

GARMIN LTD  
Form 10-Q  
August 01, 2018

United States

**Securities and Exchange Commission**

**Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
X ACT OF 1934**

For the quarterly period ended June 30, 2018

or

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-31983

**GARMIN LTD.**

(Exact name of Company as specified in its charter)

**Switzerland**

**98-0229227**

(State or other jurisdiction) (I.R.S. Employer identification no.)

of incorporation or organization)

**Mühlentalstrasse 2**

**8200 Schaffhausen**

N/A

**Switzerland**

(Zip Code)

(Address of principal executive offices)

Company's telephone number, including area code: **+41 52 630 1600**

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer  (Do not check if a smaller reporting company) Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. YES  NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

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Number of shares outstanding of the registrant's common shares as of July 30, 2018

CHF 0.10 par value: 198,077,418 (including treasury shares)

**Garmin Ltd.**

**Form 10-Q**

**Quarter Ended June 30, 2018**

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**Part I - Financial Information****Item I - Condensed Consolidated Financial Statements****Garmin Ltd. And Subsidiaries****Condensed Consolidated Balance Sheets (Unaudited)****(In thousands, except per share information)**

	June 30, 2018	December 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$946,656	\$ 891,488
Marketable securities	173,318	161,687
Accounts receivable, net	533,076	590,882
Inventories	501,490	517,644
Deferred costs	31,924	30,525
Prepaid expenses and other current assets	137,118	153,912
Total current assets	2,323,582	2,346,138
Property and equipment, net	637,245	595,684
Restricted cash	211	271
Marketable securities	1,302,447	1,260,033
Deferred income taxes	188,101	195,981
Noncurrent deferred costs	30,663	33,029
Intangible assets, net	409,459	409,801
Other assets	97,012	107,352
Total assets	\$4,988,720	\$ 4,948,289
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$166,499	\$ 169,640
Salaries and benefits payable	95,969	102,802
Accrued warranty costs	38,429	36,827
Accrued sales program costs	65,477	93,250
Deferred revenue	98,526	103,140
Accrued royalty costs	28,209	32,204
Accrued advertising expense	29,059	30,987
Other accrued expenses	66,776	93,652
Income taxes payable	40,016	33,638

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Dividend payable	300,187	95,975
Total current liabilities	929,147	792,115
Deferred income taxes	74,092	76,612
Noncurrent income taxes	140,584	138,295
Noncurrent deferred revenue	84,156	87,060
Other liabilities	1,860	1,788
Stockholders' equity:		
Shares, CHF 0.10 par value, 198,077 shares authorized and issued; 188,797 shares outstanding at June 30, 2018; and 188,189 shares outstanding at December 30, 2017;	17,979	17,979
Additional paid-in capital	1,828,515	1,828,386
Treasury stock	(433,959 )	(468,818 )
Retained earnings	2,336,614	2,418,444
Accumulated other comprehensive income	9,732	56,428
Total stockholders' equity	3,758,881	3,852,419
Total liabilities and stockholders' equity	\$4,988,720	\$ 4,948,289

*See accompanying notes.*

**Garmin Ltd. And Subsidiaries****Condensed Consolidated Statements of Income (Unaudited)****(In thousands, except per share information)**

	13-Weeks Ended		26-Weeks Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net sales	\$894,452	\$831,486	\$1,605,325	\$1,472,996
Cost of goods sold	371,182	347,356	655,520	616,060
Gross profit	523,270	484,130	949,805	856,936
Advertising expense	43,549	42,009	68,861	73,533
Selling, general and administrative expense	120,500	105,251	237,564	207,303
Research and development expense	141,713	127,248	283,670	249,450
Total operating expense	305,762	274,508	590,095	530,286
Operating income	217,508	209,622	359,710	326,650
Other income (expense):				
Interest income	10,995	9,281	21,222	17,724
Foreign currency gains (losses)	2,647	15,110	3,463	(22,387 )
Other income	4,918	314	5,653	715
Total other income (expense)	18,560	24,705	30,338	(3,948 )
Income before income taxes	236,068	234,327	390,048	322,702
Income tax provision (benefit)	45,726	57,348	70,333	(92,680 )
Net income	\$190,342	\$176,979	\$319,715	\$415,382
Net income per share:				
Basic	\$1.01	\$0.94	\$1.70	\$2.21
Diluted	\$1.00	\$0.94	\$1.69	\$2.20
Weighted average common shares outstanding:				
Basic	188,542	187,757	188,432	187,974
Diluted	189,461	188,492	189,377	188,691

