

STATUTORY FINANCIAL STATEMENTS

Garmin Ltd. (Switzerland)

Years Ended December 29, 2018 and December 30, 2017

To the General Meeting of  
Garmin Ltd., Schaffhausen

Zurich, February 20, 2019

## 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 31, 2017 to December 29, 2018.



### 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 31, 2017 to December 29, 2018 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 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 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 29, 2018, the investment in affiliated companies of Garmin Ltd. amounts to CHF 6,567 million and represents 95% 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 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 indicators of impairment. We evaluated the Company's assessment and corroborated key elements 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

**Enclosures**

- ▶ Financial statements (balance sheet, statement of income and notes)
- ▶ Proposal regarding the appropriation of available earnings

Garmin Ltd.

Statutory Financial Statements

Years Ended December 29, 2018 and December 30, 2017

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Garmin Ltd.

Balance Sheet

(CHF in thousands)

	<b>December 29, 2018</b>	<b>December 30, 2017</b>
<b>Assets</b>		
- Cash and cash equivalents	100,619	416
- Accounts receivable - affiliates	423	292
- Other receivables - third party	21	12
- Prepaid expenses	228	-
Total current assets	<u>101,291</u>	<u>720</u>
- Loans receivable - affiliates	277,024	172,208
- Investment in affiliated companies	6,567,262	7,457,058
Total non-current assets	<u>6,844,286</u>	<u>7,629,266</u>
Total assets	<u><b>6,945,577</b></u>	<u><b>7,629,986</b></u>
<b>Liabilities and shareholders' equity</b>		
- Accounts payable	563	512
- Accounts payable - affiliates	23,419	13,364
- Provision for unrealized translation gains	38,397	25,508
- Dividend payable from capital contribution reserve	197,155	93,295
Total current liabilities	<u>259,534</u>	<u>132,679</u>
- Accrued expenses	531	30
- Long-term interest-bearing loans - affiliates	-	400,691
Total non-current liabilities	<u>531</u>	<u>400,721</u>
Total liabilities	<u>260,065</u>	<u>533,400</u>
Share capital	19,808	19,808
Legal capital reserves		
- Reserve from capital contribution	6,044,208	6,349,717
- Reserve for treasury shares from capital contribution	385,431	448,427
- Other capital reserves	68	68
Voluntary retained earnings		
- Dividend reserve from capital contribution	158,677	183,096
- Available earnings		
- Balance brought forward	95,470	117,912
- Net earnings (loss) for the year	(18,150)	(22,442)
Total shareholders' equity	<u>6,685,512</u>	<u>7,096,586</u>
Total liabilities and shareholders' equity	<u><b>6,945,577</b></u>	<u><b>7,629,986</b></u>

Garmin Ltd.

Statement of Income

(CHF in thousands)

	<b>Fiscal Year Ended December 29, 2018</b>	<b>Fiscal Year Ended December 30, 2017</b>
Dividend income - affiliates	890,167	439,181
- General and administrative expenses	(11,969)	(10,896)
- General and administrative expenses - affiliates	(12,064)	(11,269)
- Advertising expense	(179)	(231)
Operating expenses	<u>(24,212)</u>	<u>(22,396)</u>
Impairment on investment in affiliated companies	(889,796)	(439,181)
Financial result		
- Interest income	-	41
- Interest income - affiliates	9,590	7,025
- Interest expense - affiliates	(1,861)	(7,926)
- Foreign currency gains (losses)	(2,038)	814
Total financial result	<u>5,691</u>	<u>(46)</u>
Net earnings (loss)	<u>(18,150)</u>	<u>(22,442)</u>

# Garmin Ltd.

## Notes to Statutory Financial Statements

December 29, 2018 and December 30, 2017

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

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

#### **General aspects**

Garmin Ltd. (the “Company”) is the parent company of the Garmin Group and has its registered office at Mühlentalstrasse 2, 8200 Schaffhausen, Switzerland. The Company did not have any employees at December 29, 2018 and December 30, 2017.

#### **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 29, 2018 included 52 weeks and December 30, 2017 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, plus

- amounts from share capital reallocated to the reserve from capital contribution following par value reductions and share cancellations,

less

- the dividends from capital contribution distributed to date
- amounts expected to be distributed (dividend payable from capital contribution)
- amounts reallocated to the reserve for treasury shares from capital contribution and
- the dividend reserve from capital contribution.

### **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 29, 2018 and December 30, 2017 amounted to CHF 4,737 and CHF 3,503, 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 Switzerland Distribution GmbH	Switzerland	100%		100%	

The investment in directly and material indirectly held affiliated companies is the same for the years ended December 29, 2018 and December 30, 2017.

### 3. Shareholders' equity

	Legal capital reserves				Voluntary retained earnings			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 31, 2016	19,808	6,739,932	428,248	68	182,759	143,108	(25,196)	7,488,727
Balance brought forward						(25,196)	25,196	-
Release of amounts to dividend payable from reserve from capital contribution (2015 dividend)		1,438						1,438
Release of dividend reserve from capital contribution (2016 dividend)		182,759			(182,759)			-
Net movement in reserve for treasury shares from capital contribution		(20,179)	20,179					-
Release to dividend reserve from capital contribution (2016 dividend)		(554,233)			554,233			-
Dividend payments (2016 dividend)					(277,842)			(277,842)
Dividend payable at year-end (2016 dividend)					(93,295)			(93,295)
Net earnings (loss) for the year							(22,442)	(22,442)
Balance as of December 30, 2017	19,808	6,349,717	448,427	68	183,096	117,912	(22,442)	7,096,586
Balance brought forward						(22,442)	22,442	-
Release of amounts to dividend payable from reserve from capital contribution (2016 dividend)		1,294						1,294
Release of dividend reserve from capital contribution (2017 dividend)		183,096			(183,096)			-
Net movement in reserve for treasury shares from capital contribution		62,996	(62,996)					-
Release to dividend reserve from capital contribution (2017 dividend)		(552,895)			552,895			-
Dividend payments (2017 dividend)					(197,063)			(197,063)
Dividend payable at year-end (2017 dividend)					(197,155)			(197,155)
Net earnings (loss) for the year							(18,150)	(18,150)
Balance as of December 29, 2018	19,808	6,044,208	385,431	68	158,677	95,470	(18,150)	6,685,512

The summary of the components of authorized shares at December 29, 2018, December 30, 2017, and December 31, 2016 and changes during those years are as follows:

	Outstanding Shares	Treasury Shares Held by Affiliates	Issued Shares	Shares Authorized but not Issued <sup>3</sup>	Conditional Capital <sup>2</sup>
December 31, 2016	188,564,891	9,512,527	198,077,418 <sup>1</sup>		99,038,709
Treasury shares purchased	(1,699,115)	1,699,115			
Treasury shares issued for stock based compensation	1,323,640	(1,323,640)			
December 30, 2017	188,189,416	9,888,002	198,077,418 <sup>1</sup>	-	99,038,709
Treasury shares purchased	(263,997)	263,997			
Treasury shares issued for stock based compensation	1,535,936	(1,535,936)			
Additional shares authorized				39,615,483	
December 29, 2018	189,461,355	8,616,063	198,077,418 <sup>1</sup>	39,615,483	99,038,709

<sup>1</sup> Shares at CHF 0.10 par value

<sup>2</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>3</sup> The Shareholders approved at the Annual Meeting an amendment of the Articles of Association of the Company

to authorize the Board of Directors at any time until June 8, 2020 to increase the share capital in an amount not to exceed CHF 3,961,548.30 through the issuance of up to 39,615,483 fully paid-in registered shares with a nominal value of CHF 0.10 each.

#### 4. Treasury Shares

At December 29, 2018 and December 30, 2017, the Company's Affiliates held 8,616,063 and 9,888,002 treasury shares, respectively. The average cost of all treasury shares held by Affiliates at December 29, 2018 and December 30, 2017 amounts to CHF 45 and CHF 45, respectively.

	Carrying value (CHF in thousands)	Number of shares held by affiliates	Average cost (CHF)
Balance as of December 31, 2016	428,248	9,512,527	45
Acquired	86,334	1,699,115	51
Treasury stock used for stock based compensation	(66,155)	(1,323,640)	50
Balance as of December 30, 2017	448,427	9,888,002	45
Acquired	16,224	263,997	61
Treasury stock used for stock based compensation	(79,220)	(1,535,936)	52
Balance as of December 29, 2018	385,431	8,616,063	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 total amount of these guarantees at December 29, 2018 and December 30, 2017 were CHF 15,440 and CHF 15,538 respectively.

## 6. Significant Shareholders

As of December 29, 2018, and December 30, 2017, 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. 29, 2018</u>	<u>Percentage at Dec. 30, 2017</u>
Jonathan Burrell	11.47% <sup>2</sup>	13.15% <sup>1</sup>
Karuna Resources Ltd./Ruey-Jeng Kao	5.14%	5.14%
Min H. Kao, Ph.D.	13.71% <sup>4</sup>	19.41% <sup>3</sup>
BlackRock, Inc.	6.08% <sup>5</sup>	5.69%
The Vanguard Group	6.44% <sup>5</sup>	5.23%

<sup>1</sup> Includes (a) 3,930,870 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, (b) 8,720,050 shares held in three Charitable Lead Annuity Trusts, over which shares Jonathan Burrell has the sole voting and dispositive power, (c) 3,000,000 shares held in a limited liability company, over which shares Jonathan Burrell has sole voting and dispositive power, and (d) 10,351,200 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 (a) 2,637,470 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, (b) 8,413,050 shares held in three Charitable Lead Annuity Trusts, over which shares Jonathan Burrell has the sole voting and dispositive power, and (c) 11,644,600 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>3</sup> Includes 24,332,539 shares held by revocable trusts established by Dr. Kao's children, over which Dr. Kao has shared voting and dispositive power. Also includes 5,207,824 shares that are held by a revocable trust established by Dr. Kao's wife, over which Dr. Kao does not have any voting or dispositive power. Dr. Kao disclaims beneficial ownership of the 5,207,824 shares held in his wife's trust.

<sup>4</sup> Includes (a) 20,332,539 shares held by revocable trusts established by Dr. Kao's children, over which Dr. Kao has shared voting and dispositive power; (b) 67,869 shares held by the Kao Family Foundation, a charitable foundation over which Dr. Kao and members of his family may be deemed to have voting and dispositive power; and (c) 4,962,824 shares 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 shares described in clauses (b) and (c) of the preceding sentence.

<sup>5</sup> Ownership percentage is calculated using the most current available filings on Form 13F.

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 29, 2018 or December 30, 2017.

