

STATUTORY FINANCIAL STATEMENTS

Garmin Ltd. (Switzerland)

Years Ended December 26, 2015 and December 27, 2014

**Ernst & Young Ltd**  
Maagplatz 1  
P.O. Box  
CH-8010 Zurich  
Phone +41 58 286 31 11  
Fax +41 58 286 30 04  
[www.ey.com/ch](http://www.ey.com/ch)

To the General Meeting of  
**Garmin Ltd., Schaffhausen**

Zurich, February 17, 2016

### **Report of the statutory auditor on the financial statements**

As statutory auditor, we have audited the accompanying financial statements of Garmin Ltd., which comprise the balance sheet, statement of income and notes, for the period from December 28, 2014 to December 26, 2015.

#### **Board of Directors' responsibility**

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements for the period from December 28, 2014 to December 26, 2015 comply with Swiss law and the company's articles of incorporation.

## **Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

/s/ Christian Schibler  
Christian Schibler  
Licensed audit expert  
(Auditor in charge)

/s/ Siro Bonetti  
Siro Bonetti  
Licensed audit expert

# Garmin Ltd.

## Balance Sheet

(CHF in thousands)

	December 26, 2015	December 27, 2014
<b>Assets</b>		
- Cash and cash equivalents	10,475	10,554
- Accounts receivable - affiliates	113	167
- Other receivables - third party	6	17
- Prepaid expenses	11	674
<b>Total current assets</b>	<u>10,605</u>	<u>11,412</u>
 - Loans receivable - affiliates	245,003	222,129
- Investment in affiliated companies	8,244,395	8,254,115
<b>Total non-current assets</b>	<u>8,489,398</u>	<u>8,476,244</u>
<b>Total assets</b>	<u>8,500,003</u>	<u>8,487,656</u>
 <b>Liabilities and shareholders' equity</b>		
- Accounts payable	325	150
- Accounts payable - affiliates	5,649	4,260
- Provision for unrealized translation gains	19,599	-
- Dividend payable from capital contribution reserve	190,308	181,346
<b>Total current liabilities</b>	<u>215,881</u>	<u>185,756</u>
 - Accrued expenses	477	984
- Long-term interest-bearing loans - affiliates	389,097	398,570
<b>Total non-current liabilities</b>	<u>389,574</u>	<u>399,554</u>
<b>Total liabilities</b>	<u>605,455</u>	<u>585,310</u>
 Share capital	2,080,774	2,080,774
Legal capital reserves		
- Reserve from capital contribution	5,091,539	5,337,512
- Reserve for treasury shares from capital contribution	389,598	651,222
- Other capital reserves	68	68
Voluntary retained earnings		
- Dividend reserve from capital contribution	189,461	56,361
- Available earnings		
- Balance brought forward	(223,591)	(48,190)
- Net earnings (loss) for the year	717,889	(175,401)
<b>Treasury shares</b>	<u>(351,190)</u>	<u>-</u>
 <b>Total shareholders' equity</b>	<u>7,894,548</u>	<u>7,902,346</u>
<b>Total liabilities and shareholders' equity</b>	<u>8,500,003</u>	<u>8,487,656</u>

Garmin Ltd.

Statement of Income

(CHF in thousands)

	<b>Fiscal Year Ended December 26, 2015</b>	<b>Fiscal Year Ended December 27, 2014</b>
Dividend income - affiliates	742,190	327,000
- General and administrative expenses	(10,069)	(9,220)
- General and administrative expenses - affiliates	(7,063)	(6,073)
- Advertising expense	(176)	(75)
Operating expenses	<u>(17,308)</u>	<u>(15,368)</u>
Impairment on investment in affiliated companies	-	(327,000)
Financial income		
- Interest income	-	4
- Interest income - affiliates	<u>3,802</u>	<u>3,954</u>
Total financial income	3,802	3,958
Financial expense		
- Interest expense - affiliates	<u>(7,803)</u>	<u>(4,192)</u>
Total financial expense	(7,803)	(4,192)
- Foreign currency gains (losses)	(2,992)	(880)
- Currency translation loss	-	(158,919)
Total currency gains (losses)	<u>(2,992)</u>	<u>(159,799)</u>
Net earnings (loss)	<u>717,889</u>	<u>(175,401)</u>

# Garmin Ltd.

## Notes to Statutory Financial Statements

December 26, 2015 and December 27, 2014

*(CHF in thousands, except share and per share information and where otherwise indicated)*

### **1. Summary of significant accounting policies**

#### **General aspects**

Garmin Ltd. (the “Company”) is the parent company of the Garmin Group and has its registered office at Mühlentalstrasse 2, 8200 Schaffhausen, Switzerland. The Company did not have any employees at December 26, 2015 and December 27, 2014.

#### **Basis of presentation**

For the first time, these unconsolidated statutory financial statements of Garmin Ltd. have been prepared in accordance with the general accepted accounting principles as set out in the Swiss Code of Obligations (“SCO”) Art. 957 to 963b, effective since January 1, 2013. Consequently, presentation of the prior year financial statements was adjusted to conform to the current presentation.

The consolidated financial statements of the Garmin Group include 100 percent of the assets, liabilities, revenues, expenses, income and cash flows of Garmin Ltd. and subsidiaries in which the Company has a controlling interest, as if the Company and its subsidiaries were a single company.

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 a 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. The fiscal years ended December 26, 2015 and December 27, 2014 included 52 weeks.

#### **Affiliates**

The term “Affiliates”, as referred to in these financial statements, is defined as directly and indirectly held subsidiaries.

## **Exchange rate differences**

The Company keeps its accounting records in U.S. Dollars (USD) and translates them into Swiss Francs (CHF) for statutory reporting purposes. Assets and liabilities denominated in foreign currencies are translated into CHF using the year-end rates of exchange, except investment in affiliated companies and the Company's equity, which are translated at historical rates. Income statement transactions are translated into Swiss francs at the average rate of the year, except for individually significant transactions during the year in which case the applicable daily exchange rate is used. Exchange differences arising from business transactions are recorded in the income statement, except for net unrealized gains, which are deferred and recorded in current liabilities. Unrealized losses arising from the translation of the financial statements in USD to CHF are recorded in the statement of income, and unrealized gains are deferred and recorded in "provision for unrealized translation gains".

## **Investment in affiliated companies**

Investment in affiliated companies are recorded at historical cost less adjustment for impairment of value.

## **Dividend payable from capital contribution**

The dividend payable from capital contribution includes the outstanding quarterly dividend installments, approved by the annual general meeting but not yet paid.

## **Reserve from capital contribution**

The reserve from capital contribution includes the premium from the capital increase in the year 2010, less the dividends from capital contribution distributed to date.

## **Dividend reserve from capital contribution**

The dividend reserve from capital contribution includes the amount of reserve from capital contribution reallocated to voluntary retained earnings through the last shareholder resolution, including the margin for unfavorable currency fluctuation and new share issuances that may occur between the time that the dividend has been approved by shareholders and when the last installment payment is made, reduced by quarterly dividend installments actually paid and expected quarterly dividend installments included in "dividend payable from capital contribution".

## **Treasury shares**

Treasury shares are recognized at acquisition cost and deducted from shareholders' equity at the time of acquisition. In case of resale, the gain or loss is recognized through the statement of income as financial income or financial expense. For treasury shares held at Affiliates, the Company builds a treasury shares reserve in equity at the respective acquisition costs.

## **Personnel expense**

Personnel expense for the years ended December 26, 2015 and December 27, 2014 amounted to CHF 3,661 and CHF 2,214, respectively, and is related to personnel expense allocated from the Company's Affiliates, related to the performance of certain general and administrative services including executive administration, procurement and payables, treasury and cash management, payroll, and accounting, as well as the Board of Directors of the Company.

The Company uses treasury shares for share-based payment programs for Board members. Any difference between the acquisition cost and any consideration paid by the Board members at grant date is recognized as personnel expense.

## **2. Investment in directly and material indirectly held affiliated companies**

<b>Company Name</b>	<b>Domicile</b>	<b>Ownership Interest</b>		<b>Voting Interest</b>	
		<b>Direct</b>	<b>Indirect</b>	<b>Direct</b>	<b>Indirect</b>
Garmin Luxembourg Holdings S.à r.l.	Luxembourg	100%		100%	
Garmin Luxembourg S.à r.l.	Luxembourg		100%		100%
Garmin Switzerland GmbH	Switzerland	100%		100%	
Garmin International, Inc.	United States	100%		100%	
Garmin Corporation	Taiwan		100%		100%
Garmin (Europe) Ltd.	United Kingdom		100%		100%
Garmin Australasia Pty. Ltd.	Australia		100%		100%
Garmin Deutschland GmbH	Germany		100%		100%
Garmin New Zealand Holdings Limited	New Zealand	100%		100%	
Garmin Switzerland Distribution GmbH	Switzerland	100%		100%	

The investment in directly and material indirectly held affiliated companies is the same for the years ended December 26, 2015 and December 27, 2014, with the exception of Garmin Switzerland Distribution GmbH, which was newly formed during the year ended December 26, 2015.

