TRIMBLE NAVIGATION LTD /CA/
Form 10-Q
August 10, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JULY 2, 2010

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	**94-2802192**
(State or other jurisdiction of incorporation or organization)	(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 x 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 x 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 x	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 x

As of August 5, 2010, there were 119,160,597 shares of Common Stock (no par value) outstanding.

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TRIMBLE NAVIGATION LIMITED

FORM 10-Q for the Quarter Ended July 2, 2010

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TRIMBLE NAVIGATION LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands)	July 2, 2010	January 1, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 261,660	$ 273,848
Restricted cash	17,151	-
Accounts receivable, net	219,583	202,293
Other receivables	3,916	11,856
Inventories, net	159,179	144,012
Deferred income taxes	38,694	39,686
Other current assets	19,761	18,383
Total current assets	719,944	690,078
Property and equipment, net	46,058	44,635
Goodwill	769,438	764,193
Other purchased intangible assets, net	190,803	202,782
Other non-current assets	54,290	51,589
Total assets	$ 1,780,533	$ 1,753,277
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 2,004	$ 445
Accounts payable	70,756	53,775
Accrued compensation and benefits	49,958	43,272
Deferred revenue	68,161	68,968
Accrued warranty expense	14,266	14,744
Income taxes payable	43,727	-
Other current liabilities	44,916	42,041
Total current liabilities	293,788	223,245
Non-current portion of long-term debt	151,018	151,038
Non-current deferred revenue	13,636	15,599
Deferred income taxes	36,261	38,857
Other non-current liabilities	43,422	59,983
Total liabilities	538,125	488,722
Commitments and contingencies		

EQUITY		
Shareholders equity:		
Preferred stock, no par value; 3,000 shares authorized; none outstanding	-	-
Common stock, no par value; 180,000 shares authorized; 119,307 and 120,450 shares issued and outstanding at July 2, 2010 and January 1, 2010, respectively	735,861	720,248
Retained earnings	472,386	491,367
Accumulated other comprehensive income	20,670	48,297
Total Trimble Navigation Ltd. shareholders equity	1,228,917	1,259,912
Noncontrolling interests	13,491	4,643
Total equity	1,242,408	1,264,555
Total liabilities and equity	$ 1,780,533	$ 1,753,277

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TRIMBLE NAVIGATION LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(In thousands, except per share data)	Three Months Ended July 2, 2010	Three Months Ended July 3, 2009	Six Months Ended July 2, 2010	Six Months Ended July 3, 2009
Revenue (1)	$ 333,363	$ 290,063	$ 652,378	$ 579,017
Cost of sales (1)	169,937	147,263	329,955	292,259
Gross margin	163,426	142,800	322,423	286,758
Operating expenses				
Research and development	36,552	33,457	72,442	67,594
Sales and marketing	50,522	45,163	100,290	94,098
General and administrative	27,290	26,622	55,837	52,664
Restructuring charges	375	1,302	1,006	4,925
Amortization of purchased intangible assets	8,126	7,530	16,172	14,499
Total operating expenses	122,865	114,074	245,747	233,780
Operating income	40,561	28,726	76,676	52,978
Non-operating income, net				
Interest income	244	223	643	422
Interest expense	(411)	(465)	(809)	(958)
Foreign currency transaction loss, net	(1,869)	(216)	(1,123)	(32)
Income from equity method investments, net	3,147	586	5,621	479
Other income (expense), net	(825)	927	(511)	488
Total non-operating income, net	286	1,055	3,821	399
Income before taxes	40,847	29,781	80,497	53,377
Income tax provision	34,076	8,631	45,574	14,530
Net income	6,771	21,150	34,923	38,847
Less: Net income attributable to noncontrolling	418	293	672	525
Net income attributable to Trimble Navigation Ltd.	$ 6,353	$ 20,857	$ 34,251	$ 38,322
Basic earnings per share	$ 0.05	$ 0.17	$ 0.28	$ 0.32
Shares used in calculating basic earnings per share	120,654	119,551	120,707	119,406
Diluted earnings per share	$ 0.05	$ 0.17	$ 0.28	$ 0.32
Shares used in calculating diluted earnings per share	124,099	121,897	123,964	121,411

