TRIMBLE NAVIGATION LTD /CA/
Form 10-Q
August 12, 2015
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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 July 3, 2015

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 August 7, 2015, there were 257,048,584 shares of Common Stock (no par value) outstanding.

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PART I – FINANCIAL INFORMATION

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

As of	Second Quarter of 2015	Fiscal Year End 2014
(In millions)		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 129.0	$ 148.0
Accounts receivable, net	355.5	362.0
Other receivables	26.0	29.5
Inventories, net	280.8	278.1
Deferred income taxes	48.2	45.6
Other current assets	45.6	39.4
Total current assets	885.1	902.6
Property and equipment, net	161.7	157.4
Goodwill	2,087.4	2,101.2
Other purchased intangible assets, net	525.5	594.5
Other non-current assets	120.5	118.6
Total assets	$ 3,780.2	$ 3,874.3
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 124.2	$ 64.4
Accounts payable	109.6	103.8
Accrued compensation and benefits	96.2	98.9
Deferred revenue	258.1	211.6
Accrued warranty expense	19.1	20.6
Other current liabilities	89.4	89.0
Total current liabilities	696.6	588.3
Non-current portion of long-term debt	515.4	674.0
Non-current deferred revenue	28.5	26.3
Deferred income taxes	104.3	121.1
Other non-current liabilities	96.2	95.8
Total liabilities	1,441.0	1,505.5
Commitments and contingencies (Note 8)		
EQUITY		
Shareholders’ equity:		
Preferred stock, no par value; 3.0 shares authorized; none outstanding	—	—
Common stock, no par value; 360.0 shares authorized; 257.3 and 259.2 shares issued and outstanding as of the end of the second quarter of fiscal 2015 and fiscal year end 2014, respectively	1,235.8	1,207.3
Retained earnings	1,210.9	1,211.0
Accumulated other comprehensive loss	(108.6)	(61.3)
Total Trimble Navigation Ltd. shareholders’ equity	2,338.1	2,357.0
Noncontrolling interests	1.1	11.8

Total equity	2,339.2	2,368.8
Total liabilities and equity	$ 3,780.2	$ 3,874.3

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TRIMBLE NAVIGATION LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In millions, except per share amounts)	Second Quarter of 2015	Second Quarter of 2014	First Two Quarters of 2015	First Two Quarters of 2014
Revenue:				
Product	$394.6	$468.9	$795.2	$911.5
Service	105.7	100.1	206.6	193.4
Subscription	85.5	73.2	166.6	142.0
Total revenue	585.8	642.2	1,168.4	1,246.9
Cost of sales:				
Product	190.8	212.4	378.5	416.1
Service	42.2	37.6	83.6	71.8
Subscription	25.9	17.6	49.7	36.6
Amortization of purchased intangible assets	23.0	20.0	45.5	40.9
Total cost of sales	281.9	287.6	557.3	565.4
Gross margin	303.9	354.6	611.1	681.5
Operating expense:				
Research and development	84.5	81.8	171.7	158.2
Sales and marketing	96.2	95.6	192.7	193.0
General and administrative	64.2	61.4	128.9	118.8
Restructuring charges	5.2	0.8	6.3	1.1
Amortization of purchased intangible assets	17.8	17.8	36.0	37.5
Total operating expense	267.9	257.4	535.6	508.6
Operating income	36.0	97.2	75.5	172.9
Non-operating income (expense), net:				
Interest expense, net	(6.3)	(3.1)	(12.7)	(6.8)
Foreign currency transaction gain (loss)	—	(0.5)	1.1	(0.6)
Income from equity method investments	6.4	5.2	9.4	8.7
Other income (expense), net	(0.3)	—	6.7	13.1
Total non-operating income (expense), net	(0.2)	1.6	4.5	14.4
Income before taxes	35.8	98.8	80.0	187.3
Income tax provision	10.0	20.7	20.2	41.1
Net income	25.8	78.1	59.8	146.2
Less: Net gain (loss) attributable to noncontrolling interests	(0.1)	0.2	(0.2)	(0.3)
Net income attributable to Trimble Navigation Ltd.	$25.9	$77.9	$60.0	$146.5
Basic income per share	$0.10	$0.30	$0.23	$0.56
Shares used in calculating basic income per share	258.4	261.1	258.9	260.4
Diluted income per share	$0.10	$0.29	$0.23	$0.55
Shares used in calculating diluted income per share	261.4	266.0	261.9	265.4

