NAVTEQ CORP
Form S-1/A
August 05, 2004

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and neither we nor the selling stockholders are soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 5, 2004.

PROSPECTUS

39,168,402 Shares

Common Stock

This is the initial public offering of our common stock. All of the shares of common stock being sold in this offering are being sold by Philips Consumer Electronic Services B.V. and NavPart I B.V., our principal stockholders. Prior to this offering, Philips and NavPart beneficially owned 83.5% and 9.8%, respectively, of our common stock. We are not selling any shares in this offering and will not receive any proceeds from the sale of the shares by the selling stockholders.

Prior to this offering, there has been no public market for our common stock. The initial public offering price is expected to be between $20.50 and $22.50 per share. Our common stock has been approved for listing on the New York Stock Exchange under the symbol "NVT."

See "Risk Factors" on page 9 to read about factors you should consider before buying shares of our common stock.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to the selling stockholders	$	$

The underwriters may also purchase up to an additional 5,875,260 shares from the selling stockholders at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2004.

Credit Suisse First Boston **Merrill Lynch & Co.**

Deutsche Bank Securities **UBS Investment Bank**
Dresdner Kleinwort Wasserstein **Piper Jaffray**

The date of this prospectus is , 2004

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You should rely only on the information contained in this prospectus. We have not, and the selling stockholders and the underwriters have not, authorized any other person to provide you with different information. This prospectus is not an offer to sell or a solicitation of an offer to buy shares in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is complete and accurate only as of the date on the front cover regardless of the time of delivery of this prospectus or of any sale of the shares.

For investors outside the United States: Neither we, the selling stockholders nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

Dealer Prospectus Delivery Obligation

Through and including , 2004 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

This summary highlights some of the information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including "Risk Factors" and our financial statements and notes to those financial statements, before you decide to invest in our common stock.

Our Business

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, which is our principal product, is a highly accurate and detailed digital representation of road transportation networks in the United States, Canada, Western Europe and other regions. This database enables our customers to offer a broad range of dynamic navigation, route planning, location-based information and other geographic information products and services to consumer and commercial users. Products and services that use our database include a variety of features such as real-time, detailed turn-by-turn route guidance, driving directions, route optimization and map displays. We had net revenue of $273 million for the year ended December 31, 2003 and $79 million for the quarter ended March 28, 2004.

We believe that our database is the most used source of digital map information for automotive and Internet-based navigation products and services in North America and Europe, and that we are a leading provider of such information for use in mobile devices. Every major automobile manufacturer that currently offers a navigation system in North America and Europe uses our database in one or more of its models, and virtually all of the European, Japanese and United States vehicle navigation systems manufacturers that currently offer a navigation system in North America and Europe, including Harman Becker, Alpine and Siemens, license our database. Since 1999, over 5 million vehicles have been equipped with navigation systems that use our database. Our principal Internet-based customers include AOL/MapQuest, Microsoft/MSN and Yahoo!. In 2003, these leading Internet portals and websites accounted for more than 6 billion route planning transactions derived from our database in North America.

Our database offers extensive geographic coverage, including data at various levels of detail for 40 countries on four continents, covering approximately 8.7 million miles of roadway. Our most detailed coverage includes extensive road, route and related travel information, including road classifications, details regarding ramps, road barriers, sign information, street names and addresses and traffic rules and regulations. In addition, our database currently includes over 15 million points of interest, such as airports, hotels, restaurants, retailers, civic offices and cultural sites.

Our multi-step database creation, maintenance and delivery process combines our use of proprietary software and technologies with the efforts of a dedicated field force of approximately 480 employees around the world. This process allows us to effectively collect, update and verify road network data with a level of quality and accuracy that allows us to deliver a superior product to our customers. Due to the complexity of our database building process and the depth and breadth of the information it contains, we believe it would take substantial time and resources for a new market entrant to build a digital map database with a comparable level of detail and accuracy.

