

TRIMBLE NAVIGATION LTD /CA/

Form 10-Q

August 09, 2011

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JULY 1, 2011

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: 001-14845

TRIMBLE NAVIGATION LIMITED

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

94-2802192
(I.R.S. Employer
Identification Number)

935 Stewart Drive, Sunnyvale, CA 94085
(Address of principal executive offices) (Zip Code)

Telephone Number (408) 481-8000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (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 registrant 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, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer 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

As of August 4, 2011, there were 122,799,179 shares of Common Stock (no par value) outstanding.

Table of Contents

TRIMBLE NAVIGATION LIMITED

FORM 10-Q for the Quarter Ended July 1, 2011

TABLE OF CONTENTS

| | Page |
|---|------|
| PART I. <u>Financial Information</u> | |
| ITEM 1. <u>Financial Statements (Unaudited):</u> | |
| <u>Condensed Consolidated Balance Sheets</u> as of July 1, 2011 and December 31, 2010 | 3 |
| <u>Condensed Consolidated Statements of Income</u> for the Three and Six Months Ended July 1, 2011 and July 2, 2010 | 4 |
| <u>Condensed Consolidated Statements of Cash Flows</u> for the Six Months Ended July 1, 2011 and July 2, 2010 | 5 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 6 |
| ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 19 |
| ITEM 3. <u>Quantitative and Qualitative Disclosure about Market Risk</u> | 35 |
| ITEM 4. <u>Controls and Procedures</u> | 36 |
| PART II. <u>Other Information</u> | |
| ITEM 1. <u>Legal Proceedings</u> | 36 |
| ITEM 1A. <u>Risk Factors</u> | 36 |
| ITEM 6. <u>Exhibits</u> | 37 |
| <u>SIGNATURES</u> | 39 |

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TRIMBLE NAVIGATION LIMITED
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (UNAUDITED)

| | July 1, 2011 | December 31, 2010 |
|--|---------------------|----------------------|
| <i>(In thousands)</i> | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 249,811 | \$ 220,788 |
| Accounts receivable, net | 257,176 | 222,820 |
| Other receivables | 27,635 | 21,069 |
| Inventories, net | 216,080 | 192,852 |
| Deferred income taxes | 35,791 | 36,924 |
| Other current assets | 26,245 | 19,917 |
| Total current assets | 812,738 | 714,370 |
| Property and equipment, net | 53,391 | 50,692 |
| Goodwill | 894,514 | 828,737 |
| Other purchased intangible assets, net | 230,921 | 204,948 |
| Other non-current assets | 78,241 | 68,145 |
| Total assets | \$ 2,069,805 | \$ 1,866,892 |
| LIABILITIES | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 1,969 | \$ 1,993 |
| Accounts payable | 87,608 | 72,349 |
| Accrued compensation and benefits | 59,640 | 60,976 |
| Deferred revenue | 91,033 | 73,888 |
| Accrued warranty expense | 13,163 | 12,868 |
| Other current liabilities | 39,171 | 29,741 |
| Total current liabilities | 292,584 | 251,815 |
| Non-current portion of long-term debt | 125,287 | 151,160 |
| Non-current deferred revenue | 8,612 | 10,777 |
| Deferred income taxes | 37,575 | 24,598 |
| Other non-current liabilities | 45,745 | 42,843 |
| Total liabilities | 509,803 | 481,193 |
| Commitments and contingencies | | |
| EQUITY | | |
| Shareholders' equity: | | |
| Preferred stock, no par value; 3,000 shares authorized; none outstanding | 0 | 0 |
| | 839,716 | 781,779 |

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

| | | |
|--|--------------|--------------|
| Common stock, no par value; 180,000 shares authorized; 122,749 and 120,939 shares issued and outstanding at July 1, 2011 and December 31, 2010, respectively | | |
| Retained earnings | 629,576 | 536,350 |
| Accumulated other comprehensive income | 72,057 | 48,027 |
| Total Trimble Navigation Ltd. shareholders' equity | 1,541,349 | 1,366,156 |
| Noncontrolling interests | 18,653 | 19,543 |
| Total equity | 1,560,002 | 1,385,699 |
| Total liabilities and equity | \$ 2,069,805 | \$ 1,866,892 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

TRIMBLE NAVIGATION LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | July 1, 2011 | July 2, 2010 | July 1, 2011 | July 2, 2010 |
| <i>(In thousands, except per share data)</i> | | | | |
| Revenue (1) | \$ 407,169 | \$ 333,363 | \$ 791,462 | \$ 652,378 |
| Cost of sales (1) | 198,435 | 169,937 | 391,198 | 329,955 |
| Gross margin | 208,734 | 163,426 | 400,264 | 322,423 |
| Operating expenses | | | | |
| Research and development | 46,292 | 36,552 | 89,524 | 72,442 |
| Sales and marketing | 63,490 | 50,522 | 124,697 | 100,290 |
| General and administrative | 37,157 | 27,290 | 70,629 | 55,837 |
| Restructuring charges | 361 | 375 | 1,128 | 1,006 |
| Amortization of purchased intangible assets | 9,867 | 8,126 | 19,044 | 16,172 |
| Total operating expenses | 157,167 | 122,865 | 305,022 | 245,747 |
| Operating income | 51,567 | 40,561 | 95,242 | 76,676 |
| Non-operating income, net | | | | |
| Interest income | 319 | 244 | 604 | 643 |
| Interest expense | (1,350) | (411) | (1,846) | (809) |
| Foreign currency transaction gain (loss), net | 6,496 | (1,869) | 6,802 | (1,123) |
| Income from equity method investments, net | 3,418 | 3,147 | 6,181 | 5,621 |
| Other expense, net | (252) | (825) | (504) | (511) |
| Total non-operating income, net | 8,631 | 286 | 11,237 | 3,821 |
| Income before taxes | 60,198 | 40,847 | 106,479 | 80,497 |
| Income tax provision | 6,020 | 34,076 | 13,429 | 45,574 |
| Net income | 54,178 | 6,771 | 93,050 | 34,923 |
| Less: Net income (loss) attributable to noncontrolling interests | 500 | 418 | (331) | 672 |
| Net income attributable to Trimble Navigation Ltd. | \$ 53,678 | \$ 6,353 | \$ 93,381 | \$ 34,251 |
| Basic earnings per share | \$ 0.44 | \$ 0.05 | \$ 0.76 | \$ 0.28 |
| Shares used in calculating basic earnings per share | 122,667 | 120,654 | 122,243 | 120,707 |
| Diluted earnings per share | \$ 0.43 | \$ 0.05 | \$ 0.74 | \$ 0.28 |
| Shares used in calculating diluted earnings per share | 126,192 | 124,099 | 126,024 | 123,964 |

(1) Sales to Caterpillar Trimble Control Technologies Joint Venture (CTCT) and Nikon-Trimble Joint Venture (Nikon-Trimble), were \$5.2 million and \$4.8 million for the three months ended July 1, 2011 and July 2, 2010, respectively, with associated cost of sales to those

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

related parties of \$3.5 million and \$3.4 million, respectively. Sales to CTCT and Nikon-Trimble were \$11.0 million and \$10.3 million for the six months ended July 1, 2011 and July 2, 2010, respectively, with associated cost of sales of \$7.4 million and \$7.1 million, respectively. In addition, cost of sales associated with related party net inventory purchases were \$10.6 million and \$8.5 million for the three months ended July 1, 2011 and July 2, 2010, respectively, and \$18.5 million and \$14.6 million for the six months ended July 1, 2011 and July 2, 2010, respectively. See Note 4 regarding joint ventures for further information about related party transactions. *See accompanying Notes to the Condensed Consolidated Financial Statements.*

Table of Contents

TRIMBLE NAVIGATION LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

| | Six Months Ended | |
|---|------------------|-----------------|
| | July 1, 2011 | July 2, 2010 |
| <i>(Dollars in thousands)</i> | | |
| Cash flow from operating activities: | | |
| Net income | \$ 93,050 | \$ 34,923 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation expense | 9,175 | 8,736 |
| Amortization expense | 32,641 | 27,733 |
| Provision for doubtful accounts | 640 | 2,596 |
| Deferred income taxes | (4,139) | (4,461) |
| Stock-based compensation | 13,927 | 10,625 |
| Income from equity method investments, net | (6,181) | (5,621) |
| Excess tax benefit for stock-based compensation | (10,950) | (1,412) |
| Provision for excess and obsolete inventories | 4,731 | 3,173 |
| Other non-cash items | 2,031 | (3,334) |
| Add decrease (increase) in assets: | | |
| Accounts receivable | (30,650) | (15,398) |
| Other receivables | 5,988 | 7,647 |
| Inventories | (16,100) | (19,747) |
| Other current and non-current assets | 1,478 | 1,003 |
| Add increase (decrease) in liabilities: | | |
| Accounts payable | 8,776 | 17,315 |
| Accrued compensation and benefits | (5,453) | 8,142 |
| Accrued liabilities | 3,164 | (21,680) |
| Deferred revenue | 8,588 | 676 |
| Income tax payable | 0 | 44,393 |
| Net cash provided by operating activities | 110,716 | 95,309 |
| Cash flow from investing activities: | | |
| Acquisitions of businesses, net of cash acquired | (91,449) | (33,605) |
| Acquisitions of property and equipment | (9,322) | (11,030) |
| Acquisitions of intangible assets | (566) | (297) |
| Purchases of equity method investments | (267) | (3,692) |
| Increase in restricted cash for business acquisition | 0 | (17,151) |
| Dividends received | 7,500 | 5,000 |
| Other | (357) | 67 |
| Net cash used in investing activities | (94,461) | (60,708) |
| Cash flow from financing activities: | | |
| Issuances of common stock, net | 30,663 | 17,867 |
| Repurchase and retirement of common stock | 0 | (60,510) |
| Excess tax benefit for stock-based compensation | 10,950 | 1,412 |
| Proceeds from long-term debt, net of debt issuance costs | 144,225 | 0 |
| Payments on short-term and long-term debt | (177,831) | (94) |

| | | |
|--|------------|------------|
| Net cash provided by (used in) financing activities | 8,007 | (41,325) |
| Effect of exchange rate changes on cash and cash equivalents | 4,761 | (5,464) |
| Net increase (decrease) in cash and cash equivalents | 29,023 | (12,188) |
| Cash and cash equivalents, beginning of period | 220,788 | 273,848 |
| Cash and cash equivalents, end of period | \$ 249,811 | \$ 261,660 |

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

NOTE 1. OVERVIEW AND BASIS OF PRESENTATION

Trimble Navigation Limited (the Company), incorporated in California in 1981, provides positioning solutions to commercial and government users in a large number of markets. These markets include surveying, agriculture, construction, asset management, mapping, and mobile resource management.

The Company has a 52-53 week fiscal year, ending on the Friday nearest to December 31, which for fiscal 2010 was December 31, 2010. The second quarter of fiscal 2011 and fiscal 2010 ended on July 1, 2011 and July 2, 2010, respectively. Fiscal 2011 and 2010 were both 52-week years. Unless otherwise stated, all dates refer to the Company's fiscal year and fiscal periods.

The Condensed Consolidated Financial Statements include the results of the Company and its consolidated subsidiaries. Inter-company accounts and transactions have been eliminated. Noncontrolling interests represent the noncontrolling shareholders' proportionate share of the net assets and results of operations of the Company's consolidated subsidiaries.

The accompanying financial data as of July 1, 2011 and for the three and six months ended July 1, 2011 and July 2, 2010 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote 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. The Condensed Consolidated Balance Sheet as of December 31, 2010 is derived from the audited Consolidated Financial Statements included in the Annual Report on Form 10-K of Trimble Navigation Limited for fiscal year 2010. The following discussion should be read in conjunction with the Company's 2010 Annual Report on Form 10-K.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in its Condensed Consolidated Financial Statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present a fair statement of financial position as of July 1, 2011, results of operations for the three and six months ended July 1, 2011 and July 2, 2010 and cash flows for the six months ended July 1, 2011 and July 2, 2010, as applicable, have been made. The results of operations for the three and six months ended July 1, 2011 are not necessarily indicative of the operating results for the full fiscal year or any future periods. Individual segment revenue may be affected by seasonal buying patterns and general economic conditions. The Company has evaluated all subsequent events through the date that these financial statements have been filed with the SEC.

NOTE 2. UPDATES TO SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the Company's significant accounting policies during the six months ended July 1, 2011 from those disclosed in the Company's 2010 Form 10-K.

Recent Accounting Pronouncements

Updates to recent accounting standards as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 are as follows:

In May 2011, the Financial Accounting Standards Board (FASB) issued amended guidance on fair value measurement and related disclosures. The new guidance clarified the concepts applicable for fair value measurement of non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance will be effective for reporting periods beginning after December 15, 2011, and will be applied prospectively. The Company is in the process of evaluating the financial and disclosure impact of this guidance. The Company does not anticipate a material impact on its consolidated financial statements as a result of the adoption of this amended guidance.

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income. The amended guidance eliminates the option provided by current U.S. GAAP to present the components of other comprehensive income as part of the statement of changes in stockholders equity. In addition, it gives an entity the option to present the total of comprehensive income, the components of net income, and the components

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance will be effective for reporting periods beginning after December 15, 2011 and will be applied retrospectively. The Company will apply the guidance when it becomes effective.

Table of Contents

NOTE 3. SHAREHOLDERS' EQUITY

Stock Repurchase Activities

In January 2008, the Company's Board of Directors authorized a stock repurchase program ("2008 Stock Repurchase Program"), authorizing the Company to repurchase up to \$250 million of Trimble's common stock under this program. No shares of common stock were repurchased during the three months and six months ended July 1, 2011. During the three and six months ended July 2, 2010, the Company repurchased approximately 2,360,000 shares of common stock in open market purchases at an average price of \$28.69 per share, for a total of \$67.7 million. Since January 2008, the Company has repurchased approximately 6,819,000 shares of common stock in open market purchases at an average price of \$29.29 per share, for a total of \$199.7 million. The purchase price was reflected as a decrease to common stock based on the average stated value per share with the remainder to retained earnings. Common stock repurchases under the program were recorded based upon the trade date for accounting purposes. All common shares repurchased under this program have been retired. As of July 1, 2011, the 2008 Stock Repurchase Program had remaining authorized funds of \$50.3 million. The timing and actual number of future shares repurchased will depend on a variety of factors including price, regulatory requirements, capital availability, and other market conditions. The program does not require the purchase of any minimum number of shares and may be suspended or discontinued at any time without public notice.

Stock-Based Compensation

The Company accounts for its employee stock options and rights to purchase shares under its stock participation plans under the fair value method, which requires the fair value of stock-based compensation to be estimated on the date of grant using an option-pricing model. The value of the portion of the award that is expected to vest is recognized as expense over the related employees' requisite service periods in the Company's Condensed Consolidated Statements of Income.

The following table summarizes stock-based compensation expense, net of tax, related to employee stock-based compensation included in the Condensed Consolidated Statements of Income for the three and six months ended July 1, 2011 and July 2, 2010.

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | July 1, 2011 | July 2, 2010 | July 1, 2011 | July 2, 2010 |
| <i>(Dollars in thousands)</i> | | | | |
| Cost of sales | \$ 502 | \$ 486 | \$ 970 | \$ 987 |
| Research and development | 1,126 | 984 | 2,222 | 1,931 |
| Sales and marketing | 1,659 | 1,347 | 3,293 | 2,730 |
| General and administrative | 3,842 | 2,167 | 7,442 | 4,977 |
| Total operating expenses | 6,627 | 4,498 | 12,957 | 9,638 |
| Total stock-based compensation expense | 7,129 | 4,984 | 13,927 | 10,625 |
| Tax benefit (1) | (2,139) | (1,419) | (4,342) | (2,195) |
| Total stock-based compensation expense, net of tax | \$ 4,990 | \$ 3,565 | \$ 9,585 | \$ 8,430 |

- (1) Tax benefit related to U.S. non-qualified options, restricted stock units, and disqualified disposition of incentive stock options, applying a Federal statutory and State (Federal effected) tax rate for the respective periods.

