INDUSTRIES INTERNATIONAL INC
Form 10-K
March 31, 2004

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No.: 000-32053

INDUSTRIES INTERNATIONAL INCORPORATED
(Exact name of registrant as specified in its charter)

Nevada	3600	87-0522115
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

4/F Wondial Building, Keji South 6 Road
Shenzhen High-Tech Industrial Park, Shennan Road
Shenzhen, China
(Address of principal executive offices)

011-86-755-26520839
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Title of each class	Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act:

Common Stock
(Title of class)

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. [X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). [ ] Yes [X] No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 27, 2003: $10,350,524

The number of shares of common stock outstanding as of March 25, 2004 was 29,992,944 shares

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements" which are based on our current expectations, assumptions, estimates and projections about our business and our industry. Words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," and other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements.

Factors that might cause such a difference include, but are not limited to, those discussed in the section of this Annual Report titled "Management's Discussion and Analysis of Financial Condition and Results of Operation-Factors Affecting Business, Operating Results and Financial Condition", as well as other factors, such as a decline in the general state of the Chinese economy, which will be outside our control. You are cautioned not to place undue reliance on these forward-looking statements, which relate only to events as of the date on which the statements are made. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. You should refer to and carefully review the information in future documents we file with the Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS

OVERVIEW.

Industries International, Incorporated ("Industries", "IDUL" or the "Company") is a holding company whose subsidiaries are focused on the research, development, manufacture and commercialization of telecommunication equipment, lithium and lithium-ion batteries, and battery testing equipment in the People's Republic of China ("PRC" or "China") and globally. IDUL's wholly-owned subsidiary Broad Faith Limited is a leading China-based company engaged in, through its subsidiaries, the research, development, production and distribution throughout China of communications terminal products such as corded and cordless telephones and their core components like printed circuit boards (PCB) and design and radio frequency modules. According to the 2002 "Market Research & Consultation Report on Telephones in Chinese Cities" provided by Beijing Guneng Market Research Center, the Company ranks among the top three companies in the Chinese cordless telephone market. The same report also listed the Company's WONDIAL(R) brand name as a well-established brand name in the Chinese telephone market. The Company, through Broad Faith and it subsidiaries, distributes its products through a network of over 5,100 points of sale in more than 200 cities and 28 provinces in China.

HISTORY, REORGANIZATIONS AND CORPORATE STRUCTURE.

Industries International, Incorporated was incorporated on January 11, 1991 under the laws of the state of Nevada. Its original business was in a field unrelated to its current operations, and was a public shell without operations. The telecommunication equipment manufacturer, Shenzhen Wonderland Communication Science and Technology Co. Limited ("Wonderland"), the operating company purchased in the Company's Broad Faith Limited reverse merger, was established in July 1993 as a Sino-Foreign Equity Joint Venture in the PRC. During the past five years neither Industries nor Wonderland experienced any bankruptcy proceedings or major reorganizations other than those described herein.

Broad Faith Limited

On February 10, 2003, the Company completed the acquisition of Broad Faith Limited, a company incorporated in the British Virgin Islands ("Broad Faith"). At the time of the acquisition, Broad Faith held a 95% interest in Shenzhen Kexuntong Industrial Co. Ltd. ("Kexuntong"), a Sino-Foreign Equity Joint Venture (a Chinese entity used as a vehicle for foreign investment in China) established in 1994. Kexuntong, in turn, holds 68.73% ownership in its consolidated PRC subsidiary, Wondial, which is engaged in the research, development, production and distribution of communication terminal products such as corded and cordless telephones and core components such as printed circuit boards and radio frequency modules in China. Kexuntong has a renewable 15-year operating tenure pursuant to regulations of Shenzhen Foreign Investment Bureau, which can be renewed at the Company's option by March 29, 2009.

The acquisition of Broad Faith resulted in a change of control of the Company. Pursuant to an Amended and Restated Agreement and Plan of Share Exchange dated as of February 10, 2003 (the "Exchange Agreement") by and among Broad Faith, Dr. Kit Tsui, an Individual who was then the sole stockholder of Broad Faith ("Dr. Tsui"), the Company, Daniel Shuput, an Individual who was then the holder of at

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least a majority of the Company's outstanding capital stock ("Shuput"), William Roberts ("Roberts") and Gayle Terry ("Terry"), each Individual stockholders of the Company, the Company agreed to issue to Dr. Tsui 7,032,986, shares of its common stock, par value $.01 per share (the "IDUL Common Stock"), in exchange for each share of Broad Faith's common stock, par value $1.00 per share (the "Broad Faith Common Stock"), issued and outstanding on the date of the

consummation of the exchange. Prior to the closing, approximately 71% of all the Company's issued and outstanding shares were held directly by Shuput. At the closing, Dr. Tsui was issued an aggregate of 3,750,187 authorized and unissued shares of IDUL Common Stock, which shares represented approximately 75% of the total then issued and outstanding shares of the Company. As part of its obligations under the Exchange Agreement, the Company was required to increase its authorized capital stock to at least 100,000,000 shares and to issue to Dr. Tsui and his designees an additional 10,315,187 shares. The Company subsequently increased its authorized shares and issued the required additional shares to Dr. Tsui, resulting in Dr. Tsui's ownership of 92% of the Company, and Shuput's ownership of approximately 5.5% of the issued and outstanding shares of the Company. Pursuant to the Exchange Agreement, on the closing date, the Company's three officers, Shuput, Roberts and Terry, resigned as the Company's officers and appointed Dr. Tsui as the Chairman of the Board and Chief Executive Officer and Mr. Weijiang Yu as the President. In addition, Shuput, Roberts and Terry resigned as the Company's directors and nominated Dr. Tsui, Mr. Yu and Mr. Zhiyong Xu as the Company's new board of directors, the majority of the Company's Shareholders approved the nomination. On February 14, 2003 the Board of Directors appointed Mr. Xu as Secretary of the Company and Ms. Guoqiong Yu as the Chief Financial Officer and Treasurer of the Company.

On June 10, 2003, the Company acquired an additional 4.24% interest in Wonderland from Shanghai Sanfeng Investment Management Co., Ltd. in exchange for 665,860 shares of the Company's common stock (par value of $4.00 per share), valued at $2.65 million, thereby increasing the Company's direct and Indirect ownership interest in Wonderland to 69.53%.

Li Sun Power

On March 10, 2003, the Company entered into a sale and purchase agreement for shares in Li Sun Power International Limited, a company incorporated in the British Virgin Islands ("Li Sun") with Dr. Kit Tsui, the Company's Chief Executive Officer, majority shareholder and a director. Dr. Tsui was then also the sole shareholder of Li Sun, as well as sole shareholder of four companies who collectively held a 72.84% Wuhan Lixing Power Sources Co., Ltd. ("Lixing Power") as trustees for the benefit of Li Sun. (These trustee companies are Wuhan Hanhai High Technology Limited, Wuhan City Puhong Trading Limited, Shenzhen City Xing Zhicheng Industrial Limited and Shenzhen Kexuntong Industrial Co. Ltd.) Dr. Tsui disclosed his interest in Li Sun to the Company's Board of Directors prior to conducting the acquisition. After review and consideration of the terms of the transaction, the Company's Board of Directors unanimously approved the transaction. Dr. Tsui abstained from the Board approval of the transaction.

The Company's acquisition of Li Sun was completed on May 14, 2003, and consisted of the Company's purchase of 100% of the capital stock of Li Sun in exchange for 3,941,358 shares of the Company's common stock valued at $7,567,407.36 as well as an unwritten promissory note in the amount of $7,662,000, without expiration, maturity date or interest, payable in cash or the Company's common stock based on mutual agreement. As a result of this acquisition, the Company now holds a 72.84% interest in Lixing Power.

Lixing Power was incorporated in China in 1993. According to the Lithium Battery Branch of Physical and Chemical Institute of China, Lixing Power is one of the

pioneers in China's battery industry, specializing in the production and distribution of lithium and lithium-ion batteries mainly through its subsidiary, Wuhan Lixing (Torch) Power Sources Co., Limited.

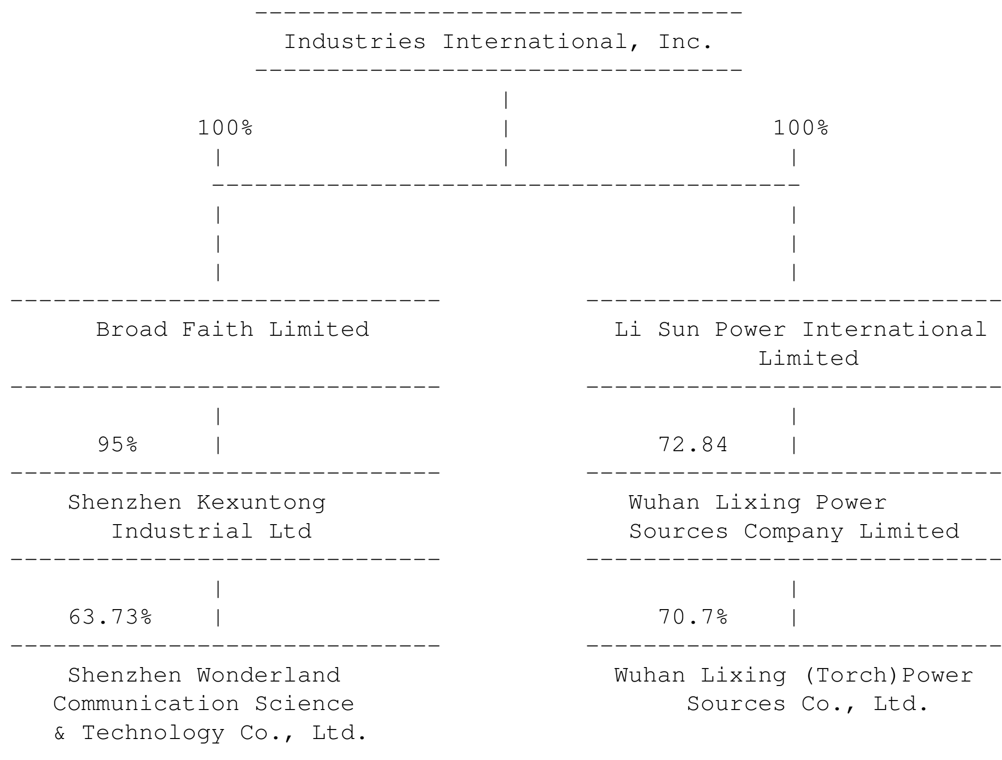
Through its wholly-owned subsidiary, Li Sun Power, and its majority business interest in Lixing Power, the Company manufactures and markets lithium and lithium-ion batteries under its own Lixing(R) and Lisun(R) brand-names. It is also an original equipment manufacturer for more than 15 battery brands, including ASUSU, Maxon(Korea), Legend, MiTAC, Giga, and Panasonic. These brands are sold both domestically and overseas. The Company's batteries are marketed for use in various types of electronic products including calculators, personal digital assistants, laptop computers, mobile phones and hybrid electric vehicles. Additionally, the Company manufactures battery testing equipment, which is sold in both Chinese and global markets.

Reverse split

On May 12, 2003, the Board of Directors of the Company approved and declared a one-for-four reverse split of the Company's common stock, effective for all holders of record on June 2, 2003. As a result of the reverse split, the Company decreases the number of issued and outstanding shares and increased the market value of each share commensurately.

CORPORATE STRUCTURE

The Company's corporate structure is as follows:



BUSINESS SEGMENTS

The Company has three main business segments: Communications terminal products, battery products, and battery testing equipment.

COMMUNICATIONS TERMINAL PRODUCTS

Products

The Company develops, produces and distributes corded and cordless telephones, walkie-talkies, hand-to-hand radios and digital voice repeaters that are sold under the trademark WONDIAL(R).

According to statistics provided by The International Electronic Business Network of CHINA (www.ebnchina.com), Broad Faith is one of the largest telephone manufacturers in China. The Company's management believes it ranks among China's top three cordless telephone producers in terms of assets and production scale.

CORDED TELEPHONES. The Company produces two series of corded telephones, the HA9000 series and the HCD9000 series of telephone, currently with a total of 17 models in the market ranging in price from $5 to $150. The HA9000 series include models with relatively little functionality. The HCD9000 series provides more functionality, including: caller identification display, time display, phone book, incoming and outgoing call history, a calculator, speed dialing, alarm and various other features.

CORDLESS TELEPHONES. The Company produces a line of cordless telephones categorized under its HWCD series, currently offering 12 different models. The functionalities include channel selection, call history for incoming and outgoing phone calls, speed dialing, programmable International Direct Dialing

("IDD") lock, auto redial, ringer selection, record and play handset options, intercom, caller identification display and multiple handset capability. The models are differentiated by their functions and by the number of handsets that come with the base unit.

RADIOS AND REPEATERS. We also produce walkie-talkies and hand-to-hand radios under our WT series of products and, under our FW series of products, we produce digital voice repeaters for use by students of foreign languages. The digital voice repeaters are designed to play back words, phrases and sentences in foreign languages.

AFTER-SALES SERVICE SUPPORT. The Company operates an after-sales service network in each province and in each major city within China. It also authorizes sales distributors to set up their own after-sales service networks in such distributors' business areas. The set up and operation of these service networks must be approved by the Company and must pass a strict review process. Wondial's service center and other branch organizations provide technical support to these networks. Currently there are 28 service centers with more than 200 service terminals.

Market, Customers and Distribution

Our products are targeted to consumers and businesses within the People's Republic of China. According to the National Bureau of Statistics of China, as of year end 2002, the number of fixed line telephone subscribers reached 214 million subscribers, an increased of 34 million subscribers from year end 2001. As of the end of the first quarter 2003, statistics revealed that the number of subscribers reached 225 million, an increase of 11.2 million during just the first three months of 2003. The Ministry of Information Industry of China anticipates that the number of fixed line telephone subscribers will be over 490 million by 2010.

The Company supplies the products in this segment to both distributors and directly to end customers. Industries maintains a nationwide distribution

network that includes 28 independent regional distributors that account for more than 5,100 points-of-sale in 200 major cities in China. The Company maintains a team of 40 Wondial primary sales representatives who directly communicate with Company and 300 secondary sales representatives who are working directly with primary representatives.

The Company's Chinese distribution network includes major telecommunication companies, including China Telecom (the largest fixed line operator in China, as projected by CCID IT-economy Research Institute), China Unicom and China Railway Communications. Chain stores and supermarkets operating throughout China, such as Wal-Mart China, Sam's Club and Carrefour's, are also major accounts. Of these, all of our sales from distributors in this segment account for 24.8% of our total telecom sales in 2003, Wal-Mart, accounting for 3.2% of total telecom equipment sales in 2003, and Carrefour's, accounting for 0.2% of total telecom equipment sales in 2003.

We also distribute our communications products to Hong Kong, Korea, and Singapore. through distributors in China.

The Company maintains sales agreements with all of its distributors, which are renewed on an annual basis. The Company believes that it would be able to replace any of its distributors, if circumstances required.

The Company prices its products based on manufacturing costs plus a mark-up depending on numerous factors including order size, competition, inventory considerations and technical attributes. Regional sales agents will set the second-tier sales agent and end-user price based on the local market situation with reference to the retail price suggested by the Company. If a severe price gap occurs, the Company has the right to revise the ex-factory price. The Company may also change its prices in response to an acute price fluctuation of raw material, volatile market situations or breakpoint pricing mechanisms.

No other distributors or end customers Individually or as an affiliated group account for more than 10% of our consolidated revenues.

Raw materials

The primary components used in manufacturing our products in this segment include transistors, integrated circuits (which account for 20% of the total cost), liquid crystal displays, printed circuit boards, antennas, adaptors and switches. The sources of these components are primarily electronics products suppliers located in or near Shenzhen City, although certain integrated circuit and micro-controller units are imported from Hong Kong. While we purchase these components from a few vendors, the components are produced by over 200 manufacturers in China. As of December 2003, we have outsourced our manufacturing capabilities and we don't purchase these raw materials directly.

Intellectual property

For the corded and cordless phone products, the Company has obtained three Chinese patents for its formal product design:

- No.01331397.5 "HWCD9000(9C) P/TSDL" issued on June 21, 2001;
- No.01331395.9 "HWCD9000(8E) P/TSDL" issued on June 21, 2001; and
- No.01354789.5 "HWCD9000(9)P/TSDL" issued on December 14, 2001.

All patents expire 10 years after issuance. We do not believe that the expiration of these patents will have a material adverse effect on our business, because we continually develop new product designs. While we may continue to file patent applications to protect our technology and products, we cannot be sure that our patents will provide commercially significant protection to our technology. We have also trademarked the name "Wondial".

We attempt to avoid infringing known proprietary rights of third parties in our product development efforts. If we were to discover that our products violate third-party proprietary rights, we may not be able to offer these products without substantial re-engineering. Efforts to re-engineer might not be successful, licenses from the owners of the technology may be unavailable on commercially reasonable terms, if at all, and litigation may not be avoided or settled without substantial expense and damage awards.

Seasonality and cyclicality

This segment does not experience material fluctuations in sales or revenues on a seasonal or cyclical basis.

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Working capital practices

Our working practice represents the industry standard, and, to its knowledge, the Company does not experience any unusual working capital requirements. The Company is not required to maintain inventory allotments for any purpose, and neither customers nor external distributors are generally permitted to return merchandise after delivery. Company policy permits customer discount if there are product quality issues. Accounts receivable are generally carried for a period between 60 and 90 days, and accounts payable are generally carried for a period of 30 days.

Backlog

The Company did not have any backlog as of December 31, 2003.

Government renegotiation

There are no material portions of the Company's business that may be subject to renegotiation of profits or termination of contracts or subcontracts at the election of any government.

Revenues

For the fiscal year ended December 31, 2003, the communications terminal products segment revenues totaled $37.9 million, or 64.5% of net sales.

BATTERY PRODUCTS

Through Li Sun Power, the Company designs and manufactures disposable and rechargeable lithium and lithium-ion batteries that are used in instruments, meters, computers, cameras and similar battery-powered devices. With 47 models of disposable batteries and 33 models of rechargeable batteries, the Company currently produces over 20 million batteries annually. Li Sun Power is certified by International Organization for Standardization as an ISO 9001 and ISO 14001 manufacturers.

Products

DISPOSABLE LITHIUM BATTERIES. The Company produces 47 different models of disposable lithium batteries which can be generally divided into the following three categories: lithium manganese dioxide button-type, lithium manganese dioxide cylindrical and lithium thionyl chloride. 36 of the 47 models are currently being marketed . The remaining eleven models are currently in development stage, as additional engineering is still required.

Lithium Manganese Dioxide Button-Type

This type of battery provides 3 volts of power (double the amount of conventional dry batteries) with relatively stable and relatively reliable discharge of energy. It possesses fast pulse discharge characteristics as well as an operating temperature range from -20(degree)C to 60(degree)C. This battery also maintains good storage characteristics with a low self-discharge rate of less than 2%, which permits a shelf life of up to eight years.

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Lithium Manganese Dioxide Cylindrical

Based on the Company's experimental results, this battery provides voltage ranging between 2.8 and 3.2, with a high current discharge and no voltage delay, and an operating temperature range between -40(degree)C and 70(degree)C. This battery also maintains a long storage life, averaging eight years, due to a low self-discharge rate, as well as and good safety and zero pollution characteristics.

Lithium Thionyl Chloride

This battery provides a voltage of 3.6 with a high specific capacity of 500wh/kg, 1000wh.dm3 and an operating temperature range between -40(degree)C and 85(degree)C. These batteries have a low self-discharge rate (no more than 1%) providing a shelf life of up to 10 years.

DISPOSABLE LITHIUM BATTERIES

TYPE	COMMON APPLICATIONS
Lithium Manganese Dioxide Button-Type Battery	Watches, calculators, IC cards (plastic cards with semiconductor chips inside, commonly used as debit cards)and electronic dictionaries
Lithium Manganese Dioxide Cylindrical Battery	Cameras, radios, CMOS memory backup and communication devices for both civil and military use
Lithium Thionyl Chloride Battery	Gas meters, clocks, CMOS memory backup and a wide range of electronic devices such as alarms, night latches, range finders, and intelligence instruments

RECHARGEABLE LITHIUM BATTERIES. The Company produces 33 different models of rechargeable lithium-ion batteries which can be generally divided into the following three categories: button type lithium-ion, prismatic lithium-ion and large capacity lithium-ion. 28 of the 33 models are currently being marketed. The remaining five models are currently in development stage, as additional

engineering is still required.

Button-Type Lithium-ion

In 2002, the Company successfully developed a proprietary and patented button-type lithium-ion battery, which the Company believes is one of a few high capacity button-type batteries available in China. This battery provides an average voltage of 3.7, with a low self-discharge rate of less than 10%. These rechargeable batteries have an average of 500 life cycles, and do not have a "memory effect" (they do not require discharge before recharge). The batteries have an operating temperature range of -20(degree)C to 60(degree)C.

Prismatic Lithium-ion

This battery, which is larger than the button-type battery, possesses many of the same characteristics as the button-type but is packaged in a larger, high energy density battery pack. This battery provides average voltage of 3.7 with expedient discharge and charge cycles. This battery has a low self-discharge rate of less than 10%, no memory effect, and an operating temperature range of -20(degree)C to 60(degree)C.

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Large Capacity Lithium-ion

The Company also produces and develops a wide range of large capacity lithium-ion batteries. These batteries have a wide range of continuous discharge current applications, ranging from small power applications of 3 amperes to high power applications of 120 amperes. These batteries also maintain an extremely long life cycle (500 or more times longer than standard capacity lithium-ion batteries) and an operating temperature range between -20(degree)C to 60(degree)C.

RECHARGEABLE LITHIUM BATTERIES

TYPE	COMMON APPLICATIONS
Button- Type Battery Lithium-Ion Battery	Mobile telephones, laptop computers, personal digital assistants and electronic notebooks
Prismatic Lithium-Ion Battery	Mobile telephones, laptop computers, personal digital assistants and electronic notebooks
Lithium-Ion Power Battery	Motor scooters, miners' lamps, electric bicycles and hybrid electric vehicles

Market

As a result of its wide range of high-end battery products, the Company has developed a broad customer base in both Chinese and overseas markets. At present, about 20% of the Company's battery revenue is generated from export of products to Hong Kong, Taiwan, U.S., Singapore, New Zealand and other countries. As an OEM manufacturer of batteries under other brand names, the Company has established a long-term cooperative relationship with a number of locally and internationally well-known companies for manufacturing batteries customized to their specific design and functional requirements.

Lithium Manganese Button-Type Battery

The lithium manganese button-type battery has numerous applications, including electronic gift items, watches, electronic diaries and dictionaries. The Company estimates total lithium manganese button-type battery demand in China to be approximately 120 million pieces per year. In 2002, Lixing Power sold approximately 60 million pieces of lithium manganese button-type batteries to computer main board manufacturers and the Company anticipates its sales volume for this battery type will increase to 100 million and 150 million in 2003 and 2004 respectively.

Lithium Manganese Dioxide Cylindrical Battery

Major applications for this type of battery include radios, cameras, and civil and military telecommunication equipment. Based on statistics published by China Industrial Association of Power Sources (CIAPS) with respect to sales of such batteries in 2001 and 2002, the Company estimates global market demand for this type of battery to be about 200 million pieces per year. Lixing Power sold about 500,000 pieces of these batteries in 2002. However, according to sales orders received, the Company believes that sales volume of 2003 may increase to 1 million pieces.

Prismatic Lithium-ion Batteries

A major application for this type of battery is mobile phones. Customers include mobile phone manufacturers and battery pack manufacturers. According to the 20th International Seminar & Exhibit on Primary & Secondary Batteries on March 17, 2003 in Florida, USA, it is estimated that the global production of prismatic

lithium-ion batteries is approximately 1.255 billion batteries and the production of the prismatic lithium-ion batteries for cell phone use is approximately 700 million batteries in 2003. Lixing Power anticipates sales of approximately six million prismatic lithium-ion batteries in 2003. Additional applications for this type of battery are PDAs and other handheld devices. The Development Research Center of the State Council of China estimates that the production of prismatic lithium-ion batteries in China will reach 100 million pieces in 2003. While NiCh rechargeable batteries have traditionally been used in portable equipment, the prismatic lithium-ion battery is quickly replacing the NiCh rechargeable battery and, as a result, the Company believes that the market share of the prismatic lithium-ion battery will substantially increase.

Lithium-ion Button Type Batteries

These batteries are mainly used in such micro portable equipment as mobile phones, laptop computers, PDAs and electronic diaries. Lixing Power's patented batteries are also used to power wireless earphones. Lixing Power will upgrade its existing LIR2450 II battery (110 MAH) to LIR2450 [II] which has a capacity of 180 to 240 MAH. Lixing Power also plans to upgrade the capacity of its LIR2450 II battery from 110 MAH to 180~240 MAH. The Company has enjoyed proprietary technology and competitive advantage due to early entry into this market niche. With the increased use of blue tooth technology, the Company believes this market will increase rapidly.

Lithium-ion Power Battery

The applications of these batteries are categorized by application in (1) high capacity batteries which are mainly used in electric tools and bicycles; and (2) high power batteries which are mainly used for hybrid electric vehicles. According to a report on www.ntem.com.cn, it is estimated that approximately 300 million vehicles will use high power batteries by 2020. Lixing Power's new

lithium-ion power batteries have passed Chinese national certification and are in the expansion phase of development. The Company's sales of lithium-ion power batteries for the first six months of 2003 are approximately 20,000 pieces. The Company believes that it is a leader in this technology, with more than 3 years of marketing experience and is the only company that has passed military certification for this type of battery. As a result, the Company believes there are very few competitors that can compete with the Company with respect to this technology. The Company believes that it can capture approximately 50% of the market share for this type of battery in the near future.

The Company prices its products based on manufacturing costs plus a mark-up depending on numerous factors including order size, competition, inventory considerations and technical attributes. Regional sales agents will set the second-tier sales agent and end-user price based on the local market situation with reference to the retail price suggested by the Company. If a severe price gap occurs, the Company has the right to revise the ex-factory price. The Company may also change its prices in response to an acute price fluctuation of raw material, volatile market situations or breakpoint pricing mechanisms.

Raw materials

The primary components used in manufacturing our products in this segment include cobalt acid lithium, polymer organic foam, graphite and protection shields. The sources of these components are primarily chemical suppliers located in or near China. If a source for one or more of the components was to fail, we believe that we can find several other cobalt acid lithium suppliers in

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China. We primarily import our cobalt from South Africa. In case there is a shortage of cobalt, all of the batteries manufactures will be affected negatively.

One of the materials required for production is the protection shield, which is used in manufacturing rechargeable lithium-ion batteries. The protection shield is a common chemical material, but processing equipment requires a high investment, as it needs to be processed into a thinner shield with a high precision requirement. As a result, there are very few manufacturers in the world who are willing and able to produce this kind of shield, resulting in periodic supply shortages. In the event of a supply shortage, the Company can find alternative vendors who can provide us with the protection shield.

With respect to all other materials required for the production of batteries, all materials are widely available, and restrictions in supply are generally not anticipated.

None of the Company's suppliers accounts for 10% or more of inventory or 10% or more of expenditures.

Intellectual property

For the batteries products, the Company has obtained 12 Chinese patents for product design and production methodologies for making lithium and lithium-ion batteries:

- No. 96211676 "Siren Lights for Bicycles" issued on May 10, 1996;
- No. 97241178.X "Button- Type Lithium Ion Battery" issued on August 18, 1997;
- No. 97241378.2 "Automatic Assembling Equipment for Button-Type Battery"

issued on October 15, 1997;

- No. 99238457.5 "Lithium Battery with Safety Shield" issued on September 8, 1999;
- No. 99238456.7 "Safety Shield for Lithium Battery" issued on September 8, 1999;
- No. 00229552.0 "Automatic Cleaning Machine for Button-Type Battery" issued on March 31, 2000;
- No. 01250166.2 "Fixing Device for Mobile Phone Batteries" issued on July 25, 2001;
- No. 01251640.6 "Button-Type Lithium-ion Battery" issued on August 22, 2001;
- No. 01252383.6 "Explosion-Proof Lithium-ion Batteries" issued November 8, 2001;
- No. 02228570.9 "Explosion-Proof Lithium Batteries" issued on March 7, 2002;
- No. 02228572.5 "Cross-Folded Core for Button-Type Lithium Ion Batteries" issued on March 7, 2002; and
- No. 02228571.7 "Electrode for Button-Type Batteries" issued on March 7, 2002.

All patents expire 10 years after issuance. We do not believe that the expiration of these patents will have a material adverse effect on our business, because we continually develop new product designs. While we may continue to file patent applications to protect our technology and products, we cannot be sure that our patents will provide commercially significant protection to our technology.

We attempt to avoid infringing known proprietary rights of third parties in our product development efforts. If we were to discover that our products violate third-party proprietary rights, we may not be able to offer these products without substantial re-engineering. Efforts to re-engineer might not be successful, licenses from the owners of the technology may be unavailable on commercially reasonable terms, if at all, and litigation may not be avoided or settled without substantial expense and damage awards.

Seasonality and cyclicality

In general, there is no clear seasonality affect on our revenues. Sales are slightly lower during the first quarter due to Chinese New Year holiday. Export sales are usually higher in the second quarter. Sales generally increase in the fourth quarter due to the Christmas holiday.

Working capital practices

Our working practice represents the industry standard, and, to its knowledge, the Company does not experience any unusual working capital requirements. The Company is not required to maintain inventory allotments for any purpose, and neither customers nor external distributors are generally permitted to return merchandise after delivery. Company policy permits customer discount if there are product quality issues. Accounts receivable are generally carried for a period between 60 and 90 days, and accounts payable are generally carried for a period of 30 days.

Customers and Distribution

We supply the products in this segment to both distributors and directly to end customers. We have sales agreements with all of our distributors and contracts are usually renewed on an annual basis. Li Gao International Company d/b/a Team Sirplus Limited accounted for over 10% of our battery revenue in 2003. We

believe that we would be able to replace this distributor, or any of our distributors, if circumstances required.

No other distributors or end customers Individually or as an affiliated group account for more than 10% of our consolidated revenues.

Backlog

The Company did not have any backlog as of December 31, 2003.

Government renegotiation

There is no material portion of the company's business that may be subject to renegotiation of profits or termination of contracts or subcontracts at the election of any government

Revenues

For the fiscal year ended December 31, 2003, the batteries segment revenues totaled $13.4 million, or 22.7% of net sales.

BATTERY TESTING EQUIPMENT

Through Li Sun Power, the Company designs and manufactures program-controlled specialized testing equipment for use in laboratories and technology research institutes for high-precision testing of chemical composition and functioning capacity of batteries. The professional testing equipment is specially designed for use in laboratories and technology research institutes for high-precision testing of electrode and electric capacity.

Products

BATTERY TESTING EQUIPMENT

TYPE	TESTING APPLICATIONS
Professional Testing Equipment	High precision electrode and electric capacity of use in laboratories and technology research institutes.
Large-Scale Chemical Composition Testing Equipment	Chemical composition and/or capacity testing of Lithium-ion and NiMH batteries.
Mobile Phone Battery Testing Equipment	All prismatic Lithium-ion, NiCd and NiMH rechargeable batteries.

Market and Distribution

The Company markets its testing equipment to research institutes and batteries manufacturers.

The Company also uses its testing equipment internally for its communications and battery operations.

The Company prices its products based on manufacturing costs plus a mark-up depending on numerous factors including order size, competition, inventory

considerations and technical attributes. Regional sales agents will set the second-tier sales agent and end-user price based on the local market situation with reference to the retail price suggested by the Company. If a severe price gap occurs, the Company has the right to revise the ex-factory price. The Company may also change its prices in response to an acute price fluctuation of raw material, volatile market situations or breakpoint pricing mechanisms.

We distribute our products through local sales offices. Company sales offices are located in various cities around the country. The obtained the orders from customers or distributors and the Company deliver products directly to the distributors or customers. No distributor accounts for more than 10% of the Company's consolidated revenues.

Raw materials

The primary components used in manufacturing our products include frequency stabilizer, integrated circuit and other basic electronic components The sources of these components are primarily electronics products suppliers located in or near China. Battery testing equipment is composed of several basic electronic components and automation core software, therefore, we usually do not experience any shortage of supplies. With respect to all other materials required for the production of testing equipment, all materials are widely available, and restrictions in supply are generally not anticipated.

There is no supplier contract accounting for more than 10% of the Company's inventory or expenditures.

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Intellectual property

For the testing equipment products, the Company has obtained 1 Chinese patent for battery testing equipment:

- o No. 01251641.4 "Digital Intelligent Battery Testing Instrument" issued on August 22, 2001.

This patent expires 10 years after issuance. We do not believe that the expiration of these patents will have a material adverse effect on our business, because we continually develop new product designs. While we may continue to file patent applications to protect our technology and products, we cannot be sure that our patents will provide commercially significant protection to our technology.

We attempt to avoid infringing known proprietary rights of third parties in our product development efforts. If we were to discover that our products violate third-party proprietary rights, we may not be able to offer these products without substantial re-engineering. Efforts to re-engineer might not be successful, licenses from the owners of the technology may be unavailable on commercially reasonable terms, if at all, and litigation may not be avoided or settled without substantial expense and damage awards.

Seasonality and cyclicality

This segment does not experience material fluctuations in sales or revenues on a seasonal or cyclical basis.

Working capital practices

Our working practice represents the industry standard, and, to its knowledge,

the Company does not experience any unusual working capital requirements. The Company is not required to maintain inventory allotments for any purpose, and neither customers nor external distributors are generally permitted to return merchandise after delivery. Company policy permits customer discount if there are product quality issues. Accounts receivable are generally carried for a period between 60 and 90 days, and accounts payable are generally carried for a period of 30 days.

Customers

We supply the batteries testing equipment to research institutes and batteries manufacturers, as well as a number of our battery manufacturing competitors.

No customers Individually or as an affiliated group account for more than 10% of our consolidated revenues. .

Backlog

The Company did not have any backlog as of December 31, 2003.

Government renegotiation

There is no material portion of the company's business that may be subject to renegotiation of profits or termination of contracts or subcontracts at the election of any government.

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Revenues

For the fiscal year ended December 31, 2003, the testing equipment segment revenues totaled $7.64 million, or 12.9% of net sales.

FUTURE PRODUCTS

The Company has its own in-house design team for new product development. The Company is currently developing new products, and it expects to introduce into a series of new products into the market during the next 12 months. These include:

High-end Corded and Cordless Telephones

The Company has designed and plans to develop Internet Phones that enable the user to surf the Internet, corded telephones with extended features and a number of new cordless phones with additional functionalities. The functionalities include a new model phone with message recorders, one with an integrated desk lamp for office use and a specialized 900MHz model for the export market. The Company also plans to introduce new models of voice dialing corded and cordless phones, which provide the user with the option to utilize voice activation functionality.

Digital Cordless Telephones

The Company designed and plans to develop a 2.4 GHz Digital Signal Spread ("DSS") cordless telephone for both residential and commercial users. For commercial users, the model will comply with the DSS-WPBX standard that will enable the users to communicate with each other within the same area PBX using his cordless headsets without incurring any charges, except when used to call an external number. The DSS digital cordless phones will provide users with higher quality communications and better security within a longer distance and wider

range.

Multi-Function Videophones

The Company plans to design and develop a line of videophones. The phones will integrate the existing function of ordinary telephone networks and computer terminals by utilizing the PC as the operation platform and the USB connector to connect a telephone to such PC. In addition, software will be developed for the videophone and synchronizing data transmission. The Company believes that the design provides a low cost solution to the requirements of video transmission under the existing narrow band telecommunication network.

New Walkie-Talkies

The Company has designed and plans to develop three new models of walkie-talkies. The models include units with additional features, including a built-in radio for public radio broadcast, a weather forecast message display and an increased communication range of 15 kilometers.

Polymer Lithium-ion Battery

Polymer lithium-ion batteries use solid organisms as a medium. Its features include small size, easy to transform, large capacity and low weight. The Company believes that this type of battery will be widely used in the electric car, the mobile telephone, laptop, digital camera and other portable electric

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products This battery's capacity is higher than the liquid lithium-ion battery, is easier to decrease, easier to transform and safer to use.

High-Power Motor Battery

The high-power motor battery is a type of the lithium-ion battery. This battery's monocase power can be over 2AH, making it useful for powering lighting and driving motors. High-power motor batteries are used in mine lamps, field lightening power, laptop computers, electric bikes, electric cars and military radios. With global trends leaning toward clean energy, the Company believes that this battery will replace small and medium-sized lead-acid batteries in the near future and will be widely used in consumer electronics, field telecommunications and lighting.

Test equipment for high-power lithium-ion battery and fuel battery

As high-power lithium-ion batteries and fuel batteries become the environmentally-friendly standard, battery manufacturers will require test equipment for these markets.

QUALITY CONTROL

The Company has always paid significant attention to the quality assurance systems and all performance Indicators meet international standards and pass the examination of the national level includes GB12196-90, GB/T15279-94, GB12198-90, and GB/T17113-1997. The GB2828-2829-87 standard was adopted for export goods. The Company's production is in compliance with ISO9002. During the production process, the Company pays significant attention to quality control and cost control. According to production flow requirements, quality control points have been set up in key production processes and professionals are assigned to monitor the quality and flow of these processes. The Company has employed significant labor and capital investment to set up the comprehensive quality

control system to ensure the quality of its products. Production of primary lithium batteries is fully automated and performed by machineries, while secondary lithium battery production is performed by automated assembly lines, which are highly engineered and closely monitored to ensure product quality.

The Company holds vendor qualification committee meetings every three months. The vendors are assessed according to their quality improvement notice, purchasing order and procure agreement in the previous three months to verify such terms as quality, delivery and co-operation status. All manufacturers are required to meet ISO9001 quality standards. Vendors meeting the Company's stringent requirements will be placed on a qualified vendor list. Unqualified vendors will be eliminated from the qualified vendor list temporarily or permanently. For the new vendors, the Company will have comprehensive assessments on their production scale, equipment and quality control. As soon as the sample material has been approved and confirmed by the testing, the vendor is listed in the qualified vendor list as a potential supplier.

GOVERNMENTAL APPROVAL AND COMPLIANCE

China has enacted regulations governing telephones and telephone communications. Pursuant to these regulations, Individuals or entities wanting to sell telephone equipment or connect to the telephone network in China must obtain certain permits from the Ministry of Posts and Telecommunications and all telecommunications equipment must have a network access license. In the past, the Company has not encountered any difficulty in obtaining such permits and licenses and is currently holding all the permits and licenses necessary for manufacturing and selling its products.

No other government regulations or compliance regimes, including environmental regulations, apply to the Company's business. It cannot be assured that new or additional regulations will not be enacted which might adversely impact its operations.

COMPETITION

Many of our competitors are substantially larger than we are and have significantly greater name recognition and financial, sales and marketing, technical, customer support, manufacturing and other resources. These competitors may also have more established distribution channels and may be able to respond more rapidly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products. Our competitors may enter our existing or future markets with products that may be less expensive, that may provide higher performance or additional features or that may be introduced earlier than our products. In the fiscal year ended December 31, 2003, we continued to be price competitive. We attempt to differentiate our company from our competitors by working to increase our brand name recognition, maintaining and enhancing product quality, providing adequate after-sale service, developing products with appealing functions, enhancing our distribution channels and keeping our production costs controlled.

There can be no assurance that the Company will be able to compete successfully with its existing or new competitors. If the Company fails to compete successfully against current or future competitors, its business could suffer.

Communications Terminal Products

Competition in the communications equipment market in China is intense. The market is continually evolving and is subject to changing technology. Our competitors in China include TCL, Bu Bu Gao and Qiao Xing.

The focus of the competition among these players has changed from one of advertising and price wars in the past to one of style, image and design today. The Company's competitive strategy is to focus on innovation in product design and quality customer services.

Based on a market research conducted by Beijing Guneng Consultancy Co., Ltd., the Company estimates that it has captured approximately an 18% market share in the fixed-line telephone market in China.

Battery Products

According to the Lithium Battery Branch of Physical and Chemical Institute of China, the Company is one of the largest lithium and lithium-ion battery manufacturers in China. Its major competitors include Shenzhen BYD, Tianjin Lisen, Shenzhen Shun Wo and Shenzhen HYB. Shenzhen BYD is considered to be the largest battery manufacturer in China with daily production capacity of 300,000 units of Lithium-ion, NiCd and NiMH batteries (Source: Prospectus of Shenzhen BYD). The Company estimates that the major overseas competitors in the global market for batteries are Sanyo (about 25% global market share), SONY (about 20% global market share), Toshiba, Matsushita, NEC, Hitachi and Samsung.

As noted by the China Battery Industry Association, competition in the battery industry is intense, with Japanese products currently dominating the global market, especially in the high-end categories. Domestic rivals are principally manufacturers of conventional nickel batteries.

Battery Testing Equipment

With respect to the lithium-ion testing equipment, the Company believes its primary competitors to be Guangzhou Qingtian Industrial co., Ltd. (Qingtian), Hangzhou Hanke (Hanke) and Lixing Power. The Company believes that Qingtian's market share is shrinking due to substantial loss of personnel and Hanke just entered this market. The Company believes that it is the only enterprise manufacturing both batteries and formation & testing equipment in China which gives the Company technical and marketing advantages. Based on actual sales orders, the Company estimates that its market share in providing equipment for testing lithium battery by manufacturers is approximately 15% in 2002 and 30% in 2003. The Company anticipates its market share to reach 50% within 3 years. Other possible target markets for battery testing equipment include quality inspection authorities, research institutes, universities and mobile phone retailers. With respect to such markets, the only competitor is Tshinghua University, which the Company believes has limited marketing resources. According to actual sales, the Company estimates that its market share in China for providing battery testing equipment to quality inspection authorities, research institutes, universities and mobile phone retailers is approximately 60%.

EMPLOYEES

We presently have approximately 1,271 employees, of which approximately 1,271 are full time employees. We consider our relations with our employees to be good.

FINANCIAL INFORMATION ABOUT REPORTING SEGMENTS

For a summary of the Company's net revenue, earnings from operations and total assets for each of the Company's business segments in each of the last three fiscal years, please refer to Note 16 to the Consolidated Financial Statement in

Item 8, which is incorporated herein by reference.

GEOGRAPHIC FINANCIAL INFORMATION

During the 2003 fiscal year, 94.2% ($55.7 million) of the Company's revenue was derived from China. 5.8% ($3.4 million) was derived from all other foreign markets in the aggregate. Of the Company's foreign sales, no single country generated a material amount of revenues for the Company.

During the 2002 fiscal year, 95.3% ($52.5 million) of the Company's revenue was derived from China. 4.7% ($2.6 million) was derived from all other foreign markets in the aggregate. Of the Company's foreign sales, no single country generated a material amount of revenues for the Company.

During the 2001 fiscal year, 96% ($40.3 million) of the Company's revenue was derived from China. 4.0% ($1.7 million) was derived from all other foreign markets in the aggregate. Of the Company's foreign sales, no single country generated a material amount of revenues for the Company.

All of the Company's long-lived assets (excluding financial instruments, long-term customer relationships of a financial institution, mortgage and other servicing rights, deferred policy acquisition costs, and deferred tax assets) are located in China.

RISKS ATTENDANT TO THE COMPANY'S FOREIGN OPERATIONS

The following is a summary of risk factors which result from the Company's operations overseas. Note that these statements relate to future events or future financial performance. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "could," "expects," "hopes," "believes," "plans," "anticipates," "estimates," "predicts," "projects," "potential," or "continue," or the negative of such terms and other comparable technology. These statements are only predictions. In evaluating these statements, actual or potential investors should specifically consider such factors, including the risks outlined below. These factors may cause the Company's actual results to differ materially from any forward-looking statement contained herein.

THE COMPANY'S OPERATIONS ARE PRIMARILY LOCATED IN CHINA AND MAY BE ADVERSELY AFFECTED BY CHANGES IN THE POLICIES OF THE CHINESE GOVERNMENT.

The Company's business operations may be adversely affected by the political environment in the PRC. The PRC has operated as a socialist state since 1949 and is controlled by the Communist Party of China. In recent years, however, the government has introduced reforms aimed at creating a "socialist market economy" and policies have been implemented to allow business enterprises greater autonomy in their operations. Changes in the political leadership of the PRC may have a significant effect on laws and policies related to the current economic reforms program, other policies affecting business and the general political, economic and social environment in the PRC, including the introduction of measures to control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on currency conversion and remittances abroad, and foreign investment. These effects could substantially impair the Company's business, profits or prospects in China. Moreover, economic reforms and growth in the PRC have been more successful in certain provinces than in others, and the continuation or increases of such disparities could affect the political or social stability of the PRC.

THE CHINESE GOVERNMENT EXERTS SUBSTANTIAL INFLUENCE OVER THE MANNER IN WHICH THE

COMPANY MUST CONDUCT ITS BUSINESS ACTIVITIES.

The PRC only recently has permitted greater provincial and local economic autonomy and private economic activities. The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in the PRC or particular regions thereof, and could require the Company to divest the interests it then holds in Chinese properties or joint ventures. Any such developments could have a material adverse effect on the business, operations, financial condition and prospects of the Company.

In addition, while the Company believes that it is unlikely, the Chinese government may decide not to grant a renewal of Kexuntong's renewable operating tenure upon its expiration on March 29, 2009. While the Company believes that renewing the operating tenure is a simple administrative matter, a failure to renew Kexuntong's renewable operating tenure could have material adverse effect on the business, operations, financial condition and prospects of the Company.

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In the event the Company is unable to fulfill all of its obligations (e.g. make timely payments when due, etc.) to banks owned and operated by the Chinese government that have loaned money to the Company, the Chinese government may significantly interfere with the business and ultimately take steps to liquidate the Company to pay the debts. The Company believes, however, that liquidation is the very last resort and happens fairly rarely. Thus, the failure of the Company to fulfill all of its obligations to such banks could have material adverse effect on the business, operations, financial condition and prospects of the Company.

FUTURE INFLATION IN CHINA MAY INHIBIT ECONOMIC ACTIVITY IN CHINA AND ADVERSELY AFFECT THE COMPANY'S OPERATIONS.

In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation which have led to the adoption by the PRC government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. While inflation has moderated since 1995, high inflation may in the future cause the PRC government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby adversely affect the Company's business operations and prospects in the PRC.

THE COMPANY MAY BE RESTRICTED FROM FREELY CONVERTING THE RENMINBI TO OTHER CURRENCIES IN A TIMELY MANNER.

The Renminbi is not a freely convertible currency at present. The Company will receive nearly all of its revenue in Renminbi, which may need to be converted to other currencies, primarily U.S. dollars, and remitted outside of the PRC. Effective July 1, 1996, foreign currency "current account" transactions by foreign investment enterprises, including Sino-foreign joint ventures, are no longer subject to the approval of State Administration of Foreign Exchange ("SAFE," formerly, "State Administration of Exchange Control"), but need only a ministerial review, according to the Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions promulgated in 1996 (the "FX regulations"). "Current account" items include international commercial transactions, which occur on a regular basis, such as those relating to trade and provision of services. Distributions to joint venture parties also are

considered a "current account transaction." Other non-current account items, known as "capital account" items, remain subject to SAFE approval. Under current regulations, the Company can obtain foreign currency in exchange for Renminbi from swap centers authorized by the government. The Company does not anticipate problems in obtaining foreign currency to satisfy its requirements; however, there is no assurance that foreign currency shortages or changes in currency exchange laws and regulations by the Chinese government will not restrict the Company from freely converting Renminbi in a timely manner. If such shortages or change in laws and regulations occur, the Company may accept Renminbi, which can be held or re-invested in other projects.

FUTURE FLUCTUATION IN THE VALUE OF THE RENMINBI MAY NEGATIVELY AFFECT THE COMPANY'S ABILITY TO CONVERT ITS RETURN ON OPERATIONS TO U.S. DOLLARS IN A PROFITABLE MANNER AND ITS SALES GLOBALLY.

Until 1994, the Renminbi experienced a gradual but significant devaluation against most major currencies, including U.S. dollars, and there was a significant devaluation of the Renminbi on January 1, 1994 in connection with

the replacement of the dual exchange rate system with a unified managed floating rate foreign exchange system. Since 1994, the value of the Renminbi relative to the U.S. Dollar has remained stable and has appreciated slightly against the U.S. dollar. Countries, including the U.S., have argued that the Renminbi is artificially undervalued due to China's current monetary policies and have pressured China to allow the Renminbi to float freely in world markets.

If any devaluation of the Renminbi were to occur in the future, the Company's returns on its operations in China, which are expected to be in the form of Renminbi, will be negatively affected upon conversion to U.S. dollars. The Company attempts to have most future payments, mainly repayments of loans and capital contributions, denominated in U.S. dollars. If any increase in the value of the Renminbi were to occur in the future, the sales of the Company's products in China and in other countries may be negatively affected.

THE COMPANY MAY BE UNABLE TO ENFORCE ITS RIGHTS DUE TO POLICIES REGARDING THE REGULATION OF FOREIGN INVESTMENTS IN CHINA.

The PRC's legal system is a civil law system based on written statutes in which decided legal cases have little value as precedents, unlike the common law system prevalent in the United States. The PRC does not have a well-developed, consolidated body of laws governing foreign investment enterprises. As a result, the administration of laws and regulations by government agencies may be subject to considerable discretion and variation, and may be subject to influence by external forces unrelated to the legal merits of a particular matter. China's regulations and policies with respect to foreign investments are evolving. Definitive regulations and policies with respect to such matters as the permissible percentage of foreign investment and permissible rates of equity returns have not yet been published. Statements regarding these evolving policies have been conflicting and any such policies, as administered, are likely to be subject to broad interpretation and discretion and to be modified, perhaps on a case-by-case basis. The uncertainties regarding such regulations and policies present risks that the Company will not be able to achieve its business objectives. There can be no assurance that the Company will be able to enforce any legal rights it may have under its contracts or otherwise.

THE COMPANY MUST OBTAIN LICENSES OR PERMITS FOR ITS PRODUCTS FROM THE CHINESE GOVERNMENT.

China has enacted regulations governing telephones and telephone communications. Pursuant to these regulations, individuals or entities desiring to sell telephone equipment or connect to the telephone network in China must obtain certain permits from the Ministry of Posts and Telecommunications and all telecommunications equipment must have a network access license. In the past, the Company has not encountered any difficulty in obtaining such permits and licenses and is currently holding all the permits and licenses necessary for manufacturing and selling its products. The Company intends to work diligently to assure compliance with all applicable government regulations that impact its business. The Company cannot assure you, however, that additional regulations will not be enacted which might adversely impact the Company's operations.

RISKS FROM THE RECENT OUTBREAK OF SEVERE ACUTE RESPIRATORY SYNDROME IN VARIOUS PARTS OF MAINLAND CHINA, HONG KONG AND ELSEWHERE.

Since early 2003, mainland China, Hong Kong and certain other countries, largely in Asia, have been experiencing an outbreak of a new and highly contagious form of atypical pneumonia, now known as severe acute respiratory syndrome, or SARS.

This outbreak has resulted in significant disruption to the lifestyles of the affected population and business and economic activity generally in the affected areas. Areas in mainland China that have been affected include areas where the Company has business and management operations. Although the outbreak is now generally under control in China, the Company cannot predict at this time whether the situation may again deteriorate or the extent of its effect on the Company's business and operations. The Company cannot assure that this outbreak, particularly if the situation worsens, will not significantly disrupt the Company's staffing or otherwise generally disrupt the Company's operations, result in higher operating expenses, severely restrict the level of economic activity generally, or otherwise adversely affect products, services and usage levels of the Company's products and services in affected areas, all of which may result in a material adverse effect on the Company's business and prospects.

CONTROVERSIES AFFECTING CHINA'S TRADE WITH THE UNITED STATES COULD HARM THE COMPANY'S RESULTS OF OPERATIONS OR DEPRESS THE COMPANY'S STOCK PRICE.

While China has been granted permanent most favored nation trade status in the United States through its entry into the World Trade Organization, controversies between the United States and China may arise that threaten the status quo involving trade between the United States and China. These controversies could materially and adversely affect the Company's business by, among other things, causing the Company's products in the United States to become more expensive resulting in a reduction in the demand for our products by customers in the United States. Political or trade friction between the United States and China, whether or not actually affecting our business, could also materially and adversely affect the prevailing market price of the Company's common shares.

IT MAY BE DIFFICULT FOR SHAREHOLDERS TO ENFORCE ANY JUDGMENT OBTAINED IN THE UNITED STATES AGAINST THE COMPANY, WHICH MAY LIMIT THE REMEDIES OTHERWISE AVAILABLE TO THE COMPANY'S SHAREHOLDERS.

Substantially all of the Company's assets are located outside the United States. Almost all of its current operations are conducted in China. Moreover, most of the Company's directors and officers are nationals or residents of countries other than the United States. All or a substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for shareholders to effect service of process within the United States upon these persons. In addition, there is uncertainty as to whether the courts

of China would recognize or enforce judgments of United States courts obtained against the Company or such officers and/or directors predicated upon the civil liability provisions of the securities law of the United States or any state thereof, or be competent to hear original actions brought in China against the Company or such persons predicated upon the securities laws of the United States or any state thereof.

REPORTS TO SECURITY HOLDERS AND WHERE YOU CAN FIND MORE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 and must file annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission. Accordingly, the Company files such reports with the U.S. Securities and Exchange Commission (SEC). In addition, the Company files reports for matters such as material developments or changes within us, changes in beneficial ownership of officers and director, or significant shareholders. These filings are a matter of public record and interested members of the public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549, and may obtain

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information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC.

The Company maintains an administrative office located at 111 Pavonia Avenue, Suite 615, Jersey City New Jersey. The purpose of the office to maintain investor relationships in the U.S. and work with corporate and securities attorneys to comply with SEC rules.

No person is authorized to give you any information or make any representation other than those contained or incorporated by reference in this Form 10-K. Any such information or representation must not be relied upon as having been authorized. Delivery and/or filing of this Form 10-K shall, under no circumstances, create any implication that there has been no change in the Company's affairs since the date of filing.

ITEM 2. PROPERTY

The Company owns the six-story Wondial Building located at Keji South 6 Road, Shenzhen High-Tech Industrial Park, Shennan Road, Shenzhen, China in which our headquarters offices are located. 72,000 square feet of this building, representing approximately 72% of its capacity, is rented out to a private company affiliated with a government agency, Shanghai Sheng Bang Inspection Ltd., for administrative offices. This lease was executed in September 16, 2003 and expires in November 15, 2006, for which the Company receives a monthly rent of $17,742. This lease renews at the option of both parties.

The Company has rented a more than 15,000 square feet of manufacturing capacity for battery production in Shenzen, China. The annual capacity for the facility is to produce 12 million units of prismatic lithium-ion batteries used on cell phone. The Company believes the building will be suitable for our needs during the next twelve months, with annual projected sales of approximately $15 million.

The Company also owns and maintains three operating and manufacturing

facilities: one testing equipment production facility with about 3000 square feet of manufacturing capacity, and two batteries production facilities for batteries production with a total of 5000 square feet of manufacturing capacity. All of the three facilities are located in located in Wuhan City, Hubei Province of China. In 2003 we produced 94.6 million units of batteries and 16,258 sets of testing equipment and 6.6 million lithium-ion batteries. In 2002, the Company produced 82.5 million pieces of primary lithium batteries, 54,000 sets of battery testing equipment and 3.5 million pieces of lithium-ion batteries.

ITEM 3. LEGAL PROCEEDINGS

The Company is not subject to either threatened or pending litigation, actions or administrative proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On November 18, 2003, the Company filed an information statement on Form 14C authorizing the Company to increase its authorized preferred stock from 2,500,000 to 15,000,000. The matter was approved by joint written consent by the Board of Directors by a majority of the stockholders on October 29, 2003. The consenting stockholders consisted of 4 stockholders owning an aggregate of 12,234,929 shares, or 51.52%, of the 23,748,292 shares of common stock issued and outstanding as of October 29, 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on OTC Bulletin Board under the symbol "IDUL.OB". The following table sets forth the range of high and low bid quotations for each of quarter of the last two fiscal years, adjusted to reflect the one-for-four reverse split effected May 12, 2003. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	HIGH	LOW
FISCAL YEAR ENDED 2002	NA	NA
March 31, 2002	NA	NA
June 30, 2002	NA	NA
September 30, 2002	NA	NA
December 31, 2002	NA	NA

	HIGH	LOW
FISCAL YEAR ENDED 2003		
March 31, 2003	4.84	0.20
June 27, 2003 (June 30 is a holiday)	6.00	1.01
September 30, 2003	3.50	1.30
December 31, 2003	3.17	2.05

Note: Industries International Inc.'s reverse merger was completed on February 10, 2003.

Holders

As of March 23, 2004, there were approximately 2100 stockholders of record of our common stock and no stockholders of record of our Preferred Stock.

Dividends

The Company has never declared dividends or paid any cash dividends on our capital stock and currently intends to retain all future earnings, if any, for use in the operation and development of our business. Shareholders should not expect the Company to declare or pay any cash dividends on our common stock in the foreseeable future.

Equity Compensation Plan Information

As of December 31, 2003, our equity compensation plans were as follows:

During the fiscal year 2003, IDUL has granted various stock options and stock-based awards under (1) the EI Plan and (2) the PS Plan.

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EI Plan

The EI Plan is an equity incentive plan approved by the Company's stockholders on April 7, 2003 and registered on Form S-8 on May 9, 2003 (File No.: 333-105117). The EI Plan is intended to provide incentives to attract, retain and motivate both eligible employees and directors of the Company, as well as consultants, advisors and independent contractors who provide valuable services to the Company.

Initially, 3,750,000 shares of IDUL's common stock were reserved for issuance under the EI Plan. On October 2, 2003, a further 5,000,000 shares of IDUL are reserved under the EI Plan. Under the EI Plan, awards may consist of grants of options to purchase our common stock (either Incentive Stock Options (for eligible persons) or Non-Qualified Stock Options, as each is defined in the Internal Revenue Code), grants of restricted common stock, or grants of unrestricted common stock.

Stock options have been granted to officers, other employees and directors to purchase shares of common stock pursuant to the EI Plan at or above 85% of the market price of IDUL's common stock at the date of issuance. Generally, these options, whether granted from the current plans, become exercisable over staggered periods, but expire after 10 years from the date of the grant. On May 13, 2003, 425,000 and 125,000 unrestricted stock options were issued to directors of the Company and a non-employee respectively.

PS Plan

The PS Plan refers to a plan devised by Dr. Kit Tsui, the Company's principal stockholder, pursuant to which he may grant stock awards to various parties, including employees and business associates, to enhance or maintain the value of his investment. This unwritten, informal program was set up solely by Dr. Tsui to award the Company employees, consultants, middle agents such as accounts, counsels and professional service providers, and shares are granted from restricted shares previously issued to Dr. Tsui in conjunction with the reverse merger. The employee candidates are proposed by management in different areas to the top management team. The final award decisions are made by Dr. Kit Tsui and other members of management. None of the shares granted pursuant to the PS Plan are issued by the Company. Please refer to Note 15 (2) of the Company's consolidated financial statements for details.

Equity Compensation Plan Table

The following table sets forth information regarding our compensation plans and Individual compensation arrangements under which our equity securities are authorized for issuance to employees or non-employees (such as directors, consultants, advisors, vendors, customers, suppliers or lenders) in exchange for consideration in the form of goods or services.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity Compensation Plans approved by security holders.	8,750,000	5.6	786,115
Equity Compensation Plans not approved by security holders.			
TOTAL	8,750,000		786,115

Restricted Offerings

On February 25, 2004, the Company completed a private equity financing pursuant to which it raised gross proceeds of $5,800,000. The financing was arranged by HPC Capital Management Corporation, an investment banking firm and fund manager, which received a net commission of 6.5% of the total gross proceeds. The transaction was a unit offering, pursuant to which each investor received a unit comprised of one share of restricted common stock and warrants convertible into 0.3 shares of restricted common stock, resulting in the placement of an aggregate of 2,521,745 shares of restricted common stock and warrants convertible into an additional 756,530 shares of restricted common stock. The warrants have an exercise price of $2.70 per share and expire on February 25, 2007. Twelve investors participated in the transaction. On March 1, 2004, the Company filed a current report on Form 8-K disclosing that it had completed a private equity financing pursuant to which it raised gross proceeds of $5,800,000. In that report, the Company correctly reported that it had issued a total of 2,521,745 shares of common stock together with warrants to purchase an additional 756,530 shares of common stock. The price per unit was correctly reported as $2.30, but the warrant exercise price was incorrectly reported as $2.70 per share. The warrant exercise price is $2.7601 per share.

Each and all of the investors were accredited, as defined in the Securities Act of 1933, as amended (the "Securities Act"), and this transaction was conducted pursuant to Section 4(2) and Regulation D of the Securities Act. Neither the Company nor HPC Capital Management Corporation conducted a public solicitation in connection with the offer, purchase and/or sale of these securities, no advertisement was conducted with respect to this issuance in any public medium or forum, HPC offered the shares on behalf of the Company only to investors who (1) qualified as "accredited investors" within the meaning of the Securities Act of 1933, as amended, and (2) had previously expressed an interest in

participating in an offering of the type and manner conducted, and none of the shares issued were offered in conjunction with any public offering.

Repurchase Plan

On December 9th 2003, the Company announced its plan to buy back 500,000 shares of its outstanding common shares. Subsequently, the Company entered into a purchase agreement with a shareholder who owned 200,000 shares. Agreement is attached as an exhibit. The Company purchased the shares and reduced the number of shares outstanding. The average price paid by the Company is $2.9.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's Consolidated Financial Statements. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data," of this Form 10-K in order to understand fully factors that may affect the comparability of the financial data presented below.

	2003 USD	2002 USD	2001 USD	2000 USD	1999 USD
For year ended December 31:					
Net sales	58,977	54,007	41,941	30,570	28,481
Operating income	5,820	10,224	7,310	4,259	4,492
Net income	1,182	5,026	3,786	1,378	1,077
Basic net income per common stock (1)	0.05	0.28	0.21	0.08	0.08
At year end December 31:					
Total assets	70,907	64,050	69,323	48,433	43,317
Long-term debts	2,419	--	--	--	3,502

(1) Basic net income per common stock has been restated to reflect the recapitalization, merger under common control and one-for-four reverse split. As of December 31, 2003, the total number of shares of common stock issued and outstanding was 27,061,290 (27,511,291 on a fully diluted basis)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following is a discussion and analysis of the Company's financial position and results of operations for each of the three years in the period ended December 31, 2003. This commentary should be read in conjunction with the consolidated financial statements and the notes thereto which appears under Item 8: Financial Statements and Supplementary Data.

RESULTS OF OPERATIONS

Fiscal Year ended December 31, 2003 Compared to Fiscal Year Ended December 31, 2002

Revenues

Total revenues for the Company, which include revenues from communications terminal products, battery products, battery testing equipment and lease income, totaled $59,093,000 and $55,077,000 in 2003 and 2002, respectively, an increase

of 7.3%. Revenues generated by our communications terminal products operations totaled $34,865,000 and $33,063,000 in 2003 and 2002, respectively, an increase of 14.9%, as a result of growth from the release of three new phone products, which generated sales of $3,875,000, and growth in existing phone sales of $1,010,000.

Revenues generated by our battery products operations totaled $13,360,000 and $10,680,000 in 2003 and 2002, respectively, an increase of 25.1%, as a result of (i) establishing a new production base in Shenzhen. The new factory is occupying a total of 15,000 square feet which was designed to produce an annual capacity of 8 million lithium-ion cell phone batteries. The facilities were completed in November 2003. (ii) new product introduction and (iii) decreasing product prices in order to obtain increased unit volume sales.

Revenues generated by our battery testing equipment operations totaled $7,640,000 and $8,607,000 in 2003 and 2002, respectively, a decrease of 11.2%, as a result of that the Company's focus on developing high profit margin products. The company also focused on the battery production because the market is experience rapid growth and easier to expand its market position.

The company generated lease income from the leasing of telephone production equipment to Shenzhen Yu Da Fu Electronic Company Limited in 2003. We sold the asset to the leaser in December 2003. The company generated lease income of $116,000 and $987,000 during 2003 and 2002, respectively, a decrease of $871,000. The Company leased some capital equipment to its suppliers, who produces communication terminal products for the Company since 2001. At the beginning of 2003, the Company sold the equipment and reduced lease income and depreciation expense both by $871,000.

Capital Expenditures

Capital expenditures for the company totaled $830,000 and $1,786,000 during 2003 and 2002, respectively. Expenditures relating to our communications terminal products operations totaled $383,000 and $829,000 during 2003 and 2002, respectively. During the year of 2003, we have gradually outsourced our manufacturing capabilities to other companies. As a result, our product cost reduced by 14.2% in 2003. As of forth quarter of 2004, we have completely outsourced our communications terminal products manufacturing capabilities. We are not planning on making any significant investment on capital assets. Our strategy is to leverage on our strength in distribution capabilities in China and open the European and U.S. market. Expenditures relating to our battery products operations totaled $394,000 and $724,000 during 2003 and 2002, respectively. The battery factory we established in Shenzhen was leased and the equipment was transferred from Wuhan. We did not make significant capital investment in expanding our production capabilities. Expenditures relating to our battery testing equipment operations totaled $53,000 and $233,000 during 2003 and 2002, respectively. The Company has decided on not to focus our resources on further developing this relatively low profit margin product line.

Operating Expenses

Total operating expenses, which include manufacturing and other costs of sales,

sales and marketing expense, general and administrative expense, research and development expense, depreciation and amortization expense, and other operating costs and expenses, totaled $53,273,000 and $44,838,000 in 2003 and 2002, respectively, an increase of 18.8%. Manufacturing and other costs of sales totaled $42,598,000 and $37,400,000 in 2003 and 2002, respectively, an increase of 13.9%.

Sales and marketing expenses, which include salesperson salaries and benefits, advertising expenses, and miscellaneous salespersons' expenses, totaled $2,199,000 and $2,039,000 in 2003 and 2002, respectively, an increase of 7.8%, mainly due to a $203,000 increase in advertising expenses that was partially offset by a decrease in other sales expenses.

General and administrative expenses, which include wages, administrative benefits and miscellaneous expenses, communication and office equipment, employee retirement plan fees and medical insurance, products sales tax, utilities, property insurance, middle agency expenses and bad debt reserve, totaled $2,495,000 and $2,190,000 in 2003 and 2002, respectively, an increase of 13.9%. The company spent $245,000 on promotion expenses in 2003, while other expenses all increased slightly at different levels.

Research and development expenses, which include wages and benefits of development personnel and raw material expenses during research and development, totaled $1,028,000 and $1,439,000 in 2003 and 2002, respectively, a decrease of 28.6%. The main reason for the decrease is that the production method has transformed to the method of OEM, and stop using 3% of the total sales revenue for research and development since November of 2003. The technology we used in the communications terminal products are mature technologies. We have grasped the core technologies for new products before 2003. During the year of 2003, we primarily used the R&D to improve existing products.

Depreciation and amortization expense totaled $557,000 and $1,384,000 in 2003 and 2002, respectively, a decrease of $827,000. During the year of 2003, we shift our production strategy to OEM methodology. As of December 2003, we outsourced all of our manufacturing capabilities. At the beginning of 2003, we sold some of our telephone manufacturing equipment that was leased to the supplier, S-M EGGA Tele. Communications for 7.82 million at its net the book value of the asset. No gain or loss was recorded. It reduced our annual depreciation expenses by $821,000. At the end of 2003, the Company also sold some telephone manufacturing assets for $726,000. The net book value of the asset was $695,000. We realized a gain of $31,000 on this transaction.

Other operating costs and expenses, which include stocks issuance costs, totaled $4,396,000 and $385,000 in 2003 and 2002, respectively. Please see the section on STOCK-BASED COMPENSATION herein for a discussion of the company's stock and stock option plans.

Operating Income

Total operating income for 2003 totaled $5,820,000, or 9.8% of total revenue, compared to $10,239,000, or 18.6% of total revenue, for 2002. Communication terminal products operating income for 2003 totaled $4,750,000 compared to $4,308,000 for 2002. Battery products operating income for 2003 totaled $3,510,000 compared to $2,480,000 in 2002. Battery testing equipment operating income for 2003 totaled $1,108,000 compared to $2,144,000 in 2002.

Operating Profit Margin

Communication terminal products operating profit margin for 2003 totaled 12.5%

of communication terminal products revenue, compared to 12.4% of communication terminal products revenue for 2002. Battery products operating profit margin for 2003 totaled 26.3% of battery products revenue, compared to 23.2% of battery

products revenue, for 2002. Battery testing equipment operating profit margin for 2003 totaled 14.5% of battery testing equipment revenue, compared to 24.9% of battery testing equipment revenue, for 2002. The profit margin for testing equipment decreased as a result of low demand and decreased price.

Interest Expense

Interest expense totaled $1,023,000 and $1,602,000 during 2003 and 2002, respectively, a decrease $579,000. This decrease was due to reduced borrowed amount. The interest rate did not vary very much each year.

Other Income, Net

Other net income, which includes rental revenue, bank deposit interest, bank service charges and remittance of the net income, sales income of raw material, and sales of fixed assets, totaled $707,000 and $295,000 in 2003 and 2002, respectively. The increase of $412,000 was due to increased rental income from leasing part of the building to other companies.

Provision for Income Taxes

Provision for income taxes totaled $1,008,000 and $888,000 during 2003 and 2002, respectively, due to increased net income of our operation entities. Please refer to footnote 14 of the financial statements for a comprehensive discussion of the company's tax policies and benefits.

Minority Interest

Minority interest expense totaled $3,314,000 and $3,010,000 in 2003 and 2002, respectively, as a result of increase in operating income from our operating subsidiaries. Please refer to the company's financial statements for a complete discussion of minority interests in its consolidated subsidiaries.

Net Profit

Net profit for the fiscal year ended December 31, 2003 totaled $1,182,000, or 2.0% of revenue, as compared to $5,034,000, or 9.1% of revenue, for the fiscal year ended December 31, 2002. The decrease is due to reduced profit margin in our testing equipment and the stock/option grant program established by the Company. The total non-cash compensation expense under the PS Plan was $3,997,000 and reduced our net income by $3,997,000.

Fiscal Year ended December 31, 2002 Compared to Fiscal Year Ended December 31, 2001

Revenues

Total revenues for the Company, which include revenues from communications terminal products, battery products, battery testing equipment and lease income, totaled $55,077,000 and $42,006,000 in 2002 and 2001, respectively, an increase of 31.1%.

Revenues generated by our communications terminal products operations totaled $34,865,000 and $33,513,000 in 2002 and 2001, respectively, an increase of 4.0%,

as a result of new product introduction. We introduced five new models of cordless phones and twelve new models of corded phones to the market place in 2002. We also reduced the price of our phone products by 23.3% and increased our sales volume by 41.3%.

Revenues generated by our battery products operations totaled $10,680,000 and $2,301,000 in 2002 and 2001, respectively, an increase of 364%, as a result of rapidly growing demand for lithium and lithium-ion batteries and battery testing equipment. We also have quickly established our distribution network all around in China.

Revenues generated by our battery testing equipment operations totaled $8,607,000 and $6,301,000 in 2002 and 2001, respectively, an increase of 36.6%, as a result of increased number of battery manufactures and their demand for testing equipment.

The company generated lease income from the leasing of production machines of communication products. We acquired these machines for production use in 2001 and started to lease them to other manufacturers in 2002. The leaser was S-MEGGA Tele. Communications. The lease generates $987,000 annual lease income. The lease was for one year and renewable annually. The lease income for 2002 and 2001 are $987,000 and $0 respectively.

Capital Expenditures

Total capital expenditures for the Company totaled $1,786,000 and $10,298,000 during 2002 and 2001, respectively.

Expenditures relating to our communications terminal products operations totaled $829,000 and $9,486,000 during 2002 and 2001, respectively, a decrease of 91.3%. A significant decrease was a result of purchase production machine in 2001 for $8,640,000. Expenditures relating to our battery products operations remained fairly steady, totaling $724,000 and $733,000 during 2002 and 2001, respectively.

Expenditures relating to our battery testing equipment operations totaled $233,000 and $79,000 during 2002 and 2001, respectively, and increase of 195%. This increase was the result of purchasing production equipment.

Operating Expenses

Total operating expenses, which include manufacturing and other costs of sales, sales and marketing expense, general and administrative expense, research and development expense, depreciation and amortization expense, and other operating costs and expenses, totaled $44,838,000 and $34,685,000 in 2002 and 2001, respectively, an increase of 29.3%.

Sales and marketing expenses, which include salesperson salaries and benefits, advertising expenses, and miscellaneous salespersons' expenses, totaled $2,039,000 and $2,665,000 in 2002 and 2001, respectively, a decrease of 23.5%, due to the fact that we installed customer service centers in every primary sales representative's office.

General and administrative expenses, which include wages, administrative benefits and miscellaneous expenses, communication and office equipment, employee retirement plan fees and medical insurance, products sales tax, utilities, property insurance, professional expenses and bad debt reserve, totaled $2,190,000 and $1,648,000 in 2002 and 2001, respectively, an increase of 32.9%, due to increased uncollectible accounts receivables and increased wages

and benefits.

Research and development expenses, which include wages and benefits of development personnel and raw material expenses during research and development,

totaled $1,439,000 and $1,516,000 in 2002 and 2001, respectively, a decrease of 5.1%, due to the technology we used for our products are generally mature technology. Our R&D expenses are generally used for improving our existing technology.

Depreciation and amortization expense totaled $1,384,000 and $258,000 in 2002 and 2001, respectively. The increase of $1,126,000 is primarily due to the equipment purchased in 2001.

Other operating totaled $385,000 and $451,000 in 2002 and 2001, respectively, a decrease of 14.6%, due to penalties of the Company's drivers violating traffic rules.

Operating Income

Total operating income for 2002 totaled $10,239,000, or 18.6% of total revenue, compared to $7,321,000, or 17.4% of total revenue, for 2001. Communication terminal products operating income for 2002 totaled $4,308,000 compared to $4,011,000 for 2001. Battery products operating income for 2002 totaled $2,480,000 compared to $596,000 for 2001. Battery testing equipment operating income for 2002 totaled $2,144,000 compared to $2,574,000 for 2001.

Profit Margin

Total profit margins remained relatively stable with respect to the Company's communication terminal products and battery products. Communication terminal products operating profit margin for 2002 totaled 12.4% of communication terminal products revenue, compared to 12.0% of communication terminal products revenue for 2001. Battery products operating profit margin for 2002 totaled 23.2% of battery products revenue, compared to 25.9% of battery products revenue for 2001.

Battery testing equipment operating profit margin for 2002 totaled 24.9% of battery testing equipment revenue, compared to 41.6% of battery testing equipment revenue for 2001. During 2001, we experience very high demand of testing equipment and we are the only few companies who can make the testing equipment. As the competition getting intense, we had to lower our price to maintain volume of sales. As a result, our profit margin decreased.

Interest Expense

Interest expense totaled $1,602,000 and $1,740,000 during 2002 and 2001, respectively, a decrease of 7.9%. This decrease was due to reduced borrow amount. Interest rate did not change very much from 2001 to 2002.

Other Income, Net

Other net income, which includes rental revenue, bank deposit interest, bank service charges and remittance of the net income, sales income of raw material, and sales of fixed assets, totaled $295,000 and $1,603,000 in 2002 and 2001, a decrease of 81.6%. This decrease was due to change in special tax benefit in China. The returned tax benefit from the government is recorded in the other income section.

Provision for Income Taxes

Provision for income taxes totaled $888,000 and $503,000 during 2002 and 2001, respectively, due to the discontinuation of certain tax benefits. Please refer to footnote 14 of the financial statements for a comprehensive discussion of the company's tax policies and benefits.

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Minority Interest

Minority interest expense totaled $3,010,000 and $2,890,000 in 2002 and 2001, respectively, as a result of increased net income from operating subsidiaries .

Net Profit

Net profit for the fiscal year ended December 31, 2002 totaled $5,034,000, or 9.1% of revenue, compared to $3,791,000, or 9.0% of revenue, for the fiscal year ended December 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

During the year of 2003, the Company generated cash of more than $32.6 million, which will be used to fund operation. The Company holds short-term debt of $11.8 million and long-term debt of $2.4 million maturing at the end of 2005. Over the last three years, the Company has maintained a policy of reducing outstanding debt, and has successfully reduced its outstanding debt balance each year. The short-term debt has to be repaid within twelve months each year and can generally be reborrowed for another twelve months. As of December 31, 2003, the Company has not made any additional, significant capital commitments payable over the next twelve months. The Company entered into a two-year operating lease agreement with Shenzhen OCT Real Estate Limited, with an annual rental payment of $28,747. The total rental space is approximately 12,000 square feet, with a maximum capacity of 8 million lithium-ion cell phone battery units. The Company does not anticipate experiencing significant liquidity problems in the next twelve months.

The Company has one outstanding promissory note in the amount of $7,662,000 with Dr. Kit Tsui, described in the discussion entitled "Certain Relationships and Related Party Transactions." The terms of the note do not provide for expiration or maturity, bearing no interest rate, and is payable in cash or the Company's common stock based on mutual agreement. The Company currently has debt obligation with six PRC banks.

BANK	BORROWING AMOUNT (US$ 000)	MATURITY	INTEREST RATE
Shenzhen Development Bank	2,965	5 Months	6.75%
China Industries and Commerce Bank	726	4 Months	6.03%
China Enterprise Trust Bank	1,814	9 Months	5.36%
Guangdong Development Bank	3,266	2 Months	5.84%
Xingye Bank	3,024	3 Months	5.25%
Huaxia Bank	2,419	13 Months	5.49%
Total	14,214		

All of the above debt has no amortization schedule before maturity. The Company usually enters into another agreement with the banks when the debt is mature.

The lenders are not affiliate of the Company.

The Company is not currently invested in any marketable securities. During the quarter ended December 31, 2003, it sold all of its the marketable securities, receiving $1,541,000, in order to pay down the Company's short-term debt. .

As of December 31, 2003, the Company had a current ratio of 1.58, net working capital of $21,383,000 and net equity of $18,983,000. During the fiscal year 2003, our net cash and cash equivalents increased by approximately $17,243,000, from approximately $15,364,000 as of December 31, 2002 to $32,607,000 as of December 31, 2003, an increase of approximately 212%. This increase was mainly attributable to the acquisition of Li Sun Power, which provided us with $12,579,000 in cash.

Net cash provided by operating activities during the fiscal year 2003 totaled approximately $10,505,000. The Company's primary use of cash was for the purchase of inventory and for the payment of the Value Added Tax that was imposed as a result of the decision of the government of Shenzhen to abolish a preferential tax policy.

Cash used in financing activities for the fiscal year 2003 totaled approximately $2,845,000, representing repayment of short-term debt. The Company used additional cash to pay interest of approximately $1,023,000 during the fiscal year 2003.

On September 21, 2003, the Company entered into a two-year operating lease with ShenZhen HuaQiao City Real Estate Limited, and is Estate Limited, leasing manufacturing space for an annual rental payment of $28,747. The total rental space is about 12,000 square feet, with a maximum capacity of approximately 12 million lithium-ion battery units. The annual revenue potentially generated by this facility is approximately $17,000,000.

Our goal of this year is to further reduce our debt. We are currently going through an asset divestiture plan. The Company will further sell some of it telephone manufacturing machines to pay back Dr. Kit Tsui's promissory note.

Other than as described above, on a recapitalization basis, there were no material changes in financial condition from the end of the preceding fiscal year to December 31, 2003.

Trends and Uncertainties

The Company's future resources will be focused primarily on the growing domestic and overseas battery products market, as it is increasing and presents a high profit margin for the Company. Specifically, the Company notes that the demand for lithium-ion batteries for cell phone usage has increased rapidly, and anticipates continued growth in 2004. Accordingly, it has established a factory in Shenzhen to meet the growing demand for lithium batteries.

The Company intends to maintain its current interest in its communication products segment, and, noting intense competition in the domestic market, anticipates expanding in the U.S. and European markets. In this regard, the Company has executed an agreement with Unical Enterprise Inc. valued at $20 million for the manufacture of Bell Phones. The Company has further outsourced its production capabilities, and has improved its profit margin commensurately.

The Company notes that demand for battery testing equipment decreased in 2003. Although the Company reduced the price for testing equipment, the Company did not experience offsetting sales volume. The Company notes further that this

segment represents a product which is expensive to manufacture and maintains a more limited market, and, as a result, presents a lower profit margin. Accordingly, the Company has decided that it will not allocate additional capital in developing this segment and will gradually exit the battery testing market. The timing and rate of this exit has not yet been determined by the Company.

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The Company is subject to a number of uncertainties which may affect the business and/or its operations adversely. The following is a generalized summary of risks and uncertainties faced by the Company, which may directly or Indirectly impact the Company's liquidity.

Sovereign Risk

At present, substantially all of our operations, income, resources and personnel are located in or obtained from China and neighboring countries; our resources are denominated in Renminbi and converted to U.S. Dollars for financial reporting purposes; and our customers are located in Asia, North America, Europe and elsewhere. We face risks of nationalization, restrictions on currency exchange and asset transfer and similar sovereign risks over which we have no control. We believe that the probability of these risks being realized is highly unlikely. However, we intend to develop a plan for operating under those adverse circumstances to the extent possible, though we have not developed such plan as yet.

Macroeconomic Factors

We are subject to macroeconomic factors such as interest rates, exchange rates, inflation rates, trade deficits and surpluses, budget deficits and surpluses, development of trading blocs such as the European Union, and similar factors over which we have no control. Changes in these factors could have material adverse effects on our financial performance and condition. We intend to implement adequate processes and controls as soon as possible so that we may plan for and operate under adverse conditions, though we have not made substantial progress in this area yet due to a lack of infrastructure and resources.

Industry and Competitor Risks

Our annual revenue and operating results may fluctuate due to market conditions in the telecommunications industry. Products such as ours are often discretionary purchases, which consumers who are concerned about job losses or other economic factors may decide not to buy. We are uncertain about the extent, severity, and length of the economic downturn. If the economic conditions globally do not improve, or if we experience a worsening in the global economic slowdown, we may experience material negative effects on our business, operating results, and financial condition.

Our market is highly competitive, and we may not have the resources to compete adequately. If we are not competitive, it will affect our financial condition and results of operations.

We face competition from companies providing corded and cordless telephones in China. Our principal competitors are TCL, Bu Bu Gao and Qiao Xing. Some of our competitors are substantially larger than we are and have significantly greater name recognition and financial, sales and marketing, technical, manufacturing and other resources. These competitors may also have more established distribution channels and may be able to respond more rapidly to new or emerging technologies and changes in customer requirements or devote greater resources to

the development, promotion and sale of their products. These competitors may enter our existing or future markets with products that may be less expensive, provide higher performance or additional features or be introduced earlier than our products.

The market for our communications equipment is rapidly evolving and highly competitive. We expect competition to intensify in the future as existing competitors develop new products and new competitors enter the market.

Technological Risks

We expect our competitors to continue to improve the performance of their current products and introduce new products. If our competitors successfully introduce new products or enhance their existing products, this could reduce the sales or market acceptance of our products and services, increase price competition or make our products obsolete. To be competitive, we must continue to invest significant resources in research and development, sales and marketing and customer support. We may not have sufficient resources to make these investments or to make the technological advances necessary to be competitive, which in turn will cause our business to suffer.

Our success depends, to a certain extent, upon our proprietary technology. We currently rely on a combination of patent, trade secret, copyright and trademark law, together with non-disclosure and invention assignment agreements, to establish and protect the proprietary rights in the technology used in our products.

Although we have filed patent applications, we are not certain that any patents issued will provide commercially significant protection to our product design. In addition, others may independently develop substantially equivalent proprietary information not covered by patents to which we own rights, may obtain access to our know-how or may claim to have issued patents that prevent the sale of one or more of our products. Also, it may be possible for third parties to obtain and use our proprietary information without our authorization. If we fail to protect our proprietary information effectively, or if third parties use our proprietary technology without authorization, our competitive position and business will suffer.

We are dependent on the development and acceptance of various technologies and standards, including those pertaining to the processes and methods upon which our products and services are made, operate or used. If our products fail to meet consumer, regulatory or other technologies, standards or expectations or we fail to keep pace with changes in consumer, regulatory or other technologies, standards or expectations, it may have a material adverse effect on our financial performance or condition.

Political and Regulatory Risks

We are subject to federal, state and local regulatory risks, including, but not limited to, securities, antitrust, environmental, labor, permit/license, tax and other laws, ordinances and regulations. In the event that regulatory oversight or requirements were to increase or our ability to maintain or conform to the requirements was impaired or insufficient, the added operational and financial costs to meet such requirements may have a material adverse effect on our financial performance or condition.

We have had the benefit of certain tax incentives, including a tax holiday, in the past, but we may not always be eligible for such programs or the programs may be modified or discontinued altogether. The modification or discontinuance

of these tax incentives may have a material effect on our operating performance.

At present, substantially all of our income is generated in the People's Republic of China by our subsidiary, Shenzhen Wonderland Communication Science and Technology Co., Ltd. ("Wonderland"), an enterprise established in the Special Economic Zone of Shenzhen, China. Businesses in the Special Economic Zone of Shenzhen are subject to income taxes at a rate of 15%. However,

Wonderland qualified for an exemption from income tax for a two year period, starting on January 1, 1997 and ending on January 1, 1999. Following the expiration of the exemption, Wonderland qualified for a 50% reduction in income tax for a period of eight years. This reduction in income tax will expire in the year 2006.

Additionally, any sales made in the People's Republic of China are generally subject to a value-added tax at the rate of 17% ("output VAT"). The output VAT is payable after offsetting VAT paid on purchases ("input VAT"). Under the preferential policy in Shenzhen, any products produced and sold within Shenzhen are exempted from VAT. Upon verification by the Shenzhen National Tax Bureau, the percentages of Wonderland's sales exempt from VAT under this preferential policy for 1999, 2000 and 2001 were 70%, 56% and 56%, respectively.

There is no guarantee that Wonderland will be entitled to these tax incentives in the future. Any change in the tax policies of the People's Republic of China or Shenzhen may have a material effect on the Company's operating performance.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

CONTRACTUAL OBLIGATIONS (US$ IN MILLION)	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Long term Debt	2.42	--	2.42		
Operating Lease Obligations	0.069	0.042	0.027		
Other Long-Term Liabilities Reflected on the	0	0	0		
Company's Balance Sheet under GAAP					
TOTAL	2.49	0.042	2.45		

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our combined financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following discussion addresses our critical accounting policies, which are those that require management's most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Goodwill on consolidation

Goodwill represents the excess of the cost of companies acquired over the least fair value of their net assets at date of acquisition and is evaluated at lease annually for impairment. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step is to identify a potential impairment, and the second step measures the amount of the impairment loss, if any. Goodwill is deemed to be impaired if the carrying amount of a reporting unit exceeds its estimated fair value. SFAS No. 142 requires that indefinite-lived intangible assets be tested for impairment using a one-step process, which consists of a comparison of the fair value to the carrying value of the intangible asset. Intangible assets are deemed to be impaired if the net book value exceeds the estimated fair value.

The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's judgment. Any changes in key assumptions about the Company's businesses and their prospects, or changes in market conditions, could result in an impairment change. No impairment loss was recognized as of December 31, 2003.

Equity Compensation Plan

The Company operates an equity compensation
Stock compensation plan, please refer to note 3 to financial statement. [- what is this?]

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our operations are located in China and most of our sales revenues are earned in China, therefore we are not exposed to risks relating to fluctuating currencies or exchange rates. As of December 31, 2003, our bank debt earned interest at a fixed rate.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements
INDUSTRIES INTERNATIONAL, INCORPORATED
Years ended December 31, 2003, 2002 and 2001

INDUSTRIES INTERNATIONAL, INCORPORATED

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
INDUSTRIES INTERNATIONAL, INCORPORATED

We have audited the accompanying consolidated balance sheets of Industries International, Incorporated and its subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations, consolidated statements of changes in stockholders' equity and comprehensive income / loss and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan tyle="DISPLAY: inline; FONT

57,856

59,720

Total shareholders' equity	1,160,030	1,109,026
Total liabilities and shareholders' equity	$ 1,573,697	$ 1,539,359

See accompanying Notes to the Condensed Consolidated Financial Statements.

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TRIMBLE NAVIGATION LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In thousands, except per share data)	Three Months Ended September 26, 2008	Three Months Ended September 28, 2007	Nine Months Ended September 26, 2008	Nine Months Ended September 28, 2007
Revenue (1)	$ 328,087	$ 296,023	$ 1,061,150	$ 909,487
Cost of sales (1)	162,464	149,083	534,052	452,248
Gross margin	165,623	146,940	527,098	457,239
Operating expenses				
Research and development	35,348	31,707	112,097	96,737
Sales and marketing	48,664	45,274	151,727	134,967
General and administrative	22,072	21,262	70,051	67,182
Restructuring charges	21	-	2,435	3,025
Amortization of purchased intangible assets	5,462	4,911	15,768	14,212
In-process research and development	-	-	-	2,112
Total operating expenses	111,567	103,154	352,078	318,235
Operating income	54,056	43,786	175,020	139,004
Non-operating income, net				
Interest income	404	770	1,369	2,607
Interest expense	(214)	(1,616)	(1,389)	(5,476)
Foreign currency transaction gain (loss), net	117	(459)	2,338	(532)
Income from joint ventures	2,163	1,943	6,796	6,445
Other income (expense), net	(907)	451	(1,661)	1,173
Total non-operating income, net	1,563	1,089	7,453	4,217
Income before taxes	55,619	44,875	182,473	143,221
Income tax provision	16,552	17,501	54,740	52,138
Net income	$ 39,067	$ 27,374	$ 127,733	$ 91,083
Basic earnings per share	$ 0.32	$ 0.23	$ 1.05	$ 0.77
Shares used in calculating basic earnings per share	120,603	120,591	121,171	118,553
Diluted earnings per share	$ 0.31	$ 0.22	$ 1.02	$ 0.74
Shares used in calculating diluted earnings per share	124,423	125,687	125,071	123,691

(1) Sales to related parties, Caterpillar Trimble Control Technologies Joint Venture (CTCT) and Nikon-Trimble Joint Venture (Nikon-Trimble) were $7.1 million and $6.4 million for the three months ended September 26, 2008 and September 28, 2007, respectively, with associated cost of sales of $6.2 million and $4.7 million, respectively. Sales to CTCT and Nikon-Trimble were $22.4 million and $17.8 million for the nine months ended September 26, 2008 and September 28, 2007, respectively, with associated cost of sales of $17.9 million and $12.5 million, respectively. In addition, cost of sales associated with CTCT net inventory purchases was $4.5 million and $5.6 million for the three months ended September 26, 2008 and September 28, 2007, respectively, and $18.0 million and $19.8 million for the nine months ended September 26, 2008 and September 28, 2007, respectively. See Note 5 regarding joint ventures for

further information about related party transactions.

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

(In thousands)	Nine Months Ended September 26, 2008	Nine Months Ended September 28, 2007
Cash flow from operating activities:		
Net income	$ 127,733	$ 91,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	14,287	12,733
Amortization expense	32,999	28,615
Provision for doubtful accounts	597	684
Amortization of debt issuance costs	169	162
Deferred income taxes	(14,235)	(6,547)
Non-cash restructuring charges	-	1,725
Stock-based compensation	11,603	10,949
In-process research and development	-	2,112
Equity gain from joint venture	(6,796)	(6,445)
Excess tax benefit for stock-based compensation	(5,847)	(13,283)
Provision for excess and obsolete inventories	2,672	3,513
Other non-cash items	179	144
Add decrease (increase) in assets:	-	
Accounts receivable	(16,230)	(42,971)
Other receivables	1,598	4,619
Inventories	(16,165)	(15,512)
Other current and non-current assets	(201)	6,353
Add increase (decrease) in liabilities:		
Accounts payable	(1,859)	(7,518)
Accrued compensation and benefits	(7,426)	(6,182)
Accrued liabilities	725	5,350
Deferred revenue	2,862	25,989
Income taxes payable	15,280	33,511
Net cash provided by operating activities	141,945	129,084
Cash flow from investing activities:		
Acquisitions of businesses, net of cash acquired	(69,310)	(285,523)
Acquisitions of property and equipment	(11,293)	(9,208)
Dividends received	3,148	2,888
Other	(154)	361
Net cash used in investing activities	(77,609)	(291,482)
Cash flow from financing activities:		
Issuances of common stock	22,119	27,830
Excess tax benefit for stock-based compensation	5,847	13,283
Repurchase and retirement of common stock	(115,851)	-
Proceeds from long-term debt and revolving credit lines	51,000	250,000

Payments on long-term debt and revolving credit lines		(60,316)		(170,037)
Net cash provided by (used in) financing activities		(97,201)		121,076
Effect of exchange rate changes on cash and cash equivalents		142		(4,227)
Net decrease in cash and cash equivalents		(32,723)		(45,549)
Cash and cash equivalents, beginning of period		103,202		129,621
Cash and cash equivalents, end of period	$	70,479	$	84,072

See accompanying Notes to the Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

NOTE 1. OVERVIEW AND BASIS OF PRESENTATION

Trimble Navigation Limited (the Company), incorporated in California in 1981, provides positioning solutions to commercial and government users in a large number of markets. These markets include surveying, agriculture, construction, asset management, mapping and mobile resource management.

The Company has a 52-53 week fiscal year, ending on the Friday nearest to December 31, which for fiscal 2007 was December 28. The third quarters of fiscal 2008 and fiscal 2007 ended on September 26, 2008 and September 28, 2007, respectively. Fiscal 2008 is a 53-week year and fiscal 2007 was a 52-week year. Unless otherwise stated, all dates refer to the Company's fiscal year and fiscal periods.

The Condensed Consolidated Financial Statements include the results of the Company and its subsidiaries. Inter-company accounts and transactions have been eliminated. The Condensed Consolidated Balance Sheet is derived from the December 28, 2007 audited Consolidated Financial Statements included in the Annual Report on Form 10-K of Trimble Navigation Limited for fiscal year 2007. Certain amounts from prior periods have been reclassified to conform to the current period presentation.

The accompanying unaudited financial data as of September 26, 2008 and for the three and nine months ended September 26, 2008 and September 28, 2007 has been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted pursuant to such rules and regulations. The following discussion should be read in conjunction with the Company's 2007 Annual Report on Form 10-K.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present a fair statement of financial position as of September 26, 2008, results of operations for the three and nine months ended September 26, 2008 and September 28, 2007 and cash flows for the nine months ended September 26, 2008 and September 28, 2007, as applicable, have been made. The results of operations for the three and nine months ended September 26, 2008 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.

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in its Condensed Consolidated Financial Statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates.

On January 17, 2007, the Company's Board of Directors approved a 2-for-1 split of all outstanding shares of the Company's Common Stock, payable February 22, 2007 to stockholders of record on February 8, 2007. All shares and per share information presented have been adjusted to reflect the stock split on a retroactive basis for all periods presented.

NOTE 2. UPDATES TO SIGNIFICANT ACCOUNTING POLICIES

There have been no changes to the Company's significant accounting polices during the nine months ended September 26, 2008 from those disclosed in the Company's 2007 Form 10-K.

Recent Accounting Pronouncements

Updates to recent accounting standards as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2007 are as follows:

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which clarifies the definition of fair value, establishes a framework for measuring fair value within GAAP and expands the disclosures regarding fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 deferring the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. SFAS No. 157 became effective for the Company beginning in its first quarter of fiscal 2008. The adoption of SFAS No. 157 did not have a material impact on the Company's financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115." SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities under an instrument-by-instrument election. Subsequent measurements for the financial assets and liabilities an entity elects to fair value will be recognized in earnings. SFAS No. 159 also establishes additional disclosure requirements. SFAS No. 159 became effective for the Company at the beginning of its first quarter of fiscal 2008. The Company did not elect the fair value option for any of its financial assets or liabilities. However, the Company may decide to elect the fair value option on new items in the future. The adoption did not have a material impact on the Company's financial position, results of operations or cash flows.

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In March 2008, the FASB issued SFAS No. 161, "Disclosures About Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133" which requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not expect the adoption of SFAS No. 161 will have a material impact on the Company's financial position, results of operations or cash flows.

In May 2008, the FASB issued Statement No. 162 "The Hierarchy of Generally Accepted Accounting Principles". This Statement identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement shall be effective November 16, 2008. Management does not expect the application of Statement No. 162 to have a material impact on the Company's financial position, results of operations or cash flows.

NOTE 3. BUSINESS COMBINATIONS

@Road, Inc.

On December 10, 2006, the Company and @Road, Inc. (@Road) entered into a definitive merger agreement. The acquisition became effective on February 16, 2007. @Road is a global provider of solutions designed to automate the management of mobile resources and to optimize the service delivery process for customers across a variety of industries. The acquisition of @Road has expanded the Company's investment and reinforces the existing growth strategy for its Mobile Solutions segment. @Road's results of operations since February 17, 2007 have been included in the Company's Condensed Consolidated Statements of Income within the Mobile Solutions business segment.

Purchase Price

Under the terms of the agreement, the Company acquired all of the outstanding shares of @Road common stock for $7.50 per share. The Company elected to issue $2.50 per share of the consideration in the form of the Company's common stock (Common Stock) based upon the five-day average closing price of the Company's shares six trading days prior to the closing of the transaction and the remaining $5.00 per share consideration was paid in cash. Further, each share of Series A-1 and Series A-2 Redeemable Preferred Stock, par value $0.001 per share, of @Road was converted into the right to receive an amount in cash equal to $100.00 plus all declared or accumulated but unpaid dividends with respect to such shares outstanding immediately prior to the effective time of the merger and each share of Series B-1 Redeemable Preferred Stock, par value $0.001 per share, of @Road and each share of Series B-2 Redeemable Preferred Stock, par value $0.001 per share, of @Road was converted into the right to receive an amount in cash equal to $831.39 plus all declared or accumulated but unpaid dividends with respect to such shares as of immediately prior to the effective time of the merger. In addition, all @Road vested stock options were terminated and the holders of each such options were entitled to receive the excess, if any, of the aggregate consideration over the exercise price. At the effective time of the merger, all unvested @Road stock options with an exercise price in excess of $7.50 were terminated and all unvested stock options that had exercise prices of $7.50 or less were assumed by the Company.

Concurrent with the merger, the Company amended its existing $200 million unsecured revolving credit agreement with a syndicate of 11 banks with The Bank of Nova Scotia as the administrative agent (the 2007 Credit Facility) and incurred a five-year term loan under the 2007 Credit Facility. See Note 9 to the Condensed Consolidated Financial Statements for additional information.

The Company paid approximately $327.4 million in cash from debt and existing cash, and issued approximately 5.9 million shares of the Company's common stock based on an exchange ratio of 0.0893 shares of the Company's common stock for each outstanding share of @Road common stock as of February 16, 2007. The common stock issued had a fair value of $161.9 million and was valued using the average closing price of the Company's common stock of $27.69 over a range of two trading days (February 14, 2007 through February 15, 2007) prior to, and including, the close date (February 16, 2007) of the transaction, which is also the date that the amount of the Company's shares to be issued in accordance with the merger agreement was settled. The total purchase price is estimated as follows (in thousands):

Cash consideration	$ 327,370
Common stock consideration	161,947
Merger costs *	5,712
Total purchase price	$ 495,029

* Merger costs consist of legal, advisory, accounting and administrative fees.

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Purchase Price Allocation

In accordance with SFAS 141, "Business Combinations," the total purchase price was allocated to @Road net tangible assets, identifiable intangible assets and in-process research and development based upon their estimated fair values as of February 16, 2007. The excess purchase price over the net tangible, identifiable intangible assets and in-process research and development was recorded as goodwill.

The total purchase price has been allocated as follows (in thousands):

Value to be allocated to assets, based upon merger consideration	$ 495,029
Less: value of @Road's assets acquired:	
Net tangible assets acquired	137,916
Amortizable intangibles assets:	
Developed product technology	66,600
Customer relationships	75,300
Trademarks and tradenames	5,200
Subtotal	147,100
In-process research and development	2,100
Deferred tax liability	(56,855)
Goodwill	$ 264,768

Net Tangible Assets

(in thousands)		As of February 16, 2007
Cash and cash equivalents	$	74,729
Accounts receivable, net		14,255
Other receivables		8,774
Inventories, net		15,272
Other current assets		12,627
Property and equipment, net		5,854
Deferred income taxes		41,146
Other non-current assets		7,935
Total assets acquired	$	180,592
Accounts payable		19,285
Deferred revenue		7,365
Other current liabilities		16,026
Total liabilities assumed	$	42,676

Total net assets acquired	$	137,916

The Company reviewed and adjusted @Road's net tangible assets and liabilities to fair value, as necessary, as of February 16, 2007, including the following adjustments:

Fixed assets – the Company decreased @Road's historical value of fixed assets by $2.1 million to adjust fixed assets to an amount equivalent to fair value.

Deferred revenue and cost of sales – the Company reduced @Road's historical value of deferred revenue by $39.6 million to adjust deferred revenue to the fair value of the direct cost associated with servicing the underlying obligation plus a reasonable margin. @Road's deferred revenue balance consists of upfront payments of its hosted product, licensed product, extended warranty and maintenance. The Company reduced @Road's historical value of deferred product cost by $47.1 million to adjust deferred product cost to the asset's underlying fair value. The deferred product costs adjustment to fair value related to deferral of cost of sales of hardware that have shipped, resulting in no fair value relating to the associated deferred product costs.

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Other receivables and non-current assets – Other receivables and non-current assets were increased by $15.4 million to adjust for the fair value of future cash collections from customer contracts assumed for products delivered prior to the acquisition date. As the products were delivered prior to the acquisition date, revenue is not recognizable in the Company's Condensed Consolidated Statements of Income.

Intangible Assets

Developed product technology, which is comprised of products that have reached technological feasibility, includes products in @Road's current product offerings. @Road's technology includes hardware, software and services that serve the mobile resource management market internationally. The Company expects to amortize the developed and core technology over a weighted average estimated life of seven years.

Customer relationships represent the value placed on @Road's distribution channels and end users. The Company expects to amortize the fair value of these assets over a weighted average estimated life of seven years.

Trademarks and trade names represent the value placed on the @Road brand and recognition in the mobile resource management market. The Company expects to amortize the fair value of these assets over a weighted average estimated life of eight years.

In-process Research and Development

The Company recorded an expense of $2.1 million relating to in-process research and development projects in @Road's license business. In-process research and development represents incomplete @Road research and development projects that had not reached technological feasibility and had no alternative future use as of the consummation of the merger.

Goodwill

The excess purchase price over the net tangible, identifiable intangible assets and in-process research and development was recorded as goodwill. The goodwill was attributed to the premium paid for the opportunity to expand and better serve the global mobile resource management market and achieve greater long-term growth opportunities than either company had operating alone. The Company believes these opportunities could include accelerating the rate at which products are brought to market and increasing the diversity and global reach of those products. In addition, the Company expects that the combined companies may be able to obtain greater operating leverage by reducing costs in areas of redundancy. Of the total $264.8 million assigned to goodwill, approximately $6.7 million is expected to be deductible for tax purposes.

Restructuring

Liabilities related to restructuring @Road's operations that meet the requirements of EITF 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," have been recorded as adjustments to the purchase price and an increase in goodwill. Liabilities related to restructuring the Company's operations have been recorded as expenses in the Company's Condensed Consolidated Statements of Income in the period that the costs are incurred.

Deferred Tax Assets/Liabilities

The Company recognized $56.9 million in net deferred tax liabilities for the tax effects of differences between assigned values in the purchase price and the tax bases of assets acquired and liabilities assumed.

@Road Stock Options Assumed

In accordance with the merger agreement, the Company assumed all @Road unvested stock options that had exercise prices of $7.50 or less. The Company issued approximately 795,000 stock options based on an exchange ratio of 0.268 shares of the Company's common stock for each unvested stock option with exercise prices of $7.50 or less as of February 16, 2007. The fair value of these assumed options was determined to be $10.1 million which will be expensed over the remaining vesting terms of the assumed options which is approximately three to four years. The assumed options were valued using the binomial model similar to previously granted Trimble stock options as discussed in the Company's fiscal 2007 Form 10-K.

Pro-Forma Results

The following table presents pro-forma results of operations of the Company and @Road, as if the companies had been combined as of December 31, 2005. The unaudited pro-forma results of operations are not necessarily indicative of results that would have occurred had the acquisition taken place on December 31, 2005 or of future results. Included in the pro-forma results are fair value adjustments based on the fair values of assets acquired and liabilities assumed as of the acquisition date of February 16, 2007 and adjustments for interest expense related to debt and stock options assumed as part of the merger consideration.

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The Company excluded the effect of non-recurring items as the impact is short-term in nature. The pro-forma information is as follows:

(in thousands, except per share data)	Nine Months Ended September 28, 2007 (a)	
Pro-forma revenue	$	925,103
Pro-forma net income		88,437
Pro-forma basic net income per share	$	0.74
Pro-forma diluted net income per share	$	0.71

(a) The pro-forma results of operations represent the Company's results for the nine months ended September 28, 2007 together with @Road's historical results through the acquisition date of February 16, 2007 as though they had been combined as of December 31, 2005. Pro-forma adjustments have been made based on the fair values of assets acquired and liabilities assumed as of February 16, 2007. Pro-forma revenue includes a $1.4 million increase due to the timing of recognizing deferred revenue write-downs and customer contracts where the product was delivered prior to the acquisition date. Pro-forma net income includes a $0.5 million increase due to the timing of recognizing revenue write-downs and related deferred cost of sales write-downs, amortization of intangible assets related to the acquisition of $2.2 million, and interest expense for debt used to purchase @Road of $1.4 million. The pro-forma amounts provided herein include adjustments to previously filed pro-forma numbers in the Company's 10-Q's.

NOTE 4. SHAREHOLDERS' EQUITY

Stock Repurchase Activities

In January 2008, the Company's Board authorized a stock repurchase program ("2008 Stock Repurchase Program"), authorizing the Company to repurchase up to $250 million of Trimble's common stock under this program. During the three months ended September 26, 2008, the Company repurchased approximately 2,452,000 shares of common stock in open market purchases at an average price of $32.43 per share. During the nine months ended September 26, 2008, the Company repurchased approximately 3,707,000 shares of common stock in open market purchases at an average price of $31.23 per share. The total purchase price of $115.9 million was reflected as a decrease to common stock based on the average stated value per share with the remainder to retained earnings. Common stock repurchases under the program were recorded based upon the trade date for accounting purposes. All common shares repurchased under this program have been retired. As of September 26, 2008, the 2008 Stock Repurchase Program had remaining authorized funds of $134.1 million. The timing and actual number of future shares repurchased will depend on a variety of factors including price, regulatory requirements, capital availability, and other market conditions. The program does not require the purchase of any minimum number of shares and may be suspended or discontinued at any time without public notice.

Stock-Based Compensation

The Company accounts for its employee stock options and rights to purchase shares under its stock participation plans at fair value, in accordance with SFAS 123(R), "Share-Based Payment." SFAS 123(R) requires stock-based compensation to be estimated using the fair value on the date of grant using an option-pricing model. The value of the portion of the award that is expected to vest is recognized as expense over the related employees' requisite service periods in the Company's Condensed Consolidated Statements of Income.

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The following table summarizes stock-based compensation expense, net of tax, related to employee stock-based compensation included in the Consolidated Condensed Statements of Income in accordance with SFAS 123(R) for the three and nine months ended September 26, 2008 and September 28, 2007.

	Three Months Ended		Nine Months Ended	
	September 26, 2008	September 28, 2007	September 26, 2008	September 28, 2007
(in thousands)				
Cost of sales	$ 453	$ 469	$ 1,433	$ 1,240
Research and development	796	868	2,629	2,619
Sales and marketing	937	1,059	2,898	2,800
General and administrative	1,640	1,408	4,643	4,290
Total operating expenses	3,373	3,335	10,170	9,709
Total stock-based compensation expense	3,826	3,804	11,603	10,949
Tax benefit (1)	(188)	294	(740)	(574)
Total stock-based compensation expense, net of tax	$ 3,638	$ 4,098	$ 10,863	$ 10,375

(1) Tax benefit related to U.S. non-qualified options and restricted stock units, applying a Federal statutory and State (Federal effected) tax rate for the respective periods.

Options

Stock option expense recognized during the period is based on the value of the portion of the stock option that is expected to vest during the period. The fair value of each stock option is estimated on the date of grant using a binomial valuation model. The Black-Scholes model was used to value those options granted prior to the fourth quarter of fiscal 2005. Similar to the Black-Scholes model, the binomial model takes into account variables such as volatility, dividend yield rate, and risk free interest rate. For options granted for the three and nine months ended September 26, 2008 and September 28, 2007, the following weighted average assumptions were used:

	Three Months Ended		Nine Months Ended	
	September 26, 2008	September 28, 2007	September 26, 2008	September 28, 2007
Expected dividend yield	--	--	--	--
Expected stock price volatility	39.8%	37.0%	39.7%	37.2%
Risk free interest rate	2.6%	4.4%	2.7%	4.5%
Expected life of option	3.9 years	3.9 years	4.1 years	3.9 years

Expected Dividend Yield – The dividend yield assumption is based on the Company’s history and expectation of dividend payouts.

Expected Stock Price Volatility – The Company’s computation of expected volatility is based on a combination of implied volatilities from traded options on the Company’s stock and historical volatility, commensurate with the expected life of the stock options.

Expected Risk Free Interest Rate – The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected life of the stock options.

Expected Life Of Option – The Company's expected life represents the period that the Company's stock options are expected to be outstanding and was determined based on historical experience of similar stock options with consideration to the contractual terms of the stock options, vesting schedules and expectations of future employee behavior.

NOTE 5. JOINT VENTURES

Caterpillar Trimble Control Technologies Joint Venture

On April 1, 2002, Caterpillar Trimble Control Technologies LLC (CTCT), a joint venture formed by the Company and Caterpillar began operations. CTCT develops advanced electronic guidance and control products for earth moving machines in the construction and mining industries. The joint venture is 50% owned by the Company and 50% owned by Caterpillar, with equal voting rights. The joint venture is accounted for under the equity method of accounting. Under the equity method, the Company's share of profits and losses are included in Income from joint ventures in the Non-operating income, net section of the Condensed Consolidated Statements of Income. During the three and nine months ended September 26, 2008, the Company recorded $2.0 million and $6.7 million, respectively, as its proportionate share of CTCT net income. During the comparable period of 2007 the Company recorded $1.6 million and $6.1 million, respectively, as its proportionate share of CTCT net income. During the nine months ended September 26, 2008 and September 28, 2007, there were $3.0 million and $2.3 million dividends, respectively, received from CTCT. The carrying amount of the investment in CTCT was $13.3 million at September 26, 2008 and $9.6 million at December 28, 2007, and is included in Other non-current assets on the Condensed Consolidated Balance Sheets.

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The Company acts as a contract manufacturer for CTCT. Products are manufactured based on orders received from CTCT and are sold at direct cost plus a mark-up for the Company's overhead costs to CTCT. CTCT then resells products at cost plus a mark-up in consideration for CTCT's research and development efforts to both Caterpillar and to the Company for sales through their respective distribution channels. Generally, the Company sells products through its after-market dealer channel, and Caterpillar sells products for factory and dealer installation. CTCT does not have net inventory on its balance sheet in that the resale of products to Caterpillar and the Company occur simultaneously when the products are purchased from the Company. During the three and nine months ended September 26, 2008, the Company recorded $2.9 million and $9.1 million of revenue, respectively, and $2.7 million and $8.1 million of cost of sales, respectively, for the manufacturing of products sold by the Company to CTCT and then sold through the Caterpillar distribution channel. During the comparable three and nine months ended September 28, 2007, the Company recorded $3.9 million and $8.8 million of revenue, respectively, and $3.4 million and $7.8 million of cost of sales, respectively. In addition, during the three and nine months ended September 26, 2008, the Company recorded $4.5 million and $18.0 million in net cost of sales for the manufacturing of products sold by the Company to CTCT and then repurchased by the Company upon sale through the Company's distribution channel. The comparable net cost of sales recorded by the Company for the three and nine months ended September 28, 2007 were $5.6 million and $19.8 million, respectively.

In addition, the Company received reimbursement of employee-related costs from CTCT for company employees dedicated to CTCT or performance of work for CTCT totaling $3.2 million and $10.7 million for the three and nine months ended September 26, 2008, respectively, and totaling $3.7 million and $10.0 million for the three and nine months ended September 28, 2007, respectively. The reimbursements were offset against operating expenses.

At September 26, 2008 and December 28, 2007, the Company had amounts due to and from CTCT. Receivables and payables to CTCT are settled individually with terms comparable to other non-related parties. The amounts due to and from CTCT are presented on a gross basis in the Condensed Consolidated Balance Sheets. At September 26, 2008 and December 28, 2007, the receivables from CTCT were $5.7 million and $5.6 million, respectively, and are included within Accounts receivable, net, on the Condensed Consolidated Balance Sheets. As of the same dates, the payables due to CTCT were $6.0 million and $5.2 million, respectively, and are included within Accounts payable on the Condensed Consolidated Balance Sheets.

Nikon-Trimble Joint Venture

On March 28, 2003, Nikon-Trimble Co., Ltd (Nikon-Trimble), a joint venture was formed by the Company and Nikon Corporation. The joint venture began operations in July 2003 and is 50% owned by the Company and 50% owned by Nikon, with equal voting rights. It focuses on the design and manufacture of surveying instruments including mechanical total stations and related products.

The joint venture is accounted for under the equity method of accounting. Under the equity method, the Company's share of profits and losses are included in Income from joint ventures in the Non-operating income, net section of the Condensed Consolidated Statements of Income. During the three and nine months ended September 26, 2008, the Company recorded a profit of $0.2 million and a profit of $0.1 million, respectively. During the three and nine months ended September 28, 2007, the Company recorded a profit of $0.4 million and a profit of $0.4 million, respectively, as its proportionate share of Nikon-Trimble net income. During the nine months ended September 26, 2008 and September 28, 2007, dividends received from Nikon-Trimble, amounted to $0.2 million and $0.6 million, and were recorded against Other non-current assets on the Condensed Consolidated Balance Sheets. The carrying amount of the investment in Nikon-Trimble was $14.0 million at September 26, 2008 and $13.4 million at December 28, 2007, and is included in Other non-current assets on the Condensed Consolidated Balance Sheets.

Nikon-Trimble is the distributor in Japan for Nikon and the Company's products. The Company is the exclusive distributor outside of Japan for Nikon branded survey products. For products sold by the Company to Nikon-Trimble, revenue is recognized by the Company on a sell-through basis from Nikon-Trimble to the end customer.

The terms and conditions of the sales of products from the Company to Nikon-Trimble are comparable with those of the standard distribution agreements which the Company maintains with its dealer channel and margins earned are similar to those from third party dealers. Similarly, the purchases of product by the Company from Nikon-Trimble are made on terms comparable with the arrangements which Nikon maintained with its international distribution channel prior to the formation of the joint venture with the Company. During the three and nine months ended September 26, 2008, the Company recorded $4.2 million and $13.3 million of revenue and $3.5 million and $9.8 million of cost of sales for the manufacturing of products sold by the Company to Nikon-Trimble. During the three and nine months ended September 28, 2007, the Company recorded $2.5 million and $9.0 million of revenue and $1.3 million and $4.7 million of cost of sales for the manufacturing of products sold by the Company to Nikon-Trimble. The Company also purchases product from Nikon-Trimble for future sales to third party customers. Purchases of inventory from Nikon-Trimble were $5.2 million and $12.2 million during the three and nine months ended September 26, 2008; and $3.4 million and $16.3 million during the three and nine months ended September 28, 2007, respectively.

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At September 26, 2008 and December 28, 2007, the Company had amounts due to and from Nikon-Trimble. Receivables and payables to Nikon-Trimble are settled individually with terms comparable to other non-related parties. The amounts due to and from Nikon-Trimble are presented on a gross basis in the Condensed Consolidated Balance Sheets. At September 26, 2008 and December 28, 2007, the amounts due from Nikon-Trimble were $2.7 million and $3.3 million, respectively, and are included within Accounts receivable, net on the Condensed Consolidated Balance Sheets. As of the same dates, the amounts due to Nikon-Trimble were $6.6 million and $5.7 million, respectively, and are included within Accounts payable on the Condensed Consolidated Balance Sheets.

NOTE 6. GOODWILL AND INTANGIBLE ASSETS

Intangible Assets

Intangible Assets consisted of the following:

	September 26, 2008		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed product technology	$ 162,472	(76,157)	$ 86,315
Trade names and trademarks	20,000	(12,974)	7,026
Customer relationships and other intellectual properties	134,127	(46,272)	87,855
	$ 316,599	(135,403)	$ 181,196

	December 28, 2007		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed product technology	$ 157,394	(58,273)	$ 99,121
Trade names and trademarks	19,192	(12,490)	6,702
Customer relationships and other intellectual properties	124,281	(32,327)	91,954
	$ 300,867	(103,090)	$ 197,777

The estimated future amortization expense of intangible assets as of September 26, 2008, is as follows (in thousands):

2008 (Remaining)	$ 11,061
2009	41,234
2010	38,830
2011	33,997
2012	25,707
Thereafter	30,367
Total	$ 181,196

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Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 26, 2008, are as follows:

(in thousands)	Engineering and Construction	Field Solutions	Mobile Solutions	Advanced Devices	Total
Balance as of December 28, 2007	$ 317,886	$ 5,224	$ 337,661	$ 15,079	$ 675,850
Additions due to acquisitions	35,230	-	-	-	35,230
Purchase price adjustments	1,661	2,046	1,521	-	5,228
Foreign currency translation adjustments	1,326	-	(915)	(528)	(117)
Balance as of September 26,2008	$ 356,103	$ 7,270	$ 338,267	$ 14,551	$ 716,191

The purchase price adjustments relate entirely to previous business acquisitions. The total purchase price adjustments of $5.2 million recorded during the nine months ended September 26, 2008 is comprised of earn-out payments of $3.2 million, tax adjustments of $1.9 million and $0.1 million for changes in purchase price allocation estimates.

NOTE 7. CERTAIN BALANCE SHEET COMPONENTS

Inventories, net consisted of the following:

As of (in thousands)	September 26, 2008	December 28, 2007
Raw materials	$ 75,562	$ 63,465
Work-in-process	7,809	9,267
Finished goods	78,662	70,286
Total inventories, net	$ 162,033	$ 143,018

Deferred costs of revenue are included within finished goods and were $15.4 million at September 26, 2008 and $11.0 million at December 28, 2007.

Other non-current liabilities consisted of the following:

As of (in thousands)	September 26, 2008	December 28, 2007
Deferred compensation	$ 7,582	$ 8,646
Unrecognized tax benefits	29,560	25,774
Other non-current liabilities	17,530	21,708
Total other non-current liabilities	$ 54,672	$ 56,128

As of September 26, 2008 and December 28, 2007, the Company has $29.6 million and $25.8 million, respectively, of unrecognized tax benefits included in Other non-current liabilities that, if recognized, would favorably affect the effective income tax rate in future periods and interest and/or penalties related to income tax matters.

NOTE 8. SEGMENT INFORMATION

The Company is a designer and distributor of positioning solutions enabled by GPS, optical, laser, and wireless communications technology. The Company provides products for diverse applications in its targeted markets.

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

- Engineering and Construction — Consists of products currently used by survey and construction professionals in the field for positioning, data collection, field computing, data management, and machine guidance and control. The applications served include surveying, road, runway, construction, site preparation and building construction.

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- Field Solutions — Consists of products that provide solutions in a variety of agriculture and geographic information systems (GIS) applications. In agriculture these include precise land leveling and machine guidance systems. In GIS these include handheld devices and software that enable the collection of data on assets for a variety of governmental and private entities.

- Mobile Solutions — Consists of products that enable end users to monitor and manage their mobile assets by communicating location and activity-relevant information from the field to the office. The Company offers a range of products that address a number of sectors of this market including truck fleets, security, and public safety vehicles.

- Advanced Devices — The various operations that comprise this segment were aggregated on the basis that no single operation accounted for more than 10% of the Company's total revenue, operating income and assets. This segment is comprised of the Component Technologies, Military and Advanced Systems, Applanix and Trimble Outdoors businesses.

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

The following table presents revenue, operating income, and identifiable assets for the four segments. Operating income is revenue less cost of sales and operating expenses, excluding general corporate expenses, amortization of purchase intangibles, in-process research and development expenses and restructuring charges. The identifiable assets that the Company's Chief Operating Decision Maker views by segment are accounts receivable and inventories.

	Reporting Segments				
(in thousands)	Engineering and Construction	Field Solutions	Mobile Solutions	Advanced Devices	Total
Three Months Ended September 26, 2008					
Segment revenue	$ 191,858	$ 64,354	$ 40,822	$ 31,053	$ 328,087
Operating income	41,560	22,058	3,602	6,835	74,055
Three Months Ended September 28, 2007					
Segment revenue	$ 182,135	$ 44,763	$ 39,204	$ 29,921	$ 296,023
Operating income	42,824	11,931	2,855	4,893	62,503
Nine Months Ended September 26, 2008					
Segment revenue	$ 599,057	$ 242,461	$ 127,118	$ 92,514	$ 1,061,150
Operating income	123,675	91,961	7,997	18,105	241,738
Nine Months Ended September 28, 2007					
Segment revenue	$ 556,592	$ 150,998	$ 109,988	$ 91,909	$ 909,487
Operating income	137,359	46,957	6,778	13,620	204,714

As of September 26, 2008					
Accounts receivable (1)	$ 161,185	$ 41,619	$ 30,520	$ 24,224	$ 257,548
Inventories	106,920	20,063	16,821	18,229	162,033
As of December 28, 2007					
Accounts receivable (1)	$ 158,913	$ 37,294	$ 25,469	$ 18,208	$ 239,884
Inventories	89,780	15,745	18,781	18,712	143,018

(1) As presented, accounts receivable represents trade receivables, net, which are specified between segments.

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

(in thousands)	Three Months Ended September 26, 2008	Three Months Ended September 28, 2007	Nine Months Ended September 26, 2008	Nine Months Ended September 28, 2007
Consolidated segment operating income	$ 74,055	$ 62,503	$ 241,738	$ 204,707
Unallocated corporate expense	(8,405)	(8,543)	(30,058)	(32,065)
Amortization of purchased intangible assets	(11,143)	(10,174)	(32,865)	(28,501)
In-process research and development expense	--	--	--	(2,112)
Restructuring charges	(451)	--	(3,795)	(3,025)
Consolidated operating income	54,056	43,786	175,020	139,004
Non-operating income, net	1,563	1,089	7,453	4,217
Consolidated income before taxes	$ 55,619	$ 44,875	$ 182,473	$ 143,221

NOTE 9. LONG-TERM DEBT, COMMITMENTS AND CONTINGENCIES

Long-term debt consisted of the following:

As of (in thousands)	September 26, 2008	December 28, 2007
Credit Facilities:		
Term loan	$ -	$ 60,000
Revolving credit facility	51,000	-
Promissory notes and other	616	690
Total debt	51,616	60,690
Less current portion of long-term debt	129	126
Non-current portion	$ 51,487	$ 60,564

Credit Facilities

On July 28, 2005, the Company entered into a $200 million unsecured revolving credit agreement (the 2005 Credit Facility) with a syndicate of 10 banks with The Bank of Nova Scotia as the administrative agent. On February 16, 2007, the Company amended its existing $200 million unsecured revolving credit agreement with a syndicate of 11 banks with The Bank of Nova Scotia as the administrative agent (the 2007 Credit Facility). Under the 2007 Credit Facility, the Company exercised the option in the existing credit agreement to increase the availability under the revolving credit line by $100 million, for an aggregate availability of up to $300 million, and extended the maturity date of the revolving credit line by 18 months, from July 2010 to February 2012. Up to $25 million of the availability under the revolving credit line may be used to issue letters of credit, and up to $20 million may be used for paying off other debts or loans. The maximum leverage ratio under the 2007 Credit Facility is 3.00:1. The funds available under the 2007 Credit Facility may be used by the Company for acquisitions, stock repurchases, and general corporate purposes.

As of September 26, 2008, the Company had $51 million drawn on the revolving credit line and was in compliance with all financial debt covenants.

The Company may borrow funds under the 2007 Credit Facility in U.S. Dollars or in certain other currencies, and borrowings will bear interest, at the Company's option, at either: (i) a base rate, based on the administrative agent's prime rate, plus a margin of between 0% and 0.125%, depending on the Company's leverage ratio as of its most recently ended fiscal quarter, or (ii) a reserve-adjusted rate based on the London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR), Stockholm Interbank Offered Rate (STIBOR), or other agreed-upon rate, depending on the currency borrowed, plus a margin of between 0.625% and 1.125%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter. The Company's obligations under the 2007 Credit Facility are guaranteed by certain of the Company's domestic subsidiaries.

The 2007 Credit Facility contains customary affirmative, negative and financial covenants including, among other requirements, negative covenants that restrict the Company's ability to dispose of assets, create liens, incur indebtedness, repurchase stock, pay dividends, make acquisitions, make investments, enter into mergers and consolidations and make capital expenditures, within certain limitations, and financial covenants that require the maintenance of leverage and fixed charge coverage ratios. The 2007 Credit Facility contains events of default that include, among others, non-payment of principal, interest or fees, breach of covenants, inaccuracy of representations and warranties, cross defaults to certain other indebtedness, bankruptcy and insolvency events, material judgments, and events constituting a change of control. Upon the occurrence and during the continuance of an event of default, interest on the obligations will accrue at an increased rate and the lenders may accelerate the Company's obligations under the 2007 Credit Facility, however that acceleration will be automatic in the case of bankruptcy and insolvency events of default.

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Notes Payable

As of September 26, 2008 and December 28, 2007, the Company had notes payable totaling approximately $616,000 and $690,000, respectively, consisting of government loans to foreign subsidiaries.

Leases and other commitments

The estimated future minimum operating lease commitments as of September 26, 2008, are as follows (in thousands):

2008 (Remaining)	$ 4,926
2009	18,258
2010	12,153
2011	7,676
2012	5,710
Thereafter	1,023
Total	$ 49,746

Additionally, as of September 26, 2008, the Company had acquisition-related earn-outs of $6.9 million and holdbacks of $14.6 million recorded in Other current liabilities and Other non-current liabilities. The maximum remaining payments, including the $6.9 million and $14.6 million recorded, will not exceed $88.4 million. The remaining payments are based upon targets achieved or events occurring over time that would result in amounts paid that may be lower than the maximum remaining payments. The remaining earn-outs and holdbacks are payable through 2010.

At September 26, 2008, the Company had unconditional purchase obligations of approximately $68.1 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. These unconditional purchase obligations are related primarily to inventory and other items.

NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

As discussed in Note 2, SFAS No. 157, which defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about assets and liabilities measured at fair value, became effective for the Company beginning in its first quarter of fiscal 2008. Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Assets and liabilities recorded at fair value on a recurring basis in the Condensed Consolidated Balance Sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS No. 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level I – Observable inputs such as unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

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

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

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Fair Value on a Recurring Basis

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

	Fair Values as of September 26, 2008			
(in thousands)	Level I	Level II	Level III	Total
Assets				
Deferred compensation plan assets (1)	7,693	—	—	7,693
Derivative assets (2)	—	160	—	160
Total	7,693	160	—	7,853
Liabilities				
Deferred compensation plan liabilities (1)	7,582	—	—	7,582
Derivative liabilities (2)	—	—	—	—
Total	7,582	—	—	7,582

(1) Deferred compensation plan assets and liabilities: The Company maintains a self-directed, non-qualified deferred compensation plan for certain executives and other highly compensated employees. The investment assets and liabilities included in Level I are valued using quoted market prices.

(2) Derivative assets and liabilities: Derivative assets and liabilities included in Level II primarily represent forward currency exchange contracts. The fair values are determined using inputs based on observable quoted prices.

NOTE 11. PRODUCT WARRANTIES

The Company accrues for warranty costs as part of its cost of sales based on associated material product costs, technical support labor costs, and costs incurred by third parties performing work on the Company's behalf. The Company’s expected future costs are primarily estimated based upon historical trends in the volume of product returns within the warranty period and the costs to repair or replace the equipment. The products sold are generally covered by a warranty for periods ranging from 90 days to three years, and in some instances up to 5.5 years.

While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of component suppliers, its warranty obligation is affected by product failure rates, material usage, and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage, or service delivery costs differ from the estimates, revisions to the estimated warranty accrual and related costs may be required.

Changes in the Company’s product warranty liability during the nine months ended September 26, 2008 are as follows (in thousands):

Balance as of December 28, 2007	$ 10,806
Accruals for warranties issued	16,387
Changes in estimates	--

Warranty settlements (in cash or in kind)	(15,116)
Balance as of September 26, 2008	$ 12,077

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NOTE 12. EARNINGS PER SHARE

The following data was used in computing earnings per share and the effect on the weighted-average number of shares of potentially dilutive common stock.

(in thousands, except per share amounts)	Three Months Ended September 26, 2008	Three Months Ended September 28, 2007	Nine Months Ended September 26, 2008	Nine Months Ended September 28, 2007
Numerator:				
Income available to common shareholders:	$ 39,067	$ 27,374	$ 127,733	$ 91,083
Denominator:				
Weighted average number of common shares used in basic earnings per share	120,603	120,591	121,171	118,553
Effect of dilutive securities (using treasury stock method):				
Common stock options and restricted stock units	3,820	5,025	3,893	4,848
Common stock warrants	--	71	7	290
Weighted average number of common shares and dilutive potential common shares used in diluted earnings per share	124,423	125,687	125,071	123,691
Basic earnings per share	$ 0.32	$ 0.23	$ 1.05	$ 0.77
Diluted earnings per share	$ 0.31	$ 0.22	$ 1.02	$ 0.74

NOTE 13: RESTRUCTURING CHARGES:

Restructuring expenses for the three and nine months ended September 26, 2008 and September 28, 2007 were as follows:

(in thousands)	Three Months Ended September 26, 2008	Three Months Ended September 28, 2007	Nine Months Ended September 26, 2008	Nine Months Ended September 28, 2007
Severance and benefits	$ 451	$ --	$ 3,795	$ 3,025

During the three and nine months ended September 26, 2008, restructuring expenses of $0.5 million and $3.8 million, respectively, and were related to decisions to streamline processes and reduce the cost structure of the Company, with approximately 90 employees affected worldwide. The amount for the three month period is related to the Engineering and Construction segment. Of the total for the nine month period, $3.3 million is related to the Engineering and Construction segment and $0.5 million is related to the Mobile Solutions segment. As a result of these decisions, the Company expects restructuring activities in the Engineering and Construction segment to result in additional restructuring expenses totaling approximately $2.2 million through the first quarter of 2010.

During the three and nine months ended September 28, 2007, restructuring expenses of $0.0 million and $3.0 million, respectively were for charges associated with the Company's acquisition of @Road. The restructuring expenses were related to the acceleration of vesting of employee stock options for certain terminated @Road employees, of which $1.4 million was settled in cash and $1.6 million was recorded as Shareholders' equity.

Restructuring costs associated with a business combination:
In addition to the restructuring expenses in the nine months ended September 26, 2008, the Company had $0.9 million in restructuring activity reversals related to costs associated with exiting activities of pre-merger @Road. The reversals were primarily due to severance and benefits costs for employees whose positions were retained in a variety of functions. The reversals were recognized in the first quarter of fiscal 2008 as a reduction of the liability assumed in the purchase business combination that had been included in the allocation of the cost to acquire @Road and, accordingly, resulted in a decrease to goodwill rather than an expense reduction in the nine months ended September 26, 2008.

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In addition to the restructuring expenses in the nine months ended September 28, 2007, costs associated with exiting activities of pre-merger @Road of $3.6 million, consisted of severance and benefits costs. These costs were recognized as a liability assumed in the purchase business combination and were included in the allocation of the cost to acquire @Road and accordingly, resulted in an increase to goodwill rather than an expense in the nine months ended September 28, 2007.

Restructuring liability:
Restructuring activity for the nine months ended September 26, 2008 was as follows (in thousands):

Balance as of December 28, 2007	$ 1,326
Charges	3,795
Payments	(2,793)
Adjustment	(1,020)
Balance as of September 26,2008	$ 1,308

The $1.3 million restructuring accrual consists of severance and benefits. Of the $1.3 million restructuring accrual, $0.4 million is included in Other current liabilities and is expected to be settled by the fourth quarter of fiscal 2008. The remaining balance of $0.9 million is included in Other non-current liabilities and is expected to be settled by the first quarter of fiscal 2010.

NOTE 14: INCOME TAXES

The Company's effective income tax rate for the three and nine months ended September 26, 2008 was 29.8% and 30.0%, respectively, as compared to 39.0% and 36.4% for the three and nine months ended September 28, 2007.

The Emergency Economic Stabilization Act of 2008, Energy Improvement and Extension Act of 2008 and Tax Extenders and Alternative Minimum Tax Relief Act of 2008 (HR1424) was signed into law on October 3, 2008. This legislation includes a provision that retroactively extends the research tax credit from January 1, 2008 to December 31, 2009. The Company has not yet completed the analysis of the 2008 benefit which will be recognized in the fourth quarter of fiscal 2008.

The Company and its U.S. subsidiaries are subject to U.S. federal and state income tax. The Company has substantially concluded all U.S. federal and state income tax matters for years through 1992. Non-U.S. income tax matters have been concluded for years through 2000. The Company is currently in various stages of multiple year examinations by Federal, State, and foreign taxing authorities. The Company does not anticipate a significant impact to the unrecognized tax benefits balance with respect to current tax examinations. Although the timing of the resolution and/or the closure on audits is highly uncertain, the Company does not believe that the unrecognized tax benefits would materially change in the next twelve months.

The Company adopted FIN 48 on December 30, 2006, and the amount of liabilities for unrecognized tax benefits (net of the federal benefit on state issues) that, if recognized, would favorably affect the effective income tax rate in any future period are $32.6 million and $28.4 million at September 26, 2008 and December 28, 2007, respectively. The unrecognized tax benefits are recorded in Other non-current liabilities and within the deferred tax accounts in the accompanying Condensed Consolidated Balance Sheets.

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company's liability includes interest and penalties at September 26, 2008 and December 30, 2007, of $3.9 million and $3.1 million, respectively, which were recorded in Other non-current liabilities in the accompanying Condensed Consolidated Balance Sheets.

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NOTE 15: COMPREHENSIVE INCOME:

The components of comprehensive income, net of related tax, are as follows:

(in thousands)	Three Months Ended September 26, 2008	Three Months Ended September 28, 2007	Nine Months Ended September 26, 2008	Nine Months Ended September 28, 2007
Net income	$ 39,067	$ 27,374	$ 127,733	$ 91,083
Foreign currency translation adjustments, net of tax	(19,835)	12,662	(1,688)	18,761
Net unrealized actuarial gain (loss)	21	(12)	(3)	(20)
Net unrealized gain (loss) on investments	(173)	(15)	(173)	20
Comprehensive income	$ 19,080	$ 40,009	$ 125,869	$ 109,844

NOTE 16: SUBSEQUENT EVENT

Borrowing from revolving credit line

In October 2008, the Company borrowed an additional $100 million on its revolving credit agreement for working capital needs and potential future acquisitions. See Note 9 for more information as to the detailed terms of this credit facility.

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This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the “safe harbor” created by those sections. Actual results could differ materially from those indicated in the forward-looking statements due to a number of factors including, but not limited to, the risk factors discussed in “Risk Factors” below and elsewhere in this report as well as in the Company's Annual Report on Form 10-K for fiscal year 2007 and other reports and documents that the Company files from time to time with the Securities and Exchange Commission. The Company has attempted to identify forward-looking statements in this report by placing an asterisk (*) before paragraphs. Discussions containing such forward-looking statements may be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below. In some cases, forward-looking statements can be identified by terminology such as “may,” ”will,” “should,” “could,” “predicts,” “potential,” “continue,” “ “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” and similar expressions. These forward-looking statement made as of the date of this Quarterly Report on Form 10-Q, and the Company disclaims any obligation to update these statements or to explain the reasons why actual results may differ.`

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

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U. S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to product returns, doubtful accounts, inventories, investments, intangible assets, income taxes, warranty obligations, restructuring costs and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the amount and timing of revenue and expenses and the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no changes to our significant accounting polices during the nine months ended September 26, 2008 from those disclosed in our 2007 Form 10-K.

Recent Accounting Pronouncements

Updates to recent accounting standards as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 28, 2007 are as follows:

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” which clarifies the definition of fair value, establishes a framework for measuring fair value within GAAP and expands the disclosures regarding fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 deferring the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. We adopted SFAS 157 in the first quarter of fiscal 2008. The adoption did not have a material impact on our financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115.” SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities under an

instrument-by-instrument election. Subsequent measurements for the financial assets and liabilities an entity elects to fair value will be recognized in earnings. SFAS No. 159 also establishes additional disclosure requirements. SFAS No. 159 became effective for us at the beginning of its first quarter of fiscal 2008. We did not elect the fair value option for any of our financial assets or liabilities. However, we may decide to elect the fair value option on new items in the future. The adoption did not have a material impact on our financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures About Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133" which requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We do not expect the adoption of SFAS No. 161 will have a material impact on our financial position, results of operations or cash flows.

In May 2008, the FASB issued Statement No. 162 "The Hierarchy of Generally Accepted Accounting Principles". This Statement identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement shall be effective November 16, 2008. We do not expect the application of Statement No. 162 to have a material impact on our financial position, results of operations or cash flows.

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EXECUTIVE LEVEL OVERVIEW

Trimble's focus is on combining positioning technology with wireless communication and application capabilities to create system-level solutions that enhance productivity and accuracy for our customers. The majority of our markets are end-user markets, including engineering and construction firms, governmental organizations, public safety workers, farmers and companies who must manage fleets of mobile workers and assets. In our Advanced Devices segment, we also provide components to original equipment manufacturers to incorporate into their products. In the end user markets, we provide a system that includes a hardware platform that may contain software and customer support. Some examples of our solutions include products that automate and simplify the process of surveying land, products that automate the utilization of equipment such as tractors and bulldozers, products that enable a company to manage its mobile workforce and assets, and products that allow municipalities to manage their fixed assets. In addition, we also provide software applications on a stand-alone basis.

Solutions targeted at the end-user make up a significant majority of our revenue. To create compelling products, we must attain an understanding of the end users' needs and work flow, and how location-based technology can enable that end user to work faster, more efficiently, and more accurately. We use this knowledge to create highly innovative products that change the way work is done by the end-user. With the exception of our Mobile Solutions and Advanced Devices segments, our products are generally sold through a dealer channel, and it is crucial that we maintain a proficient global, third-party distribution channel.

We continued to execute our strategy with a series of actions that can be summarized in four categories.

Reinforcing our position in existing markets

* We believe that our markets provide us with additional, substantial potential for substituting our technology for traditional methods. We are continuing to develop new products and to strengthen our distribution channels in order to expand our market opportunity. This year we introduced the AgGPS® EZ-Guide® Lightbar Guidance System, GPS Pathfinder® ProXTR Receiver, Trimble® GeoExplorer® 2008 Series in our Field Solutions Segment. In the Engineering and Construction Segment, we introduced the Trimble MEP layout solution, a new wireless data controller for the LM80 Layout Manager, Trimble GCS900 Grade Control System version 10.8, Trimble Coastal Center™ Software, and Trimble NetR8™ GNSS Reference Receiver. We also introduced further enhancements to our complete surveying portfolio as part of its Connected Site™ solutions: new models of the Trimble S8 Total Station with options for monitoring and tunneling applications; a new version of Trimble Business Center; a scalable Trimble VX™ Spatial Station; and improved field to office solutions for German surveyors .In the Mobile Solutions Segment, we announced that Carrier Corporation, the world leader in air-conditioning, heating, and refrigeration systems is rolling out Trimble's Mobile Resource Management (MRM) solution within its Carrier Commercial Service (CCS) fleet. All of these products strengthened our competitive position and created new value for the user.

Extending our position in existing markets through new product categories

* We are utilizing the strength of the Trimble brand in our markets to expand our revenues by bringing new products to existing users. This year we introduced the Agriculture Manager™ Asset Management System AgGPS EZ-Office™ Software in our Field Solutions Segment. In the Engineering and Construction Segment, we introduced a new sensor for the Trimble CCS900 Compaction Control System that provides real-time material density information to earthworks operators, the TrimTrac® Pro Locator as a hardware enabler for Trimble Construction Manager. We were chosen to supply Trimble VRS™ (Virtual Reference Station) technology to establish a nationwide GNSS infrastructure network for the Republic of Croatia called the CROatian POsitioning System (CROPOS). We launched Trimble VRS Now™ Service in Madrid, Spain and in the state of Florida to provide surveyors, civil engineers and geospatial professionals in the area with instant access to real-time kinematic (RTK) GNSS corrections without the need for a

base station. We also announced that Saab and Trimble will integrate marine navigation solutions to deliver DGPS error correction messages to ships at sea through automatic identification system (AIS) coast stations and networks.

Bringing existing technology to new markets

* We continue to reinforce our position in existing markets and position ourselves in newer markets that will serve as important sources of future growth. Our efforts in Africa, China, India, Middle-East and Russia reflected improving financial results. We announced a GPS software technology licensing agreement with Marvell, a leader in the development of storage, communications and consumer silicon. The licensing agreement will enable Marvell to provide customers with comprehensive GPS solutions based on innovative architectures that are tailored for high performance and low overall system power consumption.

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Entering new market segments

* In the first quarter of fiscal 2008, we acquired Crain Enterprises, of Mound City, Illinois. Crain is a leading manufacturer of accessories for the geomatics, surveying, mapping, and construction industries. We also acquired Géo-3D Inc. of Montreal, Canada. Géo-3D is a leader in roadside infrastructure asset inventory solutions for the geospatial market. In the third quarter of fiscal 2008, we acquired privately-held SECO Manufacturing Company of Redding, California, a leading manufacturer of accessories for the geomatics, surveying, mapping, and construction industries which complements the Crain Enterprises acquisition. SECO specializes in the development, fabrication and machining of metallic accessory products while Crain is more focused on polymer and composite-based products. These capabilities are expected to permit marked improvements in functionality for customers in next generation products. In addition, Trimble, SECO and Crain will be able to leverage distribution channels throughout the world. In the third quarter of fiscal 2008, we introduced the Blue Ox™ System for forestry transportation management.

RECENT BUSINESS DEVELOPMENTS

During the twelve months ended September 26, 2008, we acquired the following companies and the results of their operations have been combined with our operations from the date of acquisition:

SECO

On July 29, 2008, we acquired privately-held SECO Manufacturing Company of Redding, California, a leading manufacturer of accessories for the geometrics, surveying, mapping, and construction industries. SECO's performance is reported under our Engineering and Construction business segment.

Géo-3D

On January 22, 2008, we acquired privately-held Géo-3D Inc. of Montreal, Canada, a leader in roadside infrastructure asset inventory solutions. Géo-3D's performance is reported under our Engineering and Construction business segment.

Crain

On January 8, 2008, we acquired privately-held Crain Enterprises, Inc. of Mound City, Illinois, a leading manufacturer of accessories for the geomatics, surveying, mapping, and construction industries. Crain's performance is reported under our Engineering and Construction business segment.

HHK

On December 19, 2007, we acquired privately-held HHK Datentechnik GmbH of Braunschweig, Germany, a provider of customized office and field software solutions for the cadastral survey market in Germany. HHK's performance is reported under our Engineering and Construction business segment.

UtilityCenter

On November 8, 2007, we acquired the UtilityCenter assets from privately-held UAI, Inc. of Huntsville, Alabama. UAI is a leading provider of Geographic Information System (GIS)-based workflow automation and outage management solutions for electric and gas utilities. UtilityCenter's performance is reported under our Field Solutions business segment.

RESULTS OF OPERATIONS

Overview

The following table is a summary of revenue and operating income for the periods indicated and should be read in conjunction with the narrative descriptions below.

	Three Months Ended		Nine Months Ended	
($ in thousands)	September 26, 2008	September 28, 2007	September 26, 2008	September 28, 2007
Total consolidated revenue	$ 328,087	$ 296,023	$ 1,061,150	$ 909,487
Gross margin	$ 165,623	$ 146,940	$ 527,098	$ 457,239
Gross margin %	50.5%	49.6%	49.7%	50.3%
Total consolidated operating income	$ 54,056	$ 43,786	$ 175,020	$ 139,004
Operating income %	16.5%	14.8%	16.5%	15.3%

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Revenue

In the three months ended September 26, 2008, total revenue increased by $32.1 million or 11%, as compared to the corresponding period in fiscal 2007. The increase resulted from revenue growth across all segments. Engineering and Construction revenue increased $9.7 million, Field Solutions increased $19.7 million, Mobile Solutions increased $1.6 million, and Advanced Devices increased $1.1 million, as compared to the same corresponding period in fiscal 2007. Revenue growth was driven primarily by new products, a robust agricultural environment, and acquisitions. The revenue growth was partially offset by softness in the U.S. and European markets in Engineering and Construction.

In the nine months ended September 26, 2008, total revenue increased by $151.7 million or 17%, as compared to the corresponding period in fiscal 2007. The increase was primarily due to strong revenue performances across Engineering and Construction, Field Solutions, and Mobile Solutions. Engineering and Construction revenue increased $42.5 million, Field Solutions increased $91.5 million, Mobile Solutions increased $17.1 million, and Advanced Devices increased $0.6 million, compared to the same corresponding period in fiscal 2007. Revenue growth within these segments was primarily driven by new product introductions, a robust agricultural market, international growth and a full quarter of @Road for the first quarter of fiscal 2008 as compared to a partial quarter of @Road revenue in the corresponding period in fiscal 2007. The revenue growth was partially offset by softness in the U.S. markets in Engineering and Construction.

Gross Margin

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

Gross margin increased by $18.7 million and $69.9 million for the three and nine months ended September 26, 2008, respectively, as compared to the corresponding period in the prior year. Gross margin as a percentage of total revenue for the three months ended September 26, 2008 was 50.5%, as compared to 49.6% for the three months ended September 28, 2007. Gross margin as a percentage of total revenue for the nine months ended September 26, 2008 was 49.7% as compared to 50.3% for the nine months ended September 28, 2007.

The increase in gross margin for the three and nine month periods was primarily due to higher revenue. The increase in gross margin percentage for the three month period was driven primarily by product mix and product cost reductions. The decrease in gross margin percentage for the nine month period was driven primarily by increased amortization of purchased intangibles, restructuring costs, product mix and foreign exchange.

Operating Income

Operating income increased by $10.3 million and $36.0 million for the three and nine months ended September 26, 2008, respectively, as compared to the corresponding period in the prior year. Operating income as a percentage of total revenue was 16.5% for the three months ended September 26, 2008, as compared to 14.8% for the three months ended September 28, 2007. Operating income as a percentage of total revenue was 16.5% for the nine months ended September 26, 2008 as compared to 15.3% for the nine months ended September 28, 2007.

The increase in operating income for both the three and nine month periods was primarily driven by increased revenue. The increase in operating income percentage for the three month period was primarily due to gross margin improvement and strong operating expense control. The increase for the nine month periods was primarily due to strong operating expense control.

Results by Segment

To achieve distribution, marketing, production, and technology advantages in our targeted markets, we manage our operations in the following four segments: Engineering and Construction, Field Solutions, Mobile Solutions, and Advanced Devices. Operating income equals net revenue less cost of sales and operating expenses, excluding general corporate expenses, amortization of purchased intangibles, in-process research and development expenses, and restructuring charges.

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

(in thousands, except percentages)	Three Months Ended September 26, 2008	Three Months Ended September 28, 2007	Nine Months Ended September 26, 2008	Nine Months Ended September 28, 2007
Engineering and Construction				
Revenue	$ 191,858	$ 182,135	$ 599,057	$ 556,592
Segment revenue as a percent of total revenue	59%	62%	56%	61%
Operating income	$ 41,560	$ 42,824	$ 123,675	$ 137,359
Operating income as a percent of segment revenue	22%	24%	21%	25%
Field Solutions				
Revenue	$ 64,354	$ 44,763	$ 242,461	$ 150,998
Segment revenue as a percent of total revenue	20%	15%	23%	17%
Operating income	$ 22,058	$ 11,931	$ 91,961	$ 46,957
Operating income as a percent of segment revenue	34%	27%	38%	31%
Mobile Solutions				
Revenue	$ 40,822	$ 39,204	$ 127,118	$ 109,988
Revenue as a percent of total revenue	12%	13%	12%	12%
Operating income	$ 3,602	$ 2,855	$ 7,997	$ 6,778
Operating income as a percent of segment revenue	9%	7%	6%	6%
Advanced Devices				
Revenue	$ 31,053	$ 29,921	$ 92,514	$ 91,909
Segment revenue as a percent of total revenue	9%	10%	9%	10%
Operating income	$ 6,835	$ 4,893	$ 18,105	$ 13,620
Operating income as a percent of segment revenue	22%	16%	20%	15%

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

(in thousands)	Three Months Ended September 26, 2008	Three Months Ended September 28, 2007	Nine Months Ended September 26, 2008	Nine Months Ended September 28, 2007
Consolidated segment operating income	$ 74,055	$ 62,503	$ 241,738	$ 204,707
Unallocated corporate expense	(8,405)	(8,543)	(30,058)	(32,065)
Amortization of purchased intangible assets	(11,143)	(10,174)	(32,865)	(28,501)
In-process research and development expense	--	--	--	(2,112)
Restructuring charges	(451)	--	(3,795)	(3,025)
Consolidated operating income	54,056	43,786	175,020	139,004

Non-operating income, net	1,563	1,089	7,453	4,217
Consolidated income before taxes	$ 55,619	$ 44,875	$ 182,473	$ 143,221

Engineering and Construction

Engineering and Construction revenue increased by $9.7 million or 5% and $42.5 million or 8% for the three and nine months ended September 26, 2008, respectively, as compared to the corresponding periods in fiscal 2007. Segment operating income decreased $1.3 million or 3% and $13.7 million or 10% for the three and nine months ended September 26, 2008, respectively, as compared to the same corresponding periods in fiscal 2007.

The revenue growth for both the three month and nine month periods ended September 26, 2008 was driven by acquisitions and international sales growth, partially offset by softness in the U.S. and European markets. Operating income for both the three and nine month periods ended September 26, 2008 decreased primarily due to higher operating expenses due to the impact of acquisitions made during the last twelve months and product mix.

Field Solutions

Field Solutions revenue increased by $19.7 million or 44% and $91.5 million or 61% for the three and nine months ended September 26, 2008, respectively, as compared to the corresponding period in fiscal 2007. Segment operating income increased by $10.1 million or 85% and $45.0 million or 96% for the three and nine months ended September 26, 2008, respectively, as compared to the same corresponding period in fiscal 2007.

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The revenue increase for both the three and nine month periods ended September 26, 2008 was driven by the introduction of new agricultural products and a worldwide robust agricultural market. Operating income for both the three and nine month periods ended September 26, 2008 increased primarily due to higher revenue, gross margin improvement, and operating expense control.

Mobile Solutions

Mobile Solutions revenue increased by $1.6 million or 4% and $17.1 million or 16% for the three and nine months ended September 26, 2008, respectively, as compared to the corresponding period in fiscal 2007. Segment operating income increased by $0.7 million or 26% for the three months ended September 26, 2008, respectively, as compared to the corresponding period in fiscal 2007. Segment operating income increased by $1.2 million or 18% for the nine months ended September 26, 2008, as compared to the corresponding period in fiscal 2007.

Revenue for the three month period ended September 26, 2008, as compared to the corresponding period of fiscal 2007, grew due to increased subscription revenue. Revenue for the nine month period grew due to increase subscription revenue and a full first quarter of @Road revenue as compared to partial quarter of @Road revenue in the corresponding period in fiscal 2007. Operating income for both the three and nine months increased due to increased subscription revenue and operating expense control.

Advanced Devices

Advanced Devices revenue increased by $1.1 million or 4% and $0.6 million or 1% for the three and nine months ended September 26, 2008, respectively, as compared to the same corresponding period in fiscal 2007. Segment operating income increased by $1.9 million or 40% and $4.5 million or 33% for the three and nine months ended September 26, 2008, respectively, as compared to the corresponding period in fiscal 2007.

For the three and nine months ended September 26, 2008 revenue increased in Military and Applanix, while segment operating income increased primarily due to product mix and operating expense control in Component Technologies and Military.

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

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

	Three Months Ended		Nine Months Ended	
(in thousands, except percentages)	September 26, 2008	September 28, 2007	September 26, 2008	September 28, 2007
Research and development	$ 35,348	$ 31,707	$ 112,097	$ 96,737
Percentage of revenue	11%	11%	11%	11%
Sales and marketing	48,664	45,274	151,727	134,967
Percentage of revenue	15%	15%	14%	15%
General and administrative	22,072	21,262	70,051	67,182
Percentage of revenue	7%	7%	7%	7%

Total	$ 106,084	$ 98,243	$ 333,875	$ 298,886
Percentage of revenue	32%	33%	31%	33%

Total R&D, S&M, and G&A expenses increased by approximately $7.8 million and $35.0 million for the three and nine months ended September 26, 2008, as compared to the corresponding period in fiscal 2007.

The increase in R&D expense in the third quarter of fiscal 2008, as compared to the third quarter of fiscal 2007, was primarily due to an increase in compensation related expenses of $1.6 million, an increase in expense due to changes in foreign currency exchange rates of $0.5 million, and an increase to R&D expenses of $1.0 million as a result of acquisitions. The increase in R&D expense in the first nine months of fiscal 2008, as compared with the corresponding period in fiscal 2007, was due to an increase in compensation related expenses of $6.5 million due in part to a full quarter of @Road compensation expenses in the first quarter as compared to a partial quarter of @Road compensation expenses in the corresponding period in fiscal 2007. The R&D expense increase for the nine month period was also attributable to an increase in expenses due to changes in foreign currency exchange rates of $3.5 million, non-recurring consulting costs of $1.5 million, and additional operating expenses associated with business acquisitions of $3.0 million.

All of our R&D costs have been expensed as incurred.

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* 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.

The increase in S&M expenses in the third quarter of fiscal 2008, as compared to the corresponding period of fiscal 2007, was primarily due to an increase in expense due to changes in foreign currency exchange rates of $0.7 million, marketing communication expenses of $0.9 million and additional acquisition-related expenses of $1.1million. The increase in S&M expenses in the first nine months of fiscal 2008 as compared with the corresponding period of fiscal 2007 was due to an increase in compensation related expenses of $3.2 million due in part to a full quarter of @Road compensation expenses in the first quarter as compared to a partial quarter of @Road compensation expenses in the corresponding period in fiscal 2007. The S&M expense increase for the nine month period was also attributable to an increase in expense due to changes in foreign currency exchange rates of $4.2 million, marketing communication expenses of $3.8 million, travel and other personnel related expense of $3.0 million, and additional operating expenses associated with recent business acquisitions of $2.6 million.

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

The increase in G&A expenses in the third quarter of fiscal 2008, as compared to the corresponding period in fiscal 2007, was primarily due to additional operating expenses associated with business acquisitions of $0.8 million. The increase in G&A expenses in the first nine months of fiscal 2008 compared with the corresponding period in fiscal 2007 was primarily due to additional operating expenses associated with business acquisitions of $2.8 million.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets was $11.1 million in the third quarter of fiscal 2008, as compared to $10.2 million in the third quarter of fiscal 2007. The increase was due primarily to acquisitions not applicable in the corresponding period of fiscal 2007, primarily UAI, Crain, HHK, and SECO. Amortization of purchased intangible assets was $32.9 million in the first nine months of fiscal 2008, as compared to $28.5 million in the first nine months of fiscal 2007, due to acquisitions not applicable in the corresponding period of fiscal 2007.

As of September 26, 2008, future amortization of intangible assets is expected to be $11.1 million during the fourth quarter of fiscal 2008, $41.2 million during 2009, $38.8 million during 2010, $34.0 million during 2011, $25.7 million during 2012, and $30.4 million thereafter.

In-Process Research and Development

We recorded no in-process research and development (IPR&D) expense during the three and nine months ended September 26, 2008, respectively, as compared to $0 million and $2.1 million in the corresponding periods in 2007. At the date of each acquisition, the projects associated with the IPR&D efforts had not yet reached technological feasibility and the research and development in process had no alternative future uses. The value of the IPR&D was determined using a discounted cash flow model similar to the income approach, focusing on the income producing capabilities of the in-process technologies. Accordingly, the value assigned to these IPR&D amounts was charged to expense on the respective acquisition date of each of the acquired companies.

Restructuring Charges

Restructuring expenses for the three and nine months ended September 26, 2008 and September 28, 2007 were as follows (in thousands):

(in thousands)	Three Months Ended September 26, 2008	Three Months Ended September 28, 2007	Nine Months Ended September 26, 2008	Nine Months Ended September 28, 2007
Severance and benefits	$ 451	$ --	$ 3,795	$ 3,025

During the three and nine months ended September 26, 2008, restructuring expenses of $0.5 million and $3.8 million, respectively, and were related to decisions to streamline processes and reduce the cost structure of the Company, with approximately 90 employees affected worldwide. The amount for the three month period is related to the Engineering and Construction segment. Of the total for the nine month period, $3.3 million is related to the Engineering and Construction segment and $0.5 million is related to the Mobile Solutions segment. As a result of these decisions, the Company expects restructuring activities in the Engineering and Construction segment to result in additional restructuring expenses totaling approximately $2.2 million through the first quarter of 2010.

During the three and nine months ended September 28, 2007, restructuring expenses of $0.0 million and $3.0 million, respectively were for charges associated with the Company's acquisition of @Road. The restructuring expenses were related to the acceleration of vesting of employee stock options for certain terminated @Road employees, of which $1.4 million was settled in cash and $1.6 million was recorded as Shareholders' equity.

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Restructuring costs associated with a business combination:
In addition to the restructuring expenses in the nine months ended September 26, 2008, the Company had $0.9 million in restructuring activity reversals related to costs associated with exiting activities of pre-merger @Road. The reversals were primarily due to severance and benefits costs for employees whose positions were retained in a variety of functions. The reversals were recognized in the first quarter of fiscal 2008 as a reduction of the liability assumed in the purchase business combination that had been included in the allocation of the cost to acquire @Road and, accordingly, resulted in a decrease to goodwill rather than an expense reduction in the nine months ended September 26, 2008.

In addition to the restructuring expenses in the nine months ended September 28, 2007, costs associated with exiting activities of pre-merger @Road of $3.6 million, consisted of severance and benefits costs. These costs were recognized as a liability assumed in the purchase business combination and were included in the allocation of the cost to acquire @Road and accordingly, resulted in an increase to goodwill rather than an expense in the nine months ended September 28, 2007.

Restructuring liability:
Restructuring activity for the nine months ended September 26, 2008 was as follows:

Balance as of December 28, 2007	$ 1,326
Charges	3,795
Payments	(2,793)
Adjustment	(1,020)
Balance as of September 26,2008	$ 1,308

The $1.3 million restructuring accrual consists of severance and benefits. The severance charges will be paid through the first quarter of fiscal 2010. Of the $1.3 million restructuring accrual, $0.4 million is included in Other current liabilities and is expected to be settled by the fourth quarter of fiscal 2008. The remaining balance of $0.9 million is included in Other non-current liabilities and is expected to be settled by the first quarter of fiscal 2010.

Non-operating Income, Net

The components of non-operating income, net, are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
(in thousands)	September 26, 2008	September 28, 2007	September 26, 2008	September 28, 2007
Interest income	$ 404	$ 770	$ 1,369	$ 2,607
Interest expense	(214)	(1,616)	(1,389)	(5,476)
Foreign currency transaction gain (loss), net	117	(459)	2,338	(532)
Income from joint ventures	2,163	1,943	6,796	6,445
Other income (expense), net	(907)	451	(1,661)	1,173
Total non-operating income, net	$ 1,563	$ 1,089	$ 7,453	$ 4,217

Non-operating income, net, increased $0.5 million for the third quarter of fiscal 2008, as compared to the corresponding period in fiscal 2007 due to a decrease in interest expense of $1.4 million and an increase in foreign exchange gains of $0.6 million, partially offset by a decrease in Other income (expense) of $1.4 million primarily due to deferred compensation plan losses and a decrease in interest income of $0.4 million.

Non-operating income, net, increased by $3.2 million during the first nine months of fiscal 2008, as compared to the corresponding period in fiscal 2007, due to a decrease in interest expense of $4.1 million and an increase in foreign exchange gains of $2.9 million, partially offset by a decrease in Other income (expense) of $2.8 million primarily due to deferred compensation plan losses and a decrease in interest income of $1.2 million.

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Income Tax Provision

Our effective income tax rate for the three and nine months ended September 26, 2008 was 29.8% and 30.0%, respectively, as compared to 39.0% and 36.4% for the three and nine months ended September 28, 2007. The 2008 third quarter fiscal rate is lower than the statutory federal income tax rate of 35% primarily due to the implementation of a global supply chain management structure. The 2007 third quarter fiscal rate was greater than the statutory federal income tax rate of 35% primarily due to impacts resulting from SFAS No. 123(R), “Share-Based Payment” and state income tax expense.

We anticipate an annual estimated effective tax rate of 29.0% for fiscal year 2008. The tax rate could be affected by several factors including stock option activity, geographic mix of our pre-tax income, legislative changes, changes to our existing valuation allowances or contingent tax liabilities, and/or discrete quarterly events.

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 its products, we indemnify other parties, including customers, lessors, and parties to other transactions with the Company, with respect to certain matters. We have agreed to hold the other party harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with its officers and directors, and the Company’s 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 September 26, 2008 and December 28, 2007.

LIQUIDITY AND CAPITAL RESOURCES

As of (in thousands)	September 26, 2008	December 28, 2007
Cash and cash equivalents	$ 70,479	$ 103,202
Total debt	$ 51,616	$ 60,690

Nine Months Ended	September 26, 2008	September 28, 2007

(in thousands)

Cash provided by operating activities	$	141,945	$	129,084
Cash used in investing activities	$	(77,609)	$	(291,482)
Cash provided by (used in) financing activities	$	(97,201)	$	121,076
Effect of exchange rate changes on cash and cash equivalents	$	142	$	(4,227)
Net decrease in cash and cash equivalents	$	(32,723)	$	(45,549)

Cash and Cash Equivalents

As of September 26, 2008, cash and cash equivalents totaled $70.5 million compared to $103.2 million at December 30, 2007. We had debt of $51.6 million compared to $60.7 million at December 28, 2007.

* 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.

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* We believe that our cash and cash equivalents, together with our revolving credit facilities will be sufficient to meet our anticipated operating cash needs and stock purchases under the stock repurchase program for at least the next twelve months.

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

Operating Activities

Cash provided by operating activities was $141.9 million for the nine months ended September 26, 2008, as compared to $129.1 million for the nine months ended September 28, 2007. This increase of $12.8 million was primarily driven by an increase in net income before non-cash depreciation expense and amortization, offset by a decrease in income taxes due.

Investing Activities

Cash used in investing activities was $77.6 million for the nine months ended September 26, 2008, as compared to $291.5 million for the nine months ended September 28, 2007. The decrease was due to cash used for acquisitions, attributable primarily to @Road which was acquired in the first quarter of fiscal 2007.

Financing Activities

Cash used by financing activities was $97.2 million for the nine months ended September 26, 2008, as compared to cash provided of $121.1 million for the nine months ended September 28, 2007, primarily due to the stock repurchase of $115.9 million nine months of 2008 as compared to outstanding debt of $80.0 million that was incurred for the @Road acquisition in the corresponding period in fiscal 2007.

Accounts Receivable and Inventory Metrics

As of	September 26, 2008	December 28, 2007
Accounts receivable days sales outstanding	71	70
Inventory turns per year	4.4	4.3

Accounts receivable days sales outstanding were 71 days as of September 26, 2008, as compared to 70 days as of December 28, 2007. Our accounts receivable days sales outstanding are calculated based on ending accounts receivable, net divided by revenue times 91 days. Our inventory turns were at 4.4 as of September 26, 2008 as compared to 4.3 for the fourth quarter of fiscal 2007. Our inventory turnover is based on the total cost of sales for the fiscal period over the average inventory for the corresponding fiscal period.

Debt

Our total debt was approximately $51.6 million as of September 26, 2008 compared to $60.7 million as of December 28, 2007.

On July 28, 2005, we entered into a $200 million unsecured revolving credit agreement (the 2005 Credit Facility) with a syndicate of 10 banks with The Bank of Nova Scotia as the administrative agent. On February 16, 2007, the Company amended its existing $200 million unsecured revolving credit agreement with a syndicate of 11 banks with The Bank of Nova Scotia as the administrative agent (the 2007 Credit Facility). Under the 2007 Credit Facility, the Company exercised the option in the existing credit agreement to increase the availability under the revolving credit line by $100 million, for an aggregate availability of up to $300 million, and extended the maturity date of the revolving credit line by 18 months, from July 2010 to February 2012. Up to $25 million of the availability under the revolving credit line may be used to issue letters of credit, and up to $20 million may be used for paying off other debts or loans. The maximum leverage ratio under the 2007 Credit Facility is 3.00:1. The funds available under the new 2007 Credit Facility may be used by the Company for acquisitions, stock repurchases, and general corporate purposes. For additional discussion of our debt, see Note 9 of Notes to the Condensed Consolidated Financial Statements.

We may borrow funds under the 2007 Credit Facility in U.S. Dollars or in certain other currencies, and borrowings will bear interest, at the Company's option, at either: (i) a base rate, based on the administrative agent's prime rate, plus a margin of between 0% and 0.125%, depending on the Company's leverage ratio as of its most recently ended fiscal quarter, or (ii) a reserve-adjusted rate based on the London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR), Stockholm Interbank Offered Rate (STIBOR), or other agreed-upon rate, depending on the currency borrowed, plus a margin of between 0.625% and 1.125%, depending on the Company's leverage ratio as of the most recently ended fiscal quarter. The Company's obligations under the 2007 Credit Facility are guaranteed by certain of the Company's domestic subsidiaries.

The 2007 Credit Facility contains customary affirmative, negative and financial covenants including, among other requirements, negative covenants that restrict the Company's ability to dispose of assets, create liens, incur indebtedness, repurchase stock, pay dividends, make acquisitions, make investments, enter into mergers and consolidations and make capital expenditures, within certain limitations, and financial covenants that require the maintenance of leverage and fixed charge coverage ratios. The 2007 Credit Facility contains events of default that include, among others, non-payment of principal, interest or fees, breach of covenants, inaccuracy of representations and warranties, cross defaults to certain other indebtedness, bankruptcy and insolvency events, material judgments, and events constituting a change of control. Upon the occurrence and during the continuance of an event of default, interest on the obligations will accrue at an increased rate and the lenders may accelerate the Company's obligations under the 2007 Credit Facility, however that acceleration will be automatic in the case of bankruptcy and insolvency events of default.

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As of September 26, 2008, we were in compliance with all financial debt covenants. During the fourth quarter of fiscal 2008, we borrowed an additional $100 million on our revolving credit agreement for working capital needs and potential future acquisitions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Market Interest Rate Risk

There have been no changes to our market interest rate risk assessment. Refer to our 2007 Annual Report on Form 10-K.

Foreign Currency Exchange Rate Risk

There have been no changes to our foreign currency exchange rate risk assessment. Refer to our 2007 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures.

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

(b) Internal Control Over Financial Reporting.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in litigation arising out of the ordinary course of its business. There are no known claims or pending litigation expected to have a material effect on our overall financial position, results of operations or liquidity.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should consider the risk factors discussed under "Risks and Uncertainties" in Item 1A of Part I of our 2007 Annual Report on Form 10-K, which could materially affect our business, financial condition or future results, and which are incorporated herein by reference. The risk factors in our Form 10-K have not materially changed other than as set forth below. The risk factors described in our Form 10-K, and the risk factor described below, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial conditions and/or operating results.

Current economic conditions and the global financial crisis may have an impact on our business and financial condition in ways that we currently cannot predict.

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The Company's operations and performance depend on worldwide economic conditions and their impact on levels of business spending, which have deteriorated significantly in many countries and regions, including without limitation the United States, and may remain depressed for the foreseeable future. Uncertainties in the financial and credit markets have caused our customers to postpone purchases, and continued uncertainties may reduce future sales of our products and services. Continued adverse economic conditions are likely to depress tax revenues of federal, state and local government entities, which are significant purchasers of the Company's products. With the exception of our Mobile Solutions and Advanced Devices segments, our products are generally sold through a dealer channel, and our dealers depend on the availability of credit to finance purchases of our products for their inventory. Customer collections are our primary source of cash. While we believe we have a strong customer base and have experienced strong collections in the past, if the current market conditions continue to deteriorate we may experience increased collection times or greater write-offs, which could have a material adverse effect on our cash flow. Finally, our ability to access the capital markets may be restricted at a time when we would like, or need, to do so, which could have an impact on our flexibility to pursue additional expansion opportunities and maintain our desired level of revenue growth in the future. These and other economic factors could have a material adverse effect on demand for the Company's products and services and on the Company's financial condition and operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None
(b) None
(c) The following table provides information relating to our purchases of equity securities for the third quarter of fiscal 2008.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
June 28, 2008 – August 1, 2008	889,746	33.21	889,746	184,148,003
August 2, 2008 – August 29, 2008	587,043	34.06	587,043	164,142,807
August 30, 2008 – September 26, 2008	974,871	30.75	974,871	134,149,431
Total Activities	2,451,660	32.43	2,451,660	

(1) In January 2008, the Company announced that its board of directors had authorized a stock repurchase program for up to $250 million, effective February 1, 2008. The timing and actual number of shares repurchased will depend on a variety of factors including price, regulatory requirements, capital availability, and other market conditions. The program does not require the purchase of any minimum number of shares and may be suspended or discontinued at any time without public notice.

ITEM 6. EXHIBITS

3.1 Restated Articles of Incorporation of the Company filed June 25, 1986. (3)
3.2 Certificate of Amendment of Articles of Incorporation of the Company filed October 6, 1988. (3)

3.3 Certificate of Amendment of Articles of Incorporation of the Company filed July 18, 1990. (3)
3.4 Certificate of Determination of Rights, Preferences and Privileges of Series A Preferred Participating Stock of the Company filed February 19, 1999. (3)
3.5 Certificate of Amendment of Articles of Incorporation of the Company filed May 29, 2003. (4)
3.6 Certificate of Amendment of Articles of Incorporation of the Company filed March 4, 2004. (5)
3.7 Certificate of Amendment of Articles of Incorporation of the Company filed February 21, 2007. (8)
3.8 Bylaws of the Company, amended and restated through July 20, 2006. (7)
4.1 Specimen copy of certificate for shares of Common Stock of the Company. (1)
4.2 Preferred Shares Rights Agreement dated as of February 18, 1999. (2)
4.3 Agreement of Substitution and Amendment of Preferred Shares Rights Agreement dated September 10, 2004. (6)
31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 4, 2008. (9)
31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 4, 2008. (9)
32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 4, 2008. (9)
32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 4, 2008. (9)

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

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(2) Incorporated by reference to exhibit number 1 to the registrant's Registration Statement on Form 8-A, which was filed on February 18, 1999.
(3) Incorporated by reference to identically numbered exhibits to the registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1999.
(4) Incorporated by reference to exhibit number 3.5 to the registrant’s Quarterly Report on Form 10-Q for the quarter ended July 4, 2003.
(5) Incorporated by reference to exhibit number 3.6 to the registrant’s Quarterly Report on Form 10-Q for the quarter ended April 2, 2004.
(6) Incorporated by reference to exhibit number 4.3 to the registrant’s Annual Report on Form 10-K for the year ended December 31, 2004.
(7) Incorporated by reference to exhibit number 3.7 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 29, 2006.
(8) Incorporated by reference to exhibit number 3.7 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 30, 2007.
(9) Filed herewith.

SIGNATURES

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

TRIMBLE NAVIGATION LIMITED
(Registrant)

By: /s/ Rajat Bahr
Rajat Bahri
Chief Financial Officer
(Authorized Officer and Principal Financial Officer)

DATE: November 4, 2008

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