

STATUTORY FINANCIAL STATEMENTS

Garmin Ltd. (Switzerland)

Years Ended December 31, 2016 and December 26, 2015

To the General Meeting of  
Garmin Ltd., Schaffhausen

Zurich, February 22, 2017

## Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Garmin Ltd. (the “Company”), which comprise the balance sheet, statement of income and notes, for the period from December 27, 2015 to December 31, 2016.



### **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 association. 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 27, 2015 to December 31, 2016 comply with Swiss law and the company's articles of association.



## Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

### Valuation of investment in affiliated companies

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**Area of focus** As at December 31, 2016, the investment in affiliated companies of Garmin Ltd. amounts to CHF 7,894 million and represents 98% of total assets. The investment in affiliated companies is valued at historical cost less adjustment for impairment of value, if events and circumstances suggest that the historical cost may not be recoverable. Refer to note 1 (Summary of significant accounting policies) in the statutory financial statements for further details.

The investment in affiliated companies is significant to our audit due to the complexity and judgment involved in the Company's impairment test.

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**Our audit response** Our audit procedures included gaining an understanding of the Company's investment in affiliated companies' impairment testing process and the determination of key assumptions. We evaluated the Company's impairment testing model and key assumptions. We further corroborated the Company's key assumptions applied based on internally and externally available evidence and underlying data. Furthermore, we evaluated related income tax consequences.



### **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 para. 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 association. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

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

/s/ Siro Bonetti  
Licensed audit expert

# Garmin Ltd.

## Balance Sheet

(CHF in thousands)

	<b>December 31, 2016</b>	<b>December 26, 2015</b>
<b>Assets</b>		
- Cash and cash equivalents	444	10,475
- Accounts receivable - affiliates	41	113
- Other receivables - third party	1	6
- Prepaid expenses	493	11
<b>Total current assets</b>	<b>979</b>	<b>10,605</b>
- Loans receivable - affiliates	120,763	245,003
- Investment in affiliated companies	7,894,395	8,244,395
<b>Total non-current assets</b>	<b>8,015,158</b>	<b>8,489,398</b>
<b>Total assets</b>	<b>8,016,137</b>	<b>8,500,003</b>
<b>Liabilities and shareholders' equity</b>		
- Accounts payable	360	325
- Accounts payable - affiliates	10,753	5,649
- Provision for unrealized translation gains	9,522	19,599
- Dividend payable from capital contribution reserve	97,476	190,308
<b>Total current liabilities</b>	<b>118,111</b>	<b>215,881</b>
- Accrued expenses	67	477
- Long-term interest-bearing loans - affiliates	409,232	389,097
<b>Total non-current liabilities</b>	<b>409,299</b>	<b>389,574</b>
<b>Total liabilities</b>	<b>527,410</b>	<b>605,455</b>
<b>Share capital</b>	<b>19,808</b>	<b>2,080,774</b>
<b>Legal capital reserves</b>		
- Reserve from capital contribution	6,739,932	5,091,539
- Reserve for treasury shares from capital contribution	428,248	389,598
- Other capital reserves	68	68
<b>Voluntary retained earnings</b>		
- Dividend reserve from capital contribution	182,759	189,461
- Available earnings		
- Balance brought forward	143,108	(223,591)
- Net earnings (loss) for the year	(25,196)	717,889
<b>Treasury shares</b>	<b>-</b>	<b>(351,190)</b>
<b>Total shareholders' equity</b>	<b>7,488,727</b>	<b>7,894,548</b>
<b>Total liabilities and shareholders' equity</b>	<b>8,016,137</b>	<b>8,500,003</b>

Garmin Ltd.

Statement of Income

(CHF in thousands)

	<b>Fiscal Year Ended December 31, 2016</b>	<b>Fiscal Year Ended December 26, 2015</b>
Dividend income - affiliates	350,000	742,190
- General and administrative expenses	(8,925)	(10,069)
- General and administrative expenses - affiliates	(9,939)	(7,063)
- Advertising expense	(138)	(176)
Operating expenses	<u>(19,002)</u>	<u>(17,308)</u>
Impairment on investment in affiliated companies	(350,000)	-
Financial income		
- Interest income - affiliates	2,777	3,802
Total financial income	<u>2,777</u>	<u>3,802</u>
Financial expense		
- Interest expense - affiliates	(8,084)	(7,803)
Total financial expense	<u>(8,084)</u>	<u>(7,803)</u>
- Foreign currency (losses)	(887)	(2,992)
Total currency (losses)	<u>(887)</u>	<u>(2,992)</u>
Net earnings (loss)	<u><u>(25,196)</u></u>	<u><u>717,889</u></u>

# Garmin Ltd.

## Notes to Statutory Financial Statements

December 31, 2016 and December 26, 2015

*(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 Mühlenalstrasse 2, 8200 Schaffhausen, Switzerland. The Company did not have any employees at December 31, 2016 and December 26, 2015.

#### **Basis of presentation**

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.

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 year ended December 31, 2016 included 53 weeks and December 26, 2015 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. At the annual general meeting on June 10, 2016, the shareholders approved in a first step the par value reduction of the Company's shares from CHF 10 to CHF 0.10 per share, and in a second step the cancellation of 10 million formation shares, resulting in a corresponding increase in the reserve from capital contribution. Refer to note 3. Shareholders' equity for further details.

### **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 31, 2016 and December 26, 2015 amounted to CHF 2,375 and CHF 3,661, 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

Company Name	Domicile	Ownership Interest		Voting Interest	
		Direct	Indirect	Direct	Indirect
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 31, 2016 and December 26, 2015.

### 3. Shareholders' equity

	Legal capital reserves				Voluntary retained earnings			Treasury Shares	Total
	Share capital	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		
CHF in thousands									
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
Balance brought forward						717,889	(717,889)		-
Par Value Reduction	(2,059,966)	2,059,966							
Cancellation of Formation Shares	(1,000)	1,000				(351,190)		351,190	
Release of amounts to dividend payable from reserve from capital contribution (2014 dividend)		1,696							1,696
Release of dividend reserve from capital contribution (2014 dividend)		189,461			(189,461)				-
Net movement in reserve for treasury shares from capital contribution		(38,650)	38,650						-
Release to dividend reserve from capital contribution (2015 dividend)		(565,080)			565,080				-
Dividend payments (2015 dividend)					(284,845)				(284,845)
Dividend payable at year-end (2015 dividend)					(97,476)				(97,476)
Net earnings (loss) for the year							(25,196)		(25,196)
Balance as of December 31, 2016	19,808	6,739,932	428,248	68	182,759	143,108	(25,196)	-	7,488,727

The summary of the components of authorized shares at December 31, 2016, December 26, 2015, and December 27, 2014 and changes during those years are as follows:

	Treasury Shares			Issued Shares	Conditional Capital <sup>3</sup>
	Outstanding Shares	Held by Affiliates	Held by Company		
December 27, 2014	191,814,539	16,262,879 <sup>2</sup>	-	208,077,418 <sup>1</sup>	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 <sup>1</sup>	104,038,709
Treasury shares purchased	(2,300,083)	2,300,083			
Treasury shares issued for stock based compensation	1,143,084	(1,143,084)			
Cancellation of 10 million formation shares			(10,000,000)	(10,000,000) <sup>5</sup>	
Reduction in conditional capital					(5,000,000) <sup>4</sup>
December 31, 2016	188,564,891	9,512,527	-	198,077,418 <sup>5</sup>	99,038,709

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

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

<sup>3</sup> Up to 99,038,709 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.

<sup>4</sup> Reduction in conditional capital approved by the annual general meeting following the cancellation of 10 million formation shares.

In accordance with Swiss law, the conditional capital may not exceed 50% of the share capital.

<sup>5</sup> Shares at CHF 0.10 par value

#### 4. Treasury Shares

At December 26, 2015, the Company held 10,000,000 treasury shares with an average cost of CHF 35. These 10,000,000 treasury shares were cancelled as of December 31, 2016.

