

NAVTEQ CORP  
Form 10-Q  
May 05, 2006

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 2, 2006

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-21323

**NAVTEQ CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**222 Merchandise Mart, Suite 900  
Chicago, Illinois 60654**

(Address of Principal Executive  
Offices, including Zip Code)

**77-0170321**

(I.R.S. Employer Identification No.)

**(312) 894-7000**

(Registrant's Telephone Number,  
Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.

Large accelerated filer  Accelerated filer   03/03/2008\*\*Signature of Reporting Person Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
  - (1) This stock option vests and becomes exercisable, if at all, over four years, with 25% of the option shares vesting and becoming exercisable 12 months after the grant date (February 28, 2008), and the remaining 75% of the option shares vesting and becoming exercisable in 36 equal monthly installments thereafter. This stock option will automatically terminate as of February 27, 2009, without any options shares vesting or becoming exercisable, unless the Issuer satisfies a revenue milestone for fiscal year 2008 set by its Board of Directors.
  - (2) This stock option will terminate on February 27, 2018, unless the Issuer does not satisfy a revenue milestone for fiscal year 2008 set by its Board of Directors, in which case, the stock option will automatically terminate as of February 27, 2009.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

in 0in .0001pt;text-autospace:none;text-indent:.55in;">

This quarterly report 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. These forward-looking statements are not historical facts but rather are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. Words such as anticipates, expects, intends, plans, believes, seeks, may, will, should and estimates, and variations of these words and similar expressions, are intended forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed, implied or forecast in the forward-looking statements. In addition, the forward-looking events discussed in this quarterly report might not occur. These risks and uncertainties include, among others, those set forth under Item 1A.Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. Readers are cautioned not to place undue reliance on these forward-looking statements. Readers should read this quarterly report, and the documents that we refer to in this quarterly report and have filed as exhibits to this quarterly report, with the understanding that actual future results and events may be materially different from what we currently expect.

The forward-looking statements included in this quarterly report reflect our views and assumptions only as of the date of this quarterly report. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

NAVTEQ is a trademark of NAVTEQ Corporation.

## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements

## NAVTEQ CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

	December 31, 2005	April 2, 2006 (Unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 85,070	50,857
Short-term marketable securities	84,299	148,754
Accounts receivable, net of allowance for doubtful accounts of \$4,852 and \$5,955 in 2005 and 2006, respectively	82,352	82,999
Deferred income taxes	42,584	37,393
Prepaid expenses and other current assets	15,203	16,296
Total current assets	309,508	336,299
Property and equipment, net	20,828	20,391
Capitalized software development costs, net	25,761	25,848
Long-term deferred income taxes, net	169,264	169,585
Long-term marketable securities	49,429	26,822
Acquired intangible assets, net	16,815	18,495
Goodwill	11,778	14,520
Deposits and other assets	12,505	13,317
Total assets	\$ 615,888	625,277
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 19,572	15,692
Accrued payroll and related liabilities	28,365	21,320
Fair value of foreign currency derivative	3,265	2,645
Other accrued expenses	28,658	24,948
Deferred revenue	38,703	38,705
Total current liabilities	118,563	103,310
Long-term deferred revenue	3,446	3,026
Other long-term liabilities	3,815	3,954
Total liabilities	125,824	110,290
Stockholders' equity:		
Common stock, \$0.001 par value; 400,000 shares authorized; 92,086 and 92,706 shares issued and outstanding in 2005 and 2006, respectively	92	93
Additional paid-in capital	822,356	820,517
Deferred compensation expense	(9,096)	
Accumulated other comprehensive loss:		
Cumulative translation adjustment	(25,890)	(24,400)

Explanation of Responses:

Edgar Filing: NAVTEQ CORP - Form 10-Q

Unrealized holding loss on available-for-sale marketable securities, net of tax	(514)	(523)
Total accumulated other comprehensive loss	(26,404)	(24,923)
Accumulated deficit	(296,884)	(280,700)
Total stockholders' equity	490,064	514,987
Total liabilities and stockholders' equity	\$ 615,888	625,277

See accompanying notes to condensed consolidated financial statements.

## NAVTEQ CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

		Quarter Ended March 27, 2005	April 2, 2006
Net revenue	\$	104,697	122,325
Operating costs and expenses:			
Database creation and distribution costs		50,888	62,851
Selling, general and administrative expenses		28,978	38,751
Total operating costs and expenses		79,866	101,602
Operating income		24,831	20,723
Other income (expense):			
Interest income		649	2,260
Interest expense		(3)	(22)
Foreign currency gain (loss)		(73)	106
Other income (expense)		28	(10)
Income before income taxes		25,432	23,057
Income tax expense		8,647	7,379
Net income before cumulative effect of change in accounting principle		16,785	15,678
Cumulative effect of change in accounting principle, net of income tax of \$312			506
Net income	\$	16,785	16,184
Earnings per share of common stock before cumulative effect of change in accounting principle:			
Basic	\$	0.19	0.17
Diluted	\$	0.18	0.16
Cumulative effect of change in accounting principle per share of common stock:			
Basic	\$		0.01
Diluted	\$		0.01
Earnings per share of common stock:			
Basic	\$	0.19	0.18
Diluted	\$	0.18	0.17
Weighted average shares of common stock outstanding:			
Basic		88,625	92,337
Diluted		93,500	95,533

See accompanying notes to condensed consolidated financial statements.



## NAVTEQ CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Quarter Ended	
	March 27, 2005	April 2, 2006
Cash flows from operating activities:		
Net income	\$ 16,785	16,184
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle		(506)
Deferred income taxes	5,213	4,843
Depreciation and amortization	2,101	2,545
Amortization of software development costs	2,931	3,568
Amortization of acquired intangible assets		847
Foreign currency (gain) loss	73	(106)
Provision for bad debts	1,052	1,090
Stock compensation expense	2,289	4,016
Tax benefit on non-qualified stock options	3,060	
Noncash other	252	537
Changes in operating assets and liabilities:		
Accounts receivable	(21,807)	(628)
Prepaid expenses and other current assets	(1,621)	(762)
Deposits and other assets	(716)	(119)
Accounts payable	(137)	(4,108)
Accrued payroll and related liabilities	(2,909)	(7,307)
Other accrued expenses	(3,577)	(4,823)
Deferred revenue	3,156	(919)
Other long-term liabilities	(330)	59
Net cash provided by operating activities	5,815	14,411
Cash flows from investing activities:		
Acquisition of property and equipment	(1,491)	(2,188)
Capitalized software development costs	(2,995)	(3,655)
Purchases of marketable securities	(36,648)	(90,964)
Sales of marketable securities	28,419	48,890
Payments for acquisitions		(4,996)
Note receivable		(200)
Purchase of investments	(500)	
Net cash used in investing activities	(13,215)	(53,113)
Cash flows from financing activities:		
Issuance of common stock and related tax benefits	4,170	4,060
Net cash provided by financing activities	4,170	4,060
Effect of exchange rate changes on cash	(850)	429
Net decrease in cash and cash equivalents	(4,080)	(34,213)
Cash and cash equivalents at beginning of period	30,101	85,070
Cash and cash equivalents at end of period	\$ 26,021	\$ 50,857
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 3	22
Cash paid during the period for income taxes	\$ 70	483

See accompanying notes to condensed consolidated financial statements.





**NAVTEQ CORPORATION**

**AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

(Unaudited, amounts in thousands, except per share amounts)

**(1) Unaudited Financial Statements**

NAVTEQ Corporation ( the Company ) is a leading provider of digital map information and related software and services used in a wide range of navigation, mapping and geographic-related applications, including products and services that provide maps, driving directions, turn-by-turn route guidance, fleet management and tracking and geographic information systems. These products and services are provided to end users by our customers on various platforms, including: self-contained hardware and software systems installed in vehicles; personal computing devices, such as personal navigation devices (PNDs) and mobile phones; server-based systems, including internet and wireless services; and paper media.