## 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:

2018		2017	
Quantity	Value in CHF	Quantity	Value in CHF
10,376	586,820	10,432	492,256

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

As of December 29, 2018 and December 30, 2017, 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. 29, 2018</u>	<u>Total number of shares held at Dec. 30, 2017</u>
Jonathan Burrell, Chair of Nominating and Corporate Governance Committee, Member of Compensation Committee <sup>1</sup>	22,725,120 <sup>2</sup>	-
Donald H. Eller, Ph.D., Former Member of Compensation Committee and Former Chair of Nominating and Corporate Governance Committee <sup>3</sup>	-	446,783
Joseph Hartnett, Chair of Compensation Committee, Member of Audit Committee and Nominating and Corporate Governance Committee	9,266	6,799
Min H. Kao, Ph.D., Executive Chairman	27,162,661 <sup>5</sup>	38,450,917 <sup>4</sup>
Charles W. Peffer, Chair of Audit Committee, Member of Compensation Committee and Nominating and Corporate Governance Committee	18,868	16,655
Clifton A. Pemble, President & Chief Executive Officer	- <sup>6</sup>	- <sup>6</sup>
Rebecca R. Tilden, Member of Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee	2,274	811
Total	<u>49,918,189</u>	<u>38,921,965</u>

<sup>1</sup> Mr. Burrell was elected as a Director at the Annual General Meeting of Garmin Ltd. shareholders on June 8, 2018 and became Chair of the Nominating and Corporate Governance Committee on October 26, 2018.

<sup>2</sup> Includes (a) 2,637,470 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, (b) 8,413,050 shares held in three Charitable Lead Annuity Trusts, over which shares Jonathan Burrell has the sole voting and dispositive power, and (c) 11,644,600 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>3</sup> Mr. Eller ceased being a Director when his term expired on June 8, 2018.

<sup>4</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>5</sup> Includes (a) 20,332,539 shares held by revocable trusts established by Dr. Kao's children, over which Dr. Kao has shared voting and dispositive power; (b) 67,869 shares held by the Kao Family Foundation, a charitable foundation over which Dr. Kao and members of his family may be deemed to have voting and dispositive power; and (c) 4,962,824 shares 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 shares described in clauses (b) and (c) of the preceding sentence.

<sup>6</sup> Shares held by Mr. Pemble are shown in the Executive Management disclosure below.

As of December 29, 2018 and December 30, 2017, 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. 29, 2018</u>	<u>Total number of shares held at Dec. 30, 2017</u>
Douglas G. Boessen, Chief Financial Officer & Treasurer	14,874	8,871
Clifton A. Pemble, President & Chief Executive Officer	83,837	75,017
Total	<u>98,711</u>	<u>83,888</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 25.25 and 19.69 percent of the Company's total shares issued as of December 29, 2018 and December 30, 2017, 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 29, 2018 and December 30, 2017, respectively.

**Outstanding Equity Awards at December 29, 2018**

Name and Function	Stock Awards <sup>1</sup>
Jonathan Burrell <sup>2</sup> Member of the Board and Compensation Committee, Chair of Nominating and Corporate Governance Committee	2,594
Joseph Hartnett Member of the Board, Audit Committee and Nominating and Corporate Governance Committee, Chair of Compensation Committee	5,414
Charles Peffer Member of the Board, Compensation Committee and Nominating and Corporate Governance Committee, Chair of Audit Committee	5,414
Rebecca Tilden Member of the Board, Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee	5,414
Total	18,836

<sup>1</sup> Represents restricted stock units.

<sup>2</sup> Mr. Burrell was elected as a Director on June 8, 2018, and became Chair of the Nominating and Corporate Governance Committee on October 26, 2018.



**Outstanding Equity Awards at December 30, 2017**

<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	18,567	5,772
Joseph Hartnett Member of the Board and Audit, Compensation and Nominating Committees, Chairman of Compensation Committee	-	5,772
Charles Peffer Member of the Board and Compensation and Nominating Committees, Chairman of Audit Committee	9,905	5,772
Rebecca Tilden Member of the Board, Audit, Compensation and Nominating Committees	-	4,772
	<hr/>	<hr/>
Total	<u>28,472</u>	<u>22,088</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 29, 2018 and December 30, 2017, respectively. Amounts in these tables are presented in CHF.

**Outstanding Equity Awards at December 29, 2018**

Name	Option Awards				Stock Awards	
	<i>Number of Securities Underlying Unexercised Options (#) Exercisable</i>	<i>Number of Securities Underlying Unexercised Options (#) Unexercisable</i>	<i>Option / SAR Exercise Price (CHF)</i>	<i>Option / SAR Expiration Date</i>	<i>Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)</i>	<i>Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (CHF) <sup>4</sup></i>
<b>Clifton A. Pemble</b>	27,532 <sup>(1)</sup>	6,883	51.66	12/15/24	5,490 <sup>(2)</sup>	339,743
<b>President &amp; Chief Officer</b>	38,492 <sup>(1)</sup>	-	48.34	12/10/23	11,024 <sup>(2)</sup>	682,209
					16,365 <sup>(2)</sup>	1,012,731
					5,967 <sup>(3)</sup>	369,262
					10,192 <sup>(3)</sup>	630,722
					17,763 <sup>(3)</sup>	1,099,245
	<u>66,024</u>	<u>6,883</u>			<u>66,801</u>	
<b>Douglas G. Boessen</b>	10,144 <sup>(1)</sup>	2,536	51.66	12/15/24	1,464 <sup>(2)</sup>	90,598
<b>Chief Financial Officer &amp; Treasurer</b>					2,450 <sup>(2)</sup>	151,616
					3,681 <sup>(2)</sup>	227,795
					1,927 <sup>(3)</sup>	119,250
					2,718 <sup>(3)</sup>	168,201
					5,328 <sup>(3)</sup>	329,718
	<u>10,144</u>	<u>2,536</u>			<u>17,568</u>	
<b>Total</b>	<u>76,168</u>	<u>9,419</u>			<u>84,369</u>	

<sup>1</sup> Represents stock appreciation rights.

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

<sup>3</sup> Represents time-based and performance-based vesting restricted stock units.

<sup>4</sup> Determined by multiplying the number of unearned shares by CHF 61.88, which was the closing price of Garmin shares on the Nasdaq stock market on December 28, 2018.

**Outstanding Equity Awards at December 30, 2017**

Name	Option Awards				Stock Awards		
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option / SAR 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>	45,260 <sup>(1)</sup>	-	41.12	12/10/22	6,437 <sup>(3)</sup>	373,981	
<b>President &amp; Chief Officer</b>	20,649 <sup>(2)</sup>	13,766	51.14	12/15/24	10,980 <sup>(3)</sup>	637,923	
	30,794 <sup>(2)</sup>	7,698	47.86	12/10/23	16,536 <sup>(3)</sup>	960,719	
					11,934 <sup>(4)</sup>	693,349	
					15,288 <sup>(4)</sup>	888,212	
	<u>96,703</u>	<u>21,464</u>			<u>61,175</u>		
<b>Douglas G. Boessen</b>	7,608 <sup>(2)</sup>	5,072	51.14	12/15/24	2,080 <sup>(3)</sup>	120,845	
<b>Chief Financial Officer &amp; Treasurer</b>					2,928 <sup>(3)</sup>	170,113	
					3,675 <sup>(3)</sup>	213,512	
					3,854 <sup>(4)</sup>	223,912	
					4,077 <sup>(4)</sup>	236,868	
	<u>7,608</u>	<u>5,072</u>			<u>16,614</u>		
<b>Total</b>	<u><u>104,311</u></u>	<u><u>26,536</u></u>			<u><u>77,789</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 58.10, which was the closing price of Garmin shares on the Nasdaq stock market on December 28, 2018.

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 29, 2018 or December 30, 2017.

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

During 2018, Garmin Ltd. received a dividend of CHF 889,796 from its Affiliates resulting in a reduction in the value of the investment in the Affiliates by the same amount. Consequently, the Company has recognized an impairment of CHF 889,796 in the value of its investments in affiliated companies. During 2017, Garmin Ltd. received a dividend of CHF 435,000 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 recognized an impairment of CHF 435,000 in the value of its investment in affiliated companies. During 2017, Garmin Ltd. received a liquidation dividend

of CHF 4,181 from Garmin New Zealand Holdings resulting in a full impairment of the investment.

#### **10. Subsequent events**

No significant events occurred subsequent to the balance sheet date but prior to February 20, 2019 that would have a material impact on the financial statements.

## Proposed Appropriation of Available Earnings

Balance brought forward from previous years	95,470
Net loss for the period (on a stand-alone unconsolidated basis)	(18,150)
Total available to the general meeting	77,320

Proposal of the Board of Directors for the appropriation of available earnings to the general meeting:	77,320
Balance to be carried forward	77,320

	Reserve from capital contribution	Reserve for treasury shares from capital contribution <sup>1</sup>	Dividend reserve from capital contribution
Balance as of December 29, 2018	6,044,208	385,431	158,677
Proposed release of reserve from capital contribution to dividend reserve from capital contribution	(600,598)		600,598
Balance to be carried forward	5,443,610	385,431	759,275

<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 2.28<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 direct or indirect subsidiaries.

CHF 600,598<sup>3</sup> shall be allocated to dividend reserves from capital contribution (the “Dividend Reserve”) from the reserve from capital contribution in order to pay such dividend of USD 2.28 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 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 2.28 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 29, 2018, with a total of 198,077,418 shares eligible for payout (based on the number of shares issued as at December 29, 2018), the aggregate Dividend Reserve would be CHF 600,598. The amount of the Dividend Reserve, calculated on the basis of the Company's issued shares as at December 29, 2018, 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 29, 2018. 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, and utilization of authorized capital.

STATUTORY CONSOLIDATED

FINANCIAL STATEMENTS

Garmin Ltd. (Switzerland)

Years Ended December 29, 2018 and December 30, 2017

To the General Meeting of  
Garmin Ltd., Schaffhausen

Zurich, February 20, 2019

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



### Opinion

As statutory auditor, we have audited the accompanying consolidated financial statements of Garmin Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 29, 2018 and December 30, 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, cash flows, and notes to the consolidated financial statements for each of the three years in the period ended December 29, 2018. In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 29, 2018 and December 30, 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 2018, in accordance with U.S. generally accepted accounting principles and comply with Swiss law.



### Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles 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 audits. We are a public accounting firm and are required to be independent with respect to the Group. We conducted our audits in accordance with Swiss law, Swiss Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States) (PCAOB). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error.

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.



### **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 – determination of transaction price and relative standalone selling price**

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**Area of focus** The Group enters into certain revenue arrangements that contain multiple separate performance obligations, such as hardware, software, and/or services, as well as reductions to revenue for customer sales programs 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 as well as customer returns. For these arrangements, the Group determines the transaction price, estimates relative standalone selling prices for the various performance obligations and allocates and recognizes revenue in accordance with general revenue recognition accounting guidance. Both the determination of the transaction price and of standalone selling prices is based on estimates and judgments using historical experience and expectation of future conditions. Refer to note 2 (Summary of Significant Accounting Policies, sections Revenue Recognition, Deferred Revenues and Costs, Recently Adopted Accounting Standards - Revenue from Contracts with Customers) and note 13 (Revenue) in the consolidated financial statements for further details.

