TRIMBLE NAVIGATION LTD /CA/
Form 10-Q
November 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED OCTOBER 3, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

Commission file number: 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 ý 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 ý 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 ý	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 ý

As of November 5, 2014, there were 259,006,068 shares of Common Stock (no par value) outstanding.

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FORM 10-Q for the Quarter Ended October 3, 2014
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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
TRIMBLE NAVIGATION LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

As of	Third Quarter of 2014	Fiscal Year End 2013
(In thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents	$139,477	$147,227
Accounts receivable, net	358,504	337,932
Other receivables	29,791	23,143
Inventories, net	278,027	254,311
Deferred income taxes	64,583	38,597
Other current assets	45,659	35,807
Total current assets	916,041	837,017
Property and equipment, net	153,823	142,975
Goodwill	2,051,560	1,989,470
Other purchased intangible assets, net	571,923	619,399
Other non-current assets	126,027	111,979
Total assets	$3,819,374	$3,700,840
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$69,020	$106,402
Accounts payable	104,758	112,522
Accrued compensation and benefits	87,980	95,866
Deferred revenue	205,714	159,295
Accrued warranty expense	20,422	17,781
Other current liabilities	136,374	85,124
Total current liabilities	624,268	576,990
Non-current portion of long-term debt	577,719	652,056
Non-current deferred revenue	25,274	20,431
Deferred income taxes	134,177	136,399
Other non-current liabilities	94,267	80,982
Total liabilities	1,455,705	1,466,858
Commitments and contingencies		
EQUITY		
Shareholders’ equity:		
Preferred stock, no par value; 3,000 shares authorized; none outstanding	—	—
Common stock, no par value; 360,000 shares authorized; 259,895 and 258,711 shares issued and outstanding as of the third quarter of fiscal 2014 and fiscal year end 2013, respectively	1,197,146	1,106,017
Retained earnings	1,184,228	1,081,695
Accumulated other comprehensive income (loss)	(29,509)	33,194
Total Trimble Navigation Ltd. shareholders’ equity	2,351,865	2,220,906
Noncontrolling interests	11,804	13,076

Total equity	2,363,669	2,233,982
Total liabilities and equity	$3,819,374	$3,700,840

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TRIMBLE NAVIGATION LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Third Quarter of		First Three Quarters of	
(In thousands, except per share data)	2014	2013	2014	2013
Revenue:				
Product	$415,490	$401,565	$1,327,054	$1,240,232
Service	98,366	85,521	291,747	251,628
Subscription	70,940	69,416	212,915	197,046
Total revenue	584,796	556,502	1,831,716	1,688,906
Cost of sales:				
Product	189,331	187,865	605,452	587,059
Service	36,759	31,959	108,605	95,351
Subscription	21,876	21,223	58,460	62,190
Amortization of purchased intangible assets	20,057	20,402	60,963	59,938
Total cost of sales	268,023	261,449	833,480	804,538
Gross margin	316,773	295,053	998,236	884,368
Operating expense				
Research and development	78,954	71,622	237,137	221,785
Sales and marketing	95,843	85,507	288,818	254,437
General and administrative	111,399	53,648	230,196	158,378
Restructuring charges	219	31	1,345	4,602
Amortization of purchased intangible assets	19,269	21,216	56,806	60,775
Total operating expense	305,684	232,024	814,302	699,977
Operating income	11,089	63,029	183,934	184,391
Non-operating income (loss), net				
Interest expense, net	(2,975)	(4,122)	(9,822)	(13,448)
Foreign currency transaction loss	(3,200)	(157)	(3,809)	(1,126)
Income from equity method investments	2,840	4,494	11,528	15,908
Other income (loss), net	(599)	268	12,567	847
Total non-operating income (loss), net	(3,934)	483	10,464	2,181
Income before taxes	7,155	63,512	194,398	186,572
Income tax provision (benefit)	(4,720)	8,892	36,371	28,067
Net income	11,875	54,620	158,027	158,505
Less: Net gain (loss) attributable to noncontrolling interests	43	151	(263)	(353)
Net income attributable to Trimble Navigation Ltd.	$11,832	$54,469	$158,290	$158,858
Basic income per share	$0.05	$0.21	$0.61	$0.62
Shares used in calculating basic income per share	260,329	257,037	260,398	256,135
Diluted income per share	$0.04	$0.21	$0.60	$0.61
Shares used in calculating diluted income per share	264,419	261,137	265,053	260,664

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TRIMBLE NAVIGATION LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Third Quarter of		First Three Quarters of	
	2014	2013	2014	2013
(Dollars in thousands)				
Net income	$11,875	$54,620	$158,027	$158,505
Foreign currency translation adjustments	(60,485)	28,756	(62,889)	1,470
Net unrealized actuarial gain (loss)	127	(101)	186	(136)
Comprehensive income (loss)	(48,483)	83,275	95,324	159,839
Less: Comprehensive gain (loss) attributable to noncontrolling interests	43	151	(263)	(353)
Comprehensive income (loss) attributable to Trimble Navigation Ltd.	$(48,526)	$83,124	$95,587	$160,192

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TRIMBLE NAVIGATION LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	First Three Quarters of	
(Dollars in thousands)	2014	2013
Cash flow from operating activities:		
Net income	$158,027	$158,505
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	24,068	19,630
Amortization expense	117,769	120,713
Provision for doubtful accounts	2,887	1,204
Deferred income taxes	(1,193)	(13,520)
Stock-based compensation	32,125	26,158
Income from equity method investments	(11,528)	(15,908)
Gain on an equity sale	(15,091)	—
Excess tax benefit for stock-based compensation	(14,094)	(8,803)
Provision for excess and obsolete inventories	3,553	1,551
Other non-cash items	5,422	738
Add decrease (increase) in assets:		
Accounts receivable	(12,742)	(28,466)
Other receivables	(4,709)	4,047
Inventories	(27,234)	2,645
Other current and non-current assets	(12,929)	(22,765)
Add increase (decrease) in liabilities:		
Accounts payable	(6,745)	(22,467)
Accrued compensation and benefits	(9,321)	(2,738)
Deferred revenue	41,861	46,891
Accrued warranty expense	2,735	347
Other liabilities	37,603	10,646
Net cash provided by operating activities	310,464	278,408
Cash flow from investing activities:		
Acquisitions of businesses, net of cash acquired	(170,863)	(200,401)
Acquisitions of property and equipment	(34,952)	(57,646)
Acquisitions of intangible assets	(7,007)	(105)
(Purchases) sales of equity method investments	(10,939)	2,429
Dividends received from equity method investments	25,850	7,672
Increase in restricted cash	—	(6,696)
Other	(4,532)	(1,661)
Net cash used in investing activities	(202,443)	(256,408)
Cash flow from financing activities:		
Issuances of common stock, net of tax withholding	53,601	37,667
Repurchase and retirement of common stock	(64,978)	—
Excess tax benefit for stock-based compensation	14,094	8,803
Proceeds from debt and revolving credit lines	42,027	332,021
Payments on debt and revolving credit lines	(153,274)	(440,886)
Net cash used in financing activities	(108,530)	(62,395)
Effect of exchange rate changes on cash and cash equivalents	(7,241)	(2,119)
Net decrease in cash and cash equivalents	(7,750)	(42,514)
Cash and cash equivalents, beginning of period	147,227	157,771

Cash and cash equivalents, end of period	$139,477	$115,257

See accompanying Notes to the Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

NOTE 1. OVERVIEW AND BASIS OF PRESENTATION

Trimble Navigation Limited (Trimble or the Company) began operations in 1978 and incorporated in California in 1981. The Company provides technology solutions that enable professionals and field mobile workers to improve or transform their work processes. The solutions are used across a range of industries including agriculture, architecture, civil engineering, construction, environmental management, government, natural resources, transportation and utilities. Representative customers include engineering and construction firms, contractors, surveying companies, farmers and agricultural companies, enterprise firms with large-scale fleets, energy, mining and utility companies, and state, federal and municipal governments.

