## PARTICIPANTS

### Corporate Participants

**Kerri R. Thurston** – Manager-Investor Relations
**Clifton A. Pemble** – President, Chief Operating Officer and Director
**Kevin S. Rauckman** – Chief Financial Officer and Treasurer

## MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Garmin Limited Third Quarter 2011 Earnings Conference Call. Today's call is being recorded. At this time I would like to turn the call over to Ms. Kerri Thruston. Please go ahead, ma'am.

### Kerri R. Thurston, Manager-Investor Relations

Thank you and good morning, everyone. We'd like to welcome you to Garmin Limited's Third Quarter 2011 Earnings Call. Please note that a copy of the press release concerning this earnings call is available on Garmin's Investor Relations site on the Internet at www.garmin.com/stock.

Additionally this call is being broadcast live on the Internet. Please note that this webcast does include slides, which can be viewed during the call. An archive of the webcast will be available until December 2 and a transcript of the call will be available on the Web site shortly after the call.

This earnings call will include projections and other forward-looking statements regarding Garmin Limited and its businesses. Any statements regarding our future financial position, revenues, earnings, market share, 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 effecting Garmin. Information concerning the risk factors are contained in our Form 10-K for the year ended December 25, 2010 filed with the Securities and Exchange Commission.

Attending the call on behalf of Garmin this morning are Dr. Min Kao, Chairman and Chief Executive Officer; Cliff Pemble, President and Chief Operating Officer and Kevin Rauchman, 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 and Director

Thank you, Kerri, and good morning, everyone. As reported earlier this morning, Garmin's third quarter results included 13% revenue growth in our traditional segments of Aviation, Marine, Outdoor and Fitness. These segments contributed 42% of total revenue and 62% of total company income highlighting the strength of our diversified business model.

We achieved $667 million in consolidated revenue, which is down 4% year-over-year as declining revenues in PND were offset by revenues from acquisitions, favorable product mix and growth in our traditional segments.

Our pro forma EPS came in at $0.71, which is up 1% from Q3 of last year as margins improved and the impact of revenue deferrals were slightly lower on a year-over-year basis. Kevin will provide additional details on this shortly.

We sold 3.5 million units in the quarter, down 9% from Q3 of last year, driven primarily by lower unit deliveries in Auto/Mobile. In addition, we generated $174 million in free cash flow during the quarter. Offsetting this was a dividend payment of $155 million and net cash paid for acquisitions of $53 million resulting in cash and marketable securities balance of over $2.4 billion. Next, we'll take a closer look at the third quarter performance by segment as well as a market and product update for each one.

Looking first at the Marine segment, revenue grew 4% in a seasonally weak quarter. The Americas market was essentially flat while EMEA and APAC experienced modest growth. Margins in the segment compressed further as we increased investments in R&D and added additional infrastructure to support our growing OEM presence.

Our GPSMAP Chartplotter system continues to gain share in an otherwise challenging market. In one recent and visible example, Garmin was named the official supplier of marine navigation, communication and sensor equipment to the 34th Annual America's Cup. A wide range of Garmin products are being used to manage the course and to track and dispatch the support fleet. We are pleased to be part of this legendary marine racing event.

Turning next to Aviation, revenue grew 18%, exceeding our expectations on the strength of new retrofit product introductions. While market conditions in the OEM category remained challenging, we did experience a slight increase in OEM equipment deliveries, which contributed to the growth.

Operating income increased 20%, as revenue growth exceeded growth in expenses. We continued to invest in the development of our new cockpit systems and to certify those systems on additional Part 23 and Part 25 airframes.

I'm pleased to report that we've made additional progress in securing future business in the Part 23 and Part 25 business jet market. As recently announced, Garmin has been selected as the avionics provider for two additional business jets from Cessna; the Part 23 M2 and the Part 25 Latitude. The M2, which replaces the existing CJ1, features our G3000 cockpit system, and at the recent NBAA show, Cessna introduced the all new Latitude mid-size business jet, which will include our G5000 integrated cockpit system.

Also in the quarter, we introduced the newest aera portable touchscreen navigators. The aera 795 and the 796 deliver premium features and capabilities that only can be experienced with a dedicated device. We are delighted with the response to the new aera products, as initial demand has exceeded our expectations.

As mentioned earlier, OEM market conditions remain soft, and we don't expect to see any change due to the uncertainties caused by the economic and political environment affecting aviation. However, we are pleased with our performance to date, as both revenue and operating income have exceeded our expectations. And we feel we are on track to meet or achieve the targets for the segment for the full year.