Table of Contents*Options*

Stock option expense recognized during the period is based on the fair value of the portion of the stock option that is expected to vest during the period and is net of estimated forfeitures. The fair value of each stock option is estimated on the date of grant using a binomial valuation model. The binomial model takes into account variables such as volatility, dividend yield rate, and risk free interest rate. For options granted during the three and six months ended July 1, 2011 and July 2, 2010, the following weighted average assumptions were used:

| | Three Months Ended | | Six Months Ended | |
|---------------------------------|--------------------|-----------------|------------------|-----------------|
| | July 1, 2011 | July 2, 2010 | July 1, 2011 | July 2, 2010 |
| Expected dividend yield | 0 | 0 | 0 | 0 |
| Expected stock price volatility | 43.7% | 43.7% | 43.6% | 43.8% |
| Risk free interest rate | 1.6% | 1.8% | 1.6% | 1.8% |
| Expected life of option | 4.2 years | 4.2 years | 4.2 years | 4.2 years |

Expected Dividend Yield The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

Expected Stock Price Volatility The Company's computation of expected volatility is based on a combination of implied volatilities from traded options on the Company's stock and historical volatility, commensurate with the expected life of the stock options.

Expected Risk Free Interest Rate The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected life of the stock options.

Expected Life Of Option The Company's expected life represents the period that the Company's stock options are expected to be outstanding and is determined based on historical experience of similar stock options with consideration to the contractual terms of the stock options, vesting schedules, and expectations of future employee behavior.

NOTE 4. JOINT VENTURES*Caterpillar Trimble Control Technologies Joint Venture*

On April 1, 2002, Caterpillar Trimble Control Technologies LLC (CTCT), a joint venture formed by the Company and Caterpillar, began operations. CTCT develops advanced electronic guidance and control products for earth moving machines in the construction and mining industries. The joint venture is 50% owned by the Company and 50% owned by Caterpillar, with equal voting rights. The joint venture is accounted for under the equity method of accounting. Under the equity method, the Company's share of profits and losses are included in Income from equity method investments, net in the Non-operating income, net section of the Condensed Consolidated Statements of Income. During the three and six months ended July 1, 2011, the Company recorded \$3.4 million and \$5.8 million, respectively, as its proportionate share of CTCT net income. During the comparable periods of 2010, the Company recorded 2.7 million and \$4.4 million, respectively, as its proportionate share of CTCT net income. During the three and six months ended July 1, 2011, dividends received from CTCT, amounted to \$7.5 million, and were recorded against Other non-current assets on the Condensed Consolidated Balance Sheets. During the comparable period of 2010, dividends received from CTCT, amounted to \$5.0 million, and were recorded against Other non-current assets on the Condensed Consolidated Balance Sheets. The carrying amount of the investment in CTCT was \$7.2 million at July 1, 2011 and \$8.9 million at December 31, 2010, and is included in Other non-current assets on the Condensed Consolidated Balance Sheets.

The Company acts as a contract manufacturer for CTCT. Products are manufactured based on orders received from CTCT and are sold at direct cost, plus a mark-up for the Company's overhead costs to CTCT. CTCT then resells products at cost, plus a mark-up in consideration for CTCT's research and development efforts to both Caterpillar and to the Company for sales through their respective distribution channels. CTCT does not have net inventory on its balance sheet in that the resale of products to Caterpillar and the Company occur simultaneously when the products are purchased from the Company. During the three and six months ended July 1, 2011, the Company recorded \$1.3 million and \$2.7 million of revenue, respectively, and \$1.3 million and \$2.7 million of cost of sales, respectively, for the manufacturing of products sold by the Company to CTCT and then sold through the Caterpillar distribution channel. During the comparable three and six months ended July 2, 2010, the Company recorded \$0.9 million and \$1.8 million of revenue, respectively, and \$0.8 million and \$1.7 million of cost of sales for the manufacturing of products sold by the Company to CTCT and then sold through the Caterpillar distribution channel. In addition, during the three and six months ended July 1, 2011, the Company recorded \$10.6 million and \$18.5 million in net cost of sales for the manufacturing of products sold by the Company to CTCT and then repurchased by the Company upon sale through the Company's distribution channel. The comparable net cost of

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

sales recorded by the Company for the three and six months ended July 2, 2010 were \$8.5 million and \$14.6 million, respectively.

In addition, the Company received reimbursement of employee-related costs from CTCT for company employees dedicated to CTCT or performance of work for CTCT totaling \$3.7 million and \$7.6 million for the three and six months ended July 1, 2011, respectively, and totaling 2.7 million and \$5.6 million for the three and six months ended July 2, 2010, respectively. The reimbursements were offset against operating expense.

Table of Contents

At July 1, 2011 and December 31, 2010, the Company had amounts due to and from CTCT. Receivables and payables to CTCT are settled individually with terms comparable to other non-related parties. The amounts due to and from CTCT are presented on a gross basis in the Condensed Consolidated Balance Sheets. At July 1, 2011 and December 31, 2010, the receivables from CTCT were \$7.3 million and \$4.4 million, respectively, and are included within Accounts receivable, net, on the Condensed Consolidated Balance Sheets. As of the same dates, the payables due to CTCT were \$9.1 million and \$5.7 million, respectively, and are included within Accounts payable on the Condensed Consolidated Balance Sheets.

Nikon-Trimble Joint Venture

On March 28, 2003, Nikon-Trimble Co., Ltd (Nikon-Trimble), a joint venture, was formed by the Company and Nikon Corporation. The joint venture began operations in July 2003 and is 50% owned by the Company and 50% owned by Nikon, with equal voting rights. It focuses on the design and manufacture of surveying instruments including mechanical total stations and related products.

The joint venture is accounted for under the equity method of accounting. Under the equity method, the Company's share of profits and losses are included in Income from equity method investments, net in the Non-operating income, net section of the Condensed Consolidated Statements of Income. During the three and six months ended July 1, 2011, the Company recorded a profit of \$0.3 million and \$1.0 million, respectively, and during the three and six months ended July 2, 2010, the Company recorded loss of \$0.5 million and \$1.3 million, respectively, as its proportionate share of Nikon-Trimble net income. During the three and six months ended July 1, 2011 and July 2, 2010, there were no dividends received from Nikon-Trimble. The carrying amount of the investment in Nikon-Trimble was \$16.5 million at July 1, 2011 and \$15.5 million at December 31, 2010, and is included in Other non-current assets on the Condensed Consolidated Balance Sheets.

Nikon-Trimble is the distributor in Japan for Nikon and the Company's products. The Company is the exclusive distributor outside of Japan for Nikon branded survey products. For products sold by the Company to Nikon-Trimble, revenue is recognized by the Company on a sell-through basis from Nikon-Trimble to the end customer.

The terms and conditions of the sales of products from the Company to Nikon-Trimble are comparable with those of the standard distribution agreements which the Company maintains with its dealer channel and margins earned are similar to those from third party dealers. Similarly, the purchases of product by the Company from Nikon-Trimble are made on terms comparable with the arrangements which Nikon maintained with its international distribution channel prior to the formation of the joint venture with the Company. During the three and six months ended July 1, 2011, the Company recorded \$3.9 million and \$8.3 million of revenue and \$2.2 million and \$4.7 million of cost of sales for the manufacturing of products sold by the Company to Nikon-Trimble. During the three and six months ended July 2, 2010, the Company recorded \$3.9 million and \$8.5 million of revenue and \$2.6 million and \$5.4 million of cost of sales for the manufacturing of products sold by the Company to Nikon-Trimble. The Company also purchases product from Nikon-Trimble for future sales to third party customers. Purchases of inventory from Nikon-Trimble were \$6.0 million and \$11.9 million during the three and six months ended July 1, 2011, respectively, and \$2.9 million and \$8.3 million during the three and six months ended July 2, 2010, respectively.

At July 1, 2011 and December 31, 2010, the Company had amounts due to and from Nikon-Trimble. Receivables and payables to Nikon-Trimble are settled individually with terms comparable to other non-related parties. The amounts due to and from Nikon-Trimble are presented on a gross basis in the Condensed Consolidated Balance Sheets. At July 1, 2011 and December 31, 2010, the amounts due from Nikon-Trimble were \$3.9 million and \$3.5 million, respectively, and are included within Accounts receivable, net on the Condensed Consolidated Balance Sheets. As of the same dates, the amounts due to Nikon-Trimble were \$6.0 million and \$7.0 million, respectively, and are included within Accounts payable on the Condensed Consolidated Balance Sheets.

NOTE 5. GOODWILL AND INTANGIBLE ASSETS*Intangible Assets*

Other purchased intangible assets, net consisted of the following:

| | | July 1, 2011 | |
|------------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| (Dollars in thousands) | | | |

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

| | | | |
|---|------------|--------------|------------|
| Developed product technology | \$ 275,666 | \$ (168,330) | \$ 107,336 |
| Trade names and trademarks | 23,876 | (17,436) | 6,440 |
| Customer relationships | 169,747 | (78,432) | 91,315 |
| Distribution rights and other intellectual properties | 54,250 | (28,420) | 25,830 |
| | \$ 523,539 | \$ (292,618) | \$ 230,921 |

Table of Contents

| | December 31, 2010 | | |
|---|-----------------------------|-----------------------------|------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| <i>(Dollars in thousands)</i> | | | |
| Developed product technology | \$ 247,575 | \$ (148,171) | \$ 99,404 |
| Trade names and trademarks | 22,136 | (16,449) | 5,687 |
| Customer relationships | 143,125 | (68,104) | 75,021 |
| Distribution rights and other intellectual properties | 50,207 | (25,371) | 24,836 |
| | \$ 463,043 | \$ (258,095) | \$ 204,948 |

The estimated future amortization expense of intangible assets as of July 1, 2011, is as follows:

| | |
|-------------------------------|-------------------|
| <i>(Dollars in thousands)</i> | |
| 2011 (Remaining) | \$ 34,451 |
| 2012 | 62,253 |
| 2013 | 56,333 |
| 2014 | 34,048 |
| 2015 | 22,263 |
| Thereafter | 21,573 |
| Total | \$ 230,921 |

Goodwill

The changes in the carrying amount of goodwill by operating segment for the six months ended July 1, 2011, were as follows:

| | Engineering and Construction | Field Solutions | Mobile Solutions | Advanced Devices | Total |
|--|------------------------------------|--------------------|---------------------|---------------------|-------------------|
| <i>(Dollars in thousands)</i> | | | | | |
| Balance as of December 31, 2010 | \$ 432,364 | \$ 26,211 | \$ 348,166 | \$ 21,996 | \$ 828,737 |
| Additions due to acquisitions | 37,977 | 0 | 11,466 | 2,163 | 51,606 |
| Purchase price adjustments | 291 | 0 | 0 | 0 | 291 |
| Foreign currency translation adjustments | 12,462 | 121 | 873 | 424 | 13,880 |
| Balance as of July 1, 2011 | \$ 483,094 | \$ 26,332 | \$ 360,505 | \$ 24,583 | \$ 894,514 |

NOTE 6. CERTAIN BALANCE SHEET COMPONENTS

Inventories, net consisted of the following:

| As of | July 1, 2011 | December 31, 2010 |
|-------------------------------|-----------------|----------------------|
| <i>(Dollars in thousands)</i> | | |
| Raw materials | \$ 89,411 | \$ 79,057 |
| Work-in-process | 7,177 | 5,672 |
| Finished goods | 119,492 | 108,123 |

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

| | | |
|------------------------|------------|------------|
| Total inventories, net | \$ 216,080 | \$ 192,852 |
|------------------------|------------|------------|

Deferred costs of revenue are included within finished goods and were \$17.5 million at July 1, 2011 and \$14.0 million at December 31, 2010.

Table of Contents

Other non-current liabilities consisted of the following:

| As of (Dollars in thousands) | July 1, 2011 | December 31, 2010 |
|---|-----------------|----------------------|
| Deferred compensation | \$ 10,724 | \$ 9,736 |
| Unrecognized tax benefits | 15,280 | 17,830 |
| Other non-current liabilities | 19,741 | 15,277 |
| Total other non-current liabilities | \$ 45,745 | \$ 42,843 |

As of July 1, 2011 and December 31, 2010, the Company has \$15.3 million and \$17.8 million, respectively, of unrecognized tax benefits included in Other non-current liabilities that, if recognized, would favorably affect the effective income tax rate and interest and/or penalties related to income tax matters in future periods.

NOTE 7. SEGMENT INFORMATION

The Company is a designer and distributor of positioning solutions enabled by GPS, optical, laser, and wireless communications technology. The Company provides products for diverse applications in its targeted markets.

To achieve distribution, marketing, production, and technology advantages, the Company manages its operations in the following four segments:

Engineering and Construction Consists of products currently used by survey and construction professionals in the field for positioning, data collection, field computing, data management, and machine guidance and control. The applications served include surveying, road, runway, construction, site preparation, and building construction.

Field Solutions Consists of products that provide solutions in a variety of agriculture and geographic information systems (GIS) applications. In agriculture, these include precise land leveling and machine guidance systems. In GIS, these include handheld devices and software that enable the collection of data on assets for a variety of governmental and private entities.

Mobile Solutions Consists of products that enable end-users to monitor and manage their mobile assets by communicating location and activity-relevant information from the field to the office. The Company offers a range of products that address a number of sectors of this market including truck fleets, security, and public safety vehicles.

Advanced Devices The various operations that comprise this segment are aggregated on the basis that no single operation accounts for more than 10% of the Company's total revenue, operating income, and assets. This segment is comprised of the Component Technologies, Military and Advanced Systems, Applanix, Trimble Outdoors, and ThingMagic businesses.

The Company evaluates each of its segment's performance and allocates resources based on segment operating income before income taxes and some corporate allocations. The Company and each of its segments employ consistent accounting policies.

The following table presents revenue, operating income (loss), and identifiable assets for the four segments. Operating income (loss) is revenue less cost of sales and operating expense, excluding general corporate expense, amortization of purchased intangibles, amortization of acquisition-related inventory step-up, acquisition costs and restructuring costs. The identifiable assets that the Company's Chief Operating Decision Maker, its Chief Executive Officer, views by segment are accounts receivable, inventories, and goodwill.

