MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Garmin Limited Fourth Quarter 2010 Earnings Conference Call. Today's call is being recorded. I will now turn the call over to Kerri Thurston. Miss Thurston, please go ahead.

Kerri R. Thurston, Manager-Investor Relations

Thank you and good morning, everyone. We'd like to welcome you to Garmin Limited's Fourth 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 March 30th of 2011 and a transcript of the call will be available on the Web site under the Events Calendar tab.

This earnings call includes projections and other forward-looking statements regarding Garmin Limited and its business. Any statements regarding our future financial position, revenues, earnings, market shares, product introductions, future demands 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 risks factors affecting Garmin.

Information concerning these risk factors is contained in our Form 10-Q for the quarter ended June 26th of 2010 filed with the Security and Exchange Commission.

Attending on behalf of Garmin Limited this morning are Dr. Min Kao, Chairman and Chief Executive Officer; Cliff Pemble, President and Chief Operating Officer; and Kevin Rauckman, Chief Financial Officer and Treasurer. The presenters for this morning's call are Cliff and Kevin. At this time I'd like to turn the call over to Cliff Pemble.

Clifton A. Pemble, President and Chief Operating Officer

Morning, everyone. I'll begin my remarks today with highlights from our earnings press release followed by more detailed comments for each reporting segment.

We're pleased to report that our fourth quarter results included revenue growth and strong margin performance in Outdoor/Fitness, Marine, and Aviation. As a group these traditional market segments contributed 60% of our total operating income in the quarter as the PND business became a smaller portion of our overall operating income mix. Due to the ongoing growth opportunities in these segments and in Auto OEM we have redeployed R&D resources to further invest in these markets and allow us to more quickly capitalize on opportunities.

We sold 6.1 million units in the quarter, representing a year-over-year decline of 8%. Auto PND unit volume was weaker; however, this was partially offset by increased volumes in Auto OEM and Outdoor/Fitness.

Finally we generated $175 million in free cash flow during the quarter resulting in a cash balance of just over US$2 billion.

Looking at full year highlights our traditional business segments generated $391 million of operating income which represents an increase of 20% over 2009. The growth in these segments allowed them to contribute 61% of our operating income during the year. We delivered over 16 million units which is a decline of only 4%. While the North American PND market weakened in the back half of the year EMEA unit sales were stable and APAC continued to grow. Growth in other product categories partially offset the decline in PND.

According to our estimates we maintained or grew global market share on an annual basis in each of our segments with strong gains in Fitness and Marine. And finally we generated $738 million of free cash flow. Over 70% of 2010's free cash flow was returned to shareholders through our $1.50 per share dividend and the repurchase of approximately 7.4 million shares of Garmin stock. Reflecting on our consolidated results, our strategy of product and market diversification served us well during a difficult year. I feel confident about our prospects for the future and the direction in which we are headed as we have established a solid foundation from which to invest and grow.

Next I want to walk you through each business segment highlighting 2010 performance as well as providing an outlook for 2011. For each segment I will offer insights on our longer term strategic initiatives that are key to our growth strategy for the future.

Starting with the Marine segment, we were pleased to report year-over-year revenue growth of 12% as market conditions continue to improve. Operating income grew at an impressive rate of 21% generating $67 million of operating income for the year. According to our estimates, we continue to take market share in both the Marine OEM and retro fit categories. The OEM market is highly fragmented with many brands and boat categories but each account provides incremental revenue and market share growth. During 2010 some notable new accounts include Fairline, Gulf Craft and Regal.

For 2011, we are targeting revenue growth of 10% in the Marine segment based on additional market share gains and improving economic conditions. Recent OEM wins will start to contribute revenue in 2011 and we intend to build on this momentum to win additional opportunities during the year. In the coming years our strategic focus will include expanded product offerings that enable growth in the mid to large size boat category, investment in our relationship with Volvo Penta, which provides us an opportunity to expand our role in the Marine OEM space, increasing our share of the OEM market by leveraging our complete line of Marine products. While we've had much success in recent years, this is a fragmented market and we will continue to work towards market leadership account by account. And finally, we will continue to expand the coverage and quality of our BlueChart cartography and we'll focus on adding new content that will be relevant and exciting for boaters.

