MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Garmin Second Quarter 2010 Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Ms. Kerri Thurston.

Kerri Thurston, Investor Relations Manager

Good morning. We'd like to welcome you to Garmin Limited's Second Quarter 2010 Earnings Call. Please note that a copy of the press release concerning this earnings call is available at Garmin's Investor Relations site on the Internet at www.garmin.com/stock.

Additionally, this call is being broadcast live on the Internet. Please note that this webcast does include slides, which can be viewed during the call. An archive of the webcast will be available until September 15. A transcript of the call will be available on our website.

This earnings call includes projections and other forward-looking statements regarding Garmin Limited and our businesses. Any statements regarding our future financial position, revenues, earnings, market shares, product introduction, future demand for our products, and objectives are forward-looking statements. The forward-looking events and circumstances discussed in this earnings call may not occur and actual results could differ materially as a result of risk factors affecting Garmin. Information concerning these risk factors is contained in our Form 10-Q for the quarter ended June 26, 2010, filed with the Securities and Exchange Commission this morning.

Attending on behalf of Garmin Limited this morning are Dr. Min Kao, Chairman and Chief Executive Officer; Cliff Pemble, President and Chief Operating Officer; Kevin Rauckman, Chief Financial Officer and Treasurer; and Andrew Etkind, General Counsel. The presenters for this morning's call are Cliff Pemble and Kevin Rauckman.

At this time, I'd like to turn the call over to Cliff.

Clifton Pemble, President and Chief Operating Officer

Thank you, Kerri, and good morning everyone. As you've read from our press release this morning, Garmin announced second quarter results that include revenue, unit, and pro forma earnings per share growth. We experienced revenue and unit delivery growth all four business segments highlighted by stronger than expected results in our Outdoor/Fitness and Marine businesses. Margins remained robust for the quarter. Consolidated gross margin was 54% and consolidated operating margin was 28%.

As a result our pro forma EPS for the quarter was $0.85 per share, which represents a 2% increase over Q2 of 2009. We also generated $172 million in free cash flow during the quarter. Our strong cash position enabled us to pay a dividend of $1.50 per share and we used additional cash to repurchase 1.6 million shares of stock during the quarter.

Moving now to segment highlights, we are pleased to report that Marine revenues grew 23% year-over-year, which was stronger than our previous estimates. We see two factors behind our strong performance in the marine market. First, industry trends continue to show signs of recovery as more people return to boating.

In addition, we continue to gain market share on the strength of our product line up. Throughout the remainder of the year, we will be focused on expanding our product offerings and gaining additional share in both the retrofit and OEM markets.

In July, we announced an exciting win that further illustrates the progress we are making in the marine OEM market. Bayliner a division of Brunswick will feature Garmin Marine electronics in all of their navigation packages starting with the 2011 model year.

Bayliner manufactures 16 to 33-foot runabouts and cruisers that focus on value and performance, making Garmin a perfect partner. We're excited about this new partnership and look forward to seeing Garmin products offered by Bayliner in the upcoming model year.

Moving next to Aviation, revenue grew 1% year-over-year driven by improvements in the retrofit and portable markets. While year-to-date growth in the Aviation segment now stands at 6%, the recovery of this industry continues to lag that of the broader economy and in particular, the OEM market remains weak. With that in mind, we remain focused on expanding addressable markets with additional helicopter and business jet certifications that will drive future growth.

We have recently completed two noteworthy aircraft certifications. The first is the G500H, glass cockpit, for the Bell 206 Series and Model 407 helicopters. In addition to displaying the essential flight information such as attitude and air data, the G500H, also provides integrated traffic, weather, synthetic vision, terrain warning and obstacle avoidance functions.

We also announced the certification of the G1000 integrated flight deck, as a retrofit solution for the Cessna 525 CitationJet. This is our first retrofit solution for a business jet, which delivers one of the most robust avionic systems in the market today. CitationJet owners can transform their cockpit with a modern G1000 System that includes advanced features such as our fully integrated all-digital flight control and synthetic vision.

Turning next to the Outdoor/Fitness segment, we achieved year-over-year revenue growth of 32%, which exceeded our expectations. Once again the segment posted strong operating margin performance, coming in at 44% for the second quarter.

The growth in this segment, combined with a strong margin profile, allowed it to contribute 31% of consolidated operating income for the quarter. We continue to focus on expanding the footprint of our distribution, and providing a broader set of product offerings to expand our addressable market, enabling further growth in this segment.

The primary factor driving growth in this segment is our broad product portfolio, offering something for every customer at key price points across the segments. Products like our Edge 500 for cyclists and the Forerunner 110 for runners offer innovation and affordability, targeting value oriented consumers while products like our Oregon series and Forerunner 310XT offer high-end features that consumers in this market demand. By offering a broad spectrum of products, we are able to attract a wide and growing customer base.