In the Outdoor segment revenue grew 5%, which includes contributions from the recent acquisition of Tri-Tronics. While this might seem to indicate that the outdoor market is softer than expected, growth was restrained due to the limited availability of new products. We expect this situation to improve in the fourth quarter, which will result in higher growth rates for the year.

Sharing a few product highlights for the segment, the Approach S1 golf watch has exceeded our expectations, as customers have embraced the functionality andform factor of this unique device.

We now offer the S1 in white in order to increase the appeal of the device to a broader range of customers. Our high-end Montana handheld series is resonating well with customers as it offers more advance features and versatility than any other GPS in the market today. And finally, our updated Astro Dog Tracker and Rino 2-Way radios have experienced robust demand, which is expected to continue throughout the fall hunting season.

The Fitness segment continues to deliver strong performance with revenues up 29% in Q3. Operating income also grew at a much slower rate of 3% as we have been investing to further solidify our brand and fuel future growth by increasing our research and development activities. Our high-end products continue to be the catalyst for growth as the Forerunner 610 and Edge 800 are out-performing expectation.

We recently introduced products that further expand growth opportunities. First, the Forerunner 910XT is designed with the triathlete in mind and builds off the success of our 310XT by adding sophisticated swim metrics, an improved form factor and an on-board barometric altimeter.

For the cycling market, we introduced the Edge 200 and our Vector Power Solution. The Edge 200 brings the basics; speed, distance, time and calories to the cycling market at a value price point without sacrificing style or ease of use. The Vector is a revolutionary pedal-based power solution that offers advanced features, ease of installation and value not previously available to the cycling market. The Vector was recently demonstrated at major American and European bike shows and received an enthusiastic response from the market. We anticipate delivery of the Vector will begin in March of 2012.

While we are aware of the large number of competitors that have recently entered the fitness market, we believe we have successfully demonstrated our leadership in the GPS enabled fitness category. We intend to keep our position through continued innovation, a broad range of product offerings that appeal to a range of customers from the casual to elite athlete and by offering our products through a well-developed distribution and retail network.

In our Auto/Mobile segment, we experienced another quarter of strong market share performance with 60% plus share in the U.S. and mid 30% share in key European markets. Our market share in EMEA continues to increase as Garmin-branded unit deliveries were flat compared to Q3 of 2010 against the backdrop of a declining market pointing to increased market share. When adding Navigon's contribution, our total unit deliveries in the EMEA increased 13%. Growth we experienced in Europe was offset by declines in the rest of the world.

Operating margin improved to 15% driven by product mix and an update to our deferred revenue model associated with certain bundled products. When excluding the effects of deferred revenues, operating margin for the quarter was 18%. Revenue declined at a rate of 13% in the quarter, but was ahead of our expectations as ASPs remained stable. ASP stability has been driven by an improved product mix offset by declines in pricing for comparable products on a year-over-year basis.

In anticipation of the holiday season, we introduced a totally redesigned family of nüvi products. This new product series offer something for every lifestyle and budget beginning with the Essential series, followed by the Advanced series and finally the Prestige series. Enhancements included a full rollout of our exclusive PhotoReal Junction View content, which displays realistic road signs and junctions along the route. We also introduced subscription-free 3D Traffic offering a combination of real-time traffic data and historical trends delivered through a high-speed data link to create the best routing experience available.

As we enter the fourth quarter we expect the market to continue on a similar trajectory as Q3, with the U.S. market down approximately 20% and EMEA declining 10%. We expect to outperform the market based on share gains year-over-year, particularly in Europe, where we have additional room to grow.

In the OEM category, we had additional announcements in the quarter; Navigon has been selected by Volkswagen to be the exclusive navigation provider for the new Volkswagen Up compact vehicle. In addition, the nüvi 2390 connected PND was selected by Suzuki for the 2012 Grand Vitara and SX4.

We showcased our OEM system capabilities at the recent ITS World Congress, where we unveiled a concept vehicle with our own integrated Infotainment system. This new system features an innovative touch-sensitive controller and a compelling user interface that offers significantly improved ease-of-use and safety. We are pleased with the feedback received from the ITS show, and will be demonstrating our concept vehicle to automakers in the coming months.

Finally, I'd like to update you on our outlook for the remainder of the year. In light of the moderation of deferrals associated with the PND products and the solid performance of our traditional segments, we now expect to finish the year with revenue of $2.6 billion, which is at the high end of our previous range. We are also increasing our EPS projection to the range of $2.30 to $2.40. Kevin will provide additional details in a moment.

That concludes my remarks. Kevin will now provide the financial overview and additional details. Kevin?

