TRIMBLE INC.
Form 10-Q
August 08, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO
Commission file number: 001-14845
TRIMBLE INC.
(Exact name of registrant as specified in its charter)

Delaware	94-2802192
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

935 Stewart Drive, Sunnyvale, CA 94085
(Address of principal executive offices) (Zip Code)
Telephone Number (408) 481-8000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	ý	Accelerated Filer	¨
Non-accelerated Filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨
Emerging Growth Company ¨			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

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As of August 4, 2017, there were 253,150,381 shares of Common Stock, par value $0.001 per share, outstanding.

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FORM 10-Q for the Quarter Ended June 30, 2017
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PART I – FINANCIAL INFORMATION

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

As of	Second Quarter of 2017	Fiscal Year End 2016
(In millions, except par value)		
ASSETS		
Current assets:		
Cash and cash equivalents	$384.9	$ 216.1
Short-term investments	101.2	111.1
Accounts receivable, net	395.3	354.8
Other receivables	26.5	35.4
Inventories	223.3	218.8
Other current assets	51.9	42.5
Total current assets	1,183.1	978.7
Property and equipment, net	145.6	144.2
Goodwill	2,183.7	2,077.6
Other purchased intangible assets, net	363.5	333.3
Other non-current assets	162.4	140.0
Total assets	$4,038.3	$ 3,673.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$147.3	$ 130.3
Accounts payable	136.9	109.8
Accrued compensation and benefits	117.0	97.5
Deferred revenue	301.7	246.5
Accrued warranty expense	17.5	17.2
Other current liabilities	106.4	86.9
Total current liabilities	826.8	688.2
Long-term debt	465.0	489.6
Non-current deferred revenue	39.3	37.7
Deferred income tax liabilities	41.7	38.8
Other non-current liabilities	147.8	113.8
Total liabilities	1,520.6	1,368.1
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 3.0 shares authorized; none issued and outstanding	—	—
Common stock, $0.001 par value; 360.0 shares authorized; 253.1 and 251.3 shares issued and outstanding as of the end of the second quarter of fiscal 2017 and fiscal year end 2016, respectively	0.3	0.3
Additional paid-in-capital	1,425.7	1,348.3
Retained earnings	1,251.8	1,177.1
Accumulated other comprehensive loss	(160.0)	(219.9)

Total Trimble Inc. stockholders' equity	2,517.8	2,305.8
Noncontrolling interests	(0.1)	(0.1)
Total stockholders' equity	2,517.7	2,305.7
Total liabilities and stockholders' equity	$4,038.3	$ 3,673.8

See accompanying Notes to the Condensed Consolidated Financial Statements.

TRIMBLE INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Second Quarter of		First Two Quarters of	
(In millions, except per share amounts)	2017	2016	2017	2016
Revenue:				
Product	$445.6	$407.0	$851.0	$800.6
Service	110.0	109.7	216.8	211.3
Subscription	106.3	92.9	208.0	180.7
Total revenue	661.9	609.6	1,275.8	1,192.6
Cost of sales:				
Product	219.8	199.4	414.2	389.4
Service	47.7	44.0	94.8	85.6
Subscription	27.4	26.6	54.2	53.3
Amortization of purchased intangible assets	20.5	24.0	39.5	48.1
Total cost of sales	315.4	294.0	602.7	576.4
Gross margin	346.5	315.6	673.1	616.2
Operating expense:				
Research and development	90.8	92.0	179.5	179.7
Sales and marketing	100.4	97.4	195.2	194.1
General and administrative	75.1	65.6	144.4	133.9
Restructuring charges	2.3	4.5	5.2	6.3
Amortization of purchased intangible assets	15.3	15.6	29.6	31.8
Total operating expense	283.9	275.1	553.9	545.8
Operating income	62.6	40.5	119.2	70.4
Non-operating income (expense), net:				
Interest expense, net	(6.0)	(6.6)	(12.1)	(13.2)
Foreign currency transaction gain (loss), net	—	(1.5)	1.4	(1.6)
Income from equity method investments, net	9.9	5.8	14.1	8.7
Other income, net	1.1	0.1	10.6	3.4
Total non-operating income (expense), net	5.0	(2.2)	14.0	(2.7)
Income before taxes	67.6	38.3	133.2	67.7
Income tax provision	17.7	2.7	32.8	12.4
Net income	49.9	35.6	100.4	55.3
Less: Net loss attributable to noncontrolling interests	—	(0.1)	—	(0.2)
Net income attributable to Trimble Inc.	$49.9	$35.7	$100.4	$55.5
Basic earnings per share	$0.20	$0.14	$0.40	$0.22
Shares used in calculating basic earnings per share	253.0	250.5	252.5	250.8
Diluted earnings per share	$0.19	$0.14	$0.39	$0.22
Shares used in calculating diluted earnings per share	257.1	253.7	256.5	253.9

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TRIMBLE INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Second Quarter of		First Two Quarters of	
	2017	2016	2017	2016
(In millions)				
Net income	$49.9	$35.6	$100.4	$55.3
Foreign currency translation adjustments, net of tax	34.9	(21.1)	60.2	7.1
Net unrealized loss on short-term investments	—	—	(0.1)	—
Net unrealized actuarial gain (loss), net of tax	(0.1)	0.1	(0.2)	—
Comprehensive income	84.7	14.6	160.3	62.4
Less: Comprehensive loss attributable to noncontrolling interests	—	(0.1)	—	(0.2)
Comprehensive income attributable to Trimble Inc.	$84.7	$14.7	$160.3	$62.6

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TRIMBLE INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	First Two Quarters of	
(In millions)	2017	2016
Cash flow from operating activities:		
Net Income	$100.4	$55.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	17.7	18.8
Amortization expense	69.1	79.9
Provision for doubtful accounts	0.9	2.4
Deferred income taxes	(0.2)	0.5
Stock-based compensation	28.9	26.7
Income from equity method investments	(14.1)	(8.7)
Divestiture gain, net	(8.0)	(2.7)
Provision for excess and obsolete inventories	1.6	8.8
Other non-cash items	(1.6)	3.0
Decrease (increase) in assets:		
Accounts receivable	(31.0)	(18.2)
Other receivables	2.8	(1.5)
Inventories	(1.8)	11.2
Other current and non-current assets	(14.0)	(7.8)
Increase (decrease) in liabilities:		
Accounts payable	22.0	6.4
Accrued compensation and benefits	14.1	2.2
Deferred revenue	49.4	53.8
Accrued warranty	0.1	(0.7)
Other liabilities	12.4	(33.8)
Net cash provided by operating activities	248.7	195.6
Cash flow from investing activities:		
Acquisitions of businesses, net of cash acquired	(129.8)	(20.0)
Acquisitions of property and equipment	(15.6)	(12.2)
Purchases of equity method investments	—	(1.5)
Purchases of short-term investments	(137.6)	—
Proceeds from maturities of short-term investments	56.8	—
Proceeds from sales of short-term investments	90.6	—
Net proceeds from sales of businesses	20.1	10.7
Dividends received from equity method investments	5.0	10.7
Other	0.2	(0.3)
Net cash used in investing activities	(110.3)	(12.6)
Cash flow from financing activities:		
Issuance of common stock, net of tax withholdings	49.8	25.0
Repurchases and retirement of common stock	(20.4)	(88.3)
Proceeds from debt and revolving credit lines	340.0	202.0
Payments on debt and revolving credit lines	(350.1)	(207.0)
Net cash provided by (used in) financing activities	19.3	(68.3)
Effect of exchange rate changes on cash and cash equivalents	11.1	1.2
Net increase in cash and cash equivalents	168.8	115.9

Cash and cash equivalents - beginning of period	216.1	116.0
Cash and cash equivalents - end of period	$384.9	$231.9

See accompanying Notes to the Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

NOTE 1. OVERVIEW AND BASIS OF PRESENTATION

The Company began operations in 1978 and was originally incorporated in California as Trimble Navigation Limited in 1981. On October 1, 2016, Trimble Navigation Limited changed its name to Trimble Inc. ("Trimble" or the "Company") and changed its state of incorporation from the State of California to the State of Delaware. Other than the change in corporate domicile, the reincorporation did not result in any change in the business, physical location, management, assets, liabilities or total stockholders' equity of the Company, nor did it result in any change in location of the Company's employees, including the Company's management.

Trimble is a provider of technology solutions that enable professionals and field mobile workers to improve or transform their work processes. Trimble's solutions are used across a range of industries including agriculture, architecture, civil engineering, survey and land administration, construction, geospatial, government, natural resources, transportation and utilities. Representative Trimble customers include engineering and construction firms, surveying companies, farmers and agricultural companies, enterprise firms with large-scale fleets, energy, mining and utility companies, and state, federal and municipal governments.

Trimble focuses on integrating broad technological and application capabilities to create system-level solutions that transform how work is done within the industries the Company serves. Products are sold based on return on investment and provide benefits such as lower operational costs, higher productivity, improved quality, enhanced safety and regulatory compliance, and reduced environmental impact. Representative products include equipment that automates large industrial equipment such as tractors and bulldozers; integrated systems that track fleets of vehicles and workers and provide real-time information and powerful analytics to the back-office; data collection systems that enable the management of large amounts of geo-referenced information; software solutions that connect all aspects of a construction site or a farm; and building information modeling ("BIM") software that is used throughout the design, build, and operation of buildings.

Basis of Presentation

The Company has a 52-53 week fiscal year, ending on the Friday nearest to December 31, which for fiscal 2016 was December 30, 2016. The second quarter of fiscal 2017 and 2016 ended on June 30, 2017 and July 1, 2016, respectively. Both fiscal 2017 and 2016 are 52-week years. Unless otherwise stated, all dates refer to the Company’s fiscal year and fiscal periods.

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

Certain immaterial amounts from prior periods have been reclassified to conform to the current period presentation, including certain line items within the Consolidated Statement of Cash Flows, due to the adoption of accounting for certain aspects of the share-based payments awards, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements.

Reportable Segments

In March 2017, the Company effected a change in the reporting of its segment financial results to better reflect the Company's customer base and end markets. Beginning with the first quarter of fiscal 2017, the Company is reporting its financial performance, including revenues and operating income, based on four new reportable segments: Buildings and Infrastructure, Geospatial, Resources and Utilities, and Transportation. Comparative period financial information by reportable segment has been recast to conform with the current presentation. See Note 6 of the Notes to Condensed Consolidated Financial Statements for further information.