Revenue recognition related to multiple performance obligations and sales programs is considered significant to our audit due to the materiality of the balance as well as complexity and judgment involved in the Group's methodologies to determine transaction prices and standalone selling prices. In addition, the Group adopted ASC 606 *Revenue From Contracts With Customers* in 2018.

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**Our audit response**

We gained an understanding of the Group's adoption of ASC 606 *Revenue From Contracts With Customers* and updated our understanding of the revenue recognition process, evaluated the design of controls in this area including any new controls implemented post-adoption of ASC 606 *Revenue From Contracts With Customers*. We tested the operation of key controls, including the precision set by management when performing controls involving the review of data used to develop the standalone selling price calculation for lifetime maps and extended warranties. We tested management's review of the estimate of standalone selling price for the lifetime map updates and the design and operation of IT processes, the application controls and the data and reports used in certain controls.

Our substantive procedures included a review of contracts, testing of the data used to develop the standalone selling price estimates, substantive analytical procedures to evaluate trends in the estimate throughout the period, evaluating and testing assumptions (including alternative assumptions) and judgments made by management (including the appropriateness of the method used) in the estimate of the standalone selling price, including any contrary evidence, and obtaining representations from various members of management regarding their awareness of anything that could affect current year revenue. We further assessed the completeness and accuracy of the revenue recognition related disclosures in the consolidated financial statements.

**Valuation of indefinite-lived intangible assets - Goodwill related to the auto PND reporting unit**

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**Area of focus** At December 29, 2018, the Group's goodwill related to the auto PND reporting unit was approximately \$80 million. As discussed in Note 2 of the consolidated financial statements, goodwill is tested for impairment at least annually at the reporting unit level (auto PND, auto OEM, aviation, marine, outdoor, and fitness). The Group's goodwill is initially assigned to its reporting units as of the acquisition date. The Group performed a step one quantitative goodwill impairment assessment of the auto PND reporting unit and disclosed in its consolidated financial statements that, considering the uncertainty of future operating results and/or market conditions deteriorating faster or more dramatically than the forecasts utilized in management's estimation of fair value, some or all of the approximately \$80 million of goodwill associated with the Group's auto PND reporting unit is at risk of future impairment.

Auditing management's annual goodwill impairment test for the auto PND reporting unit was complex and highly judgmental due to the significant estimation required in determining the fair value of the reporting unit. In particular, the fair value estimate was sensitive to significant assumptions such as the discount rate, projected future revenues, projected future operating margins, and terminal growth rates

which are affected by expectations about future market or economic conditions.

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**Our audit response**

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Group's auto PND goodwill impairment review process. For example, we tested controls over management's review of the quantitative analysis and the significant assumptions (e.g., discount rate, projected revenue growth rates, projected margins, terminal growth rates) used to develop the prospective financial information. We also tested management's controls to validate that the data used in the valuation was complete and accurate.

To test the estimated fair value of the Group's auto PND reporting unit, we performed audit procedures that included, among others, assessing methodologies and testing the significant assumptions discussed above and the underlying data used by the Group in its analysis. We utilized valuation specialists to review the Group's model, method, and certain assumptions such as the discount rate and terminal growth assumptions. We compared the significant assumptions used by management to current industry and economic trends, changes to the company's business model, forecasts used in the Group's annual operating plans and other relevant factors. We assessed the historical accuracy of management's forecast estimates and performed sensitivity analyses of significant assumptions to evaluate the changes in the fair value of the auto PND reporting unit that would result from changes in the assumptions. We compared the fair value of the reporting unit to its carrying value, testing the Group's determination of the assets and liabilities used within the reporting unit that are the basis for the carrying value.



**Report on other legal and regulatory requirements**

We are a public accounting firm registered with the Swiss Federal Audit Oversight Authority (FAOA) and the PCAOB and we confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA). We are independent with respect to the Group in accordance with Swiss law (article 728 CO and article 11 AOA) and U.S. federal securities laws as well as the applicable rules and regulations of the Swiss audit profession, the U.S. Securities and Exchange Commission and the PCAOB, and we have fulfilled our other ethical responsibilities in accordance with these requirements.



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.

We have served as the Group's auditor since 1990.

Ernst & Young Ltd

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

/s/ Siro Bonetti  
Licensed audit expert

**Enclosures**

- ▶ Consolidated financial statements (consolidated balance sheets as of December 29, 2018 and December 30, 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, cash flows and notes to the consolidated financial statements for each of the three years in the period ended December 29, 2018)

**Garmin Ltd. And Subsidiaries**  
**Consolidated Balance Sheets**  
*(USD in thousands, except per share information)*

	December 29, 2018	December 30, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,201,732	\$ 891,488
Marketable securities <i>(Note 3)</i>	182,989	161,687
Accounts receivable, less allowance for doubtful accounts of \$5,487 in 2018 and \$4,168 in 2017	569,833	590,882
Inventories	561,840	517,644
Deferred costs	28,462	30,525
Prepaid expenses and other current assets	120,512	153,912
Total current assets	2,665,368	2,346,138
Property and equipment, net		
Land and improvements	131,689	114,701
Building and improvements	539,177	482,794
Office furniture and equipment	264,818	246,107
Manufacturing equipment	162,077	156,119
Engineering equipment	154,742	141,321
Vehicles	20,991	21,115
	1,273,494	1,162,157
Accumulated depreciation	(609,967)	(566,473)
	663,527	595,684
Restricted cash <i>(Note 4)</i>		
	73	271
Marketable securities <i>(Note 3)</i>		
	1,330,123	1,260,033
Deferred income taxes <i>(Note 6)</i>		
	176,959	195,981
Noncurrent deferred costs		
	29,473	33,029
Intangible assets, net		
	417,080	409,801
Other assets		
	100,255	107,352
Total assets	\$ 5,382,858	\$ 4,948,289
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 204,985	\$ 169,640
Salaries and benefits payable	113,087	102,802
Accrued warranty costs	38,276	36,827
Accrued sales program costs	90,388	93,250
Deferred revenue	96,372	103,140
Accrued royalty costs	24,646	32,204
Accrued advertising expense	31,657	30,987
Other accrued expenses	69,777	93,652
Income taxes payable	51,642	33,638
Dividend payable	200,483	95,975
Total current liabilities	921,313	792,115
Deferred income taxes <i>(Note 6)</i>		
	92,944	76,612
Noncurrent income taxes		
	127,211	138,295
Noncurrent deferred revenue		
	76,566	87,060
Other liabilities		
	1,850	1,788
Stockholders' equity:		
Shares, CHF 0.10 par value, 198,077 shares authorized and issued, 189,461 shares outstanding at December 29, 2018; and 188,189 shares outstanding at December 30, 2017; <i>(Notes 9, 10, and 11):</i>		
	17,979	17,979
Additional paid-in capital		
	1,823,638	1,828,386
Treasury stock		
	(397,692)	(468,818)
Retained earnings		
	2,710,619	2,418,444
Accumulated other comprehensive income		
	8,430	56,428
Total stockholders' equity	4,162,974	3,852,419
Total liabilities and stockholders' equity	\$ 5,382,858	\$ 4,948,289

See accompanying notes.

**Garmin Ltd. And Subsidiaries**  
**Consolidated Statements of Income**  
*(USD in thousands, except per share information)*

	<b>Fiscal Year Ended</b>		
	<b>December 29, 2018</b>	<b>December 30, 2017</b>	<b>December 31, 2016</b>
Net sales	\$ 3,347,444	\$ 3,121,560	\$ 3,045,797
Cost of goods sold	<u>1,367,725</u>	<u>1,323,619</u>	<u>1,357,272</u>
Gross profit	1,979,719	1,797,941	1,688,525
Advertising expense	155,394	164,693	177,143
Selling, general and administrative expenses	478,177	437,977	410,558
Research and development expense	<u>567,805</u>	<u>511,634</u>	<u>467,960</u>
	<u>1,201,376</u>	<u>1,114,304</u>	<u>1,055,661</u>
Operating income	778,343	683,637	632,864
Other income (expense):			
Interest income	47,147	36,925	33,406
Foreign currency losses	(7,616)	(22,579)	(31,651)
Other income (expense)	<u>5,373</u>	<u>(912)</u>	<u>4,006</u>
	<u>44,904</u>	<u>13,434</u>	<u>5,761</u>
Income before income taxes	823,247	697,071	638,625
Income tax provision (benefit): <i>(Note 6)</i>			
Current	93,424	79,234	117,842
Deferred	<u>35,743</u>	<u>(91,170)</u>	<u>3,059</u>
	<u>129,167</u>	<u>(11,936)</u>	<u>120,901</u>
Net income	<u>\$ 694,080</u>	<u>\$ 709,007</u>	<u>\$ 517,724</u>
Basic net income per share <i>(Note 10)</i>	<u>\$ 3.68</u>	<u>\$ 3.77</u>	<u>\$ 2.74</u>
Diluted net income per share <i>(Note 10)</i>	<u>\$ 3.66</u>	<u>\$ 3.76</u>	<u>\$ 2.73</u>

*See accompanying notes.*

**Garmin Ltd. And Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
*(USD in thousands)*

	<b>Fiscal Year Ended</b>		
	<b>December 29, 2018</b>	<b>December 30, 2017</b>	<b>December 31, 2016</b>
Net income	\$ 694,080	\$ 709,007	\$ 517,724
Foreign currency translation adjustment	(31,965)	88,965	4,434
Change in fair value of available-for-sale marketable securities, net of deferred taxes	(15,581)	4,486	(11,029)
Comprehensive income	<u>\$ 646,534</u>	<u>\$ 802,458</u>	<u>\$ 511,129</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 26, 2015</b>	\$ 1,797,435	\$ 62,239	\$ (414,637)	\$ 1,959,125	\$ (30,428)	\$ 3,373,734
Net income	-	-	-	517,724	-	517,724
Translation adjustment	-	-	-	-	4,434	4,434
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	-	-	-	-	-	511,129
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)	\$ 2,092,220	\$ (37,023)	\$ 3,453,259
Net income	-	-	-	709,007	-	709,007
Translation adjustment	-	-	-	-	88,965	88,965
Adjustment related to unrealized gains (losses) on available-for-sale securities net of income tax effects of \$493	-	-	-	-	4,486	4,486
Comprehensive income	-	-	-	-	-	802,458
Dividends declared	-	-	-	(382,783)	-	(382,783)
Issuance of treasury stock related to equity awards	-	(52,581)	74,442	-	-	21,861
Stock compensation	-	44,735	-	-	-	44,735
Purchase of treasury stock related to equity awards	-	185	(12,773)	-	-	(12,588)
Purchase of treasury stock under share repurchase plan	-	-	(74,523)	-	-	(74,523)
<b>Balance at December 30, 2017</b>	\$ 17,979	\$ 1,828,386	\$ (468,818)	\$ 2,418,444	\$ 56,428	\$ 3,852,419
Net income	-	-	-	694,080	-	694,080
Translation adjustment	-	-	-	-	(31,965)	(31,965)
Adjustment related to unrealized gains (losses) on available-for-sale securities net of income tax effects of \$2,174	-	-	-	-	(15,581)	(15,581)
Comprehensive income	-	-	-	-	-	646,534
Dividends declared	-	-	-	(400,657)	-	(400,657)
Issuance of treasury stock related to equity awards	-	(61,139)	87,781	-	-	26,642
Stock compensation	-	56,391	-	-	-	56,391
Purchase of treasury stock related to equity awards	-	-	(16,655)	-	-	(16,655)
Reclassification under ASU 2016-16	-	-	-	(1,700)	-	(1,700)
Reclassification under ASU 2018-02	-	-	-	452	(452)	-
<b>Balance at December 29, 2018</b>	\$ 17,979	\$ 1,823,638	\$ (397,692)	\$ 2,710,619	\$ 8,430	\$ 4,162,974

See accompanying notes.