The Company is engaged primarily in the creation, updating, enhancing, licensing and distribution of its database for North America and Europe. The Company's database is a digital representation of road transportation networks constructed to provide a high level of accuracy and the useful level of detail necessary to support route guidance products and similar applications. The Company's database is licensed to leading automotive electronics manufacturers, automotive manufacturers, developers of advanced transportation applications, developers of geographic-based information products and services, location-based service providers and other product and service providers. The Company is currently realizing revenue primarily from license fees charged to customers who incorporate the Company's database into their products or services.

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information, the instructions to United States Securities and Exchange Commission Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the fiscal year. For further information, refer to the consolidated financial statements and accompanying notes for the year ended December 31, 2005 included in the Company's Annual Report on Form 10-K.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Presentation

Explanation of Responses:

## Edgar Filing: NAVTEQ CORP - Form 10-Q

The Company's fiscal quarterly periods in 2006 end on the Sunday closest to the calendar quarter end. The 2005 first quarter had 86 days and the 2006 first quarter had 92 days. The Company's fiscal year end is December 31.

Certain 2005 amounts in the condensed consolidated financial statements have been reclassified to conform to the 2006 presentation. The reclassification was related to certain expenses reclassified to Database creation and distribution costs that had previously been reported in Selling, general and administrative expenses.

### (2) Share-Based Payments

On January 1, 2006, the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment. SFAS No. 123(R) supersedes SFAS No. 123 and Accounting Principles Board (APB) Opinion No. 25 and requires all share-based payments to employees, including grants of employee stock options, to be recognized as an operating expense in the income statement. The cost will be recognized over the requisite service period based on fair values measured on grant dates. The Company adopted the new standard using the modified prospective transition method. Accordingly, expense required under SFAS 123(R) has been recorded beginning January 1, 2006. In connection with the adoption of SFAS No. 123(R), the Company recorded a cumulative effect of a change in accounting principle resulting in income of \$506 (net of income tax expense of \$312). The Company also eliminated the December 31, 2005 balance of deferred compensation of \$9,096 by reducing additional paid-in capital.

The Company recognized compensation cost totaling \$2,289 and \$4,016 for the quarters ended March 27, 2005 and April 2, 2006, respectively, related to its share-based payment arrangements. The total income tax benefit recognized in the income statement for the quarters ended March 27, 2005 and April 2, 2006 for share-based payment arrangements was \$868 and \$1,094, respectively. The total income tax benefit recognized through equity for the quarters ended March 27, 2005 and April 2, 2006 for share-based payment arrangements was \$3,060 and \$2,255, respectively. The Company has elected to use tax law ordering rules when calculating the income tax benefit associated with its share-based payment arrangements. In addition, the Company elected to use the simplified method of calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R) as prescribed by FASB Staff Position 123(R)-3, Transition Election related to Accounting for the Tax Effects of Share-Based Payment Awards. The total compensation cost related to nonvested awards not yet recognized as of April 2, 2006 was \$37,430 and will be recognized over a weighted-average period of 1.76 years.

In 1988, the Company adopted a stock option plan (1988 Plan). The total authorized shares under the 1988 Plan are 2,550. Options granted under the 1988 Plan are for periods not to exceed 10 years and may be either incentive stock options as that term is used in

## Edgar Filing: NAVTEQ CORP - Form 10-Q

Section 422 of the Internal Revenue Code (Incentive Stock Options) or options which do not qualify as Incentive Stock Options (Supplemental Stock Options). All grants under the 1988 Plan must be at prices of not less than 100% of the fair value of the common stock as determined by the Company's Board of Directors at the date of grant in the case of Incentive Stock Options, and 85% of fair value in the case of Supplemental Stock Options. Options granted after July 1995 generally vest monthly over 48 months from the employee's date of hire, and options granted prior to July 1995 generally vest at 25% per year beginning with the anniversary of the employee's date of hire. All stock options granted under the 1988 Plan have a 10-year term.

In April 1996, the Company's Board of Directors approved the 1996 Stock Option Plan (1996 Plan). The 1996 Plan was amended and restated by the Company's Board of Directors in June 1996, and amended in August 2000. The 1996 Plan, as amended, provides for grants of incentive stock options, nonstatutory stock options, and stock purchase rights to employees (including employees who are officers) of the Company and its subsidiaries; provided, however, that no employee may be granted an option for more than 1,429 shares in any one fiscal year. The 1996 Plan also provides for grants of nonstatutory stock options and stock purchase rights to consultants. Stock options granted under the 1996 Plan prior to August 2000 generally have 10-year terms and vest monthly over 48 months. Stock options granted under the 1996 Plan after the amendment in August 2000 generally have 10-year terms and vest as follows: 25% of the options granted vest on the first day of the month following the employee's date of hire and the remaining options vest monthly over 48 months.

In October 1998, the Company's Board of Directors approved the 1998 California Stock Option Plan (1998 Plan). The 1998 Plan was amended in August 2000. The 1998 Plan provides for grants of incentive stock options, nonstatutory stock options, and stock purchase rights to employees (including employees who are officers) of the Company and its subsidiaries. The 1998 Plan also provides for grants of nonstatutory stock options and stock purchase rights to consultants. Stock options granted under the 1998 Plan prior to August 2000 generally have 10-year terms and vest monthly over 48 months. Stock options granted under the 1998 Plan after the August 2000 amendment generally have 10-year terms and vest as follows: 25% of the options granted vest on the first day of the month following the employee's date of hire and the remaining options vest monthly over 48 months.

During 2000, the Company's Board of Directors approved three separate Stock Option Agreements to three employees. The agreements provide for grants of stock options to these employees. Stock options granted under the first Stock Option Agreement total 2,500 shares of common stock, which have been reserved for issuance under this agreement. One fourth of the options under this Stock Option Agreement vest on the employee's date of hire. Thereafter, one fourth of the shares subject to this Stock Option Agreement vest on each of the first, second and third anniversaries of the employee's date of hire. Stock options granted under the remaining Stock Option Agreements total 750 shares of common stock, which have been reserved for issuance under these agreements. These options vest monthly over 48 months. All options issued under these Stock Option Agreements have 10-year terms and are adjusted pro rata for any stock dividends, stock splits and reverse stock splits. Upon termination of one of these employees, 536 shares of common stock reserved for issuance under one of the Stock Option Agreements were cancelled in 2001. The remaining two Stock Option Agreements were cancelled in October 2001 and replacement options were granted to these two employees in May 2002.

In August 2001, the Company's Board of Directors approved the 2001 Stock Incentive Plan (2001 Plan). The 2001 Plan provides for grants of incentive stock options, nonstatutory stock options, and stock purchase rights to employees (including employees who are officers) of the Company and its subsidiaries. The 2001 Plan also provides for grants of nonstatutory stock options and stock purchase rights to consultants. Stock options granted under the 2001 Plan generally have 10-year terms and vest as follows: 25% of the options granted vest on the anniversary of the employee's date of hire and the remaining options vest monthly over 36 months. The Company has reserved 10,931 shares of common stock for issuance under the 2001 Plan. All options issued under the 2001 Plan are adjusted pro rata for any stock dividends, stock splits and reverse stock splits.

As of April 2, 2006, there were 9,067 shares available for grant under the 2001 Plan, and there were no shares available for grant under the 1988, 1996 or 1998 Plans. The Company has reserved 88, 7,360 and 3,571 shares of common stock for issuance under the 1988, 1996 and 1998 Plans, respectively. All options issued under the 1988, 1996, and 1998 Plans are adjusted pro rata for any stock dividends, stock splits and reverse stock

splits.

