Romania for research and development activities.

Various Garmin subsidiaries lease an additional: (i) 48,625 square feet of office space in Olathe, Kansas for a call center operation; (ii) 35,170 square feet of office space in Chandler, Arizona for software development; and (iii) 15,000 square feet of office space in Tucson, Arizona, used as offices and for research and development. Garmin is currently in the construction phase of a 60,000 square foot facility in Chandler, Arizona that will replace the current leased office space in Chandler, Arizona.

Garmin (Europe) Ltd. owns and occupies a 155,000 square foot building located in Totton, Southampton, England, used as offices and a distribution facility.

### **Item 3. Legal Proceedings**

*Bandspeed, Inc. v. Acer, Inc., Acer American Corporation, Belkin International, Inc., Belkin, Inc., Casio Computer Co., Ltd., Xasio Hitachi Mobile Communications Co. Ltd., Xasio America, Inc., Dell Inc., Garmin International, Inc., Garmin USA, Inc., GN Netcom A/S, GN U.S. Inc. a/k/a GN Netcom Inc., Hewlett-Packard Company, Hewlett-Packard Development Company, L.P., HTC Corporation, HTC America, Inc., Huawei Technologies Co. Ltd., Kyocera Corporation, Kyocera International, Inc., Kyocera Communications, Inc., Kyocera Wireless Corporation, Lenovo (United States), Inc., LG Electronics, Inc., LG Electronics U.S.A. Inc., LG Electronics Mobilecomm U.S.A. Inc., Motorola, Inc., Nokia Corporation, Nokia Inc., Pantech Wireless, Inc. Plantronics, inc., Research in Motion Ltd., Research in Motion Corporation, Samsung Telecommunications America, LLC, TomTom International B.V., TomTom, Inc., Toshiba Corporation, Toshiba America information Systems, Inc., and Toshiba America, Inc.*

On June 30, 2010, Bandspeed, Inc. filed suit in the United States District Court for the Eastern District of Texas against 38 companies, including Garmin International, Inc. and Garmin USA, Inc. alleging infringement of U.S. Patent No 7,027,418 (“the ‘418 patent”) and U.S. Patent No 7,670,614 (“the ‘614 patent”). On January 21, 2011, Bandspeed, Inc. filed an amended complaint adding additional claims against several of the codefendants, but not against Garmin. On February 22, 2011, Garmin filed its answer to the amended complaint with counterclaims asserting that the asserted claims of the ‘418 and ‘614 patents are invalid and not infringed. On August 15, 2011, the court granted Garmin’s motion to transfer venue and transferred the case to the Western District of Texas. On December 23, 2011, Bandspeed, Inc. filed a second amended complaint adding additional claims against Garmin. On January 24, 2012, Garmin filed a motion to dismiss these additional claims. On February 4, 2014, the parties finalized a settlement agreement resolving this matter.



*Cuozzo Speed Technologies, LLC, v Garmin International Inc., Garmin USA, INC., and Chrysler Group LLC.*

On June 19, 2012, Cuozzo Speed Technologies, LLC filed suit in the United States District Court for the District of New Jersey against Garmin International, Inc., Garmin USA, INC., (collectively “Garmin”) and Chrysler Group LLC, alleging infringement of U.S. Patent No. 6,778,074 (“the ‘074 patent”). On July 16, 2012, Garmin filed its answer asserting that each asserted claim of the patent-in-suit is invalid and/or not infringed. On September 17, 2012 Garmin filed with the U.S. Patent and Trademark Office (“PTO”) a petition for *inter partes* review of the ‘074 patent as being anticipated and obvious in view of the prior art. On January 9, 2013, the PTO partially granted Garmin’s petition and instituted review of certain claims of the ‘074 patent. On August 16, 2013, a hearing in this *inter partes* review took place before the PTO’s Patent Trial and Review Board. On June 20, 2013, Garmin filed a second petition for *inter partes* review of the ‘074 patent. On November 13, 2013, the PTO’s Patent Trial and Review Board issued a Final Decision in the original *inter partes* review finding in Garmin’s favor. On January 10, 2014, the parties finalized a settlement agreement resolving this matter.

*Furuno Electric Co., Ltd. and Furuno U.S.A., Inc. v. Garmin Ltd., Garmin International, Inc., Garmin North America, Inc., and Garmin USA, Inc.*

On September 23, 2013 Furuno Electric Co., Ltd. and Furuno U.S.A., Inc. filed suit in the United States District Court for the District of Oregon against Garmin Ltd., Garmin International, Inc., Garmin North America, Inc., and Garmin USA, Inc. (collectively “Garmin”), alleging infringement of U.S. Patent Nos. 6,084,565 (“the ‘565 patent”), 6,424,292 (“the ‘292 patent”), 7,161,561 (“the ‘561 patent”), and 7,768,447 (“the ‘447 patent”). On October 22, 2013, Garmin filed its answer asserting that each asserted claim of the ‘565 patent, the ‘292 patent, the ‘561 patent, and the ‘447 patent is invalid and/or not infringed. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

*Harbinger Capital Partners LLC et al v. Deere & Company et al; LightSquared Inc. et al. v. Deere & Company et al.*

On August 9, 2013, Harbinger Capital Partners LLC and ten related entities filed a lawsuit (the “Harbinger Lawsuit”) in the United States District Court for the Southern District of New York against Deere & Company (“Deere”), Garmin International, Inc. (“Garmin”), Trimble Navigation Ltd. (“Trimble”), The U.S. GPS Industry Council (the “Council”), and the Coalition to Save Our GPS. Plaintiffs filed a first amended complaint on August 16, 2013, and a second amended complaint on January 21, 2014. The second amended complaint, which no longer names the Coalition to Save Our GPS as a defendant, seeks damages of at least \$1.9 billion based on allegations of violation of Rule 10b5-1 of the Securities Exchange Act of 1934 (the “1934 Act”), violation of Section 20(a) of the 1934 Act, fraud, negligent misrepresentation, equitable estoppel, breach of contract, and violation of Section 349 of the New York General Business Law. Plaintiffs allege that they invested in a company now called LightSquared in the belief that LightSquared would be able to operate a new terrestrial, mobile telecommunications network (the “Terrestrial Plan”) on certain satellite radio frequencies. Plaintiffs also allege that LightSquared was not able to obtain approval from the Federal Communications Commission (FCC) to operate the proposed Terrestrial Plan because of interference it would cause to Global Positioning System (GPS) receivers operating in an adjacent frequency band. Plaintiffs further allege that defendants concealed the likelihood of such interference and breached an earlier alleged agreement with a predecessor of LightSquared regarding a different technical issue. Plaintiffs allege they were third-party beneficiaries of the agreement. The defendants have notified the court that they intend to file a motion to dismiss the complaint once the court sets a briefing schedule. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity, or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.



On November 1, 2013, LightSquared, Inc. and two related entities (collectively, “LightSquared”) filed an adversary proceeding in the United States Bankruptcy Court for the Southern District of New York (where a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code filed by LightSquared and certain related entities is pending) against Deere, Garmin, Trimble, the Council, and the Coalition to Save Our GPS. LightSquared’s complaint seeks damages based on claims of promissory estoppel, breach of contract, breach of implied covenant of good faith, unjust enrichment, negligent misrepresentation, civil conspiracy, and tortious interference with contractual or business relationships. Like the allegations in the Harbinger Lawsuit, LightSquared alleges that it was not able to obtain approval from the FCC to operate its proposed Terrestrial Plan because of interference it would cause to GPS receivers. LightSquared also alleges that the inability to obtain FCC approval caused LightSquared damages, including the loss of third-party contracts. LightSquared further alleges that defendants concealed the likelihood of such interference and/or represented to LightSquared that any interference issues had been resolved and that defendants breached earlier alleged agreements with LightSquared regarding a different technical issue. On November 15, 2013, Garmin, Deere, Trimble, and the Council filed a motion to withdraw the reference of the LightSquared adversary proceeding from the Bankruptcy Court to the United States District Court for the Southern District of New York the “District Court”). On January 31, 2014 the District Court granted the defendants’ motion, withdrawing the reference of the LightSquared adversary proceeding to the District Court, which will hear the case going forward. Garmin, Deere, Trimble, and the Council intend to file a motion to dismiss LightSquared’s complaint once the court sets a briefing schedule. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity, or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

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

On November 18, 2011, ICON Health & Fitness, Inc. filed suit in the United States District Court for the District of Utah against Garmin Ltd., Garmin International, Inc., and Garmin USA, Inc. (collectively “Garmin”), alleging infringement of U.S. Patent Nos. 7,789,800 (the ‘800 patent’) and 6,701,271 (“the ‘271 patent’”). On June 8, 2012, ICON filed an amended complaint alleging infringement of U.S. Patent Nos. 6,626,799 and 6,921,351. On June 25, 2012, Garmin filed its answer asserting that each asserted claim of these additional patents-in-suit is invalid and/or not infringed. On April 11, 2013, the Court dismissed ICON’s allegations of infringement of the ‘800 and ‘271 patents against Garmin without prejudice pursuant to a motion filed by ICON. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

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

On July 17, 2013 ICON Health & Fitness, Inc. filed suit in the United States District Court for the Central District of California against Garmin Ltd., Garmin International, Inc., and Garmin USA, Inc. (collectively “Garmin”), alleging infringement of U.S. Patent No. 5,720,200 (the ‘200 patent’). On February 7, 2014, the parties finalized a settlement agreement resolving this matter.

*In the Matter of Certain Navigation Products, Including GPS Devices, Navigation and Display Systems, Radar Systems, Navigational Aids, Mapping Systems and Related Software*

On September 23, 2013, Furuno Electric Co., Ltd. and Furuno U.S.A., Inc. filed a complaint with the United States International Trade Commission against several companies, including Garmin Ltd., Garmin International, Inc., Garmin North America, Inc., and Garmin USA, Inc. (collectively “Garmin”) alleging a violation of Section 337 of the Tariff Act of 1930, as amended, through alleged infringement by Garmin and the other respondents of U.S. Patent Nos. 6,084,565 (“the ‘565 patent’”), 6,424,292 (“the ‘292 patent’”), 7,161,561 (“the ‘561 patent’”), and 7,768,447 (“the ‘4 patent’”). On December 3, 2013, Garmin filed its response asserting that each asserted claim of the ‘565 patent, the ‘292

patent, the '561 patent, and the '447 patent is invalid and/or not infringed. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity, or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

*In the Matter of Certain Wireless Consumer Electronics Devices and Components Thereof*

On July 24, 2012, Technology Properties Limited LLC, Phoenix Digital Solutions LLC, and Patriot Scientific Corporation filed a complaint with the United States International Trade Commission against 24 companies, including Garmin Ltd., Garmin International, Inc., and Garmin USA, Inc. (collectively “Garmin”) alleging a violation of Section 337 of the Tariff Act of 1930, as amended, through alleged infringement by Garmin and the other respondents of U.S. Patent No. 5,809,336 (“the ‘336 patent”). On August 21, 2012 the ITC instituted an investigation under Section 337 of the Tariff Act pursuant to this complaint. On September 6, 2013, the ITC administrative law judge issued an Initial Determination finding that there was no violation of Section 337 by any Garmin company. The parties await the issuance of a Final Determination by the ITC. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity, or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

*Andrea Katz, on behalf of herself and all others similarly situated, v. Garmin Ltd. and Garmin International, Inc.*

On December 18, 2013, a purported class action lawsuit was filed against Garmin International, Inc. and Garmin Ltd. in the U.S. District Court for the Northern District of Illinois. The lead plaintiff was Andrea Katz, on behalf of herself and all others similarly situated. The class of plaintiffs that Andrea Katz purported to represent includes all individuals who purchased any model of Forerunner watch in the State of Illinois and the United States. Plaintiff asserted claims for breach of contract, breach of express warranty, breach of implied warranties, negligence, negligent misrepresentation, and violations of Illinois statutory law. Plaintiff alleged that Forerunner watch bands have an unacceptable rate of failure in that they detach from the watch. Plaintiff sought compensatory and punitive damages, prejudgment interest, costs, and attorneys’ fees, and injunctive relief. On January 29, 2014 the court dismissed the lawsuit without prejudice. On January 30, 2014, the plaintiff re-filed the lawsuit as a new action before the same court with the same claims for relief as the earlier action and adding an additional claim for unjust enrichment. Garmin believes that plaintiff Andrea Katz’s claims were mooted prior to her re-filing her lawsuit. On February 4, 2014, the court ordered the case to be transferred to the United States District Court for the District of Utah. Garmin sought reconsideration of that order. On February 13, 2014, the court ordered the parties to brief a dispositive motion concerning whether Andrea Katz had legal standing at the time she filed her second action. The transfer to Utah has been stayed by the court pending ruling on these two motions. No class has been certified at this time. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity, or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

*Brian Meyers, on behalf of himself and all others similarly situated, v. Garmin International, Inc. Garmin USA, Inc. and Garmin Ltd.*

On August 13, 2013, Brian Meyers filed a putative class action complaint against Garmin International, Inc., Garmin USA, Inc. and Garmin Ltd. in the United States District Court for the District of Kansas. Meyers alleges that lithium-ion batteries in certain Garmin products are defective and alleges violations of the Kansas Consumer Protection Act, breach of an implied warranty of merchantability, breach of contract, unjust enrichment, breach of express warranty and also requests declaratory relief that the batteries are defective and must be covered by Garmin’s warranties. The complaint seeks an order for class certification, a declaration that the batteries are defective, an order of injunctive relief, payment of damages in an unspecified amount on behalf of a putative class of all purchasers of certain Garmin products, and an award of attorneys’ fees. On September 18, 2013 the plaintiff voluntarily dismissed Garmin Ltd. as a defendant without prejudice. On October 18, 2013 the plaintiff filed an amended class action complaint. On November 1, 2013 the remaining Garmin defendants filed a motion to dismiss all counts of the complaint for failure to state a claim on which relief can be granted. On January 24, 2014, the Court granted the motion to dismiss in part and denied it in part, dismissing the count for declaratory relief and the prayer for a declaration that the batteries are defective, but allowing the case to proceed on other substantive counts. No class has

been certified at this time. On February 7, 2014 Garmin International, Inc. and Garmin USA, Inc. filed an answer contesting all the remaining counts in the complaint. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity, or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

*MSPBO, LLC v. Garmin International, Inc.*

On December 16, 2013, MSPBO, LLC filed suit in the United States District Court for the District of Colorado against Garmin International, Inc. alleging infringement of U.S. Patent No. 6,744,375. On January 9, 2014, Garmin filed a motion to dismiss the complaint alleging that the claims are subject to arbitration pending in Kansas and alternatively asked the District of Colorado to stay the suit until the arbitration in Kansas is resolved. Garmin previously filed a petition on January 8, 2014 with the District Court of Johnson County, Kansas to compel arbitration with Phatrat Technology, Inc. and Phatrat Technology, LLC, alleging that the license previously granted to Garmin or its affiliate, Dynastream Innovations, Inc., by Phatrat covers MSPBO's current claims as MSPBO is an affiliate of Phatrat under the license agreement with Garmin and/or Dynastream. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

*Pacing Technologies, LLC v. Garmin International, Inc., Garmin USA, Inc. and Garmin Ltd.*

On May 1, 2012, Pacing Technologies, LLC filed suit in the United States District Court for the Southern District of California against Garmin International, Inc., Garmin USA, Inc. and Garmin Ltd alleging infringement of U.S. Patent No. 8,101,843. Garmin Ltd was dismissed as a defendant on October 9, 2012. On July 6, 2012, Garmin filed its answer asserting that each asserted claim of the patent-in-suit is invalid and/or not infringed. The court held a hearing on claim construction on June 27, 2013. On October 15, 2013 the court issued a claim construction order. On December 9, 2013, Garmin International, Inc. and Garmin USA, Inc. filed motions for summary judgment of non-infringement and invalidity. On February 11, 2014, the court held a hearing on Garmin's summary judgment motions. The parties await the court's ruling on these motions. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity, or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

*Silver State Intellectual Technologies, Inc. v. Garmin International, Inc. and Garmin USA, Inc.*

On September 29, 2011, Silver State Intellectual Technologies, Inc. filed suit in the United States District Court for the District of Nevada against Garmin International, Inc. and Garmin USA, Inc. (collectively "Garmin"), alleging infringement of U.S. Patent Nos. 6,525,768; 6,529,824; 6,542,812; 7,343,165; 7,522,992; 7,593,812; 7,650,234; 7,702,455 and 7,739,039. On December 8, 2011, Garmin filed its answer asserting that each asserted claim of the patents-in-suit is invalid and/or not infringed. On April 5, 2013, the Court held a claim construction hearing and on August 15, 2013 the Court issued an order construing the claims of the patents in suit. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity, or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

*Technology Properties Limited, LLC et al v. Garmin Ltd., Garmin International, Inc. and Garmin USA, Inc.*

On July 24, 2012 Technology Properties Limited LLC, Phoenix Digital Solutions LLC, and Patriot Scientific Corporation filed suit in the U.S. District Court for the Northern District of California against Garmin Ltd., Garmin International, Inc., and Garmin USA, Inc. (collectively "Garmin") alleging infringement by Garmin of one or more of the following patents: U.S. Patent No. 5,809,336, U.S. Patent 5,440,749 and U.S. Patent No. 5,530,890. By agreement of the parties, on October 29, 2012 this lawsuit was stayed pending the resolution of the investigation by the International Trade Commission in *In the Matter of Certain Wireless Consumer Electronics Devices and Components Thereof* which is described above. On March 21, 2012, Technology Properties Limited LLC filed a petition for reorganization under Chapter 11 of the federal bankruptcy laws. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity,

or financial position, Garmin believes that the claims in this action are without merit and intends to vigorously defend this action.

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

On February 10, 2010, Visteon Global Technologies, Inc. and Visteon Technologies LLC filed suit in the United States District Court for the Eastern District of Michigan, Southern Division, against Garmin International, Inc. alleging infringement of U.S. Patent No. 5,544,060 (“the ‘060 patent”), U.S. Patent No. 5,654,892 (“the ‘892 patent”), U.S. Patent No. 5,832,408 (“the ‘408 patent”), U.S. Patent No 5,987,375 (“the ‘375 patent”) and U.S. Patent No 6,097,316 (“the ‘316 patent”). On May 17, 2010, Garmin filed its answer asserting that each claim of the ‘060 patent, the ‘892 patent, the ‘408 patent and the ‘375 patent is invalid and/or not infringed. On April 12, 2011, the special master appointed by the court held a claim construction hearing. On December 12, 2011, the court issued an order adopting the special master’s report construing the claims of the patents-in-suit. On September 14, 2012, Garmin filed with the U.S. Patent and Trademark Office petitions for *ex parte* reexamination of the ‘408 patent and the ‘060 patent as being anticipated and obvious in view of the prior art. The U.S. Patent and Trademark Office subsequently granted Garmin’s requests for *ex parte* reexaminations and initially rejected all identified claims. On April 15, 2013, the U.S. Patent and Trademark Office issued a reexamination certificate confirming the patentability of the challenged claims of the ‘060 patent. On November 30, 2012, Garmin filed motions for summary judgment of non-infringement and /or invalidity for the ‘892, ‘316, and ‘375 patents. Visteon filed its own motions for summary judgment of infringement of the ‘408 patent and validity, under section 112, of the ‘375 and ‘060 patents. On February 4, 2013, the summary judgment motions were referred to the special master for consideration. Although there can be no assurance that an unfavorable outcome of this litigation would not have a material adverse effect on our operating results, liquidity or financial position, Garmin believes that the claims in this lawsuit are without merit and intends to vigorously defend this action.

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

#### **Item 4. Mine Safety Disclosure**

None.

#### **Executive Officers of the Registrant**

Pursuant to General Instruction G(3) of Form 10-K and instruction 3 to paragraph (b) of Item 401 of Regulation S-K, the following list is included as an unnumbered Item in Part I of this Annual Report on Form 10-K in lieu of being included in the Company’s Definitive Proxy Statement in connection with its annual meeting of shareholders scheduled for June 6, 2014.

**Dr. Min H. Kao**, age 65, has served as Executive Chairman of Garmin Ltd. since January 2013 and was previously Chairman of Garmin Ltd. from August 2004 to December 2012 and Co-Chairman of Garmin Ltd. from August 2000 to August 2004. He served as Chief Executive Officer of Garmin Ltd. from August 2002 to December 2012 and previously served as Co-Chief Executive Officer from August 2000 to August 2002. Dr. Kao served as a director and officer of various subsidiaries of the Company from August 1990 until January 2013. Dr. Kao holds Ph.D. and MS degrees in Electrical Engineering from the University of Tennessee and a BS degree in Electrical Engineering from National Taiwan University.

**Clifton A. Pemble**, age 48, has served as a director of Garmin Ltd. since August 2004. He has served as President and Chief Executive Officer of Garmin Ltd. since January 2013. Previously, he served as President and Chief Operating Officer of Garmin Ltd. from October 2007 to December 2012. Previously, he was Vice President,

Engineering of Garmin International, Inc. from 2005 to October 2007, Director of Engineering of Garmin International, Inc. from 2003 to 2005, and Software Engineering Manager of Garmin International, Inc. from 1995 to 2002 and a Software Engineer with Garmin International, Inc. from 1989 to 1995. Mr. Pemble has served as a director and officer of various Garmin subsidiaries since August 2003. Mr. Pemble holds BA degrees in Mathematics and Computer Science from MidAmerica Nazarene University.

**Kevin S. Rauckman**, age 51, has served as Chief Financial Officer and Treasurer of Garmin Ltd. since August 2000. He previously served as Director of Finance and Treasurer of Garmin International, Inc. since January 1999 and has served as a director and officer of various subsidiaries of the Company since April 2001. Mr. Rauckman holds BS and MBA degrees in Business from the University of Kansas.

**Andrew R. Etkind**, age 58, has served as Vice President, General Counsel and Secretary of Garmin Ltd. since June 2009. He was previously General Counsel and Secretary of Garmin Ltd. from August 2000 to June 2009. He has been Vice President and General Counsel of Garmin International, Inc. since July 2007, General Counsel since February 1998, and Secretary since October 1998. Mr. Etkind has served as a director and officer of various Garmin subsidiaries since December 2001. Mr. Etkind holds BA, MA and LLM degrees from Cambridge University, England and a JD degree from the University of Michigan Law School.

