GARMIN LTD
Form 10-Q
October 29, 2014

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 September 27, 2014

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 of incorporation or organization)	(I.R.S. Employer identification no.)
Mühlentalstrasse 2 **8200 Schaffhausen** **Switzerland** (Address of principal executive offices)	N/A (Zip Code)

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 þ 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 þ NO ¨

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 þ Accelerated Filer ¨ Non-accelerated Filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

Number of shares outstanding of the registrant's common shares as of October 27, 2014

CHF 10.00 par value: 208,077,418 (including treasury shares)

Garmin Ltd.

Form 10-Q

Quarter Ended September 27, 2014

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Part I - Financial Information

Item I - Condensed Consolidated Financial Statements

Garmin Ltd. And Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands)

	(Unaudited) Sept 27, 2014	December 28, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 1,154,558	$ 1,179,149
Marketable securities	151,366	149,862
Accounts receivable, net	478,722	564,586
Inventories, net	466,482	382,226
Deferred income taxes	59,186	69,823
Deferred costs	52,113	57,368
Loan receivable	-	137,379
Prepaid expenses and other current assets	59,058	55,243
Total current assets	2,421,485	2,595,636
Property and equipment, net	431,753	414,848
Marketable securities	1,453,047	1,502,106
Restricted cash	293	249
Noncurrent deferred income tax	84,345	88,324
Noncurrent deferred costs	35,272	41,157
Other intangible assets, net	221,566	219,494
Other assets	21,603	17,789
Total assets	$ 4,669,364	$ 4,879,603
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 144,882	$ 146,582
Salaries and benefits payable	67,496	59,794
Accrued warranty costs	26,543	26,767
Accrued sales program costs	38,699	50,903
Deferred revenue	210,621	256,908
Accrued royalty costs	52,558	64,538
Accrued advertising expense	23,480	19,448

Other accrued expenses	77,157	65,657
Deferred income taxes	6,823	989
Income taxes payable	197,846	38,043
Dividend payable	277,378	175,675
Total current liabilities	1,123,483	905,304
Deferred income taxes	36,073	1,758
Non-current income taxes	135,911	140,933
Non-current deferred revenue	136,025	171,012
Other liabilities	1,459	890
Stockholders' equity:		
Shares, CHF 10 par value, 208,077 shares authorized and issued; 191,227 shares outstanding at September 27, 2014 and 195,150 shares outstanding at December 28, 2013	1,797,435	1,797,435
Additional paid-in capital	92,144	79,263
Treasury stock	(350,063)	(120,620)
Retained earnings	1,649,727	1,865,587
Accumulated other comprehensive income	47,170	38,041
Total stockholders' equity	3,236,413	3,659,706
Total liabilities and stockholders' equity	$ 4,669,364	$ 4,879,603

See accompanying notes.

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Garmin Ltd. And Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

(In thousands, except per share information)

	13-Weeks Ended		39-Weeks Ended	
	Sept 27, 2014	Sept 28, 2013	Sept 27, 2014	Sept 28, 2013
Net sales	$706,283	$643,637	$2,067,352	$1,872,156
Cost of goods sold	308,037	290,748	893,788	859,494
Gross profit	398,246	352,889	1,173,564	1,012,662
Advertising expense	33,112	26,251	92,457	77,983
Selling, general and administrative expense	90,632	86,462	272,914	260,769
Research and development expense	98,998	88,427	293,567	272,349
Total operating expense	222,742	201,140	658,938	611,101
Operating income	175,504	151,749	514,626	401,561
Other income (expense):				
Interest income	9,344	8,435	28,781	25,512
Foreign currency gains (losses)	(12,703)	(822)	(20,266)	18,280
Other	517	1,438	707	3,666
Total other income (expense)	(2,842)	9,051	9,222	47,458
Income before income taxes	172,662	160,800	523,848	449,019
Income tax provision (benefit)	319,496	(26,869)	369,882	192
Net income (loss)	$(146,834)	$187,669	$153,966	$448,827
Net income (loss) per share:				
Basic	$(0.76)	$0.96	$0.79	$2.30
Diluted	$(0.76)	$0.96	$0.79	$2.29
Weighted average common shares outstanding:				
Basic	192,239	195,325	193,700	195,488
Diluted	192,239	196,300	194,763	196,312
Dividends declared per share			$1.92	$1.80

See accompanying notes.

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Garmin Ltd. And Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	13-Weeks Ended		39-Weeks Ended	
	Sept 27, 2014	Sept 28, 2013	Sept 27, 2014	Sept 28, 2013
Net income (loss)	$(146,834)	$187,669	$153,966	$448,827
Translation adjustment	(22,791)	13,379	(15,552)	(24,177)
Change in fair value of available-for-sale marketable securities, net of deferred taxes	(3,332)	(6,441)	24,681	(42,596)
Comprehensive income (loss)	$(172,957)	$194,607	$163,095	$382,054

See accompanying notes.

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Garmin Ltd. And Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	39-Weeks Ended	
	Sept 27, 2014	Sept 28, 2013
Operating Activities:		
Net income	$153,966	$448,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	35,860	36,840
Amortization	19,705	23,629
(Gain) loss on sale of property and equipment	(742)	41
Provision for doubtful accounts	778	1,023
Deferred income taxes	55,235	2,851
Unrealized foreign currency loss (gain)	22,610	(17,273)
Provision for obsolete and slow moving inventories	21,051	15,965
Stock compensation expense	18,988	15,608
Realized loss (gain) on marketable securities	685	(2,963)
Changes in operating assets and liabilities:		
Accounts receivable	74,323	128,098
Inventories	(107,273)	(44,337)
Other current and non-current assets	1,528	(18,329)
Accounts payable	(3,209)	21,936
Other current and non-current liabilities	(1,997)	(60,719)
Deferred revenue	(80,712)	(22,613)
Deferred cost	11,136	(57)
Income taxes payable	155,762	(48,256)
Net cash provided by operating activities	377,694	480,271
Investing activities:		
Purchases of property and equipment	(54,829)	(41,325)
Proceeds from sale of property and equipment	748	65
Purchase of intangible assets	(9,422)	(1,574)
Purchase of marketable securities	(746,305)	(716,226)
Redemption of marketable securities	807,778	578,464
Proceeds from repayment (advances) on loan receivable	137,379	(173,708)
Change in restricted cash	(44)	584
Acquisitions, net of cash acquired	(18,871)	(5,686)
Net cash provided by (used in) investing activities	116,434	(359,406)
Financing activities:		
Dividends paid	(268,023)	(263,857)
Purchase of treasury stock under share repurchase plan	(241,460)	(26,926)