Turning next to Aviation. We reported year-over-year revenue growth of 7% and operating income growth of 24% resulting in $72 million of operating income for the segment. 2010 was a pivotal year for the Aviation segment with the announcement of our G5000 integrated cockpit system designed specifically for Part 25 Business Jets, which are mid to large size aircraft weighing more than 12,500 pounds.

We are pleased that our G5000 was selected by Cessna for the new Citation Ten business jet. During the year we added new retrofit certification to our G1000 cockpit system, the Cessna Citation Jet and the King Air 200. Owners of these legacy aircrafts can transform their cockpit with a modern all-glass panel that includes advanced features such as our fully integrated all-digital flight control and synthetic vision.

The recovery of the aviation industry has continued to lag the overall economy. The General Aviation Manufacturers Association reports an 11% decline in shipments during 2010 which was a further decline from the already depressed levels of 2009. We anticipate that the OEM market will remain soft in 2011 which impacts our growth outlook for this segment. With that in mind, we are targeting revenue growth of 5% in the Aviation segment.

Looking beyond 2011, we have a lot to be excited about. Our growth initiatives are focused on continued development of our G3000 and G5000 platforms with OEM partners which will be the foundation of aviation growth in 2013 and beyond. We're identifying and capitalizing on additional retrofit opportunities like the planned certification of the G1000 into the King Air 300 and 350 aircrafts, further expansion of market share in helicopter market, and we are preparing for opportunities created by the FAA's NextGen transformation of the National Airspace System. This initiative represents an evolution from ground-based systems of air traffic control to a satellite-based system of air traffic management. We are currently developing equipment and systems that will be part of this modernized air traffic control system.

In our Outdoor Fitness segment, we reported year-over-year revenue growth of 19% and operating income growth of 18%, resulting in $251 million of operating income for the segment. Fitness revenues grew 42% while revenues from the more mature Outdoor segment grew 7%.

It's been an exciting year for our fitness team with the delivery of the Forerunner 110 and the launch of the Edge 500. Each of these products is targeted at the value-oriented consumer and expands the addressable market for our products. Concurrently, we delivered new high-performance devices that elite runners and cyclists expect from Garmin. With the acquisition of MetriGear, we look forward to enhancing our participation in the cycling market by offering an innovative new power solution.

In 2011 we are targeting revenue growth of 5% in the Outdoor segment and 25% in the Fitness segment which will be reported separately beginning first quarter of 2011. In the Outdoor segment we are pleased to be delivering a moderately priced turnkey tracking solution that could be utilized in a variety of applications providing an incremental revenue opportunity for Garmin. In addition we have numerous product updates coming throughout the year that we expect will be well received by the market. In the Fitness segment, our product pipeline is full of innovative products that will continue to deliver unparalleled value and function for both recreational and lead athletes.

Looking beyond 2011 we believe the Outdoor and Fitness segments will continue to deliver growth to our shareholders. In Outdoor we plan to identify and capitalize on adjacent niche markets as we have done over the past five years with products like our dog tracker and golf handhelds. Additionally we will focus on growing our global market share in the golf space through continued innovations like the recently released Approach S1 Golf watch.

In Fitness we believe we are uniquely positioned to deliver the most innovative and useful products to the market with a complete solution that includes devices, wireless connectivity, measurement sensors and a well developed web portal. We will continue to build Garmin Connect capabilities by delivering a satisfying and complete user experience including mobile applications that will complement both our devices and the web. In conclusion we believe we are poised to capture additional share in the cycling market in 2012 and beyond upon the completion of our cycling power solution later this year.

Turning to the Automobile segment, our achievements included the launch of the Nüvi 3700 series which defined a new standard for PND devices by introducing features such as a high resolution capacity multi-touch display contained in an elegant, ultra-thin form factor. We grew additional market share as third tier players left the market during the year, thereby strengthening our global market share position. 2010 also marked the production launch of the Chrysler navigation solution, which is something we've been working on for quite some time. I will discuss this and other OEM opportunities further in just a moment. However, we also faced significant challenges in 2010 as revenues declined 19% in this segment. Unit deliveries in North America were down for the year but were partially offset by growth in Asia. Unit deliveries in Europe were flat for the year but revenues declined due to ongoing ASP pressure.