**Garmin Ltd. And Subsidiaries**  
**Consolidated Statements of Cash Flows**  
*(USD in thousands)*

	Fiscal Year Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
<b>Operating Activities:</b>			
Net income	\$ 694,080	\$ 709,007	\$ 517,724
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	64,798	59,895	55,796
Amortization	31,396	26,357	30,544
Gain on sale of property and equipment	(479)	(230)	(503)
Provision for doubtful accounts	2,123	1,021	4,136
Provision for obsolete and slow-moving inventories	24,579	31,071	26,458
Unrealized foreign currency losses	13,790	21,681	13,125
Deferred income taxes	38,978	(90,000)	3,745
Stock compensation expense	56,391	44,735	41,250
Realized losses (gains) on marketable securities	827	991	(822)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	5,167	(40,088)	9,000
Inventories	(82,316)	(38,575)	(2,455)
Other current and non-current assets	7,358	(21,608)	2,234
Accounts payable	40,628	(17,240)	(11,496)
Other current and non-current liabilities	(1,323)	5,627	44,766
Deferred revenue	(17,208)	(20,754)	(32,733)
Deferred costs	5,611	2,395	1,896
Income taxes payable	35,120	(13,443)	3,017
Net cash provided by operating activities	<u>919,520</u>	<u>660,842</u>	<u>705,682</u>
<b>Investing activities:</b>			
Purchases of property and equipment	(155,755)	(139,696)	(90,960)
Proceeds from sale of property and equipment	1,600	361	676
Purchase of intangible assets	(4,600)	(12,232)	(5,715)
Purchase of marketable securities	(403,181)	(587,656)	(905,089)
Redemption of marketable securities	283,603	635,311	957,350
Acquisitions, net of cash acquired	(29,170)	(90,471)	(77,945)
Net cash used in investing activities	<u>(307,503)</u>	<u>(194,383)</u>	<u>(121,683)</u>
<b>Financing activities:</b>			
Dividends	(296,148)	(382,976)	(481,452)
Tax benefit from issuance of equity awards	-	-	1,692
Proceeds from issuance of treasury stock related to equity awards	26,642	21,860	18,648
Purchase of treasury stock related to equity awards	(16,655)	(12,773)	(7,331)
Purchase of treasury stock under share repurchase plan	-	(74,523)	(93,233)
Net cash used in financing activities	<u>(286,161)</u>	<u>(448,412)</u>	<u>(561,676)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(15,810)</u>	<u>26,716</u>	<u>(8,656)</u>
Net increase in cash, cash equivalents, and restricted cash	310,046	44,763	13,667
Cash, cash equivalents, and restricted cash at beginning of year	<u>891,759</u>	<u>846,996</u>	<u>833,329</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 1,201,805</u>	<u>\$ 891,759</u>	<u>\$ 846,996</u>

See accompanying notes.

**Garmin Ltd. And Subsidiaries**  
**Consolidated Statements of Cash Flows (continued)**  
*(USD in thousands)*

	Fiscal Year Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
<b>Supplemental disclosures of cash flow information</b>			
Cash paid during the year for income taxes	<u>\$ 67,592</u>	<u>\$ 106,146</u>	<u>\$ 115,548</u>
Cash received during the year from income tax refunds	<u>\$ 6,122</u>	<u>\$ 3,806</u>	<u>\$ 4,275</u>
<b>Supplemental disclosure of non-cash investing and financing activities</b>			
(Decrease) increase in accrued capital expenditures related to purchases of property and equipment	<u>\$ (14,647)</u>	<u>\$ 13,864</u>	<u>\$ 2,154</u>
Change in marketable securities related to unrealized (depreciation) appreciation	<u>\$ (17,755)</u>	<u>\$ 4,979</u>	<u>\$ (12,123)</u>
Fair value of assets acquired	\$ 31,920	\$ 128,190	\$ 91,620
Liabilities assumed	(2,273)	(29,587)	(6,344)
Less: cash acquired	<u>(477)</u>	<u>(8,132)</u>	<u>(7,331)</u>
Cash paid for acquisitions, net of cash acquired	<u>\$ 29,170</u>	<u>\$ 90,471</u>	<u>\$ 77,945</u>

*See accompanying notes.*

**GARMIN LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(USD in thousands, except share and per share information)*  
*December 29, 2018 and December 30, 2017*

**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.

As previously announced and discussed below within the “Recently Adopted Accounting Standards” section of this footnote, effective beginning in the 2018 fiscal year, we adopted the requirements of Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), using the full retrospective method. All amounts and disclosures set forth in this Form 10-K reflect these changes. Further, as a result of the adoption of certain other accounting standards described below, effective beginning in the 2018 fiscal year, certain amounts in prior periods have been reclassified to conform to the current period presentation.

**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 2018 and 2017 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 \$47,327 and \$79,292 as of December 29, 2018 and December 30, 2017, 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 majority of the Company's consolidated foreign currency gain or loss is typically driven by the significant cash and marketable securities, receivables, and payables held in a currency other than the functional currency at a given legal entity. Net foreign currency losses recorded in results of operations were \$7,616, \$22,579, and \$31,651 for the years ended December 29, 2018, December 30, 2017, and December 31, 2016, respectively. The loss in fiscal 2018 was due primarily to the USD strengthening against the Euro and British Pound Sterling, offset by the USD strengthening against the Taiwan Dollar. The loss in fiscal 2017 was due primarily to the USD weakening against the Taiwan Dollar, which was partially offset by the USD weakening against the Euro and British Pound Sterling. 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.

### **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 share-based compensation awards has been reduced by the number of shares which could have been purchased from the proceeds of the exercise or release at the average market price of the Company's stock during the period the awards were outstanding. See Note 10.

### **Cash, Cash Equivalents, and Restricted Cash**

Cash and cash equivalents include cash on hand, operating accounts, money market funds, deposits readily convertible to known amounts of cash, 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. Restricted cash is reported separately from cash and cash equivalents on the consolidated balance sheets. See Note 4 for additional information on restricted cash.

The total of cash and cash equivalents and restricted cash balances presented on the consolidated balance sheet reconciles to the total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows.

### **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 21% and 24% of net sales annually since 2016. None of the Company's customers accounted for more than or equal to 10% of consolidated net sales in the years ended December 29, 2018, December 30, 2017, and December 31, 2016, respectively.

### 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 net realizable 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 29, 2018</u>	<u>December 30, 2017</u>
Raw materials	\$ 205,696	\$ 179,659
Work-in-process	96,564	75,754
Finished goods	259,580	262,231
Inventories	<u>\$ 561,840</u>	<u>\$ 517,644</u>

### Property and Equipment

Property and equipment are recorded at cost and typically 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	5-10
Vehicles	5

As required by the *Property, Plant and Equipment* topic of the FASB ASC, the Company reviews property and equipment assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group 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.

### Intangible Assets

At December 29, 2018, and December 30, 2017, the Company had patents, customer related intangibles and other identifiable finite-lived intangible assets recorded at a cost of \$330,532 and \$316,705, respectively. Identifiable, finite-lived intangible assets are amortized over their estimated useful lives on a straight-line basis

typically over three to ten years. Accumulated amortization was \$214,469 and \$193,886 at December 29, 2018 and December 30, 2017, respectively. Amortization expense on these intangible assets was \$21,796, \$20,863, and \$14,319 for the years ended December 29, 2018, December 30, 2017, and December 31, 2016, respectively. In the next five years, the amortization expense is estimated to be \$17,107, \$15,125, \$11,674, \$9,390, and \$8,452, respectively.

The Company's excess purchase cost over fair value of net assets acquired (goodwill) was \$301,017 at December 29, 2018, and \$286,982 at December 30, 2017.

	December 29, 2018	December 30, 2017
Goodwill balance at beginning of year	\$ 286,982	\$ 224,553
Acquisitions	16,768	58,332
Finalization of purchase price allocations and effect of foreign currency translation	(2,733)	4,097
Goodwill balance at end of year	<u>\$ 301,017</u>	<u>\$ 286,982</u>

The *Intangibles – Goodwill and Other* topic of the FASB ASC (ASC Topic 350) 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. ASC Topic 350 allows management to first perform a qualitative assessment (“step zero”) by assessing the qualitative factors of relevant events and circumstances at the reporting unit level to determine if it is necessary to perform the quantitative goodwill impairment test (“step one”). If factors indicate that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, then the step one assessment will be performed. If the fair value of the reporting unit is less than the carrying amount in step one, then goodwill impairment will be recognized, and the charge is determined through the “step two” analysis.

Each of the Company's operating segments (auto PND, auto OEM, aviation, marine, outdoor, and fitness) represents a distinct reporting unit. The auto PND market has declined in recent years as competing technologies have emerged and market saturation has occurred. This has resulted in periods of lower revenues and profits for the Company's auto PND reporting unit. Considering these qualitative factors, management performed a step one quantitative goodwill impairment assessment of the auto PND reporting unit in the fourth quarter of 2018. Management determined that the fair value of the reporting unit was substantially in excess of its carrying amount, and a step two analysis was therefore not performed. However, considering the uncertainty of future operating results and/or market conditions deteriorating faster or more drastically than the forecasts utilized in management's estimation of fair value, management believes some or all of the approximately \$80 million of goodwill associated with the Company's auto PND reporting unit is at risk of future impairment. Management concluded that no other reporting units are currently at risk of impairment.

The Company did not recognize any material goodwill or intangible asset impairment charges in 2018, 2017, or 2016.

## **Dividends**

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

On June 8, 2018, the shareholders approved a dividend of \$2.12 per share (of which, \$1.06 was paid in the Company's 2018 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 29, 2018	June 18, 2018	\$ 0.53
September 28, 2018	September 14, 2018	\$ 0.53
December 31, 2018	December 14, 2018	\$ 0.53
March 29, 2019	March 15, 2019	\$ 0.53

The Company paid dividends in 2018 in the amount of \$296,148, which included three dividend distributions in the fiscal year. Both the dividends paid and the remaining dividend payable were reported as a reduction of retained earnings.