Purchase of treasury stock related to equity awards	(11,274)	(7,430)
Proceeds from issuance of treasury stock related to equity awards	12,761	13,620
Tax benefit from issuance of equity awards	4,422	411
Net cash used in financing activities	(503,574)	(284,182)
Effect of exchange rate changes on cash and cash equivalents	(15,145)	837
Net decrease in cash and cash equivalents	(24,591)	(162,480)
Cash and cash equivalents at beginning of period	1,179,149	1,231,180
Cash and cash equivalents at end of period	$1,154,558	$1,068,700

See accompanying notes.

Garmin Ltd. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 27, 2014

(In thousands, except per share information)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Garmin Ltd. (“Garmin” or the “Company”) 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 39-week periods ended September 27, 2014 are not necessarily indicative of the results that may be expected for the year ending December 27, 2014.

The condensed consolidated balance sheet at December 28, 2013 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 28, 2013.

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 September 27, 2014 and September 28, 2013 both contain operating results for 13 weeks.

2. Inventories

The components of inventories consist of the following:

	September 27, 2014	December 28, 2013
Raw materials	$ 155,178	$ 131,408
Work-in-process	55,877	50,110
Finished goods	296,718	229,089
Inventory reserves	(41,291)	(28,381)
Inventory, net of reserves	$ 466,482	$ 382,226

3. Earnings Per Share

The following tables set forth the computation of basic and diluted net income per share:

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	13-Weeks Ended	
	Sept 27, 2014	Sept 28, 2013
Numerator:		
Numerator for basic and diluted net income per share - net income	$(146,834)	$187,669
Denominator:		
Denominator for basic net income per share – weighted-average common shares	192,239	195,325
Effect of dilutive securities – stock options, stock appreciation rights and restricted stock units	-	975
Denominator for diluted net income per share – adjusted weighted-average common shares	192,239	196,300
Basic net income per share	$(0.76)	$0.96
Diluted net income per share	$(0.76)	$0.96

For the 13 weeks ended September 27, 2014, the effect of dilutive securities has been excluded because the effect would have been anti-dilutive.

There were 5,443 anti-dilutive stock options, stock appreciation rights and restricted stock units (collectively "equity awards") for the 13-week period ended September 28, 2013. There were 81 and 234 shares issued as a result of exercises of equity awards for the 13-week periods ended September 27, 2014 and September 28, 2013, respectively.

	39-Weeks Ended	
	Sept 27, 2014	Sept 28, 2013
Numerator:		
Numerator for basic and diluted net income per share - net income	$153,966	$448,827
Denominator:		
Denominator for basic net income per share – weighted-average co mmon shares	193,700	195,488
Effect of dilutive securities – stock options, stock appreciation rights and restricted stock units	1,063	824
Denominator for diluted net income per share – adjusted weighted-average common shares	194,763	196,312
Basic net income per share	$0.79	$2.30
Diluted net income per share	$0.79	$2.29

There were 2,253 and 5,507 anti-dilutive equity awards for the 39-week periods ended September 27, 2014 and September 28, 2013, respectively. There were 446 and 344 shares issued as a result of exercises of equity awards for the 39-week periods ended September 27, 2014 and September 28, 2013, respectively.

4. Segment Information

The Company has identified five operating segments – Auto/Mobile, Aviation, Marine, Outdoor and Fitness. Each operating segment is individually reviewed and evaluated by our Chief Operating Decision Maker, who allocates resources and assesses performance of each segment individually.

Net sales, operating income, and income before taxes for each of the Company's reportable segments are presented below:

	Reportable Segments					
	Outdoor	Fitness	Marine	Auto/ Mobile	Aviation	Total
13-Weeks Ended September 27, 2014						
Net sales	$121,079	$116,171	$62,128	$307,558	$99,347	$706,283
Operating income	$51,382	$36,670	$5,452	$53,042	$28,958	$175,504
Income before taxes	$49,407	$34,625	$5,401	$55,736	$27,493	$172,662
13-Weeks Ended September 28, 2013						
Net sales	$101,350	$81,007	$55,301	$322,520	$83,459	$643,637
Operating income	$44,107	$26,493	$4,118	$53,848	$23,183	$151,749
Income before taxes	$45,556	$27,938	$4,347	$58,144	$24,815	$160,800
39-Weeks Ended September 27, 2014						
Net sales	$311,123	$367,137	$195,911	$900,545	$292,636	$2,067,352
Operating income	$110,345	$133,054	$26,919	$158,248	$86,060	$514,626
Income before taxes	$111,234	$130,985	$28,452	$166,356	$86,821	$523,848
39-Weeks Ended September 28, 2013						
Net sales	$284,372	$237,660	$178,344	$919,810	$251,970	$1,872,156
Operating income	$110,538	$76,026	$16,089	$134,324	$64,584	$401,561
Income before taxes	$117,996	$81,186	$20,828	$160,803	$68,206	$449,019

Allocation of certain research and development expenses, and selling, general, and administrative expenses are made to each segment on a percent of revenue basis.

