

STATUTORY FINANCIAL STATEMENTS

Garmin Ltd. (Switzerland)

Years Ended December 25, 2021 and December 26, 2020

Report of the statutory auditor

with financial statements as of December 25, 2021 of

Garmin Ltd., Schaffhausen

To the General Meeting of
Garmin Ltd., Schaffhausen

Zurich, February 16, 2022

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Garmin Ltd. (the Company), which comprise the balance sheet, statement of income and notes, for the period from December 27, 2020 to December 25, 2021.



Board of Directors' responsibility

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



Auditor's responsibility

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

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



Opinion

In our opinion, the financial statements for the period from December 27, 2020 to December 25, 2021 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. We have determined that there are no key audit matters to communicate in our report.



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/ Rico Fehr
Licensed audit expert
(Auditor in charge)

/s/ Michaela Held
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 25, 2021 and December 26, 2020

Contents

Statutory Financial Statements	5
Notes to Statutory Financial Statements	7
Proposed Appropriation of Available Earnings	20

Garmin Ltd.

Balance Sheet

(CHF in thousands)

	December 25, 2021	December 26, 2020
Assets		
- Cash and cash equivalents	957	245
- Accounts receivable - affiliates	716	410
- Other receivables - third party	25	27
- Prepaid expenses	1,083	78
Total current assets	2,781	760
- Loans receivable - affiliates	427,378	407,136
- Investment in affiliated companies	5,166,741	5,638,741
Total non-current assets	5,594,119	6,045,877
Total assets	5,596,900	6,046,637
Liabilities and shareholders' equity		
- Accounts payable	547	576
- Accounts payable - affiliates	31,383	24,460
- Provision for unrealized translation gains	12,433	3,813
- Dividend payable from capital contribution reserve	235,889	207,232
Total current liabilities	280,252	236,081
- Accrued expenses	433	345
Total non-current liabilities	433	345
Total liabilities	280,685	236,426
Share capital	19,808	19,808
Legal capital reserves		
- Reserve from capital contribution	4,800,205	5,213,919
- Reserve for treasury shares from capital contribution	294,546	312,573
- Other capital reserves	68	68
Voluntary retained earnings		
- Dividend reserve from capital contribution	160,798	210,503
- Available earnings		
- Balance brought forward	53,340	64,601
- Net earnings (loss) for the year	(12,550)	(11,261)
Total shareholders' equity	5,316,215	5,810,211
Total liabilities and shareholders' equity	5,596,900	6,046,637

Garmin Ltd.

Statement of Income

(CHF in thousands)

	Fiscal Year Ended December 25, 2021	Fiscal Year Ended December 26, 2020
Dividend income - affiliates	472,837	590,776
- General and administrative expenses	(12,867)	(13,305)
- General and administrative expenses - affiliates	(12,138)	(4,693)
Operating expenses	<u>(25,005)</u>	<u>(17,998)</u>
Impairment on investment in affiliated companies	(472,000)	(590,000)
Financial result		
- Interest income - affiliates	10,602	12,267
- Interest expense - affiliates	(4,235)	(4,353)
- Foreign currency gains (losses)	5,251	(1,953)
Total financial result	<u>11,618</u>	<u>5,961</u>
Net earnings (loss)	<u>(12,550)</u>	<u>(11,261)</u>

Garmin Ltd.

Notes to Statutory Financial Statements

December 25, 2021 and December 26, 2020

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

1. Summary of significant accounting policies

General aspects

Garmin Ltd. (the “Company”) is the parent company of the Garmin Group and has its registered office at Mühlenalstrasse 2, 8200 Schaffhausen, Switzerland. The Company did not have any employees at December 25, 2021 and December 26, 2020.

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. Since the company has prepared consolidated financial statements in accordance with U.S. generally accepted accounting standards, a recognized accounting standard, we have, in accordance with the SCO, elected to forego presenting the statement of cash flows, the additional disclosures and the management report otherwise required by the SCO.

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 25, 2021 included 52 weeks and December 26, 2020 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 25, 2021 and December 26, 2020 amounted to CHF 3,507 and CHF 3,387, 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 25, 2021 and December 26, 2020.

3. Shareholders' equity

CHF in thousands	Share capital	Legal capital reserves			Voluntary retained earnings			Total
		Reserve from capital contribution	Reserve for treasury shares from capital contribution	Other capital reserves	Available earnings			
					Dividend reserve from capital contribution	Balance brought forward	Net earnings (loss) for the year	
Balance as of December 28, 2019	19,808	5,649,552	336,527	68	175,565	77,320	(12,719)	6,246,121
Balance brought forward						(12,719)	12,719	-
Release of amounts to dividend payable from reserve from capital contribution (2018 dividend)		1,917						1,917
Release of dividend reserve from capital contribution (2019 dividend)		175,565			(175,565)			-
Net movement in reserve for treasury shares from capital contribution		23,954	(23,954)					-
Release to dividend reserve from capital contribution (2019 dividend)		(637,069)			637,069			-
Dividend payments (2019 dividend)					(218,582)			(218,582)
Dividend payable at year-end (2019 dividend)					(207,984)			(207,984)
Net earnings (loss) for the year							(11,261)	(11,261)
Balance as of December 26, 2020	19,808	5,213,919	312,573	68	210,503	64,601	(11,261)	5,810,211
Balance brought forward						(11,261)	11,261	-
Release of amounts to dividend payable from reserve from capital contribution (2019 dividend)		(5,219)						(5,219)
Release of dividend reserve from capital contribution (2020 dividend)		210,503			(210,503)			-
Net movement in reserve for treasury shares from capital contribution		18,027	(18,027)					-
Release to dividend reserve from capital contribution (2020 dividend)		(637,025)			637,025			-
Dividend payments (2020 dividend)					(239,231)			(239,231)
Dividend payable at year-end (2020 dividend)					(236,996)			(236,996)
Net earnings (loss) for the year							(12,550)	(12,550)
Balance as of December 25, 2021	19,808	4,800,205	294,546	68	160,798	53,340	(12,550)	5,316,215

The summary of the components of authorized shares at December 25, 2021, December 26, 2020, and December 28, 2019 and changes during those years are as follows:

	Outstanding Shares	Treasury Shares Held by Affiliates	Issued Shares	Shares Authorized but not Issued ³	Conditional Capital ²
December 28, 2019	190,686,454	7,390,964	198,077,418 ¹	39,615,483	99,038,709
Treasury shares purchased	(251,974)	251,974			
Treasury shares issued for stock based compensation	1,136,660	(1,136,660)			
Additional shares authorized but not issued				(39,615,483)	
Additional shares authorized				19,807,741	
December 26, 2020	191,571,140	6,506,278	198,077,418 ¹	19,807,741	99,038,709
Treasury shares purchased	(239,929)	239,929			
Treasury shares issued for stock based compensation	1,276,307	(1,276,307)			
December 25, 2021	192,607,518	5,469,900	198,077,418 ¹	19,807,741	99,038,709

¹ Shares at CHF 0.10 par value

² 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.

³ The Shareholders approved at the 2018 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. These shares were not issued as of June 8, 2020. The Shareholders approved at the 2020 Annual Meeting an amendment of the Articles of Association of the Company to authorize the Board of Directors at any time until June 5, 2022 to increase the share capital in an amount not to exceed CHF 1,980,774.10 through the issuance of up to 19,807,741 fully paid-in registered shares with a nominal value of CHF 0.10 each.

4. Treasury Shares

At December 25, 2021 and December 26, 2020, the Company's Affiliates held 5,469,900 and 6,506,278 treasury shares, respectively. The average cost of all treasury shares held by Affiliates at December 25, 2021 and December 26, 2020 amounts to CHF 54 and CHF 48, respectively.

	Carrying value (CHF in thousands)	Number of shares held by affiliates	Average cost (CHF)
Balance as of December 28, 2019	336,527	7,390,964	46
Acquired	24,478	251,974	97
Treasury stock used for stock based compensation	(48,433)	(1,136,660)	43
Balance as of December 26, 2020	312,573	6,506,278	48
Acquired	28,341	239,929	118
Treasury stock used for stock based compensation	(46,367)	(1,276,307)	36
Balance as of December 25, 2021	294,546	5,469,900	54

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 25, 2021 and December 26, 2020 were CHF 46,314 and CHF 26,356 respectively.

6. Significant Shareholders

As of December 25, 2021 and December 26, 2020, 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. 25, 2021</u>	<u>Percentage at Dec. 26, 2020</u>
Jonathan Burrell	10.35% ¹	11.22% ¹
Min H. Kao, Ph.D.	9.52% ²	9.54% ²
BlackRock, Inc.	6.60% ³	6.71%
The Vanguard Group	8.47% ³	8.02%

¹ See footnote 8 (Share Ownership of Garmin Ltd. by Board Members and Members of Executive Management) for details regarding Mr. Burrell's share ownership.

² See footnote 8 (Share Ownership of Garmin Ltd. by Board Members and Members of Executive Management) for details regarding Dr. Kao's share ownership.

³ 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 25, 2021 or December 26, 2020.

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:

2021		2020	
Quantity	Value in CHF	Quantity	Value in CHF
4,180	530,212	6,376	563,444

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

As of December 25, 2021 and December 26, 2020, 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. 25, 2021</u>	<u>Total number of shares held at Dec. 26, 2020</u>
Jonathan Burrell, Chair of Nominating and Corporate Governance Committee, Member of Compensation Committee	20,494,818 ²	22,232,119 ¹
Joseph Hartnett, Chair of Compensation Committee, Member of Audit Committee and Nominating and Corporate Governance Committee	16,673	14,830
Min H. Kao, Ph.D., Executive Chairman	18,859,060 ⁴	18,894,860 ³
Catherine A. Lewis, Member of Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee ⁵	2,698	1,503
Charles W. Pfeffer, Chair of Audit Committee, Member of Compensation Committee and Nominating and Corporate Governance Committee	25,623	23,780
Clifton A. Pemble, President & Chief Executive Officer	- ⁵	- ⁵
Total	<u>39,398,872</u>	<u>41,167,092</u>

¹ Includes (a) 1,562,150 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 several Charitable Lead Annuity Trusts, over which shares Jonathan Burrell has the sole voting and dispositive power; and (c) 11,976,220 shares held in several Grantor Retained Annuity Trusts established by Judith M. Burrell, over which shares Jonathan Burrell has sole voting and dispositive power.