In the Auto/Mobile segment, we experienced a 2% year-over-year revenue increase. Volumes increased 4%, but were offset by declines in ASP. While Q2 market research is not yet available, we believe our volume trends point to increased global market share, driven by consolidation.

Operating margins were strong at 20%, considering the significant investments in R&D and advertising that were made in the quarter.

Given the evolving market trends, we now expect total industry unit volumes to be down slightly in 2010, due to the higher penetration rates and increasing competition from other platforms, such as the mobile phone and in-dash automotive equipment. We will continue to target market share gains particularly in Europe and Asia in order to outperform the industry. We expect that this segment will continue to be a significant source of free cash flow in the near term.

As the market matures, replacement buyers are an important part of the consumer mix. As such, we are focused on attracting the repeat buyers with innovative form factors and compelling new features. In our recent nüvi 3700 series, these innovations included a capacitive multi-touch display with an accelerometer as well as traffic trends and myTrends advanced routing capabilities.

Finally we continue to pursue in-dash automotive opportunities, while development cycles in the automotive industry are longer. One opportunity that recently came to fruition is the 2011 Jeep Grand Cherokee, which offers Garmin navigation as a premium option.

Next I would like to provide an update on our mobile handset initiatives. We launched our Android based A50 with T-Mobile in June and more recently with O2 in Germany and Optus in Australia. Sales of our device at T-Mobile have been below our plan and we are working aggressively with the carrier on the appropriate positioning and pricing of our device in this hyper competitive space.

We also launched the nüvifone A10 with KPN in Netherlands, Telenor in Denmark, Tele2 in Sweden, and Optus in Australia.

The A50 and A10 have received favorable reviews not only for their navigation capabilities which is our forte but also for the ease of use and features we added on top of the Android operating system.

We recognize the hyper competitive nature of the wireless industry and even some of the larger players are experiencing margin and profitability challenges. With this in mind we are focusing on fewer, more targeted projects with a rationalized level of investment given the current trends that we see in the industry. We will continue to monitor sales at T-Mobile and other carriers to evaluate our long-term strategy.

Finally, I would like to update you on our 2010 guidance. On the top line the revenue range has been lowered slightly to $2.8 to $3.0 billion. Based on several considerations including lower sales of the nüvifone, anticipated softening of the PND market as well as unfavorable foreign exchange movements.

However, EPS and margin estimates remain unchanged from our previous guidance in light of better than expected performance during the first half of 2010.

This concludes my business update and next I'll turn the call over to Kevin who will walk us through the financial results in more detail. Kevin?

Kevin Rauckman, Chief Financial Officer

Thanks Cliff, and again good morning, everyone. I wanted to jump right in and give you a more detailed look at our second quarter. First beginning with the income statement....

You can see that our revenue came in at $729 million, and net income of $135 million, for a pro forma EPS of $0.85 per share excluding our foreign currency loss during the period. Our revenues increased 9% year-over-year and our gross margin was 53.7%, a 110 basis point improvement over 2009. This increase was partially driven by a refined warranty estimate that contributed 290 basis points to our gross margin line.

The operating income increased 1% to $202 million, compared to $199 million in the second quarter a year ago. Operating margins of 27.7% were down slightly from 29.8% a year ago. That operating margin change was made up of the following categories. Gross margin was 110 basis points favorable. Our advertising increased $9 million on a year-over-year basis and was 70 basis points unfavorable. Our other SG&A line was up $12 million year-over-year and 80 basis points unfavorable and our R&D increased $16 million year-over-year for 170 basis points unfavorable.

So the pro forma EPS of $0.85 per share represented a 2% increase year-over-year on revenue growth and strong margins. The effective tax rate we booked for the period was 18%.

Units shipped were up 8% year-over-year as 4 million units were delivered during the quarter. This increase was driven by all of our business segments. In the total company, average selling price was $182 per unit up 1% from a year ago, but down sequentially as our Auto/Mobile contributed more revenue during Q2. The Auto/Mobile ASP decreased 1%, compared to the prior year, down to $144.

Briefly on the pro forma net income the non-GAAP measures that we reported represent net income per share excluding the effects of foreign currency translation. This impact was $0.18 per share favorable during the second quarter and $0.02 per share favorable during the second quarter of 2009.

Looking at revenue by the four segments during Q2 we experienced as I said a 2% revenue increase within the Auto/Mobile segment due to primarily to growth within the OEM and mobile handset business.

Our Outdoor/Fitness segment continued to grow with a 32% revenue increase when compared to the second quarter with both Outdoor and Fitness categories contributing to the growth.

Our Aviation segment revenues increased 1% compared to Q2 '09 with growth in retrofit and portable products.

In our Marine segment revenues increased 23%, compared to Q2 '09, as the industry is recovering and we appear to be gaining market share. So in total, our revenues increased 9% during the quarter.

