

MARSH & MCLENNAN COMPANIES, INC.
Form 10-Q
August 04, 2014

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q Filing

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014

Marsh & McLennan Companies, Inc.
1166 Avenue of the Americas
New York, New York 10036
(212) 345-5000

Commission file number 1-5998
State of Incorporation: Delaware
I.R.S. Employer Identification No. 36-2668272

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 the definitions 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 July 28, 2014, there were outstanding 544,316,951 shares of common stock, par value \$1.00 per share, of the registrant.

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements,” as defined in the Private Securities Litigation Reform Act of 1995. These statements, which express management's current views concerning future events or results, use words like “anticipate,” “assume,” “believe,” “continue,” “estimate,” “expect,” “future,” “intend,” “plan,” and similar terms, and future or conditional tense verbs like “could,” “may,” “might,” “should,” “will” and “would.” For example, we may use forward-looking statements when addressing topics such as: the outcome of contingencies; the expected impact of acquisitions and dispositions; the impact of competition; pension obligations; the impact of foreign currency exchange rates; our effective tax rates; changes in our business strategies and methods of generating revenue; the development and performance of our services and products; changes in the composition or level of our revenues; our cost structure, dividend policy, cash flow and liquidity; future actions by regulators; and the impact of changes in accounting rules.

Forward-looking statements are subject to inherent risks and uncertainties. Factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements include, among other things:

- our exposure to potential liabilities arising from errors and omissions claims against us;
- the impact of competition, including with respect to our geographic reach, the sophistication and quality of our services, our pricing relative to competitors, our customers' option to self-insure or utilize internal resources instead of consultants, and our corporate tax rates relative to a number of our competitors;
- the extent to which we retain existing clients and attract new business, and our ability to incentivize and retain key employees;
- our ability to maintain adequate physical, technical and administrative safeguards to protect the security of confidential information or data, and the potential of a system or network disruption that results in regulatory penalties, remedial costs and/or the improper disclosure of confidential information or data;
- our exposure to potential criminal sanctions or civil remedies if we fail to comply with foreign and U.S. laws and regulations that are applicable in the domestic and international jurisdictions in which we operate, including evolving sanctions against Russia and existing trade sanctions laws relating to countries such as Cuba, Iran, Sudan and Syria, anti-corruption laws such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010, local laws prohibiting corrupt payments to government officials, as well as import and export restrictions;
- our ability to make acquisitions and dispositions and to integrate, and realize expected synergies, savings or benefits from, the businesses we acquire;
- changes in the funded status of our global defined benefit pension plans and the impact of any increased pension funding resulting from those changes;
 - the impact on our net income caused by fluctuations in foreign currency exchange rates;
- our ability to successfully recover should we experience a disaster or other business continuity problem, such as an earthquake, hurricane, flood, terrorist attack, pandemic, security breach, cyber attack, power loss, telecommunications failure or other natural or man-made disaster;
 - the impact of changes in interest rates and deterioration of counterparty credit quality on our results related to our cash balances and investment portfolios, including corporate and fiduciary funds;
- the potential impact of rating agency actions on our cost of financing and ability to borrow, as well as on our operating costs and competitive position;
- changes in applicable tax or accounting requirements; and
- potential income statement effects from the application of FASB's ASC Topic No. 740 (“Income Taxes”) regarding accounting treatment of uncertain tax benefits and valuation allowances, including the effect of any subsequent adjustments to the estimates we use in applying this accounting standard.

The factors identified above are not exhaustive. Marsh & McLennan Companies and its subsidiaries operate in a dynamic business environment in which new risks may emerge frequently. Accordingly, we caution readers not to place undue reliance on the above forward-looking statements, which speak only as of the dates on which they are made. The Company undertakes no obligation to update or revise any forward-looking statement to reflect events or circumstances arising after the date on which it is made. Further information concerning Marsh & McLennan Companies and its businesses, including information about factors that could materially affect our results of operations and financial condition, is contained in the Company's filings with the Securities and Exchange Commission, including the "Risk Factors" section of our most recently filed Annual Report on Form 10-K.

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	<u>4</u>
ITEM 1. <u>FINANCIAL STATEMENTS</u> (UNAUDITED)	<u>4</u>
<u>CONSOLIDATED STATEMENTS OF INCOME</u>	<u>4</u>
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u>	<u>5</u>
<u>CONSOLIDATED BALANCE SHEETS</u>	<u>6</u>
<u>CONSOLIDATED BALANCE SHEETS (Continued)</u>	<u>7</u>
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	<u>8</u>
<u>CONSOLIDATED STATEMENTS OF EQUITY</u>	<u>9</u>
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>10</u>
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>31</u>
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	<u>42</u>
ITEM 4. <u>CONTROLS & PROCEDURES</u>	<u>43</u>
<u>PART II. OTHER INFORMATION</u>	<u>44</u>
ITEM 1. <u>LEGAL PROCEEDINGS</u>	<u>44</u>
ITEM 1A. <u>RISK FACTORS</u>	<u>44</u>
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>44</u>
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	<u>45</u>
ITEM 4. <u>MINE SAFETY DISCLOSURE</u>	<u>45</u>
ITEM 5. <u>OTHER INFORMATION</u>	<u>45</u>
ITEM 6. <u>EXHIBITS</u>	<u>45</u>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARSH & MCLENNAN COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In millions, except per share figures)	Three Months Ended		Six Months Ended			
	June 30,	2013	June 30,	2013		
Revenue	\$3,300	\$3,088	\$6,564	\$6,214		
Expense:						
Compensation and benefits	1,876	1,766	3,715	3,569		
Other operating expenses	777	745	1,529	1,461		
Operating expenses	2,653	2,511	5,244	5,030		
Operating income	647	577	1,320	1,184		
Interest income	5	4	10	8		
Interest expense	(42)	(40)	(84)	(84)		
Investment income	(2)	23	11	44		
Income before income taxes	608	564	1,257	1,152		
Income tax expense	168	164	360	340		
Income from continuing operations	440	400	897	812		
Discontinued operations, net of tax	(2)	(5)	(3)	7		
Net income before non-controlling interests	438	395	894	819		
Less: Net income attributable to non-controlling interests	7	7	20	18		
Net income attributable to the Company	\$431	\$388	\$874	\$801		
Basic net income per share – Continuing operations	\$0.79	\$0.71	\$1.60	\$1.45		
– Net income attributable to the Company	\$0.78	\$0.71	\$1.59	\$1.46		
Diluted net income per share – Continuing operations	\$0.78	\$0.70	\$1.58	\$1.42		
– Net income attributable to the Company	\$0.77	\$0.69	\$1.57	\$1.44		
Average number of shares outstanding – Basic	549	551	548	549		
– Diluted	556	559	556	681,463	302,401	589,315
Operating expense						
Research and development	81,807	76,555	158,183	150,163		
Sales and marketing	95,621	85,307	192,975	168,930		
General and administrative	61,364	52,760	118,797	104,730		
Restructuring charges	789	2,966	1,126	4,571		
Amortization of purchased intangible assets	17,856	19,908	37,537	39,559		
Total operating expense	257,437	237,496	508,618	467,953		
Operating income	97,134	64,905	172,845	121,362		
Non-operating income, net						
Interest expense, net	(3,164)	(4,255)	(6,847)	(9,326)		
Foreign currency transaction gain (loss)	(454)	600	(609)	(969)		

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Income from equity method investments	5,225	7,157	8,688	11,414
Other income, net	27	284	13,166	579
Total non-operating income, net	1,634	3,786	14,398	1,698
Income before taxes	98,768	68,691	187,243	123,060
Income tax provision	20,741	13,738	41,091	19,175
Net income	78,027	54,953	146,152	103,885
Less: Net gain (loss) attributable to noncontrolling interests	193	372	(306)	(504)
Net income attributable to Trimble Navigation Ltd.	\$77,834	\$54,581	\$146,458	\$104,389
Basic earnings per share	\$0.30	\$0.21	\$0.56	\$0.41
Shares used in calculating basic earnings per share	261,075	256,186	260,432	255,683
Diluted earnings per share	\$0.29	\$0.21	\$0.55	\$0.40
Shares used in calculating diluted earnings per share	265,957	260,533	265,370	260,416

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

	Second Quarter of		First Two Quarters of	
	2014	2013	2014	2013
(Dollars in thousands)				
Net income	\$78,027	\$54,953	\$146,152	\$103,885
Foreign currency translation adjustments	(1,003	) (1,603	) (2,404	) (27,286
Net unrealized actuarial gain (loss)	50	35	59	(35
Comprehensive income	77,074	53,385	143,807	76,564
Less: Comprehensive gain (loss) attributable to noncontrolling interests	193	372	(306	) (504
Comprehensive income attributable to Trimble Navigation Ltd.	\$76,881	\$53,013	\$144,113	\$77,068