Unaudited Interim Financial Information

The accompanying financial data as of the end of the second quarter of fiscal 2017 and for the second quarter and the first two quarters of fiscal 2017 and 2016 have 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 2016 is derived from the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for fiscal year 2016. The following discussion should be read in conjunction with the Company’s 2016 Annual Report on Form 10-K.

In the opinion of management, all adjustments necessary have been made to present a fair statement of financial positions and results for the interim periods presented. The results of operations for the second quarter and the first two quarters of fiscal 2017 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.

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Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in its Condensed Consolidated Financial Statements and accompanying notes. Estimates are used for allowances for doubtful accounts, sales returns reserve, allowances for inventory valuation, warranty costs, investments, goodwill impairment, intangibles impairment, purchased intangibles, stock-based compensation, and income taxes among others. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management’s best knowledge of current events and actions that may impact the Company in the future, actual results may be different from the estimates.

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

NOTE 2. UPDATES TO SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the Company’s significant accounting polices during the first two quarters of fiscal 2017 from those disclosed in the Company’s most recent Form 10-K.

Recent Accounting Pronouncements

In May 2014, the FASB issued a comprehensive new revenue recognition standard that replaces the current revenue recognition guidance under U.S. GAAP. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company expects to adopt this accounting standard update in the first quarter of fiscal 2018. The Company is currently in the process of assessing the adoption methodology, which allows the standard to be applied either retrospectively to each prior period presented or with the cumulative effect recognized as of the date of initial application. The Company's final determination will depend on a number of factors, such as the significance of the impact of the new standard on our financial results, system readiness, and its ability to accumulate and analyze the information necessary to assess the impact on prior period financial statements, as necessary. The Company does not anticipate that its internal control framework will materially change, but rather existing internal controls will be modified and augmented as necessary to implement the new revenue standard. The new standard may impact, in some cases, the timing and amount of revenue recognized. Additionally, direct costs to obtain and fulfill customer contracts, in some cases, may be deferred and amortized under the new standard. The Company has completed an initial assessment of the revenue streams and related direct costs and is currently evaluating the qualitative and quantitative impacts on the financial statements and related disclosures.

In January 2016, the FASB issued final guidance that will require entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The amendments are effective for the Company beginning in fiscal 2018, although early adoption is permitted and should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, with certain exceptions. The Company is currently evaluating the effect of the updated standard on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued new guidance that requires a lessee to recognize assets and liabilities arising from leases on the balance sheet. Current GAAP does not require lease assets and liabilities to be recognized for most leases. Additionally, companies are permitted to make an accounting policy election to not recognize lease assets and liabilities for leases with a term of 12 months or less. For both finance leases and operating leases, the lease liability should be initially measured at the present value of the lease payments. This new guidance is effective for the Company beginning in fiscal 2019, although early adoption is permitted. The Company is currently evaluating the effect of this guidance on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued new guidance that requires credit losses on financial assets measured at amortized cost basis to be presented based on the net amount expected to be collected, not based on incurred losses. Further, credit losses on available-for-sale debt securities should be recorded through an allowance for credit losses limited to the amount by which fair value is below amortized cost. The new standard is effective for the Company beginning in fiscal 2020. Early adoption for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 is permitted. The Company is currently evaluating the effect of the updated standard on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued new guidance related to the statement of cash flows. This guidance amended the existing accounting standards for the statement of cash flows and provided guidance on certain classification issues related to the statement of cash flows. The new standard is effective for the Company beginning in fiscal 2018 and early adoption is permitted. The amendments should be applied retrospectively to all periods presented. For issues that are impracticable to apply retrospectively, the amendments may be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact of these amendments on its statement of cash flows, which will likely include a reclassification of contingent consideration payments for business combinations from cash flows from investing activities, to both cash flows from operating and financing activities.

In October 2016, the FASB issued new guidance related to income taxes. This standard requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The guidance will be effective for the Company in its first quarter of fiscal 2018. The Company is currently evaluating the effect of the updated standard on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued new guidance that simplifies the accounting for goodwill impairment by requiring impairment charges to be based on the first step in current GAAP's two-step impairment test. The impairment test is performed by comparing the fair value of a reporting unit with its carrying amount and an impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value. The new standard is to be applied on a prospective basis and is effective for the Company beginning in fiscal 2020 and early adoption is permitted. The Company is currently evaluating the effect of the updated standard on its consolidated financial statements and related disclosures.

In February 2017, the FASB issued new guidance clarifying the scope and application of existing guidance related to the sale or transfer of non-financial assets to non-customers, including partial sales. The amendments are effective at the same time as the new revenue recognition guidance, which the Company expects to adopt in the first quarter of fiscal 2018. The Company is currently evaluating the effect of the updated standard on its consolidated financial statements and related disclosures.

NOTE 3. STOCKHOLDERS’ EQUITY

Stock Repurchase Activities

In August 2015, the Company’s Board of Directors approved a stock repurchase program (2015 Stock Repurchase Program), authorizing the Company to repurchase up to $400.0 million of Trimble’s common stock.

Under the share repurchase program, the Company may repurchase shares from time to time in open market transactions, privately negotiated transactions, accelerated share buyback programs, tender offers, or by other means. The timing and amount of repurchase transactions will be determined by the Company’s management based on its evaluation of market conditions, share price, legal requirements and other factors. The program may be suspended, modified or discontinued at any time without prior notice.

During the first two quarters of fiscal 2017, the Company repurchased approximately 0.8 million shares of common stock in open market purchases, at an average price of $32.34 per share, for a total of $27.4 million under the 2015 Stock Repurchase Program.

Stock repurchases are reflected as a decrease to common stock based on par value and additional-paid-capital based on the average book value per share for all outstanding shares calculated at the time of each individual repurchase transaction. The excess of the purchase price over this average for each repurchase is charged to retained earnings. As a result of the 2017 repurchases, retained earnings was reduced by $22.7 million in the first two quarters of fiscal 2017. Common stock repurchases under the program were recorded based upon the trade date for accounting purposes. At the end of the first two quarters of fiscal 2017, the 2015 Stock Repurchase Program had remaining authorized funds of $103.0 million.

Stock-Based Compensation Expense

Stock compensation expense is recognized 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 following table summarizes stock-based compensation expense for the second quarter and first two quarters of fiscal 2017 and 2016.

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	Second Quarter of		First Two Quarters of	
	2017	2016	2017	2016
(In millions)				
Cost of sales	$0.9	$0.9	$1.7	$1.9
Research and development	2.6	2.4	5.0	4.7
Sales and marketing	2.4	2.2	4.6	4.2
General and administrative	9.3	7.5	17.6	15.9
Total operating expense	14.3	12.1	27.2	24.8
Total stock-based compensation expense	$15.2	$13.0	$28.9	$26.7

NOTE 4. BUSINESS COMBINATIONS

During the first two quarters of fiscal 2017, the Company acquired seven businesses, with total cash consideration of $158.0 million. The Condensed Consolidated Statements of Income include the operating results of the businesses from the dates of acquisition. The acquisitions were not significant individually or in the aggregate. The largest acquisition was a manufacturer of vision-based automatic wayside inspection systems for the railroad industry. In the aggregate, the businesses acquired during the first two quarters of fiscal 2017 contributed less than one percent to the Company's total revenue during the first two quarters of fiscal 2017. In the beginning of the third quarter of fiscal 2017, the Company acquired privately-held Müller-Elektronik, a German company specializing in implement control and precision farming solutions. The acquisition was purchased with a portion of the Company's existing foreign cash.

The Company determined the total consideration paid for each of its acquisitions as well as the fair value of the assets acquired and liabilities assumed as of the date of acquisition. For certain acquisitions completed in the last two quarters of fiscal 2016 and the first two quarters of fiscal 2017, the fair value of the assets acquired and liabilities assumed are preliminary and may be adjusted as the Company obtains additional information, primarily related to adjustments for the true up of acquired net working capital in accordance with certain purchase agreements, and estimated values of certain net tangible assets and liabilities including tax balances, pending the completion of final studies and analyses. If there are adjustments made for these items, the fair value of intangible assets and goodwill could be impacted. Thus, the provisional measurements of fair value are subject to change. Such changes could be significant. The Company expects to finalize the valuation of the net tangible and intangible assets as soon as practicable, but not later than one-year from the acquisition date.

The fair value of identifiable assets acquired and liabilities assumed were determined under the acquisition method of accounting for business combinations. The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The fair value of intangible assets acquired is generally determined based on a discounted cash flow analysis. Acquisition costs directly related to the acquisitions, including the changes in the fair value of the contingent consideration liabilities, of $4.3 million and $6.4 million for the second quarter and the first two quarters of fiscal 2017, respectively, and $0.9 million and $2.5 million for the second quarter and the first two quarters of fiscal 2016, respectively, were expensed as incurred and were included in General and administrative expense in the Condensed Consolidated Statements of Income.

The following table summarizes the Company’s business combinations completed during the first two quarters of fiscal 2017:

	First Two Quarters of 2017
(In millions)	
Fair value of total purchase consideration	$ 158.0
Less fair value of net assets acquired:	
Net tangible assets acquired	7.0
Identifiable intangible assets	91.5

Deferred income taxes	(5.9)
Goodwill	$ 65.4

Intangible Assets

The following table presents details of the Company's total intangible assets:

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As of	Second Quarter of Fiscal 2017			Fiscal Year End 2016		
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed product technology	$853.5	$(672.9)	$ 180.6	$794.8	$(620.6)	$ 174.2
Trade names and trademarks	54.7	(45.7)	9.0	50.9	(42.9)	8.0
Customer relationships	487.4	(321.9)	165.5	438.7	(294.1)	144.6
Distribution rights and other intellectual properties	67.2	(58.8)	8.4	64.3	(57.8)	6.5
	$1,462.8	$(1,099.3)	$ 363.5	$1,348.7	$(1,015.4)	$ 333.3

The estimated future amortization expense of purchased intangible assets as of the end of the second quarter of fiscal 2017 was as follows:

(In millions)	
2017 (Remaining)	$72.6
2018	117.8
2019	77.1
2020	48.7
2021	27.0
Thereafter	20.3
Total	$363.5

Goodwill

In March 2017, the information used to allocate resources and assess performance that is provided to the Company's chief operating decision maker, its Chief Executive Officer, changed to better reflect the Company's customer base and end markets. The new reporting structure consists of four operating segments, each representing a single reporting unit: Buildings and Infrastructure, Geospatial, Resources and Utilities, and Transportation. Goodwill was reassigned to the new reporting units using the relative fair values and, as a result of this reassignment, an impairment assessment was performed immediately before and after the reorganization of the Company’s reporting structure. There was no goodwill impairment resulting from this assessment in the first quarter of fiscal 2017.