On June 9, 2017, the shareholders approved a dividend of \$2.04 per share (of which, \$1.53 was paid in the Company's 2017 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, 2017	June 19, 2017	\$ 0.51
September 29, 2017	September 15, 2017	\$ 0.51
December 29, 2017	December 15, 2017	\$ 0.51
March 30, 2018	March 15, 2018	\$ 0.51

The Company paid dividends in 2017 in the amount of \$382,976, which included four dividend distributions in the fiscal year. Both the dividends paid and the remaining dividend payable were reported as a reduction of retained earnings.

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, which included five dividend distributions in the fiscal year. Both the dividends paid and the remaining dividend payable were reported as a reduction of retained earnings.

Approximately \$61,129 and \$304,674 of retained earnings was indefinitely restricted from distribution to stockholders pursuant to the laws of Taiwan at December 29, 2018 and December 30, 2017, respectively.

### **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 29, 2018. Available-for-sale securities are stated at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. At December 29, 2018 and December 30, 2017, cumulative unrealized net losses of \$38,897 and \$22,864, 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 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 upon the transfer of control of promised products or services to the customer in an amount that depicts the consideration the Company expects to be entitled to for the related products or services. For the large majority of the Company's sales, transfer of control occurs once product has shipped and title and risk of loss have transferred to the customer. The Company offers certain tangible products with ongoing services promised over a period of time, typically the useful life of the related tangible product. When we have identified such services as both capable of being distinct and separately identifiable from the related tangible product, the associated revenue allocated to such services is recognized over time. The Company generally does not offer specified or unspecified upgrade rights to its customers in connection with software sales.

For products that include tangible hardware that contains software essential to the tangible product's functionality and ongoing services identified as separately identifiable performance obligations, the Company allocates revenue to all performance obligations based on their relative standalone selling prices ("SSP"), with the



amounts allocated to ongoing services deferred and recognized over a period of time. These ongoing services primarily consist of the Company's contractual promises to provide personal navigation device (PND) users with lifetime map updates (LMU) and server-based traffic services. In addition, we provide map update services (map care) over a contractual period in certain hardware and software contracts with original equipment manufacturers (OEMs). The Company has determined that directly observable prices do not exist for LMU, map care, or server-based traffic, as stand-alone and unbundled unit sales do not occur on more than a limited basis. Therefore, the Company uses the expected cost plus a margin as the primary indicator to calculate relative SSP of the LMU, map care, and traffic performance obligations. The revenue and associated costs allocated to the LMU, map care, and/or the server-based traffic service are deferred and recognized ratably over the estimated life of the products of approximately 3 years for PNDs, or the estimated map care period in OEM contracts of 3-10 years as we believe our efforts related to providing these services are spread evenly throughout the performance period. In addition to the products listed above, the Company has offered certain other products with ongoing performance obligations including mobile applications, incremental navigation and/or communication service subscriptions, aviation database subscriptions, and extended warranties that are individually immaterial.

The Company records revenue net of sales tax and variable consideration such as trade discounts and customer returns. Payment is due typically within 90 days or less of shipment of product, or upon the grant of a given software license (as applicable). The Company records estimated reductions to revenue in the form of variable consideration 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. Cooperative advertising incentives payable to dealers and distributors are recorded as reductions of revenue unless we obtain proof of a distinct advertising service, in which case we record the incentive as advertising expense. 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, typically accrued for on a percentage of sales basis.

#### **Deferred Revenues and Costs**

At December 29, 2018 and December 30, 2017, the Company had deferred revenues totaling \$172,938 and \$190,200, respectively, and related deferred costs totaling \$57,935 and \$63,554, respectively.

Deferred revenue consists primarily of the transaction price allocated to performance obligations that are recognized over a period of time basis as discussed in the *Revenue Recognition* portion of this footnote. Billings associated with such items are typically completed upon the transfer of control of promised products or services to the customer and recorded to accounts receivable until payment is received. Deferred costs primarily refer to the royalties incurred by the Company associated with the aforementioned unsatisfied performance obligations, which are amortized over the same period as the revenue is recognized. The Company typically pays the associated royalties either monthly or quarterly in arrears, on a per item shipped or installed basis.

The Company applies a practical expedient, as permitted within ASC 340, to expense as incurred the incremental costs to obtain a contract when the amortization period of the asset that would have otherwise been recognized is one year or less.

#### **Shipping and Handling Costs**

Shipping and handling activities are typically performed before the customer obtains control of the good, and the related costs are therefore expensed as incurred. Shipping and handling costs are included in cost of goods sold in the accompanying consolidated financial statements.

## Product Warranty

The Company accrues for estimated future warranty costs at the time products are sold. 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 is 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, marine, and auto OEM products have a warranty period of two years or more from the date of installation. The Company's estimates of costs to service its warranty obligations are based on historical experience and management's expectations and judgments of future conditions. 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 accrual:

	Fiscal Year Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Balance - beginning of period	\$ 36,827	\$ 37,233	\$ 30,449
Accrual for products sold <sup>(1)</sup>	59,374	56,360	61,578
Expenditures	(57,925)	(56,766)	(54,794)
Balance - end of period	<u>\$ 38,276</u>	<u>\$ 36,827</u>	<u>\$ 37,233</u>

- (1) Changes in cost estimates related to pre-existing warranties are not material and aggregated with accruals for new warranty contracts in the 'accrual for products sold' line.

## Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense amounted to approximately \$155,394, \$164,693, and \$177,143 for the years ended December 29, 2018, December 30, 2017, and December 31, 2016, 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 typically expensed as incurred, amounted to approximately \$567,805, \$511,634, and \$467,960 for the years ended December 29, 2018, December 30, 2017, and December 31, 2016, 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 websites, e-mail and other electronic means, and providing free technical support assistance to customers. The technical support is typically 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. The Company's 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.

In March 2016, the Financial Accounting Standards Board ("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 Company adopted ASU 2016-09 on a prospective basis during the quarter ended April 1, 2017. ASU 2016-09 requires excess tax benefits or deficiencies from stock-based compensation to be recognized in the income tax provision. The Company previously recorded these amounts to additional paid-in capital. Additionally, under ASU 2016-09, excess tax benefits and deficiencies are not estimated in the effective tax rate, rather, they are recorded as discrete tax items in the period in which they occur. Excess income tax benefits from stock-based compensation arrangements are classified as a cash flow from operations under ASU 2016-09, rather than as a cash flow from financing activities.

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

### **Recently Adopted Accounting Standards**

#### *Revenue from Contracts with Customers*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09")*, which supersedes previous revenue recognition guidance. The FASB issued several updates amending or relating to ASU 2014-09 (collectively, the "new revenue standard"). The Company has adopted the new revenue standard effective beginning in the 2018 fiscal year using the full retrospective method, which requires the Company to restate each prior reporting period presented in future financial statement issuances. The impacts of adopting the new revenue standard relate to our accounting for certain arrangements within the auto segment.

A portion of the Company's auto segment contracts have historically been accounted for under Accounting Standards Codification (ASC) Topic 985-605 *Software-Revenue Recognition (Topic 985-605)*. Under Topic 985-605, the Company deferred revenue and associated costs of all elements of multiple-element software arrangements if vendor-specific objective evidence of fair value (VSOE) could not be established for an undelivered element (e.g. map updates). In applying the new revenue standard to certain contracts that include both software licenses and

map updates, we now recognize the portion of revenue and costs related to the software license at the time of delivery rather than ratably over the map update period.

Additionally, for certain multiple-element arrangements within the Company's auto segment, the Company's policy had been to allocate consideration to traffic services and recognize the revenue and associated cost of royalties ratably over the estimated life of the underlying product. Under the new revenue standard, we recognize revenue and associated costs of royalties related to certain broadcast traffic services at the time of hardware and/or software delivery. Specifically, the new revenue standard emphasizes the timing of the Company's performance, and upon delivery of the navigation device and/or software, the Company has fully performed its obligation with respect to the design and production of the product to receive and interpret the broadcast traffic signal for the benefit of the end user.

The changes in accounting policy described above collectively result in reductions to deferred costs (asset) and deferred revenue (liability) balances, and accelerate the recognition of revenue and deferred costs in the auto segment going forward.

Summarized financial information depicting the impact of the new revenue standard is presented below. The Company's historical net cash flows provided by or used in operating, investing, and financing activities are not impacted by adoption of the new revenue standard.

	December 30, 2017			December 31, 2016		
	As reported	Restated <sup>(1)</sup>	Impact	As reported	Restated <sup>(1)</sup>	Impact
Current assets:						
Deferred costs	\$ 48,312	\$ 30,525	\$ (17,787)	\$ 47,395	\$ 34,665	\$ (12,730)
Total current assets	2,363,925	2,346,138	(17,787)	2,263,016	2,250,286	(12,730)
Deferred income taxes	199,343	195,981	(3,362)	110,293	107,655	(2,638)
Noncurrent deferred costs	73,851	33,029	(40,822)	56,151	30,934	(25,217)
Total assets	\$ 5,010,260	\$ 4,948,289	\$ (61,971)	\$ 4,525,133	\$ 4,484,549	\$ (40,584)
Current liabilities:						
Deferred revenue	139,681	103,140	(36,541)	146,564	118,496	(28,068)
Total current liabilities	828,656	792,115	(36,541)	782,735	754,667	(28,068)
Deferred income taxes	75,215	76,612	1,397	61,220	62,617	1,397
Non-current deferred revenue	163,840	87,060	(76,780)	140,407	91,238	(49,169)
Retained earnings	2,368,874	2,418,444	49,570	2,056,702	2,092,221	35,519
Accumulated other comprehensive income	56,045	56,428	383	(36,761)	(37,024)	(263)
Total stockholders' equity	3,802,466	3,852,419	49,953	3,418,003	3,453,259	35,256
Total liabilities and stockholders' equity	\$ 5,010,260	\$ 4,948,289	\$ (61,971)	\$ 4,525,133	\$ 4,484,549	\$ (40,584)

	52-Weeks Ended December 30, 2017			53-Weeks Ended December 31, 2016		
	As reported	Restated <sup>(1)</sup>	Impact	As reported	Restated <sup>(1)</sup>	Impact
Net sales	\$ 3,087,004	\$ 3,121,560	\$ 34,556	\$ 3,018,665	\$ 3,045,797	\$ 27,132
Gross profit	1,783,164	1,797,941	14,777	1,679,570	1,688,525	8,955
Operating income	668,860	683,637	14,777	623,909	632,864	8,955
Income tax (benefit) provision	(12,661)	(11,936)	725	118,856	120,901	2,045
Net income	\$ 694,955	\$ 709,007	\$ 14,052	\$ 510,814	\$ 517,724	\$ 6,910
Diluted net income per share	\$ 3.68	\$ 3.76	\$ 0.08	\$ 2.70	\$ 2.73	\$ 0.03

- (1) The Restated results presented above are restated under ASC Topic 606. Amounts related to the income tax effect of the new standard that were previously disclosed as the anticipated adoption impact in Note 2, Summary of Significant Accounting Policies, in the notes to the consolidated financial statements of our fiscal 2017 Annual Report on Form 10-K filed with the SEC on February 21, 2018 have been revised in this Note by immaterial amounts in connection with our adoption of ASC Topic 606.