(1) Sales to Caterpillar Trimble Control Technologies Joint Venture (CTCT) and Nikon-Trimble Joint Venture (Nikon-Trimble), were $4.8 million and $3.5 million for the three months ended July 2, 2010 and July 3, 2009, respectively, with associated cost of sales to those related parties of $3.4 million and $2.3 million, respectively. Sales to CTCT and Nikon-Trimble were $10.3 million and $7.9 million for the six months

ended July 2, 2010 and July 3, 2009, respectively, with associated cost of sales of $7.1 million and $5.2 million, respectively. In addition, cost of sales associated with related party net inventory purchases were $8.5 million and $6.0 million for the three months ended July 2, 2010 and July 3, 2009, respectively, and $14.6 million and $10.5 million for the six months ended July 2, 2010 and July 3, 2009, respectively. See Note 4 regarding joint ventures for further information about related party transactions.

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TRIMBLE NAVIGATION LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended	
(In thousands)	July 2, 2010	July 3, 2009
Cash flow from operating activities:		
Net income	$ 34,923	$ 38,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	8,736	9,071
Amortization expense	27,733	25,348
Provision for doubtful accounts	2,596	3,053
Deferred income taxes	(4,461)	(3,406)
Stock-based compensation	10,625	8,780
Income from equity method investments	(5,621)	(479)
Excess tax benefit for stock-based compensation	(1,412)	(304)
Provision for excess and obsolete inventories	3,173	2,933
Other non-cash items	(3,334)	(2,674)
Add decrease (increase) in assets:		
Accounts receivable	(15,398)	4,117
Other receivables	7,647	5,242
Inventories	(19,747)	(7,556)
Other current and non-current assets	1,003	2,289
Add increase (decrease) in liabilities:		
Accounts payable	17,315	4,790
Accrued compensation and benefits	8,142	2,808
Accrued liabilities	(21,680)	8,591
Deferred revenue	676	7,224
Income taxes payable	44,393	-
Net cash provided by operating activities	95,309	108,674
Cash flow from investing activities:		
Acquisitions of businesses, net of cash acquired	(33,605)	(39,029)
Acquisitions of property and equipment	(11,030)	(7,415)
Acquisitions of intangible assets	(297)	(26,839)
Purchase of equity method investments	(3,692)	-
Net purchases of debt and equity securities	-	(6,995)
Increase in restricted cash for business acquisition	(17,151)	-
Dividends received	5,000	-
Other	67	(513)
Net cash used in investing activities	(60,708)	(80,791)
Cash flow from financing activities:		
Issuances of common stock	17,867	5,775
Repurchase and retirement of common stock	(60,510)	-
Excess tax benefit for stock-based compensation	1,412	304

Payments on long-term debt and revolving credit lines	(94)	(149)
Net cash provided (used) by financing activities	(41,325)	5,930
Effect of exchange rate changes on cash and cash equivalents	(5,464)	1,815
Net increase (decrease) in cash and cash equivalents	(12,188)	35,628
Cash and cash equivalents, beginning of period	273,848	142,531
Cash and cash equivalents, end of period	$ 261,660	$ 178,159

See accompanying Notes to the Condensed Consolidated Financial Statements.

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 2009 was January 1, 2010. The second quarters of fiscal 2010 and fiscal 2009 ended on July 2, 2010 and July 3, 2009, respectively. Fiscal 2010 and 2009 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 majority-owned subsidiaries. Inter-company accounts and transactions have been eliminated. Noncontrolling interests represent the minority shareholders proportionate share of the net assets and results of operations of the Company s majority-owned subsidiaries.

The accompanying financial data as of July 2, 2010 and for the three and six months ended July 2, 2010 and July 3, 2009 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 January 1, 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 2009. Certain amounts from prior periods have been reclassified to conform to the current period presentation. The following discussion should be read in conjunction with the Company s 2009 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 2, 2010, results of operations for the three and six months ended July 2, 2010 and July 3, 2009 and cash flows for the six months ended July 2, 2010 and July 3, 2009, as applicable, have been made. The results of operations for the three and six months ended July 2, 2010 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 polices during the six months ended July 2, 2010 from those disclosed in the Company s 2009 Form 10-K, with the exception of the Company s accounting policy for revenue recognition as described below.