The changes in the carrying amount of goodwill by segment for the first two quarters of fiscal 2017 were as follows:

(In millions)	Buildings and Infrastructure	Geospatial	Resources and Utilities	Transportation	Total
Balance as of fiscal year end 2016	$ 663.7	$ 405.1	$ 217.7	$ 791.1	$2,077.6
Additions due to acquisitions		—	31.9	33.5	65.4
Purchase price adjustments- prior years' acquisitions	(0.1)	—	—	—	(0.1)
Foreign currency translation adjustments	27.2	10.8	5.1	4.6	47.7
Divestiture (1)	—	(6.9)	—	—	(6.9)
Balance as of the end of the second quarter of fiscal 2017	$ 690.8	$ 409.0	$ 254.7	$ 829.2	$2,183.7

(1) In the first quarter of 2017, the Company sold its ThingMagic business, which was part of the Geospatial segment.

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NOTE 5. INVENTORIES

Inventories consisted of the following:

As of	Second Quarter of 2017	Fiscal Year End 2016
(In millions)		
Raw materials	$ 72.5	$ 77.9
Work-in-process	9.6	6.8
Finished goods	141.2	134.1
Total inventories	$ 223.3	$ 218.8

Finished goods includes $17.4 million and $14.4 million at the end of the second quarter of fiscal 2017 and fiscal year end 2016 for costs of sales that have been deferred in connection with deferred revenue arrangements.

NOTE 6. SEGMENT INFORMATION

Operating segments are defined as components of an enterprise that engage in business activities for which separate financial information is available and evaluated by the Company's Chief Executive Officer (our chief operating decision maker or "CODM") in deciding how to allocate resources and assess performance. The CODM evaluates each segment's performance and allocates resources based on segment operating income before income taxes and corporate allocations. The Company and each of its segments employ consistent accounting policies. In each of its segments, the Company sells many individual products. For this reason it is impracticable to segregate and identify revenue for each of the individual products or group of products. Stock-based compensation is shown in the aggregate within unallocated corporate expense and is not reflected in the segment results, which is consistent with the way the CODM evaluates each segment's performance and allocates resources.

Prior to fiscal 2017, the Company operated its business in four reportable segments - Engineering and Construction, Field Solutions, Mobile Solutions, and Advanced Devices. In March 2017, the Company effected a change in the reporting of its segment financial results to better reflect the Company's customer base and end markets. Over time, the Company has experienced significant growth both organically and through strategic business acquisitions, resulting in an increasingly diversified business model. As a result of the Company's evolution, the CODM changed the information he regularly reviews to allocate resources and assess performance. Beginning with the first fiscal quarter of 2017, the Company reports its financial performance based on four new reportable segments - Buildings and Infrastructure, Geospatial, Resources and Utilities, and Transportation.

The Company's reportable segments are described below:

- Buildings and Infrastructure: This segment primarily serves customers working in architecture, engineering, construction, and operations and maintenance.
- Geospatial: This segment primarily serves customers working in surveying, engineering, government, and land management.
- Resources and Utilities: This segment primarily serves customers working in agriculture, forestry, and utilities.
- Transportation: This segment primarily serves customers working in transportation, including transportation and logistics, automotive, rail, and military aviation.

The following tables present revenue, operating income, depreciation expense and identifiable assets for the four reportable segments. Operating income is revenue less cost of sales and operating expense, excluding unallocated corporate expenses, restructuring charges, amortization of purchased intangible assets, stock-based compensation, amortization of acquisition-related inventory step-up, acquisition and divestiture items, and executive transition costs. The identifiable assets that the CODM views by segment are accounts receivable, inventories and goodwill.

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	Reporting Segments				
	Buildings and Infrastructure	Geospatial	Resources and Utilities	Transportation	Total
(In millions)					
Second Quarter of Fiscal 2017					
Revenue	$222.7	$ 165.3	$ 111.0	$ 162.9	$661.9
Operating income	50.4	30.2	34.8	26.2	141.6
Depreciation expense	1.5	1.5	0.6	1.4	5.0
Second Quarter of Fiscal 2016					
Revenue	$202.8	$ 163.9	$ 99.0	$ 143.9	$609.6
Operating income	38.9	28.5	29.9	20.4	117.7
Depreciation expense	1.9	1.9	0.5	1.3	5.6
First Two Quarters of Fiscal 2017					
Segment revenue	$410.8	$ 315.1	$ 230.9	$ 319.0	$1,275.8
Operating income	83.1	58.1	77.0	51.0	269.2
Depreciation expense	3.3	2.8	1.2	2.8	10.1
First Two Quarters of Fiscal 2016					
Segment revenue	$376.5	$ 316.1	$ 212.8	$ 287.2	$1,192.6
Operating income	61.3	54.6	64.8	44.2	224.9
Depreciation expense	3.7	3.5	1.0	2.6	10.8
As of the Second Quarter of Fiscal 2017					
Accounts receivable, net	$127.4	$ 118.7	$ 64.7	$ 84.5	$395.3
Inventories	50.3	100.9	30.7	41.4	223.3
Goodwill	690.8	409.0	254.7	829.2	2,183.7
As of Fiscal Year End 2016					
Accounts receivable, net	$104.7	$ 108.3	$ 65.5	$ 76.3	$354.8
Inventories	51.3	100.4	31.0	36.1	218.8
Goodwill	663.7	405.1	217.7	791.1	2,077.6

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	
	2017	2016	2017	2016
(In millions)				
Consolidated segment operating income	$141.6	$117.7	$269.2	$224.9
Unallocated corporate expense	(20.4)	(18.7)	(38.8)	(37.4)
Restructuring charges	(2.8)	(4.9)	(6.2)	(7.0)
Amortization of purchased intangible assets	(35.8)	(39.6)	(69.1)	(79.9)
Stock-based compensation	(15.2)	(13.0)	(28.9)	(26.7)
Amortization of acquisition-related inventory step-up	(0.5)	—	(0.6)	—
Acquisition and divestiture items	(4.3)	(0.9)	(6.4)	(2.5)
Executive transition costs	—	(0.1)	—	(1.0)
Consolidated operating income	62.6	40.5	119.2	70.4
Non-operating income (expense), net:	5.0	(2.2)	14.0	(2.7)
Consolidated income before taxes	$67.6	$38.3	$133.2	$67.7

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NOTE 7. DEBT

Debt consisted of the following:

As of	Second Quarter of 2017	Fiscal Year End 2016
(In millions)		
Notes:		
Principal amount	$400.0	$ 400.0
Unamortized discount on Notes	(2.3)	(2.5)
Debt issuance costs	(2.3)	(2.4)
Credit Facilities:		
2014 Credit Facility	69.0	94.0
Uncommitted facilities	147.0	130.0
Promissory notes and other debt	0.9	0.8
Total debt	612.3	619.9
Less: Short-term debt	147.3	130.3
Long-term debt	$465.0	$ 489.6

Notes

In November 2014, the Company issued $400.0 million of Senior Notes (the "Notes") in a public offering registered with the Securities and Exchange Commission. The Notes mature on December 1, 2024 and accrue interest at a rate of 4.75% per annum, payable semiannually in arrears in cash on December 1 and June 1 of each year. The Notes are classified as long-term in the Condensed Consolidated Balance Sheet and are presented net of unamortized discount and debt issuance costs. The discount and debt issuance costs are being amortized to interest expense using the effective interest rate method over the term of the Notes.

In connection with the Notes offering, Trimble entered into an Indenture with U.S. Bank National Association, as trustee. Trimble may redeem the Notes at its option at any time, in accordance with the terms and conditions set forth in the Indenture. The Indenture contains no financial covenants. Further details regarding the terms of the Notes, including the redemption rights, and the Indenture, are provided in the Company's fiscal 2016 Annual Report on Form 10-K.

Credit Facilities

2014 Credit Facility

In November 2014, the Company entered into a five-year credit agreement with a group of lenders, which provides for an unsecured revolving loan facility of $1.0 billion (the "2014 Credit Facility"). Under the 2014 Credit Facility, the Company may borrow, repay and reborrow funds under the revolving loan facility until its maturity on November 24, 2019, at which time the revolving facility will terminate, and all outstanding loans, together with all accrued and unpaid interest, must be repaid. The interest rate on the non-current debt outstanding under the 2014 Credit Facility was 2.26% and 1.80% at the end of the second quarter of fiscal 2017 and fiscal year end 2016, respectively, and is payable on a quarterly basis. Amounts not borrowed under the revolving facility will be subject to a commitment fee. The outstanding balance of $69.0 million as of the end of the second quarter of fiscal 2017 and $94.0 million at the end of fiscal 2016 are classified as long-term debt in the Condensed Consolidated Balance Sheet. Unamortized debt issuance costs associated with the 2014 Credit Facility are presented as assets in the Condensed Consolidated Balance sheet and are being amortized to interest expense using the effective interest rate method over the term of the 2014 Credit Facility.

In February 2016, the Company entered into an amendment to the 2014 Credit Facility to facilitate the Company's reincorporation from California to Delaware and to effect other non-financial terms. In August 2016, the Company entered into a second amendment to revise a definition used in determining when a change of control of the Company may occur.

The Company was in compliance with all covenants pertaining to the 2014 Credit Facility at the end of the second quarter of fiscal 2017.