Looking next at a split by geography, during Q2 all three geographic regions around the world posted year-over-year improvement with Europe and Asia growing 14% and 37% respectively. North America represented 62% of our revenue in the second quarter compared to 65% a year ago. Europe increased from 30 to 31% and Asia from 5 to 7% in the same time period.

The Auto/Mobile segment represented 61% of our total business during Q2, down from 65% in 2009, and our Outdoor/Fitness grew to 20% of revenues in the quarter, a 4% increase from 2009.

While the Auto/Mobile segment represented 61% of our total revenue, that segment represented only 44% of our operating income in the quarter, due to the lower margin profile of the segment.

The operating income contribution of Outdoor/Fitness, Marine and Aviation segments were 31%, 16%, and 9% respectively. In total, these segments contributed 56% of our second quarter operating income in 2010, and 63% of the year-to-date operating income.

Next a brief summary of our margin structure at Garmin. In the second quarter, the Auto/Mobile gross margin and operating margin were 46% and 20% respectively. This represents year-over-year improvement in gross margins due to a decline in per unit cost, including the warranty estimate refinement offset by a slight ASP decline.

Operating margins declined 400 basis points due to the strong R&D and advertising investment during the quarter.

Q2 Outdoor/Fitness gross margin was 65%, down from 68% last year, due to product mix. The operating margin was 44%, a decline from 47% in the year ago quarter, due to the gross margin impact.

Q2 Marine gross margin came in at 66% compared to 59% in the year ago quarter as the product mix shifted to our high-end chart plotters and network marine solutions. Operating margin was 43%, up from 36% a year ago driven by the strong gross margin.

And finally our Q2 Aviation gross margin was 70%, down from 74% in Q2 '09, but in line with our expectations. Operating margin was 29% for the quarter. This year-over-year decline is consistent with the gross margin impact.

Moving next to our operating expenses, Q2 operating expenses increased $37 million on a year-over-year basis, from $153 million in Q2 '09 to $190 million in Q2 2010 and increased 310 basis points as a percentage of sales.

R&D increased $17 million year-over-year in Q2 and was up 170 basis points to 10.1% of sales. We now employ over 2,400 engineers and engineering associates worldwide and remain committed to continued product innovation.

Our ad spending increased $8 million over the year ago quarter, an increase of 70 basis points as a percentage of sales from 5.1% to 5.8%. This was largely driven by our advertising associated with our mobile handset initiative.

And other SG&A increased $12 million, compared to the year ago quarter, an 80 basis point increase to 10.1% of sales. This increase represented expenses associated with our redomestication to Switzerland as well as growth in both our product support and information technology areas.

Looking next at our balance sheet for end of the quarter we ended Q2 with cash and marketable securities of over $1.8 billion. Our accounts receivable increased to $499 million, as we exited the seasonally strong Q2. AR accounted for approximately 61 days of sales, down slightly from 63 days a year ago.

Our inventory balances increased $3 million to $359 million, as increased work in process was offset by lower finished good inventory during the quarter. And our days of inventory metric was up to 76 days at the end of Q2, compared to 68 days a year ago, however, consistent with our expectations for inventory levels.

We ended June with the following components of inventory: $94 million in raw materials, or 18 days of inventory, $58 million in WIP and assembly or 12 days of inventory and $246 million in finished goods around 46 days of inventory. Our inventory reserves at the end of the quarter were $40 million.

Garmin continued to generate strong cash flow across the business as cash from operations was $182 million during the second quarter. We incurred CapEx of $9 million during the second quarter, which brought our free cash flow to approximately $172 million.

Cash flow from investing provided $41 million of cash during Q2 made up of the CapEx, $53 million net redemption of marketable securities and a $3 million purchase of intangibles.

Our financing activities used $334 million of cash during Q2. We repurchased $37 million in stock, paid a $299 million dividend in April.

On the remaining of balance and cash and marketable securities we earned an average of 1.2% during the quarter.

As I just mentioned, in Q2 we paid our 2010 annual dividend at a rate of $1.50 per share representing a $299 million use of cash. During Q2 we also repurchased 1.6 million shares of common stock for approximately $52.5 million. Subsequent to the quarter we repurchased an additional 3 million shares. The repurchase plan for $300 million that expires at the end of 2011 now has $111.6 million available for purchase.

Other future uses of cash include the fact we are evaluating a number of acquisition opportunities. And finally our tax rate for the quarter was 18%. Our expectation for the full year rate will be between 15 and 18%.

Finally I'd like to provide an overview of our updated 2010 revenue guidance. Cliff went over the entire guidance, but our revenue by segment will be the following: We first of all have revenue overall between $2.8 and $3 billion with EPS unchanged due to the great margin performance in the first and second quarter. We have increased the revenue outlook for our Outdoor/Fitness segment and our Marine segment offset by a decline in the Aviation and Auto/Mobile forecast.

So that ends our formal comments for the quarter, I would like to open it up at this point for any questions.