Looking specifically at the auto OEM highlights in 2010, we delivered our Garmin navigation solution to Chrysler in the third quarter as 2011 auto production began. More recently we also began delivering Garmin navigation to Hyundai Australia for select vehicles. Our contribution for both auto makers include the easy-to-use Garmin interface, lane assist, junction view and numerous other features in an integrated dashboard. This solution is cost effective and provides an improved user experience, which has led to higher than industry pick rates exceeding 50% on the new Chrysler 300 model, which we're proud of.

Looking ahead, we expect PND unit deliveries to continue declining during the course of the year and we expect revenue in the segment to be down approximately 20% over 2010 levels. The revenue situation is driven by decreases in both unit volume, additional ASP pressure and an increased level of deferred revenue as PND's bundle with life time maps continue to grow as a percentage of our product mix. In the PND market, we will look for opportunities to profitably gain market share in both Europe and Asia throughout 2011 offsetting the revenue pressure we expect to continue in North America. The Auto OEM business will also provide some offset to declining PND revenues as volumes associated with our Chrysler and Hyundai relationships increase.

Beyond 2011 we will be focusing on maximizing profitability in the PND industry as the market leader, expanding our Auto OEM business through additional partnership wins and delivering innovative OEM solutions through both a hardware and software approach.

Given our revenue outlook in each segment, we are projecting consolidated revenues of $2.4 billion to $2.5 billion in 2011 with gross margins stable to slightly increasing from 2010 levels as traditional segments grow in their overall revenue contribution. We are projecting operating income between $500 million and $560 million with operating margins of 21% to 22%. The decline in operating margins is the result of continued investment in the long-term growth initiatives that I have outlined for you today. These factors and an anticipated effective tax rate of 20% result in a forecasted 2011 earnings per share range of $2.25 to $2.50.

Before moving to the financial review, I also wanted to highlight our dividend proposal for 2011. At our annual shareholders meeting in June we will ask for approval of a dividend of $2.00 per share. $1.60 of this dividend will be paid in three installments starting with $0.80 in June with $0.40 to follow in September and December. The remaining $0.40 will be paid in Q1 of 2012. The total dividend allotment will be declared in Swiss Francs but will be paid in U.S. dollars, leading to minor variations in the actual dividend payment as currency fluctuates over time.

So this concludes my remarks for today. I'll turn the call over to Kevin who will walk us through our financial results in more detail. Kevin?

Kevin S. Rauckman, Chief Financial Officer

Thank you, Cliff. As is customary, I'd like to review several details of both the fourth quarter and the full year 2010 financial results, starting first with our fourth quarter income statement.

We posted revenue of $838 million for the quarter with net income of $133 million. And our pro forma EPS was $0.83 per share, which excluded the large foreign currency loss. Our revenue represents a decrease of 21% year-over-year. Gross margin came in at 45.3%, which was a 70-basis-point decline from the prior year. And our operating margin was 22.1%, down 550 basis points from 27.6% last year.

The operating margin impact was created through 70 basis points unfavorable on gross margin. Our advertising was 30 basis points unfavorable; however, it was down $8 million on a year-over-year basis. SG&A was 280 basis points unfavorable, up $8 million on a year-over-year basis due primarily to legal settlements and related costs. And our R&D came in 180 basis points unfavorable, which was flat on a year-over-year basis.

Our pro forma EPS of $0.83 per share represents a 42% decrease year-over-year, driven by declining revenues and margins and a significant increase in our effective tax rate to 15% which compares to 4.7% in the prior year.

Our units shipped were down 8% year-over-year as 6.1 million units were delivered during the quarter. And our total company average selling price came in at $138 per unit, down 14% from 2009. This was driven primarily by the deferral of revenues related to bundled lifetime maps into our future periods.