Net sales and property and equipment, net by geographic area are as follows as of and for the 39-week periods ended September 27, 2014 and September 28, 2013. Note that APAC includes Asia Pacific and EMEA includes Europe, the Middle East and Africa:

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	Americas	APAC	EMEA	Total
September 27, 2014				
Net sales to external customers	$1,090,267	$195,225	$781,860	$2,067,352
Property and equipment, net	$263,581	$117,191	$50,981	$431,753
September 28, 2013				
Net sales to external customers	$1,002,796	$176,524	$692,836	$1,872,156
Property and equipment, net	$235,520	$123,763	$54,392	$413,675

5. Warranty Reserves

The Company's products sold are generally covered by a warranty for periods ranging from one to two years. The Company's estimate of costs to service its warranty obligations are based on historical experience and expectation of future conditions and are recorded as a liability on the balance sheet. The following reconciliation provides an illustration of changes in the aggregate warranty reserve.

	13-Weeks Ended	
	Sept 27, 2014	Sept 28, 2013
Balance - beginning of the period	$27,349	$34,288
Accrual for products sold	8,512	10,884
Expenditures	(9,318)	(10,533)
Balance - end of the period	$26,543	$34,639

	39-Weeks Ended	
	Sept 27, 2014	Sept 28, 2013
Balance - beginning of the period	$26,767	$37,301
Accrual for products sold	29,803	29,076
Expenditures	(30,027)	(31,738)
Balance - end of the period	$26,543	$34,639

6. Commitments and Contingencies

We are party to certain commitments, which includes raw materials, advertising and other indirect purchases in connection with conducting our business. Pursuant to these agreements, the Company is contractually committed to make purchases of approximately $220,299 over the next five years.

In the normal course of business, the Company and its subsidiaries are parties to various legal claims, actions, and complaints, including matters involving patent infringement, other intellectual property, product liability, customer claims and various other risks. It is not possible to predict with certainty whether or not the Company and its subsidiaries will ultimately be successful in any of these legal matters, or if not, what the impact might be. However, the Company's management does not expect that the results in any of these legal proceedings will have a material adverse effect on the Company's results of operations, financial position or cash flows.

On March 14, 2013, the Company entered into a Memorandum of Agreement (the "Agreement") with Bombardier, Inc. ("Bombardier"). The Company is the supplier of the avionics system for the Lear 70 and Lear 75 aircraft currently in development for Learjet, Inc., which is a subsidiary of Bombardier (the "Program"). In order to assist Bombardier in connection with delayed cash flows from the Program partially related to the certification of avionics for the Program exceeding the planned delivery date, the Company agreed to provide Bombardier a short term, interest free, loan of $173,708 in cash in seven installments beginning on March 22, 2013 and ending on September 20, 2013 pursuant to the terms and conditions of the Agreement. Bombardier repaid the loan in four installments beginning in November 2013 and ending in April 2014 pursuant to the terms and conditions of the Agreement and subsequent amendment signed December 6, 2013. As of September 27, 2014, the Company had received all repayments and the loan receivable is now $0.

7. Income Taxes

Our income tax expense increased by $346,365, to $319,496 for the 13-week period ended September 27, 2014, from a benefit of $26,869 for the 13-week period ended September 28, 2013. Contributing to the significant increase were:

- tax expense of $307,635 associated with the inter-company restructuring which is discussed below,
- release of uncertain tax position reserves due to expiration of certain statutes of limitations or completion of tax audits of $24,400 in third quarter 2014 compared to releases of $52,180 in third quarter 2013,
- unfavorable income mix across tax jurisdictions,
- expiration of certain Taiwan tax holidays and
- expiration of the Federal Research & Development Tax Credit on December 31, 2013.

Our income tax expense increased by $369,690, to $369,882 for the first three quarters of 2014, compared to $192 for the first three quarters of 2013. Contributing to the significant increase were:

- tax expense of $307,635 associated with the inter-company restructuring which is discussed below
- release of uncertain tax position reserves due to expiration of certain statutes of limitations or completion of tax audits of $35,385 in the first three quarters of 2014 compared to releases of $78,272 in the first three quarters of 2013,
- unfavorable income mix across tax jurisdictions,
- expiration of certain Taiwan tax holidays,
- expiration of the Federal Research & Development Tax Credit on December 31, 2013 and
- research and development tax credits of $6,301 related to 2012 which were recognized when the related legislation was enacted in January 2013.

In the third quarter of 2014, the Company initiated an inter-company restructuring that realigned our corporate entity structure. This change in corporate structure provides access to historical earnings that were previously permanently reinvested and allows us to efficiently repatriate future earnings. As a result of the change in corporate structure, Garmin recorded tax expense of $307,635. The first cash tax payment of $78,137 associated with the restructuring was made in the third quarter of 2014. We anticipate paying approximately $185,000 in the second quarter of 2015. The remainder of the accrued tax will be paid incrementally as the cash is repatriated.

8. Marketable Securities

The FASB ASC topic entitled *Fair Value Measurements and Disclosures* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The accounting guidance classifies the inputs used to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liability

Level 2 Observable inputs for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability

Level 3 Unobservable inputs for the asset or liability

The Company endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The valuation methods used by the Company for each significant class of investments are summarized below.

Mortgage-backed securities, corporate bonds and obligations of states and political subdivisions – Valued 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.

Common stocks – Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Available for sale securities measured at estimated fair value on a recurring basis are summarized below:

	Fair Value Measurements as of September 27, 2014			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Mortgage-backed securities	$380,925	$-	$380,925	$ -
Obligations of states and political subdivisions	554,176	-	554,176	-
Corporate bonds	551,687	-	551,687	-

Common stocks	30,267	30,267	-	-
Other	87,358	-	87,358	-
Total	$1,604,413	$30,267	$1,574,146	$ -

	Fair Value Measurements as of December 29, 2013			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Mortgage-backed securities	$437,330	$-	$437,330	$ -
Obligations of states and political subdivisions	647,354	-	647,354	-
Corporate bonds	457,148	-	457,148	-
Common stocks	29,854	29,854	-	-
Other	80,282	-	80,282	-
Total	$1,651,968	$29,854	$1,622,114	$ -