Table of Contents

| | Reporting Segments | | | | Total |
|--|------------------------------|-----------------|------------------|------------------|------------|
| | Engineering and Construction | Field Solutions | Mobile Solutions | Advanced Devices | |
| <i>(Dollars in thousands)</i> | | | | | |
| Three Months Ended July 1, 2011 | | | | | |
| Segment revenue | \$ 236,668 | \$ 104,029 | \$ 40,224 | \$ 26,248 | \$ 407,169 |
| Operating income (loss) | 46,987 | 42,543 | (2,684) | 2,607 | 89,453 |
| Three Months Ended July 2, 2010 | | | | | |
| Segment revenue | \$ 188,441 | \$ 80,158 | \$ 38,188 | \$ 26,576 | \$ 333,363 |
| Operating income | 33,921 | 28,980 | 324 | 5,181 | 68,406 |
| Six Months Ended July 1, 2011 | | | | | |
| Segment revenue | \$ 426,702 | \$ 227,082 | \$ 84,645 | \$ 53,033 | \$ 791,462 |
| Operating income (loss) | 69,766 | 95,048 | (4,018) | 6,470 | 167,266 |
| Six Months Ended July 2, 2010 | | | | | |
| Segment revenue | \$ 346,059 | \$ 176,059 | \$ 76,147 | \$ 54,113 | \$ 652,378 |
| Operating income | 52,728 | 68,293 | 2,223 | 10,806 | 134,050 |
| As of July 1, 2011 | | | | | |
| Accounts receivable | \$ 163,007 | \$ 51,433 | \$ 26,103 | \$ 16,633 | \$ 257,176 |
| Inventories | 134,339 | 41,536 | 18,395 | 21,810 | 216,080 |
| Goodwill | 483,094 | 26,332 | 360,505 | 24,583 | 894,514 |
| As of December 31, 2010 | | | | | |
| Accounts receivable | \$ 131,808 | \$ 52,065 | \$ 24,806 | \$ 14,141 | \$ 222,820 |
| Inventories | 123,780 | 33,964 | 16,721 | 18,387 | 192,852 |
| Goodwill | 432,364 | 26,211 | 348,166 | 21,996 | 828,737 |
| Unallocated corporate expense includes general corporate expense, amortization of acquisition-related inventory step-up and restructuring costs. | | | | | |
| A reconciliation of the Company's consolidated segment operating income to consolidated income before income taxes is as follows: | | | | | |

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|--------------|------------------|--------------|
| | July 1, 2011 | July 2, 2010 | July 1, 2011 | July 2, 2010 |
| <i>(Dollars in thousands)</i> | | | | |
| Consolidated segment operating income | \$ 89,453 | \$ 68,406 | \$ 167,266 | \$ 134,050 |
| Unallocated corporate expense | (17,621) | (12,155) | (32,739) | (27,329) |
| Amortization of purchased intangible assets | (16,576) | (13,916) | (32,641) | (27,733) |
| Acquisition costs | (3,689) | (1,774) | (6,644) | (2,312) |
| Consolidated operating income | 51,567 | 40,561 | 95,242 | 76,676 |
| Non-operating income, net | 8,631 | 286 | 11,237 | 3,821 |
| Consolidated income before taxes | \$ 60,198 | \$ 40,847 | \$ 106,479 | \$ 80,497 |

Table of Contents

NOTE 8. DEBT, COMMITMENTS AND CONTINGENCIES

Debt consisted of the following:

| As of (Dollars in thousands) | July 1, 2011 | December 31, 2010 |
|---|-------------------|----------------------|
| Credit Facilities: | | |
| Revolving credit facility | \$ 125,000 | \$ 151,000 |
| Promissory notes and other | 2,256 | 2,153 |
| Total debt | 127,256 | 153,153 |
| Less current portion of long-term debt | 1,969 | 1,993 |
| Non-current portion | \$ 125,287 | \$ 151,160 |

Credit Facilities

As of July 1, 2011, the Company had an outstanding balance on the revolving credit line in the amount of \$125.0 million, which is classified as long-term in the Condensed Consolidated Balance Sheet.

On May 6, 2011, the Company entered into a new credit agreement, (the 2011 Credit Facility), with a group of lenders. This credit facility provides for unsecured credit facilities in the aggregate principal amount of \$1.1 billion, comprised of a five-year revolving loan facility of \$700.0 million and a five-year \$400.0 million term loan facility. Subject to the terms of the 2011 Credit Facility, the revolving loan facility and the term loan facility may be increased by up to \$300.0 million in the aggregate. The term loan facility may be drawn on or before the 180th day following the date of the 2011 Credit Facility.

The funds available under the 2011 Credit Facility may be used for general corporate purposes, the financing of certain acquisitions and the payment of transaction fees and expenses related to such acquisitions. On May 6, 2011, the Company made an initial borrowing of \$151.0 million under the revolving credit line of the 2011 Credit Facility to repay all of the amounts outstanding under the then existing Amended and Restated Credit Agreement dated February 16, 2007.

Under the 2011 Credit Facility, the Company may borrow, repay and reborrow funds under the revolving loan facility until its maturity on May 6, 2016, at which time the revolving facility will terminate, and all outstanding loans, together with all accrued and unpaid interest, must be repaid. Amounts not borrowed under the revolving facility will be subject to a commitment fee, to be paid in arrears on the last day of each fiscal quarter, ranging from 0.20% to 0.40% per annum depending on our leverage ratio as of the most recently ended fiscal quarter. The term loan will be repaid in quarterly installments, with the last quarterly payment to be made at April 1, 2016. On an annualized basis, the amortization of the term loan is as follows: 5%, 5%, 10%, 10%, and 70% for years one through five respectively. The term loan may be prepaid in whole or in part, subject to certain minimum thresholds, without penalty or premium. Amounts repaid or prepaid with respect to the term loan facility may not be reborrowed.

The Company may borrow funds under the 2011 Credit Facility in U.S. Dollars, Euros or in certain other agreed currencies, and borrowings will bear interest, at the Company's option, at either: (i) a floating per annum base rate based on the administrative agent's prime rate or other agreed-upon rate, depending on the currency borrowed, plus a margin of between 0.25% and 1.25%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter, or (ii) a reserve-adjusted fixed per annum rate based on LIBOR, EURIBOR, STIBOR or other agreed-upon rate, depending on the currency borrowed, plus a margin of between 1.25% and 2.25%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter. Interest will be paid on the last day of each fiscal quarter with respect to borrowings bearing interest based on a floating rate, or on the last day of an interest period, but at least every three months, with respect to borrowings bearing interest at a fixed rate. The Company's obligations under the 2011 Credit Facility are guaranteed by several of its domestic subsidiaries.

The 2011 Credit Facility contains various customary representations and warranties by the Company, which include customary use of materiality, material adverse effect and knowledge qualifiers. The 2011 Credit Facility also contains customary affirmative and negative covenants including, among other requirements, negative covenants that restrict the Company's ability to dispose of assets, create liens, incur

indebtedness, repurchase stock, pay dividends, make acquisitions and make investments. Further, the 2011 Credit Facility contains financial covenants that require the maintenance of minimum interest coverage and maximum leverage ratios. Specifically, the Company must maintain as of the end of each fiscal quarter a ratio of (a) EBITDA (as defined in the 2011 Credit Facility) to (b) interest expenses for the most recently ended period of four fiscal quarters of not less than 3.5 to 1. The Company must also maintain, at the end of each fiscal quarter, a ratio of (x) total indebtedness to (y) EBITDA (as defined in the 2011 Credit Facility) for the most recently ended period of four fiscal quarters of not greater than the applicable ratio set forth in the table below; provided, that on the completion of a material acquisition, the Company may increase the applicable ratio in the table below by 0.25 for the fiscal quarter during which such acquisition occurred and each of the three subsequent fiscal quarters.

Table of Contents

| Fiscal Quarter Ending | Maximum Leverage Ratio |
|--|-------------------------------|
| Prior to March 30, 2012 | 3.50 to 1 |
| On and after March 30, 2012 and prior to June 29, 2012 | 3.25 to 1 |
| On and after June 29, 2012 | 3 to 1 |

The Company was in compliance with these restrictive covenants as of July 1, 2011.

The 2011 Credit Facility contains events of default that include, among others, non-payment of principal, interest or fees, breach of covenants, inaccuracy of representations and warranties, cross defaults to certain other indebtedness, bankruptcy and insolvency events, material judgments, and events constituting a change of control. Upon the occurrence and during the continuance of an event of default, interest on the obligations will accrue at an increased rate and the lenders may accelerate the Company's obligations under the 2011 Credit Facility, however that acceleration will be automatic in the case of bankruptcy and insolvency events of default.

Promissory Notes and Other

As of July 1, 2011 and December 31, 2010, the Company had promissory notes and other totaling approximately \$2.3 million and \$2.2 million. Of these amounts, the Company had outstanding notes payable of \$1.9 million which consisted primarily of notes payable to noncontrolling interest holders. The notes bear interest at 6% and have undefined payment terms, but are callable with a six month notification.

Leases and Other Commitments

The estimated future minimum operating lease commitments as of July 1, 2011, are as follows (dollars in thousands):

| | |
|------------------|------------------|
| 2011 (Remaining) | \$ 11,101 |
| 2012 | 19,050 |
| 2013 | 10,994 |
| 2014 | 7,822 |
| 2015 | 5,645 |
| Thereafter | 6,606 |
| Total | \$ 61,218 |

Additionally, as of July 1, 2011, the Company had acquisition-related earn-outs of \$7.4 million and holdbacks of \$7.9 million recorded in Other current liabilities and Other non-current liabilities. The maximum remaining payments, including the \$7.4 million and \$7.9 million recorded, will not exceed \$26.3 million. The remaining payments are based upon targets achieved or events occurring over time that would result in amounts paid that may be lower than the maximum remaining payments. The remaining earn-outs and holdbacks are payable through 2013.

At July 1, 2011, the Company had unconditional purchase obligations of approximately \$66.6 million. These unconditional purchase obligations primarily represent open non-cancelable purchase orders for material purchases with the Company's vendors. Purchase obligations exclude agreements that are cancelable without penalty. These unconditional purchase obligations are related primarily to inventory and other items.

NOTE 9. FAIR VALUE MEASUREMENTS

The guidance on fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about assets and liabilities measured at fair value. Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market, and the instruments' complexity.

Assets and liabilities, recorded at fair value on a recurring basis in the Condensed Consolidated Balance Sheets, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by the guidance on fair value measurements are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, and are

as follows:

Level I Observable inputs such as unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Table of Contents

Level III Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations.

| <i>(Dollars in thousands)</i> | Fair Values as of July 1, 2011 | | | |
|--|--------------------------------|-----------------|-----------------|------------------|
| | Level I | Level II | Level III | Total |
| Assets | | | | |
| Money market funds(1) | \$ 76,484 | \$ 0 | \$ 0 | \$ 76,484 |
| Deferred compensation plan assets (2) | 10,634 | 0 | 0 | 10,634 |
| Derivative assets (3) | 0 | 6,177 | 0 | 6,177 |
| Total | \$ 87,118 | \$ 6,177 | \$ 0 | \$ 93,295 |
| Liabilities | | | | |
| Deferred compensation plan liabilities (2) | \$ 10,724 | \$ 0 | \$ 0 | \$ 10,724 |
| Derivative liabilities (3) | 0 | 226 | 0 | 226 |
| Contingent consideration liabilities (4) | 0 | 0 | 7,439 | 7,439 |
| Total | \$ 10,724 | \$ 226 | \$ 7,439 | \$ 18,389 |

- (1) These investments are highly liquid investments such as money market funds. The fair values are determined using observable quoted prices in active markets. Money market funds are included in Cash and cash equivalents on the Company's Condensed Consolidated Balance Sheets.
- (2) The Company maintains a self-directed, non-qualified deferred compensation plan for certain executives and other highly compensated employees. As of July 1, 2011 the plan assets and liabilities are invested in actively traded mutual funds and individual stocks valued using observable quoted prices in active markets. Deferred compensation plan assets and liabilities are included in Other non-current assets and Other non-current liabilities on the Company's Condensed Consolidated Balance Sheets.
- (3) Derivative assets and liabilities included in Level II represent forward currency exchange contracts. The Company enters into these contracts to minimize the short-term impact of foreign currency fluctuations on certain trade and inter-company receivables and payables. During the second quarter of fiscal 2011 the Company entered into a forward currency exchange contract in anticipation of the foreign currency that was needed to pay for a business combination expected to close during the third quarter of fiscal 2011. A gain of \$5.6 million on foreign exchange associated with this forward currency exchange contract was recognized and included in Foreign currency transaction gain (loss), net on the Company's Condensed Consolidated Statement of Income. The derivatives are not designated as hedging instruments. The fair values are determined using inputs based on observable quoted prices. Derivative assets and liabilities are included in Other current assets and Other current liabilities, respectively, on the Company's Condensed Consolidated Balance Sheets.
- (4) The Company has seven contingent consideration arrangements that require it to pay the former owners of certain companies it acquired during fiscal 2009 through fiscal 2011. The undiscounted maximum payment under all seven arrangements is \$15.1 million, based on future revenues or gross margins over a 3 year period. The Company estimated the fair value of these liabilities using the expected cash flow approach with inputs being probability-weighted revenue or gross margin projections, as the case may be, and discount rates ranging from 0.10% to 3.50%. Of the total contingent consideration liability, \$4.8 million and \$2.6 million was included in Other current liabilities and Other non-current liabilities, respectively, on the Company's Condensed Consolidated Balance Sheets.

Table of Contents

The table below sets forth a summary of changes in the fair value of the Level III contingent consideration liabilities for the six month ended July 1, 2011.

| As of (Dollars in thousands) | Level III liabilities July 1, 2011 |
|--|---------------------------------------|
| Balance as of December 31, 2010 | \$ 3,719 |
| Acquisitions | 2,344 |
| Contingent consideration fair value changes included in earnings | 1,065 |
| Losses recognized in other comprehensive income | 311 |
| Balance as of July 1, 2011 | \$ 7,439 |

The losses included in earnings represent the changes in fair value of the contingent consideration arrangements which are recognized in Other expense, net in the Condensed Consolidated Statements of Income. The losses recognized in other comprehensive income are a result of foreign currency translation adjustments.

Additional Fair Value Information

The following table provides additional fair value information relating to the Company's financial instruments outstanding:

| As of (Dollars in thousands) | Carrying Amount July 1, 2011 | Fair Value | Carrying Amount December 31, 2010 | Fair Value |
|---|------------------------------------|---------------|---|---------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 249,811 | \$ 249,811 | \$ 220,788 | \$ 220,788 |
| Forward foreign currency exchange contracts | 6,177 | 6,177 | 407 | 407 |
| Liabilities: | | | | |
| Credit facility | \$ 125,000 | \$ 115,345 | \$ 151,000 | \$ 148,367 |
| Forward foreign currency exchange contracts | 226 | 226 | 140 | 140 |
| Promissory note and other | 2,256 | 2,255 | 2,153 | 2,133 |

The fair value of the bank borrowings and promissory notes has been calculated using an estimate of the interest rate the Company would have had to pay on the issuance of notes with a similar maturity and discounting the cash flows at that rate. The fair values do not give an indication of the amount that Trimble would currently have to pay to extinguish any of this debt.

NOTE 10. PRODUCT WARRANTIES

The Company accrues for warranty costs as part of its cost of sales based on associated material product costs, technical support labor costs, and costs incurred by third parties performing work on the Company's behalf. The Company's expected future costs are primarily estimated based upon historical trends in the volume of product returns within the warranty period and the costs to repair or replace the equipment. The products sold are generally covered by a warranty for periods ranging from 90 days to three years.

While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of component suppliers, its warranty obligation is affected by product failure rates, material usage, and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage, or service delivery costs differ from the estimates, revisions to the estimated warranty accrual and related costs may be required.

Table of Contents

Changes in the Company's product warranty liability during the six months ended July 1, 2011 are as follows:

(Dollars in thousands)

| | |
|---|-----------|
| Balance as of December 31, 2010 | \$ 12,868 |
| Acquired warranties | 381 |
| Accruals for warranties issued | 7,847 |
| Changes in estimates | (800) |
| Warranty settlements (in cash or in kind) | (7,133) |
| Balance as of July 1, 2011 | \$ 13,163 |

NOTE 11. EARNINGS PER SHARE

The following data was used in computing earnings per share and the effect on the weighted-average number of shares of potentially dilutive common stock.

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | July 1, 2011 | July 2, 2010 | July 1, 2011 | July 2, 2010 |
| <i>(Dollars in thousands, except per share amounts)</i> | | | | |
| Numerator: | | | | |
| Net income attributable to Trimble Navigation Ltd. | \$ 53,678 | \$ 6,353 | \$ 93,381 | \$ 34,251 |
| Denominator: | | | | |
| Weighted average number of common shares used in basic earnings per share | 122,667 | 120,654 | 122,243 | 120,707 |
| Effect of dilutive securities (using treasury stock method): Common stock options and restricted stock units | 3,525 | 3,445 | 3,781 | 3,257 |
| Weighted average number of common shares and dilutive potential common shares used in diluted earnings per share | 126,192 | 124,099 | 126,024 | 123,964 |
| Basic earnings per share | \$ 0.44 | \$ 0.05 | \$ 0.76 | \$ 0.28 |
| Diluted earnings per share | \$ 0.43 | \$ 0.05 | \$ 0.74 | \$ 0.28 |

For the three months ended July 1, 2011 and July 2, 2010, the Company excluded 1.6 million shares and 2.1 million shares of outstanding stock options, respectively, from the calculation of diluted earnings per share. For the six months ended July 1, 2011 and July 2, 2010, the Company excluded 1.2 million and 2.8 million shares of outstanding stock options, respectively, from the calculation of diluted earnings per share. These shares were excluded from the three and six month periods because the exercise prices of these stock options were greater than or equal to the average market value of the common shares during the respective periods. Inclusion of these shares would be antidilutive. These options could be included in the calculation in the future if the average market value of the common shares increases and is greater than the exercise price of these options.