Revenue Recognition Accounting Policy

The Company elected to early adopt new revenue accounting guidance at the beginning of its first quarter of fiscal 2010 on a prospective basis for applicable transactions originating or materially modified after January 1, 2010. See Recent Accounting Pronouncements below within this footnote.

The Company recognizes product revenue when persuasive evidence of an arrangement exists, shipment has occurred, the fee is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product is specified by the customer or is uncertain, revenue is deferred until all acceptance criteria have been met.

Contracts and/or customer purchase orders are used to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. The Company assesses whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. The Company assesses collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analyses, as well as the customer s payment history.

Revenue for orders is not recognized until the product is shipped and title has transferred to the buyer. The Company bears all costs and risks of loss or damage to the goods up to that point. The Company s shipment terms for U.S. orders and international orders fulfilled from the Company s European distribution center typically provide that title passes to the buyer upon delivery of the goods to the carrier named by the

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buyer at the named place or point. If no precise point is indicated by the buyer, the Company may choose within the place or range stipulated where the carrier will take the goods into carrier s charge. Other shipment terms may provide that title passes to the buyer upon delivery of the goods to the buyer. Shipping and handling costs are included in Cost of sales.

Revenue to distributors and resellers is recognized upon shipment, assuming all other criteria for revenue recognition have been met. Distributors and resellers do not typically have a right of return.

Revenue from purchased extended warranty and post contract support (PCS) agreements is deferred and recognized ratably over the term of the warranty or support period.

The Company presents revenue net of sales taxes and any similar assessments.

The Company s software arrangements generally consist of a perpetual license fee and PCS. The Company generally has established vendor-specific objective evidence (VSOE) of fair value for the Company s PCS contracts based on the renewal rate. The remaining value of the software arrangement is allocated to the license fee using the residual method. License revenue is primarily recognized when the software has been delivered and fair value has been established for all remaining undelivered elements.

The Company s multiple deliverable product offerings include hardware with embedded firmware, extended warranty and PCS services, which are considered separate units of accounting. For certain of the Company s products, software and non-software components function together to deliver the tangible product s essential functionality.

Some of the Company s subscription product offerings include hardware, subscription services and extended warranty. Under the Company s hosted arrangements, the customer typically does not have the contractual right to take possession of the software at any time during the hosting period without incurring a significant penalty and it is not feasible for the customer to run the software either on its own hardware or on a third-party s hardware. Upfront fees related to the Company s hosted solutions typically consist of amounts for the in-vehicle enabling hardware device and peripherals.

In evaluating the revenue recognition for agreements which contain multiple deliverable arrangements, under the new accounting guidance, the Company determined that in certain instances it was not able to establish VSOE for all deliverables in an arrangement as the Company infrequently sells each element on a standalone basis, does not price products within a narrow range, or has a limited sales history. When VSOE cannot be established, the Company attempts to establish the selling price of each element based on relevant third-party evidence (TPE). TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, the Company s go-to-market strategy differs from that of competitors, and offerings may contain a significant level of proprietary technology, customization or differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor products selling prices are on a stand-alone basis. Therefore, the Company typically is not able to determine TPE.

When the Company is unable to establish selling price using VSOE or TPE, the Company uses its best estimate of selling price (BESP) in the Company s allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. BESP is generally used for offerings that are not typically sold on a stand-alone basis or for new or highly customized offerings. The Company determines BESP for a product or service by considering multiple factors including, but not limited to, pricing practices, market conditions, competitive landscape, internal costs, geographies and gross margin. The determination of BESP is made through consultation with and formal approval by the Company s management, taking into consideration the Company s go-to-market strategy.

Total revenue as reported and pro forma total revenues that would have been reported during the three and six months ended July 2, 2010, if the transactions entered into or materially modified after January 1, 2010 were subject to previous accounting guidance, are shown in the following table:

(Dollars in thousands)	As Reported	Pro Forma
Total revenue for the three months ended July 2, 2010	$ 333,363	$ 330,959
Total revenue for the six months ended July 2, 2010	$ 652,378	$ 649,166

The impact of the revised accounting guidance to total revenue during the three and six months ended July 2, 2010 was attributable to the reallocation of discounts to revenue deliverables, the recognition of hardware revenue associated with subscription contracts, which was previously recognized ratably over the contract period, and the ability to assign selling price to undelivered elements, which previously required

VSOE.