² Includes (a) 91,151 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) 8,948,049 shares held in several Charitable Lead Annuity Trusts, over which shares Jonathan Burrell has the sole voting and dispositive power; (c) 10,611,000 shares held in several Grantor Retained Annuity Trusts established by Judith M. Burrell, over which shares Jonathan Burrell has sole voting and dispositive power; (d) 30,000 shares held in a revocable trust, over which shares Jonathan Burrell has the sole voting and dispositive power; (e) 766,498 shares held in a GRAT remainder trust established for Jonathan Burrell's benefit, over which shares Jonathan Burrell shares voting and dispositive power with a third party co-trustee; and (f) 43,478 shares held in a limited liability company that is wholly-owned by a GRAT remainder trust established for Jonathan Burrell's benefit, over which shares Jonathan Burrell has the sole voting and dispositive power.

³ Includes (a) 6,430,753 shares held by a revocable trust established by Dr. Kao and his wife, over which Dr. Kao has shared voting and dispositive power; (b) 12,282,539 shares held by revocable trusts established by Dr. Kao's children, over which Dr. Kao has shared voting and dispositive power; and (c) 181,568 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.

⁴ Includes (a) 6,410,753 shares held by a revocable trust established by Dr. Kao and his wife, over which Dr. Kao has shared voting and dispositive power; (b) 12,227,539 shares held by revocable trusts established by Dr. Kao's children, over which Dr. Kao has shared voting and dispositive power; and (c) 220,768 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.

⁵ Shares held by Mr. Pemble are shown in the Executive Management disclosure below.

As of December 25, 2021 and December 26, 2020, the members of Executive Management held the following numbers of shares:

<u>Name and Principal Position</u> ¹	<u>Total number of shares held at Dec. 25, 2021</u>	<u>Total number of shares held at Dec. 26, 2020</u>
Douglas G. Boessen, Chief Financial Officer & Treasurer	23,835	25,886
Clifton A. Pemble, President & Chief Executive Officer	108,742	93,851
Total	<u>132,577</u>	<u>119,737</u>

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

The members of our Board of Directors and Executive Management owned 19.96 and 20.84 percent of the Company's total shares issued as of December 25, 2021 and December 26, 2020, 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 25, 2021 and December 26, 2020, respectively.

Outstanding Equity Awards at December 25, 2021

Name and Function	Stock Awards ¹
Jonathan Burrell Member of the Board and Compensation Committee, Chair of Nominating and Corporate Governance Committee	1,045
Joseph Hartnett Member of the Board, Audit Committee and Nominating and Corporate Governance Committee, Chair of Compensation Committee	1,045
Catherine Lewis Member of the Board, Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee	1,045
Charles Peffer Member of the Board, Compensation Committee and Nominating and Corporate Governance Committee, Chair of Audit Committee	1,045
Total	<u><u>4,180</u></u>

¹ Represents restricted stock units.

Outstanding Equity Awards at December 26, 2020

Name and Function	Stock Awards ¹
Jonathan Burrell Member of the Board and Compensation Committee, Chair of Nominating and Corporate Governance Committee	2,459
Joseph Hartnett Member of the Board, Audit Committee and Nominating and Corporate Governance Committee, Chair of Compensation Committee	2,459
Catherine Lewis Member of the Board, Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee	1,594
Charles Peffer Member of the Board, Compensation Committee and Nominating and Corporate Governance Committee, Chair of Audit Committee	2,459
	<hr/>
Total	<hr/> <hr/> 8,971

¹ 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 25, 2021 and December 26, 2020, respectively. Amounts in these tables are presented in CHF.

Outstanding Equity Awards at December 25, 2021

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 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) ³</i>
Clifton A. Pemble					4,300 ⁽¹⁾	530,499
President & Chief Officer					7,870 ⁽¹⁾	970,937
					12,369 ⁽¹⁾	1,525,988
					4,193 ⁽²⁾	517,299
					14,278 ⁽²⁾	1,761,505
					11,661 ⁽²⁾	1,438,640
	<u>-</u>	<u>-</u>			<u>54,671</u>	
Douglas G. Boessen					985 ⁽¹⁾	121,521
Chief Financial Officer & Treasurer					1,750 ⁽¹⁾	215,901
					2,583 ⁽¹⁾	318,670
					1,363 ⁽²⁾	168,156
					4,284 ⁽²⁾	528,525
					3,216 ⁽²⁾	396,764
	<u>-</u>	<u>-</u>			<u>14,181</u>	
Total	<u>-</u>	<u>-</u>			<u>68,852</u>	

¹ Represents restricted stock units.

² Represents time-based and performance-based vesting restricted stock units.

³ Determined by multiplying the number of unearned shares by CHF 123.37, which was the closing price of Garmin shares on The New York Stock Exchange on December 23, 2021.

Outstanding Equity Awards at December 26, 2020

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option / SAR Exercise Price (CHF)	Option / SAR Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (CHF) ⁴
Clifton A. Pemble					5,455 ⁽²⁾	582,892
President & Chief					8,600 ⁽²⁾	918,950
Officer					11,805 ⁽²⁾	1,261,419
					5,921 ⁽³⁾	632,686
					8,386 ⁽³⁾	896,083
					14,277 ⁽³⁾	1,525,564
	<u>0</u>	<u>-</u>			<u>54,444</u>	
Douglas G. Boessen	12,680 ⁽¹⁾	-	46.61	12/15/24	1,227 ⁽²⁾	131,111
Chief Financial Officer					1,970 ⁽²⁾	210,504
& Treasurer					2,625 ⁽²⁾	280,494
					1,776 ⁽³⁾	189,774
					2,726 ⁽³⁾	291,286
					4,284 ⁽³⁾	457,765
	<u>12,680</u>	<u>-</u>			<u>14,608</u>	
Total	<u><u>12,680</u></u>	<u><u>-</u></u>			<u><u>69,052</u></u>	

¹ Represents stock appreciation rights.

² Represents restricted stock units.

³ Represents time-based and performance-based vesting restricted stock units.

⁴ Determined by multiplying the number of unearned shares by CHF 106.85, which was the closing price of Garmin shares on The Nasdaq Stock Market on December 24, 2020.

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 25, 2021 or December 26, 2020.

9. Dividend income and impairment loss on investment in Affiliates

During 2021, Garmin Ltd. received a dividend of CHF 472,000 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 472,000 in the value of its investment in the affiliated companies. During 2020, Garmin Ltd. received a dividend of CHF 590,000 from its Affiliates resulting in a reduction in the value of the investment in the Affiliates by the same amount. Consequently, the Company recognized an impairment of CHF 590,000 in the value of its investment in affiliated companies.

10. Subsequent events

No significant events occurred subsequent to the balance sheet date but prior to February 16, 2022 that would have a material impact on the financial statements.

Proposed Appropriation of Available Earnings

CHF in thousands	December 25, 2021
Balance brought forward from previous years	53,340
Net loss for the period (on a stand-alone unconsolidated basis)	(12,550)
Total available to the general meeting	40,790
Proposal of the Board of Directors for the appropriation of available earnings to the general meeting:	40,790
Balance to be carried forward	40,790

	Reserve from capital contribution	Reserve for treasury shares from capital contribution ¹	Dividend reserve from capital contribution
Balance as of December 25, 2021	4,800,205	294,546	160,798
Proposed release of reserve from capital contribution to dividend reserve from capital contribution	(716,325)		716,325
Balance to be carried forward	4,083,880	294,546	877,123

¹ 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 2.92¹ 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 release² 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 716,325 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 2.92 per outstanding share with a nominal value of CHF 0.10 each (assuming a total of 198,077,418 shares⁴ 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.

¹ In no event will the dividend payment exceed a total of USD 2.92 per share.

² The announcements will not be published in the Swiss Official Gazette of Commerce.

³ Based on the currency conversion rate of 0.9174 at December 25, 2021, with a total of 198,077,418 shares eligible for payout (based on the number of shares issued as at December 25, 2021), the aggregate Dividend Reserve would be CHF 716,325. The amount of the Dividend Reserve, calculated on the basis of the Company's issued shares as at December 25, 2021, 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.

⁴ This number is based on the registered share capital at December 25, 2021. 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 25, 2021 and December 26, 2020

Report of the statutory auditor

with consolidated financial statements as of December 25, 2021 of

Garmin Ltd., Schaffhausen

To the General Meeting of
Garmin Ltd., Schaffhausen

Zurich, February 16, 2022

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 25, 2021 and December 26, 2020, 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 25, 2021. In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 25, 2021 and December 26, 2020, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 25, 2021, 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.



Critical audit matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of Goodwill

Description of the Matter	The Company assigns goodwill acquired in business combinations to its reporting units as of each acquisition date. At December 25, 2021, the Company's goodwill balance related to the consumer auto 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. Revenue and profits of the consumer auto reporting unit declined for a number of years through fiscal 2020 as competing technologies emerged and market saturation occurred for certain key products. Considering uncertainty in qualitative factors, management performed a step one quantitative impairment test of the consumer auto reporting unit in the fourth quarter of 2021, and the Company disclosed that in the future some or all of the approximately \$80 million of goodwill associated with the consumer auto reporting unit could be at risk of impairment.
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Auditing management's annual goodwill impairment test for the consumer auto 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.