Uncommitted Facilities

The Company also has two $75 million revolving credit facilities which are uncommitted (the "Uncommitted Facilities"). The Uncommitted Facilities may be called by the lenders at any time, have no covenants and no specified expiration date. The $147.0 million outstanding at the end of the second quarter of fiscal 2017 and the $130.0 million outstanding at the end of fiscal 2016

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under the Uncommitted Facilities are classified as short-term debt in the Condensed Consolidated Balance Sheet. The weighted average interest rate on the Uncommitted Facilities was 1.91% at the end of the second quarter of fiscal 2017 and 1.65% at the end of fiscal 2016.

Promissory Notes and Other Debt

At the end of the second quarter of fiscal 2017 and the year end of fiscal 2016, the Company had promissory notes and other notes payable totaling approximately $0.9 million and $0.8 million, respectively, of which $0.6 million and $0.5 million, respectively, was classified as long-term in the Condensed Consolidated Balance Sheet.

Debt Maturities

At the end of the second quarter of fiscal 2017, the Company's debt maturities based on outstanding principal were as follows (in millions):

Year Payable	
2017 (Remaining)	$ 147.3
2018	0.2
2019	0.2
2020	69.2
2021	—
Thereafter	400.0
Total	$ 616.9

NOTE 8. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Company started to invest in available-for-sale securities in the third quarter of fiscal 2016. The following table summarizes the Company’s available-for-sale securities at the end of the second quarter of fiscal 2017 and at the end of fiscal 2016.

(In millions)	Second Quarter of Fiscal 2017	At the end of Fiscal 2016
Available-for-sale securities:		
U.S. Treasury securities	$ 11.7	$ 11.7
Municipal debt securities	—	10.0
Corporate debt securities	73.9	31.7
Time deposit	—	2.4
Commercial paper	28.8	77.5
Total available-for-sale securities	$ 114.4	$ 133.3
Reported as:		
Cash equivalents	$ 13.2	$ 22.2
Short-term investments	101.2	111.1
Total	$ 114.4	$ 133.3

The Company did not realize any gains or losses on its available-for-sale securities during the second quarter of 2017, and the net unrealized loss was $0.1 million which was included in Accumulated other comprehensive loss at the end of the second quarter of 2017.

The following table presents the contractual maturities of the Company's available-for-sale investments at the end of the second quarter of fiscal 2017.

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(In millions)	Second Quarter of Fiscal 2017 Amortized Cost
Due in less than 1 year	$ 106.2
Due in 1 to 5 years	8.2
Due in 5-10 years	—
Due after 10 years	—
Total	$ 114.4

The Company’s available-for-sale securities are liquid and may be sold in the future to fund future operating needs. As a result, the Company recorded all of its available-for-sale securities, not classified as Cash equivalents, in Short-term investments regardless of the contractual maturity date of the securities.

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 at the measurement date. 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.

Level II—Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level III—Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Fair Value on a Recurring Basis

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

(In millions)	Fair Values as of the end of the Second Quarter of Fiscal 2017				Fair Values as of Fiscal Year End 2016			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Available-for-sale securities:								
U.S. Treasury securities (1)	$—	$ 11.7	$ —	$ 11.7	$—	$ 11.7	$ —	$ 11.7
Municipal debt securities (1)	—	—	—	—	—	10.0	—	10.0
Corporate debt securities (1)	—	73.9	—	73.9	—	31.7	—	31.7
Time deposit (1)	—	—	—	—	—	2.4	—	2.4
Commercial paper (1)	—	28.8	—	28.8	—	77.5	—	77.5
Total available-for-sale securities	—	114.4	—	114.4	—	133.3	—	133.3
Deferred compensation plan assets (2)	25.8	—	—	25.8	22.6	—	—	22.6
Derivative assets (3)	—	1.0	—	1.0	—	0.2	—	0.2
Contingent consideration assets (4)	—	—	7.0	7.0	—	—	7.0	7.0
Total assets measured at fair value	$25.8	$ 115.4	$ 7.0	$ 148.2	$22.6	$ 133.5	$ 7.0	$ 163.1
Liabilities								
Deferred compensation plan liabilities (2)	$25.8	$ —	$ —	$25.8	$22.6	$—	$ —	$22.6
Derivative liabilities (3)	—	0.4	—	0.4	—	0.1	—	0.1
Contingent consideration liabilities (5)	—	—	21.2	21.2	—	—	4.5	4.5
Total liabilities measured at fair value	$25.8	$ 0.4	$ 21.2	$47.4	$22.6	$0.1	$ 4.5	$27.2

(1) The Company’s available-for sale securities are valued using readily available pricing sources for comparable instruments, or model-driven valuations using significant inputs derived from or corroborated by observable market data, including yield curves and credit ratings.

(2) The Company maintains a self-directed, non-qualified deferred compensation plan for certain executives and other highly compensated employees. The plan assets and liabilities are invested in actively traded mutual funds and individual stocks valued using observable quoted prices in active markets. Deferred compensation plan assets and liabilities are included in Other non-current assets and Other non-current liabilities, respectively, on the Company's Condensed Consolidated Balance Sheets.

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

(4) Contingent consideration assets represent arrangements for buyers to pay the Company for certain businesses that it has divested. The fair values are determined based on the Company's expectations of future receipts and the effects of the application of discount rates. The minimum amount to be received under these arrangements is $3.5 million. Contingent consideration assets are included in Other receivables and Other non-current assets on the Company's Condensed Consolidated Balance Sheets.

(5) Contingent consideration liabilities represent arrangements to pay the former owners of certain companies that Trimble acquired. The undiscounted maximum payments under the arrangements is $56.9 million at the end of the second quarter of fiscal 2017. The fair values are determined using the expected cash flow approach based upon estimated future revenues, gross margins or other milestones. 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 outstanding financial instruments:

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As of	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Second Quarter of Fiscal 2017		Fiscal Year End 2016	
(In millions)				
Liabilities:				
Notes	$400.0	$431.0	$400.0	$410.6
2014 Credit Facility	69.0	69.0	94.0	94.0
Uncommitted facilities	147.0	147.0	130.0	130.0
Promissory notes and other debt	0.9	0.9	0.8	0.8

The fair value of the Notes was determined based on observable market prices in less active markets and is categorized accordingly as Level II 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. When products sold include warranty provisions, they are covered by a warranty for periods ranging generally from 1 year to 2 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 2017 are as follows:

(In millions)	
Balance as of fiscal year end 2016	$17.2
Acquired warranties	0.2
Accruals for warranties issued	9.0
Changes in estimates	(0.3)
Warranty settlements (in cash or in kind)	(8.6)
Balance as of the end of the second quarter of fiscal 2017	$17.5

NOTE 11. EARNINGS PER SHARE

Basic earnings per share is computed by dividing Net income attributable to Trimble Inc. 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 Inc.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, restricted stock units and contingently issuable shares. 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:

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	Second Quarter of 2017	2016	First Two Quarters of 2017	2016
(In millions, except per share amounts)				
Numerator:				
Net income attributable to Trimble Inc.	$49.9	$35.7	$100.4	$55.5
Denominator:				
Weighted average number of common shares used in basic earnings per share	253.0	250.5	252.5	250.8
Effect of dilutive securities	4.1	3.2	4.0	3.1
Weighted average number of common shares and dilutive potential common shares used in diluted earnings per share	257.1	253.7	256.5	253.9
Basic earnings per share	$0.20	$0.14	$0.40	$0.22
Diluted earnings per share	$0.19	$0.14	$0.39	$0.22

For the second quarter of fiscal 2017 and 2016, the Company excluded 0.7 million and 4.5 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 2017 and 2016, the Company excluded 0.7 million and 4.8 million shares of outstanding stock options, respectively, from the calculation of diluted earnings per share because their effect would have been antidilutive.

NOTE 12. INCOME TAXES

For the second quarter of fiscal 2017, the Company’s effective income tax rate was 26% as compared to 7% in the corresponding period in fiscal 2016, primarily due to a one time discrete tax benefit from the divestiture of the Advanced Public Safety (APS) business in the second quarter of 2016. For the first two quarters of fiscal 2017, the Company's effective income tax rate was 25% as compared to 18% in the corresponding period in fiscal 2016, primarily due to a one time discrete tax benefit from the APS divestiture in the second quarter of 2016, partially offset by a favorable change in the geographic mix of pre-tax income in fiscal 2017.

Historically, the Company's effective tax rate has been lower than the U.S. federal statutory rate of 35% primarily due to the tax rates associated with certain earnings from operations in lower-tax jurisdictions. The Company has not provided for U.S. taxes on such earnings due to the indefinite reinvestment of such 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 (the "IRS") as well as various state and foreign taxing authorities.

In the first quarter of fiscal 2015, the Company received a Notice of Proposed Adjustment from the IRS for the fiscal years 2010 and 2011. The proposed adjustments primarily relate to the valuations of intercompany transfers of acquired intellectual property. The assessments of tax, interest and penalties for the years in question total $67.0 million. The Company does not agree with the IRS position and filed a protest with the IRS Appeals Office in April 2015. The IRS appeals process commenced in March 2016. Although the Company continues to believe in the merits of its positions, during the fourth quarter of fiscal 2016, the Company submitted a written proposal to the IRS to settle certain aspects of the assessments constituting $15.8 million of the total $67.0 million assessment. The Company intends to vigorously contest the IRS position on the remaining items, and believes that its existing reserves are adequate.

Although timing of the resolution and/or closure of audits is not certain, the Company believes it is reasonably possible that its gross unrecognized tax benefits could decrease (whether by payment, release or a combination of both) in the next 12 months by up to $8.6 million primarily related to the IRS partial settlement discussed above.

The unrecognized tax benefits of $66.9 million and $60.5 million as of the end of the second quarter of fiscal 2017 and fiscal year end 2016, 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. As of the end of the second quarter of fiscal 2017 and fiscal year end 2016, the Company had accrued $10.1 million and $9.3 million, respectively, for interest and penalties, which are recorded in Other non-current liabilities in the accompanying Condensed Consolidated Balance Sheets.

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NOTE 13. COMMITMENTS AND CONTINGENCIES

Operating Leases and Other Commitments

The estimated future minimum operating lease commitments as of the end of the second quarter of fiscal 2017 are as follows (in millions):

2017 (Remaining)	$ 17.7
2018	33.1
2019	25.0
2020	18.7
2021	15.1
Thereafter	40.3
Total	$ 149.9

As of the end of the second quarter of fiscal 2017, the Company had unconditional purchase obligations of approximately $186.0 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.