### 3. Shareholders' equity

CHF in thousands	Share capital	Legal capital reserves			Voluntary retained earnings			Available earnings	
		Reserve from capital contribution	Reserve for treasury shares from capital contribution	Other capital reserves	Dividend reserve from capital contribution	Balance brought forward	Net earnings (loss) for the year		
								Treasury Shares	Total
Balance as of December 28, 2013	2,080,774	5,858,865	462,884	68	74,892	(39,244)	(8,946)	-	8,429,293
Balance brought forward						(8,946)	8,946		-
Release of amounts to dividend payable from reserve from capital contribution (2012 dividend)			(158)						(158)
Release of dividend reserve from capital contribution (2012 dividend)		74,892				(74,892)			-
Net movement in reserve for treasury shares from capital contribution		(188,338)	188,338						-
Release to dividend reserve from capital contribution (2013 dividend)		(407,749)				407,749			-
Dividend payments (2013 dividend)						(170,042)			(170,042)
Dividend payable at year-end (2013 dividend)						(181,346)			(181,346)
Net earnings (loss) for the year							(175,401)		(175,401)
Balance as of December 27, 2014	2,080,774	5,337,512	651,222	68	56,361	(48,190)	(175,401)	-	7,902,346
Balance brought forward						(175,401)	175,401		-
Release of amounts to dividend payable from reserve from capital contribution (2013 dividend)		721							721
Release of dividend reserve from capital contribution (2013 dividend)		56,361				(56,361)			-
Treasury shares received as dividend in kind		352,860	(352,860)					(351,190)	(351,190)
Net movement in reserve for treasury shares from capital contribution		(91,236)	91,236						-
Release to dividend reserve from capital contribution (2014 dividend)		(564,679)				564,679			-
Dividend payments (2014 dividend)						(184,910)			(184,910)
Dividend payable at year-end (2014 dividend)						(190,308)			(190,308)
Net earnings (loss) for the year							717,889		717,889
Balance as of December 26, 2015	2,080,774	5,091,539	389,598	68	189,461	(223,591)	717,889	(351,190)	7,894,548

The summary of the components of authorized shares at December 26, 2015, December 27, 2014, and December 28, 2013 and changes during those years are as follows:

	Outstanding Shares	Treasury Shares		Issued Shares <sup>1</sup>	Conditional Capital <sup>3</sup>
		Held by Affiliates	Held by Company		
December 28, 2013	195,150,102	12,927,316 <sup>2</sup>	-	208,077,418	104,038,709
Treasury shares purchased	(4,690,859)	4,690,859			
Treasury shares issued for stock based compensation	1,355,296	(1,355,296)			
December 27, 2014	191,814,539	16,262,879 <sup>2</sup>	-	208,077,418	104,038,709
Treasury shares purchased	(3,300,345)	3,300,345			
Treasury shares issued for stock based compensation	1,207,696	(1,207,696)			
Dividend-in-kind of 10 million formation shares		(10,000,000)	10,000,000		
December 26, 2015	189,721,890	8,355,528	10,000,000	208,077,418	104,038,709

<sup>1</sup> Shares at CHF 10 par value

<sup>2</sup> Includes 10,000,000 formation shares

<sup>3</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.

#### 4. Treasury Shares

At December 26, 2015, the Company held 10,000,000 treasury shares with an average cost of CHF 35.

At December 26, 2015 and December 27, 2014, the Company's Affiliates held 8,355,528 and 16,262,879 treasury shares, respectively. The average cost of all treasury shares held by Affiliates at December 26, 2015 amounts to CHF 47.

	Carrying value (CHF in thousands)	Number of shares held by affiliates	Average cost (CHF)
Balance as of December 28, 2013	462,884	12,927,316	36
Acquired	234,822	4,690,859	50
Treasury stock used for stock based compensation	(46,484)	(1,355,296)	34
Balance as of December 27, 2014	651,222	16,262,879	40
Acquired	137,076	3,300,345	42
Treasury stock used for stock based compensation	(45,840)	(1,207,696)	38
Dividend-in-kind of 10 million formation shares	(352,860)	(10,000,000)	35
Balance as of December 26, 2015	389,598	8,355,528	47

#### 5. Contingent Liabilities

The Company has a tax sharing agreement with its Affiliates for certain tax reserves. In addition, the Company through certain of its Affiliates is involved in various regulatory and legal matters. The Company's Affiliates have made certain related accruals. There could be material adverse outcomes beyond the accrued liabilities. Finally, as part of regular business negotiations, the Company will also occasionally guarantee certain financial obligations of its Affiliates when doing so leads to favorable terms. The amount of these guarantees at December 26, 2015 is not material.

## 6. Significant Shareholders

As of December 26, 2015 and December 27, 2014, the following shareholders held 5 percent or more of Garmin Ltd.'s total issued shares and voting rights:

<u>Shareholder</u>	<u>Percentage at Dec. 26, 2015</u>	<u>Percentage at Dec. 27, 2014</u>
Garmin Ltd. and Affiliates	8.82%	7.82%
Gary L. Burrell	- <sup>1</sup>	13.73%
Jonathan Burrell	13.76% <sup>2</sup>	-
Min H. Kao, Ph.D.	18.60% <sup>3</sup>	18.65% <sup>4</sup>

<sup>1</sup> The shares held by Gary L. Burrell as of Dec. 26, 2015 are included in the shares reported for his son, Jonathan Burrell, in order to avoid double counting those shares.

<sup>2</sup> Includes (a) 9,302,000 shares held by The Gary L. Burrell Revocable Trust, over which shares Jonathan Burrell shares voting and dispositive power with his father, Gary L. Burrell, (b) 4,063,570 shares held by The Judith M. Burrell Revocable Trust, over which shares Jonathan Burrell shares voting and dispositive power with his mother, Judith M. Burrell, (c) 9,000,000 shares held in three Charitable Lead Annuity Trusts, over which shares Jonathan Burrell has the sole voting and dispositive power, (d) 3,000,000 shares held in a limited liability company, over which shares Jonathan Burrell has sole voting and dispositive power, and (e) 3,200,000 shares held in four Grantor Retained Annuity Trusts established by Judith M. Burrell, over which shares Jonathan Burrell has sole voting and dispositive power.

<sup>3</sup> Includes 24,332,539 shares held by revocable trusts established by Dr. Kao's children, over which Dr. Kao has shared voting and dispositive power. Also includes 5,207,824 shares that are held by a revocable trust established by Dr. Kao's wife, over which Dr. Kao does not have any voting or dispositive power. Dr. Kao disclaims beneficial ownership of the 5,207,824 shares held in his wife's trust.

<sup>4</sup> Includes 24,443,568 shares held by revocable trusts established by Dr. Kao's children, over which Dr. Kao has shared voting and dispositive power. Also includes 5,207,824 shares that are held by a revocable trust established by Dr. Kao's wife, over which Dr. Kao does not have any voting or dispositive power. Dr. Kao disclaims beneficial ownership of the 5,207,824 shares held in his wife's trust.

To the best of the Company's knowledge, no other shareholder held 5 percent or more of Garmin Ltd.'s total issued shares and voting rights as registered in accordance with Swiss law on December 26, 2015 or December 27, 2014.

## 7. Shares for members of the Board of Directors

According to the compensation plan, members of the Board of Directors are partially paid in shares. Treasury shares are used for such share allocations. The allocation of shares to the Board of Directors was as follows:

2015		2014	
Quantity	Value in CHF	Quantity	Value in CHF
12,008	481,148	7,120	365,800

## 8. Share Ownership of Garmin Ltd. by Board Members and Members of Executive Management

As of December 26, 2015 and December 27, 2014, the members of the Board of Directors held the following numbers of shares:

Name and Function	Total number of shares held at Dec. 26, 2015	Total number of shares held at Dec. 27, 2014
Donald H. Eller, Ph.D., Member of Compensation Committee, Chairman of Nominating and Corporate Governance Committee	442,864	507,699
Joseph Hartnett, Member of Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee	2,882	1,718
Min H. Kao, Ph.D., Executive Chairman	38,702,017 <sup>1</sup>	38,813,046 <sup>2</sup>
Charles W. Peffer, Chairman of Audit Committee, Member of Compensation Committee and Nominating and Corporate Governance Committee	12,736	12,371
Clifton A. Pemble, President & Chief Executive Officer	- <sup>3</sup>	- <sup>3</sup>
Thomas Poberezny, Member of Audit Committee and Nominating and Corporate Governance Committee, Chairman of Compensation Committee	5,936	4,171
<b>Total</b>	<b>39,166,435</b>	<b>39,339,005</b>

<sup>1</sup> Includes 24,332,539 shares held by revocable trusts established by Dr. Kao's children, over which Dr. Kao has shared voting and dispositive power. Also includes 5,207,824 shares that are held by a revocable trust established by Dr. Kao's wife, over which Dr. Kao does not have any voting or dispositive power. Dr. Kao disclaims beneficial ownership of the 5,207,824 shares held in his wife's trust.

<sup>2</sup> Includes 24,443,568 shares held by revocable trusts established by Dr. Kao's children, over which Dr. Kao has shared voting and dispositive power. Also includes 5,207,824 shares that are held by a revocable trust established by Dr. Kao's wife, over which Dr. Kao does not have any voting or dispositive power. Dr. Kao disclaims beneficial ownership of the 5,207,824 shares held in his wife's trust.

<sup>3</sup> Shares held by Mr. Pemble are shown in the Executive Management disclosure below.

As of December 26, 2015 and December 27, 2014, the members of Executive Management held the following numbers of shares:

<u>Name and Principal Position<sup>1</sup></u>	Total number of shares held at Dec. 26, 2015	Total number of shares held at Dec. 27, 2014
Douglas G. Boessen, Chief Financial Officer & Treasurer	1,124	300
Clifton A. Pemble, President & Chief Executive Officer	65,209	55,897
<b>Total</b>	<b>66,333</b>	<b>56,197</b>

<sup>1</sup> On February 14, 2014, the Company's Board of Directors determined that with effective date of January 1, 2014, the Company's Executive Management consists of its President & Chief Executive Officer and its Chief Financial Officer & Treasurer.

The members of our Board of Directors and Executive Management owned 18.85 and 18.93 percent of the Company's total shares issued as of December 26, 2015 and December 27, 2014, respectively.

The following tables provide information for each non-employee member of the Board of Directors regarding outstanding equity awards held by them as of December 26, 2015 and December 27, 2014, respectively.

#### **Outstanding Equity Awards at December 26, 2015**

<b>Name and Function</b>	<b>Option awards<sup>1</sup></b>	<b>Stock Awards<sup>2</sup></b>
Donald Eller Member of the Board and Compensation Committee, Chairman of Nominating Committee	21,790	5,145
Joseph Hartnett Member of the Board, Audit, Compensation and Nominating Committees	-	5,145
Charles Peffer Member of the Board and Compensation and Nominating Committees, Chairman of Audit Committee	13,653	5,145
Thomas Poberezny Member of the Board, Audit and Nominating Committees, Chairman of Compensation Committee	5,981	5,145
<b>Total</b>	<b>41,424</b>	<b>20,580</b>

<sup>1</sup> Represents non-qualified stock options.

<sup>2</sup> Represents restricted stock units.

**Outstanding Equity Awards at December 28, 2014**

<b>Name and Function</b>	<b>Option awards<sup>1</sup></b>	<b>Stock Awards<sup>2</sup></b>
Donald Eller Member of the Board and Compensation Committee, Chairman of Nominating Committee	24,540	4,495
Joseph Hartnett Member of the Board, Audit, Compensation and Nominating Committees	-	3,694
Charles Peffer Member of the Board and Compensation and Nominating Committees, Chairman of Audit Committee	13,653	4,495
Thomas Poberezny Member of the Board, Audit and Nominating Committees, Chairman of Compensation Committee	5,981	4,495
<b>Total</b>	<b><u>44,174</u></b>	<b><u>17,179</u></b>

<sup>1</sup> Represents non-qualified stock options.