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

	Second Quarter of		First Two Quarters of	
	2015	2014	2015	2014
(In millions)				
Net income	$25.8	$78.1	$59.8	$146.2
Foreign currency translation adjustments	19.7	(1.0)	(47.5)	(2.4)
Net unrealized actuarial loss	(0.1)	—	—	—
Comprehensive income	45.4	77.1	12.3	143.8
Less: Comprehensive gain (loss) attributable to noncontrolling interests	(0.1)	0.2	(0.2)	(0.3)
Comprehensive income attributable to Trimble Navigation Ltd.	$45.5	$76.9	$12.5	$144.1

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

	First Two Quarters of	
(In millions)	2015	2014
Cash flow from operating activities:		
Net income	$59.8	$146.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	17.9	15.6
Amortization expense	81.5	78.4
Provision for doubtful accounts	1.2	0.9
Deferred income taxes	(0.8)	(1.7)
Stock-based compensation	24.5	21.1
Income from equity method investments	(9.4)	(8.7)
Gain on an equity sale	—	(15.1)
Acquisition / divestiture gain (loss)	(5.6)	4.3
Excess tax benefit for stock-based compensation	(0.9)	(13.5)
Provision for excess and obsolete inventories	2.0	1.7
Other non-cash items	10.0	(6.2)
Add decrease (increase) in assets:		
Accounts receivable	1.3	(42.6)
Other receivables	3.7	(3.7)
Inventories	(11.8)	(21.3)
Other current and non-current assets	(8.3)	(8.0)
Add increase (decrease) in liabilities:		
Accounts payable	6.1	0.5
Accrued compensation and benefits	(0.8)	5.6
Deferred revenue	49.5	49.0
Accrued warranty expense	(1.4)	1.1
Other liabilities	(14.5)	11.0
Net cash provided by operating activities	204.0	214.6
Cash flow from investing activities:		
Acquisitions of businesses, net of cash acquired	(59.1)	(25.1)
Acquisitions of property and equipment	(26.5)	(28.4)
Purchases of equity investments	(2.8)	(2.6)
Net proceeds from sale of business	12.6	—
Dividends received from equity method investments	7.7	22.5
Other	0.4	(0.1)
Net cash used in investing activities	(67.7)	(33.7)
Cash flow from financing activities:		
Issuances of common stock, net of tax withholding	16.0	39.3
Repurchase and retirement of common stock	(73.0)	—
Excess tax benefit for stock-based compensation	0.9	13.5
Proceeds from debt and revolving credit lines	220.0	17.0
Payments on debt and revolving credit lines	(312.1)	(119.5)
Net cash used in financing activities	(148.2)	(49.7)
Effect of exchange rate changes on cash and cash equivalents	(7.1)	0.5
Net increase (decrease) in cash and cash equivalents	(19.0)	131.7
Cash and cash equivalents, beginning of period	148.0	147.2

Cash and cash equivalents, end of period	$129.0	$278.9

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. Solutions are used across a range of industries including agriculture, architecture, civil engineering, survey and land administration, construction, geospatial, environmental management, government, natural resources, transportation and utilities. Representative Trimble 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.

Trimble focuses on integrating broad technological and application capabilities to create system-level solutions that transform how work is done within the industries the Company serves. Products are sold based on return on investment and provide benefits such as lower operational costs, higher productivity, improved quality, enhanced safety and regulatory compliance, and reduced environmental impact. Representative products include equipment that automates large industrial equipment such as tractors and bulldozers; 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 a farm; and building information modeling (BIM) software that is used throughout the design, build, and operation of buildings.

The Company has a 52-53 week fiscal year, ending on the Friday nearest to December 31, which for fiscal 2014 was January 2, 2015. The second quarter of fiscal 2015 and 2014 ended on July 3, 2015 and July 4, 2014, respectively. Both fiscal 2015 and 2014 are 52-week years. Unless otherwise stated, all dates refer to the Company’s fiscal year and fiscal periods.