Additionally, the Company has certain acquisitions which include additional earn-out cash payments based on estimated future revenues, gross margins or other milestones. As of the end of the second quarter of fiscal 2017, the Company had $21.2 million included in Other current liabilities and Other non-current liabilities related to these earn-outs, representing the fair value of the contingent consideration.

Litigation

On September 2, 2011, Recreational Data Services, LLC filed a lawsuit in the Superior Court for the State of Alaska in Anchorage against Trimble Navigation Limited, Cabela’s Incorporated, AT&T Mobility and Alascom, Inc., alleging breach of contract, breach of fiduciary duty, interference with contract, promissory estoppel, fraud, and negligent misrepresentation. The case was tried in front of a jury in Alaska beginning on September 9, 2014. On September 26, 2014, the jury returned a verdict in favor of the plaintiff and awarded the plaintiff damages of $51.3 million. On January 29, 2015, the court granted our Motion for Judgment Notwithstanding the Verdict, and on March 18, 2015, the Court awarded the Company a portion of its incurred attorneys’ fees and costs, and entered Final Judgment in the Company’s favor in the amount of $0.6 million. The Final Judgment also provides that the plaintiff take nothing on its claims. On April 17, 2015, the plaintiff filed a Notice of Appeal to the Alaska Supreme Court. On March 24, 2017, the Alaska Supreme Court affirmed, in part, and reversed, in part, the trial court's decision. The Alaska Supreme Court affirmed the trial court's determination that Plaintiff had not proven damages and was not entitled to recover any lost profits, but remanded the case to the trial court for an award of nominal damages to Plaintiff. On April 17, 2017, Plaintiff filed a Motion for Rehearing with the Alaska Supreme Court. On August 3, 2017, the Alaska Supreme Court denied rehearing on the finding that Plaintiff had failed to prove damages, returning the case to the trial court to award nominal damages.

From time to time, the Company is also involved in litigation arising out of the ordinary course of its 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.

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SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are subject to the "safe harbor" created by those sections. These statements include, among other things:

- the portion of our revenue coming from sales to international customers;
- seasonal fluctuations in our construction and agricultural equipment business revenues, macroeconomic conditions, and business conditions in the markets we serve;
- our plans to continue to invest in research and development at a rate consistent with our past, to develop and introduce new products, to improve our competitive position, and to enter new markets;
- our belief that increases in recurring revenue from our software and solutions will provide us with enhanced business visibility over time;
- our belief that our cash and cash equivalents and short-term investments, together with borrowings under our 2014 Credit Facility, 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;
- fluctuations in interest rates; and
- the imposition of barriers to international trade.

The forward-looking statements regarding future events and the future results of Trimble Inc. ("Trimble" or "the Company" or "we" or "our" or "us") are based on current expectations, estimates, forecasts, and projections about the industries in which Trimble operates and the beliefs and assumptions of the management of Trimble. 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, " "expects, " "anticipates, " "future, " "intends, " "plans, " "believes, " "estimates, " and similar expressions. These forward-looking statements involve certain risks and uncertainties that could cause actual results, levels of activity, performance, achievements, and events to differ materially from those implied by such forward-looking statements, including but not limited to those 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 2016 and in other reports Trimble files with the Securities and Exchange Commission, each as it may be amended from time to time. These forward-looking statements are made as of the date of this Quarterly Report on Form 10-Q. We reserve the right to update these forward-looking statements for any reason, including the occurrence of material events, but assume no duty to update these statements to reflect subsequent events.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our Condensed Consolidated Financial Statements. The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires us to make judgments, assumptions, and estimates that affect the amounts reported in the 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. Management believes that there have been no significant changes during the second quarter of fiscal 2017 to the items that we disclosed as our critical accounting policies and estimates in the Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2016 Annual Report on Form 10-K.

RECENT ACCOUNTING PRONOUNCEMENTS

For a summary of recent accounting pronouncements applicable to our Consolidated Financial Statements, see Note 2 to our Condensed Consolidated Financial Statements in Item 1, which is incorporated herein by reference.

EXECUTIVE LEVEL OVERVIEW

Trimble began operations in 1978 and was originally incorporated in California as Trimble Navigation Limited in 1981. On October 1, 2016, Trimble Navigation Limited changed its name to Trimble Inc. ("Trimble" or the "Company") and changed its state of incorporation from the State of California to the State of Delaware.
In March 2017, we changed the reporting of our segment financial results to better reflect our customer base and end markets. Beginning with the first quarter of fiscal 2017, we are reporting our financial performance, including revenues and operating income, based on four new reportable segments: Buildings and Infrastructure, Geospatial, Resources and Utilities, and

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Transportation. Comparative period financial information by reportable segment has been recast to conform with the current presentation.
The Buildings and Infrastructure segment primarily serves customers working in architecture, engineering, construction and operations and maintenance. The Geospatial segment primarily serves customers working in surveying, engineering, government and land management. The Resources and Utilities segment primarily serves customers working in agriculture, forestry, and utilities. The Transportation segment primarily serves customers working in transportation, including transportation and logistics, automotive, rail and military aviation.

Trimble is a leading provider of technology solutions that optimize the work processes of office and mobile field professionals around the world. Our comprehensive work process solutions are used across a range of industries including agriculture, architecture, civil engineering, construction, government, natural resources, transportation and utilities. Representative Trimble customers include engineering and construction firms, contractors, surveying companies, farmers and agricultural companies, transportation and logistics companies, energy, mining and utility companies, and state, federal and municipal governments.

Trimble focuses on integrating its broad technological and application capabilities to create vertically-focused, system-level solutions that transform how work is done within the industries we serve. The integration of sensors, software, connectivity, and information in our portfolio gives us the unique ability to provide an information model specific to the customer’s workflow. For example, in construction, our strategy is centered on the concept of a “constructible model” which is at the center of our “Connected Construction Site” solutions which provide real-time, connected, and cohesive information environments for the design, build, and operational phases of projects. In agriculture, we continue to develop “Connected Farm” solutions to optimize operations across the agriculture workflow. In transportation and logistics, our “Connected Fleet” solutions provide transportation companies with tools to enhance fuel efficiency, safety, and transparency through connected vehicles and fleets across the enterprise.
Our growth strategy is centered on multiple elements:

- Focus on attractive markets with significant growth and profitability potential - We focus on large markets historically underserved by technology that offer significant potential for long-term revenue growth, profitability and market leadership. Our core industries such as construction, agriculture, and transportation markets are each multi-trillion dollar global industries which operate in increasingly demanding environments with technology adoption in the early phases relative to other industries. With the emergence of mobile computing capabilities, the increasing technological know-how of end users and the compelling return on investment to our customers, we believe many of our markets are ripe for substituting Trimble’s technology and solutions in place of traditional operating methods.
- Domain knowledge and technological innovation that benefit a diverse customer base - We have over time redefined our technological focus from hardware-driven point solutions to integrated work process solutions by developing domain expertise and heavily reinvesting in R&D and acquisitions. We have been spending approximately 14% to 15% of revenue over the past several years on R&D and currently have over 1,200 unique patents. We intend to continue to take advantage of our technology portfolio and deep domain knowledge to quickly and cost-effectively deliver specific, targeted solutions to each of the vertical markets we serve. We look for opportunities where the opportunity for technological change is high and which have a requirement for the integration of multiple technologies into complete vertical solutions.
- Increasing focus on software and services - Software and services are increasingly important elements of our solutions and are core to our growth strategy. Trimble has an open application programming interface ("API") philosophy and open vendor environment which leads to increased adoption of our software offerings. We believe that increased recurring revenue from these solutions will provide us with enhanced business visibility over time. Professional services constitute an additional growth channel that helps our customers integrate and optimize the use of our offerings in their environment.
- Geographic expansion with localization strategy - We view international expansion as an important element of our strategy and we continue to position ourselves in geographic markets that will serve as important sources of future growth. We currently have a physical presence in over 35 countries and distribution channels in over 100 countries. In

second quarter of 2017, approximately 50% of our sales were to customers located in countries outside of the U.S.

- Optimized go to market strategies to best access our markets - We utilize vertically-focused distribution channels that leverage domain expertise to best serve the needs of individual markets domestically and abroad. These channels include independent dealers, joint ventures, original equipment manufacturers ("OEM") sales, and distribution alliances with key partners, such as CNH Global, Caterpillar, and Nikon, as well as direct sales to end-users, that provide us with broad market reach and localization capabilities to effectively serve our markets.
- Strategic acquisitions - Organic growth continues to be our primary focus, while acquisitions serve to enhance our market position. We acquire businesses that bring domain expertise, technology, products, or distribution capabilities that augment our portfolio and allow us to penetrate existing markets more effectively, or to establish a market beachhead. Our success in targeting and effectively integrating acquisitions is an important aspect of our growth strategy.

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Trimble's focus on these growth drivers has led over time to growth in revenue and profitability as well as an increasingly diversified business model. Software and services growth is driving increased recurring revenue, leading to improved visibility in some of our businesses. As our solutions have expanded, our go to market model has also evolved, with a balanced mix between direct, distribution and OEM customers, and an increasing number of enterprise level customer relationships.

For the second quarter of fiscal 2017, total revenue increased by $52.3 million compared to the second quarter of fiscal 2016. By geography, North America and Europe were significantly up and to a lesser extent, Asia-Pacific and the rest of the world were up year over year as well. We continue to experience a shift in revenue towards a more significant mix of software, recurring revenue, and services, driven both by organic growth and acquisitions.

During the first two quarters of fiscal 2017, we acquired seven businesses, with total cash consideration of $158.0 million, in our Transportation and Resources and Utilities segment. The largest acquisition was a manufacturer of vision-based automatic wayside inspection systems for the railroad industry. Our Condensed Consolidated Statements of Income include the operating results of the businesses from the dates of acquisition.

In addition, in the first quarter of 2017, we sold our ThingMagic business. Our ThingMagic business provided ultra high frequency radio frequency identification ("RFID") modules and finished RFID readers to OEMs in the medical and advanced industrial markets and was part of the Geospatial segment.