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

(Dollars in thousands)	First Two Quarters of	
	2014	2013
Cash flow from operating activities:		
Net income	\$146,152	\$103,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	15,621	12,854
Amortization expense	78,443	79,095
Provision for doubtful accounts	869	261
Deferred income taxes	(1,700	) (13,732
Stock-based compensation	21,087	17,253
Income from equity method investments	(8,688	) (11,414
Gain on an equity sale	(15,091) —
Excess tax benefit for stock-based compensation	(13,505	) (7,616
Provision for excess and obsolete inventories	1,731	569
Other non-cash items	(1,867	) (494
Add decrease (increase) in assets:		
Accounts receivable	(42,563	) (24,071
Other receivables	(3,708	) (1,558
Inventories	(21,335	) (14,725
Other current and non-current assets	(8,001	) (12,165
Add increase (decrease) in liabilities:		
Accounts payable	452	(18,936
Accrued compensation and benefits	5,625	(7,166
Deferred revenue	49,042	55,994
Accrued warranty expense	1,070	(154
Other liabilities	10,954	14,163
Net cash provided by operating activities	214,588	172,043
Cash flow from investing activities:		
Acquisitions of businesses, net of cash acquired	(25,094	) (178,953
Acquisitions of property and equipment	(28,425	) (39,431
Dividends received from equity method investments	22,463	2,526
Other	(2,684	) 730
Net cash used in investing activities	(33,740	) (215,128
Cash flow from financing activities:		
Issuances of common stock, net of tax withholding	39,322	23,954
Excess tax benefit for stock-based compensation	13,505	7,616
Proceeds from debt and revolving credit lines	17,000	239,613
Payments on debt and revolving credit lines	(119,517	) (252,780
Net cash provided by (used in) financing activities	(49,690	) 18,403
Effect of exchange rate changes on cash and cash equivalents	534	(4,017
Net increase (decrease) in cash and cash equivalents	131,692	(28,699
Cash and cash equivalents, beginning of period	147,227	157,771
Cash and cash equivalents, end of period	\$278,919	\$129,072
See accompanying Notes to the Condensed Consolidated Financial Statements.		

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

NOTE 1. OVERVIEW AND BASIS OF PRESENTATION

Trimble Navigation Limited (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 second quarter of fiscal 2014 and 2013 ended on July 4, 2014 and June 28, 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 second quarter of fiscal 2014 and for the second quarter and the first two 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 second quarter and the first two 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 Note 7 Segment Information.

NOTE 2. UPDATES TO SIGNIFICANT ACCOUNTING POLICIES

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

Table of Contents

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 for 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, 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 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 two quarters of fiscal 2014 or 2013. 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

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 2014 and 2013.

8

Table of Contents

	Second Quarter of		First Two Quarters of	
	2014	2013	2014	2013
(Dollars in thousands)				
Cost of sales	\$763	\$607	\$1,510	\$1,207
Research and development	1,738	1,232	3,215	2,379
Sales and marketing	2,098	1,761	3,960	3,525
General and administrative	6,376	4,835	12,402	10,142
Total operating expenses	10,212	7,828	19,577	16,046
Total stock-based compensation expense	\$10,975	\$8,435	\$21,087	\$17,253

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 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 second quarter and the first two quarters of fiscal 2014 and 2013, the following weighted average assumptions were used:

	Second Quarter of		First Two Quarters of	
	2014	2013	2014	2013
Expected dividend yield	—	—	—	—
Expected stock price volatility	35.3%	34.8%	35.4%	34.8%
Risk free interest rate	1.2%	0.5%	1.2%	0.5%
Expected life of options	4.0 years	4.0 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.

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. GOODWILL AND INTANGIBLE ASSETS

Intangible Assets

Intangible Assets consisted of the following:

Table of Contents

As of	Second Quarter of Fiscal 2014			Fiscal Year End 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(Dollars in thousands)						
Developed product technology	\$710,433	\$(412,004)	\$298,429	\$699,479	\$(363,389)	\$336,090
Trade names and trademarks	46,517	(31,659)	14,858	46,195	(28,699)	17,496
Customer relationships	426,050	(212,342)	213,708	424,630	(189,338)	235,292
Distribution rights and other intellectual properties	79,439	(53,021)	26,418	79,844	(49,323)	30,521
	\$1,262,439	\$(709,026)	\$553,413	\$1,250,148	\$(630,749)	\$619,399

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

(Dollars in thousands)	
2014 (Remaining)	\$74,083
2015	140,620
2016	122,005
2017	100,356
2018	69,649
Thereafter	46,700
Total	\$553,413
Goodwill	

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

	Engineering and Construction	Field Solutions	Mobile Solutions	Advanced Devices	Total
(Dollars in thousands)					
Balance as of fiscal year end 2013	\$1,080,240	\$88,651	\$796,094	\$24,485	\$1,989,470
Additions due to acquisitions	6,385	45	4,422	—	10,852
Purchase price adjustments	737	46	43	—	826
Foreign currency translation adjustments	(2,690)	(266)	298	(18)	(2,676)
Write off	\$—	\$—	\$(689)	\$—	\$(689)
Balance as of the second quarter of fiscal 2014	\$1,084,672	\$88,476	\$800,168	\$24,467	\$1,997,783

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 second half of fiscal 2013 and the first two 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.

NOTE 6. INVENTORIES

Inventories, net, consisted of the following:

Table of Contents

As of (Dollars in thousands)	Second Quarter of 2014	Fiscal Year End 2013
Raw materials	\$105,373	\$94,988
Work-in-process	7,795	6,871
Finished goods	161,203	152,452
Total inventories, net	\$274,371	\$254,311

Deferred costs of sales for the short-term deferral of hardware and related product revenues are included within finished goods and were \$10.2 million as of the second 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.

Table of Contents

	Reporting Segments				Total
	Engineering and Construction	Field Solutions	Mobile Solutions	Advanced Devices	
(Dollars in thousands)					
Second Quarter of Fiscal 2014					
Segment revenue	\$368,072	\$114,456	\$122,880	\$36,791	\$642,199
Operating income	91,884	38,672	20,385	12,083	163,024
Depreciation expense	3,173	191	1,288	158	4,810
Second Quarter of Fiscal 2013					
Segment revenue	\$313,446	\$115,864	\$115,524	\$31,459	\$576,293
Operating income	66,840	43,372	15,435	6,514	132,161
Depreciation expense	2,880	153	1,358	190	4,581
First Two Quarters of Fiscal 2014					
Segment revenue	\$677,348	\$252,621	\$241,508	\$75,443	\$1,246,920
Operating income	149,399	91,609	36,555	23,759	301,322
Depreciation expense	6,330	354	2,510	337	9,531
First Two Quarters of Fiscal 2013					
Segment revenue	\$580,317	\$263,345	\$225,688	\$63,054	\$1,132,404
Operating income	109,813	102,898	27,008	12,999	252,718
Depreciation expense	5,848	287	2,337	387	8,859
As of the Second Quarter of Fiscal 2014					
Accounts receivable	\$222,590	\$65,894	\$68,314	\$23,013	\$379,811
Inventories	178,480	50,286	29,980	15,625	274,371
Goodwill	1,084,672	88,476	800,168	24,467	1,997,783
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:					

	Second Quarter of		First Two Quarters of	
	2014	2013	2014	2013
(Dollars in thousands)				
Consolidated segment operating income	\$163,024	\$132,161	\$301,322	\$252,718
Unallocated corporate expense	(26,052)	) (24,168)	) (46,674)	) (45,517)
Amortization of purchased intangible assets	(37,874)	) (39,763)	) (78,443)	) (79,095)
Acquisition costs	(1,964)	) (3,325)	) (3,360)	) (6,744)
Consolidated operating income	97,134	64,905	172,845	121,362
Non-operating income, net	1,634	3,786	14,398	1,698
Consolidated income before taxes	\$98,768	\$68,691	\$187,243	\$123,060

Unallocated corporate expense includes general corporate expense, amortization of acquisition-related inventory step-up and restructuring costs.

NOTE 8. DEBT, COMMITMENTS AND CONTINGENCIES

Debt consisted of the following:

Table of Contents

As of (Dollars in thousands)	Second Quarter of 2014	Fiscal Year End 2013
Credit Facilities:		
Term loan	\$647,500	\$665,000
Revolving credit facility	—	85,000
Promissory notes and other debt	8,363	8,458
Total debt	655,863	758,458
Less current portion of long-term debt	60,706	106,402
Non-current portion	\$595,157	\$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 second quarter of fiscal 2014, total debt was comprised primarily of a term loan of \$647.5 million. Of the total outstanding balance, \$595.0 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 \$17.5 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

Table of Contents

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 second 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 1.53% and 1.31% at the end of the second 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 1.53% and 1.67% at the end of the second quarter of fiscal 2014 and fiscal year end 2013, respectively.

Promissory Notes and Other Debt

As of the second quarter of fiscal 2014 and fiscal year end 2013, the Company had promissory notes and other debt totaling approximately \$8.4 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 second quarter of fiscal 2014 are as follows (dollars in thousands):

2014 (Remaining)	\$ 15,223
2015	24,587
2016	17,723
2017	14,185
2018	8,853
Thereafter	27,136
Total	\$ 107,707

As of the second quarter of fiscal 2014, the Company had unconditional purchase obligations of approximately \$129.6 million. These unconditional purchase obligations primarily represent open non-cancelable purchase orders for material purchases with the Company's vendors. Purchase obligations exclude agreements that are cancelable without penalty.

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.

Table of Contents

Fair Value on a Recurring Basis

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

(Dollars in thousands)	Fair Values as of the Second Quarter of Fiscal 2014				Fair Values as of Fiscal Year End 2013			
	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)	18,248	—	—	18,248	16,545	—	—	16,545
Derivative assets (3)	—	697	—	697	—	196	—	196
Total	\$18,250	\$697	\$—	\$18,947	\$16,547	\$196	\$—	\$16,743
Liabilities								
Deferred compensation plan liabilities (2)	\$18,248	\$—	\$—	\$18,248	\$16,545	\$—	\$—	\$16,545
Derivative liabilities (3)	—	775	—	775	—	635	—	635
Contingent consideration liabilities (4)	—	—	6,046	6,046	—	—	2,401	2,401
Total	\$18,248	\$775	\$6,046	\$25,069	\$16,545	\$635	\$2,401	\$19,581

The money market funds are highly liquid investments. The fair values are determined using observable quoted (1) prices in active markets. Money market funds are included in Cash and cash equivalents on the Company's Condensed Consolidated Balance Sheets.