All executive officers are elected by and serve at the discretion of the Company's Board of Directors. None of the executive officers have an employment agreement with the Company. There are no arrangements or understandings between the executive officers and any other person pursuant to which he or she was or is to be selected as an officer. There is no family relationship among any of the executive officers. Dr. Min H. Kao is the brother of Ruey-Jeng Kao, who is a supervisor of Garmin Corporation, Garmin's Taiwan subsidiary, who serves as an ex-officio member of Garmin Corporation's Board of Directors.

## PART II

### Item 5. Market for the Company's Common Shares, Related Shareholder Matters and Issuer Purchases of Equity Securities

Garmin's common shares have traded on the Nasdaq Stock Market LLC under the symbol "GRMN" since its initial public offering on December 8, 2000 (the "IPO"). As of January 24, 2014, there were 216 shareholders of record.

The high and low sales prices of Garmin's common shares as reported on the Nasdaq Stock Market for each fiscal quarter of fiscal years 2013 and 2012 was as follows:

	Year Ended December 28, 2013		December 29, 2012	
	High	Low	High	Low
First Quarter	\$ 42.25	\$ 32.97	\$ 48.86	\$ 39.36
Second Quarter	\$ 36.88	\$ 32.60	\$ 49.33	\$ 36.76
Third Quarter	\$ 45.42	\$ 34.96	\$ 42.45	\$ 35.84
Fourth Quarter	\$ 49.33	\$ 45.70	\$ 42.73	\$ 36.12

On June 7, 2013 the shareholders approved a cash dividend in the amount of \$1.80 per share out of Garmin's general reserves from capital contribution payable in four equal installments. The board anticipated the scheduling of the dividend as follows: \$0.45 on June 28, 2013 to shareholders of record on June 18, 2013, \$0.45 on September 30, 2013 to shareholders of record on September 16, 2013, \$0.45 on December 31, 2013 to shareholders of record on December 16, 2013 and \$0.45 on March 31, 2014 to shareholders of record on March 17, 2014. The Company paid the 2013 dividends in accordance with the schedule above and expects to pay the March 31, 2014 dividend. In addition, Garmin currently expects to pay a quarterly cash dividend in the remaining three quarters of 2014. The decision of whether to pay a dividend and the amount of the dividend will be voted on by the Company's shareholders as required by Swiss law.

The Board of Directors approved a share repurchase program on February 12, 2010, authorizing the Company to repurchase up to \$300 million of the Company's shares as market and business conditions warrant. This share

repurchase authorization expired on December 29, 2012.

35

The Board of Directors approved a share repurchase program on February 15, 2013, authorizing the Company to repurchase up to \$300 million of the Company's shares as market and business conditions warrant. The share repurchase authorization expires on December 31, 2014.

Period	Total # of Shares Purchased	Average Price Paid Per Share	Maximum Number of Shares (or Approx. Dollar Value of Shares in Thousands) That May Yet Be Purchased Under the Plan
Sept 29 - Oct 26, 2013	-	-	\$ 273,074
Oct 27 - Nov 23, 2013	241,403	\$ 46.92	\$ 261,747
Nov 24 - Dec 28, 2013	422,005	\$ 48.08	\$ 241,460
Total	663,408	\$ 47.65	\$ 241,460

We refer you to Item 12 of this report under the caption "Equity Compensation Plan Information" for certain equity plan information required to be disclosed by Item 201(d) of Regulation S-K.

### Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data of the Company. The selected consolidated balance sheet data as of December 28, 2013 and December 29, 2012 and the selected consolidated statement of income data for the years ended December 28, 2013, December 29, 2012, and December 31, 2011 were derived from the Company's audited consolidated financial statements and the related notes thereto which are included in Item 8 of this annual report on Form 10-K. The selected consolidated balance sheet data as of December 31, 2011, December 25, 2010, and December 26, 2009 and the selected consolidated statement of income data for the years ended December 25, 2010 and December 26, 2009 were derived from the Company's audited consolidated financial statements, not included herein.

The information set forth below is not necessarily indicative of the results of future operations and should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes to those statements included in Items 7 and 8 in Part II of this Form 10-K.

Edgar Filing: GARMIN LTD - Form 10-K

Years ended (1)  
 Dec. 28, 2013 Dec. 29, 2012 Dec. 31, 2011 (2) Dec. 25, 2010 Dec. 26, 2009  
 (in thousands, except per share data)

Consolidated Statements of  
 Income Data:

Net sales	\$ 2,631,851	\$ 2,715,675	\$ 2,758,569	\$ 2,689,911	\$ 2,946,440
Cost of goods sold	1,224,551	1,277,195	1,419,977	1,343,537	1,502,329
Gross profit	1,407,300	1,438,480	1,338,592	1,346,374	1,444,111

Operating expenses:

Advertising expense	112,905	138,757	145,024	144,613	155,521
Selling, general and administrative	355,440	369,790	341,217	287,824	264,202
Research and development	364,923	325,773	298,584	277,261	238,378
Total operating expenses	833,268	834,320	784,825	709,698	658,101

Operating income	574,032	604,160	553,767	636,676	786,010
Other income/(expense), net (3), (4)	79,526	20,368	30,394	(59,404)	22,641
Income before income taxes	653,558	624,528	584,161	577,272	808,651

Income tax provision/(benefit) (5)	41,146	82,125	63,265	(7,331)	104,701
Net income	\$ 612,412	\$ 542,403	\$ 520,896	\$ 584,603	\$ 703,950

Net income per share:

Basic	\$ 3.13	\$ 2.78	\$ 2.68	\$ 2.97	\$ 3.51
Diluted	\$ 3.12	\$ 2.76	\$ 2.67	\$ 2.95	\$ 3.50

Weighted average common shares

outstanding:					
Basic	195,411	194,909	194,105	196,979	200,395
Diluted	196,341	196,213	194,894	198,009	201,161

Cash dividends paid per share	\$ 1.80	\$ 1.80	\$ 1.60	\$ 1.50	\$ 0.75
-------------------------------	---------	---------	---------	---------	---------

Balance Sheet Data (at end of Period):

Cash and cash equivalents	\$ 1,179,149	\$ 1,231,180	\$ 1,287,160	\$ 1,260,936	\$ 1,091,581
Marketable securities	1,651,968	1,641,395	1,208,155	801,819	766,047
Total assets	4,869,699	4,819,124	4,471,338	3,988,688	3,828,082
Total debt	-	-	-	-	-
Total stockholders' equity	3,659,706	3,531,796	3,256,581	3,049,562	2,836,447

(1) Our fiscal year-end is the last Saturday of the calendar year and does not always fall on December 31. All years presented contain 52 weeks excluding Fiscal 2011 which includes 53 weeks.

(2) Includes a change in estimate for per unit revenue and cost deferrals. The increase to net sales, gross profit, net income, basic net income per share and diluted net income per share was \$77.8 million, \$66.5 million, \$59.3 million, \$0.31, and \$0.30, respectively.

(3)

Other income/(expense), net mainly consists of gain and/or loss on sale of equity securities, interest income, interest expense, and foreign currency gain (loss)

- (4) Includes \$35.5 million foreign currency gain in 2013 and \$20.0 million, \$12.1 million, \$88.4 million, and \$6.0 million foreign currency losses in 2012, 2011, 2010, and 2009 respectively.
- (5) Includes a \$68.7 million material income tax reserve release of uncertain tax position reserves from 2009 partially offset by Taiwan surtax expense due to the release of reserves, recorded in 2013, and a \$98.7 million material income tax reserve release of uncertain tax position reserves from 2006 to 2008, partially offset by a settlement for the 2007 tax year in the US and Taiwan surtax expense due to the release of reserves, recorded in 2010.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations focuses on and is intended to clarify the results of our operations, certain changes in our financial position, liquidity, capital structure and business developments for the periods covered by the consolidated financial statements included in this Form 10-K. This discussion should be read in conjunction with, and is qualified by reference to, the other related information including, but not limited to, the audited consolidated financial statements (including the notes thereto), the description of our business, all as set forth in this Form 10-K, as well as the risk factors discussed above in Item 1A.

As previously noted, the discussion set forth below, as well as other portions of this Form 10-K, contain statements concerning potential future events. 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 our assumptions on which the statements are based prove incorrect or should unanticipated circumstances arise, our 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 discussed above in Item 1A. Readers are strongly encouraged to consider those factors when evaluating any such forward-looking statement. We do not undertake to update any forward-looking statements in this Form 10-K.

Garmin's fiscal year is a 52-53 week period ending on the last Saturday of the calendar year. Fiscal year 2013 and 2012 contained 52 weeks compared to 53 weeks for 2011. Unless otherwise stated, all years and dates refer to the Company's fiscal year and fiscal periods. Unless the context otherwise requires, references in this document to "we," "us," "our" and similar terms refer to Garmin Ltd. and its subsidiaries.

Unless otherwise indicated, dollar amounts set forth in the tables are in thousands, except per share data.

## Overview

We are 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, which serve the marine, outdoor, fitness, automotive/mobile, and aviation markets. Our segments offer products through our network of subsidiary distributors and independent dealers and distributors. However, the nature of products and types of customers for the five segments can vary significantly. As such, the segments are managed separately.

Since our first products were delivered in 1991, we have generated positive income from operations each year and have funded our growth from these profits.

We experience some foreign currency fluctuations in our operating results. Foreign currency gains and losses for the Company are primarily tied to movements by the Taiwan Dollar, the Euro, and the British Pound Sterling. The Taiwan Dollar is the functional currency of Garmin Corporation. The U.S. Dollar remains the functional currency of Garmin Europe. The Euro is the functional currency of most European subsidiaries. As these entities have grown, currency moves can generate material gains and losses. Additionally, Euro-based inter-company transactions in Garmin Ltd. can also generate currency gains and losses. Other legal entities primarily use the local currency as the functional currency. Due to the relative size of entities using a functional currency other than the Taiwan Dollar, the Euro and the British Pound Sterling, currency fluctuations within these entities are not expected to have a material impact on the Company's financial statements.

Approximately 77% of sales by our European subsidiaries are now denominated in British Pounds Sterling or the Euro. We experienced \$35.5 million in foreign currency gains during fiscal year 2013 and (\$20.0) million and (\$12.1)

million in foreign currency losses during fiscal years 2012 and 2011, respectively. To date, we have not entered into hedging transactions related to any currency, and we do not currently plan to utilize hedging transactions in the future.

# Critical Accounting Policies and Estimates

## *General*

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

## *Revenue Recognition*

Garmin recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. For the large majority of Garmin's sales, these criteria are met once product has shipped and title and risk of loss have transferred to the customer. The Company recognizes revenue from the sale of hardware products and software bundled with hardware that is essential to the functionality of the hardware in accordance with general revenue recognition accounting guidance. The Company recognizes revenue in accordance with industry specific software accounting guidance for standalone sales of software products and sales of software bundled with hardware not essential to the functionality of the hardware. The Company generally does not offer specified or unspecified upgrade rights to its customers in connection with software sales.

Garmin introduced nüMaps Lifetime in January 2009, which is a single fee program that, subject to the program's terms and conditions, enables customers to download the latest map and point of interest information every quarter for the useful life of their PND. The revenue and associated cost of royalties for sales of nüMaps Lifetime products are deferred at the time of sale and recognized ratably on a straight-line basis over the estimated 36-month life of the products. With the acquisition of Navigon AG in 2011, products marketed under the Navigon brand have a FreshMaps program that enables customers to download the latest map and point of interest information for two years. The revenue and associated cost of royalties for sales of FreshMaps products are deferred at the time of sale and recognized ratably on a straight-line basis over the two year period.

For multiple-element arrangements that include tangible products that contain software essential to the tangible product's functionality and undelivered software elements that relate to the tangible product's essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the accounting principles establish a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (ESP). VSOE generally exists only when the Company sells the deliverable separately, on more than a limited basis, at prices within a relatively narrow range. In addition to the products listed below, the Company has offered certain other products including mobile applications, aviation

subscriptions and extended warranties that involve multiple-element arrangements that are immaterial.

In 2010, Garmin began offering PNDs with lifetime map updates (LMUs) bundled in the original purchase price. Similar to nüMaps Lifetime, LMUs enable customers to download the latest map and point of interest information every quarter for the useful life of their PND. In addition, Garmin offers PNDs with premium traffic service bundled in the original purchase price in the European market. The Company has identified multiple deliverables contained in arrangements involving the sale of PNDs which include the LMU and/or premium traffic service. The first deliverable is the hardware along with the software essential to the functionality of the hardware device delivered at the time of sale. The second and potentially third deliverables are the LMU and/or premium traffic service. The Company has allocated revenue between these deliverables using the relative selling price method. Amounts allocated to the delivered hardware and the related essential software are recognized at the time of sale provided the other conditions for revenue recognition have been met. The revenue and associated cost of royalties allocated to the LMU and/or the subscription for premium traffic service are deferred and recognized on a straight-line basis over the estimated 36-month life of the products.

Prior to the third quarter of fiscal 2011, Garmin determined its estimate of selling price using the dealer/distributor price for nüMaps Lifetime or premium traffic subscriptions sold separately, and the prices for products bundled with and without the LMU and premium traffic service when comparable models were available, as inputs to the relative selling price method in a manner similar to VSOE. The estimated selling price determined in this manner was used to defer revenues for all products bundled with the LMU and premium traffic service, as the number of bundled units sold as a percentage of total units sold was less significant and other indicators of selling price were not readily available.

During 2011, sales of products bundled with LMUs and premium traffic service increased significantly as a percentage of total product sales. Concurrently, market conditions caused decreases in the ASP and margins of comparable models year over year, new bundled products were introduced at lower ASPs, and the difference in pricing of bundled units and comparable unbundled models decreased considerably. Due to these changes, the Company determined it was appropriate to change its estimate of the per unit revenue and cost deferrals during the third quarter of 2011.

As the sales of nüMaps Lifetime and premium traffic subscriptions as a percentage of total unit sales or in the aggregate decreased significantly in mid-2011, the Company determined that the previous estimate of selling price based on more limited stand-alone sales of nüMaps Lifetime or premium traffic was no longer a sole determinant of its value as determined under VSOE, and that third party evidence of selling price was not available. Management determined that the price differential between bundled and unbundled products and the royalty cost of the LMU or premium traffic subscription plus an approximate margin were both additional indicators of estimated selling price. These estimates are also reflective of how the Company establishes product pricing based in part on customer perception of value of the added LMU or premium traffic service capability. As such, beginning in the third quarter of 2011, the Company changed its estimate of selling price of the undelivered element to be based on the relative selling price method using a weighted average of the stand-alone sales price, the price differential between bundled and unbundled units, and the royalty or subscription cost plus a normal margin.

The impact in 2011 of the change in estimate for lifetime map updates and premium traffic service, as described above, was an increase in revenue, gross profit, net income, basic net income per share, and diluted net income per share of \$77.8 million, \$66.5 million, \$59.3 million, \$0.31, and \$0.30, respectively.

Garmin records estimated reductions to revenue for customer sales programs, returns and incentive offerings including rebates, price protection (product discounts offered to retailers to assist in clearing older products from their inventories in advance of new product releases), promotions and other volume-based incentives. The reductions to revenue are based on estimates and judgments using historical experience and expectation of future conditions. Changes in these estimates could negatively affect Garmin's operating results. These incentives are reviewed periodically and, with the exceptions of price protection and certain other promotions, accrued for on a percentage of

sales basis. If market conditions were to decline, Garmin may take actions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered.

40

The Company records revenue net of sales tax, trade discounts and customer returns. The reductions to revenue for expected future product returns are based on Garmin's historical experience.

### ***Trade Accounts Receivable***

We sell our products to retailers, wholesalers, and other customers and extend credit based on our evaluation of each customer's financial condition. Potential losses on receivables are dependent on each individual customer's financial condition. We carry our trade accounts receivable at net realizable value. Typically, our accounts receivable are collected within 80 days and do not bear interest. We monitor our exposure to losses on receivables and maintain allowances for potential losses or adjustments. We determine these allowances by (1) evaluating the aging of our receivables; and (2) reviewing our high-risk customers. Past due receivable balances are written off when our internal collection efforts have been unsuccessful. Beginning in 2011, the Company has maintained trade credit insurance to provide security against large losses.

### ***Loan Receivable***

On March 14, 2013, the Company entered into a Memorandum of Agreement (the "Agreement") with Bombardier, Inc. ("Bombardier"). The Company is the supplier of the avionics system for the Lear 70 and Lear 75 aircraft currently in development for Learjet, Inc., which is a subsidiary of Bombardier (the "Program"). In order to assist Bombardier in connection with delayed cash flows from the Program partially related to the certification of avionics for the Program exceeding the planned delivery date, the Company agreed to provide Bombardier a short term, interest free, loan of \$173,708 in cash in seven installments beginning on March 22, 2013 and ending on September 20, 2013 pursuant to the terms and conditions of the Agreement. Bombardier will repay the loan in five installments beginning in November 2013 and ending in April 2014 pursuant to the terms and conditions of the Agreement and subsequent amendment signed December 6, 2013. As of December 28, 2013, the Company had a loan receivable balance of \$137,369 from Bombardier, in the accompanying consolidated balance sheet.

## ***Warranties***

The Company provides for estimated warranty costs at the time of sale. The Company's standard warranty obligation to retail partners generally provides for a right of return of any product for a full refund in the event that such product is not merchantable, is damaged or defective. The Company's historical experience is that these types of warranty obligations are generally fulfilled within 5 months from time of sale. The Company's standard warranty obligation to its end-users provides for a period of one to two years from date of shipment while certain aviation products have a warranty period of two years from the date of installation. The Company's estimate of costs to service its warranty obligations are based on historical experience and expectations of future conditions and are recorded as a liability on the balance sheet. To the extent Garmin experiences increased warranty claim activity or increased costs associated with servicing those claims, its warranty accrual will increase, resulting in decreased gross profit.

## ***Inventory***

Garmin writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional

inventory write-downs may be required.

***Investments***

Investments are classified as available for sale and recorded at fair value, and unrealized investment gains and losses are reflected in stockholders' equity. Investment income is recorded when earned, and gains and losses are recognized when investments are sold. Investments are reviewed periodically to determine if they have suffered an impairment of value that is considered other than temporary. If investments are determined to be impaired, a loss is recognized at the date of determination.

Testing for impairment of investments requires significant management judgment. The identification of potentially impaired investments, the determination of their fair value and the assessment of whether any decline in value is other than temporary are the key judgment elements. The discovery of new information and the passage of time can significantly change these judgments. Revisions of impairment judgments are made when new information becomes known, and any resulting impairment adjustments are made at that time. The economic environment and volatility of securities markets increase the difficulty of determining fair value and assessing investment impairment. Investments are discussed in detail in Note 3 of the Notes to Consolidated Financial Statements.

## ***Income Taxes***

Garmin provides deferred tax assets and liabilities based on the difference between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes as measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. It is Garmin's policy to record a valuation allowance to reduce its deferred tax assets to an amount that it believes is more likely than not to be realized. While Garmin has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event Garmin were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination is made. Likewise, should Garmin determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination is made.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves not to be required, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result.

### ***Stock Based Compensation***

Garmin awards stock options, stock appreciation rights (SARs), restricted stock units (RSUs) and/or performance shares each year as part of Garmin's compensation package for employees. Certain employees within Garmin are eligible for stock options, SAR grants, RSU grants and/or performance shares but the granting of options, SARs, RSUs and/or performance shares is at the discretion of the Compensation Committee of the Board of Directors and is not a contractual obligation.

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating expected life, forfeitures and dividends. If actual results differ significantly from these estimates, stock-based compensation expense could be impacted. Stock compensation plans are discussed in detail in Note 9 of the Notes to Consolidated Financial Statements.

### **Accounting Terms and Characteristics**

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

Our net sales are primarily generated through sales to our global dealer and distributor network and to original equipment manufacturers. Refer to the Revenue Recognition discussion above. Our sales are largely of a consumer nature; therefore, backlog levels are not necessarily indicative of our future sales results. We aim to achieve a quick turnaround on orders we receive, and we typically ship most orders within 72 hours.

Net sales are subject to seasonal fluctuation. Typically, sales of our consumer products are highest in the second quarter, due to increased demand during the spring and summer season, and in the fourth quarter, due to increased demand during the holiday buying season. Our aviation products do not experience much seasonal variation, but are more influenced by the timing of the release of new products when the initial demand is typically the strongest.



## ***Cost of Sales/Gross Profit***

Raw material costs are our most significant component of cost of goods sold. In 2013, gross margin for our automotive/mobile segment increased 40 basis points driven primarily by the amortization of previously deferred high margin revenues partially offset by a positive impact to 2012 gross margin from a one-time royalty fee adjustment. See Note 2 of the Notes to Consolidated Financial Statements for further information on gross profit deferrals. In 2012, gross margin for our automotive/mobile segment increased 560 basis points driven primarily by the amortization of previously deferred high margin revenues, the third quarter 2011 change in estimate of per unit revenue and cost deferred as previously discussed and a one-time royalty fee adjustment. In 2011, gross margin for our automotive/mobile segment declined 280 basis points driven primarily by the deferral of high margin revenue associated with bundled products, partially offset by the change in estimate mentioned above, and decreased selling prices on comparable units, as well as positive impact to 2010 gross margin from a refinement in the estimated warranty reserve.

In 2013, we experienced an 860 basis point decline in marine gross margin due to significant pricing discounts on legacy inventory in the first half of 2013, competitive pricing dynamics on new products and product mix. In 2012, we experienced a 320 and 260 basis point increase in aviation and fitness gross margins, respectively. Aviation gross margin expansion was driven primarily by product mix and a OEM program contribution that negatively impacted gross margins in 2011. Fitness gross margin improvement was due to product mix. In 2011, we experienced a 420 basis point decline in marine gross margin due to a shift in product mix. Gross margins for the aviation, marine, outdoor, and fitness segments are typically more stable than in the automotive/mobile segment. Our long-term gross margin targets are 70%, 55%, 60%, and 60%, respectively, for these segments.