Our Market Opportunity

Consumers have traditionally relied on printed maps for vehicle navigation and route planning information. In more recent years, the use of maps in digital form has proliferated, both as a substitute for the uses provided by paper maps and for more advanced functions. In particular, the development of the digital map database industry has been, and continues to be, accelerated by the commercialization of Global Positioning System (GPS) technology. The automotive industry led the early adoption of GPS-enabled navigation technologies and is currently the largest consumer of digital map databases such as ours. In addition, a variety of mobile devices have been introduced in recent years that are GPS-enabled and capable of supporting dynamic navigation and location-based service applications.

Vehicle navigation systems that provide dynamic navigation assistance have been available to consumers in Western Europe since 1994. The popularity of these systems has increased since their introduction. Over the last three years, an average of 16.2 million new light vehicles were sold annually in Western Europe. We estimate that navigation systems were available as either a standard feature or an option on over 80% of the new vehicles sold in Western Europe in 2003. In a September 2003 report, the independent market research firm of Frost & Sullivan projected that 1.8 million vehicles in Europe in 2003 were equipped with navigation systems, up from 1.2 million vehicles in 2001. In the same report, Frost & Sullivan projected that the number of vehicles equipped with navigation systems in Europe will grow at a compound annual rate of more than 20% over the next five years, reaching a total of 4.6 million units in 2008.

Although the U.S. and Canadian light vehicle market is larger in size than that of Western Europe with an average of 18.5 million new light vehicles sold annually over the last three years, the introduction of vehicle navigation systems in North America occurred later than in Western Europe. In 2003, we estimate that navigation systems were available for over 20% of new vehicles sold in North America, primarily in the luxury and sport utility vehicle classes. Frost & Sullivan, in a March 2003 report, projected that the shipments of vehicle navigation units were 430,000 in North America in 2003, up from 220,000 units in 2001. In the same report, Frost & Sullivan also projected shipments of vehicle navigation systems in North America will grow by a compound annual rate of more than 30% over the next five years, reaching a total of 1.7 million units in 2008.

The market for consumer GPS-enabled devices such as personal digital assistants, or PDAs, wireless telephones, personal navigation devices, or PNDs, and laptop computers is expected to grow rapidly. Business Communications Company, Inc. (BCC), an independent industry research firm, in a December 2003 report, projected that at least half of all cellular handsets sold in the United States, or 37.5 million units, will incorporate GPS technology by 2008. Furthermore, BCC projected that the United States market for consumer GPS applications other than wireless phones, including PDAs, PNDs and portable vehicular systems, will grow at a rate of 25% per year through 2008. Consumer demand for navigation and location-based services is growing as consumers become familiar with and depend upon real-time electronically delivered information. According to a March 2004 study of wireless telephone users by In-Stat/MDR, an independent market research firm, respondents were interested in practical mapping services and over 60% of these respondents expressed an interest in location-based services such as finding friends or family.

We believe opportunities for the use of our map database will increase due to the following reasons:

- Growing consumer awareness of the value of navigation systems and location-based services;
- Current low market penetration in all key end markets;
- Declining prices of navigation systems;
- Increasing availability of navigation systems for additional classes of vehicles and mobile devices;
- Advances in navigation technologies, user interfaces and data accuracy;
- Ability to benefit from new technology and product developments in any navigation devices where a digital map database is an essential component; and

Proliferation of new map-oriented services such as location-based information and traffic data.

Our Competitive Strengths

We believe that we enjoy a number of important competitive strengths that drive our success and differentiate us from our competitors, including:

Market Leadership. We are the leader in providing digital map data to automobile manufacturers and automotive navigation systems manufacturers in North America and Europe and navigation-related Internet application providers in North America. We are well-positioned to penetrate other industries utilizing highly accurate digital map data, such as the emerging GPS-enabled mobile device industry.

Extensive Global Coverage. We offer extensive coverage, including 40 countries on four continents covering approximately 8.7 million miles of roadway.

Detail and Richness of Our Database. Our database enables real-time door-to-door, turn-by-turn route guidance to specific addresses, points of interest and other locations.