### *Financial Instruments – Recognition, Measurement, Presentation, and Disclosure*

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. The Company has adopted the new standard effective beginning in the 2018 fiscal year. The adoption did not have a material impact on the Company’s financial position or results of operations.

### *Statement of Cash Flows*

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. In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”), which requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling changes in the total amounts within the statement of cash flows. The Company has adopted the new standards effective beginning in the 2018 fiscal year. The adoption of ASU 2016-15 did not have a material impact to the Company’s statements of cash flows. The amendments of ASU 2016-18 were applied using a retrospective transition method, resulting in immaterial changes to the presentation of the Company’s statements of cash flows.

### *Income Taxes*

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory (“ASU 2016-16”), which requires recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Company has adopted the new standard effective beginning in the 2018 fiscal year, which resulted in a reclassification of approximately \$1,700 of certain prepaid tax balances in a cumulative effect to retained earnings as of the date of adoption.

### *Income Statement – Reporting Comprehensive Income*

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”), which allows for stranded tax effects in accumulated other comprehensive income resulting from the U.S. Tax Cuts and Jobs Act to be reclassified to retained earnings. The Company has elected to early adopt the new standard effective beginning in the 2018 fiscal year, resulting in reclassification of approximately \$452 from accumulated other comprehensive income into retained earnings. The tax effects that were reclassified only relate to amounts resulting from the U.S. Tax Cuts and Jobs Act.

## **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 29, 2018			
	Total	Level 1	Level 2	Level 3
U.S. Treasury securities	\$ 22,128	\$ -	\$ 22,128	\$ -
Agency securities	59,116	-	59,116	-
Mortgage-backed securities	135,865	-	135,865	-
Corporate securities	980,524	-	980,524	-
Municipal securities	173,137	-	173,137	-
Other	142,342	-	142,342	-
Total	\$ 1,513,112	\$ -	\$ 1,513,112	\$ -

	Fair Value Measurements as of December 30, 2017			
	Total	Level 1	Level 2	Level 3
U.S. Treasury securities	\$ 19,337	\$ -	\$ 19,337	\$ -
Agency securities	43,361	-	43,361	-
Mortgage-backed securities	174,615	-	174,615	-
Corporate securities	816,793	-	816,793	-
Municipal securities	186,105	-	186,105	-
Other	181,509	-	181,509	-
Total	\$ 1,421,720	\$ -	\$ 1,421,720	\$ -

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

	Available-For-Sale Securities as of December 29, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$ 22,485	\$ -	\$ (357)	\$ 22,128
Agency securities	60,088	28	(1,000)	59,116
Mortgage-backed securities	142,176	1	(6,312)	135,865
Corporate securities	1,010,590	33	(30,099)	980,524
Municipal securities	175,630	73	(2,566)	173,137
Other	144,606	0	(2,264)	142,342
Total	\$ 1,555,575	\$ 135	\$ (42,598)	\$ 1,513,112

**Available-For-Sale Securities as  
of December 30, 2017**

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury securities	\$ 19,591	\$ -	\$ (254)	\$ 19,337
Agency securities	44,191	1	(831)	43,361
Mortgage-backed securities	180,470	13	(5,868)	174,615
Corporate securities	830,447	136	(13,790)	816,793
Municipal securities	187,999	110	(2,004)	186,105
Other	183,730	2	(2,223)	181,509
<b>Total</b>	<b>\$ 1,446,428</b>	<b>\$ 262</b>	<b>\$ (24,970)</b>	<b>\$ 1,421,720</b>

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" 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 2018 and 2017, 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 29, 2018 were \$1,488,514 and \$1,445,916 respectively. Approximately 86% of securities in our portfolio were at an unrealized loss position at December 29, 2018. 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 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 29, 2018 and December 30, 2017.

	<b>As of December 29, 2018</b>			
	<b>Less than 12 Consecutive Months</b>		<b>12 Consecutive Months or Longer</b>	
	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury securities	\$ (3)	\$ 3,975	\$ (354)	\$ 18,153
Agency securities	(5)	4,656	(995)	40,508
Mortgage-backed securities	(1)	361	(6,311)	135,323
Corporate securities	(4,028)	323,633	(26,071)	640,439
Municipal securities	(454)	38,371	(2,112)	118,362
Other	(102)	8,015	(2,162)	114,120
<b>Total</b>	<b>\$ (4,593)</b>	<b>\$ 379,011</b>	<b>\$ (38,005)</b>	<b>\$ 1,066,905</b>

	As of December 30, 2017			
	Less than 12 Consecutive Months		12 Consecutive Months or Longer	
	Gross Unrealized		Gross Unrealized	
	Losses	Fair Value	Losses	Fair Value
U.S. Treasury securities	\$ (111)	\$ 12,966	\$ (143)	\$ 6,371
Agency securities	(168)	16,097	(663)	25,972
Mortgage-backed securities	(503)	19,628	(5,365)	153,835
Corporate securities	(4,562)	439,174	(9,228)	347,052
Municipal securities	(1,027)	125,819	(977)	38,167
Other	(2,219)	136,147	(4)	2,579
<b>Total</b>	<b>\$ (8,590)</b>	<b>\$ 749,831</b>	<b>\$ (16,380)</b>	<b>\$ 573,976</b>

The amortized cost and fair value of marketable securities at December 29, 2018, 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	\$ 183,894	\$ 182,989
Due after one year through five years	1,261,083	1,227,551
Due after five years through ten years	110,598	102,572
<b>Total</b>	<b>\$ 1,555,575</b>	<b>\$ 1,513,112</b>

#### 4. Commitments and Contingencies

##### Commitments

Rental expense related to real estate, equipment, and vehicles amounted to \$21,096, \$18,915, and \$19,657 for the years ended December 29, 2018, December 30, 2017, and December 31, 2016, respectively. The Company recognizes rental expense on a straight-line basis over the lease term.

Future minimum rental payments are as follows:

Year	Amount
2019	\$ 17,170
2020	13,961
2021	10,559
2022	7,290
2023	6,947
Thereafter	13,910
<b>Total</b>	<b>\$ 69,837</b>

Certain cash balances are held as collateral in relation to bank guarantees. The total amount of restricted cash was \$73 and \$271 at December 29, 2018 and December 30, 2017, respectively.

The Company is party to certain commitments, which include purchases of raw materials, advertising expenditures, and other indirect purchases in connection with conducting our business. The aggregate amount of purchase orders and other commitments open as of December 29, 2018 was approximately \$354,553. 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.

## **Contingencies**

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 and annual basis, developments in legal proceedings, investigations, claims, and other loss contingencies that could affect any required accrual or disclosure or estimate of reasonably possible loss or range of loss. An estimated loss from a loss contingency is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. If a range of loss is estimated, and some amount within that range appears to be a better estimate than any other amount within that range, then that amount is accrued. If no amount within the range can be identified as a better estimate than any other amount, the Company accrues the minimum amount in the range.

If an outcome unfavorable to the Company is determined to be probable, but the amount of loss cannot be reasonably estimated or is determined to be reasonably possible, but not probable, we disclose the nature of the contingency and an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. The Company's aggregate range of reasonably possible losses includes (1) matters where a liability has been accrued and there is a reasonably possible loss in excess of the amount accrued for that liability, and (2) matters where a loss is believed to be reasonably possible, but not probable, and a liability therefore has not been accrued. This aggregate range only represents the Company's estimate of reasonably possible losses and does not represent the Company's maximum loss exposure. The assessment regarding whether a loss is probable or reasonably possible, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. In assessing the probability of an outcome in a lawsuit, claim or assessment that could be unfavorable to the Company, we consider the following factors, among others: a) the nature of the litigation, claim, or assessment; b) the progress of the case; c) the opinions or views of legal counsel and other advisers; d) our experience in similar cases; e) the experience of other entities in similar cases; and f) how we intend to respond to the lawsuit, claim, or assessment. Costs incurred in defending lawsuits, claims or assessments are expensed as incurred.

Management of the Company currently does not believe it is reasonably possible that the Company may have incurred a material loss, or a material loss in excess of recorded accruals, with respect to loss contingencies in the aggregate, for the fiscal year ended December 29, 2018. The results of legal proceedings, investigations and claims, however, cannot be predicted with certainty. An adverse resolution of one or more of such matters in excess of management's expectations could have a material adverse effect in the particular quarter or fiscal year in which a loss is recorded, but based on information currently known, the Company does not believe it is likely that losses from such matters would have a material adverse effect on the Company's business or its consolidated financial position, results of operations or cash flows.

The Company settled or resolved certain legal matters during the fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016 that did not individually or in the aggregate have a material impact on the Company's business or its consolidated financial position, results of operations or cash flows.

## **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. During the years ended December 29, 2018, December 30, 2017, and December 31, 2016, expense related to this and other defined contribution plans of \$52,232, \$43,826, and \$40,844, 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 29, 2018, December 30, 2017, and December 31, 2016 were significant.

## 6. Income Taxes

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

	Fiscal Year Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Federal:			
Current	\$ 26,784	\$ 31,343	\$ 66,627
Deferred	13,249	50,724	4,522
	<u>\$ 40,033</u>	<u>\$ 82,067</u>	<u>\$ 71,149</u>
State:			
Current	\$ 13,015	\$ 4,203	\$ 8,809
Deferred	(1,599)	11,684	(3,933)
	<u>\$ 11,416</u>	<u>\$ 15,887</u>	<u>\$ 4,876</u>
Foreign:			
Current	\$ 53,625	\$ 43,688	\$ 42,406
Deferred	24,093	(153,578)	2,470
	<u>\$ 77,718</u>	<u>\$ (109,890)</u>	<u>\$ 44,876</u>
Total	<u>\$ 129,167</u>	<u>\$ (11,936)</u>	<u>\$ 120,901</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 29, 2018	December 30, 2017	December 31, 2016
Federal income tax expense at U.S. statutory rate	\$ 172,882	\$ 243,975	\$ 223,519
State income tax expense, net of federal tax effect	5,339	5,977	2,749
Foreign-Derived Intangible Income Deduction	(4,666)	-	-
Foreign tax rate differential	(38,563)	(106,763)	(113,078)
Other foreign taxes less incentives and credits	(12,841)	(4,646)	(16,593)
Withholding Tax	33,306	14,632	17,447
Net Change in Uncertain Tax Positions	(13,728)	5,363	17,328
Federal Domestic Production Activities Deduction	-	(3,895)	(5,528)
Federal Research and Development Credit	(16,562)	(10,851)	(8,548)
Switzerland Corporate Tax Election	-	(180,034)	-
Share Based Compensation	(2,747)	19,916	-
Other, net	6,747	4,390	3,605
Income tax expense (benefit)	<u>\$ 129,167</u>	<u>\$ (11,936)</u>	<u>\$ 120,901</u>

The Company recorded income tax benefit of \$11,936 in the year ended December 30, 2017, which included an income tax benefit of \$180,034 primarily related to the revaluation of certain Switzerland deferred tax assets resulting from the Company's election in the first quarter of 2017 to align certain Switzerland corporate tax positions with international tax initiatives.