Products frequently provide a good return on investment for customers through lower operational costs, higher productivity, improved quality, enhanced safety and compliance and reduced environmental impact. Product examples include: equipment that automates large industrial equipment such as tractors and bulldozers; surveying instruments; integrated systems that track fleets of vehicles and workers and provide real-time information and powerful analytics to the back-office; data collection systems that enable the management of large amounts of geo-referenced information; software solutions that connect all aspects of a construction site or farm; and building information modeling (BIM) software that is used throughout the design, build, and operation of buildings. The Company also manufactures components for in-vehicle navigation and telematics systems and timing modules used in the synchronization of wireless networks.

The Company has a 52-53 week fiscal year, ending on the Friday nearest to December 31, which for fiscal 2013 was January 3, 2014. The third quarter of fiscal 2014 and 2013 ended on October 3, 2014 and September 27, 2013, respectively. Fiscal 2014 is a 52-week year and 2013 is a 53-week year. 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 the third quarter of fiscal 2014 and for the third quarter and the first three quarters of fiscal 2014 and 2013 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 fiscal year end 2013 is derived from the audited Consolidated Financial Statements included in the Annual Report on Form 10-K of Trimble Navigation Limited for fiscal year 2013. The following discussion should be read in conjunction with the Company's 2013 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 necessary have been made to present a fair statement of results for the interim periods presented. The results of operations for the third quarter and the first three quarters of fiscal 2014 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 Securities and Exchange Commission.

The Company has presented revenue and cost of sales separately for products, service and subscriptions. Product revenue includes primarily hardware, software licenses, parts and accessories; service revenue includes primarily hardware and software maintenance and support, training and professional services; subscription revenue includes software as a service (SaaS).

Certain immaterial amounts from prior periods have been reclassified to conform to the current period presentation, including certain line items within the Condensed Consolidated Statement of Cash Flows.

NOTE 2. UPDATES TO SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the Company’s significant accounting polices during the first three quarters of fiscal 2014 from those disclosed in the Company’s 2013 Form 10-K.

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Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued a new accounting standard that generally requires the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Condensed Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Trimble adopted this new standard on a prospective basis in the first quarter of fiscal 2014. The implementation had no material impact on its Condensed Consolidated Financial Statements.

In April 2014, the FASB issued amendments to guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity’s financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014; however, early adoption is permitted as is a retrospective application. The Company will adopt the amendments beginning in the first quarter of fiscal 2015. The Company does not anticipate a material impact on its Condensed Consolidated Financial Statements as a result of this change.

In May 2014, the FASB issued a comprehensive new revenue recognition standard that will amend the current revenue recognition guidance under U.S. GAAP. The Company will adopt this standard in the first quarter of fiscal 2017. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard. The Company is unable to determine at this time whether adoption of the standard will have a material impact on its Condensed Consolidated Financial Statements.

NOTE 3. GAIN ON EQUITY SALE

In October, 2008, VirtualSite Solutions (VSS), a business formed by the Company and Caterpillar began operations. The Company originally had a 65% ownership and Caterpillar had a 35% ownership in VSS. VSS develops software for fleet management and connected worksite solutions for both Caterpillar and Trimble and in turn, sells software subscription services to Caterpillar and Trimble, which are sold through Caterpillar's and the Company's respective distribution channels. For financial reporting purposes, VSS’s assets and liabilities were consolidated with those of the Company, as were its results of operations, which were reported under the Engineering and Construction segment. Caterpillar’s 35% interest was included in the overall Consolidated Financial Statements as Noncontrolling interest.

Effective January 4, 2014, the Company sold 15% of its ownership in VSS to Caterpillar resulting in both the Company and Caterpillar owning 50% of the VSS joint venture. After the sale the Company no longer held a controlling interest in VSS. The sale of the 15% ownership resulted in the deconsolidation of VSS and a gain in the amount of $15.1 million in the first quarter of fiscal 2014. Of this amount, $8.5 million relates to the remeasurement of the Company's retained interest to fair value which was measured using a combination of the income and market approaches. The total gain is included in Other income (loss), net on the Company's Condensed Consolidated Statements of Income. The new 50% investment in VSS is classified as an equity method investment.

NOTE 4. SHAREHOLDERS’ EQUITY

Stock Repurchase Activities

In August 2014, the Company’s Board of Directors approved a stock repurchase program (“2014 Stock Repurchase Program”), authorizing the Company to repurchase up to $300.0 million of Trimble’s common stock, replacing a stock repurchase program which has been in place since 2011 and had $52.3 million remaining unused. During the first three quarters of fiscal 2014, under the provisions of both the 2014 and 2011 Stock Repurchase Programs, the Company repurchased approximately 2,083,000 shares of common stock in open market purchases, all of which were made in the third quarter, at an average price of $31.20 per share, for a total of $65.0 million. No shares of common stock were repurchased during the third and first three quarters of fiscal 2013. The purchase price was reflected as a decrease to common stock based on the average book value per share for all outstanding shares calculated for each individual repurchase transaction. The excess of the purchase price over this average for each repurchase was charged to retained earnings. As a result, retained earnings was reduced by $55.5 million in the third quarter and the first three quarters of fiscal 2014. 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 the third quarter of fiscal 2014, the 2014 Stock Repurchase Program had remaining authorized funds of $282.8 million. Under the share repurchase program, the Company may repurchase shares from time to time in open market transactions, privately negotiated transactions, accelerated share buyback programs, tender offers, or by other means. The timing and amount of repurchase transactions will be determined by the Company's management based on its evaluation of market conditions, share price, legal requirements and other factors. The program may be suspended, modified or discontinued at any time without prior notice.

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Stock-Based Compensation Expense

The Company accounts for its employee stock options, restricted stock units and employee stock purchase plan (ESPP) 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 related to employee stock-based compensation (for all plans) included in the unaudited Condensed Consolidated Statements of Income for the third quarter and the first three quarters of fiscal 2014 and 2013.