At December 31, 2016 and December 26, 2015, the Company's Affiliates held 9,512,527 and 8,355,528 treasury shares, respectively. The average cost of all treasury shares held by Affiliates at December 31, 2016 amounts to CHF 45.

	Carrying value (CHF in thousands)	Number of shares held by affiliates	Average cost (CHF)
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
Acquired	93,083	2,300,083	40
Treasury stock used for stock based compensation	(54,433)	(1,143,084)	48
Balance as of December 31, 2016	428,248	9,512,527	45

#### 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 31, 2016 is not material.

## 6. Significant Shareholders

As of December 31, 2016 and December 26, 2015, 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. 31, 2016</u>	<u>Percentage at Dec. 26, 2015</u>
Garmin Ltd. and Affiliates	- <sup>3</sup>	8.82%
Jonathan Burrell	14.39% <sup>1</sup>	13.76%
Reuy-Jeng Kao	5.14%	- <sup>4</sup>
Min H. Kao, Ph.D.	19.47% <sup>2</sup>	18.60% <sup>2</sup>
Blackrock, Inc.	5.92%	- <sup>4</sup>
Vanguard Group	5.37%	- <sup>4</sup>

<sup>1</sup> Includes (a) 3,062,000 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) 4,383,570 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) 8,897,400 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) 9,120,000 shares held in several Grantor Retained Annuity Trusts established by Judith M. Burrell, over which shares Jonathan Burrell has sole voting and dispositive power.

<sup>2</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>3</sup> Shares held were less than 5% on December 31, 2016.

<sup>4</sup> Shares held were less than 5% on December 26, 2015.

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 31, 2016 or December 26, 2015.

## 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:

2016		2015	
Quantity	Value in CHF	Quantity	Value in CHF
12,984	492,612	12,008	481,148

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

As of December 31, 2016 and December 26, 2015, the members of the Board of Directors held the following numbers of shares:

<u>Name and Function</u>	<u>Total number of shares held at Dec. 31, 2016</u>	<u>Total number of shares held at Dec. 26, 2015</u>
Donald H. Eller, Ph.D., Member of Compensation Committee, Chairman of Nominating and Corporate Governance Committee	444,778	442,864
Joseph Hartnett, Member of Audit Committee, and Nominating and Corporate Governance Committee, Chairman of the Compensation Committee	4,796	2,882
Min H. Kao, Ph.D., Executive Chairman	38,557,017 <sup>1</sup>	38,702,017 <sup>1</sup>
Charles W. Peffer, Chairman of Audit Committee, Member of Compensation Committee and Nominating and Corporate Governance Committee	14,650	12,736
Clifton A. Pemble, President & Chief Executive Officer	- <sup>2</sup>	- <sup>2</sup>
Thomas Poberezny, Former Member of Audit Committee and Nominating and Corporate Governance Committee, Former Chairman of Compensation Committee	- <sup>3</sup>	5,936
Rebecca R. Tilden, Member of Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee	- <sup>4</sup>	-
Total	<u>39,021,241</u>	<u>39,166,435</u>

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

<sup>3</sup> Mr. Poberezny ceased being a Director following the Annual General Meeting of Garmin Ltd. shareholders on June 10, 2016.

<sup>4</sup> Ms. Tilden was elected as a Director at the Annual General Meeting of Garmin Ltd. shareholders on June 10, 2016.

As of December 31, 2016 and December 26, 2015, the members of Executive Management held the following numbers of shares:

<u>Name and Principal Position</u> <sup>1</sup>	<u>Total number of shares held at Dec. 31, 2016</u>	<u>Total number of shares held at Dec. 26, 2015</u>
Douglas G. Boessen, Chief Financial Officer & Treasurer	4,065	1,124
Clifton A. Pemble, President & Chief Executive Officer	77,659	65,209
Total	<u>81,724</u>	<u>66,333</u>

<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 19.74 and 18.85 percent of the Company's total shares issued as of December 31, 2016 and December 26, 2015, 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 31, 2016 and December 26, 2015, respectively.

**Outstanding Equity Awards at December 31, 2016**

Name and Function	Option awards <sup>1</sup>	Stock Awards <sup>2</sup>
Donald Eller Member of the Board and Compensation Committee, Chairman of Nominating Committee	19,926	5,840
Joseph Hartnett <sup>3</sup> Member of the Board and Audit, Compensation and Nominating Committees, Chairman of Compensation Committee	-	5,840
Charles Peffer Member of the Board and Compensation and Nominating Committees, Chairman of Audit Committee	11,485	5,840
Thomas Poberezny <sup>4</sup> Member of the Board, Audit and Nominating Committees, Chairman of Compensation Committee	-	-
Rebecca Tilden <sup>5</sup> Member of the Board, Audit, Compensation and Nominating Committees	-	3,246
Total	<u>31,411</u>	<u>20,766</u>

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

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

<sup>3</sup> Mr. Hartnett became Chairman of the Compensation Committee when Mr. Poberezny's term expired on June 10, 2016.

<sup>4</sup> Mr. Poberezny ceased being a Director when his term expired on June 10, 2016.

<sup>5</sup> Ms. Tilden was elected as a Director on June 10, 2016.

**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
Total	<u>41,424</u>	<u>20,580</u>

<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 31, 2016 and December 26, 2015, respectively. Amounts in these tables are presented in CHF.

**Outstanding Equity Awards at December 31, 2016**

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 Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (CHF) <sup>5</sup>	
<b>Clifton A. Pemble</b>	36,208 <sup>(1)</sup>	9,052	42.83	12/10/22	4,078 <sup>(3)</sup>	200,906	
<b>President &amp; Chief Officer</b>	28,220 <sup>(1)</sup>	-	40.35	12/28/21	12,874 <sup>(3)</sup>	634,248	
	13,766 <sup>(2)</sup>	20,649	53.28	12/15/24	16,470 <sup>(3)</sup>	811,408	
	23,096 <sup>(2)</sup>	15,396	49.86	12/10/23	17,901 <sup>(4)</sup>	881,908	
	25,000 <sup>(2)</sup>	-	51.79	06/06/18			
	25,000 <sup>(2)</sup>	-	107.02	12/04/17			
	20,000 <sup>(2)</sup>	-	64.32	06/08/17			
	<u>171,290</u>	<u>45,097</u>			<u>51,323</u>		
<b>Douglas G. Boessen</b>	5,072 <sup>(2)</sup>	7,608	53.28	12/15/24	1,318 <sup>(3)</sup>	64,932	
<b>Chief Financial Officer &amp; Treasurer</b>					4,160 <sup>(3)</sup>	204,946	
					4,392 <sup>(3)</sup>	216,376	
					5,784 <sup>(4)</sup>	284,954	
	<u>5,072</u>	<u>7,608</u>			<u>15,654</u>		
<b>Total</b>	<u><u>176,362</u></u>	<u><u>52,705</u></u>			<u><u>66,977</u></u>		

<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 49.27, which was the closing price of Garmin shares on the NASDAQ stock market on December 30, 2016.

**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 Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (CHF) <sup>5</sup>	
<b>Clifton A. Pemble</b>	27,156 <sup>(1)</sup>	18,104	41.57	12/10/22	19,311 <sup>(3)</sup>	704,195	
<b>President &amp; Chief Officer</b>	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	-	-	
	<u>176,369</u>	<u>80,018</u>			<u>45,393</u>		
<b>Douglas G. Boessen<sup>(5)</sup></b>	2,536 <sup>(2)</sup>	10,144	51.71	12/15/24	6,240 <sup>(3)</sup>	227,548	
<b>Chief Financial Officer &amp; Treasurer</b>					2,636 <sup>(3)</sup>	96,124	
					4,227 <sup>(4)</sup>	154,142	
	<u>2,536</u>	<u>10,144</u>			<u>13,103</u>		
<b>Total</b>	<u>178,905</u>	<u>90,162</u>			<u>58,496</u>		

<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.