Looking next at the full year income statement, we posted revenue of $2.7 billion for the year with net income of $585 million. Our pro forma EPS was $2.83 per share which excludes foreign currency losses and a one-time tax adjustment. Our revenue fell 9% year-over-year while the pro forma EPS decreased 20% when excluding foreign currency and a $0.50 per share one-time tax adjustment. This was due to declining margins and a higher effective tax rate of 15.8% for the full year, which compares to 12.9% in 2009.

Our gross margin of 50% was a 100 basis point improvement over the prior year. Our operating income fell 19% to $637 million compared to $787 million in 2009. The operating margin was 23.7% down 300 basis points from 26.7% last year driven by gross margin, which was 100 basis points favorable, advertising were down 10 basis points unfavorable and we declined our expenses by $10 million on a year-over-year basis, SG&A was 170 basis points unfavorable, up $24 million on a year-over-year level, and R&D, 220 basis points unfavorable, increasing expenses $39 million on a year-over-year level.

Our pro forma EPS of $2.83 was a 20% decrease year-over-year on declining revenues, operating margins and the increased effective tax rate I mentioned. Units shipped were down slightly year-over-year at 16 million units for the year. The decrease in North American PND volume was partially offset by growth in other geographies and other segments. Our total company average selling price during the year was $168 per unit, down 5% from 2009.

Looking next at our pro forma net income. As you saw from the press release this morning, the non-GAAP measures that we reported represent net income per share excluding the effects of foreign currency translation and the impact of the one time reversal of tax reserves during 2010. This impact was $0.15 per share favorable during the fourth quarter and $0.05 per share favorable for Q4 2009. The full year impact was $0.12 unfavorable in 2010 and $0.03 unfavorable in 2009.

As I mentioned deferred revenue at several times in our call so far, we wanted to highlight as we did in our press release, the impact of deferred revenue. As the larger percentages of PNDs include life time map updates, we must defer revenue according to U.S. GAAP. This table summarizes the net impact of the deferral and amortization of revenue and related costs both in 2009, 2010. We have also provided an estimate of the net deferral for 2011 as we believe it will be significant as PNDs bundled with life time maps grows as a percentage of our product mix. Note that we are deferring revenue according to U.S. GAAP, but we are collecting the cash each year, which is reflected in our statement of cash flows.

Looking next in a little bit more detail on revenue, during Q4 we experienced a 31% revenue decrease within the Automobile segment as both volumes and prices declined. We deferred $64 million of net revenue into future quarters. Our Outdoor/Fitness segment continued to grow with a 15% revenue increase when compared to Q4, 2009 on the strength of our fitness products. Aviation segment revenues increased 11% compared to Q4 '09 as we continued to deliver into additional platforms. Our Marine segment revenues increased 9% compared to Q4 of '09 as our chart plotters did well in the quarter. And in total our revenues decreased 21% during the fourth quarter.

Looking next at revenue by geography: during the quarter, fourth quarter North America and Europe revenues declined while Asia continued to post growth. For the full year revenue declines were driven by the North American market while Asia Pacific grew and Europe looked stable. North America represented 61% of total revenue in fourth quarter compared to 67% in the year-ago quarter. Europe increased from 28% to 31% of our total revenues and Asia from 5% to 8% in the same period.

Looking next at revenue by segment, the Automobile segment now represents 68% of our total business during the fourth quarter, which is down from 77% in 2009. Outdoor/Fitness grew to 20% of revenues in the quarter, an increase from 14% in 2009. On a full year business Automobile revenue contribution declined from 70% to 62% with the largest gain in Outdoor/Fitness, which contributed 21% in 2010 compared to 16% a year ago.

While the Automobile segment represents 68% of our total revenue during the seasonally strong fourth quarter, it represented only 40% of our operating income in the quarter due to the lower margin profile of the segment. The operating income contribution of the Outdoor/Fitness, Marine and Aviation segments were 44%, 10% and 6% respectively. So in total these segments contributed 60% of the fourth quarter operating income and 61% of the full year operating income in our business. We expect the operating income to continue to be weighted toward our non-Automobile segments going forward.