Integrated Data Collection Process. We have a data collection process that combines proprietary technology with a global field force of approximately 480 trained technicians that enables us to effectively collect, update and verify detailed road network data.

Strong Business Relationships. We have long-standing, collaborative relationships with manufacturers of automobiles, vehicle navigation systems and mobile devices.

Consistent Global Specification. Our maintenance of common data standards and a uniform digital mapping approach worldwide enables us to deliver highly accurate, timely and consistent data to our customers and allows us to more rapidly enhance maps and add attributes in new or existing coverage areas.

Our Operating Strategy

We are committed to enhancing the value of our map database to our customers. Key elements of our operating strategy, which is focused on sustaining our market leadership and competitive differentiation, include:

Continuing to Improve Detail, Scope and Value of Our Map Database. We continually improve our database in key regions, such as the United States, Canada and Western Europe.

Focusing on Quality and Consistency. We are dedicated to delivering accurate and consistent information in order to increase customer and end-user satisfaction and enhance our position as a high-quality provider of digital map information.

Providing a Range of Value-Added Services. We assist our customers in using our database in their products and services and marketing those products and services to their customers and end-users.

Improving Our Data Collection, Production and Delivery Technologies. We strive to continually improve our data collection, processing, distribution and deployment capabilities.

Our Growth Strategy

Our objective is to be the leading provider of digital map information and enabling technology for navigation and other geographic information-based products and services. Key elements of our growth strategy include:

Capitalizing on Growth in Demand for Vehicle Navigation. We intend to capitalize on the expected growth of the vehicle navigation industry by leveraging our market leadership position and relationships with automobile manufacturers and navigation systems manufacturers.

Facilitating Development of New Consumer Applications. We assist our customers in the development and deployment of navigation, route planning and location-based products and services to increase the number of products and services that can use our map database.

Expanding Geographically. We intend to strengthen our global presence by expanding into areas that we believe, in collaboration with our customers, have high potential demand.

Enhancing and Extending Product Offering. We continually work with our customers to enhance and extend our database product offering and improve functionality to meet the evolving demands of our customers and end-users.

Increasing Sales of Map Updates. Our installed base provides growth opportunities via sales of map updates and we are developing a number of initiatives targeted at increasing consumer awareness of the availability and utility of updated map data and simplifying fulfillment logistics in order to promote update purchases.

Our Relationship with Philips

Philips Consumer Electronic Services B.V., or Philips B.V., is our principal stockholder. As of June 1, 2004, Philips B.V. owned, in the aggregate, 73,132,232 shares of our common stock (approximately 83% of the total issued and outstanding common stock). Following this offering, Philips B.V. will continue to own approximately 42.1% of our issued and outstanding common stock, or 35.8% if the underwriters exercise their overallotment option in full. In addition, the shares of NavPart II B.V., which is the recordholder of 2,580,430 shares of our common stock, are subject to certain put and call rights between NavPart I B.V. and Philips. If Philips acquires the shares of NavPart II pursuant to these rights, Philips would own approximately 45.0% of our issued and outstanding common stock, or 38.8% if the underwriters exercise their overallotment option in full. NavPart I has expressed its intention to require Philips, to the extent Philips does not exercise its right to purchase the shares of NavPart II, to purchase the shares of NavPart II on or about the time of this offering. As a result, Philips B.V. will continue to own a substantial portion of our common stock and may exercise significant influence over corporate decisions requiring stockholder approval.

Koninklijke Philips Electronics N.V., or Royal Philips Electronics, is the parent company of Philips B.V. and other subsidiaries that currently have, or have in the past had, relationships with us. In this prospectus, we sometimes refer to Philips B.V., Royal Philips Electronics and these other subsidiaries as Philips.

We have had a relationship with Philips since 1988. Philips has provided us with equity and debt financing, and we have procured various goods and services through our relationship with them. Two of our directors currently are employed by Royal Philips Electronics or its subsidiaries, and the Chairman of our board of directors was employed by Royal Philips Electronics or one of its subsidiaries until June 2002 and is currently advising Royal Philips Electronics. These matters are described in further detail under "Certain Relationships and Related Transactions."