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 31, 2016 or December 26, 2015.

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

During 2016, Garmin Ltd. received a dividend of CHF 350,000 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 350,000 in the value of its investment in affiliated companies. During 2015, Garmin Ltd. received dividends of CHF 742,190 from one of its Affiliates. No impairment loss was recognized related to these dividends.

## **10. Subsequent events**

No significant events occurred subsequent to the balance sheet date but prior to February 22, 2017 that would have a material impact on the financial statements.

## Proposed Appropriation of Available Earnings

Balance brought forward	494,298
Cancellation of formation shares	(351,190)
Balance brought forward after cancellation of formation shares	143,108
Net loss for the period	(25,196)
Total available to the general meeting	117,912

Proposal of the Board of Directors for the appropriation of available earnings to the general meeting:	117,912
Balance to be carried forward	117,912

	Reserve from capital contribution	Reserve for treasury shares from capital contribution <sup>1</sup>	Dividend reserve from capital contribution
Balance as of December 31, 2016	6,739,932	428,248	182,759
Proposed release of reserve from capital contribution to dividend reserve from capital contribution	(554,233)		554,233
Balance to be carried forward	6,185,699	428,248	736,992

<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 554,233<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 0.10 each (assuming a total of 198,077,418 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 31, 2016, with a total of 198,077,418 shares eligible for payout (based on the number of shares issued as at December 31, 2016), the aggregate Dividend Reserve would be CHF 554,233. The amount of the Dividend Reserve, calculated on the basis of the Company's issued shares as at December 31, 2016, 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 31, 2016. 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 31, 2016 and December 26, 2015

To the General Meeting of  
Garmin Ltd., Schaffhausen

Zurich, February 22, 2017

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

As statutory auditor, we have audited the accompanying consolidated financial statements of Garmin Ltd. (the “Company”), which comprise the consolidated balance sheets as of December 31, 2016 and December 26, 2015, and the related consolidated statements of income, comprehensive income, stockholders’ equity, cash flows, and notes thereto for each of the three years in the period ended December 31, 2016.



### 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 for the years ended December 31, 2016 and December 26, 2015, present fairly, in all material respects, the consolidated financial

position of Garmin Ltd. at December 31, 2016 and December 26, 2015, and the consolidated results of operations and cash flows for the three years in the period ended December 31, 2016, in accordance with accounting principles generally accepted in the United States and comply with Swiss law.



**Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibility* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**Revenue recognition - multiple-element arrangements**

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**Area of focus** Garmin Ltd. enters into certain revenue arrangements that contain multiple-elements, such as hardware, software, and/or services. For these arrangements, the Company allocates revenue to each identified element based on their estimated relative selling prices and recognizes revenue allocated to each identified element in accordance with general revenue recognition accounting guidance. Refer to note 2 (Summary of Significant Accounting Policies, section Revenue Recognition) in the consolidated financial statements for further details.

Revenue recognition related to multiple-element arrangements is considered significant to our audit due to the complexity and judgment involved in the Company’s methodology to determine relative selling prices.

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**Our audit response** Our audit procedures included assessing the consistent application of the Company’s revenue recognition policies with regard to multiple-element arrangements. In addition, we tested the controls related to the Company’s revenue process, as well as the precision of management review controls and system generated reports and data. Further, we examined supporting documentation for selected multiple-element arrangement transactions to recompute and corroborate management’s calculation of the relative selling prices and the consistency of the calculation compared to prior periods. Furthermore, we corroborated assumptions utilized in estimating deferred revenue in light of current trends in bundled product sales, and the amortization thereof.

## **Income taxes – accounting for uncertain tax positions**

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**Area of focus** Garmin Ltd. operates in multiple tax jurisdictions, which are regulated by various tax laws, and is subject to period tax audits by local tax authorities. The Company is required to apply judgment in the estimation of whether, and the extent to which, additional taxes will become payable. The Company has summarized such uncertain tax positions in these jurisdictions and has disclosed the amounts recorded in the consolidated financial statements. Refer to note 6 (Income Taxes) in the consolidated financial statements for further details.

The accounting for uncertain tax positions is considered significant to our audit due to the complexity and judgment involved in the Company's identification and determination of uncertain tax positions.

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**Our audit response** Our audit procedures included testing the controls related to the Company's income tax process, as well as the precision of management review controls and system generated reports and data. We involved tax specialists in certain jurisdictions where we audit affiliated companies that are subject to local tax laws. Further, we evaluated the Company's judgments used in the calculations for the uncertain tax positions and the assumptions utilized, considered the status of past and current tax audits in relevant jurisdictions, and corroborated the assumptions with supporting evidence, including our specialists assessing the supporting evidence for relevant uncertain tax positions.



### **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 para. 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  
Licensed audit expert  
(Auditor in charge)

/s/ Siro Bonetti  
Licensed audit expert

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

	<b>December 31,</b>	<b>December 26,</b>
	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$846,883	\$833,070
Marketable securities <i>(Note 3)</i>	266,952	215,161
Accounts receivable, less allowance for doubtful accounts of \$14,669 in 2016 and \$13,805 in 2015	527,062	531,481
Inventories, net	484,821	500,554
Deferred costs	47,395	49,176
Prepaid expenses and other current assets	89,903	81,645
Total current assets	<u>2,263,016</u>	<u>2,211,087</u>
Property and equipment, net		
Land and improvements	104,740	85,162
Building and improvements	376,916	351,778
Office furniture and equipment	222,439	206,025
Manufacturing equipment	129,526	131,055
Engineering equipment	124,979	113,690
Vehicles	21,259	20,939
	<u>979,859</u>	<u>908,649</u>
Accumulated depreciation	<u>(496,981)</u>	<u>(462,560)</u>
	482,878	446,089
Restricted cash <i>(Note 4)</i>		
	113	259
Marketable securities <i>(Note 3)</i>	1,213,285	1,343,387
Noncurrent deferred income tax <i>(Note 6)</i>	110,293	116,518
Noncurrent deferred costs	56,151	38,769
Intangible assets, net	305,002	245,552
Other assets	94,395	97,730
Total assets	<u>\$4,525,133</u>	<u>\$4,499,391</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$172,404	\$178,905
Salaries and benefits payable	88,818	70,601
Accrued warranty costs	37,233	30,449
Accrued sales program costs	80,953	67,613
Deferred revenue	146,564	164,982
Accrued royalty costs	36,523	30,310
Accrued advertising expense	37,440	33,547
Other accrued expenses	70,469	74,926
Income taxes payable	16,163	21,674
Dividend payable	96,168	192,991
Total current liabilities	<u>782,735</u>	<u>865,998</u>
Deferred income taxes <i>(Note 6)</i>		
	61,220	56,210
Non-current income taxes	121,174	101,689
Non-current deferred revenue	140,407	128,731
Other liabilities	1,594	1,637
Stockholders' equity:		
Shares, CHF 0.10 par value, 198,077 shares authorized and issued, and 188,565 shares outstanding at December 31, 2016;		
Shares, CHF 10.00 par value, 208,077 shares authorized and issued; 189,722 shares outstanding at December 26, 2015;		
<i>(Notes 9, 10, and 11):</i>	17,979	1,797,435
Additional paid-in capital	1,836,047	62,239
Treasury stock	(455,964)	(414,637)
Retained earnings	2,056,702	1,930,517
Accumulated other comprehensive income (loss)	<u>(36,761)</u>	<u>(30,428)</u>
Total stockholders' equity	<u>3,418,003</u>	<u>3,345,126</u>
Total liabilities and stockholders' equity	<u>\$4,525,133</u>	<u>\$4,499,391</u>

See accompanying notes.