The 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 2018 as presented above, the amounts related to tax at the statutory rate would be approximately \$108,000 lower, or \$65,000, and the foreign tax rate differential would be adjusted by a similar amount to approximately \$65,000. For 2017, the amounts related to tax at the statutory rate would be approximately \$186,000 lower, or \$53,600, and the foreign tax rate differential would be adjusted by a similar amount to approximately \$77,000. For 2016, the amount related to tax at the statutory rate would be approximately \$171,000 lower, or \$49,000, and the foreign tax differential would be reduced by a similar amount to approximately \$55,000. All other amounts would remain substantially unchanged.

The Company's income before income taxes attributable to non-U.S. operations was \$532,657, \$461,436, and \$453,729, for the years ended December 29, 2018, December 30, 2017, and December 31, 2016, respectively.

Income taxes of \$36,800, \$45,534, and \$45,291 at December 29, 2018, December 30, 2017, and December 31, 2016, 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 29, 2018</b>	<b>December 30, 2017</b>
Deferred tax assets:		
Product warranty accruals	\$ 2,468	\$ 2,202
Allowance for doubtful accounts	3,964	5,129
Inventory reserves	6,023	6,920
Sales program allowances	1,657	910
Reserve for sales returns	1,368	816
Accrued vacation	8,179	7,121
Other accruals	3,336	3,601
Share based compensation	6,744	6,261
Tax credit carryforwards	9,697	8,413
Amortization	147,674	165,162
Net operating losses	3,580	8,799
Benefit related to uncertain tax positions	5,852	5,383
Other	4,543	3,677
Valuation allowance related to loss carryforward and tax credits	<u>(4,568)</u>	<u>(7,267)</u>
	\$ 200,517	\$ 217,127
Deferred tax liabilities:		
Depreciation	17,543	11,674
Prepaid Expenses	2,257	3,147
Book basis in excess of tax basis for acquired entities	14,068	17,364
Withholding tax	79,660	60,555
Other	2,974	5,018
	<u>116,502</u>	<u>97,758</u>
Net deferred tax assets	<u>\$ 84,015</u>	<u>\$ 119,369</u>

At December 29, 2018, the Company had \$9,697 of tax credit carryover compared to \$8,413 at December 30, 2017.

At December 29, 2018, the Company had a deferred tax asset of \$3,580 related to the future tax benefit on net operating loss (NOL) carryforwards of \$15,604. Included in the NOL carryforwards is \$1,437 that relates to Finland and expires in varying amounts between 2025 and 2028, \$1,889 that relates to various United States state jurisdictions and expires in varying amounts between 2022 and 2037, \$1,353 that relates to the Netherlands and expires in 2026, and \$10,925 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.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law in the United States. Due to the complexities of the new tax legislation, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") which allowed for the recognition of provisional amounts during a measurement period. The Company recorded a provisional remeasurement of its deferred tax assets and liabilities in the fourth quarter of 2017. The Company filed its U.S. federal and state income tax returns during the third and fourth quarters of 2018, which did not result in adjustments of its provisional remeasurement of deferred tax assets and liabilities.

The total amount of gross unrecognized tax benefits as of December 29, 2018 was \$118,287. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for years ended December 29, 2018, December 30, 2017, and December 31, 2016 is as follows:

	<b>December 29, 2018</b>	<b>December 30, 2017</b>	<b>December 31, 2016</b>
Balance beginning of year	\$ 130,798	\$ 115,090	\$ 97,904
Additions based on tax positions related to prior years	1,138	8,564	489
Reductions based on tax positions related to prior years	(5,340)	(983)	(940)
Additions based on tax positions related to current period	19,368	26,295	28,859
Reductions related to settlements with tax authorities	(527)	-	(134)
Expiration of statute of limitations	(27,150)	(18,168)	(11,088)
Balance at end of year	<u>\$ 118,287</u>	<u>\$ 130,798</u>	<u>\$ 115,090</u>

Accounting guidance requires unrecognized tax benefits to be classified as noncurrent 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 \$114,682, \$127,306 and \$109,667 are required to be classified as noncurrent at December 29, 2018, December 30, 2017, and December 31, 2016, 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 29, 2018, December 30, 2017, and December 31, 2016, the Company had accrued approximately \$6,613, \$5,605, and \$3,901, respectively, for interest. The interest component of the reserve increased income tax expense for the years ending December 29, 2018, December 30, 2017, and December 31, 2016, by \$1,008, \$1,704, and \$1,422 respectively. The Company did not have significant amounts accrued for penalties for the years ending December 29, 2018, December 30, 2017, and December 31, 2016.

The Company files income tax returns in Switzerland, U.S. federal jurisdiction, as well as various states, local, and foreign jurisdictions. In its major tax jurisdictions, Switzerland, Taiwan, United Kingdom, and U.S. federal and various states, the Company is no longer subject to income tax examinations by tax authorities, with few exceptions, for years prior to 2014, 2013, 2016, and 2015, respectively.

The Company recognized a reduction of income tax expense of \$27,106, \$17,918, and \$11,151 in fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016, 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 \$20,000 to \$25,000 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 29, 2018		December 30, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,201,732	\$ 1,201,732	\$ 891,488	\$ 891,488
Restricted cash	\$ 73	\$ 73	\$ 271	\$ 271
Marketable securities	\$ 1,513,112	\$ 1,513,112	\$ 1,421,720	\$ 1,421,720

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 – 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. The CODM uses operating income as the measure of profit or loss to assess segment performance and allocate resources. Operating income represents net sales less costs of goods sold and operating expenses. Net sales are directly attributed to each segment. Most costs of goods sold and the majority of operating expenses are also directly attributed to each segment, while certain other costs of goods sold and operating expenses are allocated to the segments in a manner appropriate to the specific facts and circumstances of the expenses being allocated. 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.

Net sales ("revenue"), gross profit, and operating income for each of the Company's reportable segments are presented below.

	<b>Reportable Segments</b>					
	<b>Outdoor</b>	<b>Fitness</b>	<b>Marine</b>	<b>Auto</b>	<b>Aviation</b>	<b>Total</b>
<b>52-Weeks Ended December 29, 2018</b>						
Net sales	\$ 809,883	\$ 858,329	\$ 441,560	\$ 634,213	\$ 603,459	\$ 3,347,444
Gross profit	528,254	471,764	258,756	270,793	450,152	1,979,719
Operating income	290,510	181,745	63,344	37,998	204,746	778,343
<b>52-Weeks Ended December 30, 2017</b>						
Net sales	\$ 698,867	\$ 762,194	\$ 374,001	\$ 785,139	\$ 501,359	\$ 3,121,560
Gross profit	448,410	422,636	212,592	342,698	371,605	1,797,941
Operating income	249,867	146,765	50,328	82,744	153,933	683,637
<b>53-Weeks Ended December 31, 2016</b>						
Net sales	\$ 546,326	\$ 818,486	\$ 331,947	\$ 909,690	\$ 439,348	\$ 3,045,797
Gross profit	340,504	437,205	183,709	397,702	329,405	1,688,525
Operating income	184,035	160,596	52,167	111,302	124,764	632,864

Net sales, property and equipment, and net assets by geographic area are as shown below for the years ended December 29, 2018, December 30, 2017, and December 31, 2016. Note that APAC includes Asia Pacific and Australian Continent, and EMEA includes Europe, the Middle East and Africa.

	<b>Americas</b>	<b>APAC</b>	<b>EMEA</b>	<b>Total</b>
<b>December 29, 2018</b>				
Net sales to external customers <sup>(1)</sup>	\$ 1,596,716	\$ 545,759	\$ 1,204,969	\$ 3,347,444
Property and equipment, net	408,992	208,964	45,571	663,527
Net assets <sup>(2)</sup>	2,726,196	995,272	441,506	4,162,974
<b>December 30, 2017</b>				
Net sales to external customers <sup>(1)</sup>	\$ 1,504,194	\$ 444,828	\$ 1,172,538	\$ 3,121,560
Property and equipment, net	381,974	173,392	40,318	595,684
Net assets <sup>(2)</sup>	2,375,522	982,898	493,999	3,852,419
<b>December 31, 2016</b>				
Net sales to external customers <sup>(1)</sup>	\$ 1,538,550	\$ 386,411	\$ 1,120,836	\$ 3,045,797
Property and equipment, net	300,158	144,470	38,250	482,878
Net assets <sup>(2)</sup>	2,188,417	933,999	330,844	3,453,260

<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 2018, 2017, and 2016, 10,376, 10,432, and 12,984 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 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 2018, 2017, and 2016, 1,040,001, 1,044,045, and 1,228,427 RSUs were granted under the 2005 Plan. No SARs were granted under the 2005 Plan in 2018, 2017, and 2016.

### **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 2018, 2017, or 2016.

### **2000 Non-employee Directors' Option Plan**

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 29, 2018, December 30, 2017, and December 31, 2016 is provided below:

<b>Stock Options and SARs</b>		
	<b>Weighted-Average</b>	
	<b>Exercise Price</b>	<b>Number of Shares</b>
		<i>(In Thousands)</i>
<b>Outstanding at December 26, 2015</b>	\$ 66.80	4,061
Granted		-
Exercised	\$ 50.77	(716)
Forfeited/Expired	\$ 51.12	(608)
<b>Outstanding at December 31, 2016</b>	\$ 74.48	2,737
Granted		-
Exercised	\$ 50.15	(397)
Forfeited/Expired	\$ 84.57	(1,948)
<b>Outstanding at December 30, 2017</b>	\$ 48.94	392
Granted		-
Exercised	\$ 48.16	(304)
Forfeited/Expired	\$ 83.01	(2)
<b>Outstanding at December 29, 2018</b>	\$ 50.92	86
<b>Exercisable at December 29, 2018</b>	\$ 50.74	76
<b>Expected to vest after December 29, 2018</b>	\$ 52.44	10

<b>Stock Options and SARs as of December 29, 2018</b>			
<b>Exercise</b>	<b>Awards</b>	<b>Remaining</b>	<b>Awards</b>
<b>Price</b>	<b>Outstanding</b>	<b>Life (Years)</b>	<b>Exercisable</b>
	<i>(In Thousands)</i>		<i>(In Thousands)</i>
\$18.00 - \$40.00	-	-	-
\$40.01 - \$60.00	86	5.51	76
\$60.01 - \$80.00	-	-	-
\$80.01 - \$100.00	-	-	-
\$100.01 - \$120.00	-	-	-
\$120.01 - \$140.00	-	-	-
	86	5.51	76



### Restricted Stock Units

	<b>Weighted-Average Grant Date Fair Value</b>	<b>Number of Shares</b>
		<i>(In Thousands)</i>
<b>Outstanding at December 26, 2015</b>	\$ 39.45	1,657
Granted	\$ 40.59	1,241
Released/Vested	\$ 38.96	(565)
Cancelled	\$ 44.57	(509)
<b>Outstanding at December 31, 2016</b>	\$ 38.94	1,824
Granted	\$ 51.71	1,055
Released/Vested	\$ 39.31	(763)
Cancelled	\$ 40.40	(54)
<b>Outstanding at December 30, 2017</b>	\$ 45.30	2,062
Granted	\$ 58.66	1,050
Released/Vested	\$ 42.55	(961)
Cancelled	\$ 47.91	(52)
<b>Outstanding at December 29, 2018</b>	\$ 53.17	2,099

The weighted-average remaining contract life for stock options and SARs outstanding and exercisable at December 29, 2018 was 5.51 and 5.45 years, respectively. The weighted-average remaining contract life of restricted stock units at December 29, 2018 was 1.21 years.