*Stock Options*

For grants made prior to the adoption of SFAS 123(R), compensation expense is recognized ratably over the vesting periods of each tranche of the stock options using a fair value calculated as of the date of grant using the Black-Scholes method with the following weighted-average assumptions for the quarter ended March 27, 2005: no dividends, 60% volatility, risk-free interest rate of 3.88%, and expected life of 4.9 years. The weighted-average fair value for grants made during the quarter ended March 27, 2005 was \$23.11 per share.

For grants made subsequent to the adoption of SFAS 123(R), compensation expense is recognized on a straight-line basis over the vesting period of the full award using a fair value calculated using a binomial model. The binomial model utilizes expected volatility, risk-free interest rate, dividend yields, as well as early exercise multiples and post-vesting exit rates to determine an expected life of the option. The weighted-average assumptions for the quarter ended April 2, 2006 were as follows: no dividends, 45% expected volatility, risk-free interest rate of 4.70%, and an expected life of 5.3 years. The expected volatility was estimated by primarily using the implied volatility derived from the Company's publicly traded stock options. The weighted-average fair value for grants made during the quarter ended April 2, 2006 was \$21.41 per share.

Edgar Filing: NAVTEQ CORP - Form 10-Q

Stock option activity during the quarter ended April 2, 2006 is as follows:

	Number of options	Weighted- average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Outstanding as of December 31, 2005	5,378	\$ 8.70		
Granted	584	46.92		
Exercised	(577)	5.12		
Forfeited	(8)	39.78		
Outstanding as of April 2, 2006	5,377	\$ 13.25	7.04	\$ 201,143
Exercisable as of April 2, 2006	3,918	\$ 4.32	6.37	\$ 181,562

The total intrinsic value of all options exercised during the quarters ended March 27, 2005 and April 2, 2006 was \$72,990 and \$24,281, respectively.

*Restricted Stock Units*

The Company also grants restricted stock units (RSUs) to certain directors and employees under the Company's 2001 Stock Incentive Plan. The RSUs are securities that require the Company to deliver one share of common stock to the holder for each vested unit. The RSUs vest 25% per year over a four-year period. For grants made prior to the adoption of SFAS 123(R), compensation expense is recognized ratably over the vesting periods of each tranche of the restricted stock units using a fair value equal to the fair market value of the Company's common stock on the date of grant. For grants made subsequent to the adoption of SFAS 123(R), compensation expense is recognized on a straight-line basis over the vesting period of the full award using a fair value equal to the fair market value of the Company's common stock on the date of grant. The weighted-average fair value of grants made during the quarters ended March 27, 2005 and April 2, 2006 were \$42.78 and \$46.92, respectively.

In addition, the Company also granted performance-based RSUs to certain executives during the first quarter of 2006. The number of these RSUs that will be earned is dependent upon meeting revenue and net income goals for fiscal year 2006. The fair value of each RSU is based on the fair market value of the Company's stock on the date of grant. The total expense is determined each period during 2006 based on the expected number of RSUs that will be earned, which is 177 as of April 2, 2006.

Restricted stock unit activity during the quarter ended April 2, 2006 is as follows:

	Number of units	Weighted-average grant date fair value
Outstanding as of December 31, 2005	712	\$ 26.21
Granted	241	46.92
Vested	(63)	31.77
Forfeited	(1)	43.80
Outstanding as of April 2, 2006	889	\$ 31.41

## Edgar Filing: NAVTEQ CORP - Form 10-Q

The total fair value of all restricted stock units that vested during the quarters ended March 27, 2005 and April 2, 2006 was \$1,339 and \$2,802, respectively.

### *Pre-Adoption Pro Forma Information*

Prior to adopting SFAS 123(R), the Company applied the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, including FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25, to account for its fixed plan stock-based awards to employees.

Edgar Filing: NAVTEQ CORP - Form 10-Q

The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied in the quarter ended March 27, 2005.

Information as Reported

Stock-based employee compensation expense included in net income, net of tax	\$	1,511
Net income	\$	16,785
Basic earnings per share	\$	0.19
Diluted earnings per share	\$	0.18

Information calculated as if fair value method had applied to all awards:

Stock-based employee compensation expense determined under fair value method, net of tax	\$	2,517
Pro forma net income	\$	15,779
Pro forma basic earnings per share	\$	0.18
Pro forma diluted earnings per share	\$	0.17

**(3) Comprehensive Income**

Comprehensive income for the quarters ended March 27, 2005 and April 2, 2006 was as follows:

	Quarter Ended	
	March 27, 2005	April 2, 2006
Net income	\$ 16,785	16,184
Foreign currency translation adjustment	1,596	1,490
Unrealized holding loss on available-for-sale marketable securities	(232)	(9)
Comprehensive income	\$ 18,149	17,665

**(4) Earnings Per Share**

Basic and diluted earnings per share is computed based on net income divided by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding for the period, in accordance with SFAS No. 128, Earnings Per Share.

Basic and diluted earnings per share for the quarters ended March 27, 2005 and April 2, 2006 was calculated as follows:

	<b>Quarter Ended</b>	
	<b>March 27, 2005</b>	<b>April 2, 2006</b>
Numerator:		
Net income before cumulative effect of change in accounting principle	\$ 16,785	15,678
Cumulative effect of change in accounting principle		506
Net income	\$ 16,785	16,184
Denominator:		
Denominator for basic earnings per share - weighted average shares outstanding	88,625	92,337
Effect of dilutive securities:		
Employee stock options	4,479	2,798
Restricted stock units	396	398
Denominator for diluted earnings per share - weighted average shares outstanding and assumed conversions	93,500	95,533
Earnings per share:		
Basic	\$ 0.19	0.17
Diluted	\$ 0.18	0.16
Cumulative effect of change in accounting principle per share:		
Basic	\$	0.01
Diluted	\$	0.01
Earnings per share:		
Basic	\$ 0.19	0.18
Diluted	\$ 0.18	0.17

Outstanding options to purchase 37 and 840 shares of common stock at March 27, 2005 and April 2, 2006, respectively, were not included in the computation of diluted earnings per share because the effect would be antidilutive.

**(5) Enterprise-wide Disclosures**



## Edgar Filing: NAVTEQ CORP - Form 10-Q

The Company operates in one business segment and therefore does not report operating income, identifiable assets and/or other resources related to business segments. Revenues for geographic data of Europe, the United States/Canada and Korea are attributed to Europe, Middle East, and Africa ( EMEA ) (the Netherlands), Americas (United States) and Asia Pacific (Korea) based on the entity that executed the related licensing agreement. Revenues for geographic data for Central and South America are attributed to Americas. Revenues for geographic data for countries outside of Europe, the Americas and Korea are attributed to EMEA, and are not material.

The following summarizes net revenue on a geographic basis for the quarters ended March 27, 2005 and April 2, 2006:

	Quarter Ended	
	March 27, 2005	April 2, 2006
Net revenue:		
EMEA	\$ 71,985	76,604
Americas	32,712	43,918
Asia Pacific		1,803
Total net revenue	\$ 104,697	122,325

The following summarizes long-lived assets on a geographic basis as of December 31, 2005 and April 2, 2006:

	<b>December 31, 2005</b>	<b>April 2, 2006</b>
Property and equipment, net:		
EMEA	\$ 5,731	5,942
Americas	14,396	13,844
Asia Pacific	701	605
Total property and equipment, net	\$ 20,828	20,391
Capitalized software development costs, net:		
EMEA	\$	
Americas	25,761	25,848
Asia Pacific		
Total capitalized software development costs, net	\$ 25,761	25,848

## **(6) Concentrations of Risk**

Approximately 16% and 19% of the Company's revenue for the quarters ended April 2, 2006 and March 27, 2005, respectively, was from one customer.