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

The accompanying financial data for and as of the end of the second quarter of fiscal 2015 and for the second quarter and the first two quarters of fiscal 2015 and 2014 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 2014 is derived from the audited Consolidated Financial Statements included in the Annual Report on Form 10-K of Trimble Navigation Limited for fiscal year 2014. The following discussion should be read in conjunction with the Company’s 2014 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. Estimates are used for allowances for doubtful accounts, sales returns reserve, allowances for inventory valuation, warranty costs, investments, goodwill impairment, intangibles impairment, purchased intangibles, stock-based compensation, and income taxes among others. 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 second quarter and the first two quarters of fiscal 2015 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 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).

Historically, the Company allocated stock-based compensation to each segment. Beginning with the first quarter of fiscal 2015, the Company changed its methodology for allocating stock-based compensation to its segments. Stock-based compensation is shown in the aggregate within unallocated corporate expense and is not reflected in the segment results, which is consistent with the way the Chief Operating Decision Maker (CODM) evaluates each of the segment's performance and allocates resources. The Company has adjusted the presentation of previously reported segment information to conform to the current year methodology within Note 7.

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NOTE 2. UPDATES TO SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the Company’s significant accounting polices during the first two quarters of fiscal 2015 from those disclosed in the Company’s most recent Form 10-K.

Recent Accounting Pronouncements

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 Company adopted the amendments beginning in the first quarter of fiscal 2015. The adoption did not have a material impact on the Company’s Condensed Consolidated Financial Statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard that replaces the current revenue recognition guidance under U.S. GAAP. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The revised effective date for the Company under the new standard will be the beginning of fiscal 2018, with early adoption permitted as of the original effective date. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard. The Company is currently evaluating the effect of the updated standard on its consolidated financial statements and related disclosures.

In February 2015, the FASB issued amendments to the consolidation guidance. The amendments under the new guidance modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities and eliminate the presumption that a general partner should consolidate a limited partnership. The standard is effective for the Company in fiscal 2016, although early adoption is permitted. The Company does not anticipate a material impact on its consolidated financial statements as a result of the amendments.

In April 2015, the FASB issued amendments to the guidance for debt issuance costs that will require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability instead of being recorded as an asset. Amortization of the costs will continue to be reported as interest expense. The amendments are effective for the Company beginning in fiscal 2016. However, early adoption is permitted and the Company plans to adopt this standard in the fourth quarter of fiscal 2015. The new guidance will be applied retrospectively to each prior period presented. The Company does not anticipate a material impact on its consolidated financial statements as a result of this change.

In July 2015, the FASB issued amendments to simplify the measurement of inventory. Under the amendments, inventory will be measured at the “lower of cost and net realizable value” and options that currently exist for “market value” will be eliminated. The guidance defines net realizable value as the “estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation”. No other changes were made to the current guidance on inventory measurement. The amendments are effective for the Company beginning in fiscal 2017, although early adoption is permitted. The Company is currently evaluating the effect of the updated standard on its consolidated financial statements and related disclosures.

NOTE 3. GAIN ON EQUITY SALE

In October, 2008, VirtualSite Solutions (VSS), a business formed by the Company and Caterpillar, began operations. Originally, the Company 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 (expense), net on the Company's Condensed Consolidated Statements of Income. The Company's 50% investment in VSS is classified as an equity method investment.

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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 had been in place since 2011. No shares of common stock were repurchased during the first two quarters of fiscal 2014. During the first two quarters of fiscal 2015, the Company repurchased approximately 2.9 million shares of common stock in open market purchases, at an average price of $24.74 per share, for a total of $73.0 million. The purchase price was reflected as a decrease to common stock based on the average book value per share for all outstanding shares calculated at the time of 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 $58.9 million in the first two quarters of fiscal 2015. 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 cancelled. At the end of the second quarter of fiscal 2015, the 2014 Stock Repurchase Program had remaining authorized funds of $177.0 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.

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 second quarter and the first two quarters of fiscal 2015 and 2014.