NOTE 12. INCOME TAXES

In the three months ended July 1, 2011, the Company's effective income tax rate was 10.0% as compared to 83.4% in the corresponding period in 2010, primarily due to geographic mix of pretax income, the closure of the 2008 and 2009 IRS examination which resulted in a net benefit of \$2.3 million, as compared to a \$27.5 million net charge in the second quarter of 2010 resulting from the U.S. Internal Revenue Service (IRS) audit settlement of the Company's 2005 through 2007 tax years. In the six months ended July 1, 2011, the Company's effective income tax rate was 12.8% as compared to 56.6% in the corresponding period in 2010, primarily due to the same reasons mentioned above.

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

In June 2011, the IRS closed its examination of the Company's income tax returns for the years 2008 and 2009. The audit settlement included federal tax and interest charges of \$8.1 million, offset by the reversal of related unrecognized tax benefits and other items of \$10.4 million which resulted in a net benefit of \$2.3 million.

The 2011 second quarter effective tax rate is lower than the statutory federal income tax rate of 35% primarily due to the geographical mix of pre-tax income and the closure of the 2008 and 2009 IRS examination. The 2010 second quarter effective tax rate is higher than the statutory federal income tax rate primarily due to the net charge resulting from the IRS audit settlement of the Company's 2005 through 2007 tax years, partially offset by the geographical mix of pre-tax income.

The Company and its U.S. subsidiaries are subject to U.S. federal and state income tax. The Company has concluded all U.S. federal income tax matters for the years through 2009 and state income tax matters for years through 1992. Generally, non-U.S. income tax matters have been concluded for years through 2000. The Company is currently in various stages of multiple year examinations by State and foreign taxing authorities. It is possible that the total amount of unrecognized tax benefits could change in the next twelve months. Such changes could occur based on the normal expiration of various statutes of limitations or the possible conclusion of ongoing tax audits in various jurisdictions around the world.

Table of Contents

The amount of liabilities for unrecognized tax benefits (net of the federal benefit on state issues) that, if recognized, would favorably affect the effective income tax rate in any future period are \$25.9 million and \$28.1 million at July 1, 2011 and December 31, 2010, respectively. The primary component of the net change is a realization of unrecognized tax benefits due to the effective settlement of the IRS 2008 and 2009 income tax audit, partially offset by other reserves. Unrecognized tax benefits are recorded in Other non-current liabilities and in the deferred tax accounts in the accompanying Condensed Consolidated Balance Sheets.

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company's unrecognized tax benefit liabilities include interest and penalties at July 1, 2011 and December 31, 2010, of \$2.6 million and \$2.6 million, respectively, which were recorded in Other non-current liabilities in the accompanying Condensed Consolidated Balance Sheets.

NOTE 13. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss), net of related tax, were as follows:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | July 1, 2011 | July 2, 2010 | July 1, 2011 | July 2, 2010 |
| <i>(Dollars in thousands)</i> | | | | |
| Net income | \$ 54,178 | \$ 6,771 | \$ 93,050 | \$ 34,923 |
| Foreign currency translation adjustments | 4,235 | (20,153) | 24,115 | (27,652) |
| Net unrealized actuarial gain (loss) | (3) | 31 | (85) | 25 |
| Comprehensive income (loss) | 58,410 | (13,351) | 117,080 | 7,296 |
| Less: Comprehensive income (loss) attributable to the noncontrolling interests | 500 | 418 | (331) | 672 |
| Comprehensive income (loss) attributable to Trimble Navigation Ltd. | \$ 57,910 | \$ (13,769) | \$ 117,411 | \$ 6,624 |

NOTE 14. SUBSEQUENT EVENTS

On July 8, 2011, the Company completed a tender offer for all issued and outstanding shares in Finland-based Tekla Corporation (Tekla) for EUR 14.20 per share (net of the additional dividend distributed by Tekla of EUR 18 million, or EUR 0.80 per share, which was paid on July 8, 2011) in cash representing an aggregate equity purchase price of approximately EUR 319 million, equivalent to \$454 million. The shares tendered to Trimble Finland represent approximately 99.46% of the outstanding shares in Tekla. In connection with the closing of the tender offer, the Company also announced Trimble Finland's intention to acquire remaining outstanding shares in Tekla not acquired in the tender offer through compulsory redemption proceeding under the Finnish Companies Act, which may take up to approximately 10 months to complete. The Company drew down \$400 million on the term loan facility of the 2011 Credit Facility to fund the majority of the Tekla purchase price.

Table of Contents

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the safe harbor created by those sections. Actual results could differ materially from those indicated in the forward-looking statements due to a number of factors including, but not limited to, the risk factors discussed in Risk Factors below and elsewhere in this report as well as in the Company's Annual Report on Form 10-K for fiscal year 2010 and other reports and documents that the Company files from time to time with the Securities and Exchange Commission. The Company has attempted to identify forward-looking statements in this report by placing an asterisk () before paragraphs. Discussions containing such forward-looking statements may be found in Management's Discussion and Analysis of Financial Condition and Results of Operations below. In some cases, forward-looking statements can be identified by terminology such as may, will, should, could, predicts, potential, continue, expects, anticipates, future, intends, plans, believes, estimates, and similar expressions. These forward-looking statements are made as of the date of this Quarterly Report on Form 10-Q, and the Company disclaims any obligation to update these statements or to explain the reasons why actual results may differ.*

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U. S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expense, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to product returns, doubtful accounts, inventories, investments, intangible assets, income taxes, warranty obligations, restructuring costs, contingencies, and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the amount and timing of revenue and expense and the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes to the Company's significant accounting policies during the six months ended July 1, 2011 from those disclosed in the Company's 2010 Form 10-K.

Recent Accounting Pronouncements

Updates to recent accounting standards as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 are as follows:

In May 2011, the Financial Accounting Standards Board (FASB) issued amended guidance on fair value measurement and related disclosures. The new guidance clarified the concepts applicable for fair value measurement of non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance will be effective for reporting periods beginning after December 15, 2011, and will be applied prospectively. We are in the process of evaluating the financial and disclosure impact of this guidance. We do not anticipate a material impact on our consolidated financial statements as a result of the adoption of this amended guidance.

In June 2011, the FASB issued amended guidance on the presentation of comprehensive income. The amended guidance eliminates the option provided by current U.S. GAAP to present the components of other comprehensive income as part of the statement of changes in stockholders equity. In addition, it gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance will be effective for reporting periods beginning after December 15, 2011 and will be applied retrospectively. We will apply the guidance when it becomes effective.

EXECUTIVE LEVEL OVERVIEW

Trimble's focus is on combining positioning technology with wireless communication and application capabilities to create system-level solutions that enhance productivity and accuracy for our customers. The majority of our markets are end-user markets, including engineering and construction firms, governmental organizations, public safety workers, farmers, and companies who must manage fleets of mobile workers and assets. In our Advanced Devices segment, we also provide components to original equipment manufacturers to incorporate into their products. In the end-user markets, we provide a system that includes a hardware platform that may contain software and customer support. Some examples of our solutions include products that automate and simplify the process of surveying land, products that automate the utilization of equipment such as tractors and bulldozers, products that enable a company to manage its mobile workforce and assets, and products that allow municipalities to manage their fixed assets. In addition, we also provide software applications on a stand-alone basis. For example, we provide

software for project management on construction sites.

Table of Contents

Solutions targeted at the end-user make up a significant majority of our revenue. To create compelling products, we must attain an understanding of the end-users' needs and work flow, and how location-based technology can enable that end-user to work faster, more efficiently, and more accurately. We use this knowledge to create highly innovative products that change the way work is done by the end-user. With the exception of our Mobile Solutions and Advanced Devices segments, our products are generally sold through a dealer channel, and it is crucial that we maintain a proficient, global, third-party distribution channel.

We continued to execute our strategy with a series of actions that can be summarized in three categories.

Reinforcing our position in existing markets

* We believe these markets provide us with additional, substantial potential for substituting our technology for traditional methods. In the first half of fiscal 2011, we are continuing to develop new products and to strengthen our distribution channels in order to expand our market.

In our Engineering and Construction segment, we demonstrated our leadership in technology innovation by introducing a breakthrough high accuracy Global Navigation Satellite System (GNSS) correction technology with the Trimble RTX technology. RTX combines real-time data with innovative positioning and compression algorithms to deliver better than 4 centimeter (1.5 inch) repeatable accuracy with as little as one minute convergence in selected areas, enabling work to start immediately. We also introduced the Trimble RealWorks software version 7.0, which was the first commercially available software suite that incorporates the newly approved standard for 3D imaging systems.

In our Field Solutions segment, we expanded our GIS Data Collection Portfolio to include a new rangefinder for remote measurement applications with the launching of the new Trimble LaserAce 1000 rangefinder. This easy-to-use handheld measurement tool combines a laser distance meter, digital inclinometer, sighting scope and Bluetooth wireless technology.

In our Mobile Solutions segment, we introduced a new cloud-based field service solution to manage fleet productivity through the Trimble GeoManager WorkManagement - a software solution that provides on-demand visibility into vehicle and mobile worker utilization. The service facilitates routing, scheduling and dispatch, and makes it easy for organizations to maximize the mobile worker's schedule. Furthermore, it allows for easy integration with Microsoft Dynamics CRM through an open environment which enables the easy creation of extensible applications.

In our Advanced Devices segment, we released new versions of AllSport GPS for Trimble Outdoors, which feature popular fitness apps for smartphones running Google Android that enable the tracking of 14 outdoor fitness activities, including running, cycling, skiing and walking. Furthermore, to support a growing number of applications demanding high-performance under diverse operating conditions, we expanded the functionality of our line of ThingMagic Embedded RFID Readers - Mercury6e (M6e), Mercury5e (M5e), and Mercury5e-Compact (M5e-C), by releasing a firmware upgrade that optimizes several RFID tag read/write operations resulting in an overall performance improvement. Our acquisition of Beartooth also expands Trimble's ability to offer unique map content and new outdoor-centric products while simultaneously enhancing current popular applications.

All of these products strengthened our competitive position and created new value for the user.

Extending our position in new and existing markets through new product categories

* We are utilizing the strength of the Trimble brand in our markets to expand our revenue by bringing new products to new and existing users. In our Field Solutions segment, the expanded strategic alliance between Trimble and Case New Holland for the development of advanced precision agriculture applications and services will facilitate bringing innovative new products more rapidly to the market. Furthermore, we introduced the CenterPoint RTX correction service that can deliver a fully-converged position in less than one minute at startup within the five central U.S. corn belt states from Nebraska to Illinois.

In our Mobile Solutions segment, we also acquired Yamei Electronics Technology, Co. Ltd, which will allow us to expand our solutions for the automotive and related markets in China, Asia Pacific and India. Yamei manufactures automotive electronics products used for anti-theft GPS monitoring and tracking, RFID-based smart key and start and on-board diagnostics systems.

Bringing existing technology to new markets

* We continue to reinforce our position in existing markets and position ourselves in newer markets that will serve as important sources of future growth. New initiatives are focused in emerging markets in Africa, China, India, the Middle-East and Russia. We further expanded our network of SITECH Technology Dealers during the quarter by adding new dealerships to serve geographic markets such as Italy, Canada, Israel, Taiwan,

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

China, Argentina, Bolivia, Chile and Uruguay. These dealers represent the Trimble and Caterpillar machine control systems for the contractor s entire fleet of heavy equipment across all machine brands. In addition, our acquisition of Ashtech S.A.S., headquartered in Carquefou, France, with offices in Beijing, China, Singapore, USA and Moscow, will also help expand Trimble s Spectra Precision portfolio of survey solutions and allow us to better address emerging markets worldwide.

Table of Contents

RECENT BUSINESS DEVELOPMENTS

The following companies and joint ventures were acquired or formed since July 2, 2010 and are combined in our results of operations since the date of acquisition or formation:

PeopleNet

On August 5, 2011, we acquired privately-held PeopleNet, headquartered in Minnetonka, Minnesota, and its affiliates. PeopleNet is a leading provider of integrated onboard computing and mobile communications systems for effective fleet management. PeopleNet provides fleets with software and hardware solutions that help manage regulatory compliance, fuel costs, driver safety and customer visibility. PeopleNet's performance will be reported under our Mobile Solutions business segment.

Tekla Corporation

On July 8, 2011, we acquired Tekla Corporation, headquartered in Espoo, Finland, and its subsidiaries. Tekla is a leading provider of Building Information Modeling (BIM) software and offers model driven solutions for customers in the infrastructure and energy industries (in particular energy distribution, public administration and civil engineering and utilities). Tekla's performance will be reported under our Engineering and Construction business segment.

Yamei

On June 7, 2011, we acquired Yamei Electronics Technology, Co. Ltd, a Chinese wholly owned foreign entity (WFOE) of Digisec Group which is incorporated in the Cayman Islands. Yamei manufactures automotive electronics products used for anti-theft GPS monitoring and tracking, RFID-based smart key and start and on-board diagnostics systems. Yamei's performance is reported under our Mobile Solutions business segment.

Dynamic Survey Solutions

On May 10, 2011, we acquired seismic survey software provider Dynamic Survey Solutions, Inc. of Essex, Vermont. Dynamic Survey Solutions, Inc. is a leader in seismic survey software. Dynamic Survey Solutions' performance is reported under our Engineering and Construction business segment.

Ashtech

On May 3, 2011, we acquired privately-held Ashtech S.A.S., headquartered in Carquefou, France, and its affiliates. Ashtech is a leading provider of precision GNSS products for positioning, guidance, navigation and timing, with a wide range of solutions for diverse applications in science, education, government, industry and commerce. Ashtech's performance is reported under our Engineering and Construction business segment.

Beartooth Mapping

On April 19, 2011, we acquired privately-held Beartooth Mapping, Inc. based in Billings, Montana. Beartooth is a leading provider of print and digital maps for outdoor enthusiasts using MyTopo software and web services. Beartooth's performance is reported under our Advanced Devices business segment.

OmniSTAR

On March 24, 2011, we acquired certain assets related to the OmniSTAR GNSS signal corrections business from Fugro N.V. OmniSTAR provides space-based GNSS correction services that can improve the accuracy of a GNSS receiver for precise positioning applications. The correction services business performance is reported under our Engineering and Construction business segment.

GEDO CE Trolley System

On February 11, 2011, we acquired the GEDO CE Trolley System and software from Sinning Vermessungsbedarf GmbH of Bavaria, Germany. The new trolley system and software provide surveying and documentation for railway track maintenance and modernization. The GEDO CE

Trolley System's performance is reported under our Engineering and Construction business segment.

Mesta

On February 9, 2011, we acquired a suite of software solutions from Mesta Entrepreneur AS, a subsidiary of Mesta Konsern AS. Mesta Konsern AS is one of Norway's largest contracting groups for road and highway construction as well as related operations and maintenance. Mesta's performance is reported under our Engineering and Construction business segment.

Tata AutoComp Mobility Telematics Limited

On December 14, 2010, we acquired Tata AutoComp Mobility Telematics Limited, or TMT, a wholly-owned subsidiary of Tata AutoComp Systems Limited of Pune, India. TMT is a leading provider of telematics solutions and mobile resource management services in India. TMT's performance is reported under our Mobile Solutions business segment.

ThingMagic, Inc.

On October 22, 2010, we acquired privately-held ThingMagic, Inc. of Cambridge, Massachusetts. ThingMagic is a leading developer of radio frequency identification technology and offers advanced development services to facilitate the integration of this technology into a wide range of applications. ThingMagic's performance is reported under our Advanced Devices business segment.

Table of Contents**Novariant**

On October 8, 2010, we acquired the Terralite assets from Novariant of Fremont, California to expand our portfolio of positioning solutions. The Terralite XPS technology is a scalable infrastructure that generates signals for real-time positioning to augment existing GPS coverage. The Terralite assets performance is reported under our Engineering and Construction business segment.

Intelligent Construction Tools, LLC.

On September 29, 2010, we and the Hilti Group formed a joint venture, Intelligent Construction Tools, LLC. The joint venture, 50 percent owned by us and 50 percent owned by Hilti, will focus on leveraging technologies from both companies to develop measuring solutions for the building construction trades.