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

	Fiscal Year Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Net sales	\$3,018,665	\$2,820,270	\$2,870,658
Cost of goods sold	<u>1,339,095</u>	<u>1,281,566</u>	<u>1,266,246</u>
Gross profit	1,679,570	1,538,704	1,604,412
Advertising expense	177,143	167,166	146,633
Selling, general and administrative expenses	410,558	394,914	372,032
Research and development expense	<u>467,960</u>	<u>427,043</u>	<u>395,121</u>
	<u>1,055,661</u>	<u>989,123</u>	<u>913,786</u>
Operating income	623,909	549,581	690,626
Other income (expense):			
Interest income	33,406	29,653	35,584
Foreign currency losses	(31,651)	(23,465)	(4,299)
Other	<u>4,006</u>	<u>11,418</u>	<u>1,834</u>
	<u>5,761</u>	<u>17,606</u>	<u>33,119</u>
Income before income taxes	629,670	567,187	723,745
Income tax provision (benefit): <i>(Note 6)</i>			
Current	117,842	114,222	274,107
Deferred	<u>1,014</u>	<u>(3,262)</u>	<u>85,427</u>
	<u>118,856</u>	<u>110,960</u>	<u>359,534</u>
Net income	<u>\$510,814</u>	<u>\$456,227</u>	<u>\$364,211</u>
Basic net income per share <i>(Note 10)</i>	<u>\$2.71</u>	<u>\$2.39</u>	<u>\$1.89</u>
Diluted net income per share <i>(Note 10)</i>	<u>\$2.70</u>	<u>\$2.39</u>	<u>\$1.88</u>

See accompanying notes.

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

	<b>Fiscal Year Ended</b>		
	<b>December 31, 2016</b>	<b>December 26, 2015</b>	<b>December 27, 2014</b>
Net income	\$510,814	\$456,227	\$364,211
Foreign currency translation adjustment	4,696	(34,981)	(64,489)
Change in fair value of available-for-sale marketable securities, net of deferred taxes	(11,029)	1,982	29,019
Comprehensive income	<u>\$504,481</u>	<u>\$423,228</u>	<u>\$328,741</u>

*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 28, 2013</b>	\$1,797,435	\$79,263	(\$120,620)	\$1,865,587	\$38,041	\$3,659,706
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>	\$1,797,435	\$73,521	(\$330,132)	\$1,859,972	\$2,571	\$3,403,367
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>	\$1,797,435	\$62,239	(\$414,637)	\$1,930,517	(\$30,428)	\$3,345,126
Net income	-	-	-	510,814	-	510,814
Translation adjustment	-	-	-	-	4,696	4,696
Adjustment related to unrealized gains (losses) on available-for-sale securities net of income tax effects of \$1,094	-	-	-	-	(11,029)	(11,029)
Comprehensive income	-	-	-	-	-	504,481
Dividends declared	-	-	-	(384,629)	-	(384,629)
Tax benefit from issuance of equity awards	-	(6,309)	-	-	-	(6,309)
Issuance of treasury stock related to equity awards	-	(40,589)	59,237	-	-	18,648
Stock compensation	-	41,250	-	-	-	41,250
Purchase of treasury stock related to equity awards	-	-	(7,331)	-	-	(7,331)
Purchase of treasury stock under share repurchase plan	-	-	(93,233)	-	-	(93,233)
Reduction in par value of Common Stock	(1,779,456)	1,779,456	-	-	-	-
<b>Balance at December 31, 2016</b>	\$17,979	\$1,836,047	(\$455,964)	\$2,056,703	(\$36,761)	\$3,418,003

See accompanying notes.

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

	Fiscal Year Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
<b>Operating Activities:</b>			
Net income	\$510,814	\$456,227	\$364,211
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	55,796	51,311	48,433
Amortization	30,544	27,049	28,582
Gain on sale of property and equipment	(503)	(198)	(306)
Provision for doubtful accounts	4,136	(2,521)	66
Provision for obsolete and slow-moving inventories	26,458	23,257	25,903
Unrealized foreign currency losses (gains)	13,387	37,931	573
Deferred income taxes	1,699	5,897	89,828
Stock compensation	41,250	26,290	24,293
Realized gains on marketable securities	(822)	(55)	(505)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	9,000	22,473	(27,398)
Inventories	(2,455)	(121,718)	(76,491)
Other current and non-current assets	2,234	(107,360)	627
Accounts payable	(11,496)	36,079	8,981
Other current and non-current liabilities	44,766	20,742	16,467
Deferred revenue	(6,363)	(43,338)	(87,543)
Deferred costs	(15,780)	(585)	11,029
Income taxes payable	3,017	(151,014)	95,961
Net cash provided by operating activities	<u>705,682</u>	<u>280,467</u>	<u>522,711</u>
<b>Investing activities:</b>			
Purchases of property and equipment	(90,960)	(80,592)	(73,339)
Proceeds from sale of property and equipment	676	7,921	748
Purchase of intangible assets	(5,715)	(3,889)	(4,720)
Purchase of marketable securities	(905,089)	(915,921)	(1,006,482)
Redemption of marketable securities	957,350	919,141	1,096,676
Proceeds from repayment of loan receivable	-	-	137,379
Acquisitions, net of cash acquired	(77,945)	(38,687)	(18,871)
Change in restricted cash	146	48	(59)
Net cash provided by (used in) investing activities	<u>(121,537)</u>	<u>(111,979)</u>	<u>131,332</u>
<b>Financing activities:</b>			
Dividends	(481,452)	(378,117)	(360,075)
Tax benefit from issuance of equity awards	1,692	(2,049)	(84)
Proceeds from issuance of treasury stock related to equity awards	18,648	17,073	20,753
Purchase of treasury stock related to equity awards	(7,331)	(5,586)	(18,638)
Purchase of treasury stock under share repurchase plan	(93,233)	(131,413)	(241,578)
Net cash used in financing activities	<u>(561,676)</u>	<u>(500,092)</u>	<u>(599,622)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(8,656)</u>	<u>(31,594)</u>	<u>(37,302)</u>
Net increase (decrease) in cash and cash equivalents	13,813	(363,198)	17,119
Cash and cash equivalents at beginning of year	<u>833,070</u>	<u>1,196,268</u>	<u>1,179,149</u>
Cash and cash equivalents at end of year	<u>\$846,883</u>	<u>\$833,070</u>	<u>\$1,196,268</u>

*See accompanying notes.*

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

	Fiscal Year Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
<b>Supplemental disclosures of cash flow information</b>			
Cash paid during the year for income taxes	<u>\$115,548</u>	<u>\$252,885</u>	<u>\$175,465</u>
Cash received during the year from income tax refunds	<u>\$4,275</u>	<u>\$3,793</u>	<u>\$5,260</u>
Cash paid during the year for interest	<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>(\$12,123)</u>	<u>\$1,867</u>	<u>\$29,220</u>
Fair value of assets acquired	\$91,620	\$38,687	\$22,735
Liabilities assumed	(6,344)	-	(3,718)
Less: cash acquired	<u>(7,331)</u>	<u>-</u>	<u>(146)</u>
Cash paid for acquisitions, net of cash acquired	<u>\$77,945</u>	<u>\$38,687</u>	<u>\$18,871</u>

*See accompanying notes.*

**GARMIN LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(USD In Thousands, Except Share and Per Share Information)*  
*December 31, 2016 and December 26, 2015*

## **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.

At the Company’s Annual General Meeting on June 10, 2016, the Company’s shareholders approved the cancellation of 10,000,000 registered shares of the Company held by the Company (the “Formation Shares”) and the reduction in par value of each share of the Company from CHF 10 to CHF 0.10 and the amendment of the Company’s Articles of Association to effect a corresponding share capital reduction.

### **Fiscal Year**

The Company’s fiscal year is based on 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 53-week fiscal years, and the associated 14-week fourth quarters, will not be entirely comparable to the prior and subsequent 52-week fiscal years and the associated 13-week quarters. Fiscal years 2015 and 2014 included 52 weeks while fiscal 2016 included 53 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 currency translation adjustments of (\$9,411) and (\$14,107) as of December 31, 2016 and December 26, 2015, 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 on operating income when the currencies move congruently against the U.S. Dollar due to the use of the Taiwan Dollar for manufacturing costs while the Euro and British Pound Sterling transactions relate primarily to revenue. Foreign currency losses recorded in results of operations were \$31,651, \$23,465, and \$4,299, for the years ended December 31, 2016, December 26, 2015, and December 27, 2014, respectively. The loss in fiscal 2016 was due primarily to the USD weakening against the Taiwan Dollar and the USD strengthening against the Euro and British Pound Sterling. The loss in fiscal 2015 was due primarily to the USD strengthening against the Euro and British Pound Sterling, 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.