<sup>2</sup> Represents restricted stock units.

The following tables provide information for each member of Executive Management regarding outstanding equity awards held by them as of December 26, 2015 and December 27, 2014, respectively. Amounts in these tables are presented in CHF.

**Outstanding Equity Awards at December 26, 2015**

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option / SAR Exercise Price (CHF)	Option / SAR Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (CHF) <sup>5</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested	
<b>Clifton A. Pemble</b> <b>President &amp; Chief Officer</b>	27,156 <sup>(1)</sup>	18,104	41.57	12/10/22	19,311 <sup>(3)</sup>	704,195		
	16,932 <sup>(1)</sup>	11,288	39.16	12/28/21	8,156 <sup>(3)</sup>	297,417		
	6,883 <sup>(2)</sup>	27,532	51.71	12/15/24	3,235 <sup>(3)</sup>	117,967		
	15,398 <sup>(2)</sup>	23,094	48.39	12/10/23	1,611 <sup>(3)</sup>	58,747		
	25,000 <sup>(2)</sup>	-	50.26	06/16/08	13,080 <sup>(4)</sup>	476,975		
	25,000 <sup>(2)</sup>	-	103.87	12/04/17	-	-		
	20,000 <sup>(2)</sup>	-	62.43	06/08/17	-	-		
	20,000 <sup>(2)</sup>	-	50.36	12/05/16	-	-		
	20,000 <sup>(2)</sup>	-	45.51	06/09/16	-	-		
	<b>176,369</b>	<b>80,018</b>			<b>45,393</b>			
<b>Douglas G. Boessen</b> <sup>(5)</sup> <b>Chief Financial Officer &amp; Treasurer</b>	2,536 <sup>(2)</sup>	10,144	51.71	12/15/24	6,240 <sup>(3)</sup>	227,548		
	<b>2,536</b>	<b>10,144</b>			<b>2,636 <sup>(3)</sup></b>	<b>96,124</b>		
					<b>4,227 <sup>(4)</sup></b>	<b>154,142</b>		
<b>Total</b>	<b>178,905</b>	<b>90,162</b>			<b>58,496</b>			

<sup>1</sup> Represents non-qualified stock options.

<sup>2</sup> Represents stock appreciation rights.

<sup>3</sup> Represents restricted stock units.

<sup>4</sup> Represents time-based and performance-based vesting restricted stock units.

<sup>5</sup> Determined by multiplying the number of unearned shares by CHF 36.47, which was the closing price of Garmin shares on the NASDAQ stock market on December 26, 2015.

**Outstanding Equity Awards at December 27, 2014**

<b>Name</b>	<b>Option Awards</b>					<b>Stock Awards</b>		
	<i>Number of Securities Underlying Unexercised Options (#) Exercisable</i>	<i>Number of Securities Underlying Unexercised Options (#) Unexercisable</i>	<i>Option / SAR Exercise Price (CHF)</i>	<i>Option / SAR Expiration Date</i>	<i>Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)</i>	<i>Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (CHF) <sup>4</sup></i>		
<b>Clifton A. Pemble President &amp; Chief Officer</b>	11,288 <sup>(1)</sup>	16,932	39.13	12/28/21	2,000 <sup>(3)</sup>	106,049		
	18,104 <sup>(1)</sup>	27,156	41.54	12/10/22	3,222 <sup>(3)</sup>	170,845		
	12,000 <sup>(2)</sup>	-	21.27	06/23/15	3,632 <sup>(3)</sup>	192,585		
	15,000 <sup>(2)</sup>	-	30.21	12/16/15	6,470 <sup>(3)</sup>	343,068		
	20,000 <sup>(2)</sup>	-	45.48	06/09/16	12,234 <sup>(3)</sup>	648,700		
	20,000 <sup>(2)</sup>	-	50.32	12/05/16	-	-		
	20,000 <sup>(2)</sup>	-	62.39	06/08/17	-	-		
	25,000 <sup>(2)</sup>	-	103.79	12/04/17	-	-		
	25,000 <sup>(2)</sup>	-	50.23	06/06/18	-	-		
	7,699 <sup>(2)</sup>	30,793	48.35	12/10/23	-	-		
<b>Total</b>		<b>174,091</b>	<b>109,296</b>		<b>27,558</b>			
<b>Douglas G. Boessen <sup>(5)</sup> Chief Financial Officer &amp; Treasurer</b>	- <sup>(2)</sup>	12,680	51.67	12/15/24	3,954 <sup>(3)</sup>	209,658		
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>		
<b>Total</b>	<b><hr/>174,091</b>	<b><hr/>121,976</b>			<b><hr/>31,512</b>			

<sup>1</sup> Represents non-qualified stock options.

<sup>2</sup> Represents stock appreciation rights.

<sup>3</sup> Represents restricted stock units.

<sup>4</sup> Determined by multiplying the number of unearned shares by CHF 53.02, which was the closing price of Garmin shares on the NASDAQ stock market on December 27, 2014.

<sup>5</sup> Kevin S. Rauckman was Chief Financial Officer until July 31, 2014 when Douglas G. Boessen assumed the role of Chief Financial Officer.

Other than as disclosed, no party related to any member of the Board of Directors or Executive Management held any shares of Garmin Ltd. or equity awards in Garmin Ltd. shares as of December 26, 2015 or December 27, 2014.

## **9. Dividend income and impairment loss on investment in Affiliates**

During 2015, Garmin Ltd. received dividends of CHF 742,190 from one of its Affiliates. No impairment loss was recognized related to these dividends. During 2014, Garmin Ltd. received a dividend of CHF 327,000 from one of its Affiliates resulting in a reduction in the value of the

investment in this Affiliate by the same amount. Consequently, the Company has recognized an impairment of CHF 327,000 in the value of its investment in affiliated companies.

## **10. Change to the corporate legal structure**

In the third quarter of 2014, the Company initiated an inter-company restructuring that realigned its corporate legal structure. As part of this restructuring, Garmin Ltd. acquired 100% of the shares of Garmin International, Inc. from one of its subsidiaries against an intercompany payable, the majority of which was subsequently returned to Garmin Ltd. as a return of capital. As of December 26, 2015, there remains a loan payable to Affiliates in the amount of CHF 389,097.

## **11. Subsequent events**

No significant events occurred subsequent to the balance sheet date but prior to February 17, 2016 that would have a material impact on the financial statements.

## Proposed Appropriation of Available Earnings

Balance brought forward	(223,591)
Net earnings for the period	717,889
Total available to the general meeting	494,298

Proposal of the Board of Directors for the appropriation of retained earnings to the general meeting:	494,298
Balance to be carried forward	494,298

	Reserve from capital contribution	Reserve for treasury shares from capital contribution <sup>1</sup>	Dividend reserve from capital contribution
Balance as of December 26, 2015	5,091,539	389,598	189,461
Proposed release of reserve from capital contribution to dividend reserve from capital contribution	(565,080)		565,080
Balance to be carried forward	4,526,459	389,598	754,541

<sup>1</sup> The reserve for treasury shares is blocked from distribution.

The Board of Directors proposes to the Annual Meeting that Garmin Ltd. pay a cash dividend in the amount of USD 2.04<sup>1</sup> per outstanding share out of Garmin Ltd.'s reserve from capital contribution payable in four equal installments at the dates determined by the Board of Directors in its discretion, the record date and payment date for each such installment to be announced in a press release<sup>2</sup> at least ten calendar days prior to the record date.

The cash dividend shall be made with respect to the outstanding share capital of Garmin Ltd. on the record date for the applicable installment, which amount will exclude any shares of Garmin Ltd. held by Garmin Ltd. or any of its Affiliates.

CHF 565,080,000<sup>3</sup> shall be allocated to dividend reserves from capital contribution (the "Dividend Reserve") from the legal reserve from capital contribution in order to pay such dividend of USD 2.04 per outstanding share with a nominal value of CHF 10.00 each (assuming a total of 208,077,418 shares<sup>4</sup> eligible to receive the dividend). If the aggregate dividend payment is lower than the Dividend Reserve, the relevant difference will be allocated back to the legal reserve from capital contribution. To the extent that any installment payment, when converted into Swiss francs, at a USD/CHF exchange rate prevailing at the relevant payment date for the relevant installment payment, would exceed the Dividend Reserve then remaining, the USD per share amount of that installment payment shall be reduced on a pro rata basis, provided, however, that the aggregate amount of that installment payment shall in no event exceed the then remaining Dividend Reserve.

<sup>1</sup> In no event will the dividend payment exceed a total of USD 2.04 per share.

<sup>2</sup> The announcements will not be published in the Swiss Official Gazette of Commerce.

<sup>3</sup> Based on the currency conversion rate as at December 26, 2015, with a total of 208,077,418 shares eligible for payout (based on the number of shares issued as at December 26, 2015), the aggregate dividend total would be CHF 565,080,000. The amount of the Dividend Reserve, calculated on the basis of the Company's issued shares as at December 26, 2015, includes a 35% margin to accommodate (i) unfavorable currency fluctuation and (ii) new share issuances (see footnote 4 below) that may occur between the time that the dividend is approved by shareholders and when the last installment payment is made. Unused dividend reserves will be returned to the reserve from capital contribution after the last installment payment.

<sup>4</sup> This number is based on the registered share capital at December 26, 2015. The number of shares eligible for dividend payments may change due to the repurchase of shares, the sale of treasury shares or the issuance of new shares, including (without limitation) from the conditional share capital reserved for the employee profit sharing program.

STATUTORY CONSOLIDATED

FINANCIAL STATEMENTS

Garmin Ltd. (Switzerland)  
Years Ended December 26, 2015 and December 27, 2014

**Ernst & Young Ltd**  
Maagplatz 1  
P.O. Box  
CH-8010 Zurich  
Phone +41 58 286 31 11  
Fax +41 58 286 30 04  
[www.ey.com/ch](http://www.ey.com/ch)

To the General Meeting of  
**Garmin Ltd., Schaffhausen**

Zurich, February 17, 2016

### **Report of the statutory auditor on the consolidated financial statements**

As statutory auditor, we have audited the accompanying consolidated financial statements of Garmin Ltd. and Subsidiaries, which comprise the consolidated balance sheets as of December 26, 2015 and December 27, 2014 and the related consolidated statements of income, comprehensive income, stockholder's equity, cash flows, and notes thereto for each of the three years in the period ended December 26, 2015.