Our existing practice of performing the design and manufacture of our products in-house has enabled us to source components from different suppliers and, where possible, to redesign our products to leverage lower cost components. We believe that our flexible production model allows our Sijhih, Jhongli, and LinKou manufacturing plants in Taiwan, our Olathe, Kansas, and Salem, Oregon manufacturing plants to experience relatively low costs of manufacturing. In general, products manufactured in Taiwan have been our highest volume products. Our manufacturing labor costs historically have been lower in Taiwan than in Olathe and Salem.

Sales price variability has had and can be expected to have an effect on our gross profit. In the past, prices of our devices sold into the automotive/mobile market have declined due to market pressures and introduction of new products sold at lower price points. The average selling prices of our aviation, outdoor, fitness, and marine products have been stable due to product mix and the introduction of more advanced products sold at higher prices. The effect of the sales price differences inherent within the mix of GPS-enabled products sold could have a significant impact on our gross profit.

### ***Advertising Expense***

Our advertising expenses consist of costs for both media advertising and cooperative advertising with our retail partners. In both 2013 and 2012, we reduced our advertising expense due primarily to reduced cooperative advertising associated with lower volumes in the automotive/mobile segment. In 2011, our advertising costs increased slightly as we again experienced revenue growth. We expect advertising costs to increase slightly in 2014 with incremental spending associated with new product categories partially offset by decreased spending in the automotive/mobile segment.

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

Our selling, general and administrative expenses consist primarily of:

- salaries for sales and marketing personnel;
- salaries and related costs for executives and administrative personnel;
- marketing, and other brand building costs;

43

- accounting and legal costs;
- information systems and infrastructure costs;
- travel and related costs; and
- occupancy and other overhead costs.

Selling, general and administrative expenses decreased in 2013 after increasing in both 2012 and 2011. The 2013 decrease was primarily driven by reduced legal settlements and related fees. The 2012 increase was primarily driven by full year expenses associated with acquisitions completed in the second half of 2011 and legal costs. The 2011 increase was primarily driven by acquisitions, commissions associated with a new web-based sales program, bad debt expense, legal costs and product support costs. We expect selling, general and administrative costs, excluding advertising, to increase slightly in 2014 and remain consistent as a percentage of net sales.

### ***Research and Development***

The majority of our research and development costs represent salaries for our engineers, costs for high technology components and costs of test equipment used in product and prototype development. Approximately 81% of the research and development of our products is performed in North America.

We are committed to increasing the level of innovative design and development of new products as we strive for expanded ability to serve our existing consumer and aviation markets as well as new markets for GPS-enabled devices. We expect our research and development budget to increase in 2014 due to our ongoing commitment to innovation and growth.

### ***Customers***

Our top ten customers have contributed between 24% and 29% of net sales since 2011. We have experienced average sales days in our customer accounts receivable of between 69 and 72 days since 2011. We expect the level of customer accounts receivable days to be relatively stable in 2014.

### ***Income Taxes***

We have experienced a relatively low effective corporate tax rate due to the proportion of our revenue generated by entities in tax jurisdictions with low statutory rates. In particular, the profit entitlement afforded our Swiss-based companies based on their intellectual property rights ownership of our consumer products along with tax incentives offered by the Taiwanese government on certain high-technology capital investments have continued to reduce our tax rate. We have taken advantage of the tax benefit in Taiwan since our inception and we expect to continue to benefit from lower effective tax rates at least through 2015.

Our consolidated effective tax rate was approximately 6.3% during 2013. This is a decrease from an effective rate of 13.1% in 2012. The significant decline was due to the impact of a \$68.7 million benefit, which includes the release of uncertain tax position reserves from 2009 offset by Taiwan surtax expense due to this reserve release. Excluding these items, we would have reported an effective tax rate of 16.8% for fiscal year 2013 compared to 13.1% for fiscal year 2012. This increase was primarily driven by an unfavorable income mix across tax jurisdictions, reduced Taiwanese tax incentives, and the release of other uncertain tax position reserves, amounting to approximately \$11.2 million for 2013 and \$13.0 million for 2012 that are considered immaterial, tend to be more recurring in nature and

are comparable between periods. These factors were partially offset by the impact of \$6.3 million of research and development tax credits related to 2012 which were recognized when the related legislation was enacted in January 2013.

Management believes that the effective tax rate for fiscal 2014 will be consistent with the 2013 effective tax rate of 16.8%, excluding special items as outlined above, as operating profits and margins are relatively stable. The actual effective tax rate will depend upon the operating margins, production volume, additional capital investments made during fiscal 2014, the resolution of uncertain tax positions and the composition of our earnings.

**Results of Operations**

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

	Fiscal Years Ended					
	Dec. 28, 2013		Dec. 29, 2012		Dec. 31, 2011	
Net sales	100	%	100	%	100	%
Cost of goods sold	47	%	47	%	51	%
Gross profit	53	%	53	%	49	%
Operating expenses:						
Advertising	4	%	5	%	5	%
Selling, general and administrative	14	%	14	%	12	%
Research and development	14	%	12	%	11	%
Total operating expenses	32	%	31	%	28	%
Operating income	22	%	22	%	20	%
Other income / (expense) , net	3	%	1	%	1	%
Income before income taxes	25	%	23	%	21	%
Provision for income taxes	2	%	3	%	2	%
Net income	23	%	20	%	19	%

The following table sets forth our results of operations through income before income taxes for each of our five segments during the period shown. For each line item in the table the total of the segments' amounts equals the amount in the consolidated statements of income data included in Item 6.

Edgar Filing: GARMIN LTD - Form 10-K

Fiscal year ended December 28, 2013	Outdoor	Fitness	Marine	Automotive/ Mobile	Aviation
Net sales	\$ 410,989	\$ 356,283	\$ 222,928	\$ 1,302,314	\$ 339,337
Cost of goods sold	148,460	133,358	107,837	737,231	97,665
Gross profit	262,529	222,925	115,091	565,083	241,672
Advertising	19,805	24,153	11,435	52,478	5,034
Selling, general and administrative expenses	59,058	50,765	38,578	187,449	19,590
Research and development	24,469	27,757	46,585	136,639	129,473
Total expenses	103,332	102,675	96,598	376,566	154,097
Operating income	159,197	120,250	18,493	188,517	87,575
Other income / (expense), net	9,352	11,161	7,500	46,005	5,508
Income before income taxes	\$ 168,549	\$ 131,411	\$ 25,993	\$ 234,522	\$ 93,083
Fiscal year ended December 29, 2012	Outdoor	Fitness	Marine	Automotive/ Mobile	Aviation
Net sales	\$ 401,747	\$ 321,788	\$ 208,136	\$ 1,492,440	\$ 291,564
Cost of goods sold	141,183	117,173	82,935	849,527	86,377
Gross profit	260,564	204,615	125,201	642,913	205,187
Advertising	20,812	25,322	14,804	72,817	5,002
Selling, general and administrative expenses	54,535	43,943	33,540	220,669	17,103
Research and development	20,606	23,543	42,857	128,661	110,106
Total expenses	95,953	92,808	91,201	422,147	132,211
Operating income	164,611	111,807	34,000	220,766	72,976
Other income / (expense), net	3,123	2,467	1,725	10,852	2,201
Income before income taxes	\$ 167,734	\$ 114,274	\$ 35,725	\$ 231,618	\$ 75,177
Fiscal year ended December 31, 2011	Outdoor	Fitness	Marine	Automotive/ Mobile	Aviation
Net sales	\$ 363,223	\$ 298,163	\$ 221,730	\$ 1,590,598	\$ 284,855
Cost of goods sold	124,373	116,404	92,077	993,581	93,542
Gross profit	238,850	181,759	129,653	597,017	191,313
Advertising	16,739	18,831	11,310	93,456	4,688
Selling, general and administrative expenses	43,181	38,495	30,990	212,545	16,006
Research and development	17,419	22,332	29,708	130,179	98,946
Total expenses	77,339	79,658	72,008	436,180	119,640
Operating income	161,511	102,101	57,645	160,837	71,673
Other income / (expense), net	9,734	5,780	2,447	10,880	1,553
Income before income taxes	\$ 171,245	\$ 107,881	\$ 60,092	\$ 171,717	\$ 73,226

Income Taxes



**Comparison of 52-Weeks Ended December 28, 2013 and December 29, 2012*****Net Sales***

	52-weeks ended December 28, 2013		52-weeks ended December 29, 2012		Year over Year	
	Net Sales	% of Revenues	Net Sales	% of Revenues	\$ Change	% Change
Outdoor	\$ 410,989	16 %	\$ 401,747	15 %	\$ 9,242	2 %
Fitness	356,283	14 %	321,788	12 %	34,495	11 %
Marine	222,928	8 %	208,136	7 %	14,792	7 %
Automotive/Mobile	1,302,314	49 %	1,492,440	55 %	(190,126)	-13 %
Aviation	339,337	13 %	291,564	11 %	47,773	16 %
Total	\$ 2,631,851	100 %	\$ 2,715,675	100 %	\$ (83,824)	-3 %

Net sales decreased 3% in 2013 when compared to the year-ago period. The decrease was driven by the automotive/mobile segment which posted a 13% decline with offsetting growth in outdoor, fitness, marine and aviation. Automotive/mobile revenue remains the largest portion of our revenue mix at 49% in 2013, compared to 55% in 2012.

Total unit sales decreased 10% to 13.9 million units in 2013 from 15.4 million units in 2012. The decrease in unit sales volume was attributable to reduced automotive/mobile volumes due to penetration rates and competing technologies. This decline was partially offset by growth in each of the other segments.

Automotive/mobile segment revenue decreased 13% from the year-ago period, as volumes decreased 17% partially offset by average selling price (ASP) improvement due to the amortization of previously deferred revenue exceeding current year revenue deferrals in 2013 and increased auto OEM contribution with a higher ASP.

Aviation revenues increased 16% from the year-ago period as the OEM market improved in some aircraft categories, as well as contribution from recent share gains and aftermarket products. Fitness revenues increased 11% on the strength of our cycling products, power meter, and the Forerunner 10 with strong volume growth partially offset by reduced ASPs associated with the Forerunner 10. Revenues in our marine segment increased 7% as new product introductions were partially offset by a weak first quarter when we discounted many products in advance of new products and a global marine electronics industry that continues to be weak due to macroeconomic instability.

The Company anticipates revenue of \$2.6 - \$2.7 billion in 2014 driven by growth in the outdoor, fitness, aviation and marine segments offset by ongoing declines in the automotive/mobile segment. In general, management believes that continuous innovation and the introduction of new products are essential for future revenue growth.

***Cost of Goods Sold***

	52-weeks ended December 28, 2013		52-weeks ended December 29, 2012		Year over Year	
	Cost of Goods	% of Revenues	Cost of Goods	% of Revenues	\$ Change	% Change
Outdoor	\$ 148,460	36 %	\$ 141,183	35 %	\$ 7,277	5 %
Fitness	133,358	37 %	117,173	36 %	16,185	14 %

Marine	107,837	48 %	82,935	40 %	24,902	30 %
Automotive/Mobile	737,231	57 %	849,527	57 %	(112,296)	-13 %
Aviation	97,665	29 %	86,377	30 %	11,288	13 %
Total	\$ 1,224,551	47 %	\$ 1,277,195	47 %	\$ (52,644)	-4 %

Cost of goods sold decreased 4% when compared to the year ago period. As a percentage of revenue, cost of goods sold decreased 50 basis points from the year ago period. Cost of goods as a percentage of revenue for outdoor and fitness were negatively impacted by product mix and slight ASP declines. Cost of goods as a percentage of revenues increased by 850 basis points in marine due to significant pricing discounts on legacy inventory in the first half of 2013, competitive pricing dynamics on new products and rising component costs. The automotive/mobile segment recorded a 13% decline in cost of goods in absolute dollars as revenues declined 13%. Cost of goods as a percentage of revenues for the automotive/mobile segment decreased by 30 basis points as the effect of a \$21 million one-time royalty fee benefit related to license fee overpayments recorded in the second quarter of 2012 was offset by the benefit from the amortization of previously deferred high margin revenue and the associated costs exceeding new deferrals on current period sales in 2013. The aviation segment experienced an absolute dollar cost of goods sold increase generally commensurate with the sales increase discussed above.

Management believes that cost of goods sold as a percentage of sales will be relatively stable in 2014 given the growth in segments with higher margin profiles than corporate average, product mix within those segments and current component pricing.

## **Gross Profit**

	52-weeks ended December 28, 2013				52-weeks ended December 29, 2012				Year over Year	
	Gross Profit		% of Revenues		Gross Profit		% of Revenues		\$ Change	% Change
Outdoor	\$ 262,529	64 %	\$ 260,564	65 %	\$ 1,965	1 %				
Fitness	222,925	63 %	204,615	64 %	18,310	9 %				
Marine	115,091	52 %	125,201	60 %	(10,110)	-8 %				
Automotive/Mobile	565,083	43 %	642,913	43 %	(77,830)	-12 %				
Aviation	241,672	71 %	205,187	70 %	36,485	18 %				
Total	\$ 1,407,300	53 %	\$ 1,438,480	53 %	\$ (31,180)	-2 %				

Gross profit dollars in 2013 decreased 2% while gross profit margin increased 50 basis points compared to 2012 driven primarily by the automotive/mobile and aviation segments. The automotive/mobile gross margin was stable at 43% as the royalty benefit recorded in the second quarter of 2012 was offset by increased amortization of previously deferred high margin revenues in 2013, as discussed above. The gross profit margin percentage for the marine segment declined by 850 basis points as discussed above.

Management believes that total company gross margins will be relatively stable in 2014 as discussed above.

## Advertising Expenses

52-weeks ended December 28, 2013						
52-weeks ended December 29, 2012			Year over Year			
Advertising						
Expense	% of Revenues	Advertising	Expense	% of Revenues	\$ Change	% Change
Outdoor	\$ 19,805 5 %	\$ 20,812 5 %	\$ (1,007)	-5 %		
Fitness	24,153 7 %	25,322 8 %	(1,169)	-5 %		
Marine	11,435 5 %	14,804 7 %	(3,369)	-23 %		
Automotive/Mobile	52,478 4 %	72,817 5 %	(20,339)	-28 %		
Aviation	5,034 1 %	5,002 2 %	32	1 %		
<b>Total</b>	<b>\$ 112,905 4 %</b>	<b>\$ 138,757 5 %</b>	<b>\$ (25,852)</b>	<b>-19 %</b>		

Advertising expense decreased 19% in absolute dollars and 80 basis points as a percent of revenue compared to the year-ago period. The decrease occurred primarily in the automotive/mobile and marine segments due to reduced cooperative advertising associated with lower volumes in automotive/mobile and a newer product line in marine requiring less promotional activity.

Management expects to increase advertising as a percentage of sales in 2014 with incremental spending associated with new product categories partially offset by decreased spending in the automotive/mobile segment.

## Selling, General and Administrative Expenses

	52-weeks ended December 28, 2013		52-weeks ended December 29, 2012		Year over Year	
	Selling, General & Admin. Expenses	% of Revenues	Selling, General & Admin. Expenses	% of Revenues	\$ Change	% Change
Outdoor	\$ 59,058	14 %	\$ 54,535	14 %	\$ 4,523	8 %
Fitness	50,765	14 %	43,943	14 %	6,822	16 %
Marine	38,578	17 %	33,540	16 %	5,038	15 %
Automotive/Mobile	187,449	14 %	220,669	15 %	(33,220)	-15 %
Aviation	19,590	6 %	17,103	6 %	2,487	15 %
Total	\$ 355,440	14 %	\$ 369,790	14 %	\$ (14,350)	-4 %

Selling, general and administrative expense decreased 4% in absolute dollars and 10 basis points as a percent of revenues compared to the year-ago period. The absolute dollar decrease is primarily related to reduced legal settlements and legal fees in the automotive/mobile segment. The increase in aviation is partially related to an increase in bad debt expense. Variances by segment are primarily due to the allocation of certain selling, general and administrative expenses based on percentage of total revenues.

Management expects selling, general and administrative expenses to be relatively stable as a percentage of sales in 2014.

### Research and Development Expense

	52-weeks ended December 28, 2013		52-weeks ended December 29, 2012		Year over Year	
	Research & Development	% of Revenues	Research & Development	% of Revenues	\$ Change	% Change
Outdoor	\$ 24,469	6 %	\$ 20,606	5 %	\$ 3,863	19 %
Fitness	27,757	8 %	23,543	7 %	4,214	18 %
Marine	46,585	21 %	42,857	21 %	3,728	9 %
Automotive/Mobile	136,639	10 %	128,661	9 %	7,978	6 %
Aviation	129,473	38 %	110,106	38 %	19,367	18 %
Total	\$ 364,923	14 %	\$ 325,773	12 %	\$ 39,150	12 %

Research and development expense increased 12% due to ongoing development activities for new products and the addition of over 200 new engineering personnel to our staff since 2012. In absolute dollars, research and development costs increased \$39.2 million when compared with 2012 representing a 190 basis point increase as a percent of revenue. Aviation had the largest increase in absolute dollars as we are investing heavily in OEM opportunities. Marine and automotive/mobile investment is focused on marine product enhancements and automotive OEM opportunities, respectively. Within outdoor and fitness, we launched a number of new product categories in 2013. We are also exploring new categories within these segments.

Management believes that one of the key strategic initiatives for future growth and success of Garmin is continuous innovation, development, and introduction of new products. Management expects that its research and development expenses will increase during fiscal 2014 on an absolute dollar basis and as a percent of revenue in order to deliver innovative new products and technologies.

### Operating Income

Edgar Filing: GARMIN LTD - Form 10-K

	52-weeks ended December 28, 2013			52-weeks ended December 29, 2012			Year over Year		
	Operating Income	% of Revenues		Operating Income	% of Revenues		\$ Change	% Change	
Outdoor	\$ 159,197	39	%	\$ 164,611	41	%	\$ (5,414)	-3	%
Fitness	120,250	34	%	111,807	35	%	8,443	8	%
Marine	18,493	8	%	34,000	16	%	(15,507)	-46	%
Automotive/Mobile	188,517	14	%	220,766	15	%	(32,249)	-15	%
Aviation	87,575	26	%	72,976	25	%	14,599	20	%
Total	\$ 574,032	22	%	\$ 604,160	22	%	\$ (30,128)	-5	%

49

Operating income decreased 5% in absolute dollars and 40 basis points as a percent of revenue when compared to 2012 due to declining revenues and increased research and development expense offset by a slight improvement in gross margins and cost reductions in advertising and selling, general and administrative expenses, as discussed above.

***Other Income (Expense)***

	52-weeks ended December 28, 2013	52-weeks ended December 29, 2012
Interest Income	\$ 35,271	\$ 35,108
Foreign Currency Exchange	35,538	(20,022)
Other	8,717	5,282
Total	\$ 79,526	\$ 20,368

Other income (expense) principally consists of interest income and foreign currency exchange gains and losses. Interest income for fiscal 2013 increased slightly due to increasing cash and marketable securities balances during the year.

Foreign currency gains and losses for the Company are primarily tied to movements by the Taiwan Dollar, the Euro, and the British Pound Sterling in relation to the U.S. Dollar. The Taiwan Dollar is the functional currency of Garmin Corporation. The U.S. Dollar remains the functional currency of Garmin (Europe) Ltd. The Euro is the functional currency of most European subsidiaries. As these entities have grown, currency fluctuations can generate material gains and losses. Additionally, Euro-based inter-company transactions can also generate currency gains and losses. Due to the relative size of the entities using a functional currency other than the Taiwan Dollar, the Euro and the British Pound Sterling, currency fluctuations related to these entities are not expected to have a material impact on the Company's financial statements.

The majority of the \$35.5 million currency gain in 2013 was due to the strengthening of the U.S. Dollar compared to the Taiwan Dollar. The weakening of the U.S. Dollar compared to the Euro and British Pound Sterling contributed additional gains. The movements of the Taiwan Dollar and Euro/British Pound Sterling have offsetting impacts due to the use of the Taiwan Dollar for manufacturing costs and cash held in non-functional currency while the Euro and British Pound Sterling transactions relate to revenue. During 2013, the U.S. Dollar weakened 4.1% and 2.2%, respectively, relative to the Euro and British Pound Sterling resulting in a foreign currency gain of \$7.5 million in Garmin Ltd. and our European subsidiaries. The U.S. Dollar strengthened 3.3% against the Taiwan Dollar resulting in a \$30.2 million foreign currency gain due to the fluctuation of asset balances throughout the year. The net result of these currency moves combined with other losses of \$2.1 million, and the timing of transactions during the year was a net gain of \$35.5 million for the Company.

The \$20.0 million currency loss in 2012 was due primarily to weakening of the U.S. Dollar compared to the Taiwan Dollar. During 2012, the U.S. Dollar weakened 3.8% compared to the Taiwan Dollar resulting in a loss of \$31.3 million. This was partially offset by the U.S. Dollar weakening 2.1% and 4.3%, respectively, compared to the Euro and the British Pound Sterling, resulting in a \$10.4 million gain. The remaining net currency gain of \$0.8 million is related to other currencies and timing of transactions.

***Income Tax Provision***

Our earnings before taxes increased 5% when compared to 2012, while our income tax expense decreased by \$41.0 million, to \$41.1 million for 2013, compared to \$82.1 million for 2012. The significant decline was due to the impact of a \$68.7 million benefit, which includes the release of uncertain tax position reserves from 2009 offset by Taiwan

surcharge expense due to this reserve release. Excluding these items, we would have reported an effective tax rate of 16.8% for fiscal year 2013 compared to 13.1% for fiscal year 2012. This increase was primarily driven by an unfavorable income mix across tax jurisdictions, reduced Taiwanese tax incentives, and the release of other uncertain tax position reserves, amounting to approximately \$11.2 million for 2013 and \$13.0 million for 2012 that are considered immaterial, tend to be more recurring in nature and are comparable between periods. These factors were partially offset by the impact of \$6.3 million of research and development tax credits related to 2012 which were recognized when the related legislation was enacted in January 2013.

**Net Income**

As a result of the various factors noted above, net income increased 13% to \$612.4 million for fiscal year 2013 compared to \$542.4 million for fiscal year 2012.