## 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 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 2014. None of the Company's customers accounted for more than or equal to 10% of consolidated net sales in the years ended December 31, 2016, December 26, 2015 and December 27, 2014.

## 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. The Company 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 31, 2016</u>	<u>December 26, 2015</u>
Raw Materials	\$162,882	\$203,173
Work-in-process	68,602	69,690
Finished goods	293,789	273,762
Inventory Reserves	(40,452)	(46,071)
Inventory, net of reserves	<u>\$484,821</u>	<u>\$500,554</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 performs its annual goodwill and intangible asset impairment tests in the fourth quarter of each year. If the carrying amount of a reporting unit exceeds its fair value as determined by a discounted cash flow model in step one of the impairment analysis, the second step of the analysis will be performed. Each of the Company's operating segments (auto PND, auto OEM, aviation, marine, outdoor, and fitness) represents a distinct reporting unit. The Company did not recognize any material goodwill or intangible asset impairment charges in 2016, 2015, or 2014, and step two was not considered necessary in any of those periods as fair value was substantially in excess of the carrying amount for all reporting units in the respective periods.

As noted above, the PND market has declined as competing technologies have emerged and market saturation has occurred. This has resulted in, and is expected to continue to result in, periods of lower revenues and profits for the Company's auto PND reporting unit. Consequently, if operating results and/or market conditions deteriorate significantly faster or more drastically than the forecasts utilized in our estimation of fair value, the goodwill associated with the Company's auto PND reporting unit may be at risk of impairment in the future.

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 three to ten years.

## Dividends

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

On June 10, 2016, the shareholders approved a dividend of \$2.04 per share (of which, \$1.53 was paid in the Company's 2016 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, 2016	June 16, 2016	\$0.51
September 30, 2016	September 15, 2016	\$0.51
December 30, 2016	December 14, 2016	\$0.51
March 31, 2017	March 15, 2017	\$0.51

The Company paid dividends in 2016 in the amount of \$481,452. Both the dividends paid and the remaining dividend payable were reported as a reduction of retained earnings.

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 16, 2016	\$0.51

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

As of December 31, 2016 and December 26, 2015, approximately \$304,674 of retained earnings was indefinitely restricted from distribution to stockholders pursuant to the laws of Taiwan.

#### **Intangible Assets**

At December 31, 2016 and December 26, 2015, the Company had patents, customer related intangibles and other identifiable finite-lived intangible assets recorded at a cost of \$253,472 and \$216,465, respectively. Identifiable, finite-lived intangible assets are amortized over their estimated useful lives on a straight-line basis over three to ten years. Accumulated amortization was \$173,023 and \$158,704 at December 31, 2016 and December 26, 2015, respectively. Amortization expense on these intangible assets was \$14,319, \$7,115, and \$8,362 for the years ended December 31, 2016, December 26, 2015, and December 27, 2014, respectively. In the next five years, the amortization expense is estimated to be \$15,727, \$14,502, \$11,798, \$9,301, and \$4,931, respectively.

The Company's excess purchase cost over fair value of net assets acquired (goodwill) was \$224,553 at December 31, 2016 and \$187,791 at December 26, 2015.

	December 31, 2016	December 26, 2015
Goodwill balance at beginning of year	\$ 187,791	\$ 178,638
Acquisitions	38,061	11,908
Finalization of purchase price allocations and effect of foreign currency translation	(1,299)	(2,755)
Goodwill balance at end of year	<u>\$ 224,553</u>	<u>\$ 187,791</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 31, 2016. Available-for-sale securities are stated at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income (loss). At December 31, 2016 and December 26, 2015, cumulative unrealized net losses of \$27,350 and \$16,321, 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 accounts for uncertainty in income taxes in accordance with the FASB ASC 740 topic *Income Taxes*. The Company recognizes 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 the Company determines the liabilities are no longer necessary. If the Company's 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**

The Company 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 the Company'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.

The Company 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, the Company 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 as stand-alone and unbundled unit sales do not occur on more than a limited basis. Therefore, the Company uses the royalty cost plus a normal margin as the primary indicator to calculate relative selling prices of the LMU and traffic elements.

For multiple-element software arrangements that do not include a tangible product, the Company allocates revenue to the various elements based on VSOE. When VSOE cannot be established for undelivered elements, all revenue is deferred until the earlier point at which all elements of the arrangement are delivered or sufficient VSOE does exist, unless the only undelivered element is post-contract customer support. If the only undelivered element is post-contract customer support, the entire arrangement consideration is recognized ratably over the support period. The Company offers navigation software licenses to certain customers, bundled with map updates to be provided periodically over the support period. The Company has determined sufficient VSOE of similar map updates does not exist for certain arrangements, and therefore revenue from these transactions is recognized ratably over the contractual map update period.

The Company records revenue net of sales tax, trade discounts and customer returns. The Company 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 the Company'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, the Company may take actions to increase

customer incentive offerings, possibly resulting in an incremental reduction of revenue at the time the incentive is offered.

### Deferred Revenues and Costs

At December 31, 2016 and December 26, 2015, the Company had deferred revenues totaling \$286,971 and \$293,713, respectively, and related deferred costs totaling \$103,546 and \$87,945, respectively.

The deferred revenues and costs are recognized over their estimated economic lives, typically 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 \$99,169, \$49,605, \$23,027, \$8,255, and \$3,369, 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 the Company 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 31, 2016	December 26, 2015	December 25, 2014
Balance - beginning of period	\$30,449	\$27,609	\$26,767
Accrual for products sold <sup>(1)</sup>	61,578	44,620	44,423
Expenditures	(54,794)	(41,780)	(43,581)
Balance - end of period	<u>\$37,233</u>	<u>\$30,449</u>	<u>\$27,609</u>

(1) 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 \$177,143, \$167,166, and \$146,633, for the years ended December 31, 2016, December 26, 2015 and December 27, 2014, 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 \$467,960, \$427,043, and \$395,121, for the years ended December 31, 2016, December 26, 2015 and December 27, 2014, 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 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 (“ASU”) 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. 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. Additional updates to Topic 606 issued by the FASB in 2015 and 2016 include the following:

- ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (“ASU 2015-14”), which defers the effective date of the new guidance such that the new provisions will now be required for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company does not intend to early adopt, and adoption will therefore occur in the fiscal year ending December 28, 2018.
- ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (“ASU 2016-08”), which clarifies the implementation guidance on principal versus agent considerations (reporting revenue gross versus net).
- ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”), which clarifies the implementation guidance on identifying performance obligations and classifying licensing arrangements
- ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”), which clarifies the implementation guidance in a number of other areas.
- ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers (“ASU 2016-20”), which affects narrow aspects of Topic 606 such as providing incremental guidance around contract costs.

We currently anticipate we will adopt the new revenue standards using the full retrospective method to restate each prior reporting period presented. Our decision to adopt using the full retrospective method is dependent on the finalization of our analysis of information necessary to restate prior period financial statements.

We continue to make progress in evaluating all potential impacts of adopting the new revenue standards on the Company’s consolidated financial statements, the materiality of which is not yet known. This evaluation includes monitoring the work of standard setters, including any impacts from the recently issued amendments, and considering the interpretive efforts of non-authoritative groups.

Refer to the discussion above regarding the Company’s current revenue recognition policies. Adoption of the new standards is expected to affect the manner in which the Company determines the unit of account for certain products (i.e. performance obligations), as well as the allocation of consideration (i.e. revenue) to certain obligations. We have completed our grouping of the Company’s homogenous revenue streams and are continuing to specify and allocate consideration to the associated obligations.