How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's consumer auto goodwill impairment review process. For example, we tested controls over management's review of the significant assumptions (e.g., discount rate, projected revenue growth rates, projected operating margins, terminal growth rates) used to develop the prospective financial information (PFI) for the quantitative analysis. We also tested management's controls to validate that the data used in the valuation was complete and accurate.
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To test the estimated fair value of the Company's consumer auto reporting unit, we performed audit procedures that included, among others, assessing the methodology and testing the significant assumptions discussed above and the underlying data used by the Company in its analysis. We included valuation specialists on our team to review the Company's model, method, and the more sensitive 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 Company'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 consumer auto reporting unit that would result from changes in the assumptions. We reconciled the fair value of the reporting unit to its carrying value, testing the Company's determination of the assets and liabilities used within the reporting unit that are the basis for the carrying value. In addition, we tested management's reconciliation of the fair value of the reporting units to the market capitalization of the Company.

Measurement of Reserve for Unrecognized Income Tax Benefits

Description of the Matter The Company accounts for uncertainty in income taxes in accordance with the FASB ASC 740 topic, *Income Taxes*. The Company operates in a multinational tax environment and is subject to tax laws, regulations and guidelines for intercompany transactions that have transfer pricing subjectivity. The Company uses significant judgment to evaluate uncertain tax positions and determine whether the threshold for recognition has been met and to measure the largest amount of benefit that is more likely than not to be realized upon ultimate settlement. As discussed in Note 6 to the consolidated financial statements, the Company's balance of gross unrecognized income tax benefits was \$65 million at December 25, 2021, primarily related to transfer pricing positions.

Auditing management's assessment and measurement of material tax positions is complex and involved especially subjective and complex judgements. The assessment process involves both significant judgment to evaluate each position against the recognition threshold and estimation because the pricing of the intercompany transactions is based on pricing analyses that may produce a number of different outcomes or ranges of outcomes (e.g., the price that would be charged in an arm's-length transaction). Each transfer pricing tax position carries unique facts and circumstances that must be evaluated, and ultimate resolution will be dependent on uncontrollable factors, such as the interpretation of laws and regulations; new case law; the willingness of the income tax authority to settle the issue, including the timing thereof; and other factors.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated the design and tested the operating effectiveness of controls that address the risks of material misstatement relating to the identification, assessment, measurement and valuation of uncertain tax positions related to transfer pricing from intercompany transactions. For example, we tested controls over management's review of intercompany transfer pricing positions against the measurement criteria, review of inputs and calculations of these uncertain tax positions, which included management's evaluation of the ranges of outcomes and pricing conclusions reached within the transfer pricing studies.

Our audit procedures included, among others, involving our tax professionals to test the Company's assessment and measurement of tax positions related to transfer pricing used in intercompany transactions to assess the appropriateness of the ranges of outcomes utilized and the pricing conclusions reached within the transfer pricing studies conducted by the Company. For example, we compared the transfer pricing methodology utilized by management to alternative methodologies and industry benchmarks. We also verified our understanding of the relevant facts by

reading the Company's correspondence with the relevant tax authorities and any third-party advice obtained by the Company. In addition, we used our knowledge of international and local income tax laws, as well as historical settlement activity from income tax authorities, to evaluate the appropriateness of the Company's measurement of uncertain tax positions related to transfer pricing used in these intercompany transactions.



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/ Rico Fehr
Licensed audit expert
(Auditor in charge)

/s/ Michaela Held
Licensed audit expert

Enclosures

- ▶ Consolidated financial statements (consolidated balance sheets as of December 25, 2021 and December 26, 2020, 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 25, 2021)

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

	December 25, 2021	December 26, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,498,058	\$ 1,458,442
Marketable securities (Note 3)	347,980	387,642
Accounts receivable, less allowance for doubtful accounts of \$7,080 in 2021 and \$11,086 in 2020	843,445	849,469
Inventories	1,227,609	762,084
Deferred costs	15,961	20,145
Prepaid expenses and other current assets	328,719	191,569
Total current assets	4,261,772	3,669,351
Property and equipment, net (Note 2)	1,067,478	855,539
Operating lease right-of-use assets (Note 14)	89,457	94,626
Noncurrent marketable securities (Note 3)	1,268,698	1,131,175
Deferred income tax assets (Note 6)	260,205	245,455
Noncurrent deferred costs	12,361	16,510
Intangible assets, net	791,073	828,566
Other noncurrent assets	103,383	190,151
Total assets	<u>\$ 7,854,427</u>	<u>\$ 7,031,373</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 370,048	\$ 258,885
Salaries and benefits payable	211,371	181,937
Accrued warranty costs	45,467	42,643
Accrued sales program costs	121,514	109,891
Other accrued expenses	225,988	181,767
Deferred revenue	87,654	86,865
Income taxes payable	128,083	68,585
Dividend payable	258,023	233,644
Total current liabilities	1,448,148	1,164,217
Deferred income tax liabilities (Note 6)	117,595	116,844
Noncurrent income taxes payable	62,539	92,810
Noncurrent deferred revenue	41,618	49,934
Noncurrent operating lease liabilities	70,044	75,958
Other noncurrent liabilities	324	15,494
Stockholders' equity:		
Shares, CHF 0.10 par value, 198,077 shares authorized and issued, 192,608 shares outstanding at December 25, 2021; and 191,571 shares outstanding at December 26, 2020; (Notes 9, 10, and 11):	17,979	17,979
Additional paid-in capital	1,960,722	1,880,354
Treasury stock	(303,114)	(320,016)
Retained earnings	4,320,737	3,754,372
Accumulated other comprehensive income	117,835	183,427
Total stockholders' equity	6,114,159	5,516,116
Total liabilities and stockholders' equity	<u>\$ 7,854,427</u>	<u>\$ 7,031,373</u>

See accompanying notes.

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

	Fiscal Year Ended		
	December 25, 2021	December 26, 2020	December 28, 2019
Net sales	\$ 4,982,795	\$ 4,186,573	\$ 3,757,505
Cost of goods sold	2,092,336	1,705,237	1,523,529
Gross profit	2,890,459	2,481,336	2,233,976
Advertising expense	171,829	151,166	164,456
Selling, general and administrative expenses	659,986	570,245	518,568
Research and development expense	840,024	705,685	605,366
Total operating expense	1,671,839	1,427,096	1,288,390
Operating income	1,218,620	1,054,240	945,586
Other income (expense):			
Interest income	28,573	37,002	52,817
Foreign currency (losses) gains	(45,263)	2,825	(16,799)
Other income	4,866	9,343	5,618
Total other income (expense)	(11,824)	49,170	41,636
Income before income taxes	1,206,796	1,103,410	987,222
Income tax provision (benefit): <i>(Note 6)</i>			
Current	130,040	104,471	123,073
Deferred	(5,444)	6,615	(88,337)
Total income tax provision (benefit)	124,596	111,086	34,736
Net income	\$ 1,082,200	\$ 992,324	\$ 952,486
Basic net income per share <i>(Note 10)</i>	\$ 5.63	\$ 5.19	\$ 5.01
Diluted net income per share <i>(Note 10)</i>	\$ 5.61	\$ 5.17	\$ 4.99

See accompanying notes.

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

	Fiscal Year Ended		
	December 25, 2021	December 26, 2020	December 28, 2019
Net income	\$ 1,082,200	\$ 992,324	\$ 952,486
Foreign currency translation adjustment	(39,538)	107,664	7,962
Change in fair value of available-for-sale marketable securities, net of deferred taxes	(26,054)	19,889	39,482
Comprehensive income	<u>\$ 1,016,608</u>	<u>\$ 1,119,877</u>	<u>\$ 999,930</u>

See accompanying notes.

Garmin Ltd. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(USD in thousands, except per share information)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 29, 2018	\$ 17,979	\$ 1,823,638	\$ (397,692)	\$ 2,710,619	\$ 8,430	\$ 4,162,974
Net income	—	—	—	952,486	—	952,486
Translation adjustment	—	—	—	—	7,962	7,962
Adjustment related to unrealized gains (losses) on available-for-sale securities net of income tax effects of \$5,982	—	—	—	—	39,482	39,482
Comprehensive income	—	—	—	—	—	999,930
Dividend declared (\$2.28 per share)	—	—	—	(434,044)	—	(434,044)
Issuance of treasury stock related to equity awards	—	(51,416)	78,538	—	—	27,122
Stock compensation	—	63,400	—	—	—	63,400
Purchase of treasury stock related to equity awards	—	—	(25,886)	—	—	(25,886)
Balance at December 28, 2019	\$ 17,979	\$ 1,835,622	\$ (345,040)	\$ 3,229,061	\$ 55,874	\$ 4,793,496
Net income	—	—	—	992,324	—	992,324
Translation adjustment	—	—	—	—	107,664	107,664
Adjustment related to unrealized gains (losses) on available-for-sale securities net of income tax effects of \$3,157	—	—	—	—	19,889	19,889
Comprehensive income	—	—	—	—	—	1,119,877
Dividend declared (\$2.44 per share)	—	—	—	(467,013)	—	(467,013)
Issuance of treasury stock related to equity awards	—	(36,153)	51,354	—	—	15,201
Stock compensation	—	80,885	—	—	—	80,885
Purchase of treasury stock related to equity awards	—	—	(26,330)	—	—	(26,330)
Balance at December 26, 2020	\$ 17,979	\$ 1,880,354	\$ (320,016)	\$ 3,754,372	\$ 183,427	\$ 5,516,116
Net income	—	—	—	1,082,200	—	1,082,200
Translation adjustment	—	—	—	—	(39,538)	(39,538)
Adjustment related to unrealized gains (losses) on available-for-sale securities net of income tax effects of \$6,568	—	—	—	—	(26,054)	(26,054)
Comprehensive income	—	—	—	—	—	1,016,608
Dividend declared (\$2.68 per share)	—	—	—	(515,835)	—	(515,835)
Issuance of treasury stock related to equity awards	—	(12,154)	47,887	—	—	35,733
Stock compensation	—	92,522	—	—	—	92,522
Purchase of treasury stock related to equity awards	—	—	(30,985)	—	—	(30,985)
Balance at December 25, 2021	\$ 17,979	\$ 1,960,722	\$ (303,114)	\$ 4,320,737	\$ 117,835	\$ 6,114,159

See accompanying notes.

