

TRIMBLE NAVIGATION LTD /CA/
Form 10-Q
May 02, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 29, 2013

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

Commission file number: 001-14845

TRIMBLE NAVIGATION LIMITED
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)
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)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer

Non-accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

As of April 29, 2013, there were 255,797,838 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 (In thousands)	First Quarter of 2013	Fiscal Year End 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 143,552	\$ 157,771
Accounts receivable, net	388,850	323,477
Other receivables	14,168	17,327
Inventories, net	260,596	240,529
Deferred income taxes	43,198	43,473
Other current assets	39,586	33,396
Total current assets	889,950	815,973
Property and equipment, net	105,603	96,890
Goodwill	1,837,937	1,815,699
Other purchased intangible assets, net	636,696	644,419
Other non-current assets	95,535	96,123
Total assets	\$ 3,565,721	\$ 3,469,104
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 91,117	\$ 38,092
Accounts payable	120,838	124,532
Accrued compensation and benefits	75,621	86,064
Deferred revenue	187,551	138,920
Accrued warranty expense	17,476	17,066
Other current liabilities	63,851	63,996
Total current liabilities	556,454	468,670
Non-current portion of long-term debt	829,322	873,066
Non-current deferred revenue	10,927	7,262
Deferred income taxes	136,308	148,260
Other non-current liabilities	66,842	58,322
Total liabilities	1,599,853	1,555,580
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; 255,758 and 254,486 shares issued and outstanding as of the first quarter of fiscal 2013 and fiscal year end 2012, respectively	1,036,779	1,006,818
Retained earnings	916,158	868,026
Accumulated other comprehensive income (loss)	(3,144)	) 22,611
Total Trimble Navigation Ltd. shareholders' equity	1,949,793	1,897,455
Noncontrolling interests	16,075	16,069
Total equity	1,965,868	1,913,524

Total liabilities and equity	\$3,565,721	\$3,469,104
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See accompanying Notes to the Condensed Consolidated Financial Statements.

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TRIMBLE NAVIGATION LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In thousands, except per share data)	First Quarter of 2013	2012
Revenue:		
Product	\$412,787	\$398,538
Service	81,596	57,430
Subscription	61,728	46,299
Total revenue	556,111	502,267
Cost of sales:		
Product	198,701	193,044
Service	30,843	22,521
Subscription	19,972	14,431
Amortization of purchased intangible assets	19,681	13,121
Total cost of sales	269,197	243,117
Gross margin	286,914	259,150
Operating expense		
Research and development	73,608	60,235
Sales and marketing	83,623	76,024
General and administrative	51,970	46,886
Restructuring charges	1,605	481
Amortization of purchased intangible assets	19,651	15,676
Total operating expense	230,457	199,302
Operating income	56,457	59,848
Non-operating income (expense), net		
Interest expense, net	(5,071	) (3,863
Foreign currency transaction loss	(1,569	) (2,213
Income from equity method investments, net	4,257	6,192
Other income, net	295	363
Total non-operating income (expense), net	(2,088	) 479
Income before taxes	54,369	60,327
Income tax provision	5,437	10,255
Net income	48,932	50,072
Less: Net loss attributable to noncontrolling interests	(876	) (746
Net income attributable to Trimble Navigation Ltd.	\$49,808	\$50,818
Basic earnings per share	\$0.20	\$0.20
Shares used in calculating basic earnings per share	255,181	248,740
Diluted earnings per share	\$0.19	\$0.20
Shares used in calculating diluted earnings per share	260,299	255,520
See accompanying Notes to the Condensed Consolidated Financial Statements.		

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

	First Quarter of	
	2013	2012
(Dollars in thousands)		
Net income	\$48,932	\$50,072
Foreign currency translation adjustments	(25,683	) 23,720
Net unrealized actuarial loss	(71	) (38
Comprehensive income	23,178	73,754
Less: Comprehensive loss attributable to the noncontrolling interests	(876	) (746
Comprehensive income attributable to Trimble Navigation Ltd.	\$24,054	\$74,500
See accompanying Notes to the Condensed Consolidated Financial Statements.		