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.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to present a right-of-use asset and a corresponding lease liability on the balance sheet. Lessor accounting is substantially unchanged compared to the current accounting guidance. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which is intended to simplify the accounting for share-based payment awards. The standard includes provisions addressing income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company does not intend to early adopt ASU 2016-09, rather, adoption will occur in the fiscal year ending December 30, 2017. ASU 2016-09 requires that tax effects from stock-based compensation be recognized in the income tax provision, as these amounts are currently recognized in additional paid-in capital. The Company believes this aspect of the standard may have a material effect on the income tax provision within the consolidated statements of income in future periods. Furthermore, under ASU 2016-09, excess income tax benefits from stock-based compensation arrangements are classified as a cash flow from operations, rather than as a cash flow from financing activities. The Company will apply both changes prospectively. The Company is currently unable to reasonably estimate the impact of these changes due to the dependency of these items on the underlying share price of the Company.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The standard addresses eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (“ASU 2017-01”), which narrows the scope of Topic 805 by revising the definition of a business. When substantially all of the fair value of gross assets acquired or disposed of is concentrated in a single asset (or group of similar assets), the asset(s) would not represent a business in the context of Topic 805. ASU 2017-01 should be applied prospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. The Company does not expect the adoption of the new provisions to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangible – Goodwill and Other (Topic 350): Simplify the Test for Goodwill Impairment (“ASU 2017-04”) which simplifies the accounting for goodwill impairment. ASU 2017-04 removes Step 2 of the goodwill impairment test, such that a goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value. ASU 2017-04 should be applied prospectively and is effective for fiscal years, or any goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for any impairment tests performed after January 1, 2017. The Company does not expect the adoption of the new provisions to have a material impact 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. Valuation is 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.

The method 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 fair value on a recurring basis are summarized below:

	Fair Value Measurements as of December 31, 2016			
	Total	Level 1	Level 2	Level 3
U.S. Treasury securities	\$ 29,034	\$ -	\$ 29,034	\$ -
Agency securities	59,541	-	59,541	-
Mortgage-backed securities	230,823	-	230,823	-
Corporate securities	893,725	-	893,725	-
Municipal securities	176,168	-	176,168	-
Other	90,946	-	90,946	-
Total	\$ 1,480,237	\$ -	\$ 1,480,237	\$ -

	Fair Value Measurements as of December 26, 2015			
	Total	Level 1	Level 2	Level 3
U.S. Treasury securities	\$ 27,731	\$ -	\$ 27,731	\$ -
Agency securities	208,631	-	208,631	-
Mortgage-backed securities	370,232	-	370,232	-
Corporate securities	648,590	-	648,590	-
Municipal securities	223,562	-	223,562	-
Other	79,802	-	79,802	-
Total	\$ 1,558,548	\$ -	\$ 1,558,548	\$ -

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

**Available-For-Sale Securities as  
of December 31, 2016**

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses- OTTI<sup>(1)</sup></b>	<b>Gross Unrealized Losses- Other<sup>(2)</sup></b>	<b>Fair Value</b>
U.S. Treasury securities	\$ 29,291	\$ 31	\$ -	\$ (288)	\$ 29,034
Agency securities	60,513	19	-	(991)	59,541
Mortgage-backed securities	236,354	41	-	(5,572)	230,823
Corporate securities	914,028	252	-	(20,555)	893,725
Municipal securities	178,804	224	-	(2,859)	176,169
Other	90,934	20	-	(9)	90,945
<b>Total</b>	<b>\$ 1,509,924</b>	<b>\$ 587</b>	<b>\$ -</b>	<b>\$ (30,274)</b>	<b>\$ 1,480,237</b>

**Available-For-Sale Securities as  
of December 26, 2015**

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses- OTTI<sup>(1)</sup></b>	<b>Gross Unrealized Losses- Other<sup>(2)</sup></b>	<b>Fair Value</b>
U.S. Treasury securities	\$ 27,772	\$ 27	\$ -	\$ (68)	\$ 27,731
Agency securities	211,248	105	(2,409)	(313)	208,631
Mortgage-backed securities	376,801	191	(1,210)	(5,550)	370,232
Corporate securities	656,447	179	(1,635)	(6,401)	648,590
Municipal securities	223,991	636	(9)	(1,056)	223,562
Other	79,853	4	(14)	(41)	79,802
<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>

- (1) Represents impairment not related to credit for those investment securities that have been determined to be other-than-temporarily impaired.
- (2) Represents unrealized losses on investment securities that have not been determined to be other-than-temporarily impaired.

The Company's investment policy targets low risk investments 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 a security before recovery of its amortized cost basis, which may be maturity.

The Company recognizes the credit component of other-than-temporary impairments of debt securities in "Other Income" and the noncredit component in "Other comprehensive income (loss)" for those securities that we do not intend to sell and for which it is not more likely than not that we will be required to sell before recovery. During 2016 and 2015, the Company did not record any material impairment charges on its outstanding securities.

The amortized cost and fair value of the securities at an unrealized loss position at December 31, 2016 were \$1,283,018 and \$1,252,744 respectively. Approximately 64.7% of securities in our portfolio were at an unrealized loss position at December 31, 2016. 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 material deterioration in credit quality and no change in the cash flows of the underlying securities. We do not intend to sell the securities and it is not more likely than not that we will be required to sell the securities; therefore, no material 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 tables display additional information regarding gross unrealized losses and fair value by major security type for available-for-sale securities in an unrealized loss position as of December 31, 2016 and December 26, 2015.

	As of December 31, 2016			
	Less than 12 Consecutive Months		12 Consecutive Months or Longer	
	Gross Unrealized		Gross Unrealized	
	Losses	Fair Value	Losses	Fair Value
U.S. Treasury securities	\$ (288)	\$ 24,260	\$ -	\$ -
Agency securities	(991)	49,255	-	-
Mortgage-backed securities	(3,702)	159,665	(1,870)	64,645
Corporate securities	(18,856)	765,712	(1,699)	40,910
Municipal securities	(2,762)	130,994	(97)	6,326
Other	(3)	4,058	(6)	6,919
<b>Total</b>	<b>\$ (26,602)</b>	<b>\$ 1,133,944</b>	<b>\$ (3,672)</b>	<b>\$ 118,800</b>

	As of December 26, 2015			
	Less than 12 Consecutive Months		12 Consecutive Months or Longer	
	Gross Unrealized		Gross Unrealized	
	Losses	Fair Value	Losses	Fair Value
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>

The amortized cost and fair value of marketable securities at December 31, 2016, 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.

	Amortized Cost	Fair Value
Due in one year or less	\$ 267,115	\$ 266,952
Due after one year through five years	979,546	963,898
Due after five years through ten years	256,691	243,052
Due after ten years	6,572	6,335
<b>Total</b>	<b>\$ 1,509,924</b>	<b>\$ 1,480,237</b>

#### 4. Commitments and Contingencies

Rental expense related to office, equipment, warehouse space, and real estate amounted to \$19,657, \$18,104, and \$19,559 for the years ended December 31, 2016, December 26, 2015, and December 27, 2014, respectively. The Company recognizes rental expense on a straight-line basis over the lease term.

Future minimum lease payments are as follows:

Year	Amount
2017	\$15,229
2018	12,760
2019	9,243
2020	7,897
2021	7,008
Thereafter	21,168
<b>Total</b>	<b>\$73,305</b>

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 \$113 and \$259 at December 31, 2016 and December 26, 2015, 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 31, 2016 was approximately \$403,059. 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 fulfilled by our suppliers, contract manufacturers, and logistics providers 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 alleging 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 31, 2016. The results of legal proceedings, 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 31, 2016 that did not individually or in the aggregate have a material adverse 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. During the years ended December 31, 2016, December 26, 2015, and December 27, 2014, expense related to these and other defined contribution plans of \$40,844, \$37,489, and \$29,267, 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 31, 2016, December 26, 2015, and December 27, 2014 were significant.