Cengea

On September 10, 2010, we acquired privately-held Cengea Solutions Inc., based in British Columbia, Canada. Cengea is a leading provider of spatially-enabled business operations and supply chain management software for the forestry, agriculture and natural resource industries. Cengea's performance is reported under our Mobile Solutions business segment.

Accubid Systems

On August 12, 2010, we acquired the assets of privately-held Accubid Systems, based in Ontario, Canada. Accubid is a leading provider of estimating, project management and service management software and services for electrical and mechanical contractors. Accubid's performance is reported under our Engineering and Construction business segment.

Punch Telematix NV

On July 7, 2010, we acquired control of Punch Telematix NV. Punch was a public company based in Belgium and engaged in the development and marketing of transport management solutions. Punch's performance is reported under our Mobile Solutions business segment.

Seasonality of Business

* Our individual segment revenue may be affected by seasonal buying patterns. Typically, the second fiscal quarter has been the strongest quarter for the Company driven by the construction buying season.

RESULTS OF OPERATIONS**Overview**

The following table is a summary of revenue, gross margin, and operating income for the periods indicated and should be read in conjunction with the narrative descriptions below.

| | Three Months Ended | | Six Months Ended | |
|-------------------------------------|--------------------|-----------------|------------------|-----------------|
| | July 1, 2011 | July 2, 2010 | July 1, 2011 | July 2, 2010 |
| <i>(Dollars in thousands)</i> | | | | |
| Total consolidated revenue | \$ 407,169 | \$ 333,363 | \$ 791,462 | \$ 652,378 |
| Gross margin | \$ 208,734 | \$ 163,426 | \$ 400,264 | \$ 322,423 |
| Gross margin % | 51.3% | 49.0% | 50.6% | 49.4% |
| Total consolidated operating income | \$ 51,567 | \$ 40,561 | \$ 95,242 | \$ 76,676 |
| Operating income % | 12.7% | 12.2% | 12.0% | 11.8% |

Revenue

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

In the three months ended July 1, 2011, total revenue increased by \$73.8 million or 22%, as compared to the same corresponding period in fiscal 2010. Of the increase, Engineering and Construction revenue increased \$48.2 million, Field Solutions increased \$23.9 million, and Mobile Solutions increased \$2.0 million, which was slightly offset by a decrease in Advanced Devices of \$0.3 million. The revenue increase was primarily due to some economic recovery and increased penetration particularly across the U.S., and also the rest of the world, particularly in Europe in Engineering and Construction. Additionally, Field Solutions revenue increased primarily due to the increase in demand for agricultural products as relatively high commodity prices increased farmer income and spending. Agriculture sales were particularly strong in Europe in our Field Solutions segment.

In the six months ended July 1, 2011, total revenue increased by \$139.1 million or 21%, as compared to the same corresponding period in fiscal 2010. Of the increase, Engineering and Construction revenue increased \$80.6 million, Field Solutions increased \$51.0 million, Mobile Solutions increased \$8.5 million, which was slightly offset by a decrease in Advanced Devices of \$1.1 million. The revenue growth was primarily due to economic recovery and growth across the U.S. and the rest of the world, particularly in Europe, in Engineering and Construction. Additionally, Field Solutions revenue increased primarily due to the increase in demand for agricultural products as relatively high commodity prices increased farmer income and spending. Agriculture sales were particularly strong in Europe in our Field Solutions segment.

Gross Margin

Gross margin varies due to a number of factors including product mix, pricing, distribution channel, production volumes, and foreign currency translations.

Gross margin increased by \$45.3 million and \$77.8 million for the three and six months ended July 1, 2011, respectively, as compared to the corresponding periods in the prior year, primarily due to increased sales in Engineering and Construction and Field Solutions. Gross margin as a percentage of total revenue for the three months ended July 1, 2011 was 51.3%, as compared to 49.0% for the three months ended July 2, 2010. Gross margin as a percentage of total revenue for the six months ended July 1, 2011 was 50.6%, as compared to 49.4% for the six months ended July 2, 2010. The increase in gross margin percentage for the three and six month periods ended July 1, 2011 was primarily due to an increase in sales of higher margin products, primarily software and subscription revenue, which were partially offset by higher amortization of purchased intangibles.

Table of Contents**Operating Income**

Operating income increased by \$11.0 million and \$18.6 million for the three and six months ended July 1, 2011, respectively, as compared to the corresponding periods in the prior year, primarily due to higher revenue. Operating income as a percentage of total revenue was 12.7% for the three months ended July 1, 2011, as compared to 12.2% for the three months ended July 2, 2010. Operating income as a percentage of total revenue was 12.0% for the six months ended July 1, 2011, as compared to 11.8% for the six months ended July 2, 2010. The increase in operating income percentage for both the three and six month periods was primarily due to higher revenue and higher gross margin, partially offset by increased operating expenses resulting from acquisitions.

Results by Segment

To achieve distribution, marketing, production, and technology advantages in our targeted markets, we manage our operations in the following four segments: Engineering and Construction, Field Solutions, Mobile Solutions, and Advanced Devices. Operating income equals net revenue less cost of sales and operating expense, excluding general corporate expense, amortization of purchased intangibles, amortization of inventory step-up, acquisition costs and restructuring costs.

The following table is a summary of revenue and operating income (loss) by segment:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | July 1, 2011 | July 2, 2010 | July 1, 2011 | July 2, 2010 |
| <i>(Dollars in thousands)</i> | | | | |
| Engineering and Construction | | | | |
| Revenue | \$ 236,668 | \$ 188,441 | \$ 426,702 | \$ 346,059 |
| Segment revenue as a percent of total revenue | 58% | 57% | 53% | 53% |
| Operating income | \$ 46,987 | \$ 33,921 | \$ 69,766 | \$ 52,728 |
| Operating income as a percent of segment revenue | 20% | 18% | 16% | 15% |
| Field Solutions | | | | |
| Revenue | \$ 104,029 | \$ 80,158 | \$ 227,082 | \$ 176,059 |
| Segment revenue as a percent of total revenue | 26% | 24% | 29% | 27% |
| Operating income | \$ 42,543 | \$ 28,980 | \$ 95,048 | \$ 68,293 |
| Operating income as a percent of segment revenue | 41% | 36% | 42% | 39% |
| Mobile Solutions | | | | |
| Revenue | \$ 40,224 | \$ 38,188 | \$ 84,645 | \$ 76,147 |
| Segment revenue as a percent of total revenue | 10% | 11% | 11% | 12% |
| Operating income (loss) | (\$ 2,684) | \$ 324 | (\$ 4,018) | \$ 2,223 |
| Operating income (loss) as a percent of segment revenue | -7% | 1% | -5% | 3% |
| Advanced Devices | | | | |
| Revenue | \$ 26,248 | \$ 26,576 | \$ 53,033 | \$ 54,113 |
| Segment revenue as a percent of total revenue | 6% | 8% | 7% | 8% |
| Operating income | \$ 2,607 | \$ 5,181 | \$ 6,470 | \$ 10,806 |
| Operating income as a percent of segment revenue | 10% | 19% | 12% | 20% |

Table of Contents

Unallocated corporate expense includes general corporate expense, amortization of inventory step-up, and restructuring costs. A reconciliation of our consolidated segment operating income to consolidated income before income taxes follows:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | July 1, 2011 | July 2, 2010 | July 1, 2011 | July 2, 2010 |
| <i>(Dollars in thousands)</i> | | | | |
| Consolidated segment operating income | \$ 89,453 | \$ 68,406 | \$ 167,266 | \$ 134,050 |
| Unallocated corporate expense | (17,621) | (12,155) | (32,739) | (27,329) |
| Amortization of purchased intangible assets | (16,576) | (13,916) | (32,641) | (27,733) |
| Acquisition costs | (3,689) | (1,774) | (6,644) | (2,312) |
| Consolidated operating income | 51,567 | 40,561 | 95,242 | 76,676 |
| Non-operating income, net | 8,631 | 286 | 11,237 | 3,821 |
| Consolidated income before taxes | \$ 60,198 | \$ 40,847 | \$ 106,479 | \$ 80,497 |

Engineering and Construction

Engineering and Construction revenue increased by \$48.2 million or 26% and \$80.6 million or 23% for the three and six months ended July 1, 2011, respectively, as compared to the same corresponding periods in fiscal 2010. Segment operating income increased \$13.1 million or 39% and \$17.0 million or 32% for the three and six months ended July 1, 2011, respectively, as compared to the same corresponding periods in fiscal 2010.

The revenue growth for both the three months and six month periods was primarily driven by some economic recovery and increased penetration due to expanded distribution particularly across the U.S., and also the rest of the world for survey and construction product lines. Although residential and commercial construction were relatively weak, products sales associated with infrastructure build out were robust. Segment operating income for both the three and six month periods increased primarily due to higher revenue, higher gross margin, and increased operating leverage.

Field Solutions

Field Solutions revenue increased by \$23.9 million or 30% and \$51.0 million or 29% for the three and six months ended July 1, 2011, respectively, as compared to the same corresponding periods in fiscal 2010. Segment operating income increased by \$13.6 million or 47% and \$26.8 million or 39% for the three and six months ended July 1, 2011, respectively, as compared to the same corresponding periods in fiscal 2010.

The revenue growth for the three month and six month periods was primarily due to higher sales across the world for our agricultural products due to increased farmer demand for agricultural products as relatively high commodity prices increased farmer income and spending. Sales were particularly strong in Europe. Expanded product offerings also contributed to the sales increase.

Mobile Solutions

Mobile Solutions revenue increased by \$2.0 million or 5% and \$8.5 million or 11% for the three and six months ended July 1, 2011, respectively, as compared to the same corresponding periods in fiscal 2010. Segment operating income decreased by \$3.0 million or 928% and \$6.2 million or 281% for the three and six months ended July 1, 2011, respectively, as compared to the same corresponding periods in fiscal 2010.

The revenue increase for both the three and six month periods was primarily due to the revenue from acquisitions completed in the prior year, partially offset by a loss of a large customer in the second quarter of fiscal 2010. The decrease in operating income for both the three and six month periods was primarily due to the mix of hardware and subscription services revenue, the impact of acquisitions and the loss of a large customer in the second quarter of fiscal 2010.

Advanced Devices

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

Advanced Devices revenue decreased by \$0.3 million or 1% and \$1.1 million or 2% for the three and six months ended July 1, 2011, respectively, as compared to the same corresponding periods in fiscal 2010. Segment operating income decreased by \$2.6 million or 50% and \$4.3 million or 40% for the three and six months ended July 1, 2011, respectively, as compared to the same corresponding periods in fiscal 2010.

The decrease in revenue for both the three and six month periods was driven by a reduction in demand for GPS-based timing and synchronization devices, partially offset by acquisitions. The decrease in operating income for both the three and six month periods was primarily driven by product mix and acquisitions.

Table of Contents**Research and Development, Sales and Marketing, and General and Administrative Expense**

Research and development (R&D), sales and marketing (S&M), and general and administrative (G&A) expense are summarized in the following table:

| | Three Months Ended | | Six Months Ended | |
|-------------------------------|--------------------|-----------------|------------------|-----------------|
| | July 1, 2011 | July 2, 2010 | July 1, 2011 | July 2, 2010 |
| <i>(Dollars in thousands)</i> | | | | |
| Research and development | 46,292 | 36,552 | 89,524 | 72,442 |
| Percentage of revenue | 11% | 11% | 11% | 11% |
| Sales and marketing | 63,490 | 50,522 | 124,697 | 100,290 |
| Percentage of revenue | 16% | 15% | 16% | 15% |
| General and administrative | 37,157 | 27,290 | 70,629 | 55,837 |
| Percentage of revenue | 9% | 8% | 9% | 9% |
| Total | 146,939 | 114,364 | 284,850 | 228,569 |
| Percentage of revenue | 36% | 34% | 36% | 35% |

Overall, R&D, S&M, and G&A expense increased by approximately \$32.6 million and \$56.3 million for the three and six months ended July 1, 2011, respectively, as compared to the corresponding periods in fiscal 2010.

Research and development expense increased by \$9.7 million and \$17.1 million for the three and six month periods ended July 1, 2011, respectively, as compared to the same corresponding periods in fiscal 2010. All of our R&D costs have been expensed as incurred. Costs of software developed for external sale subsequent to reaching technical feasibility were not considered material and were expensed as incurred. Spending overall was at approximately 11% of revenue in both the three and six months ended July 1, 2011 and the same corresponding periods in fiscal 2010.

The increase in R&D expense in the second quarter of fiscal 2011, as compared to the second quarter of fiscal 2010 was primarily due to the inclusion of expense of \$3.3 million from acquisitions not applicable in the prior corresponding period, a \$2.1 million increase in engineering costs associated with new product roll-outs, a \$1.9 million increase due to unfavorable foreign currency exchange rates, a \$1.7 million increase in compensation related expense and a \$0.4 million increase in consulting fees.

The increase in R&D expense in the first six months of fiscal 2011, as compared to the corresponding period in fiscal 2010 was primarily due to the inclusion of expense of \$5.9 million from acquisitions not applicable in the prior corresponding period, a \$5.0 million increase in engineering costs associated with new product roll-outs, a \$2.6 million increase in compensation related expense and a \$2.3 million increase due to unfavorable foreign currency exchange rates.

* We believe that the development and introduction of new products are critical to our future success and we expect to continue active development of new products.

Sales and marketing expense increased by \$13.0 million and \$24.4 million for the three and six months ended July 1, 2011, respectively, as compared to the same corresponding periods in fiscal 2010. Spending overall was approximately 16% of revenue in the three and six months ended July 1, 2011, as compared to 15% in the same corresponding periods in fiscal 2010.

The increase in S&M expense in the second quarter of fiscal 2011, as compared to the corresponding period of fiscal 2010 was primarily due to the inclusion of a \$6.4 million expense from acquisitions not applicable in the prior period, a \$3.2 million increase in compensation related expense, a \$2.5 million increase due to unfavorable foreign currency exchange rates and a \$0.9 million increase in travel expense.

The increase in S&M expense in the first six months of fiscal 2011, as compared to the corresponding period of fiscal 2010 was primarily due to the inclusion of a \$12.2 million expense from acquisitions not applicable in the prior period, a \$5.9 million increase in compensation related expense, a \$2.9 million increase due to unfavorable foreign currency exchange rates, a \$1.3 million increase in travel expense and a \$0.7 million increase in tradeshow related expenses.

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

* Our future growth will depend in part on the timely development and continued viability of the markets in which we currently compete, as well as our ability to continue to identify and develop new markets for our products.

General and administrative expense increased by \$9.9 million and \$14.8 million for the three and six months ended July 1, 2011, respectively, as compared to the same corresponding periods in fiscal 2010. Spending overall was at approximately 9% of revenue in the three and six months ended July 1, 2011, as compared to 8% and 9% in the same corresponding periods in fiscal 2010.

Table of Contents

The increase in G&A expenses in the second quarter of fiscal 2011, as compared to the corresponding period in fiscal 2010 was primarily due to the inclusion of expense of \$3.8 million from acquisitions not applicable in the prior year, a \$1.5 million increase in compensation related expense, a \$1.1 million increase in tax, legal and consulting expense, a \$1.4 million increase in stock-based compensation expense and a \$0.7 increase due to unfavorable foreign currency exchange rates, which was partially offset by a \$1.6 million decrease in bad debt expense.

The increase in G&A expense in the first six months of fiscal 2011, as compared to the corresponding period in fiscal 2010 was primarily due to the inclusion of expense of \$7.2 million from acquisitions not applicable in the prior year, a \$1.3 million increase in compensation related expense, a \$1.4 million increase in tax, legal and consulting expense, a \$1.9 million increase in stock-based compensation expense and a \$0.9 increase due to unfavorable foreign currency exchange rates, which was partially offset by a \$2.7 million decrease in bad debt expense.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets was \$16.6 million in the second quarter of fiscal 2011, as compared to \$13.9 million in the second quarter of fiscal 2010. Of the total \$16.6 million in the second quarter of fiscal 2011, \$9.9 million is presented as a separate line within Operating expense and \$6.7 million is included within Cost of sales on our Condensed Consolidated Statements of Income. The increase was due primarily to business acquisitions and asset purchases not included in the corresponding period of fiscal 2010. As of July 1, 2011, future amortization of intangible assets is expected to be \$34.5 million during the remaining two quarters of fiscal 2011, \$62.3 million during 2012, \$56.3 million during 2013, \$34.0 million during 2014, \$22.3 million during 2015, and \$21.6 million thereafter.

