MANAGEMENT DISCUSSION SECTION

Operator: Please stand-by. Good day and welcome to the Garmin Limited Second Quarter 2011 Earnings Call. Today's call is being recorded.

I'll now turn the call over to Miss Kerri Thurston. Ms. Thurston, please go ahead.

Kerri R. Thurston, Manager-Investor Relations

Good morning. We'd like to welcome you to Garmin Limited's Second Quarter 2011 Earnings Call. Please note that a copy of the press release concerning this earnings call is available at Garmin's Investor Relations site on the Internet at www.garmin.com/stock. Additionally, this call is being broadcast live on the Internet. Please note that this webcast does include slides, which can be viewed during this call. An archive of the webcast will be available until September 6th, and a transcript of the call will be available on the website under the Events Calendar tab.

This earnings call will include projections and other forward-looking statements regarding Garmin Limited and its business. Any statements regarding our future financial position, revenues, earnings, market shares, product introductions, future demand for our products and objectives are forward-looking statements.

The forward-looking events and circumstances discussed in this earnings call may not occur and actual results could differ materially as a result of risk factors affecting Garmin. Information concerning these risk factors is contained in our Form 10-K for the year-ended December 25th, 2010, filed with the SEC.

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

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

Clifton A. Pemble, President & Chief Operating Officer

Thank you, Kerri, and good morning, everyone. Thanks for joining today. As reported in our press release this morning, Garmin second quarter results included 11% revenue growth in our traditional segments of Aviation, Marine, Outdoor and Fitness. Total revenue was down 8% driven by lower volumes and increased deferred revenue in the auto PND market. Our traditional segments contributed 46% of total revenue and 81% of total company income, which is evidence of the strength of our diversified business model.

We've reported pro forma EPS of $0.63, down 26% from Q2 of last year. A major contributing factor is the increased rate at which we're deferring revenues. These revenues are part of our cash flow with recognition deferred into the future according to GAAP rules. Additionally, our EPS was affected by a one time accrual for bad debt expenses as well as higher than anticipated legal expenses in the quarter. Kevin will provide additional information on the impact of these items in just a moment.

We sold 3.8 million units in the quarter, which is a 6% decline over prior year levels driven primarily by lower unit deliveries in the automobile offset by growth in fitness and marine. We generated a $196 million of free cash flow during the quarter resulting in a cash and marketable securities balance of $2.5 billion.

Next, we'll take a closer look at the second quarter performance as well as the market and product update for each segment.

Looking first at the marine segment, we posted revenue growth of 6%, which is below that of Q1, however, still in line with our expectations for the full year. During the quarter, we launched the echo series, which is a new line of low cost fishfinders. The echo series has been very popular capturing a meaningful share of the fishfinder market. Due to the release of the echo series, the product mix shifted towards lower price points affecting our margins in the segment, but we expect margins to improve in the back half of the year, as the product mix normalizes.

At the beginning of the second quarter, we experienced a flattening of growth in the U.S. market, which has been confirmed by other customers and partners serving the U.S. market. However, this softness was offset by gains in Europe and Asia. Our full-year expectations for the Marine market remain intact.

Also during the quarter we introduced products that bring new innovation to the Marine market and enhance our ability to serve more boat platforms. The first product I'd like to mention is the GDL 40, a pay-as-you-go Marine weather receive delivering useful real-time content from our server platforms including radar, wind-speed and direction, sea surface temperatures, wave height and more. Boaters now have the ability to get the information they need, when they need it without paying ongoing subscription fee when not on the water. In addition, we introduced the GHP 12 an improved, marine autopilot that supports additional steering systems, making it an attractive solution for a broader range of powerboats and sailboats.

Looking next at Aviation, revenues grew 13% ahead of expectations driven by strength in the retrofit market. Both new and legacy products contributed to the growth. On the other hand, the OEM market conditions remain soft. As a result, OEM revenue was basically flat year-over-year. Operating income increased 18%, as revenue growth outpaced the growth in operating expenses. Operating income generated by Aviation represented 17% of our total operating income for the quarter.

As I mentioned, the OEM market remained soft and we do not expect to see market conditions improve this year. Current economic conditions are unfavorable and the political environment has returned to harmful finger pointing at a rare and valuable industry that creates domestic manufacturing jobs and positive exports for the United States. In light of this, it's very difficult to predict when the OEM market will recover.

Despite these challenges, we remain excited and our long-term focus is on growing revenues in the OEM market. Should the market remain soft for an extended period, we're confident we can grow our share based on the value proposition of our integrated cockpit system. New platform certifications are on track and we anticipate they will begin contributing revenue in 2013.