Seasonality of Business

Construction purchases, within our Buildings and Infrastructure segment, tend to occur in early spring, and U.S. governmental agencies tend to utilize funds available at the end of the government's fiscal year for additional purchases at the end of our third fiscal quarter in September of each year. Our agricultural equipment business revenues, within our Resources and Utilities segment, have historically been the highest in the first quarter, followed by the second quarter, reflecting buying in anticipation of the spring planting season in the Northern hemisphere. However, overall as a company, as a result of diversification of our business across segments and the increased impact of subscription revenues, we may experience less seasonality in the future. Changes in global macroeconomic conditions could also impact the level of seasonality we experience.

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	
	2017	2016	2017	2016
(In millions)				
Revenue:				
Product	$445.6	$407.0	$851.0	$800.6
Service	110.0	109.7	216.8	211.3
Subscription	106.3	92.9	208.0	180.7
Total revenue	$661.9	$609.6	$1,275.8	$1,192.6
Gross margin	$346.5	$315.6	$673.1	$616.2
Gross margin %	52.3 %	51.8 %	52.8 %	51.7 %
Operating income	$62.6	$40.5	$119.2	$70.4
Operating income %	9.5 %	6.6 %	9.3 %	5.9 %

Revenue

For the second quarter of fiscal 2017, total revenue increased $52.3 million or 9% compared to the second quarter of fiscal 2016. Product revenue increased $38.6 million or 9%, service revenue increased $0.3 million or 0%, and subscription revenue increased $13.4 million or 14%. In the first two quarters of fiscal 2017, total revenue increased $83.2 million or 7% compared to the first two quarters of fiscal 2016. Product revenue increased $50.4 million or 6%, service revenue increased $5.5 million or 3%, and subscription revenue increased $27.3 million or 15%. For the second quarter, the product and subscription revenue increased

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primarily due to organic growth in Buildings and Infrastructure, Resources and Utilities, and Transportation. For the first two quarters of fiscal 2017, product, service and subscription revenue increased primarily due to organic growth in Buildings and Infrastructure, Resources and Utilities, and Transportation.

On a segment basis, Buildings and Infrastructure revenue for the second quarter of fiscal 2017 increased $19.9 million or 10%, Transportation revenue increased $19.0 million or 13%, Resources and Utilities revenue increased $12.0 million or 12%, and Geospatial revenue increased $1.4 million or 1%, compared to the second quarter of fiscal 2016. Buildings and Infrastructure revenue for the first two quarters of fiscal 2017 increased $34.3 million or 9%, Transportation revenue increased $31.8 million or 11%, Resources and Utilities revenue increased $18.1 million or 9%, partially offset by a decrease in Geospatial revenue of $1.0 million or less than 1%, compared to the first two quarters of fiscal 2016. For the second quarter of fiscal 2017, Buildings and Infrastructure revenue increased primarily due to strong civil engineering and construction organic growth. Transportation revenue increased due to continued growth in the transportation and logistics market. Resources and Utilities revenue increased due to strong performance in agriculture and correction services. Geospatial revenue increased slightly for the second quarter mainly due to geospatial organic growth, partially offset by the impact of divestitures. For the first two quarters of fiscal 2017, Buildings and Infrastructure was up due to strong civil engineering and construction as well as building construction organic growth. Transportation revenue increased due to continued growth in the transportation and logistics market. Resources and Utilities revenue increased due to strong performance in agriculture and positioning services. Geospatial revenue slightly decreased for the first two quarters primarily due to the impact of divestitures, partially offset by geospatial organic growth.

Gross Margin

Gross margin varies due to a combination of factors including product mix, pricing, distribution channel, production volumes and foreign currency translations.

Gross margin increased by $30.9 million and $56.9 million for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016. Gross margin as a percentage of total revenue was 52.3% and 52.8% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to 51.8% and 51.7% for the corresponding periods in fiscal 2016. For the second quarter of fiscal 2017, the increase in gross margin percentage was due to lower intangibles amortization due to fully amortized intangibles from prior acquisitions, slightly offset by product mix due to increased hardware sales in Buildings and Infrastructure and Transportation. For the first two quarters of fiscal 2017, the increase in gross margin percentage was due to lower intangibles amortization due to fully amortized intangibles from prior acquisitions and to a lesser extent, product mix due to higher margin sales in the first quarter as compared to the prior year period.

Operating Income

Operating income increased by $22.1 million and $48.8 million for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016. Operating income as a percentage of total revenue was 9.5% and 9.3% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to 6.6% and 5.9% for the corresponding periods in fiscal 2016.

For the second quarter of fiscal 2017, the increases in operating income and operating income percentage were attributable to revenue expansion across all segments, strong operating expense control and lower amortization of purchased intangible assets, partially offset by increased acquisition costs. For the first two quarters of fiscal 2017, the increases in operating income and operating income percentage were attributable to revenue expansion, strong operating expense control and lower amortization of purchased intangible assets.

Results by Segment

In March 2017, we changed the reporting of our segment financial results to better reflect our customer base and end markets. Beginning with the first quarter of fiscal 2017, we are reporting our financial performance, including revenues and operating income, based on four new reportable segments: Buildings and Infrastructure, Geospatial, Resources and Utilities, and Transportation. Comparative period financial information by reportable segment has been recast to conform with the current presentation.

Operating income is revenue less cost of sales and operating expense, excluding unallocated corporate expenses, restructuring charges, amortization of purchased intangible assets, stock-based compensation, amortization of acquisition-related inventory step-up, acquisition and divestiture items and executive transition costs.

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The following table is a summary of revenue and operating income by segment:

	Second Quarter of		First Two Quarters of	
	2017	2016	2017	2016
(In millions)				
Buildings and Infrastructure				
Revenue	$222.7	$202.8	$410.8	$376.5
Segment revenue as a percent of total revenue	34 %	33 %	32 %	31 %
Operating income	$50.4	$38.9	$83.1	$61.3
Operating income as a percent of segment revenue	23 %	19 %	20 %	16 %
Geospatial				
Revenue	$165.3	$163.9	$315.1	$316.1
Segment revenue as a percent of total revenue	25 %	27 %	25 %	27 %
Operating income	$30.2	$28.5	$58.1	$54.6
Operating income as a percent of segment revenue	18 %	17 %	18 %	17 %
Resources and Utilities				
Revenue	$111.0	$99.0	$230.9	$212.8
Segment revenue as a percent of total revenue	17 %	16 %	18 %	18 %
Operating income	$34.8	$29.9	$77.0	64.8
Operating income as a percent of segment revenue	31 %	30 %	33 %	30 %
Transportation				
Revenue	$162.9	$143.9	$319.0	$287.2
Segment revenue as a percent of total revenue	24 %	24 %	25 %	24 %
Operating income	$26.2	$20.4	$51.0	$44.2
Operating income as a percent of segment revenue	16 %	14 %	16 %	15 %

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

	Second Quarter of		First Two Quarters of	
	2017	2016	2017	2016
(In millions)				
Consolidated segment operating income	$141.6	$117.7	$269.2	$224.9
Unallocated corporate expense	(20.4)	(18.7)	(38.8)	(37.4)
Restructuring charges	(2.8)	(4.9)	(6.2)	(7.0)
Amortization of purchased intangible assets	(35.8)	(39.6)	(69.1)	(79.9)
Stock-based compensation	(15.2)	(13.0)	(28.9)	(26.7)
Amortization of acquisition-related inventory step-up	(0.5)	—	(0.6)	—
Acquisition and divestiture items	(4.3)	(0.9)	(6.4)	(2.5)
Executive transition costs	—	(0.1)	—	(1.0)
Consolidated operating income	62.6	40.5	119.2	70.4
Non-operating income (expense), net:	5.0	(2.2)	14.0	(2.7)
Consolidated income before taxes	$67.6	$38.3	$133.2	$67.7

Buildings and Infrastructure

Buildings and Infrastructure revenue increased by $19.9 million or 10% and $34.3 million or 9% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016. Segment operating income increased $11.5 million or 30% and $21.8 million or 36% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016.

The revenue increase for the second quarter of fiscal 2017 was primarily due to organic growth in civil engineering and construction products, which continued to be driven by strong OEM sales. Civil engineering and construction experienced strong growth in markets such as Europe and Asia Pacific, particularly in Japan and China. To a lesser extent, building construction also contributed

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to growth. In addition to civil engineering and construction strength, the revenue increase for the first two quarters of fiscal 2017 was attributable to strong performance in building construction, including growth in architecture and design and BIM software products in the first quarter. Operating income increased for the second quarter and the first two quarters of fiscal 2017, primarily due to revenue growth and operating expense control across many businesses.

Geospatial

Geospatial revenue increased $1.4 million or 1% and decreased $1.0 million or less than 1% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016. Segment operating income increased by $1.7 million or 6% and $3.5 million or 6% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding period in fiscal 2016.

The revenue increase for the second quarter of fiscal 2017 was primarily due to geospatial organic growth including the new SX 10, our scanning total station, and Applanix sales growth, partially offset by divestitures, including ThingMagic. Geospatial experienced growth in most regions including North America, Europe and Asia Pacific, particularly in Japan and China. The revenue decrease for the first two quarters of fiscal 2017 was primarily due to the impact of the divestitures, partially offset by organic growth. Operating income increased for the second quarter and the first two quarters of fiscal 2017 primarily due to slightly higher margin product mix and strong expense control across many businesses.

Resources and Utilities

Resources and Utilities revenue increased by $12.0 million or 12% and $18.1 million or 9% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016. Segment operating income increased $4.9 million or 16% and $12.2 million or 19% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscals 2016.

Resources and Utilities revenue increased for the second quarter and the first two quarters of fiscal 2017 primarily due to strong performance in agriculture and correction services. Agriculture continued to experience growth due to strong OEM sales and experienced growth in markets such as Europe and Latin America, particularly in Brazil and Argentina, as well as improvement in North America, which provided slight growth. Operating income increased for the second quarter and the first two quarters of fiscal 2017 primarily due to revenue and gross margin expansion in agriculture and correction services and operating expense control across many businesses.

Transportation

Transportation revenue increased by $19.0 million or 13% and $31.8 million or 11% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016. Segment operating income increased by $5.8 million or 28% and $6.8 million or 15% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016.