Recent Developments

Our second quarter ended June 27, 2004. Set forth below is a discussion of our preliminary unaudited financial information for the three and six months ended June 29, 2003 and June 27, 2004. However, we have not finalized our financial statements for this period, and it is possible that our actual results may vary from the information discussed below. Our results of operations for the three months and six months ended June 27, 2004 are not necessarily indicative of the results to be expected for the entire fiscal year 2004. Certain components of the June 27, 2004 results are based upon an assumed initial public offering price of $21.50 per share.

Net revenues for the three months ended June 27, 2004 were $97 million compared to $68 million for the three months ended June 29, 2003. Net revenues for the six months ended June 27, 2004 were $176 million compared to $120 million for the six months ended June 29, 2003. The increase in total revenue in both periods was due to increased unit sales to customers, as well as a higher proportion of unit sales where we provided distribution services.

Operating income for the three months ended June 27, 2004 was $25 million compared to $21 million for the three months ended June 29, 2003. Operating income for the six months ended June 27, 2004 was $41 million compared to $32 million for the six months ended June 29, 2003. The increase in operating income in both periods was due primarily to our revenue growth in 2004, partially offset by higher operating expenses. The higher operating expenses for the three and six months ended June 27, 2004 primarily arose from increases in expenses of approximately $10 million and $19 million, respectively, associated with the higher proportion of unit sales where we provided distribution services; an increased investment in our database due to geographic expansion, primarily in North America and Europe, and quality improvements of approximately $6 million and $14 million, respectively; increased investments to grow our sales force and expand our product offerings of approximately $5 million and $10 million, respectively; and expenses related to our initial public offering of approximately $1 million in both periods and stock-based compensation charges of approximately $1 million and $2 million, respectively.

Net income for the three months ended June 27, 2004 was $15 million compared to $23 million for the three months ended June 29, 2003. Net income for the six months ended June 27, 2004 was $25 million compared to $38 million for the six months ended June 29, 2003. The decrease in net income in both periods was due primarily to foreign currency gains we recognized in the three and six months ended June 29, 2003 of $2 million and $6 million, respectively and the recording of income tax provisions for the three and six months ended June 27, 2004 of $9 million and $15 million, respectively, following the reversal of the valuation allowance related to our net operating loss carryforwards in the fourth quarter of 2003.

Basic income per share of common stock for the three months ended June 27, 2004 was $0.18 compared to $0.27 for the three months ended June 29, 2003. Basic income per share of common stock for the six months ended June 27, 2004 was $0.29 compared to $0.46 for the six months ended June 29, 2003. Diluted income per share of common stock for the three months ended June 27, 2004 was $0.17 compared to $0.26 for the three months ended June 29, 2003. Diluted income per share of common stock for the six months ended June 27, 2004 was $0.27 compared to $0.44 for the six months ended June 29, 2003.

Corporate Information

We originally incorporated in the State of California in August 1985 as Karlin & Collins, Inc., and reincorporated in the State of Delaware in September 1987 as Navigation Technologies Corporation. In February 2004, we changed our name to NAVTEQ Corporation. Our principal executive offices are located at 222 Merchandise Mart, Suite 900, Chicago, Illinois 60654, and our telephone number at that address is (312) 894-7000. We maintain a web site at www.navteq.com. Information contained on, or that may be accessed through, our web site is not part of this prospectus.