## 6. Income Taxes

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

	Fiscal Year Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Federal:			
Current	\$ 66,627	\$ 49,138	\$ (18,665)
Deferred	5,343	4,216	58,164
	<u>\$ 71,970</u>	<u>\$ 53,354</u>	<u>\$ 39,499</u>
State:			
Current	8,809	9,354	5,575
Deferred	(3,823)	(5,858)	4,368
	<u>\$ 4,986</u>	<u>\$ 3,496</u>	<u>\$ 9,943</u>
Foreign:			
Current	42,406	55,730	287,197
Deferred	(506)	(1,620)	22,895
	<u>\$ 41,900</u>	<u>\$ 54,110</u>	<u>\$ 310,092</u>
<b>Total</b>	<u><u>\$ 118,856</u></u>	<u><u>\$ 110,960</u></u>	<u><u>\$ 359,534</u></u>

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 31, 2016	December 26, 2015	December 27, 2014
Federal income tax expense at			
U.S. statutory rate	\$ 220,385	\$ 198,516	\$ 253,260
State income tax expense, net of federal tax effect	2,749	1,931	6,463
Foreign tax rate differential	(111,989)	(100,010)	(154,338)
Taiwan tax holiday benefit	(2,032)	(3,488)	(3,147)
Other foreign taxes less incentives and credits	(16,593)	(8,592)	5,947
Withholding Tax	17,447	16,969	21,039
Intercompany Restructuring	-	-	307,635
Net Change in Uncertain Tax Positions	17,328	21,246	(67,231)
Federal Domestic Production Activities Deduction	(5,528)	(4,589)	(3,606)
Federal Research and Development Credit	(8,548)	(8,573)	(8,373)
Other, net	5,637	(2,450)	1,885
<b>Income tax expense</b>	<u><u>\$ 118,856</u></u>	<u><u>\$ 110,960</u></u>	<u><u>\$ 359,534</u></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, the Company recorded tax expense of \$307,635. Approximately \$265,000 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's 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 2016 as presented above, the amounts related to tax at the statutory rate would be \$171,000 lower, or \$49,000, and the foreign tax rate

differential would be adjusted by a similar amount to \$55,000. For 2015, the amounts related to tax at the statutory rate would be approximately \$154,000 lower, or \$44,000, and the foreign tax rate differential would be adjusted by a similar amount to approximately \$52,000. For 2014, the amount related to tax at the statutory rate would be approximately \$197,000 lower, or \$57,000, and the foreign tax differential would be reduced by a similar amount to approximately \$44,000. All other amounts would remain substantially unchanged.

The Company's income before income taxes attributable to non-U.S. operations was \$453,729, \$403,242, and \$546,790, for the years ended December 31, 2016, December 26, 2015, and December 27, 2014, respectively. The Taiwan tax holiday benefits included in the table above reflect \$0.01, \$0.02, and \$0.02 per weighted-average common share outstanding for the years ended December 31, 2016, December 26, 2015, and December 27, 2014, 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 \$22,139, \$21,085, and \$20,606 at December 31, 2016, December 26, 2015, and December 27, 2014, respectively, have not been accrued by the Company for the unremitted earnings of several of its foreign subsidiaries because such earnings are intended to be reinvested in the subsidiaries indefinitely.

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

	<b>December 31, 2016</b>	<b>December 26, 2015</b>
Deferred tax assets:		
Product warranty accruals	\$ 2,768	\$ 2,990
Allowance for doubtful accounts	10,100	10,323
Inventory reserves	8,953	10,904
Sales program allowances	1,397	1,783
Reserve for sales returns	2,196	1,457
Other accruals	13,548	10,799
Share based compensation	29,632	35,360
Tax credit carryforwards	5,012	3,906
Amortization	15,368	20,005
Deferred Revenue	32,487	32,809
Net operating losses of subsidiaries	5,403	5,228
Unrealized investment gain, net	5	-
Benefit related to uncertain tax positions	7,542	5,546
Other	4,000	4,106
Valuation allowance related to loss carryforward and tax credits	(4,622)	(2,781)
	<u>\$ 133,789</u>	<u>\$ 142,435</u>
Deferred tax liabilities:		
Depreciation	17,854	18,029
Prepaid Expenses	2,876	2,821
Book basis in excess of tax basis for acquired entities	3,865	1,307
Unrealized investment loss, net	-	3,198
Withholding tax	58,597	54,865
Other	1,523	1,907
	<u>84,715</u>	<u>82,127</u>
Net deferred tax assets	<u>\$ 49,074</u>	<u>\$ 60,308</u>

Included in the share based compensation deferred tax asset of \$29,632 are stock options that 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 increase to income tax expense.

At December 31, 2016, the Company had \$5,012 of tax credit carryover compared to \$3,906 at December 26, 2015.

At December 31, 2016, the Company had a deferred tax asset of \$5,403 related to the future tax benefit on net operating loss (NOL) carryforwards of \$35,843. Included in the NOL carryforwards is \$22,968 that relates to Switzerland and expires in 2023, \$1,462 that relates to Finland and expires in varying amounts between 2025 and 2026, \$1,991 that relates to the United States and expires in varying amounts between 2035 and 2036, and \$9,422 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 31, 2016 was \$115,090. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for years ended December 31, 2016, December 26, 2015, and December 27, 2014 is as follows:

	<b>December 31, 2016</b>	<b>December 26, 2015</b>	<b>December 27, 2014</b>
Balance beginning of year	\$ 97,904	\$ 77,495	\$ 133,015
Additions based on tax positions related to prior years	489	89	2,889
Reductions based on tax positions related to prior years	(940)	(1,671)	(60,967)
Additions based on tax positions related to current period	28,859	29,019	39,115
Reductions related to settlements with tax authorities	(134)	(364)	(401)
Expiration of statute of limitations	(11,088)	(6,664)	(36,156)
<b>Balance at end of year</b>	<b>\$ 115,090</b>	<b>\$ 97,904</b>	<b>\$ 77,495</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 \$109,667, \$93,654 and \$74,205 are required to be classified as non-current at December 31, 2016, December 26, 2015, and December 27, 2014, 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 31, 2016, December 26, 2015, and December 27, 2014, the Company had accrued approximately \$3,901, \$2,479, and \$2,159, respectively, for interest. The interest component of the reserve increased (decreased) income tax expense for the years ending December 31, 2016, December 26, 2015, and December 27, 2014, by \$1,422, \$320, and (\$2,953), 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 2010 and prior. The Company is no longer subject to United Kingdom tax examinations by tax authorities for years 2013 and prior. The Company is no longer subject to Switzerland tax examinations by tax authorities for years 2011 and prior.

The Company recognized a reduction of income tax expense of \$11,151, \$6,971, and \$83,006 in fiscal years ended December 31, 2016, December 26, 2015, and December 27, 2014, 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 \$15,000 to \$20,000 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 31, 2016		December 26, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 846,883	\$ 846,883	\$ 833,070	\$ 833,070
Restricted cash	113	113	259	259
Marketable securities	1,480,237	1,480,237	1,558,548	1,558,548

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 all years presented. 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. In 2016 the Company moved action camera related revenue 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 overall impact of the move was immaterial. However, action camera related operating results for the 52-weeks ended December 26, 2015 and December 27, 2014 have been recast to conform to the current year presentation.