*See accompanying notes.*





**Garmin Ltd. And Subsidiaries****Condensed Consolidated Statements of Comprehensive Income (Unaudited)****(In thousands)**

	13-Weeks Ended		26-Weeks Ended	
	June 30,	July 1,	June 30,	July 1,
	2018	2017	2018	2017
Net income	\$ 190,342	\$ 176,979	\$ 319,715	\$ 415,382
Foreign currency translation adjustment	(49,868 )	3,289	(26,368 )	65,903
Change in fair value of available-for-sale marketable securities, net of deferred taxes	(4,842 )	4,501	(19,876 )	11,402
Comprehensive income	\$ 135,632	\$ 184,769	\$ 273,471	\$ 492,687

*See accompanying notes.*

**Garmin Ltd. And Subsidiaries****Condensed Consolidated Statements of Cash Flows (Unaudited)****(In thousands)**

	26-Weeks Ended	
	June 30, 2018	July 1, 2017
Operating activities:		
Net income	\$319,715	\$415,382
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	31,800	29,558
Amortization	16,420	13,273
Gain on sale or disposal of property and equipment	(1,042 )	(56 )
Provision for doubtful accounts	616	351
Provision for obsolete and slow moving inventories	11,725	11,072
Unrealized foreign currency loss	2,401	26,325
Deferred income taxes	11,000	(159,384)
Stock compensation expense	27,747	20,385
Realized losses on marketable securities	231	584
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	48,099	23,785
Inventories	(4,666 )	(34,621 )
Other current and non-current assets	(4,841 )	(6,328 )
Accounts payable	1,618	(20,942 )
Other current and non-current liabilities	(49,237 )	(48,162 )
Deferred revenue	(7,483 )	(15,637 )
Deferred costs	962	2,890
Income taxes payable	32,998	5,352
Net cash provided by operating activities	438,063	263,827
Investing activities:		
Purchases of property and equipment	(93,072 )	(39,812 )
Proceeds from sale of property and equipment	1,282	121
Purchase of intangible assets	(2,452 )	(6,336 )
Purchase of marketable securities	(209,387)	(243,880)
Redemption of marketable securities	127,152	278,719
Acquisitions, net of cash acquired	(9,417 )	(7,500 )
Net cash used in investing activities	(185,894)	(18,688 )
Financing activities:		
Dividends	(196,086)	(191,691)
Proceeds from issuance of treasury stock related to equity awards	14,142	10,316
Purchase of treasury stock related to equity awards	(6,900 )	(3,582 )

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Purchase of treasury stock under share repurchase plan	-	(63,957 )
Net cash used in financing activities	(188,844)	(248,914)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(8,217 )	16,456
Net increase in cash, cash equivalents, and restricted cash	55,108	12,681
Cash, cash equivalents, and restricted cash at beginning of period	891,759	846,996
Cash, cash equivalents, and restricted cash at end of period	\$946,867	\$859,677

*See accompanying notes.*

**Garmin Ltd. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**June 30, 2018**

**(In thousands, except per share information)**

**1. Accounting Policies**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Additionally, the condensed consolidated financial statements should be read in conjunction with Item 2 of Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this Form 10-Q. Operating results for the 13-week and 26-week periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 29, 2018.

The condensed consolidated balance sheet at December 30, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 30, 2017.

The Company's fiscal year is based on a 52-53 week period ending on the last Saturday of the calendar year. Therefore, the financial results of certain 53-week fiscal years, and the associated 14-week quarters, will not be exactly comparable to the prior and subsequent 52-week fiscal years and the associated 13-week quarters. The quarters ended June 30, 2018 and July 1, 2017 both contain operating results for 13 weeks.

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

## **Recently Adopted Accounting Standards**

### *Revenue from Contracts with Customers*

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

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

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

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

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

	13-Weeks Ended July 1, 2017			26-Weeks Ended July 1, 2017		
	As reported	Restated <sup>(1)</sup>	Impact	As reported	Restated <sup>(1)</sup>	Impact
Net sales	\$816,885	\$831,486	\$14,601	\$1,455,431	\$1,472,996	\$17,565
Gross profit	477,858	484,130	6,272	849,981	856,936	6,955
Operating income	203,350	209,622	6,272			