#### **Board of Directors' responsibility**

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the

accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Garmin Ltd. and Subsidiaries at December 26, 2015 and December 27, 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 26, 2015, in conformity with accounting principles generally accepted in the United States and comply with Swiss law.

### **Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

/s/ Christian Schibler

Christian Schibler

Licensed audit expert  
(Auditor in charge)

/s/ Siro Bonetti

Siro Bonetti

Licensed audit expert

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

	<b>December 26, 2015</b>	<b>December 27, 2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$833,070	\$1,196,268
Marketable securities (Note 3)	215,161	167,989
Accounts receivable, less allowance for doubtful accounts of \$13,805 in 2015 and \$18,330 in 2014	531,481	570,191
Inventories, net	500,554	420,475
Deferred income taxes (Note 6)	-	56,102
Deferred costs	49,176	51,336
Prepaid expenses and other current assets	81,645	48,615
Total current assets	<u>2,211,087</u>	<u>2,510,976</u>
Property and equipment, net		
Land and improvements	85,162	94,245
Building and improvements	351,778	324,710
Office furniture and equipment	206,025	188,847
Manufacturing equipment	131,055	128,441
Engineering equipment	113,690	102,692
Vehicles	20,939	20,661
	<u>908,649</u>	<u>859,596</u>
Accumulated depreciation	<u>(462,560)</u>	<u>(428,709)</u>
	<u>446,089</u>	<u>430,887</u>
Restricted cash (Note 4)	259	308
Marketable securities (Note 3)	1,343,387	1,407,344
Noncurrent deferred income tax (Note 6)	116,518	67,712
Noncurrent deferred costs	38,769	36,140
Intangible assets, net	245,552	218,083
Other assets	97,730	21,853
Total assets	<u><u>\$4,499,391</u></u>	<u><u>\$4,693,303</u></u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$178,905	\$149,094
Salaries and benefits payable	70,601	62,764
Accrued warranty costs	30,449	27,609
Accrued sales program costs	67,613	58,934
Deferred revenue	164,982	203,598
Accrued royalty costs	30,310	51,889
Accrued advertising expense	33,547	26,334
Other accrued expenses	74,926	67,780
Deferred income taxes (Note 6)	-	17,673
Income taxes payable	21,674	182,260
Dividend payable	<u>192,991</u>	<u>185,326</u>
Total current liabilities	<u>865,998</u>	<u>1,033,261</u>
Deferred income taxes (Note 6)	56,210	39,497
Non-current income taxes	101,689	80,611
Non-current deferred revenue	128,731	135,130
Other liabilities	1,637	1,437
Stockholders' equity:		
Shares, CHF 10 par value, 208,077 shares authorized and issued; 189,722 shares outstanding at December 26, 2015; and 191,815 shares outstanding at December 27, 2014;		
(Notes 9, 10, and 11):	1,797,435	1,797,435
Additional paid-in capital	62,239	73,521
Treasury stock	(414,637)	(330,132)
Retained earnings	1,930,517	1,859,972
Accumulated other comprehensive income	<u>(30,428)</u>	<u>2,571</u>
Total stockholders' equity	<u><u>3,345,126</u></u>	<u><u>3,403,367</u></u>
Total liabilities and stockholders' equity	<u><u>\$4,499,391</u></u>	<u><u>\$4,693,303</u></u>

See accompanying notes.

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

	<b>Fiscal Year Ended</b>		
	<b>December 26, 2015</b>	<b>December 27, 2014</b>	<b>December 28, 2013</b>
Net sales	\$2,820,270	\$2,870,658	\$2,631,851
Cost of goods sold	1,281,566	1,266,246	1,224,551
Gross profit	<u>1,538,704</u>	<u>1,604,412</u>	<u>1,407,300</u>
Advertising expense	167,166	146,633	112,905
Selling, general and administrative expenses	394,914	372,032	355,440
Research and development expense	<u>427,043</u>	<u>395,121</u>	<u>364,923</u>
	<u>989,123</u>	<u>913,786</u>	<u>833,268</u>
Operating income	549,581	690,626	574,032
Other income (expense):			
Interest income	29,653	35,584	35,271
Foreign currency (losses) gains	(23,465)	(4,299)	35,538
Other	<u>11,418</u>	<u>1,834</u>	<u>8,717</u>
	<u>17,606</u>	<u>33,119</u>	<u>79,526</u>
Income before income taxes	567,187	723,745	653,558
Income tax provision (benefit): (Note 6)			
Current	114,222	274,107	27,771
Deferred	(3,262)	85,427	13,375
	<u>110,960</u>	<u>359,534</u>	<u>41,146</u>
Net income	<u>\$456,227</u>	<u>\$364,211</u>	<u>\$612,412</u>
Basic net income per share (Note 10)	<u>\$2.39</u>	<u>\$1.89</u>	<u>\$3.13</u>
Diluted net income per share (Note 10)	<u>\$2.39</u>	<u>\$1.88</u>	<u>\$3.12</u>

*See accompanying notes.*

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

	<b>Fiscal Year Ended</b>		
	<b>December 26, 2015</b>	<b>December 27, 2014</b>	<b>December 28, 2013</b>
Net income	\$456,227	\$364,211	\$612,412
Foreign currency translation adjustment	(34,981)	(64,489)	(43,609)
Change in fair value of available-for-sale marketable securities, net of deferred taxes	1,982	29,019	(56,904)
Comprehensive income	<b><u>\$423,228</u></b>	<b><u>\$328,741</u></b>	<b><u>\$511,899</u></b>

*See accompanying notes.*

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

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
<b>Balance at December 29, 2012</b>	<b>\$1,797,435</b>	<b>\$72,462</b>	<b>(\$81,280)</b>	<b>\$1,604,625</b>	<b>\$138,554</b>	<b>\$3,531,796</b>
Net income	—	—	—	612,412	—	612,412
Translation adjustment	—	—	—	—	(43,609)	(43,609)
Adjustment related to unrealized gains (losses) on available-for-sale securities net of income tax effects of (\$2,183)	—	—	—	—	(56,904)	(56,904)
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)
<b>Balance at December 28, 2013</b>	<b>\$1,797,435</b>	<b>\$79,263</b>	<b>(\$120,620)</b>	<b>\$1,865,587</b>	<b>\$38,041</b>	<b>\$3,659,706</b>
Net income	—	—	—	364,211	—	364,211
Translation adjustment	—	—	—	—	(64,489)	(64,489)
Adjustment related to unrealized gains (losses) on available-for-sale securities net of income tax effects of \$201	—	—	—	—	29,019	29,019
Comprehensive income						328,741
Dividends declared	—	—	—	(369,826)	—	(369,826)
Tax benefit from issuance of equity awards	—	(84)	—	—	—	(84)
Issuance of treasury stock related to equity awards	—	(29,951)	50,704	—	—	20,753
Stock compensation	—	24,293	—	—	—	24,293
Purchase of treasury stock related to equity awards	—	—	(18,638)	—	—	(18,638)
Purchase of treasury stock under share repurchase plan	—	—	(241,578)	—	—	(241,578)
<b>Balance at December 27, 2014</b>	<b>\$1,797,435</b>	<b>\$73,521</b>	<b>(\$330,132)</b>	<b>\$1,859,972</b>	<b>\$2,571</b>	<b>\$3,403,367</b>
Net income	—	—	—	456,227	—	456,227
Translation adjustment	—	—	—	—	(34,981)	(34,981)
Adjustment related to unrealized gains (losses) on available-for-sale securities net of income tax effects of \$115	—	—	—	—	1,982	1,982
Comprehensive income						423,228
Dividends declared	—	(100)	—	(385,682)	—	(385,782)
Tax benefit from issuance of equity awards	—	(2,050)	—	—	—	(2,050)
Issuance of treasury stock related to equity awards	—	(35,422)	52,494	—	—	17,072
Stock compensation	—	26,290	—	—	—	26,290
Purchase of treasury stock related to equity awards	—	—	(5,586)	—	—	(5,586)
Purchase of treasury stock under share repurchase plan	—	—	(131,413)	—	—	(131,413)
<b>Balance at December 26, 2015</b>	<b>\$1,797,435</b>	<b>\$62,239</b>	<b>(\$414,637)</b>	<b>\$1,930,517</b>	<b>(\$30,428)</b>	<b>\$3,345,126</b>

*See accompanying notes.*

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

	<b>Fiscal Year Ended</b>		
	<b>December 26, 2015</b>	<b>December 27, 2014</b>	<b>December 28, 2013</b>
<b>Operating Activities:</b>			
Net income	\$456,227	\$364,211	\$612,412
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	51,311	48,433	48,476
Amortization	27,049	28,582	30,328
Gain on sale of property and equipment	(198)	(306)	(724)
Provision for doubtful accounts	(2,521)	66	1,553
Provision for obsolete and slow-moving inventories	23,257	25,903	20,891
Unrealized foreign currency losses (gains)	37,931	573	(40,120)
Deferred income taxes	5,897	89,828	7,931
Stock compensation	26,290	24,293	22,592
Realized gains on marketable securities	(55)	(505)	(5,877)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	22,473	(27,398)	38,589
Inventories	(121,718)	(76,491)	(17,593)
Other current and non-current assets	(107,360)	627	(22,013)
Accounts payable	36,079	8,981	18,043
Other current and non-current liabilities	20,742	16,467	(31,775)
Deferred revenue	(43,338)	(87,543)	(16,150)
Deferred costs	(585)	11,029	(2,204)
Income taxes payable	<u>(151,014)</u>	<u>95,961</u>	<u>(34,275)</u>
Net cash provided by operating activities	<u>280,467</u>	<u>522,711</u>	<u>630,084</u>
<b>Investing activities:</b>			
Purchases of property and equipment	(80,592)	(73,339)	(56,083)
Proceeds from sale of property and equipment	7,921	748	885
Purchase of intangible assets	(3,889)	(4,720)	(1,122)
Purchase of marketable securities	(915,921)	(1,006,482)	(909,151)
Redemption of marketable securities	919,141	1,096,676	833,491
Proceeds from repayment (advances) on loan receivable	-	137,379	(137,369)
Acquisitions, net of cash acquired	(38,687)	(18,871)	(5,680)
Change in restricted cash	<u>48</u>	<u>(59)</u>	<u>587</u>
Net cash provided by (used in) investing activities	<u>(111,979)</u>	<u>131,332</u>	<u>(274,442)</u>
<b>Financing activities:</b>			
Dividends	(378,117)	(360,075)	(351,707)
Tax benefit from issuance of equity awards	(2,049)	(84)	4,584
Proceeds from issuance of treasury stock related to equity awards	17,073	20,753	22,770
Purchase of treasury stock related to equity awards	(5,586)	(18,638)	(24,063)
Purchase of treasury stock under share repurchase plan	<u>(131,413)</u>	<u>(241,578)</u>	<u>(58,422)</u>
Net cash used in financing activities	<u>(500,092)</u>	<u>(599,622)</u>	<u>(406,838)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(31,594)</u>	<u>(37,302)</u>	<u>(835)</u>
Net increase (decrease) in cash and cash equivalents	<u>(363,198)</u>	<u>17,119</u>	<u>(52,031)</u>
Cash and cash equivalents at beginning of year	<u>1,196,268</u>	<u>1,179,149</u>	<u>1,231,180</u>
Cash and cash equivalents at end of year	<u><b>\$833,070</b></u>	<u><b>\$1,196,268</b></u>	<u><b>\$1,179,149</b></u>