**Comparison of 52-Weeks Ended December 29, 2012 and 53-Weeks Ended December 31, 2011****Net Sales**

	52-weeks ended December 28, 2012		52-weeks ended December 29, 2011		Year over Year		
	Net Sales	% of Revenues	Net Sales	% of Revenues	\$ Change	% Change	
Outdoor	\$ 401,747	15 %	\$ 363,223	13 %	\$ 38,524	11 %	%
Fitness	321,788	12 %	298,163	11 %	23,625	8 %	%
Marine	208,136	7 %	221,730	8 %	(13,594)	-6 %	%
Automotive/Mobile	1,492,440	55 %	1,590,598	58 %	(98,158)	-6 %	%
Aviation	291,564	11 %	284,855	10 %	6,709	2 %	%
Total	\$ 2,715,675	100 %	\$ 2,758,569	100 %	\$ (42,894)	-2 %	%

Net sales decreased 2% in 2012 when compared to the year-ago period. The decrease was driven by automotive/mobile and marine with offsetting growth in outdoor, fitness and aviation. The outdoor segment experienced the greatest increase at 11% with fitness contributing 8% growth. Automotive/mobile revenue remains the largest portion of our revenue mix, but declined from 58% in 2011 to 55% in 2012.

Total unit sales decreased 3% to 15.4 million units in 2012 from 15.8 million units in 2011. The declining unit sales volume in 2012 was primarily attributable to a decline in automotive/mobile units as the North American and European PND markets slowed due to penetration rates and competing technologies. This decline was partially offset by increasing volumes in the outdoor and fitness segments, as well as auto OEM units.

Automotive/mobile segment revenue declined 6% in 2012, as the average selling price (ASP) was flat and volumes declined 6%. ASP was stable due to the substantial increase in our bundled product offerings, which include lifetime map updates and premium traffic services, as a percentage of total units sold, offset by a decrease in the ASP of comparable models from the previous year. The increase in product mix toward bundled offerings required us to defer \$68.3 million of net sales in 2012 compared to \$179.3 million of net sales in 2011. The reduced impact of deferred revenue is related to increased amortization of previously deferred revenues and costs and a reduced per unit revenue deferral rate due to a change in accounting estimate in the third quarter of 2011, as previously discussed, offset by the impact of increased sales of bundled units requiring deferral.

Outdoor revenue increased 11% driven by market share gains in the GPS-enabled golf category and the dog tracking and training portfolio including the benefit of an acquisition completed in the second half of 2011. Fitness segment revenue increased 8% on the strength of recent product introductions and ongoing global penetration though slowing from 24% growth in the prior year when we had significant promotional activity on discontinued products. Marine revenues decreased 6% due to a difficult international marine environment. Aviation revenues increased 2% as the Company's OEM business began to recover but was partially offset by declining sales of retrofit and portable products.

## Cost of Goods Sold

	52-weeks ended December 29, 2012			53-weeks ended December 31, 2011			Year over Year		
	Cost of Goods	% of Revenues		Cost of Goods	% of Revenues		\$ Change	% Change	
Outdoor	\$ 141,183	35	%	\$ 124,373	34	%	\$ 16,810	14	%
Fitness	117,173	36	%	116,404	39	%	769	1	%
Marine	82,935	40	%	92,077	42	%	(9,142)	-10	%
Automotive/Mobile	849,527	57	%	993,581	62	%	(144,054)	-14	%
Aviation	86,377	30	%	93,542	33	%	(7,165)	-8	%
Total	\$ 1,277,195	47	%	\$ 1,419,977	51	%	\$ (142,782)	-10	%

Cost of goods sold decreased 10% in 2012 when compared to the year-ago period primarily due to unit volume declines discussed above, component cost reductions, a mix shift toward higher margin new products and certain factors specific to the automotive/mobile segment discussed below. The cost of goods sold as a percentage of revenues for the automotive/mobile segment decreased by 560 basis points. The decline principally resulted from a \$21 million one-time royalty fee benefit recorded in second quarter (140 basis points) and subsequent impact of reduced royalty costs, a reduction in the year-over-year impact of deferred revenue and costs including the reduced per unit deferral rate as discussed above (280 basis points), component price reductions and product mix shifting toward more recently introduced products carrying a higher margin profile.

Fitness and marine posted declines in cost of goods sold as a percentage of revenue due to product mix moving toward newer products with increased features, functionality and higher per unit margins, as well as decreased promotional activities. Aviation posted a decline in cost of goods sold as a percentage of revenue due primarily to product mix and a prior year OEM contribution that negatively impacted revenues.

## Gross Profit

	52-weeks ended December 29, 2012			53-weeks ended December 31, 2011			Year over Year		
	Gross Profit	% of Revenues		Gross Profit	% of Revenues		\$ Change	% Change	
Outdoor	\$ 260,564	65	%	\$ 238,850	66	%	\$ 21,714	9	%
Fitness	204,615	64	%	181,759	61	%	22,856	13	%
Marine	125,201	60	%	129,653	58	%	(4,452)	-3	%
Automotive/Mobile	642,913	43	%	597,017	38	%	45,896	8	%
Aviation	205,187	70	%	191,313	67	%	13,874	7	%
Total	\$ 1,438,480	53	%	\$ 1,338,592	49	%	\$ 99,888	7	%

Gross profit dollars in 2012 increased 7% while gross profit margin percentage increased 450 basis points compared to 2011. Gross profit margins increased in all segments, excluding outdoor, when compared to 2011.

The automotive/mobile segment gross profit margin percentage increased 560 basis points driven primarily by the one-time royalty fee adjustment, a \$90 million reduction in the year-over-year impact of deferred revenue and cost including the reduced per unit deferral rate partially offset by the impact of increased sales of bundled units requiring deferral, reduced component pricing and improved product mix, as discussed above.

Fitness and marine gross profit margin percentage increased 260 basis points and 170 basis points, respectively, from the prior year driven primarily by product mix improvement and less promotional activity in the current year, as discussed above. Aviation gross profit margin percentage increased 320 basis points driven primarily by product mix and a prior year OEM contribution, as discussed above.

## Advertising Expenses

	52-weeks ended December 29, 2012			53-weeks ended December 31, 2011			Year over Year		
	Advertising Expense	% of Revenues	%	Advertising Expense	% of Revenues	%	\$ Change	% Change	%
Outdoor	\$ 20,812	5	%	\$ 16,739	5	%	\$ 4,073	24	%
Fitness	25,322	8	%	18,831	6	%	6,491	34	%
Marine	14,804	7	%	11,310	5	%	3,494	31	%
Automotive/Mobile	72,817	5	%	93,456	6	%	(20,639)	-22	%
Aviation	5,002	2	%	4,688	2	%	314	7	%
Total	\$ 138,757	5	%	\$ 145,024	5	%	\$ (6,267)	-4	%

Advertising expense decreased in absolute dollars and was flat as a percentage of revenues when compared to 2011. The decrease in absolute dollars resulted from reduced cooperative advertising on lower sales in the PND category partially offset by increased cooperative advertising and media placement within the outdoor, fitness and marine segments.

## Selling, General and Administrative Expenses

	52-weeks ended December 29, 2012			53-weeks ended December 31, 2011			Year over Year		
	Selling, General & Admin. Expenses	% of Revenues	%	Selling, General & Admin. Expenses	% of Revenues	%	\$ Change	% Change	%
Outdoor	\$ 54,535	14	%	\$ 43,181	12	%	\$ 11,354	26	%
Fitness	43,943	14	%	38,495	13	%	5,448	14	%
Marine	33,540	16	%	30,990	14	%	2,550	8	%
Automotive/Mobile	220,669	15	%	212,545	13	%	8,124	4	%
Aviation	17,103	6	%	16,006	6	%	1,097	7	%
Total	\$ 369,790	14	%	\$ 341,217	12	%	\$ 28,573	8	%

Selling, general and administrative expense increased in both absolute dollars and as a percentage of revenues compared to 2011. As a percent of revenues, selling, general and administrative expenses increased 120 basis points in 2012. The expense increase was primarily driven by full year expense for acquisitions completed in the second half of 2011, which added almost \$20 million, and increased legal costs and reserves partially offset by a reduction in bad debt expense and commissions expense.

## Research and Development Expense

	52-weeks ended December 29, 2012	53-weeks ended December 31, 2011	Year over Year	
Research & Development % of Revenues	Research & Development % of Revenues	Research & Development % of Revenues	\$ Change	% Change

Edgar Filing: GARMIN LTD - Form 10-K

Outdoor	\$ 20,606	5	%	\$ 17,419	5	%	\$ 3,187	18	%
Fitness	23,543	7	%	22,332	7	%	1,211	5	%
Marine	42,857	21	%	29,708	13	%	13,149	44	%
Automotive/Mobile	128,661	9	%	130,179	8	%	(1,518)	-1	%
Aviation	110,106	38	%	98,946	35	%	11,160	11	%
Total	\$ 325,773	12	%	\$ 298,584	11	%	\$ 27,189	9	%

Research and development expense increased 9% due to ongoing development activities for new products and the addition of over 375 new engineering personnel with an emphasis on OEM opportunities within aviation, auto and marine. In absolute dollars, research and development costs increased \$27.2 million when compared with the year-ago period and increased 120 basis points as a percent of revenue.

53

**Operating Income**

	52-weeks ended December 29, 2012			52-weeks ended December 31, 2011			Year over Year	
	Operating Income	% of Revenues		Operating Income	% of Revenues		\$ Change	% Change
Outdoor	\$ 164,611	41 %		\$ 161,511	44 %		\$ 3,100	2 %
Fitness	111,807	35 %		102,101	34 %		9,706	10 %
Marine	34,000	16 %		57,645	26 %		(23,645)	-41 %
Automotive/Mobile	220,766	15 %		160,837	10 %		59,929	37 %
Aviation	72,976	25 %		71,673	25 %		1,303	2 %
Total	\$ 604,160	22 %		\$ 553,767	20 %		\$ 50,393	9 %

Operating income increased 210 basis points as a percent of revenue and 9% in absolute dollars when compared to the year-ago period as gross margin improvement was only partially offset by increased operating expenses.

**Other Income (Expense)**

	52-weeks ended December 29, 2012	53-weeks ended December 31, 2011
Interest Income	\$ 35,108	\$ 32,812
Foreign Currency Exchange	(20,022)	(12,100)
Other	5,282	9,682
Total	\$ 20,368	\$ 30,394

Other income (expense) principally consists of interest income and foreign currency exchange gains and losses. Interest income for fiscal 2012 increased due to increasing cash and marketable securities balances during the year offset by a slight decline in interest rates.

The \$20.0 million currency loss in 2012 was due primarily to weakening of the U.S. Dollar compared to the Taiwan Dollar. The movements of the Taiwan Dollar and Euro/British Pound Sterling have offsetting impacts due to the use of the Taiwan Dollar for manufacturing costs and cash held in non-functional currency while the Euro and British Pound Sterling transactions relate to revenue. During 2012, the U.S. Dollar weakened 3.8% compared to the Taiwan Dollar resulting in a loss of \$31.3 million. This was partially offset by the U.S. Dollar weakening 2.1% and 4.3%, respectively, compared to the Euro and the British Pound Sterling, resulting in a \$10.4 million gain. The remaining net currency gain of \$0.8 million is related to other currencies and timing of transactions.

The \$12.1 million currency loss in 2011 was due primarily to the strengthening of the U.S. Dollar compared to the Euro. During 2011, the U.S. Dollar strengthened 1.3% compared to the Euro resulting in a loss of \$4.8 million. A loss of \$4.1 million resulted due to the U.S. Dollar weakening 1.2% against the Taiwan Dollar as the asset balances fluctuated throughout the year. The remaining net currency loss of \$3.2 million is related to other currencies and timing of transactions.

**Income Tax Provision**

Our earnings before taxes increased 7% when compared to 2011 while our income tax expense increased by 30% to \$82.1 million, compared to \$63.3 million for fiscal year 2011. The significant increase in income tax expense was primarily due to a decrease in the income eligible for tax holiday in Taiwan, unfavorable income mix toward higher tax jurisdictions and an increase in uncertain tax position reserves, net of amounts released due to expiration of statutes of limitations, and the impact of no research and development credit in 2012.

***Net Income***

As a result of the various factors noted above, net income increased 4% to \$542.4 million for fiscal year 2012 compared to \$520.9 million for fiscal year 2011.

## Liquidity and Capital Resources

### Operating Activities

(In thousands)	Fiscal Year Ended		
	Dec 28, 2013	Dec 29, 2012	Dec 31, 2011
Net cash provided by operating activities	\$ 630,084	\$ 684,745	\$ 822,334

The \$54.7 million decrease in cash provided by operating activities in fiscal year 2013 compared to fiscal year 2012 was primarily due to the following:

- the impact of increasing unrealized foreign currency gains providing \$80.2 million less cash due primarily to foreign currency rate fluctuations related to our Taiwan operations which utilize the Taiwan Dollar as their functional currency resulting in translation of assets and liabilities to U.S. Dollar
- deferred revenue/costs providing \$70.8 million less working capital benefit due to the increased amortization of previously deferred revenue/cost exceeding current period revenue deferrals as discussed in the Results of Operations section above
- other current and noncurrent assets providing \$61.7 million less cash primarily due to the reimbursement of tax withholdings of \$51.4 million from the Swiss Federal Tax Authority in 2012
- inventories and related provisions for obsolete and slow moving inventories providing \$11.7 million less cash due to valuation fluctuations related to inventories held in foreign currencies
- the impact of decreasing depreciation and amortization providing \$11.7 million less non-cash adjustment to net income and
- the impact of decreasing stock compensation expense providing \$6.7 million less non-cash adjustment to net income

Partially offset by:

- net income increasing by \$70.0 million as discussed in the Results of Operations section above
- accounts payable providing \$57.0 million more cash primarily due to the impact of lower revenues and associated expenses in 2013
- deferred income taxes providing \$40.0 million more cash due primarily to the impact of decreased deferred revenue/costs and
- accounts receivable and related provision for doubtful accounts providing \$26.4 million more cash primarily due to the impact of lower revenues and the associated decline in receivables

The \$137.6 million decrease in cash provided by operating activities in fiscal year 2012 compared to fiscal year 2011 was primarily due to the following:

- accounts receivable and related provision for doubtful accounts providing \$158.1 million less cash primarily due to lower revenue in 2012 and the impact of the 53-week fiscal year in 2011 which allowed for additional collections
- deferred revenue/costs providing \$90.8 million less working capital benefit due to the increased amortization of previously deferred revenue/cost and reduced per unit revenue deferrals, offset by the impact of increased sales of bundled units requiring deferral, all of which is discussed in the Results of Operations section above, and
- income taxes payable providing \$51.5 million less cash due to increased payments and the timing of disbursements during the year



Partially offset by:

- other current and non-current assets providing \$100.7 million more cash due primarily to the payment of tax withholdings of \$51.4 million to the Swiss Federal Tax Authority in 2011 and the refund of those withholdings in 2012
- other current and non-current liabilities providing \$27.9 million more cash due to lower royalty costs and the timing of such payments
- net income increasing by \$21.5 million as discussed in the Results of Operations section above, and
- the impact of increasing unrealized foreign currency losses providing \$21.4 million more cash

We expect to generate \$550 - \$600 million of cash flow from operations in 2014 with ongoing net income.

### *Investing Activities*

(In thousands)	Fiscal Year Ended		
	Dec 28, 2013	Dec 29, 2012	Dec 31, 2011
Net cash used in investing activities	\$ (274,442)	\$ (496,228)	\$ (488,198)

The \$221.8 million decrease in cash used in investing activities in fiscal year 2013 compared to fiscal year 2012 was primarily due to the following:

- decreased net investments in marketable securities providing cash of \$368.3 million

Partially offset by:

- increased cash advanced under a loan receivable commitment with Bombardier of \$137.4 million, and
- increased purchases of property and equipment of \$17.6 million

The \$8.0 million increase in cash used in investing activities in fiscal year 2012 compared to fiscal year 2011 was primarily due to the following:

- increased investments in marketable securities using cash of \$50.7 million

Partially offset by:

- decreased cash paid for acquisitions of \$46.5 million

We have budgeted approximately \$50 million of capital expenditures during fiscal 2014 to include normal ongoing capital expenditures and maintenance activities. It is management's goal to invest the on-hand cash consistent with Garmin's investment policy, which has been approved by the Board of Directors. 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 return on cash and investments during fiscal 2013, 2012, and 2011 were approximately 1.4%, 1.4% and 1.6%, respectively.

The fair value of our securities varies from period to period due to changes in interest rates, in the performance of the underlying collateral and in the credit performance of the underlying issuer, among other factors. In 2013, Garmin experienced unrealized, non-cash losses on its investment portfolio resulting in a balance of \$57,356 of gross other-than-temporary impairment and \$4,377 of other unrealized losses on marketable securities at December 28, 2013. The amortized cost and estimated fair value of the securities at an unrealized loss position at December 28,

2013 were \$1,215,498 and \$1,153,765, respectively. This decrease in estimated fair value is primarily due to market valuations on mortgage-backed securities and obligations of states and political subdivisions declining. The decline was due to increases in the 10 Year Treasury Bond Yield during 2013, which caused market valuations of securities in our investment portfolios to decline. Approximately 50% of securities in our portfolio were at an unrealized loss position at December 28, 2013. An immaterial amount of those securities have been in a continuous unrealized loss position for 12 months or longer. 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 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 impairment has been recorded in the accompanying condensed consolidated statement of income.

**Financing Activities**

(In thousands)	Fiscal Year Ended		
	Dec 28, 2013	Dec 29, 2012	Dec 31, 2011
Net cash used in financing activities	\$ (406,838)	\$ (249,849)	\$ (307,413)

The \$157.0 million increase in cash used in financing activities in fiscal year 2013 compared to fiscal year 2012 was primarily due to the following:

- increased dividend payments of \$98.3 million due to the timing of our calendar fourth quarter 2012 dividend occurring after the close of our fiscal year and the increase in our year-over-year dividend rate (our dividend has progressively increased from \$0.40 per share for the four calendar quarters beginning in June 2011 to \$0.45 per share for calendar quarters after March 2012) and
- increased purchase of treasury stock of \$58.4 million under a share repurchase authorization

The \$57.6 million decrease in cash used in financing activities in fiscal year 2012 compared to fiscal year 2011 was primarily due to the following:

- decreased dividend payments of \$57.4 million due to the timing of our calendar fourth quarter 2012 dividend occurring after the close of our fiscal year

Our dividend has progressively increased from \$0.40 per share for the four calendar quarters beginning in June 2011 to \$0.45 per share for the four calendar quarters beginning in June 2012 through December 2013.

We currently use cash flow from operations to fund our capital expenditures, to support our working capital requirements, and to pay dividends. 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.

**Contractual Obligations and Commercial Commitments**

Future commitments of Garmin, as of December 28, 2013, aggregated by type of contractual obligation, are:

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases	\$ 69.7	\$ 15.5	\$ 25.5	\$ 14.6	\$ 14.1

The Company is a party to certain commitments, which includes raw materials, advertising and other indirect purchases in connection with conducting our business. Pursuant to these agreements, the Company is contractually committed to make purchases of approximately \$225.6 million over the next five years.

We may be required to make significant cash outlays related to unrecognized tax benefits. However, due to the uncertainty of the timing of future cash flows associated with our unrecognized tax benefits, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. Accordingly, unrecognized tax benefits of \$133.0 million as of December 28, 2013, have been excluded from the contractual obligations table above. For further information related to unrecognized tax benefits, see Note 2, "Income Taxes," to the consolidated financial statements included in this Report.

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

We do not have any off-balance sheet arrangements.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

# **Market Sensitivity**

We have market risk primarily in connection with the pricing of our products and services and the purchase of raw materials. Product pricing and raw materials costs are both significantly influenced by semiconductor market conditions. Historically, during cyclical industry downturns, we have been able to offset pricing declines for our products through a combination of improved product mix and success in obtaining price reductions in raw materials costs.

### **Inflation**

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could adversely affect our business, financial condition and results of operations.

### **Foreign Currency Exchange Rate Risk**

The operation of Garmin's subsidiaries in international markets results in exposure to movements in currency exchange rates. We have experienced significant foreign currency gains and losses due to the strengthening and weakening of the U.S. dollar. The potential of volatile foreign exchange rate fluctuations in the future could have a significant effect on our results of operations.

The currencies that create a majority of the Company's exchange rate exposure are the Taiwan Dollar, Euro, and British Pound Sterling. Garmin Corporation, headquartered in Sijhih, Taiwan, uses the local currency as the functional currency. The Company translates all assets and liabilities at year-end exchange rates and income and expense accounts at average rates during the year. In order to minimize the effect of the currency exchange fluctuations on our net assets, we have elected to retain most of our Taiwan subsidiary's cash and investments in marketable securities denominated in U.S. dollars.

Most European subsidiaries use the Euro as the functional currency. The functional currency of our largest European subsidiary, Garmin (Europe) Ltd. remains the U.S. dollar, and as some transactions occurred in British Pounds Sterling or Euros, foreign currency gains or losses have been realized historically related to the movements of those currencies relative to the U.S. dollar. The Company believes that gains and losses will become more material in the future as our European presence grows. In 2013, the U.S. Dollar weakened 4.1% and 2.2%, respectively, relative to the Euro and British Pound Sterling resulting in a foreign currency gain of \$7.5 million in Garmin Ltd. and our

European subsidiaries. The U.S. Dollar strengthened 3.3% against the Taiwan Dollar resulting in a \$30.2 million foreign currency gain due to the fluctuation of asset balances throughout the year. The net result of these currency moves combined with other losses of \$2.1 million, and the timing of transactions during the year was a net gain of \$35.5 million for the Company and a cumulative translation adjustment of \$43.6 million at the end of fiscal 2013.

## **Interest Rate Risk**

We have no outstanding long-term debt as of December 28, 2013. We, therefore, have no meaningful debt-related interest rate risk.

We are exposed to interest rate risk in connection with our investments in marketable securities. As interest rates change, the unrealized gains and losses associated with those securities will fluctuate accordingly.