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 (2) 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.

Derivative assets and liabilities primarily represent forward currency exchange contracts. The Company typically (3) enters into these contracts to minimize the short-term impact of foreign currency exchange rates on certain trade and inter-company receivables and payables. Derivative assets and liabilities are included in Other current assets and Other current liabilities on the Company's Condensed Consolidated Balance Sheets.

Contingent consideration liabilities represent arrangements to pay the former owners of certain companies the Company acquired. The undiscounted maximum payment under the arrangements is \$13.9 million at the end of the (4) second quarter of fiscal 2014, based on estimated future revenues or gross margins. 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:

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

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Cash and cash equivalents	\$278,919	\$278,919	\$147,227	\$147,227
Forward foreign currency exchange contracts	697	697	196	196
Liabilities:				
Credit facilities	\$647,500	\$647,500	\$750,000	\$750,000
Forward foreign currency exchange contracts	775	775	635	635
Promissory notes and other debt	8,363	8,363	8,458	8,458

15

Table of Contents

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 two 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	10,499	
Changes in estimates	630	
Warranty settlements (in cash or in kind)	(10,088)
Balance as of the second quarter of fiscal 2014	\$18,840	

NOTE 11. EARNINGS PER SHARE

Basic earnings 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 earnings 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 earnings 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 earnings per share:

	Second Quarter of		First Two Quarters of	
	2014	2013	2014	2013
(Dollars in thousands, except per share amounts)				
Numerator:				
Net income attributable to Trimble Navigation Ltd.	\$77,834	\$54,581	\$146,458	\$104,389
Denominator:				
Weighted average number of common shares used in basic earnings per share	261,075	256,186	260,432	255,683
Effect of dilutive securities	4,882	4,347	4,938	4,733
Weighted average number of common shares and dilutive potential common shares used in diluted earnings per share	265,957	260,533	265,370	260,416
Basic earnings per share	\$0.30	\$0.21	\$0.56	\$0.41

Diluted earnings per share	\$0.29	\$0.21	\$0.55	\$0.40
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16

Table of Contents

For the second quarter of fiscal 2014 and 2013, the Company excluded 0.4 million and 3.2 million shares of outstanding stock options, respectively, from the calculation of diluted earnings per share because their effect would have been antidilutive. For the first two quarters of fiscal 2014 and 2013, the Company excluded 0.2 million and 2.8 million shares of outstanding stock options, respectively, from the calculation of diluted earnings per share.

NOTE 12. INCOME TAXES

In the second quarter of fiscal 2014, the Company's effective income tax rate was 21% as compared to 20% in the corresponding period in 2013, primarily due to the expiration of the federal R&D credit and the differences in the geographic mix of pretax income. In the first two quarters of fiscal 2014, the Company's effective income tax rate was 22% as compared to 16% in the corresponding period in 2013 due to the tax effect of a gain on a partial equity sale of VSS, the expiration of the federal R&D credit and the differences in the geographic mix of pretax income.

The Company's effective tax rates for the second quarter of fiscal years 2014 and 2013 are 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 second quarter of fiscal 2014 will materially change in the next twelve months.

The unrecognized tax benefits of \$42.1 million and \$38.1 million as of the second 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 second 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 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.

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 third quarter of 2014, the Company repurchased approximately 1,509,000 shares of common stock in open market purchases at an average price of \$31.60 per share pursuant to its existing stock repurchase program (the “2011 Stock Repurchase Program”). The total purchase price of \$47.7 million will be reflected as a decrease to common stock based on the average stated value per share with the remainder to retained earnings. Common stock repurchases under the program will be recorded based upon the

17

Table of Contents

trade date for accounting purposes. All common shares repurchased under this program are retired. As of August 7, 2014, the 2011 Stock Repurchase Program had remaining authorized funds of \$52.3 million. The timing and actual number of future shares repurchased will depend on a variety of factors including price, regulatory requirements, capital availability, and other market conditions. The program does not require the purchase of any minimum number of shares and may be suspended or discontinued at any time without public notice.

Table of Contents

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the “safe harbor” created by those sections. Actual results could differ materially from those indicated in the forward-looking statements due to a number of factors including, but not limited to, the risk factors discussed in “Risk Factors” below and elsewhere in this report as well as in the Company’s Annual Report on Form 10-K for fiscal year 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 policies during the first two 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.

Table of Contents

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 introduced advances in several Trimble software packages for geospatial analysis and modeling. These included enhanced point cloud processing and management in Trimble Business Center, which enables users to visualize and edit large point clouds while simultaneously working with high-resolution imagery. Improvements to Trimble RealWorks enable our users to produce colorized point clouds using high-resolution and high dynamic range images from professional grade cameras, thereby reducing measurement and modeling times. Enhancements to Trimble Trident software enable mobile mapping professionals to combine datasets captured using spherical cameras with laser scanner and inertial measurements from the Trimble MX2 to easily determine the location of surveyed features and automatically classify imaged objects.

We released an extension for SketchUp software to enable architects, engineers and geospatial professionals to create models from 3D scanning data collected with Trimble 3D laser scanners. The 3D scanning extension dramatically reduces modeling time and provides tools to extract construction points, lines and planes. We also launched SketchUp Mobile View for iPad, which enables design and construction professionals to utilize convenient, on-the-go access to SketchUp models.

Within the heavy civil construction market, we introduced the Trimble CCS900 Compaction Control System to improve efficiency in bulk earthworks and landfill compaction. When using the system, machine operators can make more uniform and efficient passes, report compaction production data in the field, and ensure target compaction is reached with minimal fuel usage and machine wear.

We also announced that Trimble CenterPoint RTX Correction Service is available for heavy civil construction applications. The service offers construction companies a flexible, easy-to-deploy option for conducting pre-bid reconnaissance and initial site measurements without using a traditional GNSS base station, enabling contractors to produce more accurate material estimates and bids.

We acquired Australian-based Mining Information Systems (MIS). The acquisition adds enterprise-level information management capabilities to Trimble's portfolio of mining solutions. These capabilities enable improved productivity, profitability, and safety by providing a more complete view of geospatial, productivity, workforce and cost data across mining functional areas to support better operational and strategic decision making.

In the quarter we continued to execute our global distribution strategy by establishing new SITECH Technology Dealers in northern and northwest Mexico, Nebraska and northeastern Canada.

Field Solutions Segment

Within the agriculture market, we extended our Connected Farm solution to include a new agronomic service, the Soil Information System (SIS), which provides farmers with in-depth 3-D soil data to support more informed decisions about crop production goals. SIS is a 3-D soil mapping solution that produces high-resolution soil and topographic information to provide a greater understanding of the physical and chemical characteristics of the soil. SIS multi-layer soil models enable farmers to initiate effective solutions to resolve the unique challenges of each area of their fields.

We further extended the Connected Farm solution with the release of Trimble PurePixel Precision Vegetation Health Solution, which provides processing of multi-spectral crop images. The system delivers a color-coded visual representation of a field's crop health or maturity level, enabling farmers and their trusted advisers to be more efficient in locating, identifying and solving crop production issues. Also in the second quarter, we announced that the Trimble Irrigate-IQ precision irrigation solution is available in North America. The solution, which enables farmers to remotely control irrigators via the Internet, also includes the Connected Farm Irrigate application to enable control of pivot irrigation systems via smartphone or tablet.

Mobile Solutions Segment

Within the transportation and logistics market, ALK Technologies, a Trimble company, released the latest version of PC MILER truck routing, mileage and mapping software. PC MILER includes new tools and enhanced functionality geared around the need for greater customization.

Table of Contents

Within the forestry market, we released a new Enterprise Forest Management software solution, which provides a single operational platform for managing land, forest and fiber resources. Operating as the centerpiece of the Trimble Connected Forest vision, the new solution integrates maps and spatial data with planning information to enable managers to schedule activities, plan and manage budgets and allocate resources. In addition, we announced that City Forests Ltd of Dunedin, New Zealand implemented the Enterprise Forest Management solution for managing its spatial and non-spatial forest information.

Advanced Devices Segment

We announced a new application, MyTopo Terrain Navigator Pro Enterprise (TNPe), which facilitates collaboration and position sharing in the field. Designed for deployment on mobile devices during large-scale search and rescue operations, environmental cleanups and multi-state conservation projects, TNPe synthesizes and displays collected data to speed in-the-field decision-making and create a digital record of all field activity.

We introduced the Trimble BD930-UHF receiver and communication module. As part of Trimble's GNSS OEM portfolio, the new compact module features centimeter-level, Real-Time Kinematic positioning capabilities coupled with an integrated UHF receiver for precise, mobile positioning. The BD930-UHF module's connectivity and configuration capabilities allow system integrators and OEMs to easily add GNSS, centimeter-level positioning to specialized or custom hardware solutions. The Trimble BD930-UHF can be used for demanding conditions and applications such as field computing, port automation and lightweight robotic or unmanned vehicles.