## **(7) Foreign Currency Derivative**

On April 22, 2003, the Company entered into a U.S. dollar/euro currency swap agreement (the "Swap") with Philips N.V., which was subsequently assigned to an unaffiliated third party in the third quarter of 2004. The purpose of the Swap was to minimize the exchange rate exposure between the U.S. dollar and the euro on the expected repayment of an intercompany obligation. The intercompany balance is payable by one of the Company's European subsidiaries to the Company and one of its U.S. subsidiaries, and is due in U.S. dollars. Through December 31, 2002, this intercompany balance was considered permanent in nature, as repayment was not expected to occur in the foreseeable future. However, primarily as a result of improved operating performance in the Company's European business, management concluded that cash flows would be sufficient to support repayment over the next several years. Accordingly, effective January 1, 2003, the Company adopted a plan for repayment and the loan is no longer designated as permanent in nature.

Under the terms of the Swap, one of the Company's European subsidiaries makes payments to the other party to the Swap in euros in exchange for the U.S. dollar equivalent at a fixed exchange rate of \$1.0947 U.S. dollar/euro. The U.S. dollar proceeds obtained under the Swap are utilized to make payments of principal on the intercompany loan. The outstanding principal balance under the intercompany loan was \$187,136 at April 22, 2003. The Swap has a maturity date of December 22, 2006 and provides for settlement on a monthly basis in proportion to the repayment of the intercompany obligation. As of April 2, 2006, the outstanding intercompany obligation was \$24,954 and the fair value of the Swap was a liability of \$2,645.

The intercompany loan bears interest at one-month U.S. LIBOR. The Swap also provides that this European subsidiary of the Company will pay interest due in euros on a monthly basis to the other party to the Swap in exchange for U.S. dollars at the one-month U.S. dollar LIBOR rate.

The Swap was not designated for hedge accounting and therefore changes in the fair value of the Swap are recognized in current period earnings. Gains on the fair value of the Swap of \$696 and \$5,118 were recorded for the quarters ended March 27, 2005 and April 2, 2006, respectively. A foreign currency translation loss of \$4,472 and a foreign currency translation gain of \$819 were recognized as a result of the remeasurement of the outstanding intercompany obligation at March 27, 2005 and April 2, 2006, respectively. A foreign currency transaction gain of \$634 and a foreign currency transaction loss of \$1,518 were recognized in earnings during the quarters ended March 27, 2005 and April 2, 2006, respectively, resulting from foreign currency exchange differences arising on the repayments of the intercompany obligation.

#### **(8) Deferred Revenue**

During the first quarter of 2004, the Company entered into a five-year license agreement to provide map database information to a customer. Under the license agreement, the customer paid \$30,000 during the second quarter of 2004 related to license fees for the first three years of the agreement. The customer can use up to \$10,000 of the credits in each of 2004, 2005 and 2006. As of April 2, 2006, \$8,553 remained in the balance of short-term deferred revenue related to this agreement. As of December 31, 2005, \$10,000 remained in the balance of short-term deferred revenue related to this agreement. In addition, the customer has an obligation to the Company of \$20,000 payable on January 15, 2007 related to license fees in 2007 and 2008, which has not been reflected in the accompanying consolidated balance sheets.

**(9) Goodwill and Intangible Assets**

During the first quarter of 2006, the Company acquired the gedas MapIT business for \$4,996, including the direct costs of the acquisition. In connection with this acquisition, the Company recorded identifiable intangible assets, primarily a map database, of \$1,991 and goodwill of \$2,311. The remainder of the change in goodwill during the first quarter was related to changes in foreign currency exchange rates.

**(10) Litigation**

On April 22, 2005, Tele Atlas N.V. and Tele Atlas North America ( Tele Atlas ) filed a complaint against the Company in the United States District Court for the Northern District of California. The complaint alleges that the Company violated Sections 1 and 2 of the Sherman Act, Section 3 of the Clayton Act, and Sections 16720, 16727 and 17200 of the California Business and Professions Code, and that the Company intentionally interfered with Tele Atlas' s contractual relations and prospective economic advantage with third parties, by allegedly excluding Tele Atlas from the market for digital map data for use in navigation system applications in the United States through exclusionary and predatory practices. On August 16, 2005, Tele Atlas filed an amended complaint based on these same causes of action. Specifically, in its amended complaint, Tele Atlas alleges that the Company controls a predominant share of variously defined markets for digital map data and has entered into exclusive contracts with digital map data customers for the purpose of acquiring or maintaining an illegal monopoly in these alleged markets. Tele Atlas also contends that these allegedly exclusive contracts have interfered with Tele Atlas' current and prospective business relationships and amount to unfair competition under California state law. In addition, Tele Atlas alleges that the Company, through its license under U.S. Patent No. 5,161,886, control a predominant share of the alleged relevant technology market consisting of methods for displaying portions of a topographic map from an apparent perspective view outside and above a vehicle in the United States, and allegedly have entered into patent licenses and/or other arrangements in a manner that violates the aforesaid laws. On November 2, 2005, the Court dismissed some, but not all, of Tele Atlas' claims for failure to state valid causes of action. On November 22, 2005, Tele Atlas filed a second amended complaint based on the same causes of actions and essentially the same allegations as in its first amended complaint and the Company filed an answer denying Tele Atlas' claims. Tele Atlas seeks preliminary and permanent injunctive relief, unspecified monetary, exemplary and treble damages, and costs and attorneys' fees of suit. Based on a review of the second amended complaint, the Company believes that the allegations are without merit. The Company intends to take all necessary steps to vigorously defend itself against this action; however, because this matter is in a very early stage, the Company cannot predict its outcome or potential effect, if any, on the Company' s business, financial position or results of operations. A negative outcome could adversely affect the Company' s business, results of operations and financial condition. Even if the Company prevails in this matter, the Company may incur significant costs in connection with its defense, experience a diversion of management time and attention, realize a negative impact on its reputation with its customers and face similar governmental and private actions based on these allegations.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**(Amounts in thousands, except per share amounts)**

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the related notes thereto contained elsewhere in this document. Certain information contained in this discussion and analysis and presented elsewhere in this document, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risk and uncertainties. In evaluating these statements, you should specifically consider the various risk factors identified herein and in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 that could cause actual results to differ materially from those expressed in such forward-looking statements.

**Overview**

We are a leading provider of comprehensive digital map information for automotive navigation systems, mobile navigation devices and Internet-based mapping applications. Our map database enables providers of these products and services to offer dynamic navigation, route planning, location-based services and other geographic information-based products and services to consumer and commercial users.

*Revenue*

We generate revenue primarily through the licensing of our database in EMEA and Americas. The largest portion of our revenue comes from digital map data used in self-contained hardware and software systems installed in vehicles. We believe that there are two key factors that affect our performance with respect to this revenue: the number of automobiles sold for which navigation systems are either standard or an option ( adoption ) and the rate at which car buyers select navigation systems as an option ( take-rate ).

The adoption of navigation systems in automobiles and the take-rates have increased during recent years and we expect that these will continue to increase for at least the next few years as a result of market acceptance by our customers of products and services that use our database. As the adoption of navigation systems in automobiles and the take-rates increase, we believe each of these can have a positive effect on our revenue, subject to our ability to maintain our license fee structure and customer base.