	Third Quarter of		First Three Quarters of	
	2014	2013	2014	2013
(Dollars in thousands)				
Cost of sales	$776	$609	$2,286	$1,816
Research and development	1,600	1,265	4,815	3,644
Sales and marketing	2,062	1,816	6,022	5,341
General and administrative	6,600	5,215	19,002	15,357
Total operating expenses	10,262	8,296	29,839	24,342
Total stock-based compensation expense	$11,038	$8,905	$32,125	$26,158

Fair value of Trimble Options

Stock option expense recognized in the unaudited Condensed Consolidated Statements of Income is based on the fair value of the portion of share-based payment awards that is expected to vest during the period and is net of estimated forfeitures. The Company's compensation expense for stock options is recognized on a straight-line basis over the vesting period, typically four to five years. The fair values for stock options are estimated on the date of grant using the binomial valuation model. The binomial model takes into account variables such as volatility, dividend yield rate and risk free interest rate. In addition, the binomial model incorporates actual option-pricing behavior and changes in volatility over the option's contractual term. For options granted during the third quarter and the first three quarters of fiscal 2014 and 2013, the following weighted average assumptions were used:

	Third Quarter of		First Three Quarters of	
	2014	2013	2014	2013
Expected dividend yield	—	—	—	—
Expected stock price volatility	35.4%	34.7%	35.4%	34.8%
Risk free interest rate	0.9%	0.5%	1.2%	0.5%
Expected life of options	3.9 years	3.8 years	4.0 years	4.0 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 Options – 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.

Fair value of Restricted Stock Units

Restricted stock units are converted into shares of Trimble common stock upon vesting on a one-for-one basis. Vesting of restricted stock units is subject to the employee's continuing service to the Company. The compensation expense related to these awards is determined using the fair value of Trimble's common stock on the date of grant, and the expense is recognized on a straight-line basis over the vesting period. Restricted stock units typically vest at the end of three years.

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Fair value of Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, rights to purchase shares are generally granted during the second and fourth quarter of each year. The fair value of rights granted under the Employee Stock Purchase Plan is estimated at the date of grant using the Black-Scholes option-pricing model.

NOTE 5. BUSINESS COMBINATIONS

During first three quarters of fiscal 2014, the Company acquired ten businesses, all with cash consideration, across its Engineering and Construction, Field Solutions, and Mobile Solutions segments. The Condensed Consolidated Statements of Income include the operating results of the businesses from the dates of acquisition. None of the acquisitions were significant individually or in the aggregate. The purchase prices ranged from less than $1.0 million to $83.1 million. The largest acquisitions were of a company that provides product in real estate and facility management software and a manufacturer of wireless and hardwired crane safety instrumentation. Both acquisitions are within the Engineering and Construction segment. In the aggregate, the businesses acquired during fiscal 2014 collectively contributed less than one percent to the Company's total revenue during the first three quarters of fiscal 2014.

The Company determined the total consideration paid for each of its acquisitions as well as the fair value of the assets acquired and liabilities assumed as of the date of acquisition. For certain acquisitions completed in the fourth quarter of fiscal 2013 and the first three quarters of fiscal 2014, the fair value of the assets acquired and liabilities assumed are preliminary and may be adjusted as the Company obtains additional information, primarily related to adjustments for the true up of acquired net working capital in accordance with certain purchase agreements, and estimated values of certain net tangible assets and liabilities including tax balances, pending the completion of final studies and analyses. If there are adjustments made for these items, the fair value of intangible assets and goodwill could be impacted. Thus the provisional measurements of fair value are subject to change. Such changes could be significant. The Company expects to finalize the valuation of the net tangible and intangible assets as soon as practicable, but not later than one-year from the acquisition date.

The fair value of identifiable assets acquired and liabilities assumed were determined under the acquisition method of accounting for business combinations. The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The fair value of intangible assets acquired is generally determined based on a discounted cash flow analysis. Acquisition costs directly related to the acquisitions of $4.1 million and $7.4 million for the third quarter and the first three quarters of fiscal 2014, respectively and $2.9 million and $9.3 million for the corresponding period of fiscal 2013, respectively, were expensed as incurred and were included in General and administrative expense in the Consolidated Statements of Income.

The following table summarizes the Company’s business combinations completed during the first three quarters of fiscal 2014.

As of	Third Quarter of 2014	
(Dollars in thousands)		
Fair value of total purchase consideration	$ 185,337	
Fair value of net assets acquired	24,277	
Identified intangible assets	83,079	
Deferred taxes	(29,667	)
Goodwill	$ 107,648	

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Intangible Assets

Intangible Assets consisted of the following:

As of	Third Quarter of Fiscal 2014			Fiscal Year End 2013		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed product technology	$737,269	$(426,224)	$311,045	$699,479	$(363,389)	$336,090
Trade names and trademarks	50,221	(32,721)	17,500	46,195	(28,699)	17,496
Customer relationships	436,335	(218,578)	217,757	424,630	(189,338)	235,292
Distribution rights and other intellectual properties	79,679	(54,058)	25,621	79,844	(49,323)	30,521
	$1,303,504	$(731,581)	$571,923	$1,250,148	$(630,749)	$619,399

The estimated future amortization expense of purchased intangible assets as of the third quarter of fiscal 2014 was as follows:

(Dollars in thousands)	
2014 (Remaining)	$39,291
2015	150,328
2016	131,588
2017	109,987
2018	79,562
Thereafter	61,167
Total	$571,923

Goodwill

The changes in the carrying amount of goodwill by segment for the first three quarters of fiscal 2014 were as follows:

(Dollars in thousands)	Engineering and Construction	Field Solutions	Mobile Solutions	Advanced Devices	Total
Balance as of fiscal year end 2013	$1,080,240	$88,651	$796,094	$24,485	$1,989,470
Additions due to acquisitions	102,356	45	4,422	—	106,823
Purchase price adjustments	845	46	(66)	—	825
Foreign currency translation adjustments	(38,960)	(2,858)	(2,093)	(754)	(44,665)
Write off	$(72)	$—	$(821)	$—	$(893)
Balance as of the third quarter of fiscal 2014	$1,144,409	$85,884	$797,536	$23,731	$2,051,560

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NOTE 6. INVENTORIES

Inventories, net, consisted of the following:

As of	Third Quarter of 2014	Fiscal Year End 2013
(Dollars in thousands)		
Raw materials	$110,376	$94,988
Work-in-process	7,089	6,871
Finished goods	160,562	152,452
Total inventories, net	$278,027	$254,311

Deferred costs of sales for the short-term deferral of hardware and related product revenues are included within finished goods and were $9.1 million as of the third quarter of fiscal 2014 and $12.6 million as of fiscal year end 2013.