RECENT BUSINESS DEVELOPMENTS

The following companies or business assets were acquired during the fifteen months ended July 4, 2014 and are combined in our results of operations since the date of acquisition:

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

Table of Contents

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.

Actronic Holdings Limited

On June 5, 2013, we acquired privately-held Actronic Holdings Limited of Auckland, New Zealand. Actronic Technologies is a provider of weighing technology and payload information systems for construction, aggregates, mining and waste markets. Actronic Holdings' performance is reported under our Engineering and Construction business segment.

Trade Service Company, LLC

On May 31, 2013, we acquired privately-held Trade Service Company, LLC based in San Diego, California. Trade Service is a provider in content acquisition, aggregation, management, publishing and distribution of product and pricing information used by manufacturers, distributors and contractors in the Architecture, Engineering, and Construction industry. Trade Service's performance is reported under our Engineering and Construction 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.

	Second Quarter of		First Two Quarters of		
	2014	2013	2014	2013	
(Dollars in thousands)					
Revenue:					
Product	\$468,995	\$425,880	\$911,564	\$838,667	
Service	100,062	84,511	193,381	166,107	
Subscription	73,142	65,902	141,975	127,630	
Total revenue	642,199	576,293	1,246,920	1,132,404	
Gross margin	\$354,571	\$302,401	\$681,463	\$589,315	
Gross margin %	55.2	% 52.5	% 54.7	% 52.0	%
Operating income	\$97,134	\$64,905	\$172,845	\$121,362	
Operating income %	15.1	% 11.3	% 13.9	% 10.7	%
Revenue					

In the second quarter of fiscal 2014, total revenue increased by \$65.9 million or 11%, as compared to the second quarter of fiscal 2013. Of this increase, product revenue increased \$43.1 million or 10%, service revenue increased \$15.6 million or 18%, and subscription revenue increased \$7.2 million or 11%. In the first two quarters of fiscal 2014, total revenue increased by \$114.5 million or 10%, as compared to the first two quarters of fiscal 2013. Of this increase, product revenue increased \$72.9 million or 9%, service revenue increased \$27.3 million or 16%, and

subscription revenue increased \$14.3 million or 11%.

22

Table of Contents

The product, service, and subscription revenue increases were driven primarily by growth across Engineering and Construction, and to a lesser extent, Mobile Solutions and Advanced Devices. The growth was primarily organic growth and to a lesser extent, the impact of the acquisitions which were not applicable in the prior period. The product revenue growth was partially offset by a decrease in Field Solutions product revenue primarily due to softness in agriculture markets. 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 second quarter of fiscal 2014 increased \$54.6 million or 17%, Mobile Solutions increased \$7.4 million or 6%, and Advanced Devices increased \$5.3 million or 17%, partially offset by a decrease in Field Solutions of \$1.4 million or 1%, as compared to the second quarter of fiscal 2013. Engineering and Construction revenue for the first two quarters of fiscal 2014 increased \$97.0 million or 17%, Mobile Solutions increased \$15.8 million or 7%, Advanced Devices increased \$12.4 million or 20%, and Field Solutions decreased \$10.7 million or 4%, as compared to the corresponding period of fiscal 2013.

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 \$52.2 million for the second quarter of fiscal 2014, as compared to the second quarter of fiscal 2013, and increased by \$92.1 million for the first two quarters of fiscal 2014, as compared to the first two quarters of fiscal 2013. The increase was primarily due to increased sales and gross margin expansion in Engineering and Construction and to a lesser extent in Mobile Solutions. Gross margin as a percentage of total revenue for the second quarter of fiscal 2014 was 55.2%, as compared to 52.5% for the second quarter of fiscal 2013, and was 54.7% for the first two quarters of fiscal 2014, as compared to 52.0% for the first two quarters 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 to a lesser extent, in Mobile Solutions.

Operating Income

Operating income increased by \$32.2 million for the second quarter of fiscal 2014, as compared to the second quarter of fiscal 2013, and increased by \$51.5 million for the first two quarters of fiscal 2014, as compared to the first two quarters of fiscal 2013. Operating income as a percentage of total revenue was 15.1% for the second quarter of fiscal 2014, as compared to 11.3% for the second quarter of fiscal 2013, and was 13.9% for the first two quarters of fiscal 2014, as compared to 10.7% for the first two quarters of fiscal 2013.

The increase in operating income in both periods was primarily driven by higher revenue and gross margin expansion, partially offset by an increase in operating expenses. The increase in operating income percentage was primarily driven by 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 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:

Table of Contents

	Second Quarter of		First Two Quarters of		
	2014	2013	2014	2013	
(Dollars in thousands)					
Engineering and Construction					
Revenue	\$368,072	\$313,446	\$677,348	\$580,317	
Segment revenue as a percent of total revenue	57	% 54	% 54	% 51	%
Operating income	\$91,884	\$66,840	\$149,399	\$109,813	
Operating income as a percent of segment revenue	25	% 21	% 22	% 19	%
Field Solutions					
Revenue	\$114,456	\$115,864	\$252,621	\$263,345	
Segment revenue as a percent of total revenue	18	% 20	% 20	% 23	%
Operating income	\$38,672	\$43,372	\$91,609	\$102,898	
Operating income as a percent of segment revenue	34	% 37	% 36	% 39	%
Mobile Solutions					
Revenue	\$122,880	\$115,524	\$241,508	\$225,688	
Segment revenue as a percent of total revenue	19	% 20	% 20	% 20	%
Operating income	\$20,385	15,435	\$36,555	27,008	
Operating income as a percent of segment revenue	17	% 13	% 15	% 12	%
Advanced Devices					
Revenue	\$36,791	\$31,459	\$75,443	\$63,054	
Segment revenue as a percent of total revenue	6	% 6	% 6	% 6	%
Operating income	\$12,083	\$6,514	\$23,759	\$12,999	
Operating income as a percent of segment revenue	33	% 21	% 31	% 21	%

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

	Second Quarter of		First Two Quarters of		
	2014	2013	2014	2013	
(Dollars in thousands)					
Consolidated segment operating income	\$163,024	\$132,161	\$301,322	\$252,718	
Unallocated corporate expense	(26,052)	) (24,168)	) (46,674)	) (45,517))
Amortization of purchased intangible assets	(37,874)	) (39,763)	) (78,443)	) (79,095))
Acquisition costs	(1,964)	) (3,325)	) (3,360)	) (6,744))
Consolidated operating income	97,134	64,905	172,845	121,362	
Non-operating income, net	1,634	3,786	14,398	1,698	
Consolidated income before taxes	\$98,768	\$68,691	\$187,243	\$123,060	

Unallocated corporate expense includes general corporate expense, amortization of inventory step-up charges and restructuring costs.

Engineering and Construction

Engineering and Construction revenue increased by \$54.6 million or 17% and \$97.0 million or 17% for the second quarter and the first two quarters of fiscal 2014, respectively, as compared to the corresponding periods in fiscal 2013. Segment operating income increased \$25.0 million or 37% and \$39.6 million or 36% for the second quarter and the first two quarters of fiscal 2014, as compared to the corresponding periods in fiscal 2013.

Revenue growth for the second quarter and the first two quarters of fiscal 2014 was driven primarily by continued organic growth due to global sales of construction and geospatial products, primarily in the U.S. and Europe. The U.S. markets continued to improve and European markets demonstrated some growth as well. Australia's economy impacted our sales and was the most significant regional drag on the segment. Additionally, increased market

penetration contributed to growth due to continuing adoption of our products, particularly in the construction industry as technology is playing a broader role in increasing productivity and reducing costs. Our newer product solutions integrate both hardware and software technologies across an entire work flow.

Table of Contents

Segment operating income increased primarily due to higher revenue and product mix, including higher software, maintenance and subscription revenue.

Field Solutions

Field Solutions revenue decreased by \$1.4 million or 1% and \$10.7 million or 4% for the second quarter and the first two quarters of fiscal 2014, respectively, as compared to the corresponding periods in fiscal 2013. Segment operating income decreased by \$4.7 million or 11% and \$11.3 million or 11% for the second quarter and the first two quarters of fiscal 2014, as compared to the corresponding periods in fiscal 2013.

Field Solution revenue decreased for the second quarter and the first two quarters of fiscal 2014, primarily due to softness in agriculture markets. Lower commodity prices and farmer income contributed to slower than anticipated sales in agriculture in North America and to a lesser extent, Europe. Additionally, weather conditions, particularly in North America, and some dislocation in the channel, as we continue to shift toward a more information centric product offering, impacted our sales. The agriculture decrease was partially offset by an increase in Geographic Information System (GIS) sales.

Mobile Solutions

Mobile Solutions revenue increased by \$7.4 million or 6% and \$15.8 million or 7% for the second quarter and the first two quarters of fiscal 2014, respectively, as compared to the corresponding periods in fiscal 2013. Segment operating income increased by \$5.0 million or 32% and \$9.5 million or 35% for the second quarter and the first two quarters of fiscal 2014, as compared to the corresponding periods in fiscal 2013.

Mobile Solutions revenue increased for the second quarter and the first two quarters of fiscal 2014, primarily due to continued organic growth in the transportation and logistics market, which focuses on enterprise solutions. The majority of the sales are in the U.S., however there is continuing focus on geographic expansion. Operating income increased due to increased revenue and product mix, including higher software, maintenance and subscription revenue.