In the near term, we're certifying the G1000 into additional aircraft platforms as a retrofit solution. Most recently, we announced G1000 retrofit solution for the SOCATA TBM 700, which is our 5th aircraft model approved for G1000 field upgrade. We've made our first delivery to the French Ministry of Defense as part of a contract to equip 27 aircrafts. While the aviation market contains a mix of good and not so good news, the trend so far give us confidence that we will meet or exceed our full year revenue targets.

In our outdoor segment, revenues grew 1%. The European market was strong, but was offset by weakness in the U.S. While this is below our full year expectations, year-to-date performance exceeds our previously stated target of 5% growth and we remain confident that we will meet or exceed this target driven by new product introductions and our recent acquisition of Tri‐Tronics, a leading provider of electronic dog training equipment.

We are excited to have Tri‐Tronics in the Garmin family. They, like Garmin, have built a respected brand that represents quality, performance and customer service. With their e-collars and other products, we have an expanded product offering for our existing Astro customer base and an opportunity to grow in new areas such as the pet market. We look forward to collaborating together to expand our leadership position in both the tracking and training of supporting dogs and household pets. Tri‐Tronics will begin contributing revenue in the back half of 2011, and we anticipate they will add approximately $8 million to our overall outdoor segment revenues.

During the second quarter, we introduced a robust set of new products in the outdoor segment that will contribute to our growth story in the back half of the year. These products continue in Garmin's tradition of serving a variety of diverse needs with something for every customer.

Our new products include the Montana series. These handhelds feature a four-inch sunlight readable display with touch screen and include advanced features such as multi-activity software, altimeter and compass. The Montana 650 and 650-T include a ruggedized 5 megapixel autofocus camera which allows users to capture high quality images in the field without the worry of carrying a second camera device that could be lost or damaged in demanding outdoor conditions.

Our classic eTrex series has been updated by a new and greatly improved lineup of the eTrex handhelds with enhanced displays, paperless geocaching capabilities and much more for our entry-level customers.

And finally, we introduced a lineup of Rino two way radios with touch screen, extended communication range and new features, such as weather alerting and polling capabilities to enhance safety and situational awareness. Like the Montana 650 series, the Rino 655t also includes a ruggedized 5 mega pixel autofocus camera.

In the fitness segment we reported 25% revenue growth driven by new product introductions such as our Forerunner 210, Forerunner 610 and Edge 800. The high end Forerunner 610 in particular has exceeded our expectations and remains in high demand. Operating income grew only 3% year-over-year due to increased investment in advertising and R&D in the quarter. In addition SG&A costs increased as this segment was allocated additional overhead costs based on its revenue and unit delivery contributions.

As we look to the future, our focus will be on innovation in both form factor and function, driving global penetration and defending our leadership position in the GPS enabled fitness category.

Before moving on I would like to highlight the incredible performance of Team Garmin-Cervélo at the recent Tour de France. The team achieved their best ever Tour de France as the number one team. One of our cyclists, Tom Danielson, achieved ninth place in the individual standings. We had an impressive showing during the long race including the 4th of July Sprint stage win for American Tyler Farrar and two stage wins for Thor Hushovd who wore the yellow jersey for a whole week early in the tour. We are very proud of the accomplishments of the team and their commitment to performance through clean racing. The publicity and goodwill that the team is generating is difficult to value, but I think you see the dividends in the growth of our cycling computer sales affecting our overall fitness segment.

Finally in our automobile segment, revenue declined 19% as strong growth in OEM revenues was offset by the declining size of the PND market. In addition, we deferred $62 million of revenue into the future as the mix of bundled products is growing faster than we earlier anticipated. The GAAP operating margin for the segment was 7%; however, when considering the impact of deferred gross profit of $51 million, our gross margin would have been 18%. This reinforces our belief that the segment will be profitable in the long-term.

Our market share has strengthened throughout 2011 with second quarter's share of greater than 60% in North America; in fact, NPD has reported a share of 64%, which is the highest in recent memory. Share in Europe continues to grow, currently in the mid 20% range based on our estimates of the total market size.

Also in the quarter, we announced our proposed acquisition of Navigon, which was recently completed after receiving final clearance from German competition authorities. Navigon was attractive to Garmin for three primary reasons. First, Navigon is a contender in the OEM market with a growing customer list and a well respected technology base. Secondly, their PND market share in Europe is approximately 7% which further strengthens our position in that region of the world. Finally, they offer a compelling mobile application that has been well received in the various application markets. We have already started efforts to combine our strengths and leverage synergies that are possible through the combination of our PND businesses. As a result of this acquisition, we anticipate emerging as an even stronger global competitor. We expect that Navigon will add approximately U.S. $75 million in revenue in the back half of 2011.

Our market expectations for PND are unchanged from those provided in February of this year. We continue to expect PND volumes to decline year-over-year in both North America and Europe offset by some growth in emerging regions. Garmin is currently bucking the trend in Europe due to our strong share gains allowing us to post both revenue growth and unit growth in this region throughout the first two quarter of the year.