The total fair value of awards vested during 2018, 2017, and 2016 was \$41,092, \$30,280, and \$22,429, respectively. The aggregate intrinsic values of options and SARs outstanding and exercisable at December 29, 2018 were \$1,018 and \$920, respectively. The aggregate intrinsic values of options and SARs exercised during 2018, 2017, and 2016 were \$4,452, \$3,742, and \$1,632, respectively. The aggregate intrinsic value of RSUs outstanding at December 29, 2018 was \$131,876. The aggregate intrinsic values of RSUs released during 2018, 2017, and 2016 were \$60,361, \$45,424, and \$27,386, 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 \$62.82 on December 29, 2018. As of December 29, 2018, there was \$72,912 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 have adopted an ESPP. Up to 6,000,000 shares of common stock have been reserved for the ESPP. 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 2018, 2017, and 2016, 463,066, 489,267, and 541,018 shares, respectively, were purchased under the plan for a total purchase price of \$23,709, \$20,996, and \$18,157, respectively. During 2018, 2017, and 2016, the purchases were issued from treasury shares. At December 29, 2018, approximately 507,301 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:

	Fiscal Year Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Numerator:			
Numerator for basic and diluted net income per share - net income	\$ 694,080	\$ 709,007	\$ 517,724
Denominator:			
Denominator for basic net income per share – weighted-average common shares	188,635	187,828	188,818
Effect of dilutive securities – employee stock options and stock appreciation rights	1,099	904	525
Denominator for diluted net income per share – adjusted weighted-average common shares	189,734	188,732	189,343
Basic net income per share	\$ 3.68	\$ 3.77	\$ 2.74
Diluted net income per share	\$ 3.66	\$ 3.76	\$ 2.73

There were no outstanding stock options, stock appreciation rights, and restricted stock units (collectively “equity awards”) excluded from the computation of diluted earnings per share for the 2018 fiscal year because the effect would have been anti-dilutive. There were 1,175,728 and 3,547,738 equity awards excluded from the computation of diluted earnings per share for the 2017 and 2016 fiscal years, 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 0 shares in fiscal 2018, 1,474,092 shares using cash of \$74,523 in fiscal 2017, and 2,152,716 shares using cash of \$93,233 in fiscal 2016.

## 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 29, 2018:

	Foreign Currency Translation Adjustment	Net unrealized gains (losses) on available- for-sale securities	Total
Balance - beginning of period	\$ 79,292	\$ (22,864)	\$ 56,428
Other comprehensive income before reclassification, net of income tax expense of \$2,174	(31,965)	(16,283)	(48,248)
Amounts reclassified from accumulated other comprehensive income	-	702	702
Net current-period other comprehensive income	(31,965)	(15,581)	(47,546)
Reclassification of tax effects due to adoption of ASU 2018-02	-	(452)	(452)
Balance - end of period	\$ 47,327	\$ (38,897)	\$ 8,430

The following provides required disclosure of reporting reclassifications out of AOCI for the year ended December 29, 2018:

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	\$ (827)	Other income (expense)
	125	Income tax benefit (provision)
	\$ (702)	Net of tax

## 13. Revenue

In order to further depict how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors, we disaggregate revenue (or "net sales") by geographic region, major product category, and pattern of recognition.

Disaggregated revenue by geographic region (Americas, APAC, and EMEA) is presented in Note 8 – Segment Information. The Company has identified six major product categories – aviation, marine, outdoor, fitness, auto PND, and auto OEM. Note 8 also contains disaggregated revenue information of the aviation, marine, outdoor, and fitness major product categories. Auto segment revenue presented in Note 8 is comprised of the auto PND and auto OEM major product categories as depicted below.

	Auto Revenue by Major Product Category		
	Fiscal Year Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Auto PND	67%	69%	76%
Auto OEM	33%	31%	24%

A large majority of the Company's sales are recognized on a point in time basis, usually once the product is shipped and title and risk of loss have transferred to the customer. Sales recognized over a period of time are primarily within the auto segment and relate to performance obligations that are satisfied over the life of the product

or contractual service period. Revenue disaggregated by the timing of transfer of the goods or services is presented in the table below:

	<b>Fiscal Year Ended</b>		
	<b>December 29, 2018</b>	<b>December 30, 2017</b>	<b>December 31, 2016</b>
Point in time	\$ 3,176,949	\$ 2,954,945	\$ 2,864,501
Over time	170,495	166,615	181,296
Net sales	<u>\$ 3,347,444</u>	<u>\$ 3,121,560</u>	<u>\$ 3,045,797</u>

Transaction price and costs associated with the Company's unsatisfied performance obligations are reflected as deferred revenue and deferred costs, respectively, on the Company's consolidated balance sheets. Such amounts are recognized ratably over the applicable service period or estimated useful life. Changes in deferred revenue and costs during the 52-week periods ending December 29, 2018 and December 30, 2017, are presented below:

	<b>Fiscal Year Ended</b>			
	<b>December 29, 2018</b>		<b>December 30, 2017</b>	
	<b>Deferred Revenue<sup>(1)</sup></b>	<b>Deferred Costs<sup>(2)</sup></b>	<b>Deferred Revenue<sup>(1)</sup></b>	<b>Deferred Costs<sup>(2)</sup></b>
Balance, beginning of period	\$ 190,200	\$ 63,554	\$ 209,735	\$ 65,599
Deferrals in period	153,233	36,297	147,080	39,053
Recognition of deferrals in period	<u>(170,495)</u>	<u>(41,916)</u>	<u>(166,615)</u>	<u>(41,098)</u>
Balance, end of period	<u>\$ 172,938</u>	<u>\$ 57,935</u>	<u>\$ 190,200</u>	<u>\$ 63,554</u>

<sup>(1)</sup> Deferred revenue is comprised of both Deferred revenue and Noncurrent deferred revenue per the Consolidated Balance Sheets

<sup>(2)</sup> Deferred costs are comprised of both Deferred costs and Noncurrent deferred costs per the Consolidated Balance Sheets

Of the \$170,495 of deferred revenue recognized in the 52-weeks ended December 29, 2018, \$105,924 was deferred as of the beginning of the period. Of the \$166,615 of deferred revenue recognized in the 52-weeks ended December 30, 2017, \$114,787 was deferred as of the beginning of the period.

Of the \$172,938 and \$190,200 of deferred revenue at the end of the periods, December 29, 2018, and December 30, 2017, respectively, approximately two-thirds is recognized ratably over a period of three years or less.

#### 14. Selected Quarterly Information (Unaudited)

	52-Weeks Ended December 29, 2018			
	Quarter Ending			
	March 31	June 30	September 29	December 29
Net sales	\$ 710,872	\$ 894,452	\$ 810,011	\$ 932,108
Gross profit	426,535	523,270	480,747	549,166
Net income	129,374	190,342	184,214	190,150
Basic net income per share	\$ 0.69	\$ 1.01	\$ 0.98	\$ 1.01
Diluted net income per share	\$ 0.68	\$ 1.00	\$ 0.97	\$ 1.00

	52-Weeks Ended December 30, 2017			
	Quarter Ending			
	April 1	July 1	September 30	December 30
Net sales	\$ 641,510	\$ 831,486	\$ 751,244	\$ 897,319
Gross profit	372,806	484,130	437,523	503,482
Net income	238,404	176,979	151,074	142,550
Basic net income per share	\$ 1.27	\$ 0.94	\$ 0.81	\$ 0.76
Diluted net income per share	\$ 1.26	\$ 0.94	\$ 0.80	\$ 0.75

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, and the table may not foot due to rounding.

#### 15. Recently Issued Accounting Pronouncements

##### *Leases*

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. The FASB subsequently issued Accounting Standards Update No. 2018-10 and Accounting Standards Update No. 2018-11 in July 2018, which provide clarifications and improvements to ASU 2016-02 (collectively, the “new lease standard”). Accounting Standards Update No. 2018-11 also provides the optional transition method, which allows companies to apply the new lease standard at the adoption date instead of at the earliest comparative period presented. The new lease standard 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. Additional footnote disclosures related to leases will also be required. The new lease standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018.

The Company has adopted the new lease standard as of the beginning of its 2019 fiscal year (the Company’s “adoption date”) using the optional transition method. The Company elected the package of transitional practical expedients upon adoption which, among other provisions, allows the Company to carry forward historical lease classification. The Company also made an accounting policy election to not recognize a right-of-use asset and lease liability for short term leases with an original term of 12 months or less. Expense associated with short term leases will continue to be recognized in the consolidated statements of income on a straight-line basis over the term of the lease.

Adoption of the standard resulted in the recognition of a right-of-use asset and a lease liability for operating leases of approximately \$60 million each on the Company’s consolidated balance sheet as of the adoption date, as

the Company's leases are primarily classified as operating leases. The Company does not expect the new lease standard to have a material impact on the Company's consolidated statements of income or consolidated statements of cash flows. Prior periods of the consolidated financial statements are unchanged due to our election to apply the optional transition method. In conjunction with adopting the new lease standard, the Company has implemented changes to accounting policies, processes, systems, and internal controls to enable financial reporting under the new standard.

#### *Intangible – Goodwill and Other*

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 is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

#### *Receivables – Nonrefundable Fees and Other Costs*

In March 2017, the FASB issued Accounting Standards Update No. 2017-08, Receivables – Nonrefundable Fees and Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities ("ASU 2017-08"), which shortens the amortization period for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. Callable debt securities held at a discount continue to be amortized to maturity. ASU 2017-08 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new standard on its consolidated financial statements.

## **16. Subsequent Events**

On February 12, 2019, Garmin Ltd. announced the signing of a purchase agreement to acquire Tacx, a privately-held Dutch company, that designs and manufactures indoor bike trainers, tools and accessories, as well as indoor training software and applications. The acquisition is not expected to be material. The completion of the acquisition is subject to customary regulatory approvals and closing conditions.