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

	Available-For-Sale Securities as of September 27, 2014				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses-OTTI[(1)]**	**Gross Unrealized Losses-Other[(2)]**	**Estimated Fair Value (Net Carrying Amount)**
Mortgage-backed securities	$390,093	$ 648	$ (4,764)	(5,052)	$ 380,925
Obligations of states and political subdivisions	564,818	988	(11,345)	(285)	554,176
U.S. corporate bonds	556,931	649	(4,673)	(1,220)	551,687
Common stocks	30,918	75	(726)	-	30,267
Other	85,147	2,256	(45)	-	87,358
Total	**$1,627,907**	**$ 4,616**	**$ (21,553)**	**$ (6,557)**	**$ 1,604,413**

	Available-For-Sale Securities as of December 28, 2013				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses-OTTI[(1)]**	**Gross Unrealized Losses-Other[(2)]**	**Estimated Fair Value (Net Carrying Amount)**
Mortgage-backed securities	$461,054	$ 2,692	$ (22,614)	$ (3,802)	$ 437,330
Obligations of states and political subdivisions	673,529	1,601	(27,509)	(267)	647,354
U.S. corporate bonds	463,437	1,050	(7,031)	(308)	457,148
Common stocks	24,540	5,413	(99)	-	29,854
Other	78,059	2,326	(103)	-	80,282
Total	**$1,700,619**	**$ 13,082**	**$ (57,356)**	**$ (4,377)**	**$ 1,651,968**

(1) Represents impairment not related to credit for those investment securities that have been determined to be other-than-temporarily impaired.

(2) Represents unrealized losses on investment securities that have not been determined to be other-than-temporarily impaired.

The Company's investment policy requires investments to be rated A or better with the objective of minimizing the potential risk of principal loss. The Company does not intend to sell the securities that have an unrealized loss shown in the table above and it is not more likely than not that the Company will be required to sell the investment before recovery of their amortized costs bases, which may be maturity. The Company recognizes the credit component of other-than-temporary impairments of debt securities in "Other Income" and the noncredit component in "Other comprehensive income (loss)" for those securities that we do not intend to sell and for which it is not more likely than not that we will be required to sell before recovery. During 2014 and 2013, the Company did not record any material impairment charges on its outstanding securities.

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. In 2013, the Company experienced unrealized, non-cash losses on its investment portfolio resulting in a balance of $57,356 and $4,377 of gross other-than-temporary impairment and other unrealized losses on marketable securities at December 28, 2013. The amortized cost and estimated fair value of the securities at an unrealized loss position at December 28, 2013 were $1,215,498 and $1,153,765, respectively. This decrease in estimated fair value was primarily due to market valuations on mortgage-backed securities and obligations of states and political subdivisions declining. The decline was due to increases in the 10 Year Treasury Bond Yield during 2013, which caused market valuations of securities in our investment portfolios to decline.

The 10 Year Treasury Bond Yield decreased in 2014, resulting in a balance of $21,553 and $6,557 of gross other-than-temporary impairment and other unrealized losses on marketable securities at September 27, 2014. The amortized cost and estimated fair value of the securities at an unrealized loss position at September 27, 2014 were $1,216,948 and $1,188,838, respectively. Approximately 52% of securities in our portfolio were at an unrealized loss position at September 27, 2014. We have the ability to hold these securities until maturity or their value is recovered. We do not consider these unrealized losses to be other than temporary credit losses because there has been no deterioration in credit quality and no change in the cash flows of the underlying securities. We do not intend to sell the securities and it is not more likely than not that we will be required to sell the securities; therefore, no impairment has been recorded in the accompanying condensed consolidated statement of income.

The cost of securities sold is based on the specific identification method.

The following table displays 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 September 27, 2014. There was an immaterial amount of unrealized losses related to securities that had been in a continuous unrealized loss position for 12 months or longer as of December 28, 2013.

	As of September 27, 2014			
	Less than 12 Consecutive Months		**12 Consecutive Months or Longer**	
	Gross Unrealized Losses	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**
Mortgage-backed securities	$(1,213)	$ 133,250	$ (8,603)	$ 184,086
Obligations of states and political subdivisions	(400)	76,481	(11,230)	325,044
Corporate bonds	(3,840)	341,445	(2,053)	92,857
Common stocks	(726)	21,265	-	-
Other	(37)	12,948	(8)	1,462
Total	**$(6,216)**	**$ 585,389**	**$ (21,894)**	**$ 603,449**

The amortized cost and estimated fair value of marketable securities at September 27, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Cost	**Estimated Fair Value**
Due in one year or less	$151,537	$151,366
Due after one year through five years	711,418	707,308
Due after five years through ten years	249,737	244,345
Due after ten years	446,676	431,333
Other (No contractual maturity dates)	68,539	70,061
	$1,627,907	**$1,604,413**

9. Share Repurchase Plan

On February 15, 2013, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to $300,000 of its common shares during the period ending December 31, 2014. A Rule 10b5-1 plan was adopted and allowed the Company to repurchase its shares at times when it otherwise might have been prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. As of September 27, 2014, the Company had repurchased 5,746 shares using cash of $300,000, and, as such, the Company has fully executed the authorized share repurchase plan.

10. Accumulated Other Comprehensive Income

The following provides required disclosure of changes in accumulated other comprehensive income (AOCI) balances by component for the 13-week and 39-week periods ended September 27, 2014:

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	13-Weeks Ended Sept 27, 2014			
	Foreign Currency Translation Adjustment	**Gross Unrealized Losses on Available-for-Sale Securities-OTTI (1)**	**Net Unrealized Gains (Losses) on Available-for-Sale Securities-Other (2)**	**Total**
Balance - beginning of period	$92,602	$ (21,739)	$ 2,430	$73,293
Other comprehensive income before reclassification	(22,791)	186	(3,400)	(26,005)
Amounts reclassified from accumulated other comprehensive income	-	-	(118)	(118)
Net current-period other comprehensive income	(22,791)	186	(3,518)	(26,123)
Balance - end of period	$69,811	$ (21,553)	$ (1,088)	$47,170

	39-Weeks Ended Sept 27, 2014			
	Foreign Currency Translation Adjustment	**Gross Unrealized Losses on Available-for-Sale Securities-OTTI (1)**	**Net Unrealized Gains (Losses) on Available-for-Sale Securities-Other (2)**	**Total**
Balance - beginning of period	$85,363	$ (57,356)	$ 10,034	$38,041
Other comprehensive income before reclassification	(15,552)	35,803	(11,740)	8,511
Amounts reclassified from accumulated other comprehensive income	-	-	618	618
Net current-period other comprehensive income	(15,552)	35,803	(11,122)	9,129
Balance - end of period	$69,811	$ (21,553)	$ (1,088)	$47,170

(1) Represents the change in impairment, not related to credit, for those investment securities that have been determined to be other-than-temporarily impaired.