NOTE 7. SEGMENT INFORMATION

Trimble is a designer and distributor of positioning products and applications 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 hardware and software solutions for a variety of applications including: survey, heavy civil and building construction, infrastructure, geospatial, railway, mining and utilities.
- Field Solutions — Consists of hardware and software solutions for applications including agriculture, mapping and geographic information systems (GIS), utilities, and energy distribution.
- Mobile Solutions — Consists of hardware and software solutions that enable end-users to monitor and manage their mobile work, mobile workers and mobile assets.
- Advanced Devices — The various operations that comprise this segment are aggregated on the basis that these operations, taken as a whole, do not exceed 10% of the Company's total revenue, operating income and assets. This segment is comprised of the Embedded Technologies and Timing, Military and Advanced Systems, Applanix, Trimble Outdoors, and ThingMagic businesses.

The Company's Chief Operating Decision Maker (CODM), its Chief Executive Officer, 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. In each of its segments the Company sells many individual products. For this reason it is impractical to segregate and identify revenue for each of these individual products or groups of products.

The following table presents revenue, operating income, depreciation expense and identifiable assets for the four segments. Operating income is revenue less cost of sales and operating expense, excluding general corporate expense, amortization of purchased intangible assets, amortization of acquisition-related inventory step-up, acquisition costs and restructuring costs. The identifiable assets that the CODM views by segment are accounts receivable, inventories and goodwill.

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	Reporting Segments				
	Engineering and Construction	Field Solutions	Mobile Solutions	Advanced Devices	Total
(Dollars in thousands)					
Third Quarter of Fiscal 2014					
Segment revenue	$342,272	$88,791	$121,171	$32,562	$584,796
Operating income	70,553	25,185	18,209	9,091	123,038
Depreciation expense	3,416	227	1,447	150	5,240
Third Quarter of Fiscal 2013					
Segment revenue	$310,611	$99,466	$113,570	$32,855	$556,502
Operating income	73,488	31,373	15,276	8,420	128,557
Depreciation expense	2,990	139	1,056	195	4,380
First Three Quarters of Fiscal 2014					
Segment revenue	$1,019,620	$341,412	$362,679	$108,005	$1,831,716
Operating income	219,952	116,794	54,764	32,850	424,360
Depreciation expense	9,746	581	3,957	488	14,772
First Three Quarters of Fiscal 2013					
Segment revenue	$890,928	$362,811	$339,258	$95,909	$1,688,906
Operating income	183,301	134,271	42,284	21,419	381,275
Depreciation expense	8,838	426	3,393	582	13,239
As of the Third Quarter of Fiscal 2014					
Accounts receivable	$223,308	$54,406	$61,541	$19,249	$358,504
Inventories	185,908	48,003	28,080	16,036	278,027
Goodwill	1,144,409	85,884	797,536	23,731	2,051,560
As of Fiscal Year End 2013					
Accounts receivable	$185,634	$62,859	$70,174	$19,265	$337,932
Inventories	171,863	39,554	27,664	15,230	254,311
Goodwill	1,080,240	88,651	796,094	24,485	1,989,470

A reconciliation of the Company’s consolidated segment operating income to consolidated income before income taxes is as follows:

	Third Quarter of		First Three Quarters of	
	2014	2013	2014	2013
(Dollars in thousands)				
Consolidated segment operating income	$123,038	$128,557	$424,360	$381,275
Unallocated corporate expense	(68,567)	(21,019)	(115,241)	(66,886)
Amortization of purchased intangible assets	(39,326)	(41,618)	(117,769)	(120,713)
Acquisition costs	(4,056)	(2,891)	(7,416)	(9,285)
Consolidated operating income	11,089	63,029	183,934	184,391
Non-operating income (loss), net	(3,934)	483	10,464	2,181
Consolidated income before taxes	$7,155	$63,512	$194,398	$186,572

Unallocated corporate expense includes general corporate expense, amortization of acquisition-related inventory step-up, restructuring costs and litigation reserves of $52.0 million, of which $51.3 million relates to Recreational Data Services, Inc. as discussed further in Note 13.

NOTE 8. DEBT, COMMITMENTS AND CONTINGENCIES

Debt consisted of the following:

As of	Third Quarter of 2014	Fiscal Year End 2013
(Dollars in thousands)		
Credit Facilities:		
Term loan	$638,750	$665,000
Revolving credit facility	—	85,000
Promissory notes and other debt	7,989	8,458
Total debt	646,739	758,458
Less current portion of long-term debt	69,020	106,402
Non-current portion	$577,719	$652,056

Credit Facilities

On November 21, 2012, the Company entered into an amended and restated credit agreement with a group of lenders (the "2012 Credit Facility"). This credit facility provides for unsecured credit facilities in the aggregate principal amount of $1.4 billion, comprised of a five-year revolving loan facility of $700.0 million and a five-year $700.0 million term loan facility. Subject to the terms of the 2012 Credit Facility, the revolving loan facility may be increased, and/or additional term loan commitments may be established, in an aggregate principal amount up to $300.0 million. The Company also has two $75 million uncommitted revolving loan facilities (the "Uncommitted Facilities"), which are callable by the bank at any time and have no covenants. The interest rate for the Uncommitted Facilities is 0.9% to 1.00% plus either LIBOR or the bank's cost of funds or as otherwise agreed upon by the bank and the Company.

As of the third quarter of fiscal 2014, total debt was comprised primarily of a term loan of $638.8 million. Of the total outstanding balance, $577.5 million of the term loan is classified as long-term in the Condensed Consolidated Balance Sheet.

The funds available under the 2012 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. Under the 2012 Credit Facility, the Company may borrow, repay and reborrow funds under the revolving loan facility until its maturity on November 21, 2017, 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 0.15% to 0.35% per annum depending on the Company's 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 on September 29, 2017, with the remaining outstanding balance being due and payable at maturity on November 21, 2017. The Company is required to make quarterly principal payments on the term loan facility totaling $8.8 million for the remainder of fiscal 2014, $70.0 million in fiscal 2015, $70.0 million in fiscal 2016, and the remaining balance of $490.0 million in fiscal 2017. 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 2012 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 0.00% and 1.00%, 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, or other agreed-upon rate, depending on the currency borrowed, plus a margin of between 1.00% and 2.00%, 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 2012 Credit Facility are guaranteed by several of the Company's domestic subsidiaries.

The 2012 Credit Facility contains various customary representations and warranties by the Company, which include customary use of materiality, material adverse effect and knowledge qualifiers. The 2012 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 2012 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 2012 Credit Facility) to (b) interest expenses for the most recently ended period of four fiscal quarters of not less than 3.00 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 2012 Credit Facility) for the most recently ended period of four fiscal quarters of not greater than 3 to 1; provided, that on

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the completion of a material acquisition, the Company may increase the ratio by 0.25 for the fiscal quarter during which such acquisition occurred and each of the three subsequent fiscal quarters.

The Company was in compliance with these covenants as of the third quarter of fiscal 2014.

The 2012 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 2012 Credit Facility, however that acceleration will be automatic in the case of bankruptcy and insolvency events of default.