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

	Fiscal Year Ended		
	December 25, 2021	December 26, 2020	December 28, 2019
Operating Activities:			
Net income	\$ 1,082,200	\$ 992,324	\$ 952,486
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	103,498	78,121	71,921
Amortization	51,320	48,594	34,254
Loss (gain) on sale of property and equipment	298	(1,799)	(233)
Unrealized foreign currency losses (gains)	36,385	(9,873)	18,663
Deferred income taxes	(5,368)	6,931	(88,358)
Stock compensation expense	92,522	80,885	63,400
Realized gains on marketable securities	(622)	(1,392)	(799)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable, net of allowance for doubtful accounts	(19,106)	(108,859)	(123,401)
Inventories	(476,454)	28,726	(170,169)
Other current and noncurrent assets	(38,004)	(33,690)	(86,073)
Accounts payable	108,946	1,447	26,192
Other current and noncurrent liabilities	70,007	87,761	36,660
Deferred revenue	(7,377)	(25,211)	(11,032)
Deferred costs	8,288	11,973	9,335
Income taxes	5,894	(20,671)	(34,297)
Net cash provided by operating activities	1,012,427	1,135,267	698,549
Investing activities:			
Purchases of property and equipment	(307,645)	(185,401)	(118,031)
Proceeds from sale of property and equipment	35	1,977	529
Purchase of intangible assets	(1,942)	(2,065)	(2,377)
Purchase of marketable securities	(1,508,712)	(1,052,640)	(789,352)
Redemption of marketable securities	1,363,070	1,126,253	758,774
Acquisitions, net of cash acquired	(20,175)	(148,648)	(300,289)
Net cash used in investing activities	(475,369)	(260,524)	(450,746)
Financing activities:			
Dividends	(491,457)	(450,631)	(417,264)
Proceeds from issuance of treasury stock related to equity awards	35,733	15,201	27,122
Purchase of treasury stock related to equity awards	(30,985)	(26,330)	(25,886)
Net cash used in financing activities	(486,709)	(461,760)	(416,028)
Effect of exchange rate changes on cash and cash equivalents	(10,254)	18,127	(5,942)
Net increase (decrease) in cash, cash equivalents, and restricted cash	40,095	431,110	(174,167)
Cash, cash equivalents, and restricted cash at beginning of year	1,458,748	1,027,638	1,201,805
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 1,498,843</u>	<u>\$ 1,458,748</u>	<u>\$ 1,027,638</u>

See accompanying notes.

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

	Fiscal Year Ended		
	December 25, 2021	December 26, 2020	December 28, 2019
Supplemental disclosures of cash flow information			
Cash paid during the year for income taxes	\$ 131,040	\$ 133,057	\$ 160,286
Cash received during the year from income tax refunds	\$ 8,264	\$ 4,820	\$ 6,063
Supplemental disclosure of non-cash investing and financing activities			
Increase (decrease) in accrued capital expenditures related to purchases of property and equipment	\$ 9,541	\$ (4,192)	\$ 2,821
Change in marketable securities related to unrealized (depreciation) appreciation	\$ (32,622)	\$ 23,045	\$ 45,464
Fair value of assets acquired	\$ 20,956	\$ 165,082	\$ 354,631
Liabilities assumed	(764)	(14,884)	(25,507)
Less: cash acquired	(17)	(1,550)	(28,835)
Cash paid for acquisitions, net of cash acquired	\$ 20,175	\$ 148,648	\$ 300,289

See accompanying notes.

Garmin Ltd. and Subsidiaries
Notes to Consolidated Financial Statements
(USD in thousands, except share and per share information)
December 25, 2021 and December 26, 2020

1. Description of the Business

Garmin Ltd. and subsidiaries (collectively, the “Company” or “Garmin”) 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 and services. 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 primarily 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. Certain prior period amounts have been reclassified or presented to conform to 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 years) 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 2021, 2020, and 2019 each included 52 weeks.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign Currency

Many Garmin Ltd. subsidiaries utilize currencies other than the United States Dollar (USD) as their functional currency. As required by the Foreign Currency Matters topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the financial statements of these subsidiaries for all periods presented have been translated into USD, the functional currency of Garmin Ltd., and the reporting currency herein, for purposes of consolidation at rates prevailing during the year for sales, costs, and expenses and at end-of-year rates for all assets and liabilities. The effect of this translation is recorded in a separate component of stockholders' equity. Cumulative currency translation adjustments of \$123,415 and \$162,953 as of December 25, 2021 and December 26, 2020, 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 \$45,263 for the year ended December 25, 2021, net foreign currency gains recorded in results of operations were \$2,825 for the year ended December 26, 2020, and net foreign currency losses recorded in results of operations were \$16,799 for the year ended December 28, 2019. The loss in fiscal 2021 was primarily due to the U.S. Dollar strengthening against the Euro, Polish Zloty, Japanese Yen, Swiss Franc, and Australian Dollar, while the U.S. Dollar weakened against the Taiwan Dollar. The gain in fiscal 2020 was primarily due to the U.S. Dollar weakening against the Euro, Australian Dollar, Chinese Yuan, and British Pound Sterling, partially offset by the U.S. Dollar weakening against the Taiwan Dollar. The loss in fiscal 2019 was primarily driven by the U.S. Dollar strengthening against the Euro and weakening against the Taiwan Dollar, which was partially offset by the U.S. Dollar weakening against the British Pound Sterling.

Garmin Corporation, one of the Company's principal subsidiaries, is located in Taiwan. The Taiwan Foreign Exchange Control Statute (the "Statute"), and regulations thereunder, provides that all foreign exchange transactions must be executed by banks designated to handle such business by the Ministry of Finance of Taiwan and by the Central Bank of the Republic of China (Taiwan), also referred to as the CBC. Current regulations favor trade-related foreign exchange transactions, so the Statute does not impose any significant restrictions on import or export activities involving foreign currencies in Taiwan. Non-trade related currency exchanges exceeding \$50 million, or its equivalent, in a calendar year require approval of the CBC.

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 of the Notes to Consolidated Financial Statements.

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 within other noncurrent assets on the Consolidated Balance Sheets. See Note 4 of the Notes to Consolidated Financial Statements for additional information on restricted cash.

The total of the cash and cash equivalents balance and the restricted cash reported within other noncurrent assets 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 grants credit to certain customers based on its evaluation of the customers' financial condition. Generally, the Company does not require security when trade credit is granted to customers. The Company's trade accounts receivable are carried at net realizable value, typically are collected within 90 days, and do not bear interest. 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. Credit losses are provided for in the Company's consolidated financial statements and typically have been within management's expectations. Past due receivable balances are typically written off when internal collection efforts have been unsuccessful in collecting the amount due. The Company maintains trade credit insurance to provide some security against certain losses within policy limits.

Concentration of Credit Risk

The Company's top ten customers have contributed between 20% and 23% of net sales annually since 2019. Amazon.com, Inc. and its affiliates (Amazon), a customer of the fitness, outdoor, marine, and consumer auto segments, is our largest customer and accounted for approximately 10% of our consolidated net sales in the fiscal year ended December 25, 2021. No other customer accounted for 10% or more of Garmin's consolidated net sales in fiscal 2021. None of the Company's customers accounted for 10% or more of consolidated net sales in the years ended December 26, 2020, and December 28, 2019.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost includes materials, labor, and manufacturing overhead associated with purchases and production and is 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:

	December 25, 2021	December 26, 2020
Raw materials	\$ 509,435	\$ 282,287
Work-in-process	213,801	147,821
Finished goods	504,373	331,976
Inventories	<u>\$ 1,227,609</u>	<u>\$ 762,084</u>

Property and Equipment

Property and equipment is recorded at cost and typically depreciated using the straight-line method. The components of property and equipment were as follows and are generally depreciated over the following estimated useful lives:

	Estimated Useful Life	December 25, 2021	December 26, 2020
Land		\$ 206,895	\$ 124,654
Building and improvements	15 to 50 years	763,654	662,753
Machinery, equipment and software	3 to 10 years	917,557	800,410
Total, at cost		1,888,106	1,587,817
Accumulated depreciation		(820,628)	(732,278)
Property and equipment, net		<u>\$ 1,067,478</u>	<u>\$ 855,539</u>

As required by the *Property, Plant and Equipment* topic of the FASB ASC (ASC Topic 360), the Company reviews long-lived assets, including property and equipment, 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. The Company did not recognize any material long-lived asset impairment charges in the fiscal years of 2021, 2020, or 2019.

Intangible Assets

At December 25, 2021, and December 26, 2020, the Company had patents, customer related intangibles and other identifiable finite-lived intangible assets recorded at a cost of \$524,566 and \$523,990, 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 \$308,572 and \$279,633 at December 25, 2021 and December 26, 2020, respectively. Amortization expense on these intangible assets was \$35,540, \$34,797, and \$26,225 for the years ended December 25, 2021, December 26, 2020, and December 28, 2019, respectively. In the next five years, the amortization expense is estimated to be \$31,717, \$29,649, \$26,913, \$24,376, and \$21,257, respectively. The Company also reviews finite-lived intangible assets for impairment in accordance with ASC Topic 360, as described above, whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be fully recoverable.