(2) Represents the change in unrealized gains/(losses) on investment securities that have not been determined to be other-than-temporarily impaired.

The following provides required disclosure of reporting reclassifications out of AOCI for the 13-week and 39-week periods ended September 27, 2014:

13-Weeks Ended Sept 27, 2014		
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive	Affected Line Item in the Statement Where Net Income is Presented

		Income	
Unrealized gains (losses) on available-for-sale securities	$	177	Other income (expense)
		(59)	Income tax (provision) benefit
	$	118	Net of tax

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39-Weeks Ended Sept 27, 2014

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on available-for-sale securities	$	(685)	Other income (expense)
		67	Income tax (provision) benefit
	$	(618)	Net of tax

11. Recently Issued Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update No. 2013-11 “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (ASU 2013-11), which is included in ASC Topic 740 (Income Taxes). ASU 2013-11 requires an entity to net its liability for unrecognized tax positions against a net operating loss carryforward, a similar tax loss or a tax credit carryforward when settlement in this manner is available under the tax law. The provisions of this new guidance were effective for reporting periods beginning after December 15, 2013. The implementation of the amended accounting guidance did not have a material impact on the Company’s financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes previous revenue recognition guidance. ASU 2014-09 requires that a company recognize revenue at an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring goods or services to a customer. In applying the new guidance, a company will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract’s performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The provisions of this new guidance are effective for reporting periods beginning after December 15, 2016 and can be adopted using either a full retrospective or modified approach. The Company is currently evaluating the impact of adopting this new guidance on the Company’s financial statements.

12. Acquisitions

In the third quarter of 2014, the Company acquired substantially all of the assets of Fusion Electronics Limited, a privately-held provider of integrated marine audio equipment, and certain of its subsidiaries, as well as the issued and outstanding capital stock of one of its subsidiaries. The acquisition was accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification (“ASC”) 805, “Business Combinations.” Accordingly, the Company made an allocation of the purchase price at the acquisition date, based upon estimates of the fair value of the acquired assets and assumed liabilities using Level 3 inputs under the fair value hierarchy. The operating results of Fusion Electronics Limited since the acquisition date are included within the Marine segment of the consolidated financial statements. The acquisition is not considered to be material; therefore, supplemental pro forma information is not presented.

13. Subsequent events

No significant events occurred subsequent to the balance sheet date but prior to October 29, 2014 that would have a material impact on the financial statements.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The discussion set forth below, as well as other portions of this Quarterly Report, contains statements concerning potential future events. Such forward-looking statements are based upon assumptions by our management, as of the date of this Quarterly Report, including assumptions about risks and uncertainties faced by the Company. Readers can identify these forward-looking statements by their use of such verbs as expects, anticipates, believes or similar verbs or conjugations of such verbs. If any of our assumptions prove incorrect or should unanticipated circumstances arise, our actual results could materially differ from those anticipated by such forward-looking statements. The differences could be caused by a number of factors or combination of factors including, but not limited to, those factors identified in the Company’s Annual Report on Form 10-K for the year ended December 28, 2013. This report has been filed with the Securities and Exchange Commission (the "SEC" or the "Commission") in Washington, D.C. and can be obtained by contacting the SEC's public reference operations or obtaining it through the SEC's web site on the World Wide Web at http://www.sec.gov. Readers are strongly encouraged to consider those factors when evaluating any forward-looking statement concerning the Company. The Company will not update any forward-looking statements in this Quarterly Report to reflect future events or developments.

The information contained in this Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto included in this Form 10-Q and the audited financial statements and notes thereto in the Company’s Annual Report on Form 10-K for the year ended December 28, 2013.

The Company is a leading worldwide provider of navigation, communications and information devices, most of which are enabled by Global Positioning System, or GPS, technology. We operate in five business segments, the outdoor, fitness, marine, automotive/mobile and aviation markets. Our segments offer products through our network of independent dealers and distributors. However, the nature of products and types of customers for the five segments may vary significantly. As such, the segments are managed separately.

Results of Operations

The following table sets forth our results of operations as a percentage of net sales during the periods shown (table may not foot due to rounding):

	13-Weeks Ended September 27, 2014		September 28, 2013	
Net sales	100	%	100	%
Cost of goods sold	44	%	45	%
Gross profit	56	%	55	%
Advertising	5	%	4	%
Selling, general and administrative	13	%	13	%
Research and development	14	%	14	%
Total operating expenses	32	%	31	%
Operating income	25	%	24	%
Other income (expense), net	0	%	1	%
Income before income taxes	24	%	25	%
Provision/(benefit) for income taxes	45	%	-4	%
Net income	-21	%	29	%

	39-Weeks Ended September 27, 2014		September 28, 2013	
Net sales	100	%	100	%
Cost of goods sold	43	%	46	%
Gross profit	57	%	54	%
Advertising	4	%	4	%
Selling, general and administrative	13	%	14	%
Research and development	14	%	15	%
Total operating expenses	32	%	33	%
Operating income	25	%	21	%
Other income (expense), net	0	%	3	%
Income before income taxes	25	%	24	%
Provision for income taxes	18	%	0	%
Net income	7	%	24	%

The Company manages its operations in five segments: outdoor, fitness, marine, automotive/mobile, and aviation, and each of its segments employs the same accounting policies. Allocation of certain research and development expenses, and selling, general, and administrative expenses are made to each segment on a percent of revenue basis. The following table sets forth our results of operations (in thousands) including revenue (net sales), operating income, and income before taxes for each of our five segments during the periods shown. For each line item in the table, the total of the outdoor, fitness, marine, automotive/mobile, and aviation segments' amounts equals the amount in the condensed consolidated statements of income included in Item 1.