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 January 1, 2010 are as follows:

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This guidance, which is now codified under the Fair Value Measurements and Disclosures Topic of the FASB Accounting

Standards Codification, requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuances, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for the Company with the reporting period beginning January 2, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for the Company at the beginning of fiscal 2011. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued accounting guidance which changes the consolidation guidance applicable to a variable interest entity (VIE). The guidance, now codified under the Consolidation Topic of the FASB Accounting Standards Codification, also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity s economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This guidance also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Previously, GAAP required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. The Company adopted this guidance in the first quarter of fiscal 2010. The adoption of the guidance did not have a material impact on the Company s financial position, results of operations or cash flows.

In October 2009, the FASB issued an amendment which eliminates the residual method of allocation for multiple-deliverable revenue arrangements and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. In addition, the guidance updated whether multiple deliverables exist and how the deliverables in an arrangement should be separated. The amendment also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes: (1) vendor specific objective evidence (VSOE) if available; (2) third-party evidence (TPE) if VSOE evidence is not available; and (3) estimated selling (ESP) price if neither VSOE nor TPE is available. In addition, the FASB modified the accounting for revenue arrangements that include both tangible products and software elements, such that tangible products containing both software and non-software components that function together to deliver the tangible product s essential functionality are no longer within the scope of software revenue guidance. Both amendments are effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company early adopted this guidance in the first quarter of fiscal 2010 on a prospective basis.

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. After placing the program on hold in late 2008 due to the economic downturn, Trimble resumed purchases under the program, beginning in the second quarter of 2010. 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. No shares of common stock were repurchased during the three and six months ended July 3, 2009. Since January 2008, the Company has repurchased approximately 6,603,000 shares of common stock in open market purchases at an average price of $29.32 per share, for a total of $193.6 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 2, 2010, the 2008 Stock Repurchase Program had remaining authorized funds of $56.4 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 stock-based compensation to be estimated using the fair value 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 2, 2010 and July 3, 2009.

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	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
(Dollars in thousands)				
Cost of sales	$ 486	$ 477	$ 987	$ 915
Research and development	984	854	1,931	1,638
Sales and marketing	1,347	1,062	2,730	2,066
General and administrative	2,167	2,161	4,977	4,161
Total operating expenses	4,498	4,077	9,638	7,865
Total stock-based compensation expense	4,984	4,554	10,625	8,780
Tax benefit (1)	(1,419)	(726)	(2,195)	(1,117)
Total stock-based compensation expense, net of tax	$ 3,565	$ 3,828	$ 8,430	$ 7,663

(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.

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 Black-Scholes model was used to value those options granted prior to the fourth quarter of fiscal 2005. Similar to the Black-Scholes 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 2, 2010 and July 3, 2009, the following weighted average assumptions were used:

	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Expected dividend yield	--	--	--	--
Expected stock price volatility	43.7%	46.7%	43.8%	46.7%
Risk free interest rate	1.8%	1.8%	1.8%	1.9%
Expected life of option	4.2 years	4.3 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 2, 2010, the Company recorded $2.7 million and $4.4 million, respectively, as its proportionate share of CTCT net income. During the comparable period of 2009, the Company recorded $0.9 million and $1.6 million, respectively, as its proportionate share of CTCT net income. During the three and six months ended July 2, 2010, dividends received from CTCT, amounted to

$5.0 million, and were recorded against Other non-current assets on the Condensed Consolidated Balance Sheets. During the three and six months ended July 3, 2009, there were no dividends received from CTCT. The carrying amount of the investment in CTCT was $6.5 million at July 2, 2010 and $7.1 million at January 1, 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 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, 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 3, 2009, the Company recorded $0.6 million and $1.5 million of revenue, respectively, and $0.6 million and $1.4 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 2, 2010, the Company recorded $8.5 million and $14.6 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 sales recorded by the Company for the three and six months ended July 3, 2009 were $6.0 million and $10.5 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 $2.7 million and $5.6 million for the three and six months ended July 2, 2010, respectively, and totaling $2.6 million and $5.3 million for the three and six months ended July 3, 2009, respectively. The reimbursements were offset against operating expense.