The weighted average interest rate on the current portion of the long-term debt outstanding under the 2012 Credit Facility and Uncommitted Facilities was 1.41% and 1.31% at the end of the third quarter of fiscal 2014 and fiscal year end 2013, respectively. The interest rate on the non-current debt outstanding under the 2012 Credit Facility was 1.41% and 1.67% at the end of the third quarter of fiscal 2014 and fiscal year end 2013, respectively.

Promissory Notes and Other Debt

As of the third quarter of fiscal 2014 and fiscal year end 2013, the Company had promissory notes and other debt totaling approximately $8.0 million and $8.5 million, respectively, of which $0.2 million and $0.1 million, respectively, was classified as long-term in the Condensed Consolidated Balance Sheet.

Leases and Other Commitments

The estimated future minimum operating lease commitments as of the third quarter of fiscal 2014 are as follows (dollars in thousands):

2014 (Remaining)	$8,620
2015	29,129
2016	20,891
2017	16,420
2018	11,107
Thereafter	33,247
Total	$119,414

As of the third quarter of fiscal 2014, the Company had unconditional purchase obligations of approximately $127.2 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.

NOTE 9. FAIR VALUE MEASUREMENTS

The Company determines fair value based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Where available, fair value is based on observable market prices or parameters. Where observable prices or inputs are not available, valuation models are applied. 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.

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

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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.

	Fair Values as of the Third Quarter of Fiscal 2014				Fair Values as of Fiscal Year End 2013			
(Dollars in thousands)	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Money market funds(1)	$2	$—	$—	$2	$2	$—	$—	$2
Deferred compensation plan assets (2)	18,384	—	—	18,384	16,545	—	—	16,545
Derivative assets (3)	—	2,117	—	2,117	—	196	—	196
Total	$18,386	$2,117	$—	$20,503	$16,547	$196	$—	$16,743
Liabilities								
Deferred compensation plan liabilities (2)	$18,384	$—	$—	$18,384	$16,545	$—	$—	$16,545
Derivative liabilities (3)	—	1,264	—	1,264	—	635	—	635
Contingent consideration liabilities (4)	—	—	5,132	5,132	—	—	2,401	2,401
Total	$18,384	$1,264	$5,132	$24,780	$16,545	$635	$2,401	$19,581

(1) The money market funds are highly liquid investments. 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. 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 represent forward currency exchange contracts. The Company typically enters into these contracts to minimize the short-term impact of foreign currency exchange rates on certain trade and inter-company receivables and payables. The Company does not account for these contracts as hedges and changes in the fair value of the instruments is recognized in the Condensed Consolidated Income Statement in the period those changes occur. Derivative assets and liabilities are included in Other current assets and Other current liabilities on the Company's Condensed Consolidated Balance Sheets.

(4) Contingent consideration liabilities represent arrangements to pay the former owners of certain companies the Company acquired. The undiscounted maximum payment under the arrangements is $13.3 million at the end of the third quarter of fiscal 2014, based on estimated future revenues or other milestones based on quantities sold. Contingent consideration liabilities are included in Other current liabilities and Other non-current liabilities on the Company's Condensed Consolidated Balance Sheets.

Additional Fair Value Information

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

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
As of	Third Quarter of Fiscal 2014		Fiscal Year End 2013	
(Dollars in thousands)				
Assets:				

Cash and cash equivalents	$139,477	$139,477	$147,227	$147,227
Forward foreign currency exchange contracts	2,117	2,117	196	196
Liabilities:				
Credit facilities	$638,750	$638,750	$750,000	$750,000
Forward foreign currency exchange contracts	1,264	1,264	635	635
Promissory notes and other debt	7,989	7,989	8,458	8,458

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The fair value of cash and cash equivalents is based on quoted prices in active markets for identical assets or liabilities, and is categorized as Level I in the fair value hierarchy. 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, and is categorized as Level II in the fair value hierarchy. The fair values do not give an indication of the amount that the Company 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 5.5 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.

Changes in the Company’s product warranty liability during the first three quarters of fiscal 2014 are as follows:

(Dollars in thousands)		
Balance as of fiscal year end 2013	$17,781	
Acquired warranties	18	
Accruals for warranties issued	17,907	
Changes in estimates	1,608	
Warranty settlements (in cash or in kind)	(16,892	)
Balance as of the third quarter of fiscal 2014	$20,422	

NOTE 11. INCOME PER SHARE

Basic income per share is computed by dividing Net income attributable to Trimble Navigation Ltd. by the weighted-average number of shares of common stock outstanding during the period. Diluted income per share is computed by dividing Net income attributable to Trimble Navigation Ltd. by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the Company’s employee stock purchase plan and unvested restricted stock units. The dilutive effect of potentially dilutive securities is reflected in diluted income per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company’s common stock can result in a greater dilutive effect from potentially dilutive securities.

The following table shows the computation of basic and diluted income per share:

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	Third Quarter of		First Three Quarters of	
	2014	2013	2014	2013
(Dollars in thousands, except per share amounts)				
Numerator:				
Net income attributable to Trimble Navigation Ltd.	$11,832	$54,469	$158,290	$158,858
Denominator:				
Weighted average number of common shares used in basic income per share	260,329	257,037	260,398	256,135
Effect of dilutive securities	4,090	4,100	4,655	4,529
Weighted average number of common shares and dilutive potential common shares used in diluted income per share	264,419	261,137	265,053	260,664
Basic income per share	$0.05	$0.21	$0.61	$0.62
Diluted income per share	$0.04	$0.21	$0.60	$0.61

For the third quarter of fiscal 2014 and 2013, the Company excluded 1.7 million and 3.5 million shares of outstanding stock options, respectively, from the calculation of diluted income per share because their effect would have been antidilutive. For the first three quarters of fiscal 2014 and 2013, the Company excluded 0.5 million and 3.0 million shares of outstanding stock options, respectively, from the calculation of diluted income per share.

NOTE 12. INCOME TAXES

In the third quarter of fiscal 2014, the Company's effective income tax rate was a tax benefit of 66% as compared to a tax expense of 14% in the corresponding period in 2013, primarily due to the discrete tax benefit of a $51.3 million litigation reserve in the U.S. related to Recreational Data Services, Inc., slightly offset by differences in the geographic mix of pretax income and the expiration of the federal R&D credit. In the first three quarters of fiscal 2014, the Company's effective income tax rate was 19% as compared to 15% in the corresponding period in 2013 due to the difference in the geographic mix of pretax income, the tax effect of a gain on a partial equity sale of VSS, and the expiration of the federal R&D credit, largely offset by the discrete tax benefit of a $51.3 million litigation reserve in the U.S. related to Recreational Data Services, Inc.

Historically, the Company's effective tax rate has been lower than the U.S. federal statutory rate of 35% primarily due to favorable tax rates associated with certain earnings from operations in lower-tax jurisdictions. The Company has not provided U.S. taxes for all of such earnings due to the indefinite reinvestment of some of those earnings outside the U.S.

The Company and its subsidiaries are subject to U.S. federal and state, and foreign income tax. The Company is currently in different stages of multiple year examinations by the Internal Revenue Service as well as various state and foreign taxing authorities. Although timing of the resolution of audits is highly uncertain, the Company does not believe it is reasonably possible that the unrecognized tax benefits as of the third quarter of fiscal 2014 will materially change in the next twelve months.