Non-operating Income, Net

The components of non-operating income, net, were as follows:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | July 1, 2011 | July 2, 2010 | July 1, 2011 | July 2, 2010 |
| <i>(Dollars in thousands)</i> | | | | |
| Interest income | \$ 319 | \$ 244 | \$ 604 | \$ 643 |
| Interest expense | (1,350) | (411) | (1,846) | (809) |
| Foreign currency transaction gain (loss), net | 6,496 | (1,869) | 6,802 | (1,123) |
| Income from equity method investments, net | 3,418 | 3,147 | 6,181 | 5,621 |
| Other expense, net | (252) | (825) | (504) | (511) |
| Total non-operating income, net | \$ 8,631 | \$ 286 | \$ 11,237 | \$ 3,821 |

Non-operating income, net increased \$8.3 million and \$7.4 million for the three and six months of fiscal 2011, respectively, as compared to the same corresponding periods in fiscal 2010. The increase in the three month period was primarily due to an increase in foreign currency transaction gains, changes in deferred compensation plan asset gains and losses included in Other expense, net, and an increase in income from equity method investments. The increase in the six month period was primarily due to an increase in foreign currency transaction gains and higher income from equity method investments, which was partially offset by changes in deferred compensation plan asset gains and losses included in Other expense, net and higher interest expense.

Income Tax Provision

In the three months ended July 1, 2011, our effective income tax rate was 10.0% as compared to 83.4% in the corresponding period in 2010, primarily due to geographic mix of pretax income, the closure of the 2008 and 2009 IRS examination which resulted in a net benefit of \$2.3 million, as compared to a \$27.5 million net charge in the second quarter of 2010 resulting from the U.S. Internal Revenue Service (IRS) audit settlement of our 2005 through 2007 tax years. In the six months ended July 1, 2011, our effective income tax rate was 12.8% as compared to 56.6% in the corresponding period in 2010, primarily due to the same reasons mentioned above.

In June 2011, the IRS closed its examination of our income tax returns for the years 2008 and 2009. The audit settlement included federal tax and interest charges of \$8.1 million, offset by the reversal of related unrecognized tax benefits and other items of \$10.4 million which resulted in a net benefit of \$2.3 million.

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

The 2011 second quarter effective tax rate is lower than the statutory federal income tax rate of 35% primarily due to the geographical mix of pre-tax income and the closure of the 2008 and 2009 IRS examination. The 2010 second quarter effective tax rate is higher than the statutory federal income tax rate primarily due to the net charge resulting from the IRS audit settlement of our 2005 through 2007 tax years, partially offset by the geographical mix of pre-tax income.

Table of Contents

OFF-BALANCE SHEET FINANCINGS AND LIABILITIES

Other than lease commitments incurred in the normal course of business, we do not have any off-balance sheet financing arrangements or liabilities, guarantee contracts, retained or contingent interests in transferred assets, or any obligation arising out of a material variable interest in an unconsolidated entity. We do not have any majority-owned subsidiaries that are not included in the condensed consolidated financial statements. Additionally, we do not have any interest in, or relationship with, any special purpose entities.

In the normal course of business to facilitate sales of our products, we indemnify other parties, including customers, lessors, and parties to other transactions with us, with respect to certain matters. We have agreed to hold the other party harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with our officers and directors, and our bylaws contain similar indemnification obligations to our agents.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under these agreements were not material and no liabilities have been recorded for these obligations on the Condensed Consolidated Balance Sheets as of July 1, 2011 and December 31, 2010.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

| As of (Dollars in thousands) | July 1, 2011 | December 31, 2010 |
|--|-----------------|----------------------|
| Cash and cash equivalents | \$ 249,811 | \$ 220,788 |
| Total debt | 127,256 | 153,153 |
| Six Months Ended (Dollars in thousands) | July 1, 2011 | July 2, 2010 |
| Cash provided by operating activities | \$ 110,716 | \$ 95,309 |
| Cash used in investing activities | (94,461) | (60,708) |
| Cash provided by (used in) financing activities | 8,007 | (41,325) |
| Effect of exchange rate changes on cash and cash equivalents | 4,761 | (5,464) |
| Net increase (decrease) in cash and cash equivalents | \$ 29,023 | \$ (12,188) |

Cash and Cash Equivalents

As of July 1, 2011, cash and cash equivalents totaled \$249.8 million as compared to \$220.8 million at December 31, 2010. Debt was \$127.3 million as of July 1, 2011, as compared to \$153.2 million at December 31, 2010.

* Our ability to continue to generate cash from operations will depend in large part on profitability, the rate of collections of accounts receivable, our inventory turns, and our ability to manage other areas of working capital.

* We believe that our cash and cash equivalents, together with our revolving credit facilities will be sufficient to meet our anticipated operating cash needs, acquisition purchases, and stock purchases under the stock repurchase program for at least the next twelve months.

* We anticipate that planned capital expenditures primarily for computer equipment, software, manufacturing tools and test equipment, and leasehold improvements associated with business expansion, will constitute a partial use of our cash resources. Decisions related to how much cash is used for investing are influenced by the expected amount of cash to be provided by operations.

Operating Activities

Cash provided by operating activities was \$110.7 million for the six months ended July 1, 2011, as compared to \$95.3 million for the six months ended July 2, 2010. This increase of \$15.4 million was primarily driven by an increase in net income before non-cash depreciation and amortization primarily attributable to Engineering and Construction and Field Solutions segments' increased revenue and a decrease in Income taxes payable and Accrued liabilities associated with the IRS tax settlement from last year, offset by an increase in accounts receivable due to higher revenue from Engineering and Construction and Field Solutions segments.

Investing Activities

Cash used in investing activities was \$94.5 million for the six months ended July 1, 2011, as compared to \$60.7 million for the six months ended July 2, 2010. The increase of \$33.8 million was due to higher cash requirement for business and intangible asset acquisitions.

Financing Activities

Cash provided by financing activities was \$8.0 million for the six months ended July 1, 2011, as compared to cash used of \$41.3 million for the six months ended July 2, 2010. The increase of \$49.3 million was primarily due to an increase in proceeds received from the issuance of common stock related to stock option exercises, offset by the repurchase of common stock during the second quarter of fiscal 2010, and by payments on long-term debt and debt issuance costs during the second quarter of fiscal 2011.

Table of Contents*Accounts Receivable and Inventory Metrics*

| As of | July 1, 2011 | December 31, 2010 |
|--|-----------------|----------------------|
| Accounts receivable days sales outstanding | 57 | 63 |
| Inventory turns per year | 3.5 | 3.8 |

Accounts receivable days sales outstanding were 57 days as of July 1, 2011, as compared to 63 days as of December 31, 2010. Our accounts receivable days sales outstanding is calculated based on ending accounts receivable, net, divided by revenue for the corresponding fiscal quarter, times a quarterly average of 91 days. Our inventory turns were 3.5 as of July 1, 2011, as compared to 3.8 as of December 31, 2010. Our inventory turnover is calculated based on total cost of sales for the most recent twelve months divided by average ending inventory, net, for this same twelve month period.

Repatriation of Foreign Earnings and Income Taxes

A significant portion of our foreign earnings continue to be permanently reinvested in our foreign subsidiaries and it is anticipated this reinvestment will not impede cash needs at the parent company level. In our determination of which foreign earnings are permanently reinvested, we consider numerous factors, including the financial requirements of the U.S. parent company, the financial requirements of the foreign subsidiaries, and the tax consequences of remitting the foreign earnings back to the U.S. There are no other material impediments to our ability to access sources of liquidity and our resulting ability to meet short and long-term liquidity needs, other than in the event we are not in compliance with the covenants under our 2011 Credit Facility or the tax costs of remitting foreign earnings back to the U.S.

Debt

As of July 1, 2011, our total debt was comprised primarily of our revolving credit line in the amount of \$125.0 million, which is classified as long-term in the Condensed Consolidated Balance Sheet. As of July 1, 2011 and December 31, 2010, we had promissory notes and other totaling approximately \$2.3 million and \$2.2 million. Of these amounts, we had outstanding notes payable of \$1.9 million which consisted primarily of notes payable to noncontrolling interest holders. The notes bear interest at 6% and have undefined payment terms, but are callable with a six month notification.

On May 6, 2011, we entered into a new credit agreement, (the 2011 Credit Facility), with a group of lenders. This credit facility provides for unsecured credit facilities in the aggregate principal amount of \$1.1 billion, comprised of a five-year revolving loan facility of \$700.0 million and a five-year \$400.0 million term loan facility. Subject to the terms of the 2011 Credit Facility, the revolving loan facility and the term loan facility may be increased by up to \$300.0 million in the aggregate. The term loan facility may be drawn on or before the 180th day following the date of the 2011 Credit Facility.

The funds available under the 2011 Credit Facility may be used for general corporate purposes, the financing of certain acquisitions and the payment of transaction fees and expenses related to such acquisitions. On May 6, 2011, we made an initial borrowing of \$151.0 million under the revolving credit line of the 2011 Credit Facility to repay all of the amounts outstanding under the then existing Amended and Restated Credit Agreement dated February 16, 2007. On July 5, 2011, we borrowed \$400 million on the term loan facility of the 2011 Credit Facility to fund the majority of the Tekla purchase price. In addition, on August 5, 2011, the Company borrowed \$108 million on the revolving loan facility to fund a substantial portion of the acquisition of PeopleNet. The Company also drew down an additional \$50 million on a uncommitted revolving loan facility with Intesa Sanpaolo to fund a smaller portion of the PeopleNet acquisition. The \$50 million uncommitted facility, which was entered into on July 14, 2011, is callable by the bank at any time and has no covenants. The interest rate is LIBOR plus 1.00% or as otherwise agreed upon by the bank and us.

Under the 2011 Credit Facility, we may borrow, repay and reborrow funds under the revolving loan facility until its maturity on May 6, 2016, at which time the revolving facility will terminate, and all outstanding loans, together with all accrued and unpaid interest, must be repaid. Amounts not borrowed under the revolving facility will be subject to a commitment fee, to be paid in arrears on the last day of each fiscal quarter, ranging from 0.20% to 0.40% per annum depending on our leverage ratio as of the most recently ended fiscal quarter. The term loan will be repaid in quarterly installments, with the last quarterly payment to be made at April 1, 2016. On an annualized basis, the amortization of the term loan is as follows: 5%, 5%, 10%, 10%, and 70% for years one through five respectively. The term loan may be prepaid in whole or in part, subject to certain minimum thresholds, without penalty or premium. Amounts repaid or prepaid with respect to the term loan facility may not be reborrowed.

We may borrow funds under the 2011 Credit Facility in U.S. Dollars, Euros or in certain other agreed currencies, and borrowings will bear interest, at our option, at either: (i) a floating per annum base rate based on the administrative agent's prime rate or other agreed-upon rate, depending on the currency borrowed, plus a margin of between 0.25% and 1.25%, depending on our leverage ratio as of the most recently ended fiscal quarter, or (ii) a reserve-adjusted fixed per annum rate based on LIBOR, EURIBOR, STIBOR or other agreed-upon rate, depending on the currency borrowed, plus a margin of between 1.25% and 2.25%, depending on our leverage ratio as of the most recently ended fiscal quarter. Interest will be paid on the last day of each fiscal quarter with respect to borrowings bearing interest based on a floating rate, or on the last day of an interest period, but at least every three months, with respect to borrowings bearing interest at a fixed rate. Our obligations under the 2011 Credit Facility are guaranteed by several of our domestic subsidiaries.

Table of Contents

The 2011 Credit Facility contains various customary representations and warranties by us, which include customary use of materiality, material adverse effect and knowledge qualifiers. The 2011 Credit Facility also contains customary affirmative and negative covenants including, among other requirements, negative covenants that restrict our ability to dispose of assets, create liens, incur indebtedness, repurchase stock, pay dividends, make acquisitions and make investments. Further, the 2011 Credit Facility contains financial covenants that require the maintenance of minimum interest coverage and maximum leverage ratios. Specifically, we must maintain as of the end of each fiscal quarter a ratio of (a) EBITDA (as defined in the 2011 Credit Facility) to (b) interest expenses for the most recently ended period of four fiscal quarters of not less than 3.5 to 1. We must also maintain, at the end of each fiscal quarter, a ratio of (x) total indebtedness to (y) EBITDA (as defined in the 2011 Credit Facility) for the most recently ended period of four fiscal quarters of not greater than the applicable ratio set forth in the table below; provided, that on the completion of a material acquisition, we may increase the applicable ratio in the table below by 0.25 for the fiscal quarter during which such acquisition occurred and each of the three subsequent fiscal quarters.

| Fiscal Quarter Ending | Maximum Leverage Ratio |
|--|-------------------------------|
| Prior to March 30, 2012 | 3.50 to 1 |
| On and after March 30, 2012 and prior to June 29, 2012 | 3.25 to 1 |
| On and after June 29, 2012 | 3 to 1 |

We were in compliance with these restrictive covenants as of July 1, 2011.

The 2011 Credit Facility contains events of default that include, among others, non-payment of principal, interest or fees, breach of covenants, inaccuracy of representations and warranties, cross defaults to certain other indebtedness, bankruptcy and insolvency events, material judgments, and events constituting a change of control. Upon the occurrence and during the continuance of an event of default, interest on the obligations will accrue at an increased rate and the lenders may accelerate our obligations under the 2011 Credit Facility, however that acceleration will be automatic in the case of bankruptcy and insolvency events of default.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

Our non-GAAP measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures. The non-GAAP financial measures included in the following table are set forth below:

Non-GAAP gross margin

We believe our investors benefit by understanding our non-GAAP gross margin as a way of understanding how product mix, pricing decisions and manufacturing costs influence our business. Non-GAAP gross margin excludes restructuring costs, amortization of purchased intangibles, stock-based compensation and amortization of acquisition-related inventory step-up from GAAP gross margin. We believe that these exclusions offer investors additional information that may be useful to view trends in our gross margin performance.

Non-GAAP operating expenses

We believe this measure is important to investors evaluating our non-GAAP spending in relation to revenue. Non-GAAP operating expenses exclude restructuring costs, amortization of purchased intangibles, stock-based compensation and acquisition costs from GAAP operating expenses. We believe that these exclusions offer investors supplemental information to facilitate comparison of our operating expenses to our prior results.

Non-GAAP operating income

We believe our investors benefit by understanding our non-GAAP operating income trends which are driven by revenue, gross margin, and spending. Non-GAAP operating income excludes restructuring costs, amortization of purchased intangibles, stock-based compensation, amortization of acquisition-related inventory step-up and acquisition costs associated with external and incremental costs resulting directly from merger and acquisition activities such as legal, due diligence and integration costs. We believe that these exclusions offer an alternative means for our investors to evaluate current operating performance compared to results of other periods.

Non-GAAP non-operating income, net

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

We believe this measure helps investors evaluate our non-operating income trends. Non-GAAP non-operating income, net excludes acquisition costs associated with unusual acquisition related items such as a gain on bargain purchase (resulting from the fair value of identifiable net assets acquired exceeding the consideration transferred), adjustments to the fair value of earn-out liabilities and payments made or received to settle earn-out and holdback disputes. These costs are specific to particular acquisitions and vary significantly in amount and timing. Non-GAAP non-operating income, net also excludes the write-off of debt issuance costs associated with a terminated credit facility as well as a foreign exchange gain specifically associated with one of our acquisitions. We believe that these exclusions provide investors with a supplemental view of our ongoing financial results.