The fair value of our securities varies from period to period due to changes in interest rates, in the performance of the underlying collateral and in the credit performance of the underlying issuer, among other factors. In 2013, Garmin experienced unrealized, non-cash losses on its investment portfolio resulting in a balance of \$57,356 of gross other-than-temporary impairment and \$4,377 of other unrealized losses on marketable securities at December 28, 2013. The amortized cost and estimated fair value of the securities at an unrealized loss position at December 28, 2013 were \$1,215,498 and \$1,153,765, respectively. This decrease in estimated fair value is primarily due to market valuations on mortgage-backed securities and obligations of states and political subdivisions declining. The decline was due to increases in the 10 Year Treasury Bond Yield during 2013, which caused market valuations of securities in our investment portfolios to decline. Approximately 50% of securities in our portfolio were at an unrealized loss position at December 28, 2013. An immaterial amount of those securities have been in a continuous unrealized loss position for 12 months or longer. 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 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 impairment has been recorded in the accompanying condensed consolidated statement of income.

**Item 8. Financial Statements and Supplementary Data**

CONSOLIDATED FINANCIAL STATEMENTS

Garmin Ltd. and Subsidiaries  
Years Ended December 28, 2013, December 29, 2012, and December 31, 2011

**Contents**

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm	61
Consolidated Balance Sheets at December 28, 2013 and December 29, 2012	62
Consolidated Statements of Income for the Years Ended December 28, 2013, December 29, 2012 and December 31, 2011	63
Consolidated Statements of Comprehensive Income for the Years Ended December 28, 2013, December 29, 2012 and December 31, 2011	64
Consolidated Statements of Stockholders' Equity for the Years Ended December 28, 2013, December 29, 2012 and December 31, 2011	65
Consolidated Statements of Cash Flows for the Years December 28, 2013, December 29, 2012 and December 31, 2011	66
Notes to Consolidated Financial Statements	68

**Report of Ernst & Young LLP  
Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
Garmin Ltd.

We have audited the accompanying consolidated balance sheets of Garmin Ltd. and Subsidiaries (the Company) as of December 28, 2013 and December 29, 2012 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 2013. Our audits also included the financial statement schedule listed in the index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Garmin Ltd. and Subsidiaries at December 28, 2013 and December 29, 2012 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 28, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Garmin Ltd.'s internal control over financial reporting as of December 28, 2013, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 19, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Kansas City, Missouri  
February 19, 2014

**Garmin Ltd. And Subsidiaries**  
**Consolidated Balance Sheets**  
*(In Thousands, except Share Information)*

	December 28, 2013	December 29, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,179,149	\$ 1,231,180
Marketable securities (Note 3)	149,862	153,083
Accounts receivable, less allowance for doubtful accounts of \$20,367 in 2013 and \$20,582 in 2012	564,586	603,673
Inventories, net	382,226	389,931
Deferred income taxes (Note 6)	69,823	68,785
Deferred costs	57,368	53,948
Loan receivable	137,379	-
Prepaid expenses and other current assets	55,243	35,520
Total current assets	2,595,636	2,536,120
Property and equipment, net		
Land and improvements	98,324	97,427
Building and improvements	300,820	284,534
Office furniture and equipment	156,731	135,246
Manufacturing equipment	123,346	131,019
Engineering equipment	96,180	90,817
Vehicles	20,879	20,695
	796,280	759,738
Accumulated depreciation	(381,432)	(349,987)
	414,848	409,751
Restricted cash (Note 4)		
	249	836
Marketable securities (Note 3)	1,502,106	1,488,312
Noncurrent deferred income tax (Note 6)	88,324	93,920
Noncurrent deferred costs	41,157	42,359
Intangible assets	219,494	232,597
Other assets	17,789	15,229
Total assets	\$ 4,879,603	\$ 4,819,124
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 146,582	\$ 131,263
Salaries and benefits payable	59,794	55,969
Accrued warranty costs	26,767	37,301
Accrued sales program costs	50,903	57,080
Deferred revenue	256,908	252,375
Accrued royalty costs	64,538	71,745
Accrued advertising expense	19,448	25,192
Other accrued expenses	65,657	69,806
Deferred income taxes (Note 6)	989	332

Edgar Filing: GARMIN LTD - Form 10-K

Income taxes payable	38,043	32,031
Dividend payable	175,675	175,932
Total current liabilities	905,304	909,026
Deferred income taxes (Note 6)	1,758	2,467
Non-current income taxes	140,933	181,754
Non-current deferred revenue	171,012	193,047
Other liabilities	890	1,034
Stockholders' equity:		
Shares, CHF 10 par value, 208,077,418 shares authorized and issued; 195,150,102 shares outstanding at December 28, 2013; and 195,591,854 shares outstanding at December 29, 2012; (Notes 9, 10, 11, and 12):	1,797,435	1,797,435
Additional paid-in capital	79,263	72,462
Treasury stock	(120,620)	(81,280)
Retained earnings	1,865,587	1,604,625
Accumulated other comprehensive income	38,041	138,554
Total stockholders' equity	3,659,706	3,531,796
Total liabilities and stockholders' equity	\$ 4,879,603	\$ 4,819,124

*See accompanying notes.*

**Garmin Ltd. And Subsidiaries**  
**Consolidated Statements of Income**  
*(In Thousands, Except Per Share Information)*

	Fiscal Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Net sales	\$ 2,631,851	\$ 2,715,675	\$ 2,758,569
Cost of goods sold	1,224,551	1,277,195	1,419,977
Gross profit	1,407,300	1,438,480	1,338,592
Advertising expense	112,905	138,757	145,024
Selling, general and administrative expenses	355,440	369,790	341,217
Research and development expense	364,923	325,773	298,584
	833,268	834,320	784,825
Operating income	574,032	604,160	553,767
Other income (expense):			
Interest income	35,271	35,108	32,812
Foreign currency gains (losses)	35,538	(20,022)	(12,100)
Other	8,717	5,282	9,682
	79,526	20,368	30,394
Income before income taxes	653,558	624,528	584,161
Income tax provision (benefit): (Note 6)			
Current	27,771	114,013	110,755
Deferred	13,375	(31,888)	(47,490)
	41,146	82,125	63,265
Net income	\$ 612,412	\$ 542,403	\$ 520,896
Basic net income per share (Note 10)	\$ 3.13	\$ 2.78	\$ 2.68
Diluted net income per share (Note 10)	\$ 3.12	\$ 2.76	\$ 2.67

*See accompanying notes.*

**Garmin Ltd. And Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
*(In Thousands)*

	Fiscal Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Net income	\$ 612,412	\$ 542,403	\$ 520,896
Foreign currency translation adjustment	(43,609)	52,516	14,716
Change in fair value of available-for-sale marketable securities, net of deferred taxes	(56,904)	(1,155)	16,473
Comprehensive income	\$ 511,899	\$ 593,764	\$ 552,085

*See accompanying notes.*

**Garmin Ltd. And Subsidiaries**  
**Consolidated Statements of Stockholders' Equity**  
*(In Thousands)*

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss) Total	
Balance at December 25, 2010	\$ 1,797,435	\$ 38,268	\$ (106,758)	\$ 1,264,613	\$ 56,004	\$ 3,049,562
Net income				520,896		520,896
Translation adjustment					14,716	14,716
Adjustment related to unrealized gains (losses) on available-for-sale securities net of income tax effects of (\$369)					16,473	16,473
Comprehensive income						552,085
Dividends declared				(388,628)		(388,628)
Tax benefit from issuance of equity awards		3,313				3,313
Issuance of treasury stock related to equity awards		(19,924)	42,261			22,337
Stock compensation		40,212				40,212
Purchase of treasury stock related to equity awards			(22,300)			(22,300)
Reclassification of retired shares to treasury shares			(16,701)	16,701		
Balance at December 31, 2011	\$ 1,797,435	\$ 61,869	\$ (103,498)	\$ 1,413,582	\$ 87,193	\$ 3,256,581
Net income				542,403		542,403
Translation adjustment					52,516	52,516
Adjustment related to unrealized gains (losses) on available-for-sale securities net of income tax effects of \$46					(1,155)	(1,155)
Comprehensive income						593,764
Dividends declared				(351,360)		(351,360)
		(516)				(516)

Tax benefit from issuance of equity awards						
Issuance of treasury stock related to equity awards		(18,165)	40,963			22,798
Stock compensation		29,274				29,274
Purchase of treasury stock related to equity awards			(18,745)			(18,745)
Balance at December 29, 2012	\$ 1,797,435	\$ 72,462	\$ (81,280)	\$ 1,604,625	\$ 138,554	\$ 3,531,796
Net income				612,412		612,412
Translation adjustment					(43,609)	(43,609)
Adjustment related to unrealized gains (losses) on available-for-sale securities					(56,904)	(56,904)
net of income tax effects of (\$2,183)						
Comprehensive income						511,899
Dividends declared				(351,450)		(351,450)
Tax benefit from issuance of equity awards		4,584				4,584
Issuance of treasury stock related to equity awards		(20,375)	43,145			22,770
Stock compensation		22,592				22,592
Purchase of treasury stock related to equity awards			(24,063)			(24,063)
Purchase of treasury stock under share repurchase plan			(58,422)			(58,422)
Balance at December 28, 2013	\$ 1,797,435	\$ 79,263	\$ (120,620)	\$ 1,865,587	\$ 38,041	\$ 3,659,706

*See accompanying notes.*

**Garmin Ltd. And Subsidiaries**  
**Consolidated Statements of Cash Flows**  
*(In Thousands)*

	Fiscal Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Operating Activities:			
Net income	\$ 612,412	\$ 542,403	\$ 520,896
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	48,476	52,632	54,610
Amortization	30,328	37,835	39,925
Gain on sale of property and equipment	(724)	(367)	(2,192)
Provision for doubtful accounts	1,553	2,947	1,698
Provision for obsolete and slow-moving inventories	20,891	11,003	16,047
Unrealized foreign currency losses	(40,120)	40,042	18,583
Deferred income taxes	7,931	(32,080)	(42,475)
Stock compensation	22,592	29,274	40,212
Realized loss/(gains) on marketable securities	(5,877)	(2,980)	(4,322)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	38,589	10,808	170,162
Inventories	(17,593)	3,997	(6,385)
Other current and non-current assets	(22,013)	39,717	(60,996)
Accounts payable	18,043	(38,929)	(26,329)
Other current and non-current liabilities	(31,775)	(33,235)	(61,103)
Deferred revenue	(16,150)	67,931	179,439
Deferred costs	(2,204)	(15,441)	(36,120)
Income taxes payable	(34,275)	(30,812)	20,684
Net cash provided by operating activities	630,084	684,745	822,334
Investing activities:			
Purchases of property and equipment	(56,083)	(38,445)	(38,366)
Proceeds from sale of property and equipment	885	757	4,127
Purchase of intangible assets	(1,122)	(6,783)	(6,933)
Purchase of marketable securities	(909,151)	(1,429,593)	(1,172,555)
Redemption of marketable securities	833,491	985,598	779,213
Advances under loan receivable commitment	(137,369)	-	-
Acquisitions, net of cash acquired	(5,680)	(7,697)	(54,190)
Change in restricted cash	587	(65)	506
Net cash used in investing activities	(274,442)	(496,228)	(488,198)
Financing activities:			
Dividends	(351,707)	(253,386)	(310,763)
Tax benefit from issuance of equity awards	4,584	(516)	3,313
	22,770	22,798	22,337

Edgar Filing: GARMIN LTD - Form 10-K

Proceeds from issuance of treasury stock related to equity awards			
Purchase of treasury stock related to equity awards	(24,063)	(18,745)	(22,300)
Purchase of treasury stock under share repurchase plan	(58,422)	-	-
Net cash used in financing activities	(406,838)	(249,849)	(307,413)
Effect of exchange rate changes on cash and cash equivalents	(835)	5,352	(499)
Net (decrease)/increase in cash and cash equivalents	(52,031)	(55,980)	26,224
Cash and cash equivalents at beginning of year	1,231,180	1,287,160	1,260,936
Cash and cash equivalents at end of year	\$ 1,179,149	\$ 1,231,180	\$ 1,287,160

*See accompanying notes.*

**Garmin Ltd. And Subsidiaries**  
**Consolidated Statements of Cash Flows (continued)**

*(In Thousands)*

	Fiscal Year Ended December 28, 2013	December 29, 2012	December 31, 2011
Supplemental disclosures of cash flow information			
Cash paid during the year for income taxes	\$ 73,372	\$ 127,509	\$ 85,231
Cash received during the year from income tax refunds	\$ 3,584	\$ 5,237	\$ 350
Cash paid during the year for interest	-	-	-
Supplemental disclosure of non-cash investing and financing activities			
Change in marketable securities related to unrealized appreciation (depreciation)	\$ (59,087)	\$ (1,109)	\$ 16,104
Fair value of assets acquired	\$ 11,486	\$ 11,156	\$ 162,572
Liabilities assumed	(4,955)	(2,740)	(93,014)
Less: cash acquired	(851)	(719)	(15,368)
Cash paid for acquisitions, net of cash acquired	\$ 5,680	\$ 7,697	\$ 54,190

*See accompanying notes.*

**GARMIN LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(In Thousands, Except Share and Per Share Information)*  
*December 28, 2013 and December 29, 2012*

**1. Description of the Business**

Garmin Ltd. and subsidiaries (together, the “Company”) design, develop, manufacture, market, and distribute Global Positioning System-enabled products and other related products. Garmin Corporation (GC) is primarily responsible for the manufacturing and distribution of the Company’s products to the Company’s subsidiaries and, to a lesser extent, new product development and sales and marketing of the Company’s products in Asia and the Far East. Garmin International, Inc. (GII) is primarily responsible for sales and marketing of the Company’s products in the Americas region and for most of the Company’s research and new product development. GII also manufactures most of the Company’s products in the aviation segment. Garmin (Europe) Limited (GEL) is responsible for sales and marketing of the Company’s products in Europe, the Middle East and Africa (EMEA). Many of GEL’s sales are to other Company-owned distributors in the EMEA region.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation and Principles of Consolidation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The accompanying consolidated financial statements reflect the accounts of Garmin Ltd. and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

**Fiscal Year**

The Company has adopted a 52 53-week period ending on the last Saturday of the calendar year. Due to the fact that there are not exactly 52 weeks in a calendar year and there is slightly more than one additional day per year (not including the effects of leap year) in each calendar year as compared to a 52-week fiscal year, the Company will have a fiscal year comprising 53 weeks in certain fiscal years, as determined by when the last Saturday of the calendar year occurs.

In those resulting fiscal years that have 53 weeks, the Company will record an extra week of sales, costs, and related financial activity. Therefore, the financial results of those fiscal years, and the associated 14-week fourth quarter, will not be entirely comparable to the prior and subsequent 52-week fiscal years and the associated quarters having only 13 weeks. Fiscal years 2013 and 2012 included 52 weeks while fiscal year 2011 included 53 weeks.

**Foreign Currency**

Many Garmin Ltd. subsidiaries utilize currencies other than the United States Dollar (USD) as their functional currency. As required by the *Foreign Currency Matters* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the financial statements of these subsidiaries for all periods presented have been translated into USD, the functional currency of Garmin Ltd., and the reporting currency herein, for purposes of consolidation at rates prevailing during the year for sales, costs, and expenses and at end-of-year rates for all assets and liabilities. The effect of this translation is recorded in a separate component of stockholders’ equity. Cumulative translation adjustments of \$85,363 and \$128,972 as of December 28, 2013 and December 29, 2012, respectively, have been included in accumulated other comprehensive income in the accompanying consolidated balance sheets.



Transactions in foreign currencies are recorded at the approximate rate of exchange at the transaction date. Assets and liabilities resulting from these transactions are translated at the rate of exchange in effect at the balance sheet date. All differences are recorded in results of operations and amounted to exchange gains/(losses) of \$35,538, (\$20,022), and (\$12,100) for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively. The gain in fiscal 2013 was due primarily to the strengthening of the USD against the Taiwan Dollar and the USD weakening against the Euro and the British Pound Sterling. The loss in fiscal 2012 was due primarily to the weakening of the USD against the Taiwan Dollar and was partially offset by the USD weakening against the Euro and the British Pound Sterling. The loss in fiscal 2011 was primarily the result of the slight strengthening of the USD against the Euro and the slight weakening of the USD against the Taiwan Dollar.

### **Earnings Per Share**

Basic earnings per share amounts are computed based on the weighted-average number of common shares outstanding. For purposes of diluted earnings per share, the number of shares that would be issued from the exercise of dilutive stock options has been reduced by the number of shares which could have been purchased from the proceeds of the exercise at the average market price of the Company's stock during the period the options were outstanding. See Note 10.

### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, operating accounts, money market funds, and securities with maturities of three months or less when purchased. The carrying amount of cash and cash equivalents approximates fair value, given the short maturity of those instruments.

### **Trade Accounts Receivable**

The Company sells its products to retailers, wholesalers, and other customers and extends credit based on its evaluation of the customer's financial condition. Potential losses on receivables are dependent on each individual customer's financial condition. The Company carries its trade accounts receivable at net realizable value. Typically, its accounts receivable are collected within 80 days and do not bear interest. The Company monitors its exposure to losses on receivables and maintains allowances for potential losses or adjustments. The Company determines these allowances by (1) evaluating the aging of its receivables and (2) reviewing its high-risk customers. Past due receivable balances are written off when its internal collection efforts have been unsuccessful in collecting the amount due. Beginning in 2011, the Company has maintained trade credit insurance to provide security against large losses.

### **Loan Receivable**

On March 14, 2013, the Company entered into a Memorandum of Agreement (the "Agreement") with Bombardier, Inc. ("Bombardier"). The Company is the supplier of the avionics system for the Lear 70 and Lear 75 aircraft currently in development for Learjet, Inc., which is a subsidiary of Bombardier (the "Program"). In order to assist Bombardier in connection with delayed cash flows from the Program partially related to the certification of avionics for the Program exceeding the planned delivery date, the Company agreed to provide Bombardier a short term, interest free, loan of \$173,708 in cash in seven installments beginning on March 22, 2013 and ending on September 20, 2013 pursuant to the terms and conditions of the Agreement. Bombardier will repay the loan in five installments beginning in November 2013 and ending in April 2014 pursuant to the terms and conditions of the Agreement and subsequent amendment signed December 6, 2013. As of December 28, 2013, the Company had a loan receivable balance of \$137,369 from Bombardier, in the accompanying consolidated balance sheet.



## Inventories

Inventories are stated at the lower of cost or market with cost being determined on a first-in, first-out (FIFO) basis. Inventories consisted of the following:

	December 28, 2013	December 29, 2012
Raw Materials	\$ 131,408	\$ 119,142
Work-in-process	50,110	53,656
Finished goods	229,089	243,238
Inventory Reserves	(28,381)	(26,105)
Inventory, net of reserves	\$ 382,226	\$ 389,931

## Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	39
Office furniture and equipment	3-5
Manufacturing and engineering equipment	5
Vehicles	5

## Long-Lived Assets

As required by the *Property, Plant and Equipment* topic of the FASB ASC, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be fully recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. That assessment is based on the carrying amount of the asset at the date it is tested for recoverability. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

The *Intangibles - Goodwill and Other* topic of the FASB ASC requires that goodwill and intangible assets with indefinite useful lives should not be amortized but rather be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that they may be impaired. The Company did not recognize any goodwill or intangible asset impairment charges in 2013, 2012, or 2011. The accounting guidance also requires that intangible assets with finite lives be amortized over their estimated useful lives and reviewed for impairment. The Company is currently amortizing its acquired intangible assets with finite lives over periods ranging from 3 to 10 years.

## Dividends

Under Swiss corporate law, dividends must be approved by shareholders at the general meeting of our shareholders.

On June 7, 2013, the shareholders approved a dividend of \$1.80 per share (of which, \$0.90 was paid in the Company's 2013 fiscal year) payable in four equal installments on dates determined by the Board of Directors. The dates determined by the Board were as follows: \$0.45 on June 28, 2013 to shareholders of record on June 18, 2013, \$0.45 on September 30, 2013 to shareholders of record on September 16, 2013, \$0.45 on December 31, 2013 to shareholders of record on December 16, 2013 and \$0.45 on March 31, 2014 to shareholders of record on March 17, 2014. The Company paid dividends in 2013 in the amount of \$351,707. Both the dividend paid and the remaining dividend

payable were reported as a reduction of retained earnings.

70

On June 1, 2012, the shareholders approved a dividend of \$1.80 per share (of which, \$0.90 was paid in the Company's 2012 fiscal year) payable in four installments as follows: \$0.45 on June 29, 2012 to shareholders of record on June 15, 2012, \$0.45 on September 28, 2012 to shareholders of record on September 14, 2012, \$0.45 on December 31, 2012 to shareholders of record on December 14, 2012 and \$0.45 on March 29, 2013 to shareholders of record on March 15, 2013. The Company paid dividends in 2012 in the amount of \$253,386. Both the dividend paid and the remaining dividend payable were reported as a reduction of retained earnings.

On June 3, 2011, the shareholders approved a dividend of \$2.00 per share (of which, \$1.60 was paid in the Company's 2011 fiscal year) payable in four installments as follows: \$0.80 on June 30, 2011 to shareholders of record on June 15, 2011, \$0.40 on September 30, 2011 to shareholders of record on September 15, 2011, \$0.40 on December 30, 2011 to shareholders of record on December 15, 2011 and \$0.40 on March 30, 2012 to shareholders of record on March 15, 2012. The Company paid dividends in 2011 in the amount of \$310,763. The dividends were reported as a reduction of retained earnings.

Approximately \$265,880 and \$254,986 of retained earnings are indefinitely restricted from distribution to stockholders pursuant to the laws of Taiwan at December 28, 2013 and December 29, 2012, respectively.

### Intangible Assets

At December 28, 2013 and December 29, 2012, the Company had patents, customer related intangibles and other identifiable finite-lived intangible assets recorded at a cost of \$183,431 and \$181,918, respectively. Identifiable, finite-lived intangible assets are amortized over their estimated useful lives on a straight-line basis over three to ten years. Accumulated amortization was \$143,227 and \$125,380 at December 28, 2013 and December 29, 2012 respectively. Amortization expense on these intangible assets was \$17,847, \$21,437, and \$24,831 for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively. In the next five years, the amortization expense is estimated to be \$16,085, \$8,326, \$6,115, \$2,848, and \$2,234, respectively.

The Company's excess purchase cost over fair value of net assets acquired (goodwill) was \$179,290 at December 28, 2013 and \$176,059 at December 29, 2012.