*See accompanying notes.*

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

	<b>Fiscal Year Ended</b>		
	<b>December 26, 2015</b>	<b>December 27, 2014</b>	<b>December 28, 2013</b>
<b>Supplemental disclosures of cash flow information</b>			
Cash paid during the year for income taxes	<u><u>\$252,885</u></u>	<u><u>\$175,465</u></u>	<u><u>\$73,372</u></u>
Cash received during the year from income tax refunds	<u><u>\$3,793</u></u>	<u><u>\$5,260</u></u>	<u><u>\$3,584</u></u>
Cash paid during the year for interest	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
<b>Supplemental disclosure of non-cash investing and financing activities</b>			
Change in marketable securities related to unrealized appreciation (depreciation)	<u><u>\$1,867</u></u>	<u><u>\$29,220</u></u>	<u><u>(\$59,087)</u></u>
Fair value of assets acquired	<u><u>\$38,687</u></u>	<u><u>\$22,735</u></u>	<u><u>\$11,486</u></u>
Liabilities assumed	<u><u>-</u></u>	<u><u>(3,718)</u></u>	<u><u>(4,955)</u></u>
Less: cash acquired	<u><u>-</u></u>	<u><u>(146)</u></u>	<u><u>(851)</u></u>
Cash paid for acquisitions, net of cash acquired	<u><u>\$38,687</u></u>	<u><u>\$18,871</u></u>	<u><u>\$5,680</u></u>

*See accompanying notes.*

**GARMIN LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(USD In Thousands, Except Share and Per Share Information)*

**December 26, 2015 and December 27, 2014**

## **1. Description of the Business**

Garmin Ltd. and subsidiaries (together, the “Company”) design, develop, manufacture, market, and distribute a diverse family of hand-held, wrist-based, portable and fixed-mount Global Positioning System (GPS)-enabled products and other navigation, communications, information and sensor-based 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) Ltd. (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 2015, 2014 and 2013 included 52 weeks.

### **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.

## **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 (\$14,108) and \$20,874 as of December 26, 2015 and December 27, 2014, 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. The movements of the Taiwan Dollar and Euro/British Pound Sterling have offsetting impacts when the currencies move congruently against the U.S. Dollar 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 primarily to revenue. All differences are recorded in results of operations and amounted to exchange (losses) gains of (\$23,465), (\$4,299), and \$35,538, for the years ended December 26, 2015, December 27, 2014, and December 28, 2013, respectively. The loss in fiscal 2015 was due primarily to the USD strengthening against the Euro partially offset by the USD strengthening against the Taiwan Dollar. The loss in fiscal 2014 was due primarily to the USD strengthening against the Euro and the British Pound Sterling which was largely offset by the USD strengthening against the Taiwan Dollar. 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.

## **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. The Company maintains trade credit insurance to provide security against large losses.

### **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 22% and 24% of net sales since 2013. None of the Company's customers accounted for more than 10% of consolidated net sales in the years ended December 26, 2015, December 27, 2014, and December 28, 2013.

### **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 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 repaid 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.

### **Inventories**

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

	<u>December 26, 2015</u>	<u>December 27, 2014</u>
Raw Materials	\$203,173	\$161,444
Work-in-process	69,690	53,824
Finished goods	273,762	244,282
Inventory Reserves	(46,071)	(39,075)
Inventory, net of reserves	<u>\$500,554</u>	<u>\$420,475</u>

### **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	39-50
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 2015, 2014, or 2013. 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 the Company's shareholders.

On June 5, 2015, the shareholders approved a dividend of \$2.04 per share (of which, \$1.02 was paid in the Company's 2015 fiscal year) payable in four equal installments on dates determined by the Board of Directors. The dates determined by the Board were as follows:

<u>Dividend Date</u>	<u>Record Date</u>	<u>\$s per share</u>
June 30, 2015	June 16, 2015	\$0.51
September 30, 2015	September 15, 2015	\$0.51
December 31, 2015	December 15, 2015	\$0.51
March 31, 2016	March 15, 2016	\$0.51

The Company paid dividends in 2015 in the amount of \$378,117. Both the dividend paid and the remaining dividend payable were reported as a reduction of retained earnings.

On June 6, 2014, the shareholders approved a dividend of \$1.92 per share (of which, \$0.96 was paid in the Company's 2014 fiscal year) payable in four equal installments on dates determined by the Board of Directors. The dates determined by the Board were as follows:

<u>Dividend Date</u>	<u>Record Date</u>	<u>\$s per share</u>
June 30, 2014	June 17, 2014	\$0.48
September 30, 2014	September 15, 2014	\$0.48
December 31, 2014	December 15, 2014	\$0.48
March 31, 2015	March 16, 2015	\$0.48

The Company paid dividends in 2014 in the amount of \$360,075. Both the dividend paid and the remaining dividend payable were reported as a reduction of retained earnings.

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:

<b>Dividend Date</b>	<b>Record Date</b>	<b>\$s per share</b>
June 28, 2013	June 18, 2013	\$0.45
September 30, 2013	September 16, 2013	\$0.45
December 31, 2013	December 16, 2013	\$0.45
March 31, 2014	March 17, 2014	\$0.45

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.

Approximately \$304,674 and \$290,955 of retained earnings are indefinitely restricted from distribution to stockholders pursuant to the laws of Taiwan at December 26, 2015 and December 27, 2014, respectively.

### **Intangible Assets**

At December 26, 2015 and December 27, 2014, the Company had patents, customer related intangibles and other identifiable finite-lived intangible assets recorded at a cost of \$216,465 and \$191,034, respectively. Identifiable, finite-lived intangible assets are amortized over their estimated useful lives on a straight-line basis over three to ten years, which represents the expected pattern and duration of use of and benefit received from the respective assets. Accumulated amortization was \$158,704 and \$151,589 at December 26, 2015 and December 27, 2014, respectively. Amortization expense on these intangible assets was \$7,115, \$8,362 and \$17,847, for the years ended December 26, 2015, December 27, 2014, and December 28, 2013, respectively. In the next five years, the amortization expense is estimated to be \$19,780, \$7,506, \$6,734, \$4,787 and \$3,610, respectively.

The Company's excess purchase cost over fair value of net assets acquired (goodwill) was \$187,791 at December 26, 2015 and \$178,638 at December 27, 2014.

	December 26, 2015	December 27, 2014
Goodwill balance at beginning of year	\$ 178,638	\$ 179,290
Acquisitions	\$ 11,908	2,517
Finalization of purchase price allocations and effect of foreign currency translation	<u>\$ (2,755)</u>	<u>(3,169)</u>
Goodwill balance at end of year	<u><u>\$ 187,791</u></u>	<u><u>\$ 178,638</u></u>

### **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 26, 2015. 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 26, 2015 and December 27, 2014, cumulative unrealized gains and losses, net of tax of (\$16,321) and (\$18,303), respectively, were reported in accumulated other comprehensive income, net of related taxes.

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.

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.

Investments are discussed in detail in Note 3 of the Notes to Consolidated Financial Statements.

### **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.

Income taxes are discussed in detail in Note 6 of the Notes to Consolidated Financial Statements.

### **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.

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, in-dash

navigation solutions, aviation subscriptions and extended warranties that involve multiple-element arrangements that are immaterial.

Garmin offers PNDs with lifetime map updates (LMUs) bundled in the original purchase price. LMUs enable customers to download the latest map and point of interest information for the useful life of their PND. In addition, Garmin offers PNDs with traffic service bundled in the original purchase price. The Company has identified multiple deliverables contained in arrangements involving the sale of PNDs which include the LMU and/or 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 remaining deliverables are the LMU and/or 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 traffic service are deferred and recognized on a straight-line basis over the estimated life of the products.

The Company has determined sufficient VSOE does not exist for LMU or traffic, and that third party evidence of selling price is not available. During 2013, the Company estimated selling price of the undelivered element based on the relative selling price method using a weighted average of the stand-alone sales price, the price differential between bundled and unbundled PND units, and the royalty or subscription cost plus a normal margin. These estimates were reflective of how the Company established product pricing based in part on customer perception of value of the added LMU or traffic service capability to the PND. In 2014, the Company determined that stand-alone and unbundled unit sales no longer occurred on more than a limited basis, and therefore began using the royalty cost plus a normal margin as the primary indicator to calculate relative selling prices of the undelivered elements.

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 26, 2015 and December 27, 2014, the Company had deferred revenues totaling \$293,713 and \$338,728, respectively, and related deferred costs totaling \$87,945 and \$87,476, respectively.

The deferred revenues and costs are recognized over their estimated economic lives of two to five years on a straight-line basis. In the next five years, the gross margin recognition of deferred revenue and cost for the currently deferred amounts is estimated to be \$115,806, \$60,971, \$21,467, \$5,356 and \$2,168, 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. 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. The following reconciliation provides an illustration of changes in the aggregate warranty reserve:

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Balance - beginning of period	\$27,609	\$26,767	\$37,301
Change in accrual for products sold in prior periods <sup>(1)</sup>	-	-	(8,709)
Accrual for products sold <sup>(2)</sup>	44,620	44,423	41,309
Expenditures	(41,780)	(43,581)	(43,134)
Balance - end of period	<u><u>\$30,449</u></u>	<u><u>\$27,609</u></u>	<u><u>\$26,767</u></u>

- (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 \$167,166, \$146,633, and \$112,905, for the years ended December 26, 2015, December 27, 2014 and December 28, 2013, 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 \$427,043, \$395,121, and \$364,923, for the years ended December 26, 2015, December 27, 2014 and December 28, 2013, 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.