The unrecognized tax benefits of $44.5 million and $38.1 million as of the third quarter of fiscal 2014 and fiscal year end 2013, respectively, if recognized, would favorably affect the effective income tax rate in future periods. 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 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 as of the third quarter of fiscal 2014 and fiscal year end 2013, of $4.5 million and $3.6 million, respectively, which were recorded in Other non-current liabilities in the accompanying Condensed Consolidated Balance Sheets.

NOTE 13. LITIGATION

On August 9, 2013, the Harbinger Plaintiffs filed a lawsuit against Deere & Co., Garmin International, Inc., the Company and two other defendants in the U.S. District Court in Manhattan in connection with the Harbinger Plaintiffs' investment in LightSquared. The Harbinger Plaintiffs allege, among other things, fraud and negligent misrepresentation, claiming that the defendants were aware of material facts that caused the Federal Communications Commission to take adverse action against LightSquared and affirmatively misrepresented and failed to disclose those facts prior to the Harbinger Plaintiffs' investment in LightSquared. The Harbinger Plaintiffs seek $1.9 billion in damages from the defendants. On November 1, 2013, debtor LightSquared, Inc. and two related parties ("LightSquared Plaintiffs") filed suit against the same defendants in the U.S. Bankruptcy Court in Manhattan. The LightSquared Plaintiffs assert claims similar to those made by the Harbinger Plaintiffs, as well as additional claims, including

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breach of contract and tortious interference, and allege that LightSquared invested billions of dollars in reliance on the promises and representations of defendants. On January 31, 2014, the U.S. District Court granted defendants' motion to withdraw the LightSquared action from the U.S. Bankruptcy Court so it will proceed together with the Harbinger action before the U.S. District Court. Although an unfavorable outcome of these litigation matters may have a material adverse effect on the Company's operating results, liquidity, or financial position, the Company believes the claims in these lawsuits are without merit and intends to vigorously contest these lawsuits.

On September 2, 2011, Recreational Data Services, Inc. filed an action against the Company alleging misrepresentation and breach of contract arising from an unsuccessful business venture of the plaintiff, Recreational Data Services, Inc. The Company believed this suit lacked any basis in law or fact and attempted to have the case dismissed on legal grounds prior to trial. These efforts were not successful and the case was tried in front of a jury in Alaska beginning on September 9, 2014. On September 26, 2014, the jury returned a verdict in favor of the plaintiff and awarded the plaintiff damages of $51.3 million. The Company believes that the jury's verdict is unsupported and intends to vigorously pursue all available avenues to have the verdict overturned. Since a jury verdict in favor of the plaintiff was rendered, the Company determined it had a probable and estimable loss for which the Company recorded an expense within the financial statements. This expense is included within General and administrative expense and is classified as a current liability as the timing of the payment is uncertain. If the verdict is overturned either as a result of post-trial motions or through the appeals process, the expense and related liability will be reversed in the period this occurs.

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

NOTE 14. SUBSEQUENT EVENTS

In the fourth quarter through November 7, 2014, the Company repurchased approximately 1,152,000 shares of common stock in open market purchases at an average price of $28.45 per share pursuant to its existing stock repurchase program (the "2014 Stock Repurchase Program"). The total purchase price of $32.8 million will be reflected as a decrease to common stock based on the average stated value per share with the remainder to retained earnings. As of November 7, 2014, the 2014 Stock Repurchase Program had remaining authorized funds of $250.0 million.

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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 2013 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,” “exp “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” and similar expressions. These forward-looking statements 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 assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes. We base our estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on our best knowledge of current events and actions that may impact us in the future, actual results may be different from the estimates.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes to our significant accounting polices during the first three quarters of fiscal 2014 from those disclosed in our 2013 Form 10-K.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued a new accounting standard that generally requires the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Condensed Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. We adopted this new standard on a prospective basis in the first quarter of fiscal 2014. The implementation had no material impact on our Condensed Consolidated Financial Statements.

In April 2014, the FASB issued amendments to guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity’s financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014; however, early adoption is permitted as is a retrospective application. We will adopt the amendments beginning in the first quarter of fiscal 2015. We do not anticipate a material impact on our Condensed Consolidated Financial Statements as a result of this change.

In May 2014, the FASB issued a comprehensive new revenue recognition standard that will amend the current revenue recognition guidance under U.S. GAAP. We will adopt this standard in the first quarter of fiscal 2017. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard. We are unable to determine at this time whether adoption of the standard will have a material impact on our Condensed Consolidated Financial Statements.

EXECUTIVE LEVEL OVERVIEW

Trimble's focus is on integrating its broad technological and application capabilities to create system-level solutions that transform how work is done within the industries we serve, enhancing productivity, accuracy, safety and regulatory compliance for our customers. The majority of our markets are end-user markets, including engineering and construction firms, surveyors, farmers, governmental organizations, energy and utility companies and organizations that must manage fleets of mobile workers and assets. We also provide components to original equipment manufacturers to incorporate into their products. In the end-user markets, we provide stand-alone systems which may consist of software, hardware or some combination of the two, as well as integrated enterprise or workflow solutions which address the entire work process. We manage our operations in the following four segments: Engineering and Construction, Field Solutions, Mobile Solutions, and Advanced Devices.

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Solutions targeted at the end-user make up a significant majority of our revenue. With the exception of our Mobile Solutions and Advanced Devices segments, our products are primarily sold through dealer channels, and it is crucial that we maintain proficient, global, third-party distribution channels.

Some of the more significant developments in our business during the quarter included:

Engineering and Construction Segment

We acquired Gehry Technologies, which provides design and project management solutions, consulting services, and project collaboration software tools to enable designers, builders and operators to collaborate more efficiently.

We collaborated with Bentley Systems to provide advanced levels of information mobility in road and site construction. The solution delivers open exchange of infrastructure information between Bentley’s i-model technology and Trimble Business Center-HCE office software.

We also announced the integration of Trimble's Mechanical, Electrical and Plumbing (MEP) module for service work order management and billing with Trimble’s Field Service Management (FSM) solutions. The integration enables MEP service contractors to efficiently and accurately manage quotes and work orders through to workforce scheduling and invoicing, leading to improved billing and customer satisfaction.

We acquired London-based Manhattan Software. The acquisition extends our portfolio of design-build-operate solutions by providing building owners, facilities and real estate managers with integrated, end-to-end systems for property, asset and facilities management.

We acquired Load Systems International, Inc., a Canada-based manufacturer of crane safety instrumentation. The acquisition enhances our portfolio of technologies for improving safety, quality, transparency and efficiency of construction and maintenance projects.

In the quarter we also continued to execute our global distribution strategy. We established new SITECH Technology Dealers in the U.S. for the Midwest, Kansas, Northwestern Missouri and Intermountain Region as well as in Romania, Ireland and the United Kingdom. We announced our new BuildingPoint global network of distribution partners focused on the building construction industry. We established BuildingPoint distributors in Illinois, Texas and Switzerland.