Garmin Ltd. And Subsidiaries

Net Sales, Operating Income and Income before Taxes by Segment (Unaudited)

	Reportable Segments					
	Outdoor	Fitness	Marine	Auto/ Mobile	Aviation	Total
13-Weeks Ended September 27, 2014						
Net sales	$121,079	$116,171	$62,128	$307,558	$99,347	$706,283
Operating income	$51,382	$36,670	$5,452	$53,042	$28,958	$175,504
Income before taxes	$49,407	$34,625	$5,401	$55,736	$27,493	$172,662
13-Weeks Ended September 28, 2013						
Net sales	$101,350	$81,007	$55,301	$322,520	$83,459	$643,637
Operating income	$44,107	$26,493	$4,118	$53,848	$23,183	$151,749
Income before taxes	$45,556	$27,938	$4,347	$58,144	$24,815	$160,800
39-Weeks Ended September 27, 2014						
Net sales	$311,123	$367,137	$195,911	$900,545	$292,636	$2,067,352
Operating income	$110,345	$133,054	$26,919	$158,248	$86,060	$514,626
Income before taxes	$111,234	$130,985	$28,452	$166,356	$86,821	$523,848
39-Weeks Ended September 28, 2013						
Net sales	$284,372	$237,660	$178,344	$919,810	$251,970	$1,872,156
Operating income	$110,538	$76,026	$16,089	$134,324	$64,584	$401,561
Income before taxes	$117,996	$81,186	$20,828	$160,803	$68,206	$449,019

Comparison of 13-Weeks Ended September 27, 2014 and September 28, 2013

(Dollar amounts included in the following discussion are stated in thousands unless otherwise indicated)

Net Sales

	13-weeks ended Sept 27, 2014			13-weeks ended Sept 28, 2013			Year over Year		
	Net Sales	% of Revenues		Net Sales	% of Revenues		$ Change	% Change	
Outdoor	$ 121,079	17	%	$ 101,350	16	%	$ 19,729	19	%
Fitness	116,171	16	%	81,007	12	%	35,164	43	%
Marine	62,128	9	%	55,301	9	%	6,827	12	%
Automotive/Mobile	307,558	44	%	322,520	50	%	(14,962)	-5	%
Aviation	99,347	14	%	83,459	13	%	15,888	19	%
Total	$ 706,283	100	%	$ 643,637	100	%	$ 62,646	10	%

Net sales increased 10% for the 13-week period ended September 27, 2014 when compared to the year-ago quarter. All segments, excluding automotive/mobile, grew in the quarter. Automotive/mobile revenue remains the largest portion of our revenue mix at 44% in the third quarter of 2014 compared to 50% in the third quarter of 2013.

Total unit sales increased 13% to 3,679 in the third quarter of 2014 from 3,263 in the same period of 2013. Unit sales volume grew in all segments excluding automotive/mobile during the third quarter of fiscal 2014.

Automotive/mobile segment revenue decreased 5% from the year-ago quarter, as a 4% volume decline and slight average selling price (ASP) decline, were partially offset by amortization of previously deferred revenue exceeding current period revenue deferrals. Revenues in our fitness segment increased 43% from the year-ago quarter on the strength of vívofit™, our first fitness band, and recent biking and running product introductions. Aviation revenues increased 19% from the year-ago quarter as both OEM market share gains and aftermarket strength contributed to growth. Outdoor revenues increased 19% from the year-ago quarter primarily due to strong sales of fēnix 2 and recently introduced golf products. Revenues in our marine segment increased 12% due to the recent acquisition of Fusion Electronics.

Cost of Goods Sold

	13-weeks ended Sept 27, 2014	13-weeks ended Sept 28, 2013	Year over Year

	Cost of Goods	% of Revenues	Cost of Goods	% of Revenues	$ Change	% Change
Outdoor	$ 41,852	35 %	$ 31,879	31 %	$ 9,973	31 %
Fitness	42,115	36 %	31,679	39 %	10,436	33 %
Marine	30,618	49 %	28,036	51 %	2,582	9 %
Automotive/Mobile	166,563	54 %	174,654	54 %	(8,091)	-5 %
Aviation	26,889	27 %	24,500	29 %	2,389	10 %
Total	$ 308,037	44 %	$ 290,748	45 %	$ 17,289	6 %

Cost of goods sold increased 6% in absolute dollars for the 13-week period ended September 27, 2014 when compared to the year ago quarter. The increase was driven by growth in all segments excluding automotive/mobile. Fitness cost of goods increased due to the significant sales growth as described above with gross margin improvement due primarily to product mix shifting toward new products. Outdoor cost of goods increased due to sales growth with gross margin contraction driven by product mix.

As a percentage of revenue, cost of goods sold decreased 160 basis points from the year ago quarter with improvement or stability in each segment, excluding outdoor as mentioned above. The automotive/mobile cost of goods as a percent of revenues was consistent as benefit from the amortization of previously deferred revenue and costs exceeding new deferrals on current period sales in the third quarter of 2014 was offset by a slight decline in ASP. The marine margin improvement was primarily related to product mix shifting toward new products and ASP improvement, excluding the Fusion acquisition. Aviation margin improvement was primarily due to increased contribution of software sales which carry a higher margin.