The Offering

Common stock offered by the selling stockholders	39,168,402 shares
Common stock to be outstanding after this offering	87,621,435 shares
Use of proceeds	We will not receive any of the proceeds from the sale of shares in this offering. The selling stockholders will receive all net proceeds from the sale of the shares.
Dividend policy	Except for a special cash dividend in the aggregate amount of approximately $47.2 million paid to our common stockholders on June 18, 2004, we have never declared or paid cash dividends on our common stock. We do not expect to pay any cash dividends in the foreseeable future. See "Dividend Policy" on page 25 for a discussion of the factors that will affect the determination by our board of directors to declare dividends, the restrictions on our ability to pay dividends imposed by our existing credit agreement and other matters concerning our dividend policy.
Risk factors	See "Risk Factors" on page 9 and the other information in this prospectus for a discussion of the factors you should consider before you decide to invest in our common stock.
New York Stock Exchange symbol	NVT

The number of shares of common stock to be outstanding immediately after this offering is based on shares outstanding as of June 1, 2004 and excludes:

- 8,111,099 shares of common stock issuable upon the exercise of outstanding stock options as of June 1, 2004 under our 1988 Stock Option Plan, 1996 Stock Option Plan, 1998 California Stock Option Plan, 2001 Stock Incentive Plan and individual option agreements with certain of our executive officers with a weighted average exercise price of $3.33 per share;

- 619,335 shares of common stock issuable pursuant to outstanding restricted stock units under our 2001 Stock Incentive Plan as of June 1, 2004; and

- an aggregate of 11,079,486 shares of common stock available for future issuance under our 2001 Stock Incentive Plan as of June 1, 2004 which includes 495,779 shares of common stock (based on an assumed initial public offering price of $21.50 per share) issuable upon the exercise of stock options and 143,776 shares of common stock (based on an assumed initial public offering price of $21.50 per share) issuable pursuant to restricted stock units expected to be granted on the date of this prospectus.

On August 5, 2004, we effected a reverse split of our common stock. The ratio for our reverse stock split was 1-for-14, and all information in this prospectus gives effect to the reverse split.

Unless otherwise noted, the number of shares of common stock offered by the selling stockholders does not include 5,875,260 shares that may be purchased from the selling stockholders if the overallotment option is exercised.

Summary Consolidated Financial Data

The table below sets forth summary consolidated financial data for the periods indicated. The data for the three years ended December 31, 2003 has been derived from our audited consolidated financial statements included elsewhere in this prospectus. The data as of March 28, 2004 and for the quarters ended March 30, 2003 and March 28, 2004 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus and, in the opinion of management, contain all adjustments necessary to present fairly the information set forth below. The historical results presented below are not necessarily indicative of the results to be expected in any future period. It is important that you read this information together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 29 and our consolidated financial statements and notes to those consolidated financial statements beginning on page F-1 of this prospectus.

	Year Ended December 31,			Quarter Ended	
	2001	2002	2003	March 30, 2003	March 28, 2004
	(In thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Net revenue	$ 110,431	165,849	272,623	52,035	79,465
Operating costs and expenses:					
Database licensing and production costs	82,343	92,499	125,841	23,586	40,435
Selling, general and administrative expenses	56,979	63,422	83,024	16,821	23,096
Total operating costs and expenses	139,322	155,921	208,865	40,407	63,531
Operating income (loss)	(28,891)	9,928	63,758	11,628	15,934
Interest income (expense), net(1)	(17,383)	(668)	380	30	142
Other income (expense), net(1)	(70,235)		6,163	4,119	(347)
Income (loss) before income taxes	(116,509)	9,260	70,301	15,777	15,729
Income tax benefit (expense)(2)		(1,105)	165,514	(300)	(6,010)
Net income (loss)	(116,509)	8,155	235,815	15,477	9,719
Cumulative preferred stock dividends	(91,417)	(110,464)			
Net income (loss) applicable to common stockholders	$ (207,926)	(102,309)	235,815	15,477	9,719
Earnings (loss) per share of common stock:					
Basic	$ (7.31)	(2.41)	2.81	0.18	0.12
Diluted	$ (7.31)	(2.41)	2.69	0.18	0.11
Weighted average shares used in per share computation:					
Basic	28,441	42,446	84,062	83,984	84,178
Diluted	28,441	42,446	87,593	87,030	91,125