	<u>Reportable Segments</u>					
<b>53-Weeks Ended December 31, 2016</b>	<u>Outdoor</u>	<u>Fitness</u>	<u>Marine</u>	<u>Auto</u>	<u>Aviation</u>	<u>Total</u>
Net sales	\$ 546,326	\$ 818,486	\$ 331,947	\$ 882,558	\$ 439,348	\$ 3,018,665
Gross profit	340,504	437,205	183,709	388,747	329,405	1,679,570
Operating income	184,035	160,596	52,167	102,347	124,764	623,909
 <b>52-Weeks Ended December 26, 2015</b>						
Net sales	\$ 411,184	\$ 661,599	\$ 286,778	\$ 1,062,091	\$ 398,618	\$ 2,820,270
Gross profit	254,878	366,139	158,493	464,480	294,714	1,538,704
Operating income	139,070	134,574	28,611	136,069	111,257	549,581
 <b>52-Weeks Ended December 27, 2014</b>						
Net sales	\$ 409,847	\$ 568,440	\$ 248,371	\$ 1,258,085	\$ 385,915	\$ 2,870,658
Gross profit	266,659	358,287	129,710	569,343	280,413	1,604,412
Operating income	156,059	190,682	26,232	210,675	106,978	690,626

Net sales, long-lived assets (property and equipment), and net assets by geographic area are as shown below for the years ended December 31, 2016, December 26, 2015, and December 27, 2014. Note that APAC refers to the Asia Pacific region, and EMEA includes Europe, the Middle East and Africa.

	Americas	APAC	EMEA	Total
<b>December 31, 2016</b>				
Net sales to external customers <sup>(1)</sup>	\$ 1,518,934	\$ 386,549	\$ 1,113,182	\$ 3,018,665
Property and equipment, net	300,158	144,470	38,250	482,878
Net assets <sup>(2)</sup>	2,153,161	933,999	330,843	3,418,003
<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	111,700	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

<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 2016, 2015, and 2014, 12,984, 12,008, and 7,120 RSUs 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 vested or are vesting 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 Company's achievement of certain financial performance goals. During 2016, 2015, and 2014, 1,228,427, 1,171,905, and 425,347 RSUs were granted under the 2005 Plan. No SARs were granted under the 2005 Plan in 2016 and 2015. During 2014, 47,095 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 2016, 2015, or 2014.

## 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 31, 2016, December 26, 2015 and December 27, 2014 is provided below:

	<u>Stock Options and SARs</u>	
	<u>Weighted-Average Exercise Price</u>	<u>Number of Shares (In Thousands)</u>
Outstanding at December 28, 2013	\$ 58.44	6,239
Granted	\$ 52.44	47
Exercised	\$ 40.60	(1,430)
Forfeited/Expired	\$ 80.49	(125)
Outstanding at December 27, 2014	\$ 63.19	4,731
Granted		-
Exercised	\$ 29.15	(474)
Forfeited/Expired	\$ 70.58	(196)
Outstanding at December 26, 2015	\$ 66.80	4,061
<b>Granted</b>		-
<b>Exercised</b>	<b>\$ 50.77</b>	<b>(716)</b>
<b>Forfeited/Expired</b>	<b>\$ 51.12</b>	<b>(608)</b>
<b>Outstanding at December 31, 2016</b>	<b>\$ 74.48</b>	<b>2,737</b>
<b>Exercisable at December 31, 2016</b>	<b>\$ 74.97</b>	<b>2,684</b>
<b>Expected to vest after December 31, 2016</b>	<b>\$ 49.69</b>	<b>53</b>

<b>Stock Options and SARs as of December 31, 2016</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	49	4.14	49
\$40.01 - \$60.00	758	2.35	705
\$60.01 - \$80.00	940	0.43	940
\$80.01 - \$100.00	3	0.94	3
\$100.01 - \$120.00	985	0.92	985
\$120.01 - \$140.00	2	0.74	2
	<u>2,737</u>	<u>1.21</u>	<u>2,684</u>

**Restricted Stock Units**

	<b>Weighted-Average Grant Date Fair Value</b>	<b>Number of Shares</b>
		<i>(In Thousands)</i>
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
Granted	\$ 37.07	1,184
Released/Vested	\$ 40.18	(562)
Cancelled	\$ 42.02	(53)
Outstanding at December 26, 2015	\$ 39.45	1,657
<b>Granted</b>	<b>\$ 40.59</b>	<b>1,241</b>
<b>Released/Vested</b>	<b>\$ 38.96</b>	<b>(565)</b>
<b>Cancelled</b>	<b>\$ 44.57</b>	<b>(509)</b>
<b>Outstanding at December 31, 2016</b>	<b>\$ 38.94</b>	<b>1,824</b>

The weighted-average remaining contract life for stock options and SARs outstanding and exercisable at December 31, 2016 was 1.21 and 1.09 years, respectively. The weighted-average remaining contract life of restricted stock units at December 31, 2016 was 1.47 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. No options or SARs were granted in 2016 or 2015.

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

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 2016, 2015, and 2014 was \$22,429, \$23,351, and \$19,127, respectively. The aggregate intrinsic values of options and SARs outstanding and exercisable at December 31, 2016 were \$942 and \$884, respectively. The aggregate intrinsic values of options and SARs exercised during 2016, 2015, and 2014 were \$1,632, \$3,714, and \$18,885, respectively. The aggregate intrinsic value of RSUs outstanding at December 31, 2016 was \$88,449. The aggregate intrinsic values of RSUs released during 2016, 2015, and 2014 were \$27,386, \$20,787, and \$28,119, 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 \$48.49 on December 31, 2016. As of December 31, 2016, there was \$55,802 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 2016, 2015, and 2014, 541,018, 488,753, and 349,982 shares, respectively were purchased under the plan for a total purchase price of \$18,157, \$16,789, and \$14,634, respectively. During 2016, 2015, and 2014, the purchases were issued from treasury shares. At December 31, 2016, approximately 1,459,610 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:

(In thousands, except per share information)	Fiscal Year Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
Numerator:			
Numerator for basic and diluted net income per share - net income	\$510,814	\$456,227	\$364,211
Denominator:			
Denominator for basic net income per share – weighted-average common shares	188,818	190,631	193,106
Effect of dilutive securities – employee stock options and stock appreciation rights	525	476	1,059
Denominator for diluted net income per share – adjusted weighted-average common shares	189,343	191,107	194,165
Basic net income per share	\$2.71	\$2.39	\$1.89
Diluted net income per share	\$2.70	\$2.39	\$1.88

There were 3,547,738, 4,086,983, and 2,240,005 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 2016, 2015, and 2014, 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. In December 2016, the Board of Directors authorized an extension through December 31, 2017 to purchase remaining common shares. Under the plan, the Company repurchased 3,148,901 shares using cash of \$131,413 in fiscal 2015 and 2,152,716 shares using cash of \$93,233 in fiscal 2016.

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 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 31, 2016:

	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	\$ (14,107)	\$ (5,277)	\$ (11,044)	\$ (30,428)
Other comprehensive income before reclassification	4,696	5,277	(15,188)	(5,215)
Amounts reclassified from accumulated other comprehensive income	-	-	(1,118)	(1,118)
Net current-period other comprehensive income	4,696	5,277	(16,306)	(6,333)
Balance - end of period	\$ (9,411)	\$ -	\$ (27,350)	\$ (36,761)

(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 31, 2016:

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	\$ 822	Other income (expense)
	296	Income tax provision
	\$ 1,118	Net of tax

### 13. Selected Quarterly Information (Unaudited)

	53-Weeks Ended December 31, 2016			
	Quarter Ending			
	March 26	June 25	September 24	December 31
Net sales	\$624,040	\$811,609	\$722,250	\$860,767
Gross profit	339,850	462,958	405,980	470,782
Net income	88,092	161,064	125,054	136,605
Basic net income per share	\$0.46	\$0.85	\$0.66	\$0.73

	52-Weeks 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

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**

As a result of Switzerland corporate tax reform failing to pass on February 12, 2017, coupled with potential tax risk from evolving global tax initiatives, the Company has elected on February 20, 2017 to adjust certain Switzerland tax positions. The Company expects this election to result in an estimated 300 basis points increase to the fiscal year 2017 effective tax rate compared to fiscal year 2016. In addition, the Company expects to revalue certain Switzerland deferred tax assets as a result of this election, for which the Company anticipates recording approximately \$150 million of income tax benefit in the first quarter of 2017.