Gross Profit

	13-weeks ended Sept 27, 2014		13-weeks ended Sept 28, 2013		Year over Year	
	Gross Profit	% of Revenues	Gross Profit	% of Revenues	$ Change	% Change
Outdoor	$ 79,227	65 %	$ 69,471	69 %	$ 9,756	14 %
Fitness	74,056	64 %	49,328	61 %	24,728	50 %
Marine	31,510	51 %	27,265	49 %	4,245	16 %
Automotive/Mobile	140,995	46 %	147,866	46 %	(6,871)	-5 %
Aviation	72,458	73 %	58,959	71 %	13,499	23 %
Total	$ 398,246	56 %	$ 352,889	55 %	$ 45,357	13 %

Gross profit dollars in the third quarter of 2014 increased 13% while gross profit margin increased 160 basis points compared to the third quarter of 2013 with all segments stable or improving, excluding outdoor. The automotive/mobile gross margin was stable, as discussed above. Fitness, marine and aviation recorded improved gross margins, as discussed above. Outdoor gross profit margins declined, as discussed above.

Advertising Expense

	13-weeks ended Sept 27, 2014		13-weeks ended Sept 28, 2013		Year over Year	
	Advertising Expense	% of Revenues	Advertising Expense	% of Revenues	$ Change	% Change
Outdoor	$ 6,070	5 %	$ 4,482	4 %	$ 1,588	35 %
Fitness	10,213	9 %	4,738	6 %	5,475	116 %
Marine	2,653	4 %	2,467	4 %	186	8 %
Automotive/Mobile	12,399	4 %	13,192	4 %	(793)	-6 %
Aviation	1,777	2 %	1,372	2 %	405	30 %
Total	$ 33,112	5 %	$ 26,251	4 %	$ 6,861	26 %

Advertising expense increased 26% in absolute dollars while increasing 60 basis points as a percent of revenues. The increase in absolute dollars occurred primarily in outdoor and fitness to support new product introductions and was partially offset by decreased spending in automotive/mobile due to reduced cooperative advertising associated with lower volumes.

Selling, General and Administrative Expense

	13-weeks ended Sept 27, 2014		13-weeks ended Sept 28, 2013		Year over Year	
	Selling, General & Admin. Expenses	% of Revenues	Selling, General & Admin. Expenses	% of Revenues	$ Change	% Change
Outdoor	$ 15,010	12 %	$ 14,684	14 %	$ 326	2 %
Fitness	16,649	14 %	11,182	14 %	5,467	49 %
Marine	10,898	18 %	9,161	17 %	1,737	19 %
Automotive/Mobile	42,050	14 %	47,116	15 %	(5,066)	-11 %
Aviation	6,025	6 %	4,319	5 %	1,706	39 %
Total	$ 90,632	13 %	$ 86,462	13 %	$ 4,170	5 %

Selling, general and administrative expense increased 5% in absolute dollars and declined 60 basis points as a percent of revenues compared to the year-ago quarter. The absolute dollar increase is primarily related to product support, information technology costs and legal costs specific to marine litigation. The aviation increase was primarily driven by product support costs. Other variances by segment, excluding aviation, are primarily due to the allocation of certain selling, general and administrative expenses based on percentage of total revenues.

Research and Development Expense

	13-weeks ended Sept 27, 2014		13-weeks ended Sept 28, 2013		Year over Year	
	Research & Development	% of Revenues	Research & Development	% of Revenues	$ Change	% Change
Outdoor	$ 6,765	6 %	$ 6,198	6 %	$ 567	9 %
Fitness	10,524	9 %	6,915	9 %	3,609	52 %
Marine	12,507	20 %	11,519	21 %	988	9 %
Automotive/Mobile	33,504	11 %	33,710	10 %	(206)	-1 %
Aviation	35,698	36 %	30,085	36 %	5,613	19 %
Total	$ 98,998	14 %	$ 88,427	14 %	$ 10,571	12 %

Research and development expense increased 12% due to ongoing development activities for new products and the addition of over 100 new engineering personnel to our staff since the year-ago quarter. In absolute dollars, research and development costs increased $10.6 million when compared with the year-ago quarter and increased 30 basis points as a percent of revenue. Fitness, outdoor and aviation increased to support new product initiatives. Marine increased primarily due to the recent acquisition of Fusion Electronics. Automotive/mobile investment declined due to efforts to allocate research and development spending to areas with the highest growth potential.

Operating Income

	13-weeks ended Sept 27, 2014		13-weeks ended Sept 28, 2013		Year over Year	
	Operating Income	% of Revenues	Operating Income	% of Revenues	$ Change	% Change
Outdoor	$ 51,382	42 %	$ 44,107	44 %	$ 7,275	16 %
Fitness	36,670	32 %	26,493	33 %	10,177	38 %
Marine	5,452	9 %	4,118	7 %	1,334	32 %
Automotive/Mobile	53,042	17 %	53,848	17 %	(806)	-1 %
Aviation	28,958	29 %	23,183	28 %	5,775	25 %
Total	$ 175,504	25 %	$ 151,749	24 %	$ 23,755	16 %

Operating income increased 16% in absolute dollars and 130 basis points as a percent of revenue when compared to the third quarter of 2013. Revenue growth and an improving gross margin percentage, as discussed above, contributed to the growth.

Other Income (Expense)

	13-weeks ended September 27, 2014	13-weeks ended September 28, 2013
Interest Income	$ 9,344	$ 8,435
Foreign Currency Exchange	(12,703)	(822)
Other	517	1,438
Total	$ (2,842)	$ 9,051

The average return on cash and investments during the third quarter of 2014 and 2013 were 1.4% and 1.3%, respectively. The increase in interest income is attributable to a higher cash balance and increased rate of return on investments.

Foreign currency gains and losses for the Company are primarily tied to movements by the Taiwan Dollar, the Euro, and the British Pound Sterling in relation to the U.S. Dollar. The Taiwan Dollar is the functional currency of Garmin Corporation. The U.S. Dollar remains the functional currency of Garmin (Europe) Ltd. The Euro is the functional currency of most European subsidiaries. As these entities have grown, currency fluctuations can generate material gains and losses. Additionally, Euro-based inter-company transactions can also generate currency gains and losses. Due to the relative size of the entities using a functional currency other than the Taiwan Dollar, the Euro and the British Pound Sterling, currency fluctuations related to these entities are not expected to have a material impact on the Company’s financial statements.