Field Solutions Segment

Within the agriculture market, we introduced Trimble OnSwath technology as part of the Autopilot™ automated steering system. Using OnSwath, the farmer can decrease idle driving time, fuel consumption, soil compaction, crop damage and working time in the field. We demonstrated our NextSwath technology, which enables any farm machine to calculate the best possible path to turn around and approach the next crop row or swath. The technology provides improved turning efficiency and repeatability, saving time and fuel costs.

We released the new RainWave® Contour Map precipitation monitoring solution that maps precise rainfall amounts within an entire field or farm. Part of Trimble's Connected Farm™ Web-based management solution, this new functionality enables the farmer or trusted advisor to make better management decisions for irrigation planning, resource deployment and timing of applications for nutrient and pest management. We also launched Connected Farm Field, a field data management tool for the farmer; and Connected Farm Advisor, a field data management tool for the farmer's trusted advisor. The two applications make it easier to collect and manage data and easily collaborate through Connected Farm.

We also introduced a new version of Trimble Connect cloud-based, Geographic Information System (GIS)-centric software for smart water infrastructure mapping and work management software. The release includes applications to enable water, wastewater and storm water utilities to visualize and efficiently manage their network maintenance and data collection activities.

Mobile Solutions Segment

We entered into a strategic alliance with 3Gtms, Inc., a privately-held provider of transportation management systems (TMS). The alliance includes an equity investment in 3Gtms by Trimble and a commercial reseller agreement with TMW Systems.

Advanced Devices Segment

In our Advanced Devices segment, we announced a global distribution agreement with Digi-Key Corporation to offer the ThingMagic embedded UHF RFID modules.

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We also introduced the new Pacific Crest® XDL Rover 2, an advanced, high-speed, wireless data link built to withstand the rigors of GNSS/RTK surveying and precise positioning. The XDL Rover 2 is equipped with Bluetooth® wireless communication for ease in configuration and operation. It can be quickly configured with an Android device in the field and UHF data can be transmitted via Bluetooth to a paired host device for operational efficiency.

RECENT BUSINESS DEVELOPMENTS

The following companies or business assets were acquired during the fifteen months ended October 3, 2014 and are combined in our results of operations since the date of acquisition:

Gehry Technologies

On September 5, 2014, we acquired Gehry Technologies, headquartered in Los Angeles, California. Gehry Technologies is a provider of software and consulting services that transform the construction industry by further connecting the office to on-site construction technologies. Gehry Technologies' performance is reported under our Engineering and Construction business segment.

Load Systems International

On August 20, 2014, we acquired privately-held Load Systems International Inc (LSI), headquartered in Quebec City, Canada. LSI is a manufacturer of wireless and hardwired crane safety instrumentation. LSI's performance is reported under our Engineering and Construction business segment.

Manhattan Software

On August 15, 2014, we acquired privately-held Manhattan Software, headquartered in London, England. Manhattan Software is an industry provider in real estate and facility management software. Manhattan Software's performance is reported under our Engineering and Construction business segment.

Omega Group

On June 2, 2014, we acquired the assets of privately-held The Omega Group, headquartered in San Diego, California. The Omega Group is an industry provider of cloud-based and on-premise operational performance support software that integrates mapping, analytics, intelligence and mobile technologies, allowing public safety agencies to optimize patrol strategies and daily field work. Omega Group's performance is reported under our Mobile Solutions business segment.

Mining Information Systems

On June 2, 2014, we acquired privately-held MIS, headquartered in Perth, Australia. The acquisition will add enterprise-level information management capabilities to Trimble's portfolio of mining solutions. These enterprise-level capabilities can enable improved productivity, profitability, and safety by providing a more complete view of geospatial, productivity, workforce and cost data across functional areas to support better operational and strategic decision making. MIS's performance is reported under our Engineering and Construction business segment.

MAYBIM

On May 12, 2014, we acquired the assets of privately-held MAYBIM based in Provo, Utah. MAYBIM provides 3D Building Information Modeling services to contractors with a focus on mechanical, electrical and plumbing contractors across the U.S. MAYBIM's performance is reported under our Engineering and Construction business segment.

WeoGeo

On May 1, 2014, we acquired privately-held WeoGeo based in Portland, Oregon. WeoGeo is a provider of technology for managing spatial data in the online geospatial data marketplace. WeoGeo's performance is reported under our Engineering and Construction business segment.

Field3D

On March 10, 2014, we acquired SVS Innovations’ (SVSi) construction software business and its advanced Field3D mobile technology based in Tampere, Finland. Field3D is an easy-to-use 3D collaboration software solution for BIM that works on mobile devices, enabling stakeholders in a construction workflow to access complete 3D model information for an entire building on smartphones and tablets. Field3D's performance is reported under our Engineering and Construction business segment.

GeoDesy Kft

On February 24, 2014, we acquired the assets of privately-held GeoDesy and GeoDesy Free Space Optics of Budapest, Hungary. GeoDesy is a European engineering and development company focused on delivering accessories for the geomatics, surveying,

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mapping and construction industries. GeoDesy Kft's performance is reported under our Engineering and Construction business segment.

C3 Consulting

On November 26, 2013, we acquired the assets of privately-held C3 of Madison, Wisconsin. C3 Consulting is a provider of unique soil information as well as decision recommendations to farmers' trusted advisors—such as agronomists, Trimble resellers or Ag retail suppliers. C3 Consulting's performance is reported under our Field Solutions business segment.

CSC

On November 14, 2013, we acquired privately-held CSC (UK) Ltd. of Leeds, United Kingdom. CSC's products include software solutions for the analysis and design of steel and concrete buildings. CSC's performance is reported under our Engineering and Construction business segment.

Asset Forestry Limited Assets

On September 30, 2013, we acquired the assets of privately-held Asset Forestry Limited, a provider of forestry logistics software and services. The addition of Asset Forestry software and domain experience extends Trimble's portfolio of forestry logistics and optimization solutions, already in use in North America and Europe. Asset Forestry's performance is reported under our Mobile Solutions business segment.

IQ Irrigation Assets

On August 30, 2013, we acquired the assets of privately-held IQ Irrigation of Christchurch, New Zealand. IQ Irrigation is a provider of a hardware and software solution for controlling linear and pivot irrigation systems. IQ Irrigation's performance is reported under our Field Solutions business segment.

RainWave and Hydro-Engineering

On August 23, 2013, we acquired the assets of privately-held RainWave, LLC and Hydro-Engineering Solutions, LLC of Auburn, Alabama. RainWave provides precipitation monitoring services for agribusinesses, construction and engineering, government and consumer industries. Hydro-Engineering Solutions is a civil engineering company that specializes in hydrology and hydraulics. RainWave and Hydro-Engineering's performance is reported under our Field Solutions business segment.