Within the PND category, we realized that we must have precision execution to maintain our global leadership across the spectrum of market share, technology and content offerings while remaining profitable. We are committed to doing just that.

From a growth perspective, our OEM businesses continue to develop with Garmin gaining global recognition as a competitive vendor for both hardware and software solutions. We look forward to sharing more with you from the segment as the business develops.

Now that the first half of 2011 is behind us, we are updating our fiscal 2011 guidance. We now expect to deliver full year revenue between U.S. $2.5 billion and U.S. $2.6 billion with the improvement driven primarily by acquisitions of Navigon and Tri-Tronics. While slightly increasing our revenue range, we are reducing and narrowing our EPS range driven primarily by accelerated deferrals of high margin revenues. Kevin will provide additional clarity in just a moment. These factors and an anticipated effective tax rate of approximately 12%, result in a forecasted 2011 EPS of $2 to $2.15.

That concludes my Q2 update and Kevin will continue with more detailed financial overview. Kevin?

Kevin S. Rauckman, Chief Financial Officer & Treasurer

Well thanks, Cliff, and good morning, everyone. I'd like to walk us through the Q2 financial results first beginning with the income statement. We posted revenue of $674 million for the quarter with net income of $109 million. Our pro forma EPS was $0.63 per share, which excludes $15 million foreign currency loss during the period. The revenues represent a decrease of 8% year-over-year.

Gross margin came in at 47.8%, which was a 590 basis point decline from the prior year. Gross margin strength in the prior year quarter was primarily related to the refined warranty estimates that reduced our costs by $22 million, or 290 basis points. Deferral of high margin revenues associated with bundled products accounted for an additional 200 basis points of gross margin decline.

Operating margin was 19.5%, down 820 basis points from 27.7% last year. This margin was driven primarily by the gross margin down 590 basis points, advertising was 80 basis points favorable and down $9 million on a year-over-year basis. Our SG&A was 260 basis points unfavorable and this was up $12 million on a year-over-year basis due primarily to bad debt accruals and legal expenses. R&D came in at 40 basis points unfavorable but was down $2 million on a year-over-year basis as our head count declined slightly.

Pro forma EPS of $0.63 represents 26% decline year-over-year as revenues and margins declined. Units shipped were down 6% year-over-year as 3.8 million units were delivered during the quarter and our total company average selling price was $179 per unit basically flat from $182 last year.

The non-GAAP measures that we have reported this morning represent net income per share excluding the effects of foreign currency translation, this impact was $0.07 per share favorable during future of this year and $0.18 per share favorable for Q2 of last year.

As Cliff mentioned earlier, according to U.S. GAAP we must defer revenue on certain products and this table on the slide summarizes the net impact of the deferral and the amortization of revenue and related costs in both the second quarter of 2011 and 2010. In the current quarter, we deferred approximately $0.23 of EPS into future periods compared to $0.08 in the second quarter of 2010. Most of these revenues and costs will be amortized straight line over a three year period. It is important to note that while we are deferring revenue according to U.S. GAAP we are collecting cash at the time of this sale, which is reflected positively in our statement of cash flow which I'll review in just a minute. It's also interesting to note that we have approximately $1 of deferred earnings per share on our balance sheet currently assuming a 12% effective tax rate.

Moving next to a little bit more detail on our revenue, during Q2 we experienced 19% revenue decline within the Automobile segment due primarily to a declining PND market in North America. It was partially offset by PND growth in Europe and Asia as well as the OEM revenue increase we saw. Our outdoor segment grew 1% - growth in this segment will improve in the third quarter with a launch of number of our new products. Fitness revenues remain strong and grew 25% compared to Q2 of 2010 on the strength of high-end running watches and the cycling computers. Aviation segment revenues increased 13%, compared to Q2 of 2010 with growth in aftermarket products. And our marine segment revenue also increased at 6% compared to Q2 of 2010 as we gained market share during the quarter. In total, our revenues decreased 8% during the second quarter and for the year our total revenues are up 2%.

During the second quarter, growth of 12% and 31% respectively in Europe and Asia was offset by 21% decline in North America due to the declining PND market. North America represented 53% of revenue in Q2 2011 compared to 62% in the second quarter of last year. Europe increased from 31% to 38% of total revenue and Asia from 7% to 9% in the same time period.

The Automobile segment represented 54% of our total revenues during Q2, down from 61% in 2010. Each of the other segments contributed between 11% and 12% of revenues. While the automobile segment represented 54% of our total revenue, it represented only 19% of our operating income in Q2 due to the lower margin profile of the segment. This compared to 44% in the second quarter of 2010. Each of our other business segments contributed between 17% and 27% of operating income with outdoor leading the way at 27% of total op income due to the 44% operating margins in that segment.