	Second Quarter of		First Two Quarters of	
	2015	2014	2015	2014
(Dollars in millions)				
Cost of sales	$1.0	$0.8	$1.9	$1.5
Research and development	2.1	1.7	4.3	3.2
Sales and marketing	2.2	2.1	4.5	4.0
General and administrative	6.7	6.4	13.8	12.4
Total operating expenses	11.0	10.2	22.6	19.6
Total stock-based compensation expense	$12.0	$11.0	$24.5	$21.1

Fair Value of Trimble Options

Stock option expense recognized in the 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 second quarter and the first two quarters of fiscal 2015 and 2014, the following weighted average assumptions were used:

	Second Quarter of		First Two Quarters of	
	2015	2014	2015	2014
Expected dividend yield	—	—	—	—

Expected stock price volatility	35.4%	35.3%	35.4%	35.4%
Risk free interest rate	1.4%	1.2%	1.4%	1.2%
Expected life of options	4.3 years	4.0 years	4.3 years	4.0 years

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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.

Fair Value of Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, rights to purchase shares are generally granted during the first and third 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 the first two quarters of fiscal 2015, the Company acquired seven businesses, all with cash consideration, in 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. The acquisitions were not significant individually or in the aggregate. The purchase prices ranged from less than $2.0 million to $22.0 million. The largest acquisition was of a company that provides food traceability and quality inspection solutions. In the aggregate, the businesses acquired during the first two quarters of fiscal 2015 collectively contributed less than one percent to the Company's total revenue during the first two quarters of fiscal 2015.

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 last two quarters of fiscal 2014 and the first two quarters of fiscal 2015, 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, including the changes in the fair value of the contingent consideration liabilities, of $2.8 million and $5.6 million for the second quarter and the first two quarters of fiscal 2015, respectively, and $2.0 million and $3.4 million for the corresponding periods of fiscal 2014, respectively, were expensed as incurred and were included in General and administrative expense in the Condensed Consolidated Statements of Income.

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The following table summarizes the Company's business combinations completed during the first two quarters of fiscal 2015.

(Dollars in millions)	First Two Quarters of 2015
Fair value of total purchase consideration	$64.1
Fair value of net assets acquired	1.1
Identifiable intangible assets	31.2
Deferred income taxes	(3.2)
Goodwill	$35.0

Intangible Assets

Intangible Assets consisted of the following:

As of	Second Quarter of Fiscal 2015			Fiscal Year End 2014		
(Dollars in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed product technology	$775.6	$(489.0)	$286.6	$770.4	$(445.4)	$325.0
Trade names and trademarks	51.2	(36.8)	14.4	51.2	(33.9)	17.3
Customer relationships	441.0	(237.9)	203.1	455.0	(226.8)	228.2
Distribution rights and other intellectual properties	78.9	(57.5)	21.4	78.5	(54.5)	24.0
	$1,346.7	$(821.2)	$525.5	$1,355.1	$(760.6)	$594.5

The estimated future amortization expense of purchased intangible assets as of the end of the second quarter of fiscal 2015 was as follows:

(Dollars in millions)	
2015 (Remaining)	$80.1
2016	144.7
2017	121.7
2018	92.8
2019	50.9
Thereafter	35.3
Total	$525.5

Goodwill

The changes in the carrying amount of goodwill by segment for the first two quarters of fiscal 2015 were as follows:

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	Engineering and Construction	Field Solutions	Mobile Solutions	Advanced Devices	Total
(Dollars in millions)					
Balance as of fiscal year end 2014	$1,186.0	$96.0	$796.0	$23.2	$2,101.2
Additions due to acquisitions	12.0	11.1	11.9	—	35.0
Purchase price adjustments	(0.1)	1.6	(0.7)	—	0.8
Foreign currency translation adjustments	(29.9)	(2.5)	(2.5)	(1.0)	(35.9)
Divestiture	(13.7)	—	—	—	(13.7)
Balance as of the end of the second quarter of fiscal 2015	$1,154.3	$106.2	$804.7	$22.2	$2,087.4

NOTE 6. INVENTORIES

Inventories, net, consisted of the following:

As of	Second Quarter of 2015	Fiscal Year End 2014
(Dollars in millions)		
Raw materials	$101.5	$116.8
Work-in-process	6.1	4.8
Finished goods	173.2	156.5
Total inventories, net	$280.8	$278.1

Finished goods includes $11.4 million as of the end of the second quarter of fiscal 2015 and $9.4 million as of fiscal year end 2014 for costs that have been deferred in connection with deferred revenue arrangements.