Table of Contents

Non-GAAP income tax provision

Investors benefit from the exclusion of an IRS settlement because it facilitates comparisons to our past income tax provision. Non-GAAP income tax provision excludes an IRS settlement from GAAP income tax provision and includes non-GAAP items tax effected. Non-GAAP items tax effected adjusts the provision for income taxes to reflect the effect of certain non-GAAP items on non-GAAP net income. We believe this information is useful to investors because it provides for consistent treatment of the excluded items in our non-GAAP presentation.

Non-GAAP net income

This measure provides a supplemental view of net income trends which are driven by non-GAAP income before taxes and our non-GAAP tax rate. Non-GAAP net income excludes restructuring costs, amortization of purchased intangibles, stock-based compensation, amortization of acquisition-related inventory step-up, acquisition costs, the write-off of debt issuance costs, a foreign exchange gain associated with an acquisition, and non-GAAP tax adjustments from GAAP net income. We believe our investors benefit from understanding these exclusions and from an alternative view of our net income performance as compared to our past net income performance.

Non-GAAP diluted net income per share

We believe our investors benefit by understanding our non-GAAP operating performance as reflected in a per share calculation as a way of measuring non-GAAP operating performance by ownership in the company. Non-GAAP diluted net income per share excludes restructuring costs, amortization of purchased intangibles, stock-based compensation, amortization of acquisition-related inventory step-up, acquisition costs, the write-off of debt issuance costs, a foreign exchange gain associated with an acquisition, and non-GAAP tax adjustments from GAAP diluted net income per share. We believe that these exclusions offer investors a useful view of our diluted net income per share as compared to our past diluted net income per share.

Non-GAAP operating leverage

We believe this information is beneficial to investors as a measure of how much incremental revenue is contributed to our operating income. Non-GAAP operating leverage is the increase in non-GAAP operating income as a percentage of the increase in revenue. We believe that this information offers investors supplemental information to evaluate our current performance and to compare to our past non-GAAP operating leverage.

Non-GAAP segment operating income

Non-GAAP segment operating income excludes stock-based compensation from GAAP segment operating income. We believe this information is useful to investors because some may exclude stock-based compensation as an alternative view when assessing trends in the operating income of our segments.

These non-GAAP measures can be used to evaluate our historical and prospective financial performance, as well as our performance relative to competitors. We believe some of our investors track our core operating performance as a means of evaluating our performance in the ordinary, ongoing, and customary course of our operations. Core operating performance excludes items that are non-cash, not expected to recur or not reflective of ongoing financial results. Management also believes that looking at our core operating performance provides a supplemental way to provide consistency in period to period comparisons. Accordingly, management excludes from non-GAAP those items relating to restructuring, amortization of purchased intangibles, stock based compensation, amortization of acquisition-related inventory step-up, acquisition costs, the write-off of debt issuance costs, a foreign exchange gain associated with an acquisition, and certain tax charges/benefits of which \$27.5 million is associated with the IRS settlement. For detailed explanations of the adjustments made to comparable GAAP measures, see items (A) (K) below.

Table of Contents

| | Three Months Ended | | | | Six Months Ended | | | |
|---|--------------------|----------------------------------|------------------|----------------------------------|------------------|----------------------------------|------------------|----------------------------------|
| | Jul-1, 2011 | | Jul-2, 2010 | | Jul-1, 2011 | | Jul-2, 2010 | |
| | Dollar Amount | % of Revenue | Dollar Amount | % of Revenue | Dollar Amount | % of Revenue | Dollar Amount | % of Revenue |
| <i>(Dollars In thousands, except per share data)</i> | | | | | | | | |
| GROSS MARGIN: | | | | | | | | |
| GAAP gross margin: | \$ 208,734 | 51.3% | \$ 163,426 | 49.0% | \$ 400,264 | 50.6% | \$ 322,423 | 49.4% |
| Restructuring (A) | 189 | 0.0% | 55 | 0.0% | 288 | 0.0% | 98 | 0.0% |
| Amortization of purchased intangibles (B) | 6,709 | 1.7% | 5,790 | 1.7% | 13,597 | 1.8% | 11,559 | 1.8% |
| Stock-based compensation (C) | 502 | 0.1% | 486 | 0.2% | 970 | 0.1% | 987 | 0.2% |
| Amortization of acquisition-related inventory step-up (D) | 1,201 | 0.3% | 0 | 0.0% | 1,709 | 0.2% | 71 | 0.0% |
| Non-GAAP gross margin: | \$ 217,335 | 53.4% | \$ 169,757 | 50.9% | \$ 416,828 | 52.7% | \$ 335,138 | 51.4% |
| OPERATING EXPENSES: | | | | | | | | |
| GAAP operating expenses: | \$ 157,167 | 38.5% | \$ 122,865 | 36.9% | \$ 305,021 | 38.5% | \$ 245,747 | 37.7% |
| Restructuring (A) | (361) | -0.1% | (375) | -0.1% | (1,128) | -0.1% | (1,006) | -0.2% |
| Amortization of purchased intangibles (B) | (9,867) | -2.4% | (8,126) | -2.5% | (19,044) | -2.4% | (16,172) | -2.4% |
| Stock-based compensation (C) | (6,627) | -1.6% | (4,498) | -1.4% | (12,957) | -1.6% | (9,638) | -1.5% |
| Acquisition costs (E) | (3,304) | -0.8% | (1,764) | -0.5% | (5,494) | -0.7% | (2,502) | -0.4% |
| Non-GAAP operating expenses: | \$ 137,008 | 33.6% | \$ 108,102 | 32.4% | \$ 266,398 | 33.7% | \$ 216,429 | 33.2% |
| OPERATING INCOME: | | | | | | | | |
| GAAP operating income: | \$ 51,567 | 12.7% | \$ 40,561 | 12.2% | \$ 95,243 | 12.0% | \$ 76,676 | 11.7% |
| Restructuring (A) | 550 | 0.1% | 430 | 0.1% | 1,416 | 0.2% | 1,104 | 0.2% |
| Amortization of purchased intangibles (B) | 16,576 | 4.0% | 13,916 | 4.2% | 32,641 | 4.1% | 27,731 | 4.3% |
| Stock-based compensation (C) | 7,129 | 1.8% | 4,984 | 1.5% | 13,927 | 1.8% | 10,625 | 1.6% |
| Amortization of acquisition-related inventory step-up (D) | 1,201 | 0.3% | 0 | 0.0% | 1,709 | 0.2% | 71 | 0.0% |
| Acquisition costs (E) | 3,304 | 0.8% | 1,764 | 0.5% | 5,494 | 0.7% | 2,502 | 0.4% |
| Non-GAAP operating income: | \$ 80,327 | 19.7% | \$ 61,655 | 18.5% | \$ 150,430 | 19.0% | \$ 118,709 | 18.2% |
| NON-OPERATING INCOME, NET: | | | | | | | | |
| GAAP non-operating income, net: | \$ 8,631 | | \$ 286 | | \$ 11,237 | | \$ 3,821 | |
| Acquisition costs (E) | 385 | | 10 | | 1,149 | | (190) | |
| Debt issuance cost write-off (I) | 377 | | 0 | | 377 | | 0 | |
| Foreign exchange gains associated with acquisition (J) | (5,646) | | 0 | | (5,646) | | 0 | |
| Non-GAAP non-operating income, net: | \$ 3,747 | | \$ 296 | | \$ 7,117 | | \$ 3,631 | |
| | | GAAP and Non-GAAP Tax Rate % (F) | | GAAP and Non-GAAP Tax Rate % (F) | | GAAP and Non-GAAP Tax Rate % (F) | | GAAP and Non-GAAP Tax Rate % (F) |
| INCOME TAX PROVISION: | | | | | | | | |
| GAAP income tax provision: | 6,020 | 10% | \$ 34,076 | 83% | \$ 13,429 | 13% | \$ 45,574 | 57% |
| IRS settlement (G) | 0 | | (27,540) | | 0 | | (27,540) | |
| Non-GAAP items tax effected: (H) | 2,388 | | 3,375 | | 6,741 | | 9,389 | |

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

| | | | | | | | | |
|--------------------------------|----------|-----|----------|-----|-----------|-----|-----------|-----|
| Non-GAAP income tax provision: | \$ 8,408 | 10% | \$ 9,911 | 16% | \$ 20,170 | 13% | \$ 27,423 | 22% |
|--------------------------------|----------|-----|----------|-----|-----------|-----|-----------|-----|

NET INCOME:

| | | | | | | | | |
|---|-----------|--|----------|--|-----------|--|-----------|--|
| GAAP net income attributable to Trimble Navigation Ltd. | \$ 53,679 | | \$ 6,353 | | \$ 93,382 | | \$ 34,251 | |
| Restructuring (A) | 550 | | 430 | | 1,416 | | 1,104 | |
| Amortization of purchased intangibles (B) | 16,576 | | 13,916 | | 32,641 | | 27,731 | |
| Stock-based compensation (C) | 7,129 | | 4,984 | | 13,927 | | 10,625 | |
| Amortization of acquisition-related inventory step-up (D) | 1,201 | | 0 | | 1,709 | | 71 | |
| Acquisition costs (E) | 3,689 | | 1,774 | | 6,644 | | 2,312 | |
| Debt issuance cost write-off (I) | 377 | | 0 | | 377 | | 0 | |
| Foreign exchange gains associated with acquisition (J) | (5,646) | | 0 | | (5,646) | | 0 | |
| Non-GAAP tax adjustments (G), (H) | (2,388) | | 24,165 | | (6,741) | | 18,151 | |

| | | | | | | | | |
|---|-----------|--|-----------|--|------------|--|-----------|--|
| Non-GAAP net income attributable to Trimble Navigation Ltd. | \$ 75,167 | | \$ 51,622 | | \$ 137,709 | | \$ 94,245 | |
|---|-----------|--|-----------|--|------------|--|-----------|--|

DILUTED NET INCOME

PER SHARE:

| | | | | | | | | |
|---|---------|--|---------|--|---------|--|---------|--|
| GAAP diluted net income per share attributable to Trimble Navigation Ltd. | \$ 0.43 | | \$ 0.05 | | \$ 0.74 | | \$ 0.28 | |
| Restructuring (A) | 0 | | 0 | | 0.01 | | 0.01 | |
| Amortization of purchased intangibles (B) | 0.13 | | 0.11 | | 0.26 | | 0.22 | |
| Stock-based compensation (C) | 0.06 | | 0.04 | | 0.11 | | 0.09 | |
| Amortization of acquisition-related inventory step-up (D) | 0.01 | | 0 | | 0.01 | | 0 | |
| Acquisition costs (E) | 0.03 | | 0.02 | | 0.05 | | 0.02 | |
| Debt issuance cost write-off (I) | 0 | | 0 | | 0 | | 0 | |
| Foreign exchange gains associated with acquisition (J) | (0.04) | | 0 | | (0.04) | | 0 | |
| Non-GAAP tax adjustments (G), (H) | (0.02) | | 0.20 | | (0.05) | | 0.14 | |

| | | | | | | | | |
|---|---------|--|---------|--|---------|--|---------|--|
| Non-GAAP diluted net income per share attributable to Trimble Navigation Ltd. | \$ 0.60 | | \$ 0.42 | | \$ 1.09 | | \$ 0.76 | |
|---|---------|--|---------|--|---------|--|---------|--|

OPERATING LEVERAGE:

| | | | | | | | | |
|--|-----------|--|-----------|--|------------|--|-----------|--|
| Increase in non-GAAP operating income | \$ 18,672 | | \$ 9,283 | | \$ 31,721 | | \$ 20,429 | |
| Increase in revenue | \$ 73,806 | | \$ 43,300 | | \$ 139,084 | | \$ 73,361 | |
| Operating leverage (increase in non-GAAP operating income as a % of increase in revenue) | 25.3% | | 21.4% | | 22.8% | | 27.8% | |

Table of Contents

| (Dollars In thousands, except per share data) | Three Months Ended | | | | Six Months Ended | | | |
|--|--|--|--|--|--|--|--|--|
| | July-1, 2011 % of Segment Revenue | July-2, 2010 % of Segment Revenue | July-1, 2011 % of Segment Revenue | July-2, 2010 % of Segment Revenue | July-1, 2011 % of Segment Revenue | July-2, 2010 % of Segment Revenue | July-1, 2011 % of Segment Revenue | July-2, 2010 % of Segment Revenue |
| SEGMENT OPERATING INCOME: | | | | | | | | |
| Engineering and Construction | | | | | | | | |
| GAAP operating income before corporate allocations: | \$ 46,987 | 19.9% | \$ 33,921 | 18.0% | \$ 69,766 | 16.4% | \$ 52,728 | 15.2% |
| Stock-based compensation (K) | 2,443 | 1.0% | 1,878 | 1.0% | 4,781 | 1.1% | 3,603 | 1.0% |
| Non-GAAP operating income before corporate allocations: | \$ 49,430 | 20.9% | \$ 35,799 | 19.0% | \$ 74,547 | 17.5% | \$ 56,331 | 16.3% |
| Field Solutions | | | | | | | | |
| GAAP operating income before corporate allocations: | \$ 42,543 | 40.9% | \$ 28,980 | 36.2% | \$ 95,048 | 41.9% | \$ 68,293 | 38.8% |
| Stock-based compensation (K) | 548 | 0.5% | 477 | 0.6% | 1,060 | 0.5% | 932 | 0.5% |
| Non-GAAP operating income before corporate allocations: | \$ 43,091 | 41.4% | \$ 29,457 | 36.7% | \$ 96,108 | 42.3% | \$ 69,225 | 39.3% |
| Mobile Solutions | | | | | | | | |
| GAAP operating income (loss) before corporate allocations: | \$ (2,684) | -6.7% | \$ 324 | 0.8% | \$ (4,018) | -4.7% | \$ 2,223 | 2.9% |
| Stock-based compensation (K) | 809 | 2.0% | 217 | 0.6% | 1,805 | 2.1% | 1,419 | 1.9% |
| Non-GAAP operating income (loss) before corporate allocations: | \$ (1,875) | -4.7% | \$ 541 | 1.4% | \$ (2,213) | -2.6% | \$ 3,642 | 4.8% |
| Advanced Devices | | | | | | | | |
| GAAP operating income before corporate allocations: | \$ 2,607 | 9.9% | \$ 5,181 | 19.5% | \$ 6,470 | 12.2% | \$ 10,806 | 20.0% |
| Stock-based compensation (K) | 668 | 2.5% | 457 | 1.7% | 1,319 | 2.5% | 900 | 1.7% |
| Non-GAAP operating income before corporate allocations: | \$ 3,275 | 12.5% | \$ 5,638 | 21.2% | \$ 7,789 | 14.7% | \$ 11,706 | 21.6% |

- A. *Restructuring*. Included in our GAAP presentation of cost of sales and operating expenses, restructuring costs recorded are primarily for employee compensation resulting from reductions in employee headcount in connection with our company restructurings. We exclude restructuring costs from our non-GAAP measures because we believe they do not reflect expected future operating expenses, they are not indicative of our core operating performance, and they are not meaningful in comparisons to our past operating performance.
- B. *Amortization of purchased intangibles*. Included in our GAAP presentation of cost of sales and operating expenses, amortization of purchased intangibles recorded arises from prior acquisitions and are non-cash in nature. We exclude these expenses from our non-GAAP measures because we believe they are not indicative of our core operating performance.