**Kevin S. Rauckman, Chief Financial Officer and Treasurer**

Thank, Cliff. Good morning, everyone. And I will just jump right in and start to cover some additional details, starting with the income statement for the third quarter.

You saw that we posted a revenue of $667 million for the quarter with net income of $150 million. And our pro forma EPS was $0.71 per share and this excludes the $15 million foreign currency gain, which is an increase of 1% over prior year.

The revenues represent a decrease of 4% year-over-year. Gross margins came in better than expected at 51.6%, which was a 200 basis point improvement from the prior year. Operating margin was 22.1%, down 200 basis points from 24.1% last year. And the margin was primarily driven by the gross margin favorability of 200 basis points. Advertising was 60 basis points favorable and down $6 million on a year-over-year basis. Our SG&A costs were 370 basis points unfavorable, up $22 million on a year-over-year basis, due primarily to the acquisitions during the quarter. And R&D came in 90 basis points unfavorable up $4 million on a year-over-year, again, due to the acquisitions in our company.

The pro forma EPS of $0.71, as I mentioned, represents a 1% year-over-year increase on improved gross margins and a lower tax rate. Units shipped during the quarter were down 9% year-over-year as 3.5 million units were delivered. And finally, the total average selling price across our business was $193 per unit, which is actually up from $182 in the prior year due to segment mix.

On a pro forma basis, the non-GAAP measures that we reported represented income per share excluding the effects of foreign currency translation and a one-time tax adjustment that we booked in the third quarter of last year. Q3 2011 GAAP impact from foreign currency gain was $0.06 and a third quarter 2010 GAAP impact from foreign currency gain was $0.14 with an additional $0.59 that was related to this large one-time tax adjustment.

According to U.S. GAAP, we must defer revenue on certain products, and this table summarizes the net impact of the deferral and amortization of revenue and related costs in the third quarter of 2011 and 2010.

In the third quarter we deferred approximately $0.08 of EPS into future periods, compared to $0.10 in the third quarter of 2010. Most of these revenues and costs will be amortized, straight line over a three-year period. While we are deferring revenue according to U.S. GAAP, we're collecting the cash at time of the sale, which is reflected positively in the statement of cash flows.

As Cliff mentioned, we did have a change in the amount of revenue and cost deferred per unit during Q3. This occurred primarily in response to the price difference between bundled and unbundled products shrinking during Q3. The impact of this change in estimate in the current quarter was an increase in gross profit of $17.8 million and a diluted EPS impact of $0.07.

Moving next to our revenues by segment. In total, revenues decreased, as I mentioned, 4% during the quarter. Cliff has highlighted the primary drivers by segment. I would only add that the trends in each segment have been relatively consistent throughout the year, as evidenced by our third quarter performance compared to year-to-date results. We continue to gain share in both the Marine and Aviation segments despite declines in those industries.

During the third quarter, growth of 19% in EMEA was offset by a 15% revenue decline in North America due to the declining PND market and a 10% decline in APAC. The APAC decline was driven by timing and product mix in PNDs as well as the $5 million of mobile handset shipments that we recorded in the third quarter of 2010. We do expect that the APAC market will recover in Q4.

Americas represented 53% of revenue in the third quarter of 2011 compared to 60% in Q3 2010. And EMEA increased from 31% to 39% of total revenue. Asia was consistent at 9% year-over-year.

The Auto/Mobile segment represented 58% of our total revenues during Q3, down from 64% in 2010. While the Auto/Mobile segment represents 58% of our total revenue during the quarter, it represented only 38% of the operating income due to the lower margin profile of the segment. This compared to 40% in the second quarter of 2010.

Aviation and Fitness continued to grow, with their operating income contribution representing 14% and 13%, respectively. And Outdoor continues to be a strong contributor with 44% operating margins.

Looking next at the margins by segment, our third quarter Auto/Mobile gross margin and operating margin were 44% and 15% respectively. The year-over-year improvement in gross margins was primarily driven by a reduction in per-unit costs and a slightly lower impact from a deferral of gross profit as previously discussed. Operating margins in the quarter were 15% or 18% when adjusted for deferrals, and this is consistent with the third quarter of 2010.

Our third quarter Outdoor gross margin was 66% down from 69% last year due to product mix. Operating margins, as I mentioned, were 44%, a decline from 53% in the year-ago quarter due to the gross margin decline and increased operating expenses within the Outdoor segment.

Q3 Fitness gross margin was 60%, stable from the year-ago quarter. Operating margin was 30%, a decline from 37% in the year-ago quarter due to increased advertising and R&D costs, and the allocation of SG&A costs amongst the segments.