The Company's excess purchase cost over fair value of net assets acquired (goodwill) was \$575,080 at December 25, 2021, and \$584,210 at December 26, 2020. Changes in the carrying amount of goodwill for the years ended December 25, 2021 and December 26, 2020 are as follows:

	Fitness	Outdoor	Aviation	Marine	Auto	Total
Goodwill balance as of December 28, 2019	\$ 192,758	\$ 55,934	\$ 60,571	\$ 79,480	\$ 78,365	\$ 467,108
Acquisitions	59,728	29,771	—	—	—	89,499
Foreign currency translation and other adjustments	19,963	2,953	(224)	3,122	1,789	27,603
Goodwill balance as of December 26, 2020	\$ 272,449	\$ 88,658	\$ 60,347	\$ 82,602	\$ 80,154	\$ 584,210
Acquisitions	—	14,152	—	—	—	14,152
Foreign currency translation and other adjustments	(16,577)	(2,416)	—	(2,696)	(1,593)	(23,282)
Goodwill balance as of December 25, 2021	<u>\$ 255,872</u>	<u>\$ 100,394</u>	<u>\$ 60,347</u>	<u>\$ 79,906</u>	<u>\$ 78,561</u>	<u>\$ 575,080</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 assessed for impairment at least annually or sooner whenever events or changes in circumstances indicate that they may be impaired. The Company performs its annual impairment assessments of goodwill and indefinite-lived intangible assets, if any, in the fourth quarter of each year, as of the Company's fiscal year end date.

ASC Topic 350 allows management to first perform a qualitative goodwill assessment 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. 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 quantitative test will be performed. If the fair value of the reporting unit is less than the carrying amount, then a goodwill impairment charge will be recognized in the amount by which carrying amount exceeds fair value, limited to the total amount of goodwill allocated to that reporting unit. Each of the Company's operating segments (fitness, outdoor, aviation, marine, consumer auto, and auto OEM) represents a distinct reporting unit, and goodwill impairment assessments are therefore performed at that level.

Revenue and profits of the consumer auto reporting unit declined for a number of years through fiscal 2020, as competing technologies emerged and market saturation occurred for certain key products. Revenue and profit of the consumer auto reporting unit increased in fiscal 2021, but considering uncertainty in qualitative factors, management performed a quantitative impairment test of the consumer auto reporting unit in the fourth quarter of 2021. Consistent with the results of the quantitative assessment performed in 2020, the quantitative assessment indicated again in 2021 that the fair value of the reporting unit was substantially in excess of its carrying amount. Considering the results of the assessment, recent trends, and future projections, management does not believe the goodwill associated with the consumer auto reporting unit is currently at risk of impairment. However, there is no assurance that the Company will continue to generate profits from the consumer auto segment, and in the future some or all of the goodwill associated with the consumer auto reporting unit could be at risk of impairment.

Management also concluded that no goodwill associated with other reporting units is currently at risk of impairment based on qualitative assessments performed in 2021. The Company did not recognize any material goodwill or intangible asset impairment charges in fiscal years 2021, 2020, or 2019.

Leases

The Company leases certain real estate properties, vehicles, and equipment in various countries around the world. Leased properties are typically used for office space, distribution, and retail. The Company's leases are classified as operating leases with remaining terms of 1 to 32 years, some of which include an option to extend or renew. If the exercise of an option to extend or renew is determined to be reasonably certain, the associated right-of-use asset and lease liability reflects the extended period and payments. For newly signed leases, the right-of-use asset and lease liability is recognized on lease commencement date. Variable lease costs, such as adjustments to payments based on consumer price indices, are excluded in the recognition of right-of-use assets and lease liabilities. For all real estate leases, any non-lease components, including common area maintenance, have been separated from lease components and excluded from the associated right-of-use asset and lease liability calculations. For all equipment and vehicle leases, an accounting policy election has been made to not separate lease and non-lease components.

Leases with an initial term of 12 months or less ("short-term leases") are not recognized on the Company's Consolidated Balance Sheets as a right-of-use asset or lease liability.

Dividends

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

On June 4, 2021, the shareholders approved a dividend of \$2.68 per share (of which, \$1.34 was paid in the Company's 2021 fiscal year) payable in four equal installments on dates determined by the Board of Directors. The dates determined by the Board were as follows:

Dividend Date	Record Date	\$s per share
June 30, 2021	June 15, 2021	\$ 0.67
September 30, 2021	September 15, 2021	\$ 0.67
December 31, 2021	December 15, 2021	\$ 0.67
March 31, 2022	March 15, 2022	\$ 0.67

The Company paid dividends in 2021 in the amount of \$491,457, 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 5, 2020, the shareholders approved a dividend of \$2.44 per share (of which, \$1.22 was paid in the Company's 2020 fiscal year) payable in four equal installments on dates determined by the Board of Directors. The dates determined by the Board were as follows:

Dividend Date	Record Date	\$s per share
June 30, 2020	June 15, 2020	\$ 0.61
September 30, 2020	September 15, 2020	\$ 0.61
December 31, 2020	December 15, 2020	\$ 0.61
March 31, 2021	March 15, 2021	\$ 0.61

The Company paid dividends in 2020 in the amount of \$450,631, 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 7, 2019, the shareholders approved a dividend of \$2.28 per share (of which, \$1.14 was paid in the Company's 2019 fiscal year) payable in four equal installments on dates determined by the Board of Directors. The dates determined by the Board were as follows:

Dividend Date	Record Date	\$s per share
June 28, 2019	June 17, 2019	\$ 0.57
September 30, 2019	September 16, 2019	\$ 0.57
December 31, 2019	December 16, 2019	\$ 0.57
March 31, 2020	March 16, 2020	\$ 0.57

The Company paid dividends in 2019 in the amount of \$417,264, 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.

Approximately \$61,129 of retained earnings was indefinitely restricted from distribution to stockholders pursuant to the laws of Taiwan as of December 25, 2021 and December 26, 2020.

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 25, 2021. Available-for-sale securities are stated at fair value, with the unrealized gains and losses, net of tax, reported in accumulated other comprehensive income on the Company's Consolidated Balance Sheets. At December 25, 2021, cumulative unrealized losses of \$5,580 were reported in accumulated other comprehensive income, net of related taxes. At December 26, 2020, cumulative unrealized net gains of \$20,474 were reported in accumulated other comprehensive income, net of related taxes.

The Company recognizes impairments relating to credit losses of available-for-sale securities through an allowance for credit losses and other income (expense) on the Company's Consolidated Statements of Income. Impairment not relating to credit losses is recorded in other comprehensive income (loss) on the Company's Consolidated Balance Sheets.

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 relating to credit losses 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.

In making this assessment we evaluate the extent to which the fair value is less than the amortized cost basis, any change in credit rating of the security, adverse conditions specifically related to the security, failure of the issuer to make scheduled payments, and other relevant factors affecting the security. If it is determined that a credit loss exists, the amount of the credit loss is determined by comparing the present value of the expected future cash flows for the security to the amortized cost basis of the security, limited by the amount that the fair value is less than the amortized cost basis.

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 and realized gains/losses are recorded within Interest income and other income (expense), respectively, on the Company's Consolidated Statements of 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 results 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 to which the Company expects to be entitled 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 such services have been identified 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.

The Company allocates revenue to all performance obligations associated with tangible products containing separately identifiable ongoing services based on the respective performance obligations' 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 map updates and server-based traffic services. In addition, the Company provides map update services (map care) over a contractual period in certain hardware and software contracts with original automotive equipment manufacturers (OEMs). The Company has determined that directly observable prices do not exist for map updates, 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 map updates, map care, and traffic performance obligations. The revenue and associated costs allocated to map updates, map care, and 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 efforts related to providing these services are generally 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 aviation database subscriptions, incremental navigation and communication service subscriptions, mobile applications, and extended warranties that are recognized over the contractual service period (typically 1-3 years).

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 the Company obtains proof of a distinct advertising service, in which case the incentive is recorded 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.

Deferred Revenues and Costs

At December 25, 2021 and December 26, 2020, the Company had deferred revenues totaling \$129,272 and \$136,799, respectively, and related deferred costs totaling \$28,322 and \$36,655, 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 license fees 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 license fees 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 expensed at the approximate time of sale. 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, which may result in decreased gross profit. The following reconciliation presents details of the changes in the Company's accrued warranty costs:

	Fiscal Year Ended		
	December 25, 2021	December 26, 2020	December 28, 2019
Balance - beginning of period	\$ 42,643	\$ 39,758	\$ 38,276
Accrual for products sold ⁽¹⁾	69,810	67,028	58,092
Expenditures	(66,986)	(64,143)	(56,610)
Balance - end of period	<u>\$ 45,467</u>	<u>\$ 42,643</u>	<u>\$ 39,758</u>

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

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.

See Note 4 of the Notes to Consolidated Financial Statements for additional information on contingencies.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense amounted to approximately \$171,829, \$151,166, and \$164,456 for the years ended December 25, 2021, December 26, 2020, and December 28, 2019, 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 \$840,024, \$705,685, and \$605,366 for the years ended December 25, 2021, December 26, 2020, and December 28, 2019, respectively.

Preproduction Costs Related to Long-Term Supply Arrangements

Preproduction design and development costs related to long-term supply arrangements are expensed as incurred, and classified as research and development, unless the customer has provided a contractual guarantee for reimbursement of such costs. Contractually reimbursable costs are capitalized as incurred in the Consolidated Balance Sheets within prepaid expenses and other current assets if reimbursement is expected to be received within one year, or within other noncurrent assets if expected to be received beyond one year. Such capitalized costs were approximately \$67,349 and \$63,610 as of December 25, 2021 and December 26, 2020, 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 three 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.

Excess tax benefits or deficiencies from stock-based compensation are recognized in the income tax provision and are not estimated in the effective tax rate, rather, are recorded as discrete tax items in the period they occur. Excess income tax benefits from stock-based compensation arrangements are classified as a cash flow from operations.