Seasonality of Business

* Our individual segment revenue may be affected by seasonal buying patterns. Historically, the second fiscal quarter has been the strongest quarter for the Company driven by the construction buying season. However, as a result of diversification of our business into software and subscription revenue, we may experience less seasonality in the future.

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.

	Third Quarter of				First Three Quarters of			
	2014		2013		2014		2013	
(Dollars in thousands)								
Revenue:								
Product	$415,490		$401,565		$1,327,054		$1,240,232	
Service	98,366		85,521		291,747		251,628	
Subscription	70,940		69,416		212,915		197,046	
Total revenue	584,796		556,502		1,831,716		1,688,906	
Gross margin	$316,773		$295,053		$998,236		$884,368	
Gross margin %	54.2	%	53.0	%	54.5	%	52.4	%
Operating income	$11,089		$63,029		$183,934		$184,391	
Operating income %	1.9	%	11.3	%	10.0	%	10.9	%

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Revenue

In the third quarter of fiscal 2014, total revenue increased by $28.3 million or 5%, as compared to the third quarter of fiscal 2013. Of this increase, product revenue increased $13.9 million or 3%, service revenue increased $12.8 million or 15%, and subscription revenue increased $1.5 million or 2%. In the first three quarters of fiscal 2014, total revenue increased by $142.8 million or 8%, as compared to the first three quarters of fiscal 2013. Of this increase, product revenue increased $86.8 million or 7%, service revenue increased $40.1 million or 16%, and subscription revenue increased $15.9 million or 8%.

For the third quarter and the first three quarters of fiscal 2014, product revenue growth was driven primarily by growth across Engineering and Construction, partially offset by a decrease in Field Solutions product revenue primarily due to softness in agriculture markets. Service revenue was primarily driven by growth in Engineering and Construction and Mobile Solutions software maintenance fees. Subscription revenue was driven by growth in Mobile Solutions subscription services, partially offset by Virtual Site Solutions which was included in subscription revenue in the prior year. However, in fiscal 2014 Virtual Site Solutions became a joint venture, accounted for as an equity method investment. Revenue growth was primarily organic growth and to a lesser extent, the impact of the acquisitions which were not applicable in the prior period. We consider organic growth to include all revenue except for revenue associated with acquisitions made within the last four quarters.

On a segment basis, Engineering and Construction revenue for the third quarter of fiscal 2014 increased $31.7 million or 10% and Mobile Solutions increased $7.6 million or 7%, partially offset by a decrease in Field Solutions of $10.7 million or 11% and Advanced Devices of $0.3 million or 1%, as compared to the third quarter of fiscal 2013. Engineering and Construction revenue for the first three quarters of fiscal 2014 increased $128.7 million or 14%, Mobile Solutions increased $23.4 million or 7%, Advanced Devices increased $12.1 million or 13%, partially offset by decrease in Field Solutions of $21.4 million or 6%, as compared to the corresponding period of fiscal 2013.

For the third quarter and the first three quarters of fiscal 2014, revenue growth within Engineering and Construction was driven by growth due to continued market penetration and continued improvement in the U.S for construction and geospatial products. Mobile Solutions increased due to growth in the transportation and logistics market. Advanced Devices revenue increased primarily due to stronger sales of embedded and timing component products. Field Solutions revenue decreased primarily due to softness in agricultural markets.

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 $21.7 million for the third quarter of fiscal 2014 and increased by $113.9 million for the first three quarters of fiscal 2014, as compared to the corresponding periods of fiscal 2013, primarily due to increased revenue in Engineering and Construction and to a lesser extent, Mobile Solutions. Gross margin as a percentage of total revenue for the third quarter of fiscal 2014 was 54.2%, as compared to 53.0% for the corresponding period of fiscal 2013, and was 54.5% for the first three quarters of fiscal 2014, as compared to 52.4% for the corresponding period of fiscal 2013. The increase was primarily due to an increase in sales of higher margin products, primarily software, maintenance, and subscription revenue, primarily due to organic growth, particularly in Engineering and Construction and in Mobile Solutions.

Operating Income

Operating income decreased by $51.9 million for the third quarter of fiscal 2014, as compared to the corresponding period of fiscal 2013, and decreased by $0.5 million for the first three quarters of fiscal 2014, as compared to the corresponding period of fiscal 2013. Operating income as a percentage of total revenue was 1.9% for the third quarter of fiscal 2014, as compared to 11.3% for the corresponding period of fiscal 2013, and was 10.0% for the first three quarters of fiscal 2014, as compared to 10.9% for the corresponding period of fiscal 2013.

The decrease in operating income for the third quarter of fiscal 2014 was primarily due to a $51.3 million litigation reserve and the impact of acquisitions. The operating income for the first three quarters of fiscal 2014 was relatively flat, due to increased revenue and gross margin expansion, offset by a $51.3 million litigation reserve. The decrease in operating income percentages for both periods was primarily also due to the litigation reserve, partially offset by gross margin improvements due to higher margin software, maintenance, and subscription revenue, particularly in

Engineering and Construction.

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

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intangible assets, amortization of inventory step-up charges, acquisition costs and restructuring costs. Operating leverage is defined as an increase in operating income as a percentage of the increase in revenue.
The following table is a summary of revenue and operating income by segment:

	Third Quarter of		First Three Quarters of	
	2014	2013	2014	2013
(Dollars in thousands)				
Engineering and Construction				
Revenue	$342,272	$310,611	$1,019,620	$890,928
Segment revenue as a percent of total revenue	58 %	56 %	56 %	53 %
Operating income	$70,553	$73,488	$219,952	$183,301
Operating income as a percent of segment revenue	21 %	24 %	22 %	21 %
Field Solutions				
Revenue	$88,791	$99,466	$341,412	$362,811
Segment revenue as a percent of total revenue	15 %	18 %	18 %	21 %
Operating income	$25,185	$31,373	$116,794	$134,271
Operating income as a percent of segment revenue	28 %	32 %	34 %	37 %
Mobile Solutions				
Revenue	$121,171	$113,570	$362,679	$339,258
Segment revenue as a percent of total revenue	21 %	20 %	20 %	20 %
Operating income	$18,209	15,276	$54,764	42,284
Operating income as a percent of segment revenue	15 %	13 %	15 %	12 %
Advanced Devices				
Revenue	$32,562	$32,855	$108,005	$95,909
Segment revenue as a percent of total revenue	6 %	6 %	6 %	6 %
Operating income	$9,091	$8,420	$32,850	$21,419
Operating income as a percent of segment revenue	28 %	26 %	30 %	22 %

A reconciliation of our consolidated segment operating income to consolidated income before taxes follows:

	Third Quarter of		First Three Quarters of	
	2014	2013	2014	2013
(Dollars in thousands)				
Consolidated segment operating income	$123,038	$128,557	$424,360	$381,275
Unallocated corporate expense	(68,567)	(21,019)	(115,241)	(66,886)
Amortization of purchased intangible assets	(39,326)	(41,618)	(117,769)	(120,713)
Acquisition costs	(4,056)	(2,891		