Q3 Marine gross margin was 55% compared to 60% in the year-ago quarter as our product mix shifted more toward lower margin fish finders. Operating margin was 21%, down from 34% a year ago, driven by our gross margin decline and increased R&D and SG&A expenses to support our long term Marine OEM strategy.

And finally the Q3 Aviation gross margin came in at 66% down from 70% in Q3 2010 due to mix shifts toward our retrofit products. Operating margin was 27% for the quarter flat from 27% in the prior year due to our operating expense leverage with 18% revenue growth and a reduction in our bad debt reserve following payment from a major customer in the segment.

Looking next at our operating expenses, Q3 OpEx increased by $20 million on a year-over-year basis from $177 million last year to $197 million in Q3 2011. This is an increase of 400 basis points as a percentage of sales. A large part of the increase was due to acquisitions since the third quarter of last year, as I will highlight in a few minutes.

R&D increased $4 million year-over-year in the third quarter, 90 basis points, to 11% of sales as head count increased with our recent acquisitions.

Our ad spending decreased $6 million over the year-ago quarter and decreased 60 basis points as a percentage of sales to 5% in Q3, 2011.This reduction was largely driven by reduced cooperative advertising, which is volume dependent, and a reduction in our media spend offset by about $3 million of additional costs associated with our acquired entities.

SG&A increased $22 million compared to the year-ago quarter and increased by 370 basis points to 13% of sales. The absolute dollar increase in SG&A is primarily related to the following:

- acquisitions were $10 million increase total with $6 million recurring and $4 million related to the restructuring at Navigon.
- We saw commissions increase $2.6 million primarily related to new web-based sales initiatives.
- Our product support costs increased $1.5 million.
- We had an update to our allocation methodology, which moved $3.2 million more into SG&A,
- and our legal fees were $1.3 million for acquisition-related fees and the defense of patents in the business.

Moving next to the balance sheet. We ended the quarter with cash and marketable securities of over $2.4 billion. Our accounts receivable increased sequentially to $519 million as sales in the quarter were more weighted to the back half. Accounts receivable accounted for approximately 74 days of sales when calculated on a trailing four quarters compared to 64 days in the third quarter of 2010.

Our inventory balance has increased to $461 million on a sequential basis heading into a seasonally strong fourth quarter, but declined year-over-year from $494 million. Our days of inventory metric was 125 days, compared to 140 days in the third quarter of 2010.

We ended the quarter with the following amounts and number of days of inventory: $149 million in raw materials, or 38 days; $55 million in work in process and assemblies, or 15 days of inventory; $283 million in finished goods, or 72 days and we ended the quarter with $26 million in inventory reserves.

We now show a $233 million dividend payable on our balance sheet following the payment of the first dividend installment of $155 million on the 30th of June. We did pay an additional $78 million on September 30 after our Q3 closing.

And we continue to generate strong cash flow across our businesses. Cash from operations was $186 million during Q3. CapEx was $12 million during the quarter and we generated free cash flow during Q3 of $174 million.

  

Cash flow invested during Q3 was $50 million including the $12 million fromCapEx, $59 million in acquisitions and intangibles offset by $21 million net redemption of our marketable securities. Financing activities was $153 million use of cash due to the dividend payment, and overall, we earned an average of 1.4% on all cash and marketable securities balances.

We expect our strong cash flow generation to continue into our seasonally strong Q4. We will continue to use a portion of the cash flow to fund the dividend going forward. Acquisitions in adjacent niche markets, or tuck-in technologies, which fit our core markets, continue to be a focus. As has been Garmin's practice, acquisitions will be evaluated by technology, values compatibility and strategic fit within Garmin.

Our tax rate for Q3 was 14.1%. We expect the 2011 rate to be approximately 12%. The reduced effective tax rate is attributable to a change in methodology for uncertain tax positions reserves following our favorable audits in both 2010 and 2011.

And finally, I wanted to review our full year guidance. As Cliff mentioned earlier, in light of the moderation of deferrals associated with PND products and the solid performance of our traditional segments, we now expect to finish the year with revenue of $2.6 billion, which is at the high end of our previous range. We also expect gross and operating margins to increase to 47% to 48% and 18% to 19%, respectively and given an effective tax rate for the year of 12%, this leads to an expected EPS range of $2.30 to $2.40, which represents a $0.25 to $0.30 increase from our prior guidance.

This concludes our formal comments. We will now open the lines for Q&A, so join the Q&A line when you're ready.