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

Recently Adopted Accounting Standards

Financial Instruments – Credit Losses

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 changed how entities assess and measure credit losses of certain financial instruments, including available-for-sale securities and accounts receivable. The Company adopted the new standard as of the beginning of the 2020 fiscal year. The adoption of the standard did not have a material impact on the Company's 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 shortened the amortization period for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. The Company adopted the new standard as of the beginning of the 2020 fiscal year. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

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.

The Company adopted the new lease standard as of the beginning of the 2019 fiscal year using the optional transition method. The Company did not have a cumulative effect adjustment to retained earnings as a result of adopting the new lease standard, and adoption of the standard did not have a material impact on the Company’s Consolidated Statements of Income or Consolidated Statements of Cash Flows. The Company elected the package of transitional practical expedients upon adoption which, among other provisions, allowed the Company to carry forward historical lease classification. See Note 14 – Leases for additional information regarding leases.

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 removed “step two” of the goodwill impairment test, such that a goodwill impairment charge is now the amount by which a reporting unit’s carrying value exceeds its fair value. ASU 2017-04 is applied prospectively and was effective for fiscal years, or any goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption was permitted for any impairment tests performed after January 1, 2017. The Company early adopted ASU 2017-04 in the fourth quarter of the year ended December 28, 2019. The adoption did not have a material impact on the Company’s consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

We do not expect any recently issued accounting pronouncements not yet adopted to have a material impact on the Company’s consolidated financial statements, accounting policies, processes, or systems upon adoption.

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 the identical asset 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.

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

Available-For-Sale Securities as of December 25, 2021					
	Fair Value Level	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	Level 2	\$ —	\$ —	\$ —	\$ —
Agency securities	Level 2	7,000	—	(110)	6,890
Mortgage-backed securities	Level 2	149,692	257	(880)	149,069
Corporate securities	Level 2	1,079,390	9,830	(11,827)	1,077,393
Municipal securities	Level 2	356,037	1,870	(4,864)	353,043
Other	Level 2	31,134	22	(873)	30,283
Total		\$ 1,623,253	\$ 11,979	\$ (18,554)	\$ 1,616,678

Available-For-Sale Securities as of December 26, 2020					
	Fair Value Level	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	Level 2	\$ 400	\$ 6	\$ —	\$ 406
Agency securities	Level 2	5,954	56	—	6,010
Mortgage-backed securities	Level 2	239,445	1,051	(1,923)	238,573
Corporate securities	Level 2	984,696	25,962	(1,637)	1,009,021
Municipal securities	Level 2	214,515	3,644	(223)	217,936
Other	Level 2	47,760	167	(1,056)	46,871
Total		\$ 1,492,770	\$ 30,886	\$ (4,839)	\$ 1,518,817

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.

Accrued interest receivable, which totaled \$10,988 as of December 25, 2021, is excluded from both the fair value and amortized cost basis of available-for-sale securities and is included within prepaid expenses and other current assets on the Company's Consolidated Balance Sheets. The Company writes off impaired accrued interest on a timely basis, generally within 30 days of the due date, by reversing interest income. No accrued interest was written off during the 52-week period ended December 25, 2021.

The Company recognizes impairments relating to credit losses of available-for-sale securities through an allowance for credit losses and other income (expense) on the Company's Consolidated Statements of Income. Impairment not relating to credit losses is recorded in accumulated other comprehensive income (loss) on the Company's Consolidated Balance Sheets. The cost of securities sold is based on the specific identification method. Approximately 51% of securities in our portfolio were at an unrealized loss position at December 25, 2021.

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 25, 2021 and December 26, 2020.

As of December 25, 2021						
	Less than 12 Consecutive Months		12 Consecutive Months or Longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Agency securities	(110)	6,890	—	—	(110)	6,890
Mortgage-backed securities	(148)	18,909	(732)	7,598	(880)	26,507
Corporate securities	(9,466)	499,084	(2,361)	85,033	(11,827)	584,117
Municipal securities	(4,247)	226,009	(617)	29,405	(4,864)	255,414
Other	(467)	17,845	(406)	7,205	(873)	25,050
Total	\$ (14,438)	\$ 768,737	\$ (4,116)	\$ 129,241	\$ (18,554)	\$ 897,978

As of December 26, 2020						
	Less than 12 Consecutive Months		12 Consecutive Months or Longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Agency securities	—	—	—	—	—	—
Mortgage-backed securities	(1,849)	85,688	(74)	2,122	(1,923)	87,810
Corporate securities	(1,065)	199,187	(572)	8,625	(1,637)	207,812
Municipal securities	(223)	50,403	—	—	(223)	50,403
Other	(726)	22,600	(330)	3,426	(1,056)	26,026
Total	\$ (3,863)	\$ 357,878	\$ (976)	\$ 14,173	\$ (4,839)	\$ 372,051

As of December 25, 2021 and December 26, 2020, the Company had not recognized an allowance for credit losses on any securities in an unrealized loss position.

The Company has not recorded an allowance for credit losses and charge to other income for the unrealized losses on agency, mortgage-backed, corporate, municipal, and other securities presented above because we do not consider the declines in fair value to have resulted from credit losses. We have not observed a significant deterioration in credit quality of these securities, which are highly rated with moderate to low credit risk. Declines in value are largely attributable to current global economic conditions. The securities continue to make timely principal and interest payments, and the fair values are expected to recover as they approach maturity. The Company does not intend to sell the securities, and it is not more likely than not that the Company will be required to sell the securities, before the respective recoveries of their amortized cost bases, which may be maturity.

The amortized cost and fair value of marketable securities at December 25, 2021, by maturity, are shown below.

	Amortized Cost	Fair Value
Due in one year or less	\$ 346,377	\$ 347,980
Due after one year through five years	1,236,333	1,229,328
Due after five years through ten years	37,443	36,571
Due after ten years	3,100	2,799
Total	\$ 1,623,253	\$ 1,616,678

4. Commitments and Contingencies

Commitments

The Company is party to certain commitments that require the future purchase of goods or services ("unconditional purchase obligations"). The Company's unconditional purchase obligations primarily consist of payments for inventory, capital expenditures, and other indirect purchases in connection with conducting our business. The aggregate amount of purchase orders and other commitments open as of December 25, 2021 that may represent noncancellable unconditional purchase obligations having a remaining term in excess of one year was approximately \$371,000.

Certain cash balances are held as collateral in relation to bank guarantees. The total amount of restricted cash was \$785 and \$306 on December 25, 2021 and December 26, 2020, respectively.

Contingencies

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 25, 2021. 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 25, 2021, December 26, 2020, and December 28, 2019 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

Certain subsidiaries of the Company sponsor various defined contribution employee retirement plans. GII and the Company's other U.S.-based subsidiaries sponsor a 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 25, 2021, December 26, 2020, and December 28, 2019, expense related to this and other defined contribution plans of \$71,262, \$63,908, and \$55,456, respectively, was recorded within the Company's Consolidated Statements of Income.

Certain of the Company's non-U.S. subsidiaries sponsor or participate in local defined benefit pension plans. The obligations, contributions, and associated expense of such plans for the years ended December 25, 2021, December 26, 2020, and December 28, 2019 were not material.

6. Income Taxes

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

	Fiscal Year Ended		
	December 25, 2021	December 26, 2020	December 28, 2019
U.S. federal:			
Current	\$ (13,096)	\$ (25,220)	\$ 32,874
Deferred	(42,625)	(7,115)	20,388
	\$ (55,721)	\$ (32,335)	\$ 53,262
U.S. state:			
Current	\$ (5,876)	\$ (3,931)	\$ 12,605
Deferred	(8,132)	2,715	831
	\$ (14,008)	\$ (1,216)	\$ 13,436
Foreign:			
Current	\$ 149,012	\$ 133,622	\$ 77,594
Deferred	45,313	11,015	(109,556)
	\$ 194,325	\$ 144,637	\$ (31,962)
Total	\$ 124,596	\$ 111,086	\$ 34,736

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 25, 2021	December 26, 2020	December 28, 2019
Federal income tax expense at U.S. statutory rate	\$ 253,429	\$ 231,718	\$ 207,317
State income tax (benefit) expense, net of federal tax effect	(12,198)	(3,404)	7,827
Foreign-derived intangible income (FDII) deduction	—	—	(4,966)
Foreign tax rate differential	(117,586)	(98,130)	(57,302)
Other foreign taxes less incentives and credits	29,240	3,446	6,360
Withholding tax	22,992	17,026	32,162
Net change in uncertain tax positions	(17,087)	(21,391)	(17,259)
U.S. federal research and development credit	(22,764)	(21,342)	(19,338)
Share-based compensation	(6,362)	(6,114)	(6,169)
Switzerland tax reform - tax assets	(177)	11,016	(117,989)
Other, net	(4,891)	(1,739)	4,093
Income tax expense (benefit)	<u>\$ 124,596</u>	<u>\$ 111,086</u>	<u>\$ 34,736</u>

The Company recorded income tax expense of \$124,596 in the year ended December 25, 2021. The Company recorded income tax expense of \$111,086 in the year ended December 26, 2020, which included a \$14,308 income tax benefit recognized by the Company in the second quarter of 2020 due to the release of uncertain tax position reserves associated with a 2014 intercompany restructuring and was partially offset by income tax expense of \$11,016 recognized by the Company in the fourth quarter of 2020 related to the revaluation of certain Switzerland tax assets related to the Switzerland tax reform transitional measures. The Company recorded income tax expense of \$34,736 in the year ended December 28, 2019, which included an income tax benefit of \$117,989 related to the revaluation and step-up of certain Switzerland tax assets as a result of the October 2019 enactment of Switzerland federal and Schaffhausen cantonal tax reform and related transitional measures.