Transportation revenue increased for the second quarter and the first two quarters of fiscal 2017 primarily due to continued organic growth in the transportation and logistics business, particularly in North America due to the Electronic Logging Device government mandate as well as complementary product sales such as video cameras. Operating income increased for the second quarter and the first two quarters of fiscal 2017 due to revenue expansion in the transportation and logistics business and operating expense control across many businesses, partially offset by continued investments in discrete new initiatives, such as truck driver communities.

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

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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	
	2017	2016	2017	2016
(In millions)				
Research and development	$90.8	$92.0	$179.5	$179.7
Percentage of revenue	14 %	15 %	14 %	15 %
Sales and marketing	$100.4	$97.4	$195.2	$194.1
Percentage of revenue	15 %	16 %	15 %	16 %
General and administrative	$75.1	$65.6	$144.4	$133.9
Percentage of revenue	11 %	11 %	12 %	12 %
Total	$266.3	$255.0	$519.1	$507.7
Percentage of revenue	40 %	42 %	41 %	43 %

Overall, R&D, S&M and G&A expense increased by approximately $11.3 million and $11.4 million for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding period in fiscal 2016.
Research and development expense decreased by $1.2 million or 1% for the second quarter and was flat for the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016.
As compared to the prior year, the decrease in the second quarter of fiscal 2017 was primarily due to a $1.9 million decrease in consulting expense, a $1.1 million decrease due to favorable foreign exchange rates, and a $1.3 million decrease in other expense, partially offset by a $3.1 million increase in compensation expense.
As compared to the prior year, the decrease in the first two quarters of fiscal 2017 was primarily due to a $2.0 million decrease due to favorable foreign exchange rates, a $2.4 million decrease in other expense, and a $0.7 million decrease in consulting expense, partially offset by a $4.9 million increase in compensation expense.
Overall, research and development spending was 14% of revenue in the second quarter and the first two quarters of fiscal 2017, compared to 15% in both the corresponding periods of fiscal 2016.
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 $3.0 million or 3.1% and $1.1 million or 0.6% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016.

As compared to the prior year, the increase in the second quarter of fiscal 2017 was primarily due to a $2.2 million increase in compensation expense, $1.2 million in expense from acquisitions not applicable in the prior corresponding period, and a $0.8 million increase in other expense, partially offset by a $1.2 million decrease due to favorable foreign exchange rates.

As compared to the prior year, the increase in the first two quarters of fiscal 2017 was primarily due to $2.0 million in expense from acquisitions not applicable in the prior corresponding period, a $1.3 million increase in compensation expense, partially offset by a $2.2 million decrease due to favorable foreign exchange rates.

Overall, spending for sales and marketing was 15% of revenue in the second quarter and the first two quarters of fiscal 2017, compared to approximately 16% in both the corresponding periods of fiscal 2016.

General and administrative expense increased by a $9.5 million, or 14% and $10.5 million or 8% for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016.

As compared to the prior year, the increase in the second quarter of fiscal 2017 was primarily due to a $8.0 million increase in compensation expense and $2.2 million in expense from acquisitions not applicable in the prior corresponding period, partially offset by a $0.5 million decrease due to favorable foreign exchange rates and a $0.2 million decrease in other expense.

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As compared to the prior year, the increase in the first two quarters of fiscal 2017 was primarily due to a $10.7 million increase in compensation expense and $3.2 million in expense from acquisitions not applicable in the prior corresponding period, partially offset by a $2.2 million decrease in other expense and a $1.2 million decrease due to favorable foreign exchange rates.

Overall, general and administrative spending was 11% and 12% of revenue in the second quarter and the first two quarters of both fiscal 2017 and 2016, respectively.

Restructuring charges

Restructuring charges primarily consist of severance and benefits, resulting from employee headcount reductions in connection with our restructuring programs related to decisions to streamline processes and reduce the cost structure. As of the end of the second quarter of fiscal 2017, our restructuring liability was $1.6 million, which is expected to be substantially settled by the second quarter of fiscal 2018. Restructuring liabilities are reported within Other current liabilities on the Condensed Consolidated Balance Sheets.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets was $35.8 million in the second quarter of fiscal 2017, compared to $39.6 million in the second quarter of fiscal 2016. Of the total $35.8 million in the second quarter of fiscal 2017, $15.3 million is presented as a separate line within Operating expense and $20.5 million is presented as a separate line within Cost of sales in our Condensed Consolidated Statements of Income. Of the total $39.6 million in the second quarter of fiscal 2016, $15.6 million is presented as a separate line within Operating expense and $24.0 million is presented as a separate line within Cost of sales in our Condensed Consolidated Statements of Income. Amortization in the second quarter of fiscal 2017 reflects acquisitions not included in the corresponding period of fiscal 2016 offset by the fully amortized intangibles from prior acquisitions. As of the end of the second quarter of fiscal 2017 future amortization of intangible assets is expected to be $72.6 million during the remainder of fiscal 2017, $117.8 million during 2018, $77.1 million during 2019, $48.7 million during 2020, $27.0 million during 2021 and $20.3 million thereafter.

Non-operating Income (Expense), Net

The components of Non-operating income (expense), net, were as follows:

	Second Quarter of		First Two Quarters of	
	2017	2016	2017	2016
(In millions)				
Interest expense, net	$(6.0)	$(6.6)	$(12.1)	$(13.2)
Foreign currency transaction gain (loss), net	—	(1.5)	1.4	(1.6)
Income from equity method investments, net	9.9	5.8	14.1	8.7
Other income, net	1.1	0.1	10.6	3.4
Total non-operating income (expense), net	$5.0	$(2.2)	$14.0	$(2.7)

Non-operating income (expense), net increased $7.2 million and $16.7 million for the second quarter and the first two quarters of fiscal 2017, respectively, compared to the corresponding periods in fiscal 2016. The increase for the second quarter was primarily due to an increase in joint venture profitability and, to a lesser extent, the favorable impact from foreign currency exchange. The increase for the first two quarters was primarily due to divestiture gains included in Other income, net, an increase in joint venture profitability and, to a lesser extent, the favorable impact from foreign currency exchange.

Income Tax Provision

Our effective income tax rate for the second quarter of fiscal 2017 was 26% as compared to 7% in the corresponding period in fiscal 2016, primarily due to a one time discrete tax benefit from the divestiture of the Advanced Public Safety (APS) business in the second quarter of 2016. For the first two quarters of fiscal 2017, our effective income tax rate was 25% as compared to 18% in the corresponding period in fiscal 2016, primarily due to a one time discrete tax benefit from the APS divestiture in the second quarter of 2016, partially offset by a favorable change in the geographic mix of pre-tax income in fiscal 2017.

Historically, our effective tax rate has been lower than the U.S. federal statutory rate of 35% primarily due to the tax rates associated with certain earnings from operations in lower-tax jurisdictions. We have not provided for U.S. taxes on such earnings due to the indefinite reinvestment of such earnings outside the U.S.

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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. From time to time, in connection with divesting some of our businesses or assets, we may also indemnify purchasers for certain matters in the normal course of business, such as breaches of representations, covenants or excluded liabilities. 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 end of the second quarter of fiscal 2017 and fiscal year end 2016.

LIQUIDITY AND CAPITAL RESOURCES

As of	Second Quarter of 2017	Fiscal Year End 2016
(In millions, except percentages)		
Cash and cash equivalents and short-term investments	$486.1	$ 327.2
As a percentage of total assets	12.0 %	8.9 %
Principal balance of outstanding debt	616.9	624.8

	First Two Quarters of 2017	First Two Quarters of 2016
(In millions)		
Cash provided by operating activities	$248.7	$ 195.6
Cash used in investing activities	(110.3)	(12.6)
Cash provided by (used in) financing activities	19.3	(68.3)
Effect of exchange rate changes on cash and cash equivalents	11.1	1.2
Net increase in cash and cash equivalents	$168.8	$ 115.9

Cash and Cash Equivalents and Short-Term Investments

As of the end of the second quarter of fiscal 2017, cash, cash equivalents, and short-term investments totaled $486.1 million compared to $327.2 million as of fiscal year end 2016. We had a principal balance of outstanding debt of $616.9 million as of the end of the second quarter of fiscal 2017, compared to $624.8 million as of fiscal year end 2016.

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.

Our cash, cash equivalents and short-term investments are maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions considered to be of reputable credit and to present little credit risk. Our investment policy requires the portfolio to include only securities with high credit quality and a weighted average maturity not to exceed 6 months, with the main objective of preserving capital and maintaining liquidity. We maintain an investment portfolio of various holdings, types, and maturities. We classify our investments as short-term investments based on their nature and their availability for use in current operations. We believe that our cash and cash equivalents, short-term investments, and borrowings under our 2014 Credit Facility as described below under the heading "Debt", will be sufficient to meet our anticipated operating cash needs, debt service, planned capital expenditures, acquisitions and stock repurchases under the stock repurchase program for at least the next twelve months.

Operating Activities

Cash provided by operating activities was $248.7 million for the first two quarters of fiscal 2017, compared to $195.6 million for the first two quarters of fiscal 2016. The increase of $53.1 million was primarily driven by an increase in revenue and a decrease in working capital requirements and other liabilities.

Investing Activities

Cash used in investing activities was $110.3 million for the first two quarters of fiscal 2017, compared to $12.6 million for the first two quarters of fiscal 2016. The increase of $97.7 million was primarily due to increased spending for business acquisitions and purchases of available-for-sale investments, partially offset by proceeds from maturities and sales of short-term investments, and proceeds from sales of businesses.

Financing Activities

Cash provided by financing activities was $19.3 million for the first two quarters of fiscal 2017, compared to cash used in financing activities of $68.3 million for the first two quarters of fiscal 2016. The increase of cash provided by financing activities of $87.6 million was primarily driven by a decrease in repurchases of common stock and an increase in issuance of common stock.

Accounts Receivable and Inventory Metrics

As of	Second Quarter of 2017	Fiscal Year End 2016
Accounts receivable days sales outstanding	54	55
Inventory turns per year	5.2	4.8

Accounts receivable days sales outstanding were down to 54 days as of the end of the second quarter of fiscal 2017, compared to 55 days as of the end of fiscal 2016. Our 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 5.2 as of the end of the second quarter of fiscal 2017, compared to 4.8 as of the end of fiscal 2016. 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.