In addition, the market for products and services that use our database is evolving, and we believe that much of our future success depends upon the development of a wider variety of products and services that use our database. This includes growth in location-enabled mobile devices, such as mobile phones, personal navigation devices (PNDs), personal digital assistants (PDAs), and other products and services that use digital map data. Our revenue growth is driven, in part, by the rate at which consumers and businesses purchase these products and services, which in turn is affected by the availability and functionality of such products and services. We believe that both of these factors have increased in recent years and will continue to increase for at least the next few years. However, even if these products and services continue to be developed and marketed by our customers and gain market acceptance, we may not be able to license the database at prices that will enable us to maintain profitable operations. Moreover, the market for map information is highly competitive, and competitive pressures in this area may result in price reductions for our database, which could materially adversely affect our business and prospects. As revenue from location-enabled mobile devices becomes a higher percentage of our revenue, we expect that our total revenue will have a more seasonal pattern with first quarter revenue generally being relatively weaker than other quarters and fourth quarter revenue generally being relatively stronger than other quarters.

We have also experienced, and expect to continue to experience, difficulty in maintaining the license fees we charge for our digital map database due to a number of factors, including automotive and mobile device customer expectations of continually lower license fees each year and a highly competitive environment. In addition, governmental and quasi-governmental entities are increasingly making map data information with higher quality and greater coverage available free of charge or at lower prices. Customers may determine that the data offered by such entities is an adequate alternative to our map database for some of their applications. Additionally, the availability of this data may encourage new entrants into the market by decreasing the cost to build a map database similar to ours. In response to these pressures, we are focused on:

Offering a digital map database with superior quality, detail and coverage;

Providing value-added services to our customers such as distribution services, and technical and marketing support; and

Enhancing and extending our product offering by adding additional content to our map database such as integrated real-time traffic data, enhancements to support advanced driver assistance systems applications that improve vehicle safety and performance, and enriched points of interest, such as restaurant reviews, hours of operation and parking availability.

We also believe that in the foreseeable future the effect on our revenue and profitability as a result of any decreases in our license fees will be offset by volume increases as the market for products and services that use our database grows, although we cannot assure you that these increases will occur.

### *Operating Expenses*

Our operating expenses are comprised of database creation and distribution costs, and selling, general and administrative expenses. Database creation and distribution costs primarily include the purchase and licensing of source maps and employee compensation related to the construction, maintenance and delivery of our database. Selling, general and administrative expenses primarily include employee compensation, marketing, facilities and other administrative expenses.

During the first quarter of 2006, we conducted a review of the classification of our operating expenses. As a result of this review, costs associated with certain functional groups historically classified in selling, general and administrative expenses were reclassified as database creation and distribution costs. Certain operating expenses in previously reported periods have been reclassified to conform to this presentation. Total operating expenses were not affected by the reclassification.

Our operating expenses have increased as we have made investments related to the development, improvement and commercialization of our database. We anticipate that operating expenses will continue to increase as our growth and development activities continue, including further development and enhancement of our database and increasing our sales and marketing efforts.

On January 1, 2006, we adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123(R), Share-Based Payment. This requires all share-based payments to employees, including grants of employee stock options, to be recognized as an operating expense in the income statement. The cost will be recognized over the requisite service period based on fair values measured on grant dates. During the first quarter of 2006, we recognized stock-based compensation expense of \$4,016. We also recorded a cumulative effect of changing to SFAS No. 123(R) resulting in income of \$506 (net of income tax expense of \$312). We expect stock-based compensation expense for 2006 to total approximately \$15,000.

### *Income Taxes*

Prior to 2003, we had fully provided a valuation allowance for the potential benefits of our net operating loss and interest expense carryforwards as we believed it was more likely than not that the benefits would not be realized. During the fourth quarter of 2003, we reversed the valuation allowance related to the net operating loss carryforwards and other temporary items as we believed it was more likely than not that we would be able to use the benefit to reduce future tax liabilities. The reversal resulted in recognition of an income tax benefit of \$168,752 in 2003 and a corresponding increase in the deferred tax asset on the consolidated balance sheet.

As of June 27, 2004, we had fully reserved for the tax benefits related to the interest expense carryforwards as we believed it was more likely than not that the benefits would not be realized. At such time, we believed it was more likely than not that we would not realize the benefit associated with the interest expense carryforwards due to (1) restrictions placed on the deductibility of the interest as a result of a controlling interest in us by Philips Consumer Electronics Services B.V. (Philips) and (2) uncertainty about our ability to generate sufficient incremental future taxable income in the United States to offset the additional interest expense deductions. During the third quarter of 2004, Philips relinquished its controlling interest in us after our initial public offering. We are now allowed to deduct the deferred interest expense in tandem with our net operating loss carryforwards. As a result, we reevaluated, in the third quarter of 2004, whether it was more likely than not that the tax benefits associated with our net operating loss carryforwards together with our interest expense carryforwards would be realized. Based on that evaluation, we determined the amount of net deferred tax assets that we believed was more likely than not that we would realize. Our estimate of the deferred tax assets that we expected was more likely than not to be realized did not require us to record an adjustment to the balance of the related valuation allowance prior to the third quarter of 2005.

During the third quarter of 2005, we recorded an income tax benefit of \$83,270 related to the reversal of the valuation allowance on a portion of our deferred tax assets. We also recorded the reversal of tax benefits of \$1,836 related to deferred compensation. In addition, we reversed the valuation allowance on deferred tax assets associated with stock-based compensation, which resulted in an increase to additional paid-in capital of \$34,552. We reassessed the realizability of the deferred tax assets and made the determination that it is more likely than not that we would be able to realize the benefits of the deferred tax assets related to net operating loss carryforwards and deferred interest credits in the United States. In reaching the determination, we considered both positive and negative evidence. Positive evidence included our strong recent revenue growth and operating performance, expectations regarding the generation of future taxable income, the length of available carryforward periods, our market position and the expected growth of the market. Negative evidence included our history of operating losses through 2001 and the likelihood of increased competition and loss of a significant customer. From that analysis, we determined that sufficient evidence existed to conclude that it was more likely than not that the benefits of certain of the deferred tax assets will be realized. Accordingly, we reversed the related valuation allowance. As of April 2, 2006, we had a valuation allowance for deferred tax assets of \$2,229 related to Canadian net operating loss carryforwards and research and experimental tax credits.

Legislation was enacted in The Netherlands during the fourth quarter of 2005 that reduced the 2006 statutory corporate income tax rate to 29.6% from 30.5%.

#### *Cash and Liquidity*

Prior to the year ended December 31, 2002, we had been unprofitable on an annual basis since our inception, and, as of April 2, 2006, we had an accumulated deficit of \$280,700. We had historically financed our operations with borrowings from Philips and the sale of preferred stock to Philips. Philips has no obligation to provide us with any additional financing in the future.



## Edgar Filing: NAVTEQ CORP - Form 10-Q

As of April 2, 2006, our balance of cash and cash equivalents and marketable securities was \$226,433, compared to our cash and cash equivalents and marketable securities as of December 31, 2005 in the amount of \$218,798, which represents an increase of \$7,635. In addition, we have generated positive cash flow from operations for the past seventeen quarters.

### *Foreign Currency Risk*

Material portions of our revenue and expenses have been generated by our European operations, and we expect that our European operations will account for a material portion of our revenue and expenses in the future. Substantially all of our international expenses and revenue are denominated in foreign currencies, principally the euro. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in Europe and other foreign markets in which we have operations. Accordingly, fluctuations in the value of those currencies in relation to the U.S. dollar have caused and will continue to cause dollar-translated amounts to vary from one period to another. In addition to currency translation risks, we incur currency transaction risk whenever one of our operating subsidiaries enters into either a purchase or a sales transaction using a currency other than the local currency in which it receives revenue and pays expenses.

Historically, we had not engaged in activities to hedge our foreign currency exposures. On April 22, 2003, we entered into a foreign currency derivative instrument to hedge certain foreign currency exposures related to intercompany transactions. See Item 3. Quantitative and Qualitative Disclosures About Market Risk. For the quarter ended April 2, 2006, we generated approximately 64% of our net revenue and incurred approximately 46% of our total expenses in foreign currencies. Our European operations reported revenue of \$76,604 for the quarter ended April 2, 2006. Due to a decrease in the exchange rate of the euro against the dollar, as compared to the first quarter of 2005, European revenue was approximately \$6,000 lower than what would be reported if the exchange rate had not decreased. Based on this quarter's results, every one cent change in the exchange rate of the euro against the dollar results in approximately a \$625 change in our quarterly revenue and approximately a \$275 change in our quarterly operating income. Our analysis does not consider the implications that such fluctuations could have on the overall economic activity that could exist in such an environment in the United States or Europe.

### *Customer Concentration*

Material portions of our revenue have been generated by a small number of customers, and we expect that a small number of customers will account for a material portion of our total revenue for the foreseeable future. Approximately 16% and 19% of our revenue for the quarters ended April 2, 2006 and March 27, 2005, respectively, was from one customer. Our top fifteen customers accounted for approximately 75% of our revenue for the quarter ended April 2, 2006.

The majority of our significant customers are automobile manufacturers and suppliers to automobile manufacturers. Conditions in the market for new automobiles generally and conditions affecting specific automobile manufacturers and suppliers may affect sales of vehicle navigation systems incorporating our database. Fluctuations in the automotive market have occurred in the past and are likely to occur in the future. To the extent that our future revenue depends materially on sales of new automobiles equipped with navigation systems enabled by digital maps, our business may be vulnerable to these fluctuations.

### **Critical Accounting Estimates**

## Edgar Filing: NAVTEQ CORP - Form 10-Q

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires that we 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 ongoing basis, we evaluate our estimates based on historical experience and make various assumptions that we believe 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. We believe that, of the significant policies used in the preparation of our consolidated financial statements, the following are critical accounting estimates, which may involve a higher degree of judgment and complexity. Management has discussed the development and selection of these critical accounting estimates with our Audit Committee, and our Audit Committee has reviewed this disclosure.

### *Revenue Recognition*

We derive a substantial majority of our revenue from licensing our database. We provide our data to end-users through multiple distribution methods, primarily media or server-based. For example, our customers produce copies of our data on various media, such as CD-ROMs, DVDs and other storage media. Our customers then distribute those media to end-users directly and indirectly through retail establishments, automobile manufacturers and their dealers, and other redistributors. The media may be sold by our customer separately from its products, bundled with its products or otherwise incorporated into its products. We also produce copies of our data and distribute those copies to end-users both directly and indirectly through automobile manufacturers and their dealers. In those cases where we produce and distribute copies to end-users, the copies are either compiled into our customers' proprietary format for use with the customers' products or are in our common database physical storage format. Additionally, some of our customers store our data on servers and distribute information, such as map images and driving directions, derived from our data over the Internet and through other communication networks.

Revenue is recognized net of provisions for estimated uncollectible amounts and anticipated returns. Our map database license agreements provide evidence of our arrangements with our customers, and identify key contract terms related to pricing, delivery and payment. We do not recognize revenue from licensing our database until delivery has occurred and collection is considered probable. We provide for estimated product returns at the time of revenue recognition based on our historical experience for such returns, which have not been material. As a result, we do not believe there is significant risk of recognizing revenue prematurely.

For revenue distributed through the media-based method, license fees from usage (including license fees in excess of the nonrefundable minimum fees) are recognized in the period in which they are reported by the customer to us. Prepaid licensing fees are recognized in the period in which the distributor or customer reports that it has shipped our database to the end-user. Revenue for direct sales is recognized when the database is shipped to the end-user.

For revenue distributed through the server-based method, revenue includes amounts that are associated with nonrefundable minimum licensing fees, license fees from usage (including license fees in excess of nonrefundable minimum fees), recognition of prepaid licensing fees from our distributors and customers and direct sales to end-users. Nonrefundable minimum annual licensing fees are received upfront and represent a minimum guarantee of fees to be received from the licensee (for sales made by that party to end-users) during the period of the arrangement. We generally cannot determine the amount of up-front license fees that have been earned during a given period until we receive a report from the customer. Accordingly, we amortize the total up-front fee paid by the customer ratably over the term of the arrangement. When we determine that the actual amount of licensing fees earned exceeds the cumulative revenue recognized under the amortization method (because the customer reports licensing fees to us that exceed this amount), we recognize the additional licensing revenue.

Licensing arrangements that entitle the customer to unspecified updates over a period of time are recognized as revenue ratably over the period of the arrangement.

#### *Allowance for Doubtful Accounts*

We record allowances for estimated losses from uncollectible accounts based upon specifically-identified amounts that we believe to be uncollectible. In addition, we record additional allowances based on historical experience and our assessment of the general financial condition of our customer base. If our actual collections experience changes, revisions to our allowances may be required. We have a number of customers with individually large amounts due at any given balance sheet date. Any unanticipated change in the creditworthiness of one of these customers or other matters affecting the collectibility of amounts due from these customers could have a material adverse affect on our results of operations in the period in which these changes or events occur.

The allowance for doubtful accounts as reflected in our consolidated balance sheet reflects our best estimate of the amount of our gross accounts receivable that will not be collected. Our actual level of bad debts has been relatively stable in recent years, which we believe is due to our practice of requiring customer prepayments in certain instances together with prompt identification of potential problem accounts. We continue to refine our estimates for bad debts as our business grows, and while our credit losses have historically been within both our expectations and the provision recorded, fluctuations in credit loss rates in the future may affect our financial results.

#### *Database Creation, Distribution and Software Development Costs*

## Edgar Filing: NAVTEQ CORP - Form 10-Q

We have invested significant amounts in creating and updating our database and developing related software applications for internal use. Database creation and distribution costs consist of database creation and updating, database licensing and distribution, and database-related software development. Database creation and updating costs are expensed as incurred. These costs include the direct costs of database creation and validation, costs to obtain information used to construct the database, and ongoing costs for updating and enhancing the database content. Database licensing and distribution costs include the direct costs related to reproduction of the database for licensing and per-copy sales and shipping and handling costs. Database-related software development costs consist primarily of costs for the development of software as follows: (i) applications used internally to improve the effectiveness of database creation and updating activities, (ii) enhancements to internal applications that enable our core database to operate with emerging technologies, and (iii) applications to facilitate customer use of our database. Costs of internal-use software are accounted for in accordance with AICPA Statement of Position ( SOP ) No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Accordingly, certain application development costs relating to internal-use software have been capitalized and are being amortized on a straight-line basis over the estimated useful lives of the assets. It is possible that our estimates of the remaining economic life of the technology could change from the current amortization periods. In that event, impairment charges or shortened useful lives of internal-use software could be required.

### *Impairment of Long-lived Assets*

As of December 31, 2005 and April 2, 2006, our long-lived assets consisted of property and equipment, internal-use software and acquired intangible assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Significant management judgment is required in determining the fair value of our long-lived assets to measure impairment, including projections of future discounted cash flows.

*Realizability of Deferred Tax Assets*

The assessment of the realizability of deferred tax assets involves a high degree of judgment and complexity. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences, as determined pursuant to Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes, become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management's evaluation of the realizability of deferred tax assets must consider both positive and negative evidence, and the weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. We have generated significant taxable losses since our inception, and prior to the year ended December 31, 2003, management had concluded that a valuation allowance against substantially all of our deferred tax assets was required. However, our European operations generated taxable profits throughout 2002, and for the year ended December 31, 2003, both our European and U.S. operations generated taxable income. During 2003, we assessed the realizability of our deferred tax assets by weighing both positive and negative evidence. Positive evidence included qualitative factors such as growing market acceptance of navigation products in Europe and North America, particularly in automobiles, our leading competitive positions in both Europe and the U.S., and the significant time required and cost involved in building a database such as ours. Positive quantitative evidence included our strong recent operating performance in both Europe and the U.S., our projections of our future operating results that indicate that we will be able to generate sufficient taxable income to fully realize the benefits of our existing loss carryforwards before they expire, and the length of carryforward periods related to our net operating losses, approximately half of which have no statutory expiration date. Negative evidence included our history of operating losses through 2001, the likelihood of increased competition and the loss of a large customer. After evaluating the available evidence, management determined that sufficient objective evidence existed to conclude that it was more likely than not that a portion of the deferred tax assets would be realized. Accordingly, we reversed the valuation allowance related to net operating loss carryforwards and other temporary items in Europe and the United States, resulting in the recognition of an income tax benefit of \$168,752 in 2003.

As of June 27, 2004, we had fully reserved for the tax benefits related to interest expense carryforwards as we believed it was more likely than not that the benefits would not be realized. At that time, we believed it was more likely than not that we would not realize the benefit associated with the interest expense carryforwards due to (1) restrictions placed on the deductibility of the interest as a result of Philips' controlling interest in us and (2) our ability to generate sufficient incremental future taxable income in the United States to offset the additional interest expense deductions. During the third quarter of 2004, Philips relinquished its controlling interest in us after our initial public offering. We were then allowed to deduct the deferred interest expense in tandem with our net operating loss carryforwards. Consequently, we reevaluated, in the third quarter of 2004, whether it was more likely than not that the tax benefits associated with our net operating loss carryforwards and our interest expense carryforwards would be realized. Our evaluation considered both positive and negative evidence, and the weight given to the potential effects of positive and negative evidence was based on the extent to which it can be objectively verified in the same manner as described above for the evaluation completed in 2003. Based on this evaluation, we determined the amount of net deferred tax assets that we believed was more likely than not that we will realize. The amount that was determined did not require us to record an adjustment to the balance of the related valuation allowance.

During the third quarter of 2005, we reassessed the realizability of the deferred tax assets and made the determination that it is more likely than not that we would be able to realize the benefits of the deferred tax assets related to net operating loss carryforwards and deferred interest credits in the United States. In reaching the determination, we considered both positive and negative evidence. Positive evidence included our strong recent revenue growth and operating performance, expectations regarding the generation of future taxable income, the length of available carryforward periods, our market position and the expected growth of the market. Negative evidence included our history of operating losses through 2001 and the likelihood of increased competition and loss of a significant customer. From that analysis, we determined that sufficient evidence existed to conclude that it was more likely than not that the benefits of certain of the deferred tax assets will be realized. Accordingly, we reversed the related valuation allowance and recorded a income tax benefit of \$83,270. In addition, we reversed the valuation allowance on deferred tax assets associated with stock-based compensation, which resulted in an increase to additional paid-in capital of \$34,552.

As of April 2, 2006, we had a valuation allowance for deferred tax assets of \$2,229 related to Canadian net operating loss carryforwards, and research and experimental tax credits.

**Explanation of Responses:**

We cannot assure you that we will continue to experience taxable income at levels consistent with recent performance in some or all of the jurisdictions in which we do business. In the event that actual taxable income differs from our projections of taxable income by jurisdiction, changes in the valuation allowance, which could affect our financial position and net income, may be required.

## Results of Operations

### *Comparison of Quarters Ended March 27, 2005 and April 2, 2006*

*Operating Income, Net Income and Earnings Per Share of Common Stock.* Our operating income decreased from \$24,831 during the first quarter of 2005 to \$20,723 in the first quarter of 2006, due primarily to growth in operating expenses, offset by our revenue growth in 2006. Our net income decreased from \$16,785 in the first quarter of 2005 to \$16,184 in the first quarter of 2006 due to lower operating income offset by the reduction of our effective income tax rate as well as the recording of the cumulative effect of change in accounting principle of \$506 upon the adoption of SFAS 123(R). Basic earnings per share of common stock were \$0.19 and \$0.18 for the first quarters of 2005 and 2006, respectively. Diluted earnings per share of common stock were \$0.18 and \$0.17 for the first quarters of 2005

## Edgar Filing: NAVTEQ CORP - Form 10-Q

and 2006, respectively. Diluted earnings per share before the cumulative effect of change in accounting principle were \$0.18 and \$0.16 for the first quarters of 2005 and 2006, respectively.

The following table highlights changes in selected financial statement line items, which are material to our results of operations. An analysis of the factors affecting each line is provided in the paragraphs that appear after the table.

	Quarter Ended		Change	% Change
	March 27, 2005	April 2, 2006		
Net revenue	\$ 104,697	122,325	17,628	16.8%
Database creation and distribution costs	50,888	62,851	11,963	23.5%
Selling, general and administrative expenses	28,978	38,751	9,773	33.7%
Income tax expense	8,647	7,379	(1,268)	(14.7)%

*Net Revenue.* The increase in net revenue was due to a significant increase in database licensing, resulting primarily from increased unit sales to customers. Growth occurred in all geographic regions during the first quarter of 2006, as EMEA revenue increased 6.4% from \$71,985 in the first quarter of 2005 to \$76,604 in the first quarter of 2006, and Americas revenue increased 34.3% from \$32,712 in the first quarter of 2005 to \$43,918 in the first quarter of 2006. EMEA and Americas revenue both increased primarily due to an increase in unit sales to vehicle navigation system vendors, automobile manufacturers and mobile device manufacturers. Differences in foreign currency translation decreased revenue within the EMEA operations by approximately \$6,000 during the first quarter of 2006 as compared to the first quarter of 2005 due to the weakening of the euro. Excluding the effect of foreign currency translation, EMEA revenue would have grown 14.8%. Approximately 16% and 19% of our revenue for the first quarter of 2006 and 2005, respectively, was from one customer.

*Database Creation and Distribution Costs.* The increase in database creation and distribution costs was due primarily to geographic expansion, quality improvements and costs of our Korean subsidiary, which was acquired during the third quarter of 2005. The capitalization of \$2,995 and \$3,655 of development costs for internal-use software in the first quarter of 2005 and 2006, respectively, reduced our expenses in those periods. A favorable foreign currency translation effect within European operations decreased expenses in the first quarter of 2006 by approximately \$2,400, when compared to the first quarter of 2005.

*Selling, General and Administrative Expenses.* The increase in selling, general and administrative expenses was due primarily to our investments in growing our worldwide sales force and expanding the breadth of our product offerings and expenses related to improving our infrastructure to support future growth. Stock-based compensation expense accounted for \$3,219 of our selling, general and administrative expense in the first quarter of 2006 compared to \$2,183 in the first quarter of 2005. Included in selling, general and administrative costs during the first quarter of 2005 and 2006 was approximately \$1,500 and \$500, respectively, of costs related to our obligation to match social taxes on employee stock option exercises. A favorable foreign currency translation effect within European operations decreased expenses in the first quarter of 2006 by approximately \$800, when compared to the first quarter of 2005.

*Income Tax Expense.* The decrease in income tax expense is due to the decrease in operating income combined with a lower effective tax rate in 2006. The effective tax rate in the first quarter of 2006 was 32.0% as compared to 34.0% in the first quarter of 2005. The decrease in the effective tax rate was primarily due to a lower statutory corporate income tax rate in The Netherlands, which was the result of legislation enacted during the fourth quarter of 2005 that reduced the 2006 statutory corporate income tax rate to 29.6%. The 2005 statutory corporate income tax in The Netherlands was 31.5%.

### **Liquidity and Capital Resources**

Since 2002, we have financed our operations through cash generated from operating income. As of April 2, 2006, cash and cash equivalents and marketable securities totaled \$226,433.

On November 30, 2005, we extended and increased, through our operating subsidiary for North America, our revolving line of credit that is now scheduled to mature on December 1, 2006. Pursuant to the terms of the line of credit, we may borrow up to \$50,000 at an interest rate of either U.S. LIBOR plus 0.5% or the greater of the prime rate or the Federal funds rate plus 0.5%. We are required to pay to the bank a quarterly facility fee of 7.5 basis points per annum on the average daily unused commitment. We have guaranteed our operating subsidiary's obligations under this facility. As of April 2, 2006, there were no outstanding borrowings against this line of credit.

Since the first quarter of 2002, our operations have continued to produce positive cash flows. The cash flows have been driven by increased demand for our products and our ability to deliver these products profitably and collect receivables from our customers effectively. These funds have allowed us to make investments required to grow the business and have provided us excess cash. Since August 2004, we have invested cash balances in excess of our short-term operational needs in cash equivalents and marketable securities of high credit quality.

We believe that our current cash resources on hand, temporary excess cash deposited in cash equivalents and marketable securities, and cash flows from operations, together with funds available from the revolving line of credit, will be adequate to satisfy our anticipated working capital needs and capital expenditure requirements at our current level of operations for at least the next twelve months. We do, however, consider additional debt and equity financing from time to time and may enter into these financings in the future.



## Edgar Filing: NAVTEQ CORP - Form 10-Q

Cash and cash equivalents decreased by \$34,213 during the quarter ended April 2, 2006. The changes in cash and cash equivalents are as follows for the quarters ended:

	<b>March 27, 2005</b>	<b>April 2, 2006</b>
Cash provided by operations	\$ 5,815	14,411
Cash used in investing activities	(13,215)	(53,113)
Cash provided by financing activities	4,170	4,060
Effect of exchange rates on cash	(850)	429
Decrease in cash and cash equivalents	\$ (4,080)	(34,213)

### *Operating Activities*

In the first quarter of 2005 and 2006, respectively, we generated positive cash flow from operations. In both periods, cash flow from operations was driven by positive operating results, which in turn was driven by increased demand for our products. Our accounts receivable balance increased \$21,807 in the first quarter of 2005 due to revenue growth and the timing of billing toward the end of each respective period. Accrued payroll and related liabilities decreased \$7,307 in the first quarter of 2006 due to the payment of 2005 annual compensation obligations during 2006.

### *Investing Activities*

Cash used in investing activities has primarily consisted of capitalized costs related to software developed for internal use, investments in marketable securities and capital expenditures. We experienced temporary excess funds that were provided from operations in the first quarter of 2006. We invested those excess funds in cash equivalents and marketable securities. During the first three months of 2005 and 2006, we invested an additional \$8,229 and \$42,074, respectively, in marketable securities.

Costs for software developed for internal use have been capitalized in accordance with SOP 98-1 and are related to applications used internally to improve the effectiveness of database creation and updating activities, enhancements to internal applications that enable our core database to operate with emerging technologies and applications to facilitate usage of our map database by customers. Capitalized costs totaled \$2,995 and \$3,655 for the first quarter of 2005 and 2006, respectively. We expect the capitalized costs related to software developed for internal use to be approximately \$7,000 to \$9,000 for the full year of 2006.

We have continued to invest in property and equipment to meet the demands of growing our business by expanding our facilities and providing the necessary infrastructure. Capital expenditures totaled \$1,491 and \$2,188 during the first quarter of 2005 and 2006, respectively. We expect total capital expenditures to be approximately \$12,000 to \$14,000 for the full year of 2006.

In addition, during the first quarter of 2006, we paid \$4,996 to acquire a map database and other assets in Mexico.

*Financing Activities*

In the first quarters of 2005 and 2006, we received \$4,170 and \$4,060, respectively, related to the issuance of common stock pursuant to our stock incentive plans. The amount in the first quarter of 2006 included related tax benefits totaling \$2,255.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We invest our cash in highly liquid cash equivalents and marketable securities. We do not believe that our exposure to interest rate risk is material to our results of operations.

Material portions of our revenue and expenses have been generated by our European operations, and we expect that our European operations will account for a material portion of our revenue and expenses in the future. In addition, substantially all of our expenses and revenue related to our international operations are denominated in foreign currencies, principally the euro.

We are also subject to foreign currency exposure between the U.S. dollar and the euro on the expected repayment of an intercompany obligation. The intercompany balance is payable by one of our European subsidiaries to us and one of our U.S. subsidiaries, and is due in U.S. dollars. Through December 31, 2002, this intercompany balance was considered permanent in nature, as repayment was not expected to occur in the foreseeable future. However, primarily as a result of improved operating performance in our European business, management concluded that cash flows would be sufficient to support repayment over the next several years. Accordingly, effective January 1, 2003, we adopted a plan for repayment and the loan was no longer designated as permanent in nature.

Prior to April 22, 2003, we had not engaged in activities to hedge our foreign currency exposures. On that day, we entered into a U.S. dollar/euro currency swap agreement (the "Swap") with Koninklijke Philips Electronics N.V. to minimize the exchange rate exposure between the U.S. dollar and the euro on the expected repayment of the intercompany obligation. The Swap was assigned to an unaffiliated third party in the third quarter of 2004. The Swap was not designated for hedge accounting. Under the terms of the Swap, one of the Company's European subsidiaries makes payments to the other party to the Swap in euros in exchange for the U.S. dollar equivalent at a fixed exchange rate of \$1.0947 U.S. dollar/euro. The U.S. dollar proceeds obtained under the Swap are utilized to make payments of principal on the intercompany loan. The outstanding principal balance under the intercompany loan was \$187.1 million at April 22, 2003. The Swap has a maturity date of December 22, 2006 and provides for settlement on a monthly basis in proportion to the repayment of the intercompany obligation. As of April 2, 2006, the outstanding intercompany obligation was \$25.0 million.

For purposes of specific risk analysis, we use sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our Swap. The foreign currency exchange risk is computed based on the market value of future cash flows as affected by the changes in the rates attributable to the market risk being measured. The sensitivity analysis represents the hypothetical changes in value of the hedge position and does not reflect the opposite gain or loss on the underlying transaction. As of April 2, 2006, a 10% decrease in the value of the euro against the U.S. dollar with all other variables held constant would result in a decrease in the fair value of our Swap liability of \$2.8 million, while a 10% increase in the value of the euro against the U.S. dollar would result in an increase in the fair value of our Swap liability of \$2.8 million.

### Item 4. Controls and Procedures

*Evaluation of Disclosure Controls and Procedures.*

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company's management carried out an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the

## Edgar Filing: NAVTEQ CORP - Form 10-Q

Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), as of April 2, 2006. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of April 2, 2006, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

### *Changes in Internal Control over Financial Reporting.*

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter (the first quarter of 2006) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II**

**OTHER INFORMATION**

**Item 6. Exhibits**

10.1 Form of Restricted Stock Unit Agreement applicable to vice president-level employees and above under NAVTEQ Corporation's 2001 Stock Incentive Plan, which is incorporated by reference to the Company's Current Report on Form 8-K dated March 3, 2006.

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**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.

Dated: May 5, 2006

**NAVTEQ CORPORATION**

By: /s/ Judson C. Green  
Judson C. Green  
President and Chief Executive Officer (Principal  
Executive Officer)

By: /s/ David B. Mullen  
David B. Mullen  
Executive Vice President and Chief Financial  
Officer (Principal Financial Officer)

By: /s/ Neil T. Smith  
Neil T. Smith  
Vice President and Corporate Controller (Principal  
Accounting Officer)