	December 28, 2013	December 29, 2012
Goodwill balance at beginning of year	\$ 176,059	\$ 179,475
Acquisitions	2,726	3,470
Finalization of purchase price allocations and effect of foreign currency translation	505	(6,886)
Goodwill balance at end of year	\$ 179,290	\$ 176,059

The decrease in net identifiable intangible assets is principally related to amortization, partially offset by acquisitions completed in 2013 and other purchases of intangible assets.

### Marketable Securities

Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date.

All of the Company's marketable securities were considered available-for-sale at December 28, 2013. See Note 3. Available-for-sale securities are stated at fair value, with the unrealized gains and losses, net of tax, reported in other

comprehensive gain/(loss). At December 28, 2013 and December 29, 2012, cumulative unrealized gains/(losses) of (\$47,322) and \$9,582, respectively, were reported in accumulated other comprehensive income, net of related taxes.

The amortized cost of debt securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization is included in interest income from investments. Realized gains and losses, and credit declines in value judged to be other-than-temporary are included in other income. The cost of securities sold is based on the specific identification method.

### **Income Taxes**

The Company accounts for income taxes using the liability method in accordance with the FASB ASC 740 topic *Income Taxes*. The liability method provides that deferred tax assets and liabilities are recorded based on the difference between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes as measured based on the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

The Company adopted the applicable guidance included in the FASB ASC 740 topic *Income Taxes* related to accounting for uncertainty in income taxes on December 31, 2006, the beginning of fiscal year 2007. We recognize liabilities for tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves not to be required, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result.

### **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

### **Concentration of Credit Risk**

The Company grants credit to certain customers who meet the Company's pre-established credit requirements. Generally, the Company does not require security when trade credit is granted to customers. Credit losses are provided for in the Company's consolidated financial statements and typically have been within management's expectations. Certain customers are allowed extended terms consistent with normal industry practice. Most of these extended terms can be classified as either relating to seasonal sales variations or to the timing of new product releases by the Company.

The Company's top ten customers have contributed between 24% and 29% of net sales since 2011. None of the Company's customers accounted for more than 10% of consolidated net sales in the years ended December 28, 2013, December 29, 2012, and December 31, 2011. Beginning in 2011, the Company has maintained trade credit insurance to provide security against large losses.

### **Revenue Recognition**

Garmin recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. For the large majority of Garmin's sales, these criteria are met once product has shipped and title and risk of loss have transferred to the customer. The Company recognizes revenue from the sale of hardware products and software bundled with hardware that is essential to the functionality of the hardware in accordance with general revenue recognition accounting guidance. The Company recognizes revenue in

accordance with industry specific software accounting guidance for standalone sales of software products and sales of software bundled with hardware not essential to the functionality of the hardware. The Company generally does not offer specified or unspecified upgrade rights to its customers in connection with software sales.

Garmin introduced nüMaps Lifetime in January 2009, which is a single fee program that, subject to the program's terms and conditions, enables customers to download the latest map and point of interest information every quarter for the useful life of their PND. The revenue and associated cost of royalties for sales of nüMaps Lifetime products are deferred at the time of sale and recognized ratably on a straight-line basis over the estimated 36-month life of the products. With the acquisition of Navigon AG in 2011, products marketed under the Navigon brand have a FreshMaps program that enables customers to download the latest map and point of interest information for two years. The revenue and associated cost of royalties for sales of FreshMaps products are deferred at the time of sale and recognized ratably on a straight-line basis over the two year period.

For multiple-element arrangements that include tangible products that contain software essential to the tangible product's functionality and undelivered software elements that relate to the tangible product's essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the accounting principles establish a hierarchy to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (ESP). VSOE generally exists only when the Company sells the deliverable separately, on more than a limited basis, at prices within a relatively narrow range. In addition to the products listed below, the Company has offered certain other products including mobile applications, aviation subscriptions and extended warranties that involve multiple-element arrangements that are immaterial.

In 2010, Garmin began offering PNDs with lifetime map updates (LMUs) bundled in the original purchase price. Similar to nüMaps Lifetime, LMUs enable customers to download the latest map and point of interest information every quarter for the useful life of their PND. In addition, Garmin offers PNDs with premium traffic service bundled in the original purchase price in the European market. The Company has identified multiple deliverables contained in arrangements involving the sale of PNDs which include the LMU and/or premium traffic service. The first deliverable is the hardware along with the software essential to the functionality of the hardware device delivered at the time of sale. The second deliverable and potentially third deliverables are the LMU and/or premium traffic service. The Company has allocated revenue between these deliverables using the relative selling price method. Amounts allocated to the delivered hardware and the related essential software are recognized at the time of sale provided the other conditions for revenue recognition have been met. The revenue and associated cost of royalties allocated to the LMU or the subscription for premium traffic service are deferred and recognized on a straight-line basis over the estimated 36-month life of the products.

Prior to the third quarter of fiscal 2011, Garmin determined its estimate of selling price using the dealer/distributor price for nüMaps Lifetime or premium traffic subscriptions sold separately, and the prices for products bundled with and without the LMU and premium traffic service when comparable models were available, as inputs to the relative selling price method in a manner similar to VSOE. The estimated selling price determined in this manner was used to defer revenues for all products bundled with the LMU and premium traffic service, as the number of bundled units sold as a percentage of total units sold was less significant and other indicators of selling price were not readily available.

During 2011, sales of products bundled with LMUs and premium traffic service increased significantly as a percentage of total product sales. Concurrently, market conditions caused decreases in the ASP and margins of comparable models year over year, new bundled products were introduced at lower ASPs, and the difference in pricing of bundled units and comparable unbundled models decreased considerably. Due to these changes, the Company determined it was appropriate to change its estimate of the per unit revenue and cost deferrals during the third quarter of 2011.



As the sales of nüMaps Lifetime and premium traffic subscriptions as a percentage of total unit sales or in the aggregate decreased significantly in mid-2011, the Company determined that the previous estimate of selling price based on more limited stand-alone sales of nüMaps Lifetime or premium traffic was no longer a sole determinant of its value as determined under VSOE, and that third party evidence of selling price was not available. Management determined that the price differential between bundled and unbundled products and the royalty cost of the LMU or premium traffic subscription plus an approximate margin were both additional indicators of estimated selling price. These estimates are also reflective of how the Company establishes product pricing based in part on customer perception of value of the added LMU or premium traffic service capability. As such, beginning in the third quarter of 2011, the Company changed its estimate of selling price of the undelivered element to be based on the relative selling price method using a weighted average of the stand-alone sales price, the price differential between bundled and unbundled units, and the royalty or subscription cost plus a normal margin.

The impact in 2011 of the change in estimate for lifetime map updates and premium traffic service, as described above, was an increase in revenue, gross profit, net income, basic net income per share, and diluted net income per share of \$77.8 million, \$66.5 million, \$59.3 million, \$0.31, and \$0.30, respectively.

Garmin records estimated reductions to revenue for customer sales programs, returns and incentive offerings including rebates, price protection (product discounts offered to retailers to assist in clearing older products from their inventories in advance of new product releases), promotions and other volume-based incentives. The reductions to revenue are based on estimates and judgments using historical experience and expectation of future conditions. Changes in these estimates could negatively affect Garmin's operating results. These incentives are reviewed periodically and, with the exceptions of price protection and certain other promotions, accrued for on a percentage of sales basis. If market conditions were to decline, Garmin may take actions to increase customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered.

The Company records revenue net of sales tax, trade discounts and customer returns. The reductions to revenue for expected future product returns are based on Garmin's historical experience.

## Deferred Revenues and Costs

At December 28, 2013 and December 29, 2012, the Company had deferred revenues totaling \$427,920 and \$445,422, respectively, and related deferred costs totaling \$98,525 and \$96,307, respectively.

The deferred revenues and costs are recognized over their estimated economic lives of two to three years on a straight-line basis. In the next three years, the gross margin recognition of deferred revenue and cost for the currently deferred amounts is estimated to be \$199,540, \$98,671 and \$31,184, respectively.

### Shipping and Handling Costs

Shipping and handling costs are included in cost of goods sold in the accompanying consolidated financial statements.

### Product Warranty

The Company provides for estimated warranty costs at the time of sale. The Company's standard warranty obligation to retail partners generally provides for a right of return of any product for a full refund in the event that such product is not merchantable, is damaged or defective. The Company's historical experience is that these types of warranty obligations are generally fulfilled within 5 months from time of sale. The Company's standard warranty obligation to

its end-users provides for a period of one to two years from date of shipment while certain aviation products have a warranty period of two years from the date of installation. The Company's estimate of costs to service its warranty obligations are based on historical experience and expectations 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:

74

	Fiscal Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Balance - beginning of period	\$ 37,301	\$ 46,773	\$ 49,885
Change in accrual for products sold in prior periods <sup>(1)</sup>	(8,709)	-	-
Accrual for products sold <sup>(2)</sup>	41,309	38,421	52,305
Expenditures	(43,134)	(47,893)	(55,417)
Balance - end of period	\$ 26,767	\$ 37,301	\$ 46,773

- (1) Our expected future cost is estimated based upon historical trends in the volume of product returns and the related warranty costs incurred. In 2013 we updated these assumptions and shortened the estimated time horizon in which we settle claims with our retail partners.
- (2) Minor changes in cost estimates related to pre-existing warranties are aggregated with accruals for new warranty contracts in the 'accrual for products sold' line.

### Sales Programs

The Company provides certain monthly and quarterly incentives for its dealers and distributors based on various factors including dealer purchasing volume and growth. Additionally, from time to time, the Company provides rebates to end users on certain products. Estimated rebates and incentives payable to dealers and distributors are regularly reviewed and recorded as accrued expenses on a monthly basis. In addition, the Company provides dealers and distributors with product discounts to assist these customers in clearing older products from their inventories in advance of new product releases. Each discount is tied to a specific product and can be applied to all customers who have purchased the product or a special discount may be agreed to on an individual customer basis. These rebates, incentives, and discounts are recorded as reductions to net sales in the accompanying consolidated statements of income in the period the Company has sold the product.

### Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense amounted to approximately \$112,905, \$138,757, and \$145,024 for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively.

## Research and Development

A majority of the Company's research and development is performed in the United States. Research and development costs, which are expensed as incurred, amounted to approximately \$364,923, \$325,773, and \$298,584 for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively.

### Customer Service and Technical Support

Customer service and technical support costs are included as selling, general and administrative expenses in the accompanying consolidated statements of income. Customer service and technical support costs include costs associated with performing order processing, answering customer inquiries by telephone and through Web sites, e-mail and other electronic means, and providing free technical support assistance to customers. The technical support is provided within one year after the associated revenue is recognized. The related cost of providing this free support

is not material.

75

## Software Development Costs

The FASB ASC topic entitled *Software* requires companies to expense software development costs as they incur them until technological feasibility has been established, at which time those costs are capitalized until the product is available for general release to customers. Capitalized software development costs are not significant as the time elapsed from working model to release is typically short. As required by the *Research and Development* topic of the FASB ASC, costs incurred to enhance our existing products or after the general release of the service using the product are expensed in the period they are incurred and included in research and development costs in the accompanying consolidated statements of income.

## Accounting for Stock-Based Compensation

The Company currently sponsors four stock based employee compensation plans. The FASB ASC topic entitled *Compensation - Stock Compensation* requires the measurement and recognition of compensation expenses for all share-based payment awards made to employees and directors including employee stock options and restricted stock based on estimated fair values. See Note 9.

Accounting guidance requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as stock-based compensation expense on a straight-line basis over the requisite service period in the Company's consolidated financial statements.

As stock-based compensation expenses recognized in the accompanying consolidated statements of income are based on awards ultimately expected to vest, they have been reduced for estimated forfeitures. Accounting guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience and management's estimates.

## Recently Issued Accounting Pronouncements

In July 2012, the FASB issued Accounting Standards Update No. 2012-02 "Testing Indefinite-Lived Intangible Assets for Impairment" (ASU 2012-02), which is included in ASC Topic 350 (Intangibles - Goodwill and Other). ASU 2012-02 provides an option for companies to use a qualitative approach to test indefinite-lived intangible assets for impairment if certain conditions are met. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The implementation of the amended accounting guidance did not have a material impact on the Company's financial statements.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" (ASU 2013-02), which is included in ASC Topic 220 (Comprehensive Income). The objective of ASU 2013-02 is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The Company has implemented this amendment and has included the required disclosure in the Notes to Consolidated Financial Statements.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" (ASU 2013-11), which is included in ASC Topic 740 (Income Taxes). ASU 2013-11 requires an entity to net its liability for unrecognized tax positions against a net operating loss carryforward, a similar tax loss or a tax credit carryforward when settlement in this manner is available under the tax law. The provisions of this new guidance are effective for reporting periods beginning after December 15, 2013. We are currently evaluating the impact of the new guidance on our financial statements.



### 3. Marketable Securities

The 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 identical assets 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. The valuation methods used by the Company for each significant class of investments are summarized below.

Mortgage-backed securities, corporate bonds and obligations of states and political subdivisions Valued 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.

Common stocks Valued at the closing price reported on the active market on which the individual securities are traded.

The methods 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 of December 28, 2013			
	Total	Level 1	Level 2	Level 3
Mortgage-backed securities	\$ 437,330	\$ -	\$ 437,330	\$ -
Obligations of states and political subdivisions	647,354	-	647,354	-
Corporate bonds	457,148	-	457,148	-
Common stocks	29,854	29,854	-	-
Other	80,282	-	80,282	-
Total	\$ 1,651,968	\$ 29,854	\$ 1,622,114	\$ -



	Fair Value Measurements as of December 29, 2012			
	Total	Level 1	Level 2	Level 3
Mortgage-backed securities	\$ 650,895	\$ -	\$ 650,895	\$ -
Obligations of states and political subdivisions	499,857	-	499,857	-
Corporate bonds	399,941	-	399,941	-
Common stocks	22,982	22,982	-	-
Other	67,720	-	67,720	-
Total	\$ 1,641,395	\$ 22,982	\$ 1,618,413	\$ -

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

	Available-For-Sale Securities as of December 28, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses-OTTI <sup>(1)</sup>	Gross Unrealized Losses-Other <sup>(2)</sup>	Estimated Fair Value (Net Carrying Amount)
Mortgage-backed securities	\$ 461,054	\$ 2,692	\$ (22,614)	\$ (3,802)	\$ 437,330
Obligations of states and political subdivisions	673,529	1,601	(27,509)	(267)	647,354
U.S. corporate bonds	463,437	1,050	(7,031)	(308)	457,148
Common stocks	24,540	5,413	(99)	-	29,854
Other	78,059	2,326	(103)	-	80,282
Total	\$ 1,700,619	\$ 13,082	\$ (57,356)	\$ (4,377)	\$ 1,651,968

	Available-For-Sale Securities as of December 29, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses-OTTI <sup>(1)</sup>	Gross Unrealized Losses-Other <sup>(2)</sup>	Estimated Fair Value (Net Carrying Amount)
Mortgage-backed securities	\$ 644,388	\$ 8,894	\$ -	\$ (2,387)	\$ 650,895
Obligations of states and political subdivisions	499,241	2,345	-	(1,729)	499,857
U.S. corporate bonds	399,036	3,138	-	(2,233)	399,941
Common stocks	21,113	2,392	-	(523)	22,982
Other	67,181	551	-	(12)	67,720
Total	\$ 1,630,959	\$ 17,320	\$ -	\$ (6,884)	\$ 1,641,395

(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 Company does not intend to sell the securities that have an unrealized loss shown in the table above and it is not more likely than not that the Company will be required to sell 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 2013 and 2012, the Company did not record any material impairment charges on its outstanding securities.

The fair value of our securities varies from period to period due to changes in interest rates, in the performance of the underlying collateral and in the credit performance of the underlying issuer, among other factors. In 2013, Garmin experienced unrealized, non-cash losses on its investment portfolio resulting in a balance of \$57,356 of gross other-than-temporary impairment and \$4,377 of other unrealized losses on marketable securities at December 28, 2013. The amortized cost and estimated fair value of the securities at an unrealized loss position at December 28, 2013 were \$1,215,498 and \$1,153,765, respectively. This decrease in estimated fair value is primarily due to market valuations on mortgage-backed securities and obligations of states and political subdivisions declining. The decline was due to increases in the 10 Year Treasury Bond Yield during 2013, which caused market valuations of securities in our investment portfolios to decline. Approximately 50% of securities in our portfolio were at an unrealized loss position at December 28, 2013. An immaterial amount of those securities have been in a continuous unrealized loss position for 12 months or longer. 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 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 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 amortized cost and estimated fair value of marketable securities at December 28, 2013, 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 Fair Value
Due in one year or less (2014)	\$ 151,594	\$ 149,862
Due after one year through five years (2015-2019)	708,379	704,164
Due after five years through ten years (2020-2024)	237,556	226,777
Due after ten years (2025 and thereafter)	540,912	501,388
Other (No contractual maturity dates)	62,178	69,777
	\$ 1,700,619	\$ 1,651,968

#### 4. Commitments and Contingencies

Rental expense related to office, equipment, warehouse space and real estate amounted to \$18,721, \$17,470, and \$14,277 for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively. The Company recognizes rental expense on a straight-line basis over the lease term.

Future minimum lease payments are as follows:

Year	Amount
2014	\$ 15,460
2015	14,041
2016	11,547
2017	8,300
2018	6,310
Thereafter	14,084
Total	\$ 69,742

Certain cash balances of GEL are held as collateral by a bank, securing payment of the United Kingdom value-added tax requirements. The total amount of restricted cash balances were \$249 and \$836 at December 28, 2013 and December 29, 2012, respectively.

The Company is party to certain commitments, which includes raw materials, advertising and other indirect purchases in connection with conducting our business. Pursuant to these agreements, the Company is contractually committed to make purchases of approximately \$225,604 over the next five years.

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.

## 5. Employee Benefit Plans

GII and the Company's other U.S.-based subsidiaries sponsor a defined contribution employee retirement plan under which their employees may contribute up to 50% of their annual compensation subject to Internal Revenue Code maximum limitations and to which the subsidiaries contribute a specified percentage of each participant's annual compensation up to certain limits as defined in the retirement plan. Additionally, GEL has a defined contribution plan under which its employees may contribute up to 7.5% of their annual compensation. In both the plans described above, the subsidiaries contribute an amount determined annually at the discretion of the Board of Directors. During the years ended December 28, 2013, December 29, 2012, and December 31, 2011, expense related to these plans of \$26,839, \$22,159, and \$20,647, respectively, was charged to operations.

Certain of the Company's foreign subsidiaries participate in local defined benefit pension plans. Contributions are calculated by formulas that consider final pensionable salaries. Neither obligations nor contributions for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, were significant.

## 6. Income Taxes

The Company's income tax provision (benefit) consists of the following:

	Fiscal Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Federal:			
Current	\$ (11,907)	\$ 83,185	\$ 79,305
Deferred	1,913	(22,988)	(25,763)
	(9,994)	60,197	53,542
State:			
Current	2,584	8,532	9,087
Deferred	(408)	(5,327)	(4,490)
	2,176	3,205	4,597
Foreign:			
Current	37,094	22,296	22,363
Deferred	11,870	(3,573)	(17,237)
	48,964	18,723	5,126
Total	\$ 41,146	\$ 82,125	\$ 63,265

The income tax provision differs from the amount computed by applying the U.S. statutory federal income tax rate to income before taxes. The sources and tax effects of the differences, including the impact of establishing tax contingency accruals, are as follows:

	December 28, 2013	December 29, 2012	December 31, 2011
Federal income tax expense at U.S. statutory rate	\$ 229,420	\$ 218,585	\$ 204,456
State income tax expense, net of federal tax effect	1,414	2,083	2,988
Foreign tax rate differential	(121,279)	(141,456)	(148,058)
Taiwan tax holiday benefit	(4,944)	(6,418)	(13,127)
Net change in uncertain tax postions	(50,700)	19,850	8,283
Other foreign taxes less incentives and credits	5,041	(2,287)	9,658
U.S. federal domestic production activities deduction	(3,550)	(6,276)	(2,415)
U.S. federal research and development credit	(14,876)	-	(6,111)
Other, net	620	(1,956)	7,591
Income tax expense	\$ 41,146	\$ 82,125	\$ 63,265

The holding company statutory federal income tax rate in Switzerland, the Company's place of incorporation since the redomestication effective June 27, 2010 (see Note 12), is 7.83%. If the Company reconciled taxes at the Swiss holding company federal statutory tax rate to the reported income tax for 2013, as presented above, the amounts related to tax at the statutory rate would be \$178,000 lower, or \$51,000, and the foreign tax rate differential would be adjusted by a similar amount to \$64,000. For 2012, the amounts related to tax at the statutory rate would be approximately \$170,000 lower, or \$49,000, and the foreign tax rate differential would be adjusted by a similar amount to approximately \$31,000. For 2011, the amounts related to tax at the statutory rate would be approximately \$159,000 lower, or \$45,000, and the foreign tax rate differential would be adjusted by a similar amount to approximately \$11,000. All other amounts would remain substantially unchanged.

The Company's income before income taxes attributable to non-U.S. operations was \$502,423, \$495,908, and \$473,994, for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively. The Taiwan tax holiday benefits included in the table above reflect \$0.03, \$0.03, and \$0.07 per weighted-average common share outstanding for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively. The Company currently expects to benefit from these Taiwan tax holidays through 2016, at which time these tax benefits will likely expire. Income taxes of \$307,990, \$252,452, and \$229,657 at December 28, 2013, December 29, 2012, and December 31, 2011, respectively, have not been accrued by the Company for the unremitted earnings of several of its foreign subsidiaries because such earnings are intended to be reinvested in the subsidiaries indefinitely.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 28, 2013	December 29, 2012
Deferred tax assets:		
Product warranty accruals	\$ 3,000	\$ 2,522
Allowance for doubtful accounts	11,394	11,026
Inventory reserves	5,491	6,162
Sales program allowances	525	5,680
Reserve for sales returns	-	3,442
Other accruals	8,927	8,774
Deferred costs	4,266	-
Stock option compensation	47,954	51,241
Tax credit carryforwards	55,435	46,577
Amortization	23,900	25,841
Deferred revenue	57,813	56,293
Net operating losses of subsidiaries	11,561	15,771
Unrealized investment gain	-	2,459
Benefit related to uncertain tax positions	9,904	13,882
Other	4,064	1,334
Valuation allowance related to loss carryforward and tax credits	(63,361)	(51,393)
	180,873	199,611
Deferred tax liabilities:		
Depreciation	16,202	16,286
Reserve for sales returns	733	-
Prepaid expenses	4,766	2,886
Book basis in excess of tax basis for acquired entities	2,343	4,907
Unrealized investment loss	1,429	-
Other	-	1,744
	25,473	25,823
Net deferred tax assets	\$ 155,400	\$ 173,788

For improved comparability, the Company has updated the 2012 footnote to include a reclassification from noncurrent payable to noncurrent deferred tax asset for the tax benefit that would be recognized related to uncertain tax positions. This reclassification if recorded in the balance sheet for the period ended December 29, 2012 would result in an increase to noncurrent income taxes payable of \$13,882, the same amount reflected as an increase to the noncurrent deferred tax asset in this schedule.