NOTE 7. SEGMENT INFORMATION

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

- Engineering and Construction — Consists of hardware, software and services solutions for a variety of applications including: survey, heavy civil and building construction; infrastructure, geospatial, railway, mining and utilities.
- Field Solutions — Consists of hardware, software and services solutions for applications including agriculture, mapping and geographic information systems (GIS), utilities, and energy distribution.
- Mobile Solutions — Consists of hardware, software and services 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 or 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 impracticable to segregate and identify revenue for each of the individual products or group 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, stock-based compensation, 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 millions)					
Second Quarter of Fiscal 2015					
Segment revenue	$338.5	$87.1	$128.3	$31.9	$585.8
Operating income	60.5	24.9	18.9	11.1	115.4
Depreciation expense	3.5	0.3	1.3	0.2	5.3
Second Quarter of Fiscal 2014					
Segment revenue	$368.1	$114.4	$122.9	$36.8	$642.2
Operating income	95.7	39.6	21.7	12.6	169.6
Depreciation expense	3.2	0.2	1.3	0.1	4.8
First Two Quarters of Fiscal 2015					
Segment revenue	$637.8	$202.4	$256.5	$71.7	$1,168.4
Operating income	97.5	65.5	39.4	26.3	228.7
Depreciation expense	7.1	0.6	2.6	0.3	10.6
First Two Quarters of Fiscal 2014					
Segment revenue	$677.4	$252.6	$241.5	$75.4	$1,246.9
Operating income	156.8	93.3	39.0	24.8	313.9
Depreciation expense	6.3	0.4	2.5	0.3	9.5
As of the Second Quarter of Fiscal 2015					
Accounts receivable	$219.4	$48.3	$66.5	$21.3	$355.5
Inventories	196.0	44.0	24.2	16.6	280.8
Goodwill	1,154.3	106.2	804.7	22.2	2,087.4
As of Fiscal Year End 2014					
Accounts receivable	$227.7	$51.6	$62.9	$19.8	$362.0
Inventories	185.2	51.0	26.1	15.8	278.1
Goodwill	1,186.0	96.0	796.0	23.2	2,101.2

Historically, the Company allocated stock-based compensation to each segment. Beginning with the first quarter of fiscal 2015, the Company changed its methodology for allocating stock-based compensation to its segments. Stock-based compensation is shown in the aggregate within unallocated corporate expense and not reflected in the segment results, which is consistent with the way the CODM evaluates each of the segment's performance and allocates resources. The Company has adjusted the presentation of segment information for the second quarter and first two quarters of fiscal 2014 to conform to the current year methodology. The following table shows the amount of stock-based compensation that had been previously allocated to the business segments in the second quarter and first two quarters of fiscal 2014 and the impact to those segments' Operating income.

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	Reporting Segments				
	Engineering and Construction	Field Solutions	Mobile Solutions	Advanced Devices	Total
(Dollars in millions)					
Second Quarter of Fiscal 2014					
Operating income	$95.7	$39.6	$21.7	$12.6	$169.6
Previously allocated stock-based compensation	(3.8)	(0.9)	(1.3)	(0.5)	(6.5)
Previously reported operating income	$91.9	$38.7	$20.4	$12.1	$163.1
First Two Quarters of Fiscal 2014					
Operating income	$156.8	$93.3	$39.0	$24.8	$313.9
Previously allocated stock-based compensation	(7.4)	(1.7)	(2.4)	(1.0)	(12.5)
Previously reported operating income	$149.4	$91.6	$36.6	$23.8	$301.4