Table of Contents

- C. *Stock-based compensation.* Included in our GAAP presentation of cost of sales and operating expenses, stock-based compensation consists of expenses for employee stock options and awards and purchase rights under our employee stock purchase plan. We exclude stock-based compensation expense from our non-GAAP measures because some investors may view it as not reflective of our core operating performance as it is a non-cash expense. For the three months and six months ended July 1, 2011 and July 2, 2010, stock-based compensation was allocated as follows:

| | Three Months Ended | | Six Months Ended | |
|-------------------------------|--------------------|----------------|------------------|----------------|
| | Jul-1, 2011 | Jul-2, 2010 | Jul-1, 2011 | Jul-2, 2010 |
| <i>(Dollars in thousands)</i> | | | | |
| Cost of sales | \$ 502 | \$ 486 | \$ 970 | \$ 987 |
| Research and development | 1,126 | 984 | 2,222 | 1,931 |
| Sales and Marketing | 1,659 | 1,347 | 3,293 | 2,730 |
| General and administrative | 3,842 | 2,167 | 7,442 | 4,977 |
| | \$ 7,129 | \$ 4,984 | \$ 13,927 | \$ 10,625 |

- D. *Amortization of acquisition-related inventory step-up.* The purchase accounting entries associated with our business acquisitions require us to record inventory at its fair value, which is sometimes greater than the previous book value of the inventory. Included in our GAAP presentation of cost of sales, the increase in inventory value is amortized to cost of sales over the period that the related product is sold. We exclude inventory step-up amortization from our non-GAAP measures because it is a non-cash expense that we do not believe is indicative of our ongoing operating results. We further believe that excluding this item from our non-GAAP results is useful to investors in that it allows for period-over-period comparability.
- E. *Acquisition costs.* Included in our GAAP presentation of operating expenses, acquisition costs consist of external and incremental costs resulting directly from merger and acquisition activities such as legal, due diligence and integration costs. Included in our GAAP presentation of non-operating income, net, acquisition costs include unusual acquisition related items such as a gain on bargain purchase (resulting from the fair value of identifiable net assets acquired exceeding the consideration transferred), adjustments to the fair value of earn-out liabilities and payments made or received to settle earn-out and holdback disputes. Although we do numerous acquisitions, the costs that have been excluded from the non-GAAP measures are costs specific to particular acquisitions. These are one-time costs that vary significantly in amount and timing and are not indicative of our core operating performance.
- F. *GAAP and non-GAAP tax rate %.* These percentages are defined as GAAP income tax provision as a percentage of GAAP income before taxes and non-GAAP income tax provision as a percentage of non-GAAP income before taxes. We believe that investors benefit from a presentation of non-GAAP tax rate percentage as a way of facilitating a comparison to non-GAAP tax rates in prior periods.
- G. *IRS settlement.* This amount represents a net charge of \$27.5 million in the second quarter of 2010 resulting from the IRS audit settlement. We excluded this because it is not indicative of our future operating results. We believe that investors benefit from excluding this charge from our operating results to facilitate comparisons to past operating performance.
- H. *Non-GAAP items tax effected.* This amount adjusts the provision for income taxes to reflect the effect of the non-GAAP items (A) - (E), (I), (J) on non-GAAP net income. We believe this information is useful to investors because it provides for consistent treatment of the excluded items in this non-GAAP presentation.
- I. *Debt issuance cost write-off.* Included in our non-operating income, this amount represents a write-off of debt issuance cost for a terminated credit facility. We excluded the debt issuance cost write-off from our non-GAAP measures. We believe that investors benefit from excluding this item from our non-operating income to facilitate a more meaningful evaluation of our non-operating income trends.

- J. *Foreign exchange gains associated with acquisition.* This amount represents a gain on foreign exchange associated with the Tekla acquisition. We excluded the foreign exchange gain from our non-GAAP measures because we believe that the exclusion of this item provides investors an enhanced view of the cost structure of our operations and facilitates comparisons with the results of other periods.
- K. *Stock-based compensation.* The amounts consist of expenses for employee stock options and awards and purchase rights under our employee stock purchase plan. As referred to above we exclude stock-based compensation here because investors may view it as not reflective of our core operating performance as it is a non-cash expense. However, management does include stock-based compensation for budgeting and incentive plans as well as for reviewing internal financial reporting. We discuss our operating results by segment with and without stock-based compensation expense, as we believe it is useful to investors. Stock-based compensation not allocated to the reportable segments was approximately \$2.7 million and \$2.0 million for the three months ended July 1, 2011 and July 2, 2010, respectively and \$5.0 million and \$3.8 million for the six months ended July 1, 2011 and July 2, 2010, respectively.

Table of Contents*Non-GAAP Operating Income*

Non-GAAP operating income increased by \$18.7 million for the three months ended July 1, 2011, as compared to the corresponding period in the prior year. Non-GAAP operating income as a percentage of total revenue was 19.7% for the three months ended July 1, 2011, as compared to 18.5% for the three months ended July 2, 2010. Non-GAAP operating income increased by \$31.7 million for the six months ended July 1, 2011, as compared to the corresponding period in the prior year. Non-GAAP operating income as a percentage of total revenue was 19.0% for the six months ended July 1, 2011, as compared to 18.2% for the six months ended July 2, 2010. The increase in operating income for both the three and six month periods was primarily driven by higher revenue in Engineering and Construction and Field Solutions. The increase in operating income percentage for both the three and six month periods was primarily due to increased operating leverage in Engineering and Construction and Field Solutions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We use certain derivative financial instruments to manage these risks. We do not use derivative financial instruments for speculative purposes. All financial instruments are used in accordance with policies approved by our Board of Directors.

Market Interest Rate Risk

Our cash equivalents consisted primarily of money market funds, treasury bills, commercial paper (FDIC insured), interest and non-interest bearing bank deposits. The main objective of these instruments was safety of principal and liquidity while maximizing return, without significantly increasing risk.

* Due to the short-term nature of our cash equivalents, we do not anticipate any material effect on our portfolio due to fluctuations in interest rates.

We are exposed to market risk due to the possibility of changing interest rates under our senior secured credit facilities. Our credit facility is comprised of an unsecured revolving credit agreement with a maturity date of May 2016. We may borrow funds under the revolving credit agreement in U.S. Dollars or in certain other currencies and borrowings will bear interest as described under Note 8 of Notes to the Condensed Consolidated Financial Statements.

As of July 1, 2011, we had an outstanding balance on the revolving credit line of \$125.0 million. A hypothetical 10% increase in the three-month LIBOR rates could result in approximately \$31,000 annual increase in interest expense on the existing principal balances.

* The hypothetical changes and assumptions made above will be different from what actually occurs in the future. Furthermore, the computations do not anticipate actions that may be taken by our management should the hypothetical market changes actually occur over time. As a result, actual earnings effects in the future will differ from those quantified above.

Foreign Currency Exchange Rate Risk

We enter into foreign exchange forward contracts to minimize the short-term impact of foreign currency fluctuations on cash and certain trade and inter-company receivables and payables, primarily denominated in Australian, Canadian, Singapore and New Zealand Dollars, Japanese Yen, Indian Rupee, South African Rand, Swedish Krona, Euro, and British pound. These contracts reduce the exposure to fluctuations in exchange rate movements as the gains and losses associated with foreign currency balances are generally offset with the gains and losses on the forward contracts. During the second quarter of fiscal 2011 we entered into a forward currency exchange contract to sell US dollars for 319 million Euro to use for the purchase of our acquisition of Tekla, which closed on July 8, 2011. These instruments are marked to market through earnings every period and generally range from one to three months in original maturity. We do not enter into foreign exchange forward contracts for trading purposes.

Foreign exchange forward contracts outstanding as of July 1, 2011 and December 31, 2010 are summarized as follows (in thousands):

| July 1, 2011 | | December 31, 2010 | |
|----------------|------------|-------------------|------------|
| Nominal Amount | Fair Value | Nominal Amount | Fair Value |

Edgar Filing: TRIMBLE NAVIGATION LTD /CA/ - Form 10-Q

| | | | | |
|--------------------|--------------|----------|-------------|--------|
| Forward contracts: | | | | |
| Purchased | \$ (482,306) | \$ 5,591 | \$ (30,106) | \$ 93 |
| Sold | \$ 58,099 | \$ 360 | \$ 18,834 | \$ 174 |

* We do not anticipate any material adverse effect on our consolidated financial position utilizing our current hedging strategy.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures.

The management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting.

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in litigation arising out of the ordinary course of our business. There are no material legal proceedings, other than ordinary routine litigation incidental to the business, to which we or any of our subsidiaries is a party or of which any of our or their property is subject.

ITEM 1A. RISK FACTORS

A description of factors that could materially affect our business, financial condition, or operating results is included under Risk and Uncertainties in Item 1A of Part I of our 2010 Annual Report on Form 10-K and is incorporated herein by reference. There have been no material changes to the risk factor disclosure since our 2010 Annual Report on Form 10-K, however, please see our updated risk factor entitled Our Debt Could Adversely Affect Our Cash Flow and Prevent Us From Fulfilling Our Financial Obligations , included below. The risk factors described in our Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial conditions and/or operating results.

Our Debt Could Adversely Affect Our Cash Flow and Prevent Us from Fulfilling Our Financial Obligations

As of May 6, 2011, we have existing unsecured credit facilities in the aggregate principal amount of \$1.1 billion comprised of five-year revolving loan facility of \$700.0 million and a five-year \$400.0 million term loan facility. Subject to the terms of the credit agreement, the revolving loan facility and the term loan facility may be increased by up to \$300.0 million in the aggregate. As of July 1, 2011, \$125 million was outstanding under the credit agreement. On July 5, 2011, we borrowed \$400 million on the term loan facility of the 2011 Credit Facility to fund the majority of the Tekla purchase price. In addition, on August 5, 2011, the Company borrowed \$108 million on the revolving loan facility to fund a substantial portion of the acquisition of PeopleNet. The Company also drew down an additional \$50 million on an uncommitted revolving loan facility with Intesa Sanpaolo, which was entered into on July 14, 2011, to fund a smaller portion of the PeopleNet acquisition.

Debt incurred under the credit agreements could have important consequences, such as:

requiring us to dedicate a portion of our cash flow from operations and other capital resources to debt service, thereby reducing our ability to fund working capital, capital expenditures, and other cash requirements,

increasing our vulnerability to adverse economic and industry conditions,

limiting our flexibility in planning for, or reacting to, changes and opportunities in, our industry, which may place us at a competitive disadvantage, and

limiting our ability to incur additional debt on acceptable terms, if at all.

Additionally, if we were to default under the credit agreement and were unable to obtain a waiver for such a default, interest on the obligations would accrue at an increased rate and the lenders could accelerate our obligations under the credit agreement, however that acceleration will be automatic in the case of bankruptcy and insolvency events of default. Additionally, our subsidiaries that have guaranteed the credit agreement could be required to pay the full amount of our obligations under the credit agreement. Any such action on the part of the lenders against us could harm our financial condition.

Table of Contents

A description of factors that could materially affect our business, financial condition, or operating results is included under Risk and Uncertainties in Item 1A of Part I of our 2010 Annual Report on Form 10-K and is incorporated herein by reference. There have been no material changes to the risk factor disclosure since our 2010 Annual Report on Form 10-K. The risk factors described in our Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial conditions and/or operating results.

ITEM 6. EXHIBITS

- 3.1 Restated Articles of Incorporation of the Company filed June 25, 1986. (2)
- 3.2 Certificate of Amendment of Articles of Incorporation of the Company filed October 6, 1988. (2)
- 3.3 Certificate of Amendment of Articles of Incorporation of the Company filed July 18, 1990. (2)
- 3.4 Certificate of Amendment of Articles of Incorporation of the Company filed May 29, 2003. (3)
- 3.5 Certificate of Amendment of Articles of Incorporation of the Company filed March 4, 2004. (4)
- 3.6 Certificate of Amendment of Articles of Incorporation of the Company filed February 21, 2007. (6)
- 3.7 Bylaws of the Company, amended and restated through February 24, 2010. (5)
- 4.1 Specimen copy of certificate for shares of Common Stock of the Company. (1)
- 10.1 Credit Agreement dated May 6, 2011. (9)
- 10.2 Combination Agreement, dated as of May 8, 2011, by and between Trimble Navigation Limited and Tekla Corporation. (7)
- 10.3 Irrevocable Undertaking, dated as of May 8, 2011, by and between Trimble Navigation Limited and Gerako Oy. (8)
- 10.4 Trimble Navigation Limited Board of Directors Compensation Policy dated May 3, 2011. (9)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated August 9, 2011. (9)
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated August 9, 2011. (9)
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated August 9, 2011. (9)
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated August 9, 2011. (9)
- 101.INS XBRL Instance Document. (10)
- 101.SCH XBRL Taxonomy Extension Schema Document. (10)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document. (10)
- 101.DEF XBRL Taxonomy Extension Label Linkbase Document. (10)
- 101.LAB XBRL Taxonomy Extension Presentation Linkbase Document. (10)
- 101.PRE XBRL Taxonomy Extension Definition Linkbase Document. (10)
- (1) Incorporated by reference to exhibit number 4.1 to the registrant's Registration Statement on Form S-1, as amended (File No. 33-35333), which became effective July 19, 1990.
- (2) Incorporated by reference to identically numbered exhibits to the registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1999.
- (3) Incorporated by reference to exhibit number 3.5 to the registrant's Quarterly Report on Form 10-Q for the quarter ended July 4, 2003.
- (4) Incorporated by reference to exhibit number 3.6 to the registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2004.

- (5) Incorporated by reference to exhibit number 3.1 to the Company's Current Report on Form 8-K, filed March 2, 2010.

Table of Contents

- (6) Incorporated by reference to exhibit number 3.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2007.
- (7) Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-k filed on May 9, 2011.
- (8) Incorporated by reference to exhibit 10.2 to the Company's Current Report on Form 8-k filed on May 9, 2011.
- (9) Filed herewith.
- (10) Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRIMBLE NAVIGATION LIMITED

(Registrant)

By: /s/ Rajat Bahri
 Rajat Bahri
 Chief Financial Officer
 *(Authorized Officer and Principal
 Financial Officer)*

DATE: August 9, 2011

Table of Contents

EXHIBIT INDEX

| | |
|---------|---|
| 3.1 | Restated Articles of Incorporation of the Company filed June 25, 1986. (2) |
| 3.2 | Certificate of Amendment of Articles of Incorporation of the Company filed October 6, 1988. (2) |
| 3.3 | Certificate of Amendment of Articles of Incorporation of the Company filed July 18, 1990. (2) |
| 3.4 | Certificate of Amendment of Articles of Incorporation of the Company filed May 29, 2003. (3) |
| 3.5 | Certificate of Amendment of Articles of Incorporation of the Company filed March 4, 2004. (4) |
| 3.6 | Certificate of Amendment of Articles of Incorporation of the Company filed February 21, 2007. (6) |
| 3.7 | Bylaws of the Company, amended and restated through February 24, 2010. (5) |
| 4.1 | Specimen copy of certificate for shares of Common Stock of the Company. (1) |
| 10.1 | Credit Agreement dated May 6, 2011. (9) |
| 10.2 | Combination Agreement, dated as of May 8, 2011, by and between Trimble Navigation Limited and Tekla Corporation. (7) |
| 10.3 | Irrevocable Undertaking, dated as of May 8, 2011, by and between Trimble Navigation Limited and Gerako Oy. (8) |
| 10.4 | Trimble Navigation Limited Board of Directors Compensation Policy dated May 3, 2011. (9) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated August 9, 2011. (9) |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated August 9, 2011. (9) |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated August 9, 2011. (9) |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated August 9, 2011. (9) |
| 101.INS | XBRL Instance Document. (10) |
| 101.SCH | XBRL Taxonomy Extension Schema Document. (10) |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. (10) |
| 101.DEF | XBRL Taxonomy Extension Label Linkbase Document. (10) |
| 101.LAB | XBRL Taxonomy Extension Presentation Linkbase Document. (10) |
| 101.PRE | XBRL Taxonomy Extension Definition Linkbase Document. (10) |
| (1) | Incorporated by reference to exhibit number 4.1 to the registrant's Registration Statement on Form S-1, as amended (File No. 33-35333), which became effective July 19, 1990. |
| (2) | Incorporated by reference to identically numbered exhibits to the registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1999. |
| (3) | Incorporated by reference to exhibit number 3.5 to the registrant's Quarterly Report on Form 10-Q for the quarter ended July 4, 2003. |
| (4) | Incorporated by reference to exhibit number 3.6 to the registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2004. |
| (5) | Incorporated by reference to exhibit number 3.1 to the Company's Current Report on Form 8-K, filed March 2, 2010. |
| (6) | Incorporated by reference to exhibit number 3.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2007. |
| (7) | Incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-k filed on May 9, 2011. |
| (8) | Incorporated by reference to exhibit 10.2 to the Company's Current Report on Form 8-k filed on May 9, 2011. |
| (9) | Filed herewith. |
| (10) | Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and |

otherwise are not subject to liability.