The Company recognized a \$29,615 deferred tax asset during 2010 for the future tax benefit of the fair market value step-up in basis of intangible assets related to the redomestication to Switzerland and local statutory tax reporting requirements. The deferred tax asset was recognized as an increase to Additional Paid-In Capital in 2010 and will reverse as the intangible assets are amortized for Swiss statutory and tax reporting purposes.

At December 28, 2013, the Company had \$55,435 of tax credit carryover which includes \$52,618 of Taiwan surtax credit with no expiration. There is a full valuation allowance for the Taiwan surtax credits. The valuation allowance reflects a net increase of \$11,968 during 2013 including \$11,064 related to Taiwan surtax credits. The valuation allowance had a net increase in 2012 of \$14,220 of which \$10,314 related to surtax credits in Taiwan.

At December 28, 2013, the Company had a deferred tax asset of \$11,561 related to the future tax benefit on net operating loss (NOL) carryforwards of \$71,530. Included in the NOL carryforwards is \$9,476 that relates to Spain and expires in varying amounts between 2022 and 2027, \$41,497 that relates to Switzerland and expires in 2019, \$2,124 related to China that expires in 2017 and \$18,432 that relates to various other jurisdictions and has no expiration date. The Company has recorded a valuation allowance for a portion of its deferred tax asset relating to various tax attributes that it does not believe are more likely than not to be realized. In the future, if the Company determines, based on existence of sufficient evidence, that it should realize more or less of its deferred tax assets, an adjustment to the valuation allowance will be made in the period such a determination is made.

The total amount of unrecognized tax benefits as of December 28, 2013 was \$133,015. A reconciliation of the beginning and ending amount of unrecognized tax benefits for years ended December 28, 2013, December 29, 2012, and December 31, 2011 is as follows:

	December 28, 2013	December 29, 2012	December 31, 2011
Balance at beginning of year	\$ 182,870	\$ 156,354	\$ 149,731
Additions based on tax positions related to prior years	2,668	3,263	834
Reductions based on tax positions related to prior years	(5,224)	(890)	(7,335)
Additions based on tax positions related to current period	30,262	33,232	30,781
Reductions related to settlements with tax authorities	(3,387)	(672)	-
Expiration of statute of limitations	(74,174)	(8,417)	(17,257)
Balance at end of year	\$ 133,015	\$ 182,870	\$ 156,754

The December 28, 2013 balance of \$125,918 of unrecognized tax benefits, if recognized, would reduce the effective tax rate. None of the unrecognized tax benefits are due to uncertainty in the timing of deductibility.

Accounting guidance requires unrecognized tax benefits to be classified as non-current liabilities, except for the portion that is expected to be paid within one year of the balance sheet date. The entire \$125,918, \$173,532, and \$148,977 are required to be classified as non-current at December 28, 2013, December 29, 2012, and December 31, 2011, respectively.

Interest and penalties, if any, accrued on the unrecognized tax benefits are reflected in income tax expense. At December 28, 2013, December 29, 2012, and December 31, 2011, the Company had accrued approximately \$5,111, \$8,222, and \$12,927, respectively, for interest. The interest component of the reserve increased (decreased) income tax expense for the years ending December 28, 2013, December 29, 2012, and December 31, 2011 by (\$3,111), (\$4,705), and \$5,568, respectively. The Company had no amounts accrued for penalties as the nature of the unrecognized tax benefits, if recognized, would not warrant the imposition of penalties.

The Company files income tax returns in Switzerland and U.S. federal jurisdictions, as well as various state, local and foreign jurisdictions. The Company is no longer subject to U.S. federal, state, or local tax examinations by tax authorities for years 2009 and prior. The Company is no longer subject to Taiwan income tax examinations by tax authorities for years 2007 and prior. The Company is no longer subject to United Kingdom tax examinations by tax authorities for years 2010 and prior.

The Company recognized a reduction of income tax expense of \$70,847, \$8,362, and \$17,215 in fiscal years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively, to reflect the expiration of statutes of limitations in various jurisdictions.

The Company believes that it is reasonably possible that approximately \$34,569 of its reserves for certain unrecognized tax benefits will decrease within the next 12 months as the result of the expiration of statutes of limitations. This potential decrease in unrecognized tax benefits would impact the Company's effective tax rate within the next 12 months.

On September 13, 2013, Treasury and the Internal Revenue Service issued final regulations regarding the deduction and capitalization of expenditures related to tangible property. The final regulations under Internal Revenue Code

Sections 162, 167 and 263(a) apply to amounts paid to acquire, produce, or improve tangible property as well as dispositions of such property and are generally effective for tax years beginning on or after January 1, 2014. We have evaluated these regulations and determined they will not have a material impact on our consolidated results of operations, cash flows, or financial position.

## 7. Fair Value of Financial Instruments

As required by the *Financial Instruments* topic of the FASB ASC, the following summarizes required information about the fair value of certain financial instruments for which it is currently practicable to estimate such value. None of the financial instruments are held or issued for trading purposes. The carrying amounts and fair values of the Company's financial instruments are as follows:

	December 28, 2013		December 29, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,179,149	\$ 1,179,149	\$ 1,231,180	\$ 1,231,180
Restricted cash	249	249	836	836
Marketable securities	1,651,968	1,651,968	1,641,395	1,641,395

For certain of the Company's financial instruments, including accounts receivable, loan receivable, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities.

## 8. Segment Information

The Company has identified five operating segments for external reporting purposes – auto/mobile, aviation, marine, outdoor and fitness. There are three operating segments (auto PND, auto OEM and mobile) that are not reported separately but aggregated within the auto/mobile reportable segment. Each operating segment is individually reviewed and evaluated by our Chief Operating Decision Maker (CODM), who allocates resources and assesses performance of each segment individually.

All of the Company's reportable segments offer products through the Company's network of independent dealers and distributors as well as through OEM's. However, the nature of products and types of customers for the five reportable segments vary. The Company's marine, auto/mobile, outdoor, and fitness segments include portable global positioning system (GPS) receivers and accessories sold primarily to retail outlets. These products are produced primarily by the Company's subsidiary in Taiwan. The Company's aviation products are portable and panel mount avionics for Visual Flight Rules and Instrument Flight Rules navigation and are sold primarily to aviation dealers and certain aircraft manufacturers.

The Company's Chief Executive Officer has been identified as the CODM. The CODM evaluates performance and allocates resources based on income before income taxes of each segment. Income before income taxes represents net sales less operating expenses including certain allocated general and administrative costs, interest income and expense, foreign currency adjustments, and other non-operating corporate expenses. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. There are no inter-segment sales or transfers.

The Company's reportable segments share many common resources, infrastructures and assets in the normal course of business. Thus, the Company does not report accounts receivable, inventories, property and equipment, intangible assets, or capital expenditures by segment to the CODM.

Edgar Filing: GARMIN LTD - Form 10-K

Revenues, interest income, and income before income taxes for each of the Company's reportable segments are presented below:

	Fiscal Year Ended December 28, 2013					
	Aviation	Outdoor	Fitness	Marine	Auto/ Mobile	Total
Net sales to external customers	\$ 339,337	\$ 410,989	\$ 356,283	\$ 222,928	\$ 1,302,314	\$ 2,631,851
Allocated interest income	2,445	6,030	5,150	3,777	17,869	35,271
Income before income taxes	93,083	168,549	131,411	25,993	234,522	653,558

	Fiscal Year Ended December 29, 2012					
	Aviation	Outdoor	Fitness	Marine	Auto/ Mobile	Total
Net sales to external customers	\$ 291,564	\$ 401,747	\$ 321,788	\$ 208,136	\$ 1,492,440	\$ 2,715,675
Allocated interest income	1,546	3,951	3,799	2,838	22,974	35,108
Income before income taxes	75,177	167,734	114,274	35,725	231,618	624,528

	Fiscal Year Ended December 31, 2011					
	Aviation	Outdoor	Fitness	Marine	Auto/ Mobile	Total
Net sales to external customers	\$ 284,855	\$ 363,223	\$ 298,163	\$ 221,730	\$ 1,590,598	\$ 2,758,569
Allocated interest income	1,250	4,496	4,342	2,934	19,790	32,812
Income before income taxes	73,226	171,245	107,881	60,092	171,717	584,161

Net sales, long-lived assets (property and equipment), and net assets by geographic area are as shown below for the years ended December 28, 2013, December 29, 2012, and December 31, 2011. Note that APAC refers to the Asia Pacific region, and EMEA includes Europe, the Middle East and Africa.

	Americas	APAC	EMEA	Total
December 28, 2013				
Net sales to external customers	\$ 1,432,895	\$ 243,056	\$ 955,900	\$ 2,631,851
Property and equipment, net	239,528	121,012	54,308	414,848
Net assets <sup>(1)</sup>	1,338,401	2,048,903	272,402	3,659,706

December 29, 2012

Research and Development

Edgar Filing: GARMIN LTD - Form 10-K

Net sales to external customers	\$	1,513,457	\$	256,882	\$	945,336	\$	2,715,675
Property and equipment, net		222,310		134,257		53,184		409,751
Net assets <sup>(1)</sup>		1,262,498		2,028,984		240,314		3,531,796
December 31, 2011								
Net sales to external customers	\$	1,527,508	\$	248,057	\$	983,004	\$	2,758,569
Property and equipment, net		225,505		143,913		47,687		417,105
Net assets <sup>(1)</sup>		1,155,653		1,915,284		185,644		3,256,581

<sup>(1)</sup> Americas and APAC net assets are primarily held in the United States and Taiwan, respectively.

## 9. Stock Compensation Plans

### ***Accounting for Stock-Based Compensation***

The various Company stock compensation plans are summarized below. For all stock compensation plans, the company's policy is to issue treasury shares for exercises of options and stock appreciation rights (SARs), releases of restricted stock units (RSUs), and issues of shares under the employee stock purchase plan (ESPP).

### **2011 Non-employee Directors' Equity Incentive Plan**

In June 2011, the stockholders adopted an equity incentive plan for non-employee directors (the 2011 Directors Plan) providing for grants of stock options, SARs, RSUs and/or performance shares, pursuant to which up to 122,592 shares were available for issuance. The term of each award cannot exceed ten years. Awards may vest over a minimum two-year period. During 2013, 2012 and 2011, 11,484, 9,616 and 11,996 restricted stock units were granted under this plan.

### **2005 Equity Incentive Plan**

In June 2005, the shareholders adopted an equity incentive plan (the 2005 Plan) providing for grants of incentive and nonqualified stock options, SARs, RSUs and/or performance shares to employees of the Company and its subsidiaries, pursuant to which up to 10,000,000 common shares were available for issuance. The various grants vest evenly over a period of five years or as otherwise determined by the Board of Directors or the Compensation Committee and generally expire ten years from the date of grant, if not exercised. Beginning December 10, 2012, restricted stock unit grants will vest evenly over a period of three years. During 2013, 2012, and 2011, 413,978, 495,814, and 410,197 restricted stock units were granted under the 2005 Plan. In addition, in 2013, 52,673 stock appreciation rights were granted, and in 2012 and 2011, 61,235 and 42,330 stock options were granted under the 2005 Plan. No performance shares were granted under the 2005 Plan in 2013, 2012 and 2011. In 2013, the stockholders approved an additional 3,000,000 shares to the 2005 Plan, making the total shares authorized under the plan 13,000,000.

### **2000 Equity Incentive Plan**

In October 2000, the shareholders adopted an equity incentive plan (the 2000 Plan) providing for grants of incentive and nonqualified stock options, SARs, RSUs and/or performance shares to employees of the Company and its subsidiaries, pursuant to which up to 7,000,000 common shares were available for issuance. The stock options and stock appreciation rights vest evenly over a period of five years or as otherwise determined by the Board of Directors or the Compensation Committee and generally expire ten years from the date of grant, if not exercised. The Company

did not grant any stock awards from the 2000 Plan in 2013, 2012 or 2011.

# 2000 Non-employee Directors' Option Plan

Also in October 2000, the stockholders adopted a stock option plan for non-employee directors (the 2000 Directors Plan) providing for grants of options for up to 100,000 common shares. The term of each award is ten years. All awards vest evenly over a three-year period. In 2009, the stockholders approved an additional 150,000 shares to the plan, making the total shares authorized under the plan 250,000. During 2010, options to purchase 23,924 shares, respectively, were granted under this plan. Following the June 2011 approval of the 2011 Directors Plan, the Company will no longer issue options to purchase shares under this plan.

*Stock-Based Compensation Activity*

A summary of the Company's stock-based compensation activity and related information under the 2011 Directors Plan, the 2005 Plan and the 2000 Plan for the years ended December 28, 2013, December 29, 2012, and December 31, 2011 is provided below:

	Stock Options and SARs Weighted-Average Exercise Price	Number of Shares (In Thousands)
Outstanding at December 25, 2010	\$ 50.87	9,086
Granted	\$ 39.71	42
Exercised	\$ 21.02	(764)
Forfeited/Expired	\$ 64.63	(291)
Outstanding at December 31, 2011	\$ 53.14	8,073
Granted	\$ 42.16	61
Exercised	\$ 24.20	(794)
Forfeited/Expired	\$ 66.45	(208)
Outstanding at December 29, 2012	\$ 55.88	7,132
Granted	\$ 49.07	52
Exercised	\$ 26.85	(662)
Forfeited/Expired	\$ 66.09	(283)
Outstanding at December 28, 2013	\$ 58.44	6,239
Exercisable at December 28, 2013	\$ 58.73	6,112
Expected to vest after December 28, 2013	\$ 44.54	127

## Stock Options and SARs as of December 28, 2013

Exercise Price	Awards Outstanding (In Thousands)	Remaining Life (Years)	Awards Exercisable (In Thousands)
\$8.00 - \$20.00	260	0.77	260
\$20.01 - \$40.00	725	1.83	700
\$40.01 - \$60.00	3,023	3.46	2,921
\$60.01 - \$80.00	1,086	3.41	1,086
\$80.01 - \$100.00	2	3.93	2
\$100.01 - \$120.00	1,140	3.89	1,140
\$120.01 - \$140.00	3	3.75	3
	6,239	3.30	6,112

	Restricted Stock Units Weighted-Average Grant Date Fair Value	Number of Shares (In Thousands)
Outstanding at December 25, 2010	\$ 25.90	1,503
Granted	\$ 37.28	422
Released/Vested	\$ 37.73	(366)
Cancelled	\$ 25.89	(81)
Outstanding at December 31, 2011	\$ 29.40	1,478
Granted	\$ 39.41	506
Released/Vested	\$ 41.59	(435)
Cancelled	\$ 26.11	(89)
Outstanding at December 29, 2012	\$ 30.06	1,460

Edgar Filing: GARMIN LTD - Form 10-K

Granted	\$	45.05	425
Released/Vested	\$	28.28	(579)
Cancelled	\$	30.63	(81)
Outstanding at December 28, 2013	\$	37.36	1,225

87

The weighted-average remaining contract life for stock options and SARs outstanding and exercisable at December 28, 2013 is 3.30 and 3.18 years, respectively. The weighted-average remaining contract life of restricted stock units at December 28, 2013 was 1.68 years.

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2013, 2012, and 2011:

	2013		2012		2011	
Weighted average grant date fair value of options granted	\$ 12.82		\$ 9.98		\$ 10.53	
Expected volatility	0.3746		0.3906		0.4078	
Dividend yield	3.86	%	4.50	%	4.02	%
Expected life of options in years	6.8		6.6		6.5	
Risk-free interest rate	2.1	%	1.0	%	1.2	%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options and SARs which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility.

The total fair value of awards vested during 2013, 2012, and 2011 was \$20,956, \$32,612, and \$49,006, respectively. The aggregate intrinsic values of options and SARs outstanding and exercisable at December 28, 2013 were \$21,362 and \$20,964, respectively. The aggregate intrinsic values of options and SARs exercised during 2013, 2012, and 2011 were \$13,114, \$12,548, and \$14,367, respectively. The aggregate intrinsic value of RSUs outstanding at December 28, 2013 was \$57,183. The aggregate intrinsic values of RSUs released during 2013, 2012, and 2011 were \$27,007, \$17,390, and \$14,592, respectively. Aggregate intrinsic value represents the positive difference between the Company's closing stock price on the last trading day of the fiscal period, which was \$46.67 on December 28, 2013, and the exercise price multiplied by the number of options exercised. As of December 28, 2013, there was \$43,974 of total unrecognized compensation cost related to unvested share-based compensation awards granted to employees under the stock compensation plans. That cost is expected to be recognized over the weighted average remaining vesting period.

## Employee Stock Purchase Plan

The shareholders also adopted an employee stock purchase plan (ESPP). Up to 4,000,000 shares of common stock have been reserved for the ESPP with shareholders approving an additional 2,000,000 shares in May 2010. Shares will be offered to employees at a price equal to the lesser of 85% of the fair market value of the stock on the date of purchase or 85% of the fair market value on the first day of the ESPP period. The ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. During 2013, 2012, and 2011, 395,220, 326,483, and 514,218 shares, respectively, were purchased under the plan for a total purchase price of \$12,181, \$10,629, and \$13,746, respectively. During 2013, 2012 and 2011, the purchases were issued from treasury shares. At December 28, 2013, approximately 839,363 shares were available for future issuance.

## 10. Earnings Per Share

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

	Fiscal Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Numerator (in thousands):			
Numerator for basic and diluted net income per share - net income	\$ 612,412	\$ 542,403	\$ 520,896
Denominator (in thousands):			
Denominator for basic net income per share - weighted-average common shares	195,411	194,909	194,105
Effect of dilutive securities - employee stock-based awards	928	1,304	789
Denominator for diluted net income per share - weighted-average common shares	196,339	196,213	194,894
Basic net income per share	\$ 3.13	\$ 2.78	\$ 2.68
Diluted net income per share	\$ 3.12	\$ 2.76	\$ 2.67

Options to purchase 5,475,000, 5,640,615, and 5,920,076 common shares were outstanding during 2013, 2012, and 2011, respectively, but were not included in the computation of diluted earnings per share because the effect was antidilutive.

## 11. Share Repurchase Plan

The Board of Directors approved a share repurchase program on February 12, 2010, authorizing the Company to purchase up to \$300,000 of its common shares as market and business conditions warrant on the open market or in negotiated transactions in compliance with the SEC's Rule 10b-18. The share repurchase authorization expired on December 29, 2012. Under the plan, the Company had repurchased 7,366,646 shares using cash of \$223,149 in fiscal 2010.

In addition, 522,856 shares repurchased for \$16,701 prior to the Company's redomestication to Switzerland on June 27, 2010, but for which transactions settled after that date, were treated as retired when such shares were still in treasury. These shares were reflected as additional treasury shares during the 13-weeks ended March 26, 2011 with a corresponding increase to retained earnings.

On February 15, 2013, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to \$300,000 of its common shares. A Rule 10b5-1 plan was adopted and allows the repurchase of its shares at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. The share repurchase authorization expires on December 31, 2014. As of December 28, 2013, the Company had repurchased 1,376,500 shares using cash of \$58,422. There remains approximately \$241,578 available for repurchase under this authorization.

## 12. Redomestication

The redomestication in 2010 effectively changed the place of incorporation of the ultimate parent holding company of Garmin from the Cayman Islands to Switzerland.

As a result of the redomestication, the shareholders of Garmin Ltd. (Cayman) became shareholders of Garmin Ltd. (Switzerland), and Garmin Ltd. (Cayman) became a subsidiary of Garmin Ltd. (Switzerland). In addition, Garmin Ltd. (Switzerland) assumed, on a one-for-one basis, Garmin Ltd. (Cayman)'s existing obligations in connection with awards granted under Garmin Ltd. (Cayman)'s equity incentive plans and other similar equity awards. Any stock options, stock appreciation rights, restricted stock units or performance shares issued by Garmin Ltd. (Cayman) that are convertible, exchangeable or exercisable into common shares of Garmin Ltd. (Cayman) became convertible, exchangeable or exercisable, as the case may be, into registered shares of Garmin Ltd. (Switzerland).

On July 26, 2010, Garmin Ltd. (Cayman) relocated its registered office to Switzerland and changed its name to Garmin Switzerland GmbH. The reported capitalization of the Company also changed to that of Garmin Ltd. (Switzerland). Accordingly, common stock was increased by \$1,796,448 to \$1,797,435 (198,077,418 shares \* CHF 10/ USD 9.0744), and retained earnings was reduced by the same amount.

The summary of the components of authorized shares at December 28, 2013, December 29, 2012, December 31, 2011 and changes during 2013 and 2012 are as follows:

	Outstanding Shares	Treasury Shares	Issued Shares <sup>1</sup>	Conditional Capital	Authorized Capital
Changes in components of authorized shares					
December 31, 2011	194,662,617	13,414,801 <sup>2</sup>	208,077,418 <sup>2,3</sup>	104,038,709 <sup>4</sup>	104,038,709 <sup>4</sup>
Treasury shares purchased	(465,020)	465,020	-	-	-
Treasury shares issued for stock based compensation	1,394,257	(1,394,257)			
Expiration of authorized capital	-	-	-	-	(104,038,709)
December 29, 2012	195,591,854	12,485,564 <sup>2</sup>	208,077,418 <sup>2,3</sup>	104,038,709 <sup>4</sup>	- <sup>4</sup>
Treasury shares purchased	(1,932,208)	1,932,208	-	-	-
Treasury shares issued for stock based compensation	1,490,456	(1,490,456)	-	-	-
December 28, 2013	195,150,102	12,927,316 <sup>2</sup>	208,077,418 <sup>2,3</sup>	104,038,709 <sup>4</sup>	- <sup>4</sup>

<sup>1</sup> Shares at CHF 10 par value (USD 9.0744)

<sup>2</sup> Includes 10,000,000 formation shares at USD 0 historical cost

<sup>3</sup> The par value of the share capital presented on the face of the balance sheet and in the consolidated statements of stockholders equity excludes the par value of the 10,000,000 formation shares.