The Company's statutory federal and cantonal income tax rate in Switzerland, the Company's place of incorporation, was 14.03% in fiscal years 2021 and 2020. If the Company reconciled taxes at the Swiss holding company federal statutory tax rate to the reported income tax expense for 2021 as presented above, the amounts related to tax at the statutory rate would be approximately \$84,000 lower, or \$169,000, and the foreign tax rate differential would be adjusted by a similar amount to approximately \$28,000. For 2020, the amounts related to tax at the statutory rate would be approximately \$77,000 lower, or \$155,000, and the foreign tax rate differential would be adjusted by a similar amount to approximately \$20,000. The Company's statutory federal income tax rate in Switzerland in 2019 was 7.83%. For 2019, the amounts related to tax at the statutory rate would be approximately \$130,000 lower, or \$77,000, and the foreign tax rate differential would be adjusted by a similar amount to approximately \$73,000. All other amounts would remain substantially unchanged.

The Company's income before income taxes attributable to non-U.S. operations was \$1,227,666, \$1,059,074, and \$606,711, for the years ended December 25, 2021, December 26, 2020, and December 28, 2019, respectively.

Income taxes of \$50,127, \$47,236, and \$35,982 at December 25, 2021, December 26, 2020, and December 28, 2019, 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:

	December 25, 2021	December 26, 2020
Deferred tax assets:		
Product warranty accruals	\$ 10,578	\$ 10,500
Allowance for doubtful accounts	3,779	4,874
Inventory	—	7,211
Sales program allowances	1,187	1,289
Reserve for sales returns	1,745	2,196
Accrued vacation	14,073	11,438
Other accruals	7,379	10,587
Share-based compensation	12,000	10,201
Tax credit carryforwards	24,508	18,523
Intangible assets	227,295	212,695
Net operating losses	9,069	5,566
Benefit related to uncertain tax positions	3,880	5,239
Operating leases	13,685	15,578
Deferred revenue	20,970	26,199
Other	6,571	1,883
Valuation allowance related to loss carryforward and tax credits	(19,709)	(10,853)
	\$ 337,010	\$ 333,126
Deferred tax liabilities:		
Fixed assets	27,970	37,359
Operating leases	13,322	15,343
Prepaid and perpetual license assets	17,350	22,166
Inventory	4,893	—
Other prepaid expenses	71	2,564
Capitalized preproduction design and development costs	8,384	8,408
Book basis in excess of tax basis for acquired entities	32,907	33,154
Withholding tax	89,285	83,329
Other	218	2,192
	\$ 194,400	\$ 204,515
Net deferred tax assets	\$ 142,610	\$ 128,611

At December 25, 2021, the Company had \$24,508 of tax credit carryover compared to \$18,523 at December 26, 2020. At December 25, 2021, the Company had a deferred tax asset of \$9,069 related to the future tax benefit of net operating loss (NOL) carryforwards of \$50,919. Included in the NOL carryforwards is \$37,916 that relates to Switzerland and expires beginning in 2027, \$9,917 that relates to Luxembourg and expires beginning in 2037, \$272 that relates to Finland and expires in varying amounts between 2025 and 2028, \$575 that relates to the Netherlands and expires in 2026, \$40 that relates to Thailand and expires in 2025, and \$2,199 that relates to various other jurisdictions and has no expiration date. The Company has recorded a valuation allowance for a portion of its deferred tax asset relating to various tax attributes that it does not believe are more likely than not to be realized. In the future, if the Company determines, based on existence of sufficient evidence, that it should realize more or less of its deferred tax assets, an adjustment to the valuation allowance will be made in the period such a determination is made.

The total amount of gross unrecognized tax benefits, as of December 25, 2021 was \$65,216. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for years ended December 25, 2021, December 26, 2020, and December 28, 2019 is as follows:

	December 25, 2021	December 26, 2020	December 28, 2019
Balance beginning of year	\$ 84,985	\$ 101,251	\$ 118,287
Additions based on tax positions related to prior years	—	10,480	398
Reductions based on tax positions related to prior years	(4,727)	(4,169)	(6,556)
Additions based on tax positions related to current period	4,272	16,859	13,806
Reductions related to settlements with tax authorities	—	(935)	(218)
Expiration of statute of limitations	(19,314)	(38,501)	(24,466)
Balance at end of year	<u>\$ 65,216</u>	<u>\$ 84,985</u>	<u>\$ 101,251</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 balance of net unrecognized benefits of \$54,443, \$81,938, and \$92,056 are required to be classified as noncurrent at December 25, 2021, December 26, 2020, and December 28, 2019, 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 25, 2021, December 26, 2020, and December 28, 2019, the Company had accrued approximately \$4,225, \$5,666, and \$7,636, respectively, for interest. The interest component of the reserve decreased income tax expense for the years ending December 25, 2021 and December 26, 2020 by \$1,441, and \$1,970, respectively, and increased income tax expense for the year ending December 28, 2019 by \$1,023. The Company did not have significant amounts accrued for penalties for the years ending December 25, 2021, December 26, 2020, and December 28, 2019.

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 2017, 2016, 2019, and 2018, respectively.

The Company recognized a reduction of income tax expense, inclusive of interest and net of deferrals, of \$22,221, \$42,185, and \$26,158 in fiscal years ended December 25, 2021, December 26, 2020, and December 28, 2019, respectively, to reflect the expiration of statutes of limitations and releases due to audit settlement in various jurisdictions.

The Company believes that it is reasonably possible that approximately \$5,000 to \$15,000 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 25, 2021		December 26, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,498,058	\$ 1,498,058	\$ 1,458,442	\$ 1,458,442
Marketable securities	\$ 1,616,678	\$ 1,616,678	\$ 1,518,817	\$ 1,518,817

For certain of the Company's financial instruments, including accounts receivable, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities.

8. Segment Information

Garmin is organized in the six operating segments of fitness, outdoor, aviation, marine, consumer auto, and auto OEM. 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. The fitness, outdoor, aviation, and marine operating segments represent reportable segments. The consumer auto and auto OEM operating segments, which serve the auto market, do not meet the quantitative thresholds to separately qualify as reportable segments, and they are therefore reported together in an "all other" category captioned as auto. Fitness, outdoor, aviation, marine, and auto are collectively referred to as our reported segments.

The products of the Company's segments are sold through the Company's network of independent dealers and distributors, our own webshop, as well as through various aviation, marine, and auto OEMs. However, the nature of products and types of customers for the segments vary.

The Company's Chief Executive Officer, who has been identified as the CODM, uses operating income as the measure of profit or loss, combined with other measures, 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 reasonable manner considering the specific facts and circumstances of the expenses being allocated. The accounting policies of the 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 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 five reported segments are presented below, along with supplemental financial information for the consumer auto and auto OEM operating segments that management believes is useful.

	Fitness	Outdoor	Aviation	Marine	Auto			Total
					Total Auto	Consumer Auto	Auto OEM	
52-Weeks Ended December 25, 2021								
Net sales	\$1,533,788	\$1,281,933	\$712,468	\$875,151	\$ 579,455	\$ 324,731	\$ 254,724	\$4,982,795
Gross profit	813,325	834,837	519,821	495,310	227,166	153,825	73,341	2,890,459
Operating income (loss)	372,575	480,777	191,775	244,199	(70,706)	45,603	(116,309)	1,218,620
52-Weeks Ended December 26, 2020								
Net sales	\$1,317,498	\$1,128,081	\$622,820	\$657,848	\$ 460,326	\$ 275,493	\$ 184,833	\$4,186,573
Gross profit	697,539	739,777	453,008	384,450	206,562	139,864	66,698	2,481,336
Operating income (loss)	318,884	441,085	137,203	175,724	(18,656)	41,464	(60,120)	1,054,240
52-Weeks Ended December 28, 2019								
Net sales	\$1,047,527	\$ 917,567	\$735,458	\$508,850	\$ 548,103	\$ 365,511	\$ 182,592	\$3,757,505
Gross profit	532,604	598,443	543,385	302,949	256,595	172,218	84,377	2,233,976
Operating income (loss)	191,858	334,041	252,943	109,876	56,868	63,299	(6,431)	945,586

Net sales, property and equipment, and net assets by geographic area are as shown below for the years ended December 25, 2021, December 26, 2020, and December 28, 2019. Note that APAC includes Asia Pacific and Australian Continent, and EMEA includes Europe, the Middle East and Africa.

	Americas	EMEA	APAC	Total
December 25, 2021				
Net sales to external customers ⁽¹⁾	\$ 2,349,514	\$ 1,858,908	\$ 774,373	\$ 4,982,795
Property and equipment, net	576,481	120,004	370,993	1,067,478
Net assets ⁽²⁾	3,745,120	1,227,928	1,141,111	6,114,159
December 26, 2020				
Net sales to external customers ⁽¹⁾	\$ 1,968,080	\$ 1,579,749	\$ 638,744	\$ 4,186,573
Property and equipment, net	467,269	114,313	273,957	855,539
Net assets ⁽²⁾	3,327,748	1,163,127	1,025,241	5,516,116
December 28, 2019				
Net sales to external customers ⁽¹⁾	\$ 1,817,770	\$ 1,350,533	\$ 589,202	\$ 3,757,505
Property and equipment, net	435,503	65,323	228,095	728,921
Net assets ⁽²⁾	3,074,155	714,602	1,004,739	4,793,496

⁽¹⁾ The United States is the only country which constitutes greater than 10% of net sales to external customers.

⁽²⁾ 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 are subject to a minimum one-year vesting period. In 2021, 2020, and 2019, there were 4,180, 6,376, and 8,016 RSUs granted under this plan, respectively.

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 vest evenly over a period of three years. In addition to time-based vesting requirements, the vesting of certain RSU grants is also contingent upon the Company's achievement of certain financial performance goals. During 2021, 2020, and 2019, there were 866,614, 753,976, and 786,346 RSUs granted under the 2005 Plan, respectively. No SARs were granted under the 2005 Plan in 2021, 2020, or 2019.