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

(Dollars in thousands)	First Quarter of	
	2013	2012
Cash flow from operating activities:		
Net income	\$48,932	\$50,072
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	6,193	5,562
Amortization expense	39,332	28,797
Provision for doubtful accounts	65	587
Deferred income taxes	(11,809	) 146
Stock-based compensation	8,818	7,789
Income from equity method investments, net	(4,257	) (6,192
Excess tax benefit for stock-based compensation	(4,784	) (7,580
Provision for excess and obsolete inventories	584	3,111
Other non-cash items	104	(977
Add decrease (increase) in assets:		
Accounts receivable	(61,956	) (46,425
Other receivables	5,027	2,211
Inventories	(20,218	) 5,928
Other current and non-current assets	(10,867	) (7,972
Add increase (decrease) in liabilities:		
Accounts payable	(6,081	) 4,205
Accrued compensation and benefits	(12,037	) (1,895
Deferred revenue	51,964	29,569
Accrued warranty expense	439	(728
Other current and non-current liabilities	7,939	1,450
Net cash provided by operating activities	37,388	67,658
Cash flow from investing activities:		
Acquisitions of businesses, net of cash acquired	(65,192	) (101,392
Acquisitions of property and equipment	(14,927	) (7,644
Acquisitions of intangible assets	—	(755
Sale of equity method investments	2,430	—
Dividends received	1,284	181
Other	—	70
Net cash used in investing activities	(76,405	) (109,540
Cash flow from financing activities:		
Issuances of common stock, net	14,437	26,682
Excess tax benefit for stock-based compensation	4,784	7,580
Proceeds from long-term debt and revolving credit lines	113,000	181,500
Payments on short-term and long-term debt	(103,981	) (122,850
Net cash provided by financing activities	28,240	92,912
Effect of exchange rate changes on cash and cash equivalents	(3,442	) 3,495
Net increase (decrease) in cash and cash equivalents	(14,219	) 54,525
Cash and cash equivalents, beginning of period	157,771	154,621
Cash and cash equivalents, end of period	\$143,552	\$209,146
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 (the "Company"), incorporated in California in 1981, provides positioning solutions to commercial and government users in a large number of markets. These markets include surveying, agriculture, construction, asset management, mapping and mobile resource management.

The Company has a 52-53 week fiscal year, ending on the Friday nearest to December 31, which for fiscal 2012 was December 28, 2012. The first quarter of fiscal 2013 and 2012 ended on March 29, 2013 and March 30, 2012, respectively. Fiscal 2013 is a 53-week year and 2012 is a 52-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 first quarter of fiscal 2013 and for the first quarter of fiscal 2013 and 2012 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 2012 is derived from the audited Consolidated Financial Statements included in the Annual Report on Form 10-K of Trimble Navigation Limited for fiscal year 2012. The following discussion should be read in conjunction with the Company's 2012 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 first quarter of fiscal 2013 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).

On February 11, 2013, Trimble's Board of Directors approved a 2-for-1 split of all outstanding shares of the Company's Common Stock, payable March 20, 2013 to shareholders of record on March 6, 2013. All shares and per share information presented has been adjusted to reflect the stock split on a retroactive basis for all periods presented.

NOTE 2. UPDATES TO SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the Company's significant accounting policies during the first quarter of fiscal 2013 from those disclosed in the Company's 2012 Form 10-K.

NOTE 3. SHAREHOLDERS' EQUITY

Stock Repurchase Activities

In October 2011, the Company's Board of Directors approved a stock repurchase program ("2011 Stock Repurchase Program"), authorizing the Company to repurchase up to \$100.0 million of Trimble's common stock. No shares of common stock were repurchased during the first quarter of fiscal 2013 or 2012. The timing and actual number of future shares repurchased will depend on a variety of factors including price, regulatory requirements, capital

availability and other market conditions. The program does not require the purchase of any minimum number of shares and may be suspended or discontinued at any time without public notice.

Stock-Based Compensation Expense

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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 Condensed Consolidated Statements of Income for the first quarter of fiscal 2013 and 2012.