The majority of the $12.7 million currency loss in the third quarter of 2014 was due to the strengthening of the U.S. Dollar compared to the Euro and the British Pound Sterling. The strengthening of the U.S. Dollar compared to the Taiwan Dollar contributed an offsetting gain. The movements of the Taiwan Dollar and Euro/British Pound Sterling have offsetting impacts due to the use of the Taiwan Dollar for manufacturing costs and cash held in non-functional currency while the Euro and British Pound Sterling transactions relate to revenue. During the third quarter of 2014, the U.S. Dollar strengthened 6.6% compared to the Euro and 4.3% compared to the British Pound Sterling resulting in a net loss of $24.2 million. This was partially offset as the U.S. Dollar strengthened 1.5% compared to the Taiwan Dollar resulting in a gain of $12.8 million. The remaining net currency loss of $1.4 million is related to other currencies and timing of transactions.

The $0.8 million currency loss in the third quarter of 2013 was due to the weakening of the U.S. Dollar compared to the Taiwan Dollar, offset by gains due to the weakening of the U.S. Dollar compared to the Euro and British Pound Sterling. During the third quarter of 2013, the U.S. Dollar weakened 1.4% against the Taiwan Dollar resulting in a loss of $12.7 million. In addition, the U.S. Dollar weakened 3.6% and 5.6%, respectively, compared to the Euro and the British Pound Sterling, resulting in an $11.3 million gain. The remaining net currency gain of $0.6 million is related to other currencies and timing of transactions.

Income Tax Provision (Benefit)

Our income tax expense increased by $346.4 million, to $319.5 million for the 13-week period ended September 27, 2014, from a benefit of $26.9 million for the 13-week period ended September 28, 2013. Contributing to the significant increase were:

- tax expense of $307.6 million associated with the inter-company restructuring,
- release of uncertain tax position reserves due to expiration of certain statutes of limitations or completion of tax audits of $24.4 million in third quarter 2014 compared to releases of $52.2 million in third quarter 2013,
- unfavorable income mix across tax jurisdictions,
- expiration of certain Taiwan tax holidays and
- expiration of the Federal Research & Development Tax Credit on December 31, 2013.

Net Income (Loss)

As a result of the above, net income decreased by $334.5 million for the 13-week period ended September 27, 2014 to a loss of $146.8 million compared to income of $187.7 million for the 13-week period ended September 28, 2013.

Comparison of 39-Weeks Ended September 27, 2014 and September 28, 2013

(Amounts included in the following discussion are stated in thousands unless otherwise indicated)

Net Sales

	39-weeks ended Sept 27, 2014		39-weeks ended Sept 28, 2013		Year over Year	
	Net Sales	% of Revenues	Net Sales	% of Revenues	$ Change	% Change
Outdoor	$ 311,123	15 %	$ 284,372	15 %	$ 26,751	9 %
Fitness	367,137	18 %	237,660	13 %	129,477	54 %
Marine	195,911	9 %	178,344	10 %	17,567	10 %
Automotive/Mobile	900,545	44 %	919,810	49 %	(19,265)	-2 %
Aviation	292,636	14 %	251,970	13 %	40,666	16 %
Total	$ 2,067,352	100 %	$ 1,872,156	100 %	$ 195,196	10 %

Net sales increased 10% for the 39-week period ended September 28, 2013 when compared to the year-ago period. The increase was driven by growth in all segments excluding the automotive/mobile segment which posted a 2% decline. Automotive/mobile revenue remains the largest portion of our revenue mix at 44% in the first three quarters of 2014 compared to 49% in the first three quarters of 2013.

Total unit sales increased 7% to 10,018 in the first three quarters of 2014 from 9,378 in the same period of 2013. The increase in unit sales volume was attributable to growth in all segments excluding automotive/mobile with the largest increase in fitness.

Automotive/mobile segment revenue decreased 2% from the year-ago period, as volumes decreased 8% partially offset by average selling price (ASP) improvement due to the amortization of previously deferred revenue exceeding current period revenue deferrals in the first three quarters of 2014 and increased auto OEM contribution with a higher ASP. Fitness revenues increased 54% on the strength of vívofit™, our first fitness band, and recent biking and running product introductions. Aviation revenues increased 16% from the year-ago period as OEM market share gains and aftermarket products contributed to growth. Outdoor revenues increased 9% from the year-ago period due to recently introduced products including action cameras and wearables. Revenues in our marine segment increased 10% as the contribution from new products and the recent acquisition of Fusion Electronics was partially offset by a weak global marine electronics industry.

Cost of Goods Sold

	39-weeks ended Sept 27, 2014		39-weeks ended Sept 28, 2013		Year over Year	
	Cost of Goods	% of Revenues	Cost of Goods	% of Revenues	$ Change	% Change
Outdoor	$ 116,318	37 %	$ 100,039	35 %	$ 16,279	16 %
Fitness	130,933	36 %	88,292	37 %	42,641	48 %
Marine	90,814	46 %	86,794	49 %	4,020	5 %
Automotive/Mobile	478,166	53 %	509,462	55 %	(31,296)	-6 %
Aviation	77,557	27 %	74,907	30 %	2,650	4 %
Total	$ 893,788	43 %	$ 859,494	46 %	$ 34,294	4 %

Cost of goods sold increased 4% in absolute dollars for the first three quarters of 2014 when compared to the year ago period. The increase was driven primarily by growth in fitness and outdoor partially offset by declines in automotive/mobile. Fitness cost of goods increased due to the significant sales growth as described above while gross margins were relatively consistent. Outdoor cost of goods increased due to inventory reserves for certain products and product mix.

As a percentage of revenue, cost of goods sold decreased 270 basis points from the year ago period with improvement in each segment, excluding outdoor as mentioned above. The automotive/mobile improvement of 230 basis points was primarily due to benefit from the amortization of previously deferred revenue and costs exceeding new deferrals on current period sales in the first three quarters of 2014. The marine margin improvement was primarily related to product mix shifting toward new products and ASP improvement, excluding the Fusion acquisition. Aviation margin improvement was primarily due to increased software sales.

Gross Profit