Advanced Devices

Advanced Devices revenue increased by \$5.3 million or 17% and \$12.4 million or 20% for the second quarter and the first two quarters of fiscal 2014, respectively, as compared to the corresponding periods in fiscal 2013. Segment operating income increased by \$5.6 million or 85% and \$10.8 million or 83% for the second quarter and the first two quarters of fiscal 2014, as compared to the corresponding periods in fiscal 2013.

The increase in revenue and operating income for the second quarter and the first two quarters of fiscal 2014 was due to increased sales of timing, embedded and inertial/GNSS positioning and orientation systems.

Research and Development, Sales and Marketing and General and Administrative Expense

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

	Second Quarter of		First Two Quarters of		
	2014	2013	2014	2013	
(Dollars in thousands)					
Research and development	\$81,807	\$76,555	\$158,183	\$150,163	
Percentage of revenue	13	% 13	% 13	% 13	%
Sales and marketing	\$95,621	\$85,307	\$192,975	\$168,930	
Percentage of revenue	15	% 15	% 15	% 15	%
General and administrative	\$61,364	\$52,760	\$118,797	\$104,730	
Percentage of revenue	9	% 9	% 10	% 9	%
Total	\$238,792	\$214,622	\$469,955	\$423,823	
Percentage of revenue	37	% 37	% 38	% 37	%

Overall, R&D, S&M and G&A expense increased by approximately \$24.2 million and \$46.1 million for the second quarter and the first two quarters of fiscal 2014, respectively, as compared to the corresponding periods in fiscal 2013. Research and development expense increased by \$5.3 million and \$8.0 million for the second quarter and the first two quarters of fiscal 2014, respectively, as compared to the corresponding periods in fiscal 2013. Research and development spending overall

Table of Contents

was at approximately 13% of revenue in both the second quarter and the first two quarters of fiscal 2014 and 2013. The cost of software developed for external sale subsequent to reaching technical feasibility was not material and was expensed as incurred.

The increase in R&D expense in the second quarter of fiscal 2014, as compared to the corresponding period of fiscal 2013 was primarily due to a \$1.6 million increase in compensation related expense due to headcount increases, the inclusion of expense of \$2.4 million from acquisitions not applicable in the prior corresponding period, a \$0.6 million increase due to unfavorable foreign currency exchange rates and a \$0.7 million increase in other expense.

The increase in R&D expense in the first two quarters of fiscal 2014, as compared to the corresponding period in fiscal 2013 was primarily due to a \$2.8 million increase in compensation related expense due to headcount increases, the inclusion of expense of \$5.0 million from acquisitions not applicable in the prior corresponding period, a \$0.6 million increase due to unfavorable foreign currency exchange rates, partially offset by a \$0.4 million decrease in other expense.

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

Sales and marketing expense increased by \$10.3 million and \$24.0 million for the second quarter and the first two quarters of fiscal 2014, respectively, as compared to the corresponding periods of fiscal 2013. Sales and marketing spending overall was at approximately 15% of revenue in both the second quarter and the first two quarters of fiscal 2014 and 2013.

The increase in Sales and marketing expense in the second quarter of fiscal 2014, as compared to the corresponding period of fiscal 2013 was primarily due to a \$7.0 million increase in compensation related expense due to headcount increases, the inclusion of expense of \$1.5 million from acquisitions not applicable in the prior period, a \$0.9 million increase due to unfavorable foreign currency exchange rates and a \$0.9 million increase in other expense.

The increase in Sales and marketing expense in the first two quarters of fiscal 2014, as compared to the corresponding period in fiscal 2013 was primarily due to an \$11.4 million increase in compensation related expense due to headcount increases, the inclusion of expense of \$4.6 million from acquisitions not applicable in the prior corresponding period, a \$5.3 million increase in travel/marketing cost due to two global dealer meetings, and a \$1.1 million increase due to unfavorable foreign currency exchange rates, and a \$1.6 million increase in other expense.

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

General and administrative expense increased by \$8.6 million and \$14.1 million for the second quarter and the first two quarters of fiscal 2014, respectively, as compared to the corresponding periods of fiscal 2013. General and administrative spending overall was at approximately 9% and 10% of revenue in the second quarter and the first two quarters of fiscal 2014, respectively, as compared to 9% in both the corresponding periods of fiscal 2013.

The increase in G&A expenses in the second quarter of fiscal 2014, as compared to the second quarter of fiscal 2013 was primarily due to a \$4.3 million increase in compensation related expense due to headcount increases, the inclusion of expense of \$1.1 million from acquisitions not applicable in the prior period, a \$0.3 million increase in bad debt expense, and a \$4.2 million increase in other expense, partially offset by a \$1.3 million decrease in acquisition cost.

The increase in G&A expenses in the first two quarters of fiscal 2014, as compared to the corresponding period in fiscal 2013 was primarily due to a \$7.5 million increase in compensation related expense, the inclusion of expense of \$3.5 million from acquisitions not applicable in the prior period, a \$0.9 million increase in bad debt expense, and a \$5.6 million increase in other expense, partially offset by a \$3.4 million decrease in acquisition cost.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets was \$37.9 million in the second quarter of fiscal 2014, as compared to \$39.8 million in the second quarter of fiscal 2013. Of the total \$37.9 million in the second quarter of fiscal 2014, \$17.9 million is presented as a separate line within Operating expense and \$20.0 million is presented as a separate line within Cost of sales in our Condensed Consolidated Statements of Income. The decrease was due to the expiration of amortization for prior acquisitions, partially offset by acquisitions not included in the second quarter of fiscal 2013. As of the second quarter of fiscal 2014, future amortization of intangible assets is expected to be \$74.1 million during the remaining two quarters of fiscal 2014, \$140.6 million during 2015, \$122.0 million during 2016, \$100.4 million during

2017, \$69.6 million during 2018 and \$46.7 million thereafter.

Non-operating Income, Net

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

26

Table of Contents

	Second Quarter of		First Two Quarters of	
	2014	2013	2014	2013
(Dollars in thousands)				
Interest expense, net	\$(3,164	) \$(4,255	) \$(6,847	) \$(9,326
Foreign currency transaction gain (loss)	(454	) 600	(609	) (969
Income from equity method investments, net	5,225	7,157	8,688	11,414
Other income, net	27	284	13,166	579
Total non-operating income, net	\$1,634	\$3,786	\$14,398	\$1,698

Non-operating income, net decreased \$2.2 million for the second quarter and increased \$12.7 million for the first two quarters of fiscal 2014, respectively, as compared to the corresponding periods in fiscal 2013. The decrease for the second quarter of fiscal 2014 was primarily due to a decrease in profitability from joint ventures. The increase for the first two quarters of fiscal 2014 was primarily due to a gain on a partial equity sale of Virtual Site Solutions (VSS) and lower interest expense, partially offset by lower profitability from joint ventures.

Income Tax Provision

Our effective income tax rate for the second quarter of fiscal 2014 was 21%, as compared to 20% in the corresponding period in 2013, primarily due to the expiration of the federal R&D credit and the differences in the geographic mix of pretax income. In the first two quarters of fiscal 2014, our effective income tax rate was 22% as compared to 16% in the corresponding period in 2013 due to the tax effect of a gain on a partial equity sale of VSS, the expiration of the federal R&D credit and the differences in the geographic mix of pretax income.

Our effective tax rates for the second quarter of fiscal years 2014 and 2013 are 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. We have not provided U.S. taxes for all of such earnings due to the indefinite reinvestment of some of those earnings outside the U.S.

OFF-BALANCE SHEET FINANCINGS AND LIABILITIES

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

In the normal course of business to facilitate sales of our products, we indemnify other parties, including customers, lessors and parties to other transactions with us, with respect to certain matters. We have agreed to hold the other party harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with our officers and directors, and our bylaws contain similar indemnification obligations to our agents. It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under these agreements were not material and no liabilities have been recorded for these obligations on the Condensed Consolidated Balance Sheets as of the second quarter of fiscal 2014 and fiscal year end 2013.

LIQUIDITY AND CAPITAL RESOURCES

Table of Contents

As of	Second Quarter of 2014	Fiscal Year End 2013
(Dollars in thousands)		
Cash and cash equivalents	\$278,919	\$147,227
Total debt	655,863	758,458
	First Two Quarters of 2014	2013
(Dollars in thousands)		
Cash provided by operating activities	\$214,588	\$172,043
Cash used in investing activities	(33,740	) (215,128)
Cash provided by (used in) financing activities	(49,690	) 18,403
Effect of exchange rate changes on cash and cash equivalents	534	(4,017)
Net increase (decrease) in cash and cash equivalents	\$131,692	\$(28,699)

Cash and Cash Equivalents

As of the second quarter of fiscal 2014, cash and cash equivalents totaled \$278.9 million as compared to \$147.2 million as of fiscal year end 2013. Debt was \$655.9 million as of the second quarter of fiscal 2014, as compared to \$758.5 million as of fiscal year end 2013.

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

*We believe that our cash and cash equivalents, together with borrowings under our 2012 Credit Facility as described below under the heading "Debt", will be sufficient to meet our anticipated operating cash needs, debt service, planned capital expenditures, and stock purchases under the stock repurchase program for at least the next twelve months.

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

Operating Activities

Cash provided by operating activities was \$214.6 million for the first two quarters of fiscal 2014, as compared to \$172.0 million for the first two quarters of fiscal 2013. The increase of \$42.5 million was primarily driven by an increase in net income before non-cash depreciation and amortization, partially offset by an increase in accounts receivable.