## **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.

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.

Stock compensation plans are discussed in detail in Note 9 of the Notes to Consolidated Financial Statements.

## **Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which supersedes previous revenue recognition guidance. ASU 2014-09 requires that a company will recognize revenue at an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring goods or services to a customer. In applying the new guidance, a company will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new standard may be applied retrospectively to each prior period presented or in a modified retrospective approach in which the cumulative effect will be recognized as of the date of adoption.

In August 2015, the FASB issued Accounting Standards Update No. 2015-14, which defers the effective date of the new guidance by one year such that the new provisions will now be required for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of adopting the new revenue standard on its consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

### **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 26, 2015							
	Total		Level 1		Level 2		Level 3
U.S. Treasury securities	\$ 27,731	\$ -	\$ 27,731	\$ -	\$ 27,731	\$ -	
Agency securities	208,631	-	208,631	-	208,631	-	
Mortgage-backed securities	370,232	-	370,232	-	370,232	-	
Corporate securities	648,590	-	648,590	-	648,590	-	
Municipal securities	223,562	-	223,562	-	223,562	-	
Other	79,802	-	79,802	-	79,802	-	
<b>Total</b>	<b>\$ 1,558,548</b>	<b>\$ -</b>	<b>\$ 1,558,548</b>	<b>\$ -</b>	<b>\$ 1,558,548</b>	<b>\$ -</b>	

Fair Value Measurements as of December 27, 2014 <sup>(1)</sup>							
	Total		Level 1		Level 2		Level 3
U.S. Treasury securities	\$ 30,144	\$ -	\$ 30,144	\$ -	\$ 30,144	\$ -	
Agency securities	428,320	-	428,320	-	428,320	-	
Mortgage-backed securities	324,307	-	324,307	-	324,307	-	
Corporate securities	594,402	-	594,402	-	594,402	-	
Municipal securities	125,410	-	125,410	-	125,410	-	
Other	72,750	-	72,750	-	72,750	-	
<b>Total</b>	<b>\$ 1,575,333</b>	<b>\$ -</b>	<b>\$ 1,575,333</b>	<b>\$ -</b>	<b>\$ 1,575,333</b>	<b>\$ -</b>	

<sup>(1)</sup> Certain available-for-sale securities held as of December 27, 2014 have been reclassified among major security types to conform to the current year presentation. These reclassifications had no effect on fair value measurement.

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

Available-For-Sale Securities as of December 26, 2015							
	Amortized Cost	Gross Gains	Unrealized Gains	Gross Losses-OTTI <sup>(1)</sup>	Unrealized Losses-OTTI <sup>(1)</sup>	Gross Losses-Other <sup>(2)</sup>	Estimated Fair Value (Net Carrying Amount)
U.S. Treasury securities	\$ 27,772	\$ 27	\$ -	\$ (68)	\$ (313)	\$ (68)	\$ 27,731
Agency securities	211,248	105	(2,409)	(1,210)	(5,550)	(313)	208,631
Mortgage-backed securities	376,801	191	(1,635)	(1,635)	(6,401)	(1,056)	370,232
Corporate securities	656,447	179	(9)	(14)	(41)	223,562	648,590
Municipal securities	223,991	636	(14)	(41)	79,802		
Other	79,853	4					
<b>Total</b>	<b>\$ 1,576,112</b>	<b>\$ 1,142</b>	<b>\$ (5,277)</b>	<b>\$ (13,429)</b>	<b>\$ 1,558,548</b>	<b>\$ -</b>	

**Available-For-Sale Securities as  
of December 27, 2014 <sup>(3)</sup>**

	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)
U.S. Treasury securities	\$ 30,185	\$ 26	\$ (25)	\$ (42)	\$ 30,144
Agency securities	436,817	169	(8,259)	(407)	428,320
Mortgage-backed securities	329,048	580	(1,813)	(3,508)	324,307
Corporate securities	600,674	689	(2,874)	(4,087)	594,402
Municipal securities	125,183	497	(48)	(222)	125,410
Other	72,857	59	(12)	(154)	72,750
<b>Total</b>	<b>\$ 1,594,764</b>	<b>\$ 2,020</b>	<b>\$ (13,031)</b>	<b>\$ (8,420)</b>	<b>\$ 1,575,333</b>

- (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.
- (3) Certain available-for-sale securities held as of December 27, 2014 have been reclassified among major security types to conform to the current year presentation. These reclassifications had no effect on fair value measurement.

The Company's investment policy requires investments to be rated A or better with the objective of minimizing the potential risk of principal loss. The fair value of 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. 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. In 2013, the Company experienced unrealized, noncredit losses on its investment portfolio resulting in gross other-than-temporary impairment and other unrealized losses on marketable securities. During 2014 and 2015, the Company did not record any material impairment changes on its outstanding securities.

The amortized cost and estimated fair value of the securities at an unrealized loss position at December 26, 2015 were \$1,299,856 and \$1,281,150, respectively. Approximately 63.6% of securities in the Company's portfolio were at an unrealized loss position at December 26, 2015. 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. The Company does not intend to sell the securities and it is not more likely than not that the Company 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 following table displays additional information regarding gross unrealized losses and fair value by major security type for available-for-sale securities in an unrealized loss position:

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

<b>As of December 27, 2014<sup>(1)</sup></b>					
	<b>Less than 12 Consecutive Months</b>		<b>12 Consecutive Months or Longer</b>		
	<b>Gross Unrealized</b>	<b>Fair Value</b>	<b>Gross Unrealized</b>	<b>Fair Value</b>	
U.S. Treasury securities	\$ (42)	\$ 18,822	\$ (25)	\$ 6,634	
Agency securities	(397)	64,862	(8,269)	312,139	
Mortgage-backed securities	(2,169)	187,309	(3,152)	99,566	
Corporate securities	(4,058)	373,925	(2,903)	114,076	
Municipal securities	(222)	29,533	(48)	15,019	
Other	(154)	29,977	(12)	3,091	
<b>Total</b>	<b>\$ (7,042)</b>	<b>\$ 704,428</b>	<b>\$ (14,409)</b>	<b>\$ 550,525</b>	

(1) Certain available-for-sale securities held as of December 27, 2014 have been reclassified among major security types to conform to the current year presentation. These reclassifications had no effect on fair value measurement.

The amortized cost and estimated fair value of marketable securities at December 26, 2015, 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.

	<b>Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$ 215,143	\$ 215,161
Due after one year through five years	1,179,753	1,167,026
Due after five years through ten years	112,256	108,923
Due after ten years	68,960	67,438
	<b>\$ 1,576,112</b>	<b>\$ 1,558,548</b>

#### 4. Commitments and Contingencies

Rental expense related to office, equipment, warehouse space and real estate amounted to \$18,104, \$19,559 and \$18,721 for the years ended December 26, 2015, December 27, 2014, and December 28, 2013, respectively. The Company recognizes rental expense on a straight-line basis over the lease term.

Future minimum lease payments are as follows:

Year	Amount
2016	\$ 16,621
2017	12,091
2018	9,849
2019	6,963
2020	5,323
Thereafter	14,182
Total	<u>\$ 65,029</u>

Certain cash balances of GEL and GC are held as collateral by banks securing payment of local value-added tax requirements. The total amount of restricted cash balances were \$259 and \$308 at December 26, 2015 and December 27, 2014, respectively.

The Company is party to certain commitments, which include purchases of raw materials, advertising expenditures, investments in certain low income housing tax credit projects, and other indirect purchases in connection with conducting our business. The aggregate amount of purchase orders and other commitments open as of December 26, 2015 was approximately \$278,327. We cannot determine the aggregate amount of such purchase orders that represent contractual obligations because purchase orders may represent authorizations to purchase rather than binding agreements. Our purchase orders are based on our current needs and are typically fulfilled within short periods of time.

In the normal course of business, the Company and its subsidiaries are parties to various legal claims, investigations, and complaints, including matters involving patent infringement and other intellectual property claims. The Company evaluates, on a quarterly basis, developments in legal proceedings, investigations or claims that could affect the amount of any accrual or disclosure. The assessment regarding whether a loss is probable or a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events.

Management of the Company currently does not believe there is at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of recorded accruals, with respect to loss contingencies individually and in the aggregate, for the fiscal year ended December 26, 2015. The results of legal proceeding, investigations and claims, however, cannot be predicted with certainty. Although management considers the likelihood to be remote, an adverse resolution of one or more of such matters in excess of management's expectations could have a material adverse effect on the Company's results of operations in a particular quarter or fiscal year.

The Company settled or resolved certain matters during the fiscal year ended December 26, 2015 that did not individually or in the aggregate have a material impact on the Company's financial condition or results of operations.

## **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 26, 2015, December 27, 2014 and December 28, 2013,

expense related to these and other defined contribution plans of \$37,489, \$29,267 and \$26,839, 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 26, 2015, December 27, 2014 and December 28, 2013, were significant.

## 6. Income Taxes

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

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
<b>Federal:</b>			
Current	\$49,138	(\$18,665)	(\$11,907)
Deferred	4,216	58,164	1,913
	<u>53,354</u>	<u>39,499</u>	<u>(9,994)</u>
<b>State:</b>			
Current	9,354	5,575	2,584
Deferred	(5,858)	4,368	(408)
	<u>3,496</u>	<u>9,943</u>	<u>2,176</u>
<b>Foreign:</b>			
Current	55,730	287,197	37,094
Deferred	(1,620)	22,895	11,870
	<u>54,110</u>	<u>310,092</u>	<u>48,964</u>
<b>Total</b>	<b>\$110,960</b>	<b>\$359,534</b>	<b>\$41,146</b>

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:

	Fiscal Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Federal income tax expense at U.S.			
statutory rate	\$198,516	\$253,260	\$229,420
State income tax expense, net of federal			
tax effect	1,931	6,463	1,414
Foreign tax rate differential	(100,010)	(154,338)	(121,279)
Taiwan tax holiday benefit	(3,488)	(3,147)	(4,944)
Other foreign taxes less incentives and credits	(8,592)	5,947	(2,032)
Withholding Tax	16,969	21,039	7,073
Intercompany Restructuring	0	307,635	-
Net change in uncertain tax positions	21,246	(67,231)	(50,700)
U.S. federal domestic production activities			
deduction	(4,589)	(3,606)	(3,550)
U.S. federal research and development credit	(8,573)	(8,373)	(14,876)
Other, net	(2,450)	1,885	620
Income tax expense	<u>\$110,960</u>	<u>\$359,534</u>	<u>\$41,146</u>

In the third quarter of 2014, the Company initiated an inter-company restructuring that realigned our corporate entity structure. This change in corporate structure provides access to historical earnings that were previously permanently reinvested and allows us to efficiently repatriate future earnings. As a result of the change in corporate structure, Garmin recorded tax expense of \$307,635. Approximately \$263,000 of this amount has been paid. The remainder of the accrued tax is expected to be paid incrementally as the cash is repatriated.