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

	Second Quarter of		First Two Quarters of	
	2015	2014	2015	2014
(Dollars in millions)				
Consolidated segment operating income	$115.4	$169.6	$228.7	$313.9
Unallocated corporate expense	(35.8)	(32.6)	(66.1)	(59.2)
Amortization of purchased intangible assets	(40.8)	(37.8)	(81.5)	(78.4)
Acquisition costs	(2.8)	(2.0)	(5.6)	(3.4)
Consolidated operating income	36.0	97.2	75.5	172.9
Non-operating income (expense), net:	(0.2)	1.6	4.5	14.4
Consolidated income before taxes	$35.8	$98.8	$80.0	$187.3

NOTE 8. DEBT, COMMITMENTS AND CONTINGENCIES

Debt consisted of the following:

As of	Second Quarter of 2015	Fiscal Year End 2014
(Dollars in millions)		
Notes	$400.0	$400.0
Unamortized discount on Notes	(3.0)	(3.2)
Credit Facilities:		
2014 Credit facility	118.0	277.0
Uncommitted facilities	124.0	57.0
Promissory notes and other debt	0.6	7.6
Total debt	639.6	738.4
Less current portion of long-term debt	124.2	64.4
Non-current portion	$515.4	$674.0

Notes

On October 30, 2014, the Company filed a shelf registration statement with the Securities and Exchange Commission ("SEC") for the issuance of senior debt securities. On November 24, 2014, the Company issued $400.0 million of Senior Notes ("Notes") under the shelf registration statement. Net proceeds from the offering were $396.9 million after deducting the 0.795% discount on the public offering price. The Company recognized $3.0 million of debt issuance costs associated with the issuance of the

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Notes, including an underwriting discount of $2.6 million. The discount and debt issuance costs are being amortized to interest expense using the effective interest rate method over the term of the Notes. The Notes mature on December 1, 2024 and accrue interest at a rate of 4.75% per annum, payable semiannually in arrears in cash on December 1 and June 1 of each year, beginning on June 1, 2015. The Notes are classified as long-term in the Condensed Consolidated Balance Sheet.

Prior to September 1, 2024, Trimble may redeem the Notes at its option at any time, in whole or in part, at a redemption price equal to the greater of (i) 100% of the aggregate principal amount of the Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of interest and principal, calculated on a semiannual basis using a discount rate equal to the U.S. Treasury rate plus 40 basis points. After September 1, 2024, Trimble may redeem the Notes at its option at any time, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount of the Notes to be redeemed, plus accrued and unpaid interest thereon. In addition, in the event of a change of control, as defined in the prospectus filed with the SEC, each holder of the Notes will have the right to require Trimble to purchase for cash all or a portion of such holder’s Notes at a purchase price equal to 101% of the principal amount of the Notes, plus any accrued and unpaid interest.

In connection with the closing of the Notes offering, Trimble entered into an Indenture with U.S. Bank National Association, as trustee. The Indenture contains covenants limiting Trimble’s ability to create certain liens, enter into sale and lease-back transactions, and consolidate or merge with or into, or convey, transfer or lease all or substantially all of Trimble’s properties and assets to, another person, each subject to certain exceptions. The Notes contain no financial covenants.

Credit Facilities

2014 Credit Facility

On November 24, 2014, the Company entered into a new five-year credit agreement with a group of lenders (the “2014 Credit Facility”). The 2014 Credit Facility provides for an unsecured revolving loan facility of $1.0 billion and a letter of credit sub-facility of up to $50.0 million. Subject to the terms of the 2014 Credit Facility, the revolving loan facility may be increased and/or term loan facilities may be established in an amount up to $500.0 million. The outstanding balance of $118.0 million is classified as long-term in the Condensed Consolidated Balance Sheet.

The 2014 Credit Facility replaced the Company's previous 2012 Credit Facility comprised of a five-year revolving loan facility of $700.0 million and a five-year $700.0 million term loan facility. Upon entering into the 2014 Credit Facility, the Company recognized $1.6 million of debt issuance costs associated with the 2014 Credit Facility. The remaining unamortized debt issuance costs associated with the 2012 Credit Facility and the new debt issuance costs associated with the 2014 Credit Facility are being amortized to interest expense using the effective interest rate method over the term of the 2014 Credit Facility.