Investing Activities

Cash used in investing activities was \$33.7 million for the first two quarters of fiscal 2014, as compared to \$215.1 million for the first two quarters of fiscal 2013. The decrease of \$181.4 million was due to lower cash requirements for business acquisitions.

Financing Activities

Cash used in financing activities was \$49.7 million for the first two quarters of fiscal 2014, as compared to cash provided of \$18.4 million for the first two quarters of fiscal 2013. The decrease of \$68.1 million was primarily due to payments on term loan debt and revolving credit lines.

Accounts Receivable and Inventory Metrics

As of	Second Quarter of 2014	Fiscal Year End 2013
Accounts receivable days sales outstanding	54	55
Inventory turns per year	4.1	4.1

Table of Contents

Accounts receivable days sales outstanding were 54 days as of the end of the second quarter of fiscal 2014, as compared to 55 days as of the end of fiscal 2013. The decrease in DSO was primarily due to improved collections. Accounts receivable days sales outstanding are calculated based on ending accounts receivable, net, divided by revenue for the corresponding fiscal quarter, times a quarterly average of 91 days. Our inventory turns were both 4.1 as of the end of the second quarter of fiscal 2014 and the end of fiscal 2013. Our inventory turnover is calculated based on total cost of sales for the most recent twelve months divided by average ending inventory, net, for this same twelve month period.

Repatriation of Foreign Earnings and Income Taxes

As of the second quarter of fiscal 2014, \$143.6 million of cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we would not be required to accrue and pay U.S. taxes to repatriate substantially all of these funds due to intercompany financing arrangements with our foreign subsidiaries. While a significant portion of our foreign earnings continue to be permanently reinvested in our foreign subsidiaries, it is anticipated this reinvestment will not impede cash needs at the parent company level. In our determination of which foreign earnings are permanently reinvested, we consider numerous factors, including the financial requirements of the U.S. parent company, the financial requirements of the foreign subsidiaries, and the tax consequences of remitting the foreign earnings back to the U.S. There are no other material impediments to our ability to access sources of liquidity and our resulting ability to meet short and long-term liquidity needs, other than in the event we are not in compliance with the covenants under our 2012 Credit Facility or the potential tax costs of remitting foreign earnings back to the U.S.

Credit Facilities

On November 21, 2012, we 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 and the term loan facility may be increased by \$300.0 million in the aggregate. We also have 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 us.

As of the second quarter of 2014, our total debt was comprised primarily of a term loan of \$647.5 million. Of the total outstanding balance, \$595.0 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, we 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 our leverage ratio as of the most recently ended fiscal quarter. The term loan will be repaid in quarterly installments, with the last quarterly payment to be made on September 29, 2017, with the remaining outstanding balance being due and payable at maturity on November 21, 2017. We are required to make quarterly principal payments on the term loan facility totaling \$17.5 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.

We 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 our option, at either: (i) a floating per annum base rate based on the administrative agent's prime rate or other agreed-upon rate, depending on the currency borrowed, plus a margin of between 0.00% and 1.00%, depending on our leverage ratio as of the most recently ended fiscal quarter, or (ii) a reserve-adjusted fixed per annum rate based on LIBOR, EURIBOR, or other agreed-upon rate, depending on the currency borrowed, plus a

margin of between 1.00% and 2.00%, depending on our leverage ratio as of the most recently ended fiscal quarter. Interest will be paid on the last day of each fiscal quarter with respect to borrowings bearing interest based on a floating rate, or on the last day of an interest period, but at least every three months, with respect to borrowings bearing interest at a fixed rate. Our obligations under the 2012 Credit Facility are guaranteed by several of our domestic subsidiaries.

The 2012 Credit Facility contains various customary representations and warranties by us, 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 our 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.

Table of Contents

Specifically, we 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 to 1. We must also maintain, at the end of each fiscal quarter, a ratio of (x) total indebtedness to (y) EBITDA (as defined in the 2012 Credit Facility) for the most recently ended period of four fiscal quarters of not greater than 3 to 1; provided, that on the completion of a material acquisition, we may increase the applicable ratio in the table below by 0.25 for the fiscal quarter during which such acquisition occurred and each of the three subsequent fiscal quarters.

We were in compliance with these covenants as of the second 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 our 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 our long-term debt outstanding under the 2012 Credit Facility and Uncommitted Facilities was 1.53% and 1.31% at the end of the second quarter of fiscal 2014 and fiscal year end 2013, respectively. The interest rate on our non-current debt outstanding under the 2012 Credit Facility was 1.53% and 1.67% at the end of the second quarter of fiscal 2014 and fiscal year end 2013, respectively.

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

Our non-GAAP measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures. The non-GAAP financial measures included in the tables below as well as detailed explanations to the adjustments to comparable GAAP measures, are set forth below:

Non-GAAP gross margin

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

Non-GAAP operating expenses

We believe this measure is important to investors evaluating our non-GAAP spending in relation to revenue.

Non-GAAP operating expenses exclude restructuring costs, amortization of purchased intangible assets, stock-based compensation, and acquisition/divestiture costs associated with external and incremental costs resulting directly from merger and acquisition activities such as legal, due diligence, and integration costs from GAAP operating expenses. We believe that these exclusions offer investors supplemental information to facilitate comparison of our operating expenses to our prior results.

Non-GAAP operating income

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

Non-GAAP non-operating income, net

We believe this measure helps investors evaluate our non-operating income trends. Non-GAAP non-operating income, net excludes acquisition and divestiture gains/losses associated with unusual acquisition related items such as adjustments to the fair value of earn-out liabilities and gains or losses related to the acquisition or sale of certain businesses and investments, and a gain on an equity sale. These gains/losses are specific to particular acquisitions and divestitures and vary significantly in amount and timing. We believe that these exclusions provide investors with a supplemental view of our ongoing financial results.

Non-GAAP income tax provision

Non-GAAP items tax effected adjusts the provision for income taxes to reflect the effect of certain non-GAAP items on non-GAAP net income. We believe this information is useful to investors because it provides for consistent treatment of the excluded items in our non-GAAP presentation.

30

Table of Contents

Non-GAAP net income

This measure provides a supplemental view of net income trends which are driven by non-GAAP income before taxes and our non-GAAP tax rate. Non-GAAP net income excludes restructuring costs, amortization of purchased intangible assets, stock-based compensation, amortization of acquisition-related inventory step-up, acquisition and divestiture costs, a gain on an equity sale and non-GAAP tax adjustments from GAAP net income. We believe our investors benefit from understanding these exclusions and from an alternative view of our net income performance as compared to our past net income performance.

Non-GAAP diluted net income per share

We believe our investors benefit by understanding our non-GAAP operating performance as reflected in a per share calculation as a way of measuring non-GAAP operating performance by ownership in the company. Non-GAAP diluted net income per share excludes restructuring costs, amortization of purchased intangible assets, stock-based compensation, amortization of acquisition-related inventory step-up, acquisition and divestiture costs, a gain on an equity sale and non-GAAP tax adjustments from GAAP diluted net income per share. We believe that these exclusions offer investors a useful view of our diluted net income per share as compared to our past diluted net income per share.

Non-GAAP operating leverage

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

Non-GAAP segment operating income

Non-GAAP segment operating income excludes stock-based compensation from GAAP segment operating income.

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

These non-GAAP measures can be used to evaluate our historical and prospective financial performance, as well as our performance relative to competitors. We believe some of our investors track our "core operating performance" as a means of evaluating our performance in the ordinary, ongoing, and customary course of our operations. Core operating performance excludes items that are non-cash, not expected to recur or not reflective of ongoing financial results. Management also believes that looking at our core operating performance provides a supplemental way to provide consistency in period to period comparisons. Accordingly, management excludes from non-GAAP those items relating to restructuring, amortization of purchased intangible assets, stock based compensation, amortization of acquisition-related inventory step-up, acquisition and divestiture costs, a gain on an equity sale, and non-GAAP tax adjustments. For detailed explanations of the adjustments made to comparable GAAP measures, see items (A) - (J) following the tables below.

(Dollars in thousands, except per share data)

	Second Quarter of				First Two Quarters of				
	2014		2013		2014		2013		
	Dollar Amount	% of Revenue	Dollar Amount	% of Revenue	Dollar Amount	% of Revenue	Dollar Amount	% of Revenue	
GROSS MARGIN:									
GAAP gross margin:	\$354,571	55.2 %	\$302,401	52.5 %	\$681,463	54.7 %	\$589,315	52.0 %	
Restructuring	(A) 170	— %	766	0.1 %	217	— %	821	0.1 %	
Amortization of purchased intangible assets	(B) 20,018	3.1 %	19,855	3.4 %	40,906	3.3 %	39,536	3.5 %	
Stock-based compensation	(C) 763	0.2 %	607	0.1 %	1,510	0.1 %	1,207	0.1 %	
Amortization of acquisition-related	(D) 25	— %	524	0.1 %	76	— %	1,127	0.1 %	

inventory step-up																
Non-GAAP gross margin:	\$375,547	58.5	%	\$324,153	56.2	%	\$724,172	58.1	%	\$632,006	55.8	%				
OPERATING EXPENSES:																
GAAP operating expenses:	\$257,437	40.1	%	\$237,496	41.2	%	\$508,618	40.8	%	\$467,953	41.3	%				
Restructuring	(A) (789	)	(0.1	)%	(2,966	)	(0.5	)%	(1,126	)	(0.1	)%	(4,571	)	(0.4)%
Amortization of purchased intangible assets	(B) (17,856	)	(2.8	)%	(19,908	)	(3.5	)%	(37,537	)	(3.0	)%	(39,559	)	(3.5)%
Stock-based compensation	(C) (10,212	)	(1.6	)%	(7,828	)	(1.4	)%	(19,577	)	(1.6	)%	(16,046	)	(1.4)%
Acquisition / divestiture items	(E) (1,964	)	(0.3	)%	(2,976	)	(0.4	)%	(3,360	)	(0.3	)%	(6,394	)	(0.6)%