Next, a look at our margins by segment: in the fourth quarter Automobile gross margin and operating margin were 35% and 13% respectively. This was a significant decline to 2009 levels due to the deferral of high margin revenue and the deleveraging of operating expenses as revenues declined.

Fourth quarter, Outdoor/Fitness gross margin was 66%, a slight improvement to the gross margin levels throughout 2010, but a decline from 69% last year due to a decrease in ASP's as product mix shifted in the holiday quarter. Operating margin within our Outdoor/Fitness segment was 48%, a decrease from 54% in the year ago quarter due to the gross margin decline and the allocation of additional resources and costs to this high growth segment.

Our fourth quarter Marine gross margin was 63% compared to 65% a year ago quarter. Operating margin was 29% and down from 36% a year ago driven primarily by gross margin and the allocation of additional resources and costs to support our future growth in this segment.

And finally, the fourth quarter Aviation gross margin was 70% which is up from 67% in the fourth quarter of '09. Operating margin was 26% for the quarter up from 18% in Q4 of '09. The year over year improvement was primarily driven by gross margin improvement and reduced allocation of our SG&A costs.

Looking next at our total operating expenses within the business, fourth quarter operating expenses were flat on a year over year basis at $195 million but increased 490 bps as a percentage of sales due to the revenue decline.

R&D was flat year over year in the fourth quarter but increased 180 basis points to 9% of sales.

Our Ad spending decreased $8 million over the year ago quarter and increased by 30 basis points as a percentage of sales. We will continue to manage advertising expense based on the market dynamics in our business.

SG&A increased $8 million compared to the year ago quarter and 280 basis points to 9.5% of sales. The increase I mentioned was driven by one time legal settlements and fees.

Next a look at our balance sheet, we ended the quarter of the year with cash and marketable securities of over $2 million. Our accounts receivable increased to $747 million representing about 101 days of sales consistent with the 2009 level of 108 days exiting our seasonally strong Q4. Of this balance we've already collected $362 million. Our inventory balances decreased $106 million to $388 million on a sequential level. Our days of inventory metric were down to 119 days at the end of Q4 compared to 140 days we reported at the end of Q3. We continue to take steps to slow production levels and insure that working capital is maximized during 2011. And we ended the quarter with the following number of days of inventory, $103 million in raw materials or 28 days, $44 million in WIP and assemblies or 13 days of inventory, $279 million in finished goods or 77days, and we ended the year with $38 million in inventory reserves.

We continue to generate strong cash flow across our business as cash from operations was $185 million during the quarter and $771 million during the full year 2010. Capital expenditures were $9 million during the fourth quarter and we generated free cash flow during the quarter of $175 million. Cash flow from investing represented a $165 million use of cash during the quarter made up of the following components, the $9 million I mentioned in CapEx and $147 net purchase of marketable securities. Financing activities during Q4 were relatively small at $3 million use of cash. We earned an average of 1.3% on all cash and marketable security balances during the fourth quarter.

We expect our strong free cash flow generation to continue in 2011. We will use a portion of the cash flow to fund the dividend that Cliff discussed earlier. At a $32 stock price, the annual dividend rate of $1.60 represents a yield of 5%. We also plan to increase our focus on possible tuck-in technology acquisitions which fit with our core markets or serve adjacent markets. These acquisitions will be evaluated for not only proper valuation and technology but also value compatibility and strategic fit within Garmin.

As you noticed, our tax rate for the fourth quarter was 15% and 15.8% for the full year when normalizing for the one-time reserve reversals in Q3. We expect the 2011 rate to be between 18% and 22%, depending upon the mix of income within our segments.

And finally, I'd like to give a little bit more information on the 2011 guidance. 2011 will be a transition year for Garmin as the PND market continues to decline, and as you can see on the right side of this slide, we have four solid growth segments that we intend to invest in throughout the upcoming year. The continued profitability of these segments will position us well as we expect to return to growth across our entire business sometime after 2011.

Well this concludes our formal remarks. Thank you.