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 2021, 2020, or 2019.

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, and the 2000 Plan for the years ended December 25, 2021, December 26, 2020, and December 28, 2019 is provided below:

	Stock Options and SARs	
	Weighted-Average Exercise Price	Number of Shares (In Thousands)
Outstanding at December 29, 2018	\$ 50.92	86
Granted		—
Exercised	\$ 49.07	(20)
Forfeited/Expired		—
Outstanding at December 28, 2019	\$ 51.46	66
Granted		—
Exercised	\$ 51.23	(53)
Forfeited/Expired		—
Outstanding at December 26, 2020	\$ 52.44	13
Granted		—
Exercised	\$ 52.44	(13)
Forfeited/Expired		—
Outstanding at December 25, 2021		—
Exercisable at December 25, 2021		—
Expected to vest after December 25, 2021		—

	Restricted Stock Units	
	Weighted-Average Grant Date Fair Value	Number of Shares (In Thousands)
Outstanding at December 29, 2018	\$ 53.17	2,099
Granted	\$ 85.93	794
Released/Vested	\$ 50.02	(1,053)
Cancelled	\$ 58.62	(61)
Outstanding at December 28, 2019	\$ 69.47	1,779
Granted	\$ 99.57	760
Released/Vested	\$ 64.07	(915)
Cancelled	\$ 72.10	(42)
Outstanding at December 26, 2020	\$ 86.98	1,582
Granted	\$ 116.40	871
Released/Vested	\$ 80.12	(884)
Cancelled	\$ 95.79	(56)
Outstanding at December 25, 2021	\$ 107.60	1,513

The weighted-average remaining contract life of restricted stock units at December 25, 2021 was 1.17 years.

The total fair value of awards vested during 2021, 2020, and 2019, was \$70,796, \$58,602, and \$52,780, respectively. The aggregate intrinsic values of options and SARs exercised during 2021, 2020, and 2019 were \$1,040, \$3,701, and \$952, respectively. The aggregate intrinsic value of RSUs outstanding at December 25, 2021 was \$203,457. The aggregate intrinsic values of RSUs released during 2021, 2020, and 2019 were \$118,825, \$109,952, and \$103,702, 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 \$134.48 on December 25, 2021 (based on the closing stock price on December 23, 2021). As of December 25, 2021, there was \$110,719 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 8,000,000 shares of common stock have been reserved for the ESPP. Shares are 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 2021, 2020, and 2019, there were 385,211, 195,540, and 451,625 shares purchased under the plan for a total purchase price of \$34,936, \$15,955, and \$27,048, respectively. During 2021, 2020, and 2019, the purchases were issued from treasury shares. At December 25, 2021, approximately 1,474,904 shares were available for future issuance. On December 30, 2021, subsequent to Garmin's fiscal 2021 year end, 179,454 shares were purchased under the plan for a total purchase price of \$20,853.

10. Earnings Per Share

The following table sets forth the computation of basic and diluted net income per share. Stock options, stock appreciation rights, and restricted stock units are collectively referred to as "equity awards".

	Fiscal Year Ended		
	December 25, 2021	December 26, 2020	December 28, 2019
Numerator:			
Numerator for basic and diluted net income per share - net income	\$ 1,082,200	\$ 992,324	\$ 952,486
Denominator (in thousands):			
Denominator for basic net income per share – weighted-average common shares	192,180	191,085	189,931
Effect of dilutive equity awards	863	810	968
Denominator for diluted net income per share – adjusted weighted-average common shares	193,043	191,895	190,899
Basic net income per share	\$ 5.63	\$ 5.19	\$ 5.01
Diluted net income per share	\$ 5.61	\$ 5.17	\$ 4.99
Shares excluded from diluted net income per share calculation:			
Anti-dilutive equity awards (in thousands)	235	308	298

11. 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 25, 2021:

	Foreign currency translation adjustment	Net gains (losses) on available-for- sale securities	Total
Balance - beginning of period	\$ 162,953	\$ 20,474	\$ 183,427
Other comprehensive income before reclassification, net of income tax benefit of \$6,490	(39,538)	(25,508)	(65,046)
Amounts reclassified from accumulated other comprehensive income to other income (expense), net of income tax expense of \$78 included in income tax provision	—	(546)	(546)
Net current-period other comprehensive income	(39,538)	(26,054)	(65,592)
Balance - end of period	\$ 123,415	\$ (5,580)	\$ 117,835

12. 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. Note 8 also contains disaggregated revenue information of the six major product categories identified by the Company – fitness, outdoor, aviation, marine, consumer auto, and auto OEM.

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 and outdoor segments 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:

	Fiscal Year Ended		
	December 25, 2021	December 26, 2020	December 28, 2019
Point in time	\$ 4,762,260	\$ 3,998,251	\$ 3,577,715
Over time	220,535	188,322	179,790
Net sales	\$ 4,982,795	\$ 4,186,573	\$ 3,757,505

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 25, 2021 and December 26, 2020, are presented below:

	Fiscal Year Ended			
	December 25, 2021		December 26, 2020	
	Deferred		Deferred	
	Revenue ⁽¹⁾	Costs ⁽²⁾	Revenue ⁽¹⁾	Costs ⁽²⁾
Balance, beginning of period	\$ 136,799	\$ 36,655	\$ 161,891	\$ 48,598
Deferrals in period	213,008	16,345	163,230	17,850
Recognition of deferrals in period	(220,535)	(24,678)	(188,322)	(29,793)
Balance, end of period	\$ 129,272	\$ 28,322	\$ 136,799	\$ 36,655

⁽¹⁾ Deferred revenue is comprised of both deferred revenue and noncurrent deferred revenue per the Consolidated Balance Sheets

⁽²⁾ Deferred costs are comprised of both deferred costs and noncurrent deferred costs per the Consolidated Balance Sheets

Of the \$220,535 of deferred revenue recognized in the 52-weeks ended December 25, 2021, \$80,786 was deferred as of the beginning of the period. Of the \$188,322 of deferred revenue recognized in the 52-weeks ended December 26, 2020, \$92,618 was deferred as of the beginning of the period.

Of the \$129,272 of deferred revenue as of December 25, 2021, approximately seventy-five percent is recognized ratably over a period of three years or less.

13. Leases

The following table represents lease costs recognized in the Company's Consolidated Statements of Income for the 52-weeks ended December 25, 2021. Lease costs are included in selling, general and administrative expense and research and development expense on the Company's Condensed Consolidated Statements of Income.

	Fiscal Year Ended	
	December 25, 2021	December 26, 2020
Operating lease cost ⁽¹⁾	\$ 35,114	\$ 29,894

⁽¹⁾ Operating lease cost includes short-term lease costs and variable lease costs, which were not material in the period presented.

The following table represents the components of leases that are recognized on the Company's Consolidated Balance Sheets as of December 25, 2021 and December 26, 2020.

	December 25, 2021	December 26, 2020
Operating lease right-of-use assets	\$ 89,457	\$ 94,626
Other accrued expenses	\$ 20,503	\$ 18,874
Noncurrent operating lease liabilities	70,044	75,958
Total lease liabilities	\$ 90,547	\$ 94,832
Weighted average remaining lease term	5.6 years	6.3 years
Weighted average discount rate	3.3%	3.6%

The following table represents the maturity of lease liabilities.

Year	Amount
2022	\$ 23,276
2023	21,313
2024	17,220
2025	12,835
2026	7,086
Thereafter	17,791
Total	99,521
Less: imputed interest	(8,974)
Present value of lease liabilities	90,547

The following table presents supplemental cash flow and noncash information related to leases.

	Fiscal Year Ended	
	December 25, 2021	December 26, 2020
Cash paid for amounts included in the measurement of operating lease liabilities ⁽²⁾	\$ 24,930	\$ 20,401
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 16,229	\$ 39,009

⁽²⁾ Included in net cash provided by operating activities on the Company's Statements of Cash Flows

14. Subsequent Events

Changes in Expense Classification and Segment Allocation Methodologies

Beginning with reports filed in the first quarter of fiscal 2022, the Company will reflect a refined methodology used in classifying certain indirect costs in accordance with the way the Company's management will use the information in decision making, which we believe will provide a more meaningful representation of costs incurred to support research and development activities. Future reports will also reflect a refined methodology used to allocate certain selling, general, and administrative expenses to the segments in a more direct manner to provide the Company's CODM with a more meaningful representation of segment profit or loss.

These changes in classification and allocation had no effect on the Company's consolidated operating or net income or on the Company's composition of operating segments and reportable segments. The Company expects to report its financial results in accordance with these changes beginning with the Company's first quarter 2022 Form 10-Q and will recast prior periods to conform to the revised presentation.

We estimate the expense classification change will result in a decrease to research and development expense of approximately \$61 million, with a corresponding increase to selling, general, and administrative expenses, for the recast fiscal year ended December 25, 2021.

We estimate the segment allocation change will result in the following impacts to segment operating income for the recast fiscal year ended December 25, 2021:

	52-Weeks Ended December 25, 2021						
	(In millions)						
	Fitness	Outdoor	Aviation	Marine	Total Auto	Auto Consumer Auto	Auto OEM
Operating income (decrease) increase	\$ (13)	\$ (5)	\$ 1	\$ 6	\$ 11	\$ 3	\$ 8

Acquisition of Vesper Marine, Ltd.

On December 29, 2021, subsequent to Garmin's fiscal 2021 year end, the Company acquired the shares of Vesper Marine, Ltd. and its subsidiaries, a privately-held New Zealand company that provides Automatic Identification System (AIS), very high frequency (VHF) radio, and vessel monitoring solutions for the marine industry. This acquisition was not material.