Table of Contents

Non-GAAP operating expenses:	\$226,616	35.3	%	\$203,818	35.4	%	\$447,018	35.8	%	\$401,383	35.4	%
OPERATING INCOME:												
GAAP operating income:	\$97,134	15.1	%	\$64,905	11.3	%	\$172,845	13.9	%	\$121,362	10.7	%
Restructuring (A)	959	0.1	%	3,732	0.6	%	1,343	0.1	%	5,392	0.5	%
Amortization of purchased intangible assets (B)	37,874	6.0	%	39,763	6.9	%	78,443	6.3	%	79,095	7.0	%
Stock-based compensation (C)	10,975	1.7	%	8,435	1.5	%	21,087	1.6	%	17,253	1.5	%
Amortization of acquisition-related inventory step-up (D)	25	—	%	524	0.1	%	76	—	%	1,127	0.1	%
Acquisition / divestiture items (E)	1,964	0.3	%	2,976	0.5	%	3,360	0.3	%	6,394	0.6	%
Non-GAAP operating income:	\$148,931	23.2	%	\$120,335	20.9	%	\$277,154	22.2	%	\$230,623	20.4	%
NON-OPERATING INCOME, NET:												
GAAP non-operating income, net:	\$1,634			\$3,786			\$14,398			\$1,698		
Acquisition / divestiture items (E)	2,612			(459)			4,305			(860)		
Gain on an equity sale (F)	—			—			(15,091)			—		
Non-GAAP non-operating income, net:	\$4,246			\$3,327			\$3,612			\$838		
				GAAP and Non-GAAP Tax Rate % (I)			GAAP and Non-GAAP Tax Rate % (I)			GAAP and Non-GAAP Tax Rate % (I)		
INCOME TAX PROVISION:												
GAAP income tax provision:	\$20,741	21	%	\$13,738	20	%	\$41,091	22	%	\$19,175	16	%
Non-GAAP items tax effected: (G)	11,426			10,994			22,430			16,337		
Tax on gain on an equity sale (H)	—			—			(5,836)			—		
Non-GAAP income tax provision:	\$32,167	21	%	\$24,732	20	%	\$57,685	21	%	\$35,512	16	%
NET INCOME:												
GAAP net income attributable to Trimble Navigation Ltd.	\$77,834			\$54,581			\$146,458			\$104,389		

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Restructuring	(A)	959	3,732	1,343	5,392
Amortization of purchased intangible assets	(B)	37,874	39,763	78,443	79,095
Stock-based compensation	(C)	10,975	8,435	21,087	17,253
Amortization of acquisition-related inventory step-up	(D)	25	524	76	1,127
Acquisition / divestiture items	(E)	4,576	2,517	7,665	5,534
Gain on an equity sale	(F)	—	—	(15,091)	—
Non-GAAP tax adjustments	(G) , (H)	(11,426)	(10,994)	(16,594)	(16,337)
Non-GAAP net income attributable to Trimble Navigation Ltd.		\$120,817	\$98,558	\$223,387	\$196,453
DILUTED NET INCOME PER SHARE:					
GAAP diluted net income per share attributable to Trimble Navigation Ltd.		\$0.29	\$0.21	\$0.55	\$0.40
Restructuring	(A)	—	0.01	0.01	0.02
Amortization of purchased intangible assets	(B)	0.14	0.15	0.30	0.30
Stock-based compensation	(C)	0.04	0.04	0.08	0.07
Amortization of acquisition-related inventory step-up	(D)	—	—	—	—
Acquisition / divestiture items	(E)	0.02	0.01	0.03	0.02
Gain on an equity sale	(F)	—	—	(0.06)	—
Non-GAAP tax adjustments	(G) , (H)	(0.04)	(0.04)	(0.07)	(0.06)

Table of Contents

Non-GAAP diluted net income per share attributable to Trimble Navigation Ltd.	\$0.45			\$0.38			\$0.84			\$0.75		
OPERATING LEVERAGE:												
Increase in non-GAAP operating income	\$28,596			\$15,098			\$46,531			\$23,652		
Increase in revenue	\$65,906			\$58,733			\$114,516			\$112,577		
Operating leverage (increase in non-GAAP operating income as a % of increase in revenue)	43.4	%		25.7	%		40.6	%		21.0	%	
	Second Quarter of 2014			2013		First Two Quarters of 2014					2013	
(Dollars in thousands, except per share data)		% of Segment Revenue		% of Segment Revenue		% of Segment Revenue		% of Segment Revenue		% of Segment Revenue		
SEGMENT OPERATING INCOME:												
Engineering and Construction												
GAAP operating income before corporate allocations:	\$91,884	25.0	%	\$66,840	21.3	%	\$149,399	22.1	%	\$109,813	18.9	%
Stock-based compensation (J)	3,840	1.0	%	2,890	0.9	%	7,431	1.1	%	5,752	1.0	%
Non-GAAP operating income before corporate allocations:	\$95,724	26.0	%	\$69,730	22.2	%	\$156,830	23.2	%	\$115,565	19.9	%
Field Solutions												
GAAP operating income before corporate allocations:	\$38,672	33.8	%	\$43,372	37.4	%	\$91,609	36.3	%	\$102,898	39.1	%
Stock-based compensation (J)	906	0.8	%	827	0.7	%	1,676	0.6	%	1,544	0.6	%
Non-GAAP operating income before corporate allocations:	\$39,578	34.6	%	\$44,199	38.1	%	\$93,285	36.9	%	\$104,442	39.7	%
Mobile Solutions												
GAAP operating income (loss) before corporate allocations:	\$20,385	16.6	%	\$15,435	13.4	%	\$36,555	15.1	%	\$27,008	12.0	%
Stock-based compensation (J)	1,282	1.0	%	948	0.8	%	2,460	1.1	%	1,860	0.8	%
Non-GAAP operating income before corporate allocations:	\$21,667	17.6	%	\$16,383	14.2	%	\$39,015	16.2	%	\$28,868	12.8	%
Advanced Devices												

GAAP operating income before corporate allocations:	\$12,083	32.8	%	\$6,514	20.7	%	\$23,759	31.5	%	\$12,999	20.6	%
Stock-based compensation	(J) 506	1.4	%	901	2.9	%	1,002	1.3	%	1,750	2.8	%
Non-GAAP operating income before corporate allocations:	\$12,589	34.2	%	\$7,415	23.6	%	\$24,761	32.8	%	\$14,749	23.4	%

Restructuring costs. Included in our GAAP presentation of cost of sales and operating expenses, restructuring costs recorded are primarily for employee compensation resulting from reductions in employee headcount in connection with our company restructurings. We exclude restructuring costs from our non-GAAP measures because we believe they do not reflect expected future operating expenses, they are not indicative of our core operating performance, and they are not

Table of Contents

meaningful in comparisons to our past operating performance. We have incurred restructuring expense in each of the periods presented however the amount incurred can vary significantly based on whether a restructuring has occurred in the period and the timing of headcount reductions.

Amortization of purchased intangible assets. Included in our GAAP presentation of gross margin and operating expenses is amortization of purchased intangible assets. US GAAP accounting requires that intangible assets are recorded at fair value and amortized over their useful lives. Consequently, the timing and size of our acquisitions will cause our operating results to vary from period to period, making a comparison to past performance difficult for investors. This accounting treatment may cause differences when comparing our results to companies that grow internally because the fair value assigned to the intangible assets acquired through acquisition may significantly exceed the equivalent expenses that a company may incur for similar efforts when performed internally.

B. Furthermore, the useful life that we expense our intangible assets over may be substantially different from the time period that an internal growth company incurs and recognizes such expenses. We believe that by excluding the amortization of purchased intangible assets, which primarily represents technology and/or customer relationships already developed, it provides an alternative way for investors to compare our operations pre-acquisition to those post-acquisition and to those of our competitors that have pursued internal growth strategies. However, we note that companies that grow internally will incur costs to develop intangible assets that will be expensed in the period incurred, which may make a direct comparison more difficult.

Stock-based compensation. Included in our GAAP presentation of cost of sales and operating expenses, stock-based compensation consists of expenses for employee stock options and awards and purchase rights under our employee C. stock purchase plan. We exclude stock-based compensation expense from our non-GAAP measures because some investors may view it as not reflective of our core operating performance as it is a non-cash expense. For the second quarter and the first two quarters of fiscal 2014 and 2013, stock-based compensation was allocated as follows:

(Dollars in thousands)	Second Quarter of		First Two Quarters of	
	2014	2013	2014	2013
Cost of sales	\$763	\$607	\$1,510	\$1,207
Research and development	1,738	1,232	3,215	2,379
Sales and Marketing	2,098	1,761	3,960	3,525
General and administrative	6,376	4,835	12,402	10,142
	\$10,975	\$8,435	\$21,087	\$17,253

Amortization of acquisition-related inventory step-up. The purchase accounting entries associated with our business acquisitions require us to record inventory at its fair value, which is sometimes greater than the previous book value of the inventory. Included in our GAAP presentation of cost of sales, the increase in inventory value is D. amortized to cost of sales over the period that the related product is sold. We exclude inventory step-up amortization from our non-GAAP measures because it is a non-cash expense that we do not believe is indicative of our ongoing operating results. We further believe that excluding this item from our non-GAAP results is useful to investors in that it allows for period-over-period comparability.