The holding company statutory federal income tax rate in Switzerland, the Company's place of incorporation since the Redomestication effective June 27, 2010, is 7.83%. If the Company reconciled taxes at the Swiss holding company federal statutory tax rate to the reported income tax for 2015 as presented above, the amounts related to tax at the statutory rate would be \$154,000 lower, or \$44,000, and the foreign tax rate differential would be adjusted by a similar amount to \$52,000. For 2014, the amounts related to tax at the statutory rate would be approximately \$197,000 lower, or \$57,000, and the foreign tax rate differential would be adjusted by a similar amount to approximately \$44,000. For 2013, the amount related to tax at the statutory rate would be approximately \$178,000 lower, or \$51,000, and the foreign tax differential would be reduced by a similar amount to approximately \$64,000. All other amounts would remain substantially unchanged.

The Company's income before income taxes attributable to non-U.S. operations was \$403,242, \$546,790, and \$502,423, for the years ended December 26, 2015, December 27, 2014, and December 28, 2013, respectively. The Taiwan tax holiday benefits included in the table above reflect \$0.02, \$0.02, and \$0.03 per weighted-average common share outstanding for the years ended December 26, 2015, December 27, 2014, and December 28, 2013, respectively. The Company currently expects to benefit from these Taiwan tax holidays through 2017, at which time these tax benefits will likely expire.

Income taxes of \$21,085, \$20,606, and \$307,990 at December 26, 2015, December 27, 2014, and December 28, 2013, 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. These balances decreased in 2014 as a result of the inter-company restructuring which reduced the amount of earnings 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 26, 2015	December 27, 2014
Deferred tax assets:		
Product warranty accruals	\$2,990	\$3,560
Allowance for doubtful accounts	10,323	9,111
Inventory reserves	10,904	8,161
Sales program allowances	1,783	1,081
Reserve for sales returns	1,457	-
Other accruals	10,799	11,058
Stock option compensation	35,360	38,265
Tax credit carryforwards	3,906	2,726
Amortization	20,005	21,595
Deferred revenue	32,809	43,644
Net operating losses of subsidiaries	5,228	12,456
Benefit related to uncertain tax positions	5,546	4,246
Other	4,106	3,485
Valuation allowance related to loss carryforward and tax credits	<u>(2,781)</u>	<u>(11,358)</u>
	142,435	148,030
Deferred tax liabilities:		
Depreciation	18,029	16,192
Reserve for sales returns	-	419
Prepaid expenses	2,821	3,283
Book basis in excess of tax basis for acquired entities	1,307	2,099
Unrealized investment loss	3,198	6,384
Withholding tax	54,865	50,561
Other	1,907	2,448
	<u>82,127</u>	<u>81,386</u>
Net deferred tax assets	<u><u>\$60,308</u></u>	<u><u>\$66,644</u></u>

The stock options outstanding related to the deferred tax asset of \$35,360 will begin to expire over the next several years. Given the exercise price of the options expiring over the next 12 months compared to the current market price it is possible that these options will expire unexercised, resulting in a potential write-off of \$6,000 that would reduce the deferred tax asset and reduce equity.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"), requiring all deferred tax assets and liabilities, and any related valuation allowance, to be classified as non-current on the balance sheet, which simplifies the presentation of deferred income taxes. The standard is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted, and the Company elected to prospectively adopt the accounting standard as of December 26, 2015. Prior periods in our Consolidated Financial Statements were not retrospectively adjusted.

At December 26, 2015, the Company had \$3,906 of tax credit carryover compared to \$2,726 at December 27, 2014. The surtax credit carryover from 2013 of \$52,618 was adjusted and subsequently fully utilized in 2014 upon the execution of the inter-company restructuring. In turn, the entire valuation allowance regarding the surtax credit was released.

At December 26, 2015, the Company had a deferred tax asset of \$5,228 related to the future tax benefit on net operating loss (NOL) carryforwards of \$19,580. Included in the NOL carryforwards is \$7,092 that relates to Spain and expires in varying amounts between 2022 and 2027, \$338 that relates to Switzerland and expires in 2022, \$4,238 related to the Netherlands and expires in varying amounts between 2017 and 2022, \$1,317 that relates to Finland and expires in 2025, \$1,300 that relates to the United States and expires in 2035, and \$5,295 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 gross unrecognized tax benefits as of December 26, 2015 was \$97,904. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for years ended December 26, 2015, December 27, 2014, and December 28, 2013 is as follows:

	December 26, 2015	December 27, 2014	December 28, 2013
Balance at beginning of year	\$77,495	\$133,015	\$182,870
Additions based on tax positions related to prior years	89	2,889	2,668
Reductions based on tax positions related to prior years	(1,671)	(60,967)	(8,195)
Additions based on tax positions related to current period	29,019	39,115	30,262
Reductions related to settlements with tax authorities	(364)	(401)	(416)
Expiration of statute of limitations	(6,664)	(36,156)	(74,174)
<b>Balance at end of year</b>	<b>\$97,904</b>	<b>\$77,495</b>	<b>\$133,015</b>

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 balance of net unrecognized benefits of \$93,654, \$74,205 and \$125,918 are required to be classified as non-current at December 26, 2015, December 27, 2014, and December 28, 2013, respectively. The net 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.

Interest and penalties, if any, accrued on the unrecognized tax benefits are reflected in income tax expense. At December 26, 2015, December 27, 2014, and December 28, 2013, the Company had accrued approximately \$2,479, \$2,159, and \$5,111, respectively, for interest. The interest component of the reserve increased (decreased) income tax expense for the years ending December 26, 2015, December 27, 2014, and December 28, 2013 by \$320, (\$2,953), and (\$3,111), 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. With few exceptions, the Company is no longer subject to U.S. federal, state, or local tax examinations by tax authorities for years 2012 and prior. The Company is no longer subject to Taiwan income tax examinations by tax authorities for years 2009 and prior. The Company is no longer subject to United Kingdom tax examinations by tax authorities for years 2012 and prior. The Company is subject to Switzerland income tax examinations by tax authorities for years 2011 through 2015.

The Company recognized a reduction of income tax expense of \$6,971, \$83,006, and \$74,217 in fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013, respectively, to reflect the expiration of statutes of limitations and releases due to audit settlement in various jurisdictions.

The Company believes that it is reasonably possible that approximately \$5,000 to 10,000 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.

## 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 26, 2015		December 27, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$833,070	\$833,070	\$1,196,268	\$1,196,268
Restricted cash	259	259	308	308
Marketable securities	1,558,548	1,558,548	1,575,333	1,575,333

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 reportable segments for external reporting purposes – auto, aviation, marine, outdoor and fitness. There are two operating segments (auto PND and auto OEM) that are not reported separately but aggregated within the auto reportable segment. Each operating segment is individually reviewed and evaluated by the 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 OEMs. However, the nature of products and types of customers for the five reportable segments vary. The Company's marine, auto, 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. In 2015, the measure of segment profit or loss used by the CODM to assess segment performance and allocate resources changed from income before income taxes to operating income. This change did not impact the measurement methods used to determine reported segment profit or loss in the years ended December 26, 2015 and December 27, 2014. Operating income represents net sales less costs of goods sold and operating expenses, including certain allocated general and administrative costs. 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.

Revenues, gross profit, and operating income for each of the Company's reportable segments are presented below:

<b>Reportable Segments</b>							
<b>52-Weeks Ended December 26, 2015</b>	<b>Outdoor</b>	<b>Fitness</b>	<b>Marine</b>	<b>Auto</b>	<b>Aviation</b>	<b>Total</b>	
Net sales	\$ 425,150	\$ 661,599	\$ 286,778	\$ 1,048,125	\$ 398,618	\$ 2,820,270	
Gross profit	259,889	366,139	158,493	459,469	294,714	1,538,704	
Operating income	140,200	134,574	28,611	134,939	111,257	549,581	
<b>52-Weeks Ended December 27, 2014</b>							
Net sales	\$ 427,555	\$ 568,440	\$ 248,371	\$ 1,240,377	\$ 385,915	\$ 2,870,658	
Gross profit	266,550	358,287	129,710	569,452	280,413	1,604,412	
Operating income	151,055	190,682	26,232	215,679	106,978	690,626	
<b>52-Weeks Ended December 28, 2013</b>							
Net sales	\$ 410,989	\$ 356,283	\$ 222,928	\$ 1,302,314	\$ 339,337	\$ 2,631,851	
Gross profit	262,529	222,925	115,091	565,083	241,672	1,407,300	
Operating income	159,197	120,250	18,493	188,517	87,575	574,032	

Net sales, long-lived assets (property and equipment), and net assets by geographic area are as shown below for the years ended December 26, 2015, December 27, 2014 and December 28, 2013. Note that APAC refers to the Asia Pacific region, and EMEA includes Europe, the Middle East and Africa.

	<b>Americas</b>	<b>APAC</b>	<b>EMEA</b>	<b>Total</b>
<b>December 26, 2015</b>				
Net sales to external customers <sup>(1)</sup>	\$ 1,469,243	\$ 337,888	\$ 1,013,139	\$ 2,820,270
Property and equipment, net	294,234	111,701	40,154	446,089
Net assets <sup>(2)</sup>	2,110,108	921,410	313,608	3,345,126
<b>December 27, 2014</b>				
Net sales to external customers <sup>(1)</sup>	\$ 1,538,322	\$ 278,092	\$ 1,054,244	\$ 2,870,658
Property and equipment, net	269,858	111,464	49,565	430,887
Net assets <sup>(2)</sup>	2,142,624	939,852	320,891	3,403,367
<b>December 28, 2013</b>				
Net sales to external customers <sup>(1)</sup>	\$ 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>(2)</sup>	1,338,401	2,048,903	272,402	3,659,706

<sup>(1)</sup> The U.S. is the only country which constitutes greater than 10% of net sales to external customers.