The funds available under the 2014 Credit Facility may be used for working capital and general corporate purposes including the financing of certain acquisitions and the payment of transaction fees and expenses related to such acquisitions. Under the 2014 Credit Facility, the Company may borrow, repay and reborrow funds under the revolving loan facility until its maturity on November 24, 2019, 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 0.10% to 0.30% per annum depending on either the Company's credit rating at such time or the Company's leverage ratio as of the most recently ended fiscal quarter, whichever results in more favorable pricing to the Company.

The Company may borrow funds under the 2014 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 determined by reference to the highest of: (a) the administrative agent’s prime rate; (b) 0.50% per annum above the federal funds effective rate; and (c) reserve-adjusted LIBOR for an interest period of one month plus 1.00%, plus a margin of between 0.00% and 0.75%, or (ii) a reserve-adjusted fixed per annum rate based on LIBOR or EURIBOR, depending on the currency borrowed, plus a margin of between 1.00% and 1.75%. The applicable margin in each case is determined based on either Trimble’s credit rating at such time or Trimble’s leverage ratio as of its most recently ended fiscal quarter, whichever results in more favorable pricing to Trimble. Interest is payable on the last day of each fiscal quarter with respect to borrowings bearing interest at the base rate, or on the last day of an interest period, but at least every three months, with respect to borrowings bearing interest at LIBOR or EURIBOR rate.

The 2014 Credit Facility contains various customary representations and warranties by the Company, which include customary use of materiality, material adverse effect and knowledge qualifiers. The 2014 Credit Facility also contains customary affirmative and negative covenants including, among other requirements, negative covenants that restrict the Company's ability to create liens and enter into sale and leaseback transactions, and that restrict its subsidiaries' ability to incur indebtedness. Further, the 2014 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 2014 Credit Facility) to (b) interest expense for the most recently ended period of four fiscal quarters of not less than 3.50 to 1.00. The Company must also maintain, at the end of each fiscal quarter, a ratio of (x) total indebtedness (as defined in the 2014 Credit Facility) to (y) EBITDA (as defined in the 2014 Credit Facility) for the most recently ended period of four fiscal quarters of not greater than 3.00 to 1.00; provided, that on the completion of a material acquisition, the Company may increase the ratio by 0.50

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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 at the end of the second quarter of fiscal 2015.

The 2014 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 2014 Credit Facility, except that acceleration will be automatic in the case of bankruptcy and insolvency events of default.

The interest rate on the non-current debt outstanding under the credit facilities was 1.47% and 1.42% at the end of the second quarter of fiscal 2015 and fiscal year end 2014, respectively.

Uncommitted Facilities

The Company also has two $75 million revolving credit facilities which are uncommitted (the "Uncommitted Facilities"). The Uncommitted Facilities may be called by the lenders at any time, have no covenants and no specified expiration date. The interest rate on the Uncommitted Facilities is 1.00% plus either LIBOR or the bank’s cost of funds or as otherwise agreed upon by the bank and the Company. The $124.0 million outstanding at the end of the second quarter of fiscal 2015 and the $57.0 million outstanding at the end of fiscal 2014 under the Uncommitted Facilities are classified as short-term in the Condensed Consolidated Balance Sheet. The weighted average interest rate on the Uncommitted Facilities was 1.12% at the end of the second quarter of fiscal 2015 and 1.15% at the end of fiscal 2014.

Promissory Notes and Other Debt

At the end of the second quarter of fiscal 2015 and the end of fiscal 2014, the Company had promissory notes and other notes payable totaling approximately $0.6 million and $7.6 million, respectively, of which less than $0.4 million for both periods was classified as long-term in the Consolidated Balance Sheet.

Debt Maturities

At the end of the second quarter of fiscal 2015, the Company's debt maturities based on outstanding principal were as follows (dollars in millions):

Year Payable	
2015 (Remaining)	$124.1
2016	0.1
2017	0.2
2018	—
2019	118.0
Thereafter	400.2
Total	$642.6

Leases and Other Commitments

The estimated future minimum operating lease commitments as of the end of the second quarter of fiscal 2015 are as follows (dollars in millions):

2015 (Remaining)	$17.7
2016	26.8
2017	21.7
2018	16.4
2019	12.9
Thereafter	