At July 2, 2010 and January 1, 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 2, 2010 and January 1, 2010, the receivables from CTCT were $6.8 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 payables due to CTCT were $8.5 million and $4.4 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 2, 2010, the Company recorded a profit of $0.5 million and $1.3 million, respectively, and during the three and six months ended July 3, 2009, the Company recorded loss of $0.6 million and $1.1 million, respectively, as its proportionate share of Nikon-Trimble net income. During the three and six months ended July 2, 2010 and July 3, 2009, there were no dividends received from Nikon-Trimble. The carrying amount of the investment in Nikon-Trimble was $12.7 million at July 2, 2010 and $11.4 million at January 1, 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 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. During the three and six months ended July 3, 2009, the Company recorded $2.9 million and $6.4 million of revenue and $1.7 million and $3.8 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 $2.9 million and $8.3 million during the three and six months ended July 2, 2010, respectively, and $2.4 million and $4.0 million during the three and six months ended July 3, 2009, respectively.

At July 2, 2010 and January 1, 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 2, 2010 and January 1, 2010, the amounts due from Nikon-Trimble were $3.2 million and $4.7 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 $4.1 million and $4.5 million, respectively, and are included within Accounts payable on the Condensed Consolidated Balance Sheets.

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NOTE 5. GOODWILL AND INTANGIBLE ASSETS

Intangible Assets

Intangible Assets consisted of the following:

	July 2, 2010		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed product technology	$ 213,369	$ (127,495)	$ 85,874
Trade names and trademarks	20,943	(15,638)	5,305
Customer relationships	132,598	(57,212)	75,386
Distribution rights and other intellectual properties *	46,744	(22,506)	24,238
	$ 413,654	$ (222,851)	$ 190,803

	January 1, 2010		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed product technology	$ 213,696	$ (114,870)	$ 98,826
Trade names and trademarks	20,861	(14,891)	5,970
Customer relationships	120,990	(48,885)	72,105
Distribution rights and other intellectual properties *	46,702	(20,821)	25,881
	$ 402,249	$ (199,467)	$ 202,782

(*) Included within Distribution rights and other intellectual properties is a $25.0 million distribution right that the Company purchased from Caterpillar, a related party for accounting purposes, during fiscal 2008. The fair value of the distribution right was estimated using a discounted cash flow analysis. The distribution right is being amortized over its estimated economic life of eight years.

The estimated future amortization expense of intangible assets as of July 2, 2010, is as follows:

(Dollars in thousands)	
2010 (Remaining)	$ 27,074
2011	49,774
2012	42,220
2013	37,699
2014	16,377
Thereafter	17,659
Total	$ 190,803

Goodwill

The changes in the carrying amount of goodwill by operating segment for the six months ended July 2, 2010, were as follows:

(Dollars in thousands)	Engineering and Construction	Field Solutions	Mobile Solutions	Advanced Devices	Total
Balance as of January 1, 2010	$ 389,702	$ 26,776	$ 333,265	$ 14,450	$ 764,193
Additions due to acquisitions	20,906	1,668	-	-	22,574
Purchase price adjustments	469	(1,056)	-	-	(587)
Foreign currency translation adjustments	(15,843)	(10)	(690)	(199)	(16,742)
Balance as of July 2, 2010	$ 395,234	$ 27,378	$ 332,575	$ 14,251	$ 769,438

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NOTE 6. CERTAIN BALANCE SHEET COMPONENTS

Inventories, net consisted of the following:

As of	July 2, 2010	January 1, 2010
(Dollars in thousands)		
Raw materials	$ 62,271	$ 51,489
Work-in-process	4,820	4,869
Finished goods	92,088	87,654
Total inventories, net	$ 159,179	$ 144,012

Deferred costs of revenue are included within finished goods and were $15.6 million at July 2, 2010 and $16.8 million at January 1, 2010.

Other non-current liabilities consisted of the following:

As of