<sup>(2)</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 option/stock appreciation right (SAR) exercises, restricted stock unit (RSU) releases and employee stock purchase plan (ESPP) purchases.

## **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. In 2015, 2014, and 2013, 12,008, 7,120, and 11,484, 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. In 2013, the shareholders approved an additional 3,000,000 shares to the plan, making the total shares authorized under the plan 13,000,000. Option and SAR 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. RSUs granted prior to December 10, 2012 vested or are vesting evenly over a period of five years, while RSUs granted on and after that date vest evenly over a period of three years. In addition to time-based vesting requirements, the vesting of certain RSU grants is also contingent upon the achievement of certain revenue and profitability goals. During 2015, 2014, and 2013, 1,171,905, 425,347, and 413,978 RSUs were granted under the 2005 Plan. No SARs were granted under the 2005 Plan in 2015. During 2014 and 2013, 47,095 and 52,673 SARs were granted under the 2005 plan.

## **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 SARs 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 2015, 2014, or 2013.

## **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. In 2009, the stockholders approved an additional 150,000 shares to the plan, making the total shares authorized under the plan 250,000. The term of each award is ten years. All awards vest evenly over a three-year period. 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, the 2000 Plan and the 2000 Directors Plan for the years ended December 26, 2015, December 27, 2014 and December 28, 2013 is provided below:

<b>Stock Options and SARs</b>		
	<b>Weighted-Average Exercise Price</b>	<b>Number of Shares (In Thousands)</b>
Outstanding at December 29, 2012	\$55.88	<u>7,132</u>
Granted	\$49.07	52
Exercised	\$26.85	(662)
Forfeited/Expired	\$66.09	(283)
Outstanding at December 28, 2013	\$58.44	<u>6,239</u>
Granted	\$52.44	47
Exercised	\$40.60	(1,430)
Forfeited/Expired	\$80.49	(125)
Outstanding at December 27, 2014	\$63.19	<u>4,731</u>
Granted	0	0
Exercised	\$29.15	(474)
Forfeited/Expired	\$70.58	(196)
Outstanding at December 26, 2015	\$66.80	<u>4,061</u>
Exercisable at December 26, 2015	\$67.23	<u>3,970</u>
Expected to vest after December 26, 2015	\$47.92	91

<b>Stock Options and SARs as of December 26, 2015</b>			
<b>Exercise Price</b>	<b>Awards Outstanding</b>	<b>Remaining Life (Years)</b>	<b>Awards Exercisable</b>
	<i>(In Thousands)</i>		<i>(In Thousands)</i>
\$18.00 - \$40.00	60	4.65	49
\$40.01 - \$60.00	1,998	1.86	1,918
\$60.01 - \$80.00	977	1.44	977
\$80.01 - \$100.00	3	1.96	3
\$100.01 - \$120.00	1,021	1.93	1,021
\$120.01 - \$140.00	<u>2</u>	1.76	2
	<u>4,061</u>	1.81	<u>3,970</u>

<b>Restricted Stock Units</b>		
	<b>Weighted-Average Grant Date Fair Value</b>	<b>Number of Shares</b>
	<i>(In Thousands)</i>	
Outstanding at December 29, 2012	\$30.06	1,460
Granted	\$45.05	425
Released/Vested	\$28.28	(579)
Cancelled	\$30.63	(81)
Outstanding at December 28, 2013	\$37.36	1,225
Granted	\$48.73	432
Released/Vested	\$36.00	(522)
Cancelled	\$37.02	(47)
Outstanding at December 27, 2014	\$42.55	1,088
<b>Granted</b>	<b>\$37.07</b>	<b>1,184</b>
<b>Released/Vested</b>	<b>\$40.18</b>	<b>(562)</b>
<b>Cancelled</b>	<b>\$42.02</b>	<b>(53)</b>
<b>Outstanding at December 26, 2015</b>	<b>\$39.45</b>	<b>1,657</b>

The weighted-average remaining contract life for stock options and SARs outstanding and exercisable at December 26, 2015 is 1.81 and 1.67 years, respectively. The weighted-average remaining contract life of restricted stock units at December 26, 2015 was 1.54 years.

The fair value of awards is determined at the date of grant using a Black-Scholes option pricing model. The fair value of RSUs is calculated using the closing price of the Company's common stock on the date of grant, reduced by the present value of estimated dividends over the vesting period, which are not accrued. The fair value of stock options and SARs was calculated with the following weighted-average assumptions for 2014 and 2013. No options or SARs were granted in 2015.

	<b>2014</b>	<b>2013</b>
Weighted average grant date fair value of options granted	\$12.42	\$12.82
Expected volatility	0.3342	0.3746
Dividend yield	3.57%	3.86%
Expected life of options in years	6.8	6.8
Risk-free interest rate	1.9%	2.1%

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 2015, 2014, and 2013 was \$23,351, \$19,127, and \$20,956, respectively. The aggregate intrinsic values of options and SARs outstanding and exercisable at December 26, 2015 were \$207 and \$207, respectively. The aggregate intrinsic values of options and SARs exercised during 2015, 2014, and 2013 were \$3,714, \$18,885, and \$13,114 respectively. The aggregate intrinsic value of RSUs outstanding at December 26, 2015 was \$61,259. The aggregate intrinsic values of RSUs released during 2015, 2014, and 2013, were \$20,787, \$28,119, and \$27,007 respectively. Aggregate intrinsic value of options and SARs represents the applicable number of awards multiplied by the positive difference between the exercise price and the Company's closing stock price on the last trading day of the relevant fiscal period. Aggregate intrinsic value of RSUs represents the applicable number of awards multiplied by the Company's closing stock price on the last trading day of the relevant fiscal period. The Company's closing stock price was \$36.98 on December 26, 2015. As of December 26, 2015, there was \$52,590 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 ESPP. Up to 6,000,000 shares of common stock have been reserved for the ESPP with shareholders approving an additional 2,000,000 shares in June 2015. 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 2015, 2014, and 2013, 488,753, 349,982, and 395,220, shares, respectively were purchased under the plan for a total purchase price of \$16,789, \$14,634, and \$12,181, respectively. During 2015, 2014, and 2013, the purchases were issued from treasury shares. At December 26, 2015, approximately 2,000,628 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:

	<b>Fiscal Year Ended</b>		
	<b>December 26, 2015</b>	<b>December 27, 2014</b>	<b>December 28, 2013</b>
<b>Numerator:</b>			
Numerator for basic and diluted net income per share - net income	\$ 456,227	\$ 364,211	\$ 612,412
<b>Denominator:</b>			
Denominator for basic net income per share – weighted-average common shares	190,631	193,106	195,411
Effect of dilutive securities – stock options, stock appreciation rights and restricted stock units	476	1,059	928
Denominator for diluted net income per share – adjusted weighted-average common shares	<u>191,107</u>	<u>194,165</u>	<u>196,339</u>
Basic net income per share	<u>\$ 2.39</u>	<u>\$ 1.89</u>	<u>\$ 3.13</u>
Diluted net income per share	<u>\$ 2.39</u>	<u>\$ 1.88</u>	<u>\$ 3.12</u>

There were 4,087, 2,240 and 5,475 outstanding stock options, stock appreciation rights and restricted stock units (collectively “equity awards”) excluded from the computation of diluted earnings per share for the fiscal years of 2015, 2014 and 2013, respectively, because the effect would have been anti-dilutive.

#### **11. Share Repurchase Plan**

On February 13, 2015, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to \$300,000 of its common shares through December 31, 2016. Under the plan, the Company repurchased 3,148,901 shares using cash of \$131,413 in fiscal 2015.

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 through December 31, 2014. Under the plan, the Company repurchased 1,376,500 shares using cash of \$58,422 in fiscal 2013 and 4,369,360 shares using cash of \$241,578 in fiscal 2014.

## 12. 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 26, 2015:

	Foreign Currency Translation Adjustment	Gross unrealized losses on available-for-sale securities-OTTI <sup>(1)</sup>	Net unrealized gains (losses) on available-for-sale securities- Other <sup>(2)</sup>	Total
Balance - beginning of period	\$ 20,874	\$ (13,031)	\$ (5,272)	\$ 2,571
Other comprehensive income before reclassification		(34,981)	7,754	(5,599) (32,826)
Amounts reclassified from accumulated other comprehensive income		-	-	(173) (173)
Net current-period other comprehensive income		(34,981)	7,754	(5,772) (32,999)
Balance - end of period	\$ (14,107)	\$ (5,277)	\$ (11,044)	\$ (30,428)

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

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

The following provides required disclosure of reporting reclassifications out of AOCI for the year ended December 26, 2015:

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	\$ 54 119 \$ 173	Other income (expense) Income tax provision Net of tax

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

	Fiscal Year Ended December 26, 2015			
	Quarter Ending			
	March 28	June 27	September 26	December 26
Net sales	\$585,394	\$773,830	\$679,690	\$781,358
Gross profit	344,122	419,250	362,190	413,143
Net income	66,793	137,753	119,299	132,383
Basic net income per share	\$0.35	\$0.72	\$0.63	\$0.70

  

	Fiscal Year Ended December 27, 2014			
	Quarter Ending			
	March 29	June 28	September 27	December 27
Net sales	\$583,221	\$777,848	\$706,283	\$803,306
Gross profit	330,834	444,485	398,246	430,848
Net income (loss)	118,818	181,983	(146,834)	210,245
Basic net income (loss) per share	\$0.61	\$0.94	(\$0.76)	\$1.10

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 (the table may not foot due to rounding).

**14. Subsequent Events**

On January 13, 2016, Garmin International, Inc. acquired PulsedLight, Inc., a privately-held designer of optical distance measurement technology based in Bend, Oregon. This acquisition was not material.

On February 11, 2016, Garmin Ltd. announced the signing of a purchase agreement to acquire DeLorme, a privately-held company that designs and markets consumer based satellite tracking devices with two-way communication and navigational capabilities based in Yarmouth, Maine. This acquisition is not expected to be material.

In 2016, the Company plans to move action camera related revenues and expenses from the Outdoor segment to the Auto segment allowing for alignment and synergies with other camera-based efforts occurring within the Auto segment. The Company will recast 2014 and 2015 segment results on a quarterly basis for comparability purposes.