Acquisition / divestiture items. Included in our GAAP presentation of operating expenses, acquisition costs consist of external and incremental costs resulting directly from merger and acquisition activities such as legal, due diligence, and integration costs. Included in our GAAP presentation of non-operating income, net, acquisition / E. divestiture items includes unusual acquisition, investment, or divestiture gains/losses such as adjustments to the fair value of earn-out liabilities, and gains/losses on acquisitions or divestitures of certain businesses and investments. Although we do numerous acquisitions, the costs that have been excluded from the non-GAAP measures are costs specific to particular acquisitions. These are one-time costs that vary significantly in amount and timing and are not indicative of our core operating performance.

F. Gain on an equity sale. Included in our GAAP presentation of non-operating income, net this amount represents a gain on a partial equity sale of Virtual Site Solutions. We excluded the gain from our non-GAAP measures. We believe that investors benefit from excluding this item from our non-GAAP measures because it facilitates an evaluation of our non-operating income trends.

G. Non-GAAP items tax effected. This amount adjusts the provision for income taxes to reflect the effect of the non-GAAP items (A) - (E) on non-GAAP net income. We believe this information is useful to investors because it provides for consistent treatment of the excluded items in this non-GAAP presentation.

Table of Contents

H. Tax on gain on an equity sale. This amount represents the tax effect of a gain on a partial equity sale of Virtual Site Solutions. We excluded this item as it represents the tax effect of a non-recurring gain. We believe that investors benefit from excluding this item from our non-GAAP income tax provision because it facilitates a comparison of the non-GAAP tax rate in the current period to the non-GAAP tax rates in prior periods.

I. GAAP and non-GAAP tax rate %. These percentages are defined as GAAP income tax provision as a percentage of GAAP income before taxes and non-GAAP income tax provision as a percentage of non-GAAP income before taxes. We believe that investors benefit from a presentation of non-GAAP tax rate percentage as a way of facilitating a comparison to non-GAAP tax rates in prior periods.

J. Stock-based compensation. The amounts consist of expenses for employee stock options and awards and purchase rights under our employee stock purchase plan. As referred to above we exclude stock-based compensation here because investors may view it as not reflective of our core operating performance as it is a non-cash expense. However, management does include stock-based compensation for budgeting and incentive plans as well as for reviewing internal financial reporting. We discuss our operating results by segment with and without stock-based compensation expense, as we believe it is useful to investors. Stock-based compensation not allocated to the reportable segments was approximately \$4.4 million and \$2.9 million for the second quarter of fiscal 2014 and 2013, respectively, and \$8.5 million and \$6.3 million for the first two quarters of fiscal 2014 and 2013, respectively.

Non-GAAP Operating Income

Non-GAAP operating income increased by \$28.6 million for the second quarter of fiscal 2014, as compared to the corresponding period in the prior year. Non-GAAP operating income as a percentage of total revenue was 23.2% for the second quarter of fiscal 2014, as compared to 20.9% for the corresponding period in the prior year. Non-GAAP operating income increased by \$46.5 million for the first two quarters of fiscal 2014, as compared to the corresponding period in the prior year. Non-GAAP operating income as a percentage of total revenue was 22.2% for the first two quarters of fiscal 2014, as compared to 20.4% for the corresponding period in the prior year. The increase in operating income for the second quarter and the first two quarters was primarily driven by higher revenue in Engineering and Construction and Mobile Solutions and gross margin expansion due to higher margin software, maintenance, and subscription revenue. The increase in operating income percentage for both the second quarter and the first two quarters was primarily due to gross margin expansion, partially offset by higher operating expense associated with acquisitions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Market Interest Rate Risk

There have been no significant changes to our market interest rate risk assessment. Refer to our 2013 Annual Report on Form 10-K on page 50.

Foreign Currency Exchange Rate Risk

We operate in international markets, which expose us to market risk associated with foreign currency exchange rate fluctuations between the U.S. Dollar and various foreign currencies, the most significant of which is the Euro. Historically, the majority of our revenue contracts are denominated in U.S. Dollars, with the most significant exception being Europe, where we invoice primarily in Euros. Additionally, a portion of our expenses, primarily the cost to manufacture, cost of personnel to deliver technical support on our products and professional services, sales and sales support and research and development, are denominated in foreign currencies, primarily the Euro, Swedish Krona, New Zealand Dollar and Canadian Dollar. Revenue resulting from selling in local currencies and costs incurred in local currencies are exposed to foreign currency exchange rate fluctuations which can affect our operating income. As exchange rates vary, operating income may differ from expectations. In the second quarter and the first two quarters of fiscal 2014, revenue was positively impacted by foreign currency exchange rates by \$5.0 million and

\$8.3 million, respectively. The positive impact to operating income was \$1.9 million and \$3.4 million, respectively. We enter into foreign currency forward contracts to minimize the short-term impact of foreign currency exchange rate fluctuations on cash and certain trade and inter-company receivables and payables, primarily denominated in Australian, Canadian, Singapore

Table of Contents

and New Zealand Dollars, Japanese Yen, Chinese Yuan, Indian Rupee, Brazilian Real, South African Rand, Swedish Krona, Swiss Franc, Euro and British pound. These contracts reduce the exposure to fluctuations in foreign currency exchange rate movements as the gains and losses associated with foreign currency balances are generally offset with the gains and losses on the forward contracts. These instruments are marked to market through earnings every period and generally range from one to three months in original maturity. We do not enter into foreign currency forward contracts for trading purposes. We occasionally enter into foreign currency forward contracts to hedge the purchase price of some of our larger business acquisitions.

Foreign currency forward contracts outstanding as of the second quarter of fiscal 2014 and fiscal year end 2013 are summarized as follows (in thousands):

	Second Quarter of Fiscal 2014		Fiscal Year End 2013	
	Nominal Amount	Fair Value	Nominal Amount	Fair Value
Forward contracts:				
Purchased	\$ (31,469)	\$ 536	\$ (41,850)	\$ (165)
Sold	\$ 105,918	\$ (614)	\$ 136,952	\$ (274)

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

ITEM 4. CONTROLS AND PROCEDURES**(a) Disclosure Controls and Procedures.**

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

(b) Internal Control Over Financial Reporting.

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

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

On August 9, 2013, Harbinger Capital Partners, LLC and additional plaintiffs ("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 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 our operating results, liquidity, or financial position, we believe the claims in these lawsuits are without merit and intend to vigorously contest these lawsuits.

From time to time, we are 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 we or any of our subsidiaries is a party or of which any of our or their property is subject.

ITEM 1A. RISK FACTORS

A description of factors that could materially affect our business, financial condition, or operating results is included under “Risk and Uncertainties” in Item 1A of Part I of our 2013 Annual Report on Form 10-K and is incorporated herein by reference. There have been no material changes to the risk factor disclosure since our 2013 Annual Report on Form 10-K. The risk factors described in our Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial conditions and/or operating results.

ITEM 6. EXHIBITS

Table of Contents

3.1	Restated Articles of Incorporation of the Company filed June 25, 1986. (2)
3.2	Certificate of Amendment of Articles of Incorporation of the Company filed October 6, 1988. (2)
3.3	Certificate of Amendment of Articles of Incorporation of the Company filed July 18, 1990. (2)
3.4	Certificate of Amendment of Articles of Incorporation of the Company filed May 29, 2003. (3)
3.5	Certificate of Amendment of Articles of Incorporation of the Company filed March 4, 2004. (4)
3.6	Certificate of Amendment of Articles of Incorporation of the Company filed February 21, 2007. (6)
3.7	Certificate of Amendment of Articles of Incorporation of the Company filed March 20, 2013. (7)
3.8	Bylaws of the Company, amended and restated through May 8, 2014. (5)
4.1	Specimen copy of certificate for shares of Common Stock of the Company. (1)
10.1	Trimble Navigation Limited Amended and Restated 2002 Stock Plan. (8)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated August 7, 2014. (8)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated August 7, 2014. (8)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated August 7, 2014. (8)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated August 7, 2014. (8)
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

(1) Incorporated by reference to exhibit number 4.1 to the registrant's Registration Statement on Form S-1, as amended (File No. 33-35333), which became effective July 19, 1990.

(2) Incorporated by reference to identically numbered exhibits to the registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1999.

(3) Incorporated by reference to exhibit number 3.5 to the registrant's Quarterly Report on Form 10-Q for the quarter ended July 4, 2003.

- (4) Incorporated by reference to exhibit number 3.6 to the registrant's Quarterly Report on Form 10-Q for the quarter ended April 2, 2004.
- (5) Incorporated by reference to exhibit number 3.2 to the Company's Current Report on Form 8-K, filed April 9, 2014.
- (6) Incorporated by reference to exhibit number 3.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2007.
- (7) Incorporated by reference to exhibit number 3.1 to the Company's Current Report on Form 8-K, filed March 20, 2013.
- (8) Filed herewith.

SIGNATURES

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

Table of Contents

TRIMBLE NAVIGATION LIMITED
(Registrant)

By: /s/ François Delépine
François Delépine
Chief Financial Officer
(Authorized Officer and Principal
Financial Officer)

DATE: August 7, 2014

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(2)

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