Debt

Notes

In November 2014, we issued $400.0 million of Senior Notes (the "Notes") in a public offering registered with the Securities and Exchange Commission. The Notes mature on December 1, 2024 and accrue interest at a rate of 4.75% per annum, payable semiannually in arrears in cash on December 1 and June 1 of each year. In connection with the Notes offering, we entered into an Indenture with U.S. Bank National Association, as trustee. We may redeem the Notes at our option at any time, in accordance with the terms and conditions set forth in the Indenture. Further details regarding the terms of the Notes, including the redemption rights, and the Indenture, are provided in the Company’s Annual Report on Form 10-K for fiscal 2016.

2014 Credit Facility

In November 2014, we entered into a five-year credit agreement with a group of lenders, which provides for an unsecured revolving loan facility of $1.0 billion (the "2014 Credit Facility"). Under the 2014 Credit Facility, we may borrow, repay and reborrow funds under the revolving loan facility until its maturity on November 24, 2019, at which time the revolving facility will terminate, and all outstanding loans, together with all accrued and unpaid interest, must be repaid. The interest rate on the non-current debt outstanding under the 2014 Credit Facility was 2.26% and 1.80% at the end of the second quarter of fiscal 2017 and fiscal year end 2016, respectively, and is payable on a quarterly basis. The outstanding balance of $69.0 million as of the end of the second quarter of fiscal 2017 and $94.0 million at the end of fiscal 2016 are classified as long-term debt. Amounts not borrowed under the revolving facility will be subject to a commitment fee. In February 2016, we entered into an amendment to the 2014 Credit Facility to facilitate our proposed reincorporation from California to Delaware and to effect other non-financial terms. In August 2016, we entered into a second amendment to revise a definition used in determining when a change of control of the Company may occur. We were in compliance with all covenants pertaining to the 2014 Credit Facility at the end of the second quarter of fiscal 2017.

Uncommitted Facilities

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We also have two $75 million revolving credit facilities which are uncommitted (the "Uncommitted Facilities"). The Uncommitted Facilities may be called by the lenders at any time, have no covenants and no specified expiration date. The $147.0 million outstanding at the end of the second quarter of fiscal 2017 and the $130.0 million outstanding at the end of fiscal 2016 under the Uncommitted Facilities are considered short-term. The weighted average interest rate on the Uncommitted Facilities was 1.91% at the end of the second quarter of fiscal 2017 and 1.65% at the end of fiscal 2016.

Promissory Notes and Other Debt

At the end of the second quarter of fiscal 2017 and the end of fiscal 2016, we had promissory notes and other notes payable totaling approximately $0.9 million and $0.8 million, respectively, of which $0.6 million and $0.5 million, respectively, was classified as long-term in the Condensed Consolidated Balance Sheet.

For additional discussion of our debt, see Note 7 of Notes to Condensed Consolidated Financial Statements.

Repatriation of Foreign Earnings and Income Taxes

As of the second quarter of fiscal 2017, $461.7 million of cash, cash equivalents and short-term investment was held by our foreign subsidiaries, of which $11.9 million was borrowed from the U.S. under intercompany financing arrangements. If these loaned funds are needed for our operations in the U.S., we would not be required to accrue and pay U.S. federal and state taxes to repatriate the loaned funds. To the extent of other repatriation of cash held by foreign entities, we generally would be required to pay U.S. federal and state taxes. 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. However, if we were to make significant acquisitions or stock repurchases, we may be required to increase our outstanding indebtedness, which could result in increased borrowing costs. 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 2014 Credit Facility or the potential tax costs of remitting foreign earnings back to the U.S.

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 following tables 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 charges, 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 charges, amortization of purchased intangible assets, stock-based compensation, acquisition/divestiture costs associated with external and incremental costs resulting directly from merger and acquisition activities such as legal, due diligence, and integration costs, and executive transition 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 charges, amortization of purchased intangible assets, stock-based compensation, amortization of acquisition-related inventory step-up, acquisition/divestiture costs associated with external and incremental costs resulting directly from merger and acquisition activities such as legal, due diligence, and integration costs, and executive transition 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 (expense), net

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We believe this measure helps investors evaluate our non-operating income trends. Non-GAAP non-operating income (expense), net excludes acquisition/divestiture gains/losses associated with unusual acquisition related items such as intangible asset impairment charges and gains or losses related to the acquisition or sale of certain businesses and investments. We believe that these exclusions provide investors with a supplemental view of our ongoing financial results.

Non-GAAP income tax provision

We believe that providing investors with the non-GAAP income tax provision is beneficial because it provides for consistent treatment of the excluded items in our non-GAAP presentation.

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 charges, amortization of purchased intangible assets, stock-based compensation, amortization of acquisition-related inventory step-up, acquisition/divestiture costs, executive transition costs, 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 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 charges, amortization of purchased intangible assets, stock-based compensation, amortization of acquisition-related inventory step-up, acquisition/divestiture costs, executive transition costs, 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 compared to our past diluted net income per share.

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 charges, amortization of purchased intangible assets, stock-based compensation, amortization of acquisition-related inventory step-up, acquisition/divestiture costs, executive transition costs, and non-GAAP tax adjustments. For detailed explanations of the adjustments made to comparable GAAP measures, see items (A) - (I) below.

		Second Quarter of						First Two Quarters of					
		2017			2016			2017			2016		
(In millions, except per share amounts)		Dollar Amount	% of Revenue		Dollar Amount	% of Revenue		Dollar Amount	% of Revenue		Dollar Amount	% of Revenue	
GROSS MARGIN:													
GAAP gross margin:		$346.5	52.3	%	$315.6	51.8	%	$673.1	52.8	%	$616.2	51.7	%
Restructuring charges	(A)	0.5	0.1	%	0.4	0.1	%	1.0	0.1	%	0.7	0.1	%
Amortization of purchased intangible assets	(B)	20.5	3.1	%	24.0	3.9	%	39.5	3.1	%	48.1	4.0	%
Stock-based compensation	(C)	0.9	0.1	%	0.9	0.1	%	1.7	0.1	%	1.9	0.1	%
Amortization of acquisition-related inventory step-up	(D)	0.5	0.1	%	—	—	%	0.6	—	%	—	—	%
Non-GAAP gross margin:		$368.9	55.7	%	$340.9	55.9	%	$715.9	56.1	%	$666.9	55.9	%
OPERATING EXPENSES:													

GAAP operating expenses:		$283.9	42.8 %	$275.1	45.1 %	$553.9	43.5 %	$545.8	45.8 %
Restructuring charges	(A)	(2.3)	(0.3)%	(4.5)	(0.7)%	(5.2)	(0.4)%	(6.3)	(0.5)%
Amortization of purchased intangible assets	(B)	(15.3)	(2.3)%	(15.6)	(2.6)%	(29.6)	(2.3)%	(31.8)	(2.7)%
Stock-based compensation	(C)	(14.3)	(2.2)%	(12.1)	(2.0)%	(27.2)	(2.2)%	(24.8)	(2.1)%
Acquisition / divestiture items	(E)	(4.3)	(0.6)%	(0.9)	(0.1)%	(6.4)	(0.6)%	(2.5)	(0.2)%
Executive transition costs	(F)	—	— %	(0.1)	— %	—	— %	(1.0)	(0.1)%
Non-GAAP operating expenses:		$247.7	37.4 %	$241.9	39.7 %	$485.5	38.0 %	$479.4	40.2 %

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OPERATING INCOME:									
GAAP operating income:		$62.6	9.5 %	$40.5	6.7 %	$119.2	9.3 %	$70.4	5.9 %
Restructuring charges	(A)	2.8	0.4 %	4.9	0.8 %	6.2	0.5 %	7.0	0.6 %
Amortization of purchased intangible assets	(B)	35.8	5.4 %	39.6	6.5 %	69.1	5.4 %	79.9	6.7 %
Stock-based compensation	(C)	15.2	2.3 %	13.0	2.1 %	28.9	2.3 %	26.7	2.2 %
Amortization of acquisition-related inventory step-up	(D)	0.5	0.1 %	—	— %	0.6	— %	—	— %
Acquisition / divestiture items	(E)	4.3	0.6 %	0.9	0.1 %	6.4	0.6 %	2.5	0.2 %
Executive transition costs	(F)	—	— %	0.1	— %	—	— %	1.0	0.1 %
Non-GAAP operating income:		$121.2	18.3 %	$99.0	16.2 %	$230.4	18.1 %	$187.5	15.7 %
NON-OPERATING INCOME (EXPENSE), NET:									
GAAP non-operating income (expense), net:		$5.0		$(2.2)		$14.0		$(2.7)	
Acquisition / divestiture items	(E)	(0.8)		0.4		(8.9)		(2.7)	
Non-GAAP non-operating income (expense), net:		$4.2		$(1.8)		$5.1		$(5.4)	
			GAAP and Non-GAAP Tax Rate % (I)		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:		$17.7	26 %	$2.7	7 %	$32.8	25 %	$12.4	18 %
Non-GAAP items tax effected	(G)	15.0		4.1		25.2		21.0	
Difference in GAAP and Non-GAAP tax rate	(H)	(3.8)		16.4		(3.8)		10.3	
Non-GAAP income tax provision:		$28.9	23 %	$23.2	24 %	$54.2	23 %	$43.7	24 %
NET INCOME:									
GAAP net income attributable to Trimble Inc.		$49.9		$35.7		$100.4		$55.5	
Restructuring charges	(A)	2.8		4.9		6.2		7.0	
Amortization of purchased intangible assets	(B)	35.8		39.6		69.1		79.9	
Stock-based compensation	(C)	15.2		13.0		28.9		26.7	
Amortization of acquisition-related inventory step-up	(D)	0.5		—		0.6		—	
Acquisition / divestiture items	(E)	3.5		1.3		(2.5)		(0.2)	
Executive transition costs	(F)	—		0.1		—		1.0	

Non-GAAP tax adjustments	(G) + (H)	(11.2)	(20.5)	(21.4)	(31.3)
Non-GAAP net income attributable to Trimble Inc.		$96.5	$74.1	$181.3	$138.6
DILUTED NET INCOME PER SHARE:			&#16		