	First Quarter of 2013	2012
(Dollars in thousands)		
Cost of sales	\$600	\$520
Research and development	1,147	1,229
Sales and marketing	1,764	1,791
General and administrative	5,307	4,249
Total operating expenses	8,218	7,269
Total stock-based compensation expense	\$8,818	\$7,789

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 using the straight-line single option method. 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 first quarter of fiscal 2013 and 2012, the following weighted average assumptions were used:

	First Quarter of 2013	2012
Expected dividend yield	—	—
Expected stock price volatility	40.3%	45.4%
Risk free interest rate	0.6%	0.8%
Expected life of options	4.1 years	4.1 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 was 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

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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 was estimated at the date of grant using the Black-Scholes option-pricing model.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

Intangible Assets

Intangible Assets consisted of the following:

As of (Dollars in thousands)	First Quarter of 2013			Fiscal Year End 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed product technology	\$631,917	\$(289,608)	\$342,309	\$610,643	\$(267,952)	\$342,691
Trade names and trademarks	43,428	(24,459)	18,969	42,512	(23,241)	19,271
Customer relationships	389,862	(147,171)	242,691	385,269	(135,571)	249,698
Distribution rights and other intellectual properties	74,691	(41,964)	32,727	72,510	(39,751)	32,759
	\$1,139,898	\$(503,202)	\$636,696	\$1,110,934	\$(466,515)	\$644,419

The estimated future amortization expense of purchased intangible assets as of the first quarter of fiscal 2013 was as follows:

(Dollars in thousands)

2013 (Remaining)	\$115,939
2014	130,962
2015	118,851
2016	101,305
2017	82,283
Thereafter	87,356
Total	\$636,696

Goodwill

The changes in the carrying amount of goodwill by operating segment for the first quarter of fiscal 2013 were as follows:

	Engineering and Construction	Field Solutions	Mobile Solutions	Advanced Devices	Total
(Dollars in thousands)					
Balance as of fiscal year end 2012	\$958,103	\$68,684	\$763,386	\$25,526	\$1,815,699
Additions due to acquisitions	1,790	—	32,770	—	34,560
Purchase price adjustments	79	—	329	35	443
Foreign currency translation adjustments	(10,085)	(915)	(1,380)	(385)	(12,765)
Balance as of the first quarter of 2013	\$949,887	\$67,769	\$795,105	\$25,176	\$1,837,937

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 fiscal 2012 and the first quarter of fiscal 2013, 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 asset 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.

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NOTE 5. INVENTORIES

Inventories, net, consisted of the following:

As of (Dollars in thousands)	First Quarter of 2013	Fiscal Year End 2012
Raw materials	\$98,001	\$89,016
Work-in-process	6,117	6,658
Finished goods	156,478	144,855
Total inventories, net	\$260,596	\$240,529

Deferred costs of sales for the short-term deferral of hardware and related products are included within finished goods and were \$16.4 million as of the first quarter of fiscal 2013 and \$16.2 million as of fiscal year end 2012.

NOTE 6 . SEGMENT INFORMATION

The Company is a designer and distributor of positioning solutions enabled by GPS, optical, laser and wireless communications technology. The Company provides products for diverse applications in its targeted markets. To achieve distribution, marketing, production and technology advantages, the Company manages its operations in the following four segments:

• **Engineering and Construction** — Consists of 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 no single operation accounts for more than 10% of the Company's total revenue, operating income and assets. This segment is comprised of the Component Technologies, Military and Advanced Systems, Applanix, Trimble Outdoors, and ThingMagic businesses.

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

The following table presents revenue, operating income 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 Company's Chief Operating Decision Maker, its Chief Executive Officer, views by segment are accounts receivable, inventories and goodwill.

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	Reporting Segments				Total
	Engineering and Construction	Field Solutions	Mobile Solutions	Advanced Devices	
(Dollars in thousands)					
First Quarter of Fiscal 2013					
Segment revenue	\$266,871	\$147,481	\$110,164	\$31,595	\$556,111
Operating income	42,973	59,526	11,573	6,485	120,557
First Quarter of Fiscal 2012					
Segment revenue	\$248,885	\$147,499	\$78,383	\$27,500	\$502,267
Operating income	40,077	62,361	7,358	3,339	113,135
As of the First Quarter of Fiscal 2013					
Accounts receivable	\$186,909	\$112,239	\$67,224	\$22,478	\$388,850
Inventories	167,070	45,458	30,328	17,740	260,596
Goodwill	949,887	67,769	795,105	25,176	1,837,937
As of Fiscal Year End 2012					
Accounts receivable	\$171,580	\$71,465	\$59,720	\$20,712	\$323,477
Inventories	148,241	44,738	30,598		