Looking next at the margin breakdown by segment, Q2 auto/mobile gross margin and operating margin were 36% and 7% respectively. The year-over-year decline in gross margin was primarily driven by the 2010 warranty estimate refinement and the deferral of $51 million of gross profit with an 83% margin. Operating margin in the quarter excluding these deferrals would have been 18%. Auto/mobile was also impacted by approximately $8 million of bad debt and legal costs that are not recurring in nature.

Our second quarter outdoor gross margin was 65% down from 67% last year, due to the 2010 benefit from our warranty refinement, operating margin as I mentioned was 44% down from 48% in the year ago quarter, due to the gross margin decline and a slight increase in operating expenses in this segment.

Our Q2 fitness gross margin was 58% down from 62% last year. Like outdoor this was partially related to the 2010 benefit from warranty, operating margin was 33%, a decline from 40% a year ago due to the gross margin decline, as well as the increased advertising costs and allocation of selling, general and administrative costs.

Q2 Marine gross margin was 56% compared to 66% in the year ago quarter as product mix shift shifted towards fishfinders and we also compd against the 2010 warranty benefit. Operating margin was 30% down from 43% a year ago driven by gross margin decline and increased R&D and SG&A expenses. As Cliff mentioned previously, we do expect Marine margins to improve in the back half of the year.

And finally our second-quarter aviation gross margin was 69% down slightly from 70% a year ago, operating margin was 30% for the quarter representing a slight increase from 29% in the prior year.

Looking next at operating expenses our Q2 OpEx increased by $1 million on a year-over-year basis from $190 to $191 million in Q2 of 2011, and increased 220 basis points as a percentage of sales. R&D decreased, however, $2 million year-over-year, but was up 40 basis points to 10% of sales. As I mentioned earlier, we have slightly reduced head count on a year-over-year basis. Our ad spending decreased $8 million over the year ago quarter and decreased 80 basis points as a percentage of sales to 5% in Q2 2011. This was largely driven by a reduced cooperative advertising, which is volume dependent and a reduction in our media spend. Other SG&A increased $12 million compared to a year ago and increased 260 basis points up to 13% of sales. This increase represents approximately $8 million of nonrecurring costs for both bad debts and legal costs.

Moving next to the balance sheet, we ended the quarter with cash and marketable securities of $2.5 billion. Our accounts receivable increased sequentially to $493 million as revenues increased 33%. Accounts receivable accounted for approximately 66 days of sales when calculated on a trailing four quarters compared to 61 days of sales of the second quarter of 2010.

Our inventory balance decreased slightly to $386 million on a sequential basis and our days of inventory metrics was 106 days, a decrease from 119 in the first quarter of 2011. We do continue to take steps to ensure that our working capital is maximized during the year. We ended Q2 with the following amounts and number of days of the inventory. We ended Q2 at $153 million in raw materials were 38 days, $43 million in work in process and assemblies were 12 days and $219 million of finished goods were 55 days and the inventory reserves at the end of the quarter were $29 million.

We now show $388 million dividend payable on our balance sheet following our shareholder approval at the annual meeting in June. The first dividend installment of $155 million was paid on June 30, which occurred after our quarter end.

We continue to generate strong cash flow across our businesses; cash from operations was $203 million during Q2. CapEx was $7 million during the quarter. Therefore we generated free cash flow of $196 million.

Cash flow from investing was essentially breakeven during the quarter due to the $7 million in CapEx offset by $7 million net redemption of marketable securities and financing activities provided $2 million of cash during the second quarter. We earned an average of 1.3% on our cash and marketable security balances during the quarter.

We expect our strong free cash flow generation to continue throughout the year. We will use a portion of the cash flow to fund our dividend that was approved at the June 3rd meeting. The June 30 payment represented $155 million as I just mentioned and an additional $78 million is scheduled for both September 30th and December 30th dividend payments.

We also continue to focus on acquisitions in adjacent niche markets or tuck-in technologies, which fit our core market. As has been Garmin's practice, acquisitions are evaluated by technology, values compatibility and strategic fit with Garmin. Navigon and Tri-Tronics are great examples of executing on this strategy.

Our tax rate for Q2 was 13.8% and we expect the full year rate to be approximately 12%. The reduced effective tax rate is attributable to a change in methodology for uncertain tax positions reserves following favorable audits in both 2010 and 2011.

And finally, I would like to provide some additional details around our updated guidance that we provided today both by segment – primarily by segment revenue. We saw improvement in our automobile segment due primarily to the Navigon acquisition. We also wanted to highlight the significant impact of the mix shift that we are experiencing toward bundled products. Going into this year, we had forecast a deferral of approximately $0.53 of EPS. However, given our current estimated product mix, we now expect to defer approximately $0.92 of EPS resulting in reduced EPS guidance. Without this change in product mix, our EPS would have remained at or above our earlier range.

This concludes our formal comments.