<sup>4</sup> Up to 104,038,709 conditional shares may be issued through the exercise of option rights which are granted to Garmin employees and/or members of its Board of Directors. In addition, the Board of Directors is authorized to issue up to 104,038,709 additional shares no later than June 27, 2012.

The general terms of Garmin Ltd. (Switzerland)'s capitalization (rights of shareholders, limitations on dividends, etc.) may be found in the proxy statement and Form 8-A/A registration statement filed with the SEC on April 9, 2010 and June 28, 2010, respectively.

**13. Accumulated Other Comprehensive Income**

The following provides required disclosure of changes in accumulated other comprehensive income (AOCI) balances by component for the year ended December 28, 2013:

	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Available for Sale Securities	Total
Balance - beginning of period	\$ 128,972	\$ 9,582	\$ 138,554
Other comprehensive income before reclassification	(43,609)	(52,146)	(95,755)
Amounts reclassified from accumulated other comprehensive income	-	(4,758)	(4,758)
Net current-period other comprehensive income	(43,609)	(56,904)	(100,513)
Balance - end of period	\$ 85,363	\$ (47,322)	\$ 38,041

The following provides required disclosure of reporting reclassifications out of AOCI for the year ended December 28, 2013:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on available-for-sale securities	\$ 5,877	Other income (expense)
	(1,119)	Income tax provision
	\$ 4,758	Net of tax

**14. Selected Quarterly Information (Unaudited)**

	Fiscal Year Ended December 28, 2013			
	Quarter Ending			
	March 30	June 29	September 28	December 28
Net sales	\$ 531,957	\$ 696,563	\$ 643,637	\$ 759,694
Gross profit	276,133	383,640	352,889	394,638
Net income	88,666	172,491	187,669	163,586
Basic net income per share	\$ 0.45	\$ 0.88	\$ 0.96	\$ 0.84

	Fiscal Year Ended December 29, 2012			
	Quarter Ending			
	March 31	June 30	September 29	December 29
Net sales	\$ 556,597	\$ 718,154	\$ 672,376	\$ 768,548
Gross profit	283,759	421,813	359,055	373,853
Net income	86,858	185,904	140,348	129,293
Basic net income per share	\$ 0.45	\$ 0.95	\$ 0.72	\$ 0.66

The above quarterly financial data is unaudited, but in the opinion of management, all adjustments necessary for a fair presentation of the selected data for these interim periods presented have been included. These results are not necessarily indicative of future quarterly results.

## 15. Acquisitions

In 2013, acquisitions of 2 companies were completed for net cash paid of \$5,680. In 2012, acquisitions of 3 companies were completed for net cash paid of \$7,697.

During 2011, subsidiaries of Garmin Ltd. completed the following acquisitions:

Navigon AG (“Navigon”), a privately-held navigation provider based in Germany, since renamed as Garmin Würzburg GmbH

Tri-Tronics Inc., the leading designer and manufacturer of electronic dog training equipment

Garmin Distribution Africa (Pty) Ltd., the distributor of Garmin’s consumer products in Southern Africa, since renamed as Garmin Southern Africa (Pty) Ltd

Garmap (Pty) Ltd., a South African mapping and mobile applications provider

Centro GPS, the Chilean distributor of Garmin’s consumer products, since renamed as Garmin Chile Lda

These companies were acquired for an aggregate amount of \$69,558 in cash less \$15,368 cash acquired. The purchase price allocation for these acquisitions included goodwill and intangible assets of \$76,452. Garmin also recognized \$3,923 of restructuring costs in the third quarter of 2011 related specifically to the Navigon acquisition. Individually and in the aggregate, these acquisitions are not considered material; therefore, supplemental pro forma information is not presented. The allocation of purchase price to assets acquired and liabilities assumed in these acquisitions is based upon certain valuations and other analyses. Purchase price allocations for certain acquisitions were finalized in 2012 with no material adjustments.

### Other disclosures required by Swiss law:

	2013	2012	2011
Personnel expenses (CHF in Thousands)	559,037	521,799	470,212

The detailed disclosures regarding significant shareholders as well as the board and executive remuneration and share ownership that are required by Swiss law are included in Notes 6 through 9 to the Garmin Ltd. (Switzerland) statutory financial statements.

As of December 28, 2013 and December 29, 2012, the Company’s property, plant and equipment are insured against fire under a global insurance policy, which covers damages up to USD 500 million per occurrence. The net amount of property, plant and equipment presented in the balance sheet at each period end approximates the replacement costs. The fire insurance value of property, equipment, and leasehold improvements amounted to CHF 535,997 as of December 31, 2011.

Garmin Ltd.’s risk assessment is presented in Note 10 Risk Assessment of the Garmin Ltd. (Switzerland) statutory financial statements.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

***(a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

***(b) Management's Report on Internal Control over Financial Reporting***

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's assessment of and conclusion on the effectiveness of internal control over financial reporting are included as Exhibits 31.1, 31.2, 32.1 and 32.2.

Management of the Company assessed the effectiveness of the Company's internal control over financial reporting as of December 28, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework" (1992 framework).

Based on such assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 28, 2013.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements, issued an attestation report on management's effectiveness of the Company's internal control over financial reporting as of December 28, 2013, as stated in their report which is included herein. That attestation report appears below.

***(c) Attestation Report of the Independent Registered Public Accounting Firm***

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Garmin Ltd.

We have audited Garmin Ltd.'s internal control over financial reporting as of December 28, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Garmin Ltd.'s Board of Directors and management are responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Garmin Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 28, 2013, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Garmin Ltd. and Subsidiaries as of December 28, 2013 and December 29, 2012 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 2013 of Garmin Ltd. and Subsidiaries and our report dated February 19, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Kansas City, Missouri  
February 19, 2014



*(d) Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended December 28, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

Not applicable.

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

Garmin has incorporated by reference certain information in response or partial response to the Items under this Part III of this Annual Report on Form 10-K pursuant to General Instruction G(3) of this Form 10-K and Rule 12b-23 under the Exchange Act. Garmin's definitive proxy statement in connection with its annual meeting of shareholders scheduled for June 7, 2013 (the "Proxy Statement") will be filed with the Securities and Exchange Commission no later than 120 days after December 28, 2013.

##### (a) Directors of the Company

The information set forth in response to Item 401 of Regulation S-K under the headings "Proposal 1 - Election of Two Directors" and "The Board of Directors" in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 10.

##### (b) Executive Officers of the Company

The information set forth in response to Item 401 of Regulation S-K under the heading "Executive Officers of the Registrant" in Part I of this Form 10-K is incorporated herein by reference in partial response to this Item 10.

##### (c) Compliance with Section 16(a) of the Exchange Act

The information set forth in response to Item 405 of Regulation S-K under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 10.

##### (d) Audit Committee and Audit Committee Financial Expert

The information set forth in response to Item 402 of Regulation S-K under the heading "The Board of Directors - Audit Committee" in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 10.

The Audit Committee consists of Joseph J. Hartnett, Charles W. Peffer and Thomas P. Poberezny. Mr. Peffer serves as the Chairman of the Audit Committee. All members of the Audit Committee are "independent" within the meaning of the rules of the SEC and the NASDAQ Marketplace Rules. Garmin's Board of Directors has determined that Mr. Hartnett and Mr. Peffer are "audit committee financial experts" as defined by the SEC regulations implementing Section 407 of the Sarbanes-Oxley Act of 2002.

##### (e) Code of Ethics

Garmin's Board of Directors has adopted the Code of Conduct of Garmin Ltd. and Subsidiaries (the "Code"). The Code is applicable to all Garmin employees including the President and Chief Executive Officer, the Chief Financial Officer, the Controller and other officers. A copy of the Code is available on Garmin's website at: [http://www8.garmin.com/aboutGarmin/invRelations/documents/Code\\_of\\_Conduct.pdf](http://www8.garmin.com/aboutGarmin/invRelations/documents/Code_of_Conduct.pdf). If any amendments to the Code are made, or any waivers with respect to the Code are granted to the President and Chief Executive Officer, the Chief Financial Officer or Controller, or any person performing a similar function, such amendment or waiver will be disclosed on Garmin's website at: [http://www8.garmin.com/aboutGarmin/invRelations/documents/Code\\_of\\_Conduct.pdf](http://www8.garmin.com/aboutGarmin/invRelations/documents/Code_of_Conduct.pdf).



**Item 11. Executive Compensation**

The information set forth in response to Item 402 of Regulation S-K under the headings “Executive Compensation Matters” and “The Board of Directors Non-Management Director Compensation” in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 11.

The information set forth in response to Item 407(e)(4) of Regulation S-K under the heading “The Board of Directors Compensation Committee Interlocks and Insider Participation; Certain Relationships” in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 11.

The information set forth in response to Item 407(e)(5) of Regulation S-K under the heading “Executive Compensation Matters Report of Compensation Committee” in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 11.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information set forth in response to Item 403 of Regulation S-K under the heading “Stock Ownership of Certain Beneficial Owners and Management” in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 12.

**Equity Compensation Plan Information**

The following table gives information as of December 28, 2013 about the Garmin common shares that may be issued under all of the Company’s existing equity compensation plans, as adjusted for stock splits.

	A	B	C
Plan Category	Number of securities to be issued upon exercise of outstanding options and rights	Weighted-average exercise price of outstanding options and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)
Equity compensation plans approved by shareholders	7,464,409	\$ 58.44	4,451,391
Equity compensation plans not approved by shareholders			
<b>Total</b>	<b>7,464,409</b>	<b>\$ 58.44</b>	<b>4,451,391</b>

Table consists of the Garmin Ltd. 2005 Equity Incentive Plan (as Amended and Restated Effective June 5, 2010), the Garmin Ltd. 2000 Equity Incentive Plan, the Garmin Ltd. Amended and Restated 2000 Non-Employee Directors’ Option Plan, effective June 5, 2010, the Garmin Ltd. Amended and Restated Employee Stock Purchase Plan, effective January 1, 2010 and the Garmin Ltd. 2011 Non-Employee Directors Equity Incentive Plan, effective June 3, 2011. The weighted-average exercise price does not reflect the shares that will be issued upon the payment of outstanding awards of RSUs.



The Company has no knowledge of any arrangement, the operation of which may at a subsequent date result in a change in control of the Company.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information set forth in response to Item 404 of Regulation S-K under the heading “Compensation Committee Interlocks and Insider Participation; Certain Relationships” in the Proxy Statement is incorporated herein by reference in partial response to this Item 13.

The information set forth in response to Item 407(a) of Regulation S-K under the headings “Proposal One Election of Two Directors” and “The Board of Directors” in the Proxy Statement is hereby incorporated herein by reference in partial response to this Item 13.

**Item 14. Principal Accounting Fees and Services**

The information set forth under the headings “Audit Matters Independent Registered Public Accounting Firm Fees” and “Pre-Approval of Services Provided by the Independent Auditor” in the Proxy Statement is hereby incorporated by reference in response to this Item 14.

**PART IV****Item 15. Exhibits, and Financial Statement Schedules****(a) List of Documents filed as part of this Report****(1) Consolidated Financial Statements**

The consolidated financial statements and related notes, together with the reports of Ernst & Young LLP, appear in Part II, Item 8 “Financial Statements and Supplementary Data” of this Form 10-K.

**(2) Schedule II Valuation and Qualifying Accounts**

All other schedules have been omitted because they are not applicable, are insignificant or the required information is shown in the consolidated financial statements or notes thereto.

**(3) Exhibits** The following exhibits are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K:

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Association, as amended, of Garmin Ltd. (incorporated by reference to Exhibit 3.1 of the Registrant’s Current Report on Form 8-K filed on June 28, 2010).
3.2	Organizational Regulations of Garmin Ltd., as amended on February 14, 2014.
10.1	Garmin Ltd. 2000 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant’s Registration Statement on Form S-1 filed December 6, 2000 (Commission File No. 333-45514)).
10.2	Form of Stock Option Agreement pursuant to the Garmin Ltd. 2000 Equity Incentive Plan for Employees of Garmin International, Inc. (incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed on September 7, 2004).
10.3	Form of Stock Option Agreement pursuant to the Garmin Ltd. 2000 Equity Incentive Plan for Employees of Garmin Corporation (incorporated by reference to Exhibit 10.3 of the Registrant’s Current Report on Form 8-K filed on September 7, 2004).
10.4	Form of Stock Option Agreement pursuant to the Garmin Ltd. 2000 Equity Incentive Plan for UK-Approved Stock Options for Employees of Garmin (Europe) Ltd. (incorporated by reference to Exhibit 10.4 of the Registrant’s Current Report on Form 8-K filed on September 7, 2004).
10.5	Form of Stock Option Agreement pursuant to the Garmin Ltd. 2000 Equity Incentive Plan for Non UK-Approved Stock Options for Employees of Garmin (Europe) Ltd. (incorporated by reference to Exhibit 10.5 of the Registrant’s Current Report on Form 8-K filed on September 7, 2004).



- 10.6 Garmin Ltd. 2000 Non-Employee Directors' Option Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Registration Statement on Form S-1 filed December 6, 2000 (Commission File No. 333-45514)).
- 10.7 Form of Stock Option Agreement pursuant to the Garmin Ltd. Non-Employee Directors' Option Plan for Non-Employee Directors of Garmin Ltd. (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on September 7, 2004).
- 10.8 Garmin Ltd. Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed August 9, 2006).
- 10.9 First Amendment to Garmin Ltd. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K filed on March 27, 2002).
- 10.10 Second Amendment to Garmin Ltd. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed on August 13, 2003).
- 10.11 Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on June 7, 2005).
- 10.12 Form of Stock Option Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on June 7, 2005).
- 10.13 Form of Stock Appreciation Rights Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed on May 8, 2007).
- 10.14 Form of Stock Appreciation Rights Agreement pursuant to the Garmin Ltd. 2000 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed on June 7, 2005).
- 10.15 Amended and Restated Garmin Ltd. Employee Stock Purchase Plan effective January 1, 2008 (incorporated by reference to Exhibit 10.15 of the Registrant's Annual Report on Form 10-K filed on February 26, 2008).
- 10.16 Form of Time Vested Restricted Stock Unit Award Agreement under the Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on December 17, 2008).
- 10.17 Form of Performance Shares Award Agreement under the Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on December 17, 2008).
- 10.18 Garmin Ltd. 2009 Cash Incentive Bonus Plan (incorporated by reference to Exhibit 10.18 of the Registrant's Annual Report on Form 10-K filed on February 25, 2009)



- 10.19 Amended and Restated Garmin Ltd. Employee Stock Purchase Plan, effective January 1, 2010 (incorporated by reference to Exhibit 10.22 of the Registrant's Annual Report on Form 10-K filed on February 24, 2010).
- 10.20 Form of Time Vested Restricted Stock Unit Award Agreement under the Garmin Ltd. 2005 Equity Incentive Plan, as revised by the Registrant's Board of Directors on December 11, 2009 (incorporated by reference to Exhibit 10.23 of the Registrant's Annual Report on Form 10-K filed on February 24, 2010).
- 10.21 Form of Performance Shares Award Agreement under the Garmin Ltd. 2005 Equity Incentive Plan, as revised by the Registrant's Board of Directors on December 11, 2009 (incorporated by reference to Exhibit 10.24 of the Registrant's Annual Report on Form 10-K filed on February 24, 2010).
- 10.22 Garmin Ltd. 2005 Equity Incentive Plan (as Amended and Restated Effective June 5, 2009) (incorporated by reference to Schedule 1 of the Registrant's Proxy Statement on Schedule 14A filed on April 21, 2009).
- 10.23 Garmin Ltd. Amended and Restated 2000 Non-Employee Directors' Option Plan, Effective June 5, 2010 (incorporated by reference to Schedule 2 of the Registrant's Proxy Statement on Schedule 14A filed on April 21, 2010).
- 10.24 Garmin Ltd. Amended and Restated 2000 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.25 Garmin Ltd. Amended and Restated 2000 Non-Employee Directors' Option Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.26 Garmin Ltd. Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.27 Garmin Ltd. Amended and Restated 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.28 Form of Stock Option Agreement pursuant to the Garmin Ltd. Amended and Restated 2000 Non-Employee Directors' Option Plan (incorporated by reference to Exhibit 10.6 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.29 Form of Performance Shares Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.30 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for Swiss residents (incorporated by reference to Exhibit 10.8 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).



- 10.31 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for non-Swiss residents (incorporated by reference to Exhibit 10.9 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.32 Transaction Agreement between Garmin Ltd., a Cayman Islands company, and the Registrant, dated as of May 21, 2010 (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on June 28, 2010).
- 10.33 Form of Non-Qualified Stock Option Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, as amended and restated on June 27, 2010 (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on December 29, 2011).
- 10.34 Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan (incorporated by reference to Schedule 1 of the Registrant's Definitive Proxy Statement on Form 14A filed on April 21, 2011).
- 10.35 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2011 Non-Employee Directors' Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on June 6, 2011).
- 10.36 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for Swiss grantees (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on December 10, 2012).
- 10.37 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for Canadian grantees (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on December 10, 2012).
- 10.38 Form of Restricted Stock Unit Award Agreement pursuant to the Garmin Ltd. 2005 Equity Incentive Plan, for non-Swiss and non-Canadian grantees (incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed on December 10, 2012).
- 10.39 Memorandum of Agreement dated March 14, 2013 between Garmin International, Inc. and Bombardier, Inc. (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q filed on May 8, 2013).
- 10.40 Amendment dated December 6, 2013 to Memorandum of Agreement between Garmin International, Inc. and Bombardier, Inc.
- 10.41 Garmin Ltd. 2005 Equity Incentive Plan (as Amended and Restated Effective June 7, 2013) (incorporated by reference to Schedule 1 of the Registrant's Proxy Statement on Schedule 14A filed on April 22, 2013).
- 21.1 List of subsidiaries
- 23.1 Consent of Ernst & Young LLP
- 24.1 Power of Attorney (included in signature page)
- 31.1

Chief Executive Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Chief Financial Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

102

32.1	Chief Executive Officer's Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer's Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase

**(b)**

**Exhibits.**

The exhibits listed on the accompanying Exhibit Index in Item 15(a)(3) are filed as part of, or are incorporated by reference into, this Annual Report on Form 10-K.

**(c)**

**Financial Statement Schedules.**

Reference is made to Item 15(a)(2) above.

**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**  
**Garmin Ltd. and Subsidiaries**  
*(In thousands)*

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year Ended December 28, 2013:					
Deducted from asset accounts					
Allowance for doubtful accounts	\$ 20,582	\$ 1,553	-	\$ (1,768)	\$ 20,367
Inventory reserve	26,105	20,891	-	(18,615)	28,381
Deferred tax asset valuation allowance	51,393	19,480	-	(7,512)	63,361
Total	\$ 98,080	\$ 41,924	-	\$ (27,895)	\$ 112,109
Year Ended December 29, 2012:					
Deducted from asset accounts					
Allowance for doubtful accounts <sup>(2)</sup>	\$ 20,291	\$ 2,947	-	\$ (2,656)	\$ 20,582
Inventory reserve	29,370	11,003	-	(14,268)	26,105
Deferred tax asset valuation allowance	37,173	14,595	-	(375)	51,393
Total	\$ 86,834	\$ 28,545	-	\$ (17,299)	\$ 98,080
Year Ended December 31, 2011:					
Deducted from asset accounts					
Allowance for doubtful accounts <sup>(2)</sup>	\$ 23,222	\$ 1,698	-	\$ (4,629)	\$ 20,291
Inventory reserve	37,720	16,047	-	(24,397)	29,370
Deferred tax asset valuation allowance <sup>(1)</sup>	51,352	7,902	-	(22,081)	37,173
Total	\$ 112,294	\$ 25,647	-	\$ (51,107)	\$ 86,834

<sup>(1)</sup> Note that \$14,994 of the decrease in the deferred tax asset valuation is due to reducing the amount of Taiwan surtax credits to the correct amount available for use in future years, all such credits of which are and have been fully reserved.

<sup>(2)</sup> The allowance for doubtful accounts line has been restated from prior year. A component of the change was to exclude consignment sales activity from 2012 and 2011.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GARMIN LTD.

By /s/ Clifton A. Pemble  
Clifton A. Pemble  
President and Chief Executive Officer

Dated: February 19, 2014

## POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Clifton A. Pemble and Kevin Rauckman and Andrew R. Etkind, and each of them, as his attorney-in-fact, with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 19, 2014.

/s/ Clifton A. Pemble  
Clifton A Pemble  
*Director, President and Chief Executive Officer*  
*(Principal Executive Officer)*

/s/ Kevin S. Rauckman  
Kevin S. Rauckman  
*Chief Financial Officer and Treasurer*  
*(Principal Financial Officer and Principal Accounting Officer)*

/s/ Min H. Kao  
Min H. Kao  
*Executive Chairman*

/s/ Joseph J. Hartnett  
Joseph J. Hartnett  
*Director*

/s/ Donald H. Eller  
Donald H. Eller  
*Director*

/s/ Thomas P. Poberezny  
Thomas P. Poberezny  
*Director*

/s/ Charles W. Peffer  
Charles W. Peffer  
*Director*



**Garmin Ltd.**  
**2013 Form 10-K Annual Report**  
**Exhibit Index**

The following exhibits are attached hereto. See Part IV of this Annual Report on Form 10-K for a complete list of exhibits.

<b>Exhibit Number</b>	<b>Document</b>
3.2	Organizational Regulations of Garmin Ltd., as amended on February 14, 2014
10.40	Amendment dated December 6, 2013 to Memorandum of Agreement between Garmin International, Inc. and Bombardier, Inc.
21.1	List of subsidiaries
23.1	Consent of Ernst & Young LLP
31.1	Chief Executive Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer's Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer's Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase