

GARMIN LTD  
Form 10-Q  
August 07, 2007

**United States  
Securities and Exchange Commission  
Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended June 30, 2007

or

- o** **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)

**Cayman Islands**

(State or other jurisdiction  
of incorporation or organization)

**5<sup>th</sup> Floor, Harbour Place, P.O. Box 30464 SMB,  
103 South Church Street**

**George Town, Grand Cayman, Cayman Islands**

(Address of principal executive offices)

**98-0229227**

(I.R.S. Employer identification no.)

N/A

(Zip Code)

Company's telephone number, including area code: **(345) 946-5203**

**No Changes**

(Former name, former address and former fiscal year, if changed since last report)

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 x NO o

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

Large Accelerated Filer x Accelerated Filer o Non-accelerated Filer o

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES  NO

Number of shares outstanding of the Company's common shares as of July 31, 2007  
Common Shares, \$.005 par value: 216,640,909

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**Garmin Ltd.**  
**Form 10-Q**  
**Quarter Ended June 30, 2007**

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**Garmin Ltd.**  
**Form 10-Q**  
**Quarter Ended June 30, 2007**

**Part I - Financial Information**

**Item 1. Condensed Consolidated Financial Statements (Unaudited)**

**Introductory Comments**

The Condensed Consolidated Financial Statements of Garmin Ltd. ("Garmin" or the "Company") included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to enable a reasonable understanding of the information presented. These Condensed Consolidated Financial Statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 30, 2006. 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.

The results of operations for the 13-week and 26-week periods ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year 2007.

**Garmin Ltd. And Subsidiaries**  
**Condensed Consolidated Balance Sheets (Unaudited)**  
(In thousands, except share information)

	June 30, 2007	December 30, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 667,671	\$ 337,321
Marketable securities	147,435	73,033
Accounts receivable, net	506,483	403,524
Inventories, net	290,682	271,008
Deferred income taxes	56,934	55,996
Prepaid expenses and other current assets	19,104	28,202
<b>Total current assets</b>	<b>1,688,309</b>	<b>1,169,084</b>
Property and equipment, net	350,299	250,988
Marketable securities	258,445	407,843
Restricted cash	1,558	1,525
Licensing agreements, net	14,804	3,307
Other intangible assets, net	131,186	64,273
<b>Total assets</b>	<b>\$ 2,444,601</b>	<b>\$ 1,897,020</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 167,339	\$ 88,375
Salaries and benefits payable	26,056	16,268
Accrued sales programs	52,849	-
Accrued warranty costs	49,725	37,639
Other accrued expenses	115,208	100,732
Income taxes payable	16,975	94,668
<b>Total current liabilities</b>	<b>428,152</b>	<b>337,682</b>
Long-term debt, less current portion	-	248
Deferred income taxes	1,010	1,191
Other liabilities	90,470	-
Stockholders' equity:		
Common stock, \$0.005 par value, 1,000,000,000 Issued and outstanding shares - 216,588,000 as of June 30, 2007 and 216,098,000 as of December 30, 2006	1,085	1,082
Additional paid-in capital	105,525	83,438
Retained earnings	1,832,891	1,478,654
Accumulated other comprehensive loss	(14,532)	(5,275)

Total stockholders' equity		1,924,969		1,557,899
Total liabilities and stockholders' equity	\$	2,444,601	\$	1,897,020

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, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Net sales	\$ 742,466	\$ 432,468	\$ 1,234,625	\$ 754,779
Cost of goods sold	367,799	216,184	622,206	375,706
Gross profit	374,667	216,284	612,419	379,073
Selling, general and administrative expenses	95,373	54,915	161,297	92,678
Research and development expense	37,727	26,793	71,230	51,707
	133,100	81,708	232,527	144,385
Operating income	241,567	134,576	379,892	234,688
Other income (expense):				
Interest income	10,841	8,538	20,199	15,843
Interest expense	(23)	(5)	(55)	(12)
Foreign currency	(6,086)	2,958	7,119	(4,488)
Other	338	(167)	389	3,437
	5,070	11,324	27,652	14,780
Income before income taxes	246,637	145,900	407,544	249,468
Income tax provision	32,260	22,614	53,307	38,668
Net income	\$ 214,377	\$ 123,286	\$ 354,237	\$ 210,800
Net income per share:				
Basic	\$ 0.99	\$ 0.57	\$ 1.64	\$ 0.97
Diluted	\$ 0.98	\$ 0.56	\$ 1.62	\$ 0.96
Weighted average common shares outstanding:				
Basic	216,380	216,818	216,298	216,594
Diluted	219,078	219,344	218,925	218,868

See accompanying notes.

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

	<b>26-Weeks Ended</b>	
	<b>June 30, 2007</b>	<b>July 1, 2006</b>
<b>Operating Activities:</b>		
Net income	\$ 354,237	\$ 210,800
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,479	10,211
Amortization	15,856	17,055
Loss on sale of property and equipment	18	191
Provision for doubtful accounts	1,808	2,038
Deferred income taxes	(725)	(13,478)
Foreign currency transaction gains/losses	(10,358)	2,392
Provision for obsolete and slow moving inventories	17,309	9,336
Stock compensation expense	7,196	4,759
Realized gains on marketable securities	-	(3,852)
Changes in operating assets and liabilities:		
Accounts receivable	(88,405)	(126,836)
Inventories	(33,406)	(37,408)
Other current assets	9,059	(11,135)
Accounts payable	63,472	13,119
Other current and non-current liabilities	101,826	56,503
Income taxes	(6,937)	143
Purchase of licenses	(22,290)	(1,462)
Net cash provided by operating activities	422,139	132,376
<b>Investing activities:</b>		
Purchases of property and equipment	(112,020)	(26,612)
Purchase of intangible assets	(1,881)	(1,115)
Purchase of marketable securities	(378,909)	(231,870)
Redemption of marketable securities	455,598	150,222
Change in restricted cash	(33)	(92)
Net cash paid for acquisition of businesses and other intangibles	(68,902)	-
Net cash used in investing activities	(106,147)	(109,467)
<b>Financing activities:</b>		
Proceeds from issuance of common stock	7,534	9,479
Payments on long term debt	(248)	-
Tax benefit related to stock option exercise	7,360	6,988
Net cash provided by financing activities	14,646	16,467
Effect of exchange rate changes on cash and cash equivalents	(288)	216
Net increase in cash and cash equivalents	330,350	39,592
Cash and cash equivalents at beginning of period	337,321	334,352
Cash and cash equivalents at end of period	\$ 667,671	\$ 373,944

See accompanying notes.

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**Garmin Ltd. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Unaudited)****June 30, 2007****(In thousands, except share and per share information)****1. 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. Operating results for the 13-week and 26-week periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 29, 2007.

The condensed consolidated balance sheet at December 30, 2006 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, 2006.

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 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 quarters having only 13-weeks. The quarters ended June 30, 2007 and July 1, 2006 both contain operating results for 13-weeks for both year-to-date periods.

Stock Split ("Split") - All July 1, 2006 common stock and applicable share and per share amounts have been retroactively adjusted to reflect a 2-for-1 split of the Company's Common Stock effective August 15, 2006.

**2. Inventories**

The components of inventories consist of the following:

	<b>June 30, 2007</b>	<b>December 30, 2006</b>
Raw materials	\$ 92,239	\$ 85,040
Work-in-process	50,453	42,450
Finished goods	170,292	160,748
Inventory reserves	(22,302)	(17,230)
Inventory, net of reserves	\$ 290,682	\$ 271,008

**3. Share Repurchase Plan**

The Board of Directors approved a share repurchase program on August 3, 2006, authorizing the Company to purchase up to 3.0 million shares of Garmin Ltd.'s common stock as market and business conditions warrant. The share repurchase authorization expires on December 31, 2007. There were no shares purchased during the 26-week period ending June 30, 2007.



#### 4. Earnings Per Share

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share information):

	<b>13-Weeks Ended</b>	
	<b>June 30, 2007</b>	<b>July 1, 2006</b>
<b>Numerator:</b>		
Numerator for basic and diluted net income per share - net income	\$ 214,377	\$ 123,286
<b>Denominator:</b>		
Denominator for basic net income per share - weighted-average common shares	216,380	216,818
Effect of dilutive securities - employee stock options	2,698	2,526
Denominator for diluted net income per share - adjusted weighted-average common shares	219,078	219,344
Basic net income per share	\$ 0.99	\$ 0.57
Diluted net income per share	\$ 0.98	\$ 0.56
<b>26-Weeks Ended</b>		
	<b>June 30, 2007</b>	<b>July 1, 2006</b>
<b>Numerator:</b>		
Numerator for basic and diluted net income per share - net income	\$ 354,237	\$ 210,800
<b>Denominator:</b>		
Denominator for basic net income per share - weighted-average common shares	216,298	216,594
Effect of dilutive securities - employee stock options	2,627	2,274
Denominator for diluted net income per share - adjusted weighted-average common shares	218,925	218,868
Basic net income per share	\$ 1.64	\$ 0.97
Diluted net income per share	\$ 1.62	\$ 0.96

There were no anti-dilutive options for the 13-week period ended June 30, 2007. There were 1,130,830 anti-dilutive options for the 13-week period ended July 1, 2006.

There were no anti-dilutive options for the 26-week period ended June 30, 2007. There were 1,140,550 anti-dilutive options for the 26-week period ended July 1, 2006.

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## 5. Comprehensive Income

Comprehensive income is comprised of the following (in thousands):

	<b>13-Weeks Ended</b>	
	<b>June 30, 2007</b>	<b>July 1, 2006</b>
Net income	\$ 214,377	\$ 123,286
Translation adjustment	2,345	(7,641)
Change in fair value of available-for-sale marketable securities, net of deferred taxes	(538)	(2,760)
Comprehensive income	\$ 216,184	\$ 112,885

	<b>26-Weeks Ended</b>	
	<b>June 30, 2007</b>	<b>July 1, 2006</b>
Net income	\$ 354,237	\$ 210,800
Translation adjustment	(10,537)	1,568
Change in fair value of available-for-sale marketable securities, net of deferred taxes	1,280	(5,604)
Comprehensive income	\$ 344,980	\$ 206,764

## 6. Segment Information