	As of March 28, 2004	
	Actual	Pro Forma[3]
	(In thousands)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 2,371	2,371
Cash on deposit with affiliate	65,029	17,744
Working capital	106,709	59,424
Total deferred income tax assets	163,982	163,982
Total assets	358,953	311,668
Long-term debt		
Total stockholders' equity	230,619	183,334

	Year Ended December 31,			Quarter Ended	
	2001	2002	2003	March 30, 2003	March 28, 2004
	(In thousands)				
Consolidated Statement of Cash Flow Data:					
Cash flow provided by (used in) operating activities	$ (11,501)	22,234	65,948	3,320	4,745
Capital expenditures	(5,119)	(2,156)	(9,269)	(483)	(1,776)
Capitalized software development costs	(10,773)	(10,027)	(9,966)	(2,581)	(2,911)
Total capital expenditures and capitalized software development costs	(15,892)	(12,183)	(19,235)	(3,064)	(4,687)
Depreciation and amortization	8,541	10,563	12,030	2,830	2,896

(1) Our outstanding borrowings with Philips were extinguished in exchange for preferred stock during 2001. We recognized a loss on the extinguishment of $69,568, which is reflected in other income (expense), net for 2001.

(2) During 2003, a portion of the valuation allowance on deferred tax assets was reversed, resulting in a benefit of $168,752.

(3) The "Pro Forma" balance sheet data as of March 28, 2004 reflects a special cash dividend to our stockholders of record as of April 19, 2004 in the amount of $47,159 that was paid on June 18, 2004, the payment of expenses relating to this offering estimated at $600, net of tax, and the exercise by Philips of warrants to purchase 3,384 of our common stock on April 28, 2004.

RISK FACTORS

You should carefully consider the risk factors described below and all other information contained in this prospectus before you decide to invest in our common stock. If any of the following risk factors, as well as other risks and uncertainties that are not currently known to us or that we currently believe are not material, actually occur, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose part or all of your investment.

Risks Related to Our Business

We derive a significant portion of our revenue from a limited number of customers, and if we are unable to maintain these customer relationships or attract additional customers, our revenue will be adversely affected.

For the years ended December 31, 2001, 2002 and 2003, revenue from BMW AG and Harman International Industries, Inc., our top two customers, accounted for approximately 30%, 28% and 29%, respectively, of our total revenue. In addition, during those three years, sales to our top 15 customers accounted for approximately 80%, 75% and 75% of our revenue, respectively. For the quarter ended March 28, 2004, revenue from our top two customers accounted for approximately 29% of our total revenue and sales to our top 15 customers accounted for approximately 75% of our revenue. Although we have achieved some success in expanding our customer base, we anticipate that a limited number of customers will continue to represent a significant percentage of our revenue for the foreseeable future. In addition, although we have contractual arrangements with most of our key customers, the majority of these arrangements are not long term and generally do not obligate our key customers to make any minimum or specified level of purchases. Therefore, our relationships with these key customers may or may not continue in the future, and we are not guaranteed any minimum level of revenue from them. We cannot assure you that our revenue from our current customers will reach or exceed historical levels in any future period. The loss of one or more of our key customers, or fewer or smaller orders from them, would adversely affect our revenue.

We have historically incurred operating losses and we may not achieve sustained profitability.

Prior to the year ended December 31, 2002, we had been unprofitable on an annual basis since our inception. For the years ended December 31, 2000 and 2001, we had operating losses of $51.3 million and $28.9 million, respectively, and net losses of $109.6 million and $116.5 million, respectively. As of March 28, 2004, we had an accumulated deficit of $512.1 million. Although we have achieved an operating profit and a net profit in each of the last two fiscal years, we cannot assure you that our revenue will continue to grow at its current rate or that we will be able to maintain profitability in the future.

The market for products and services incorporating our map database is evolving and its rate of growth is uncertain.

Our success depends upon our customers' abilities to successfully market and sell their products incorporating our database. Continued growth in the adoption of route guidance products in the automotive industry and in the consumer mobile devices industry (in products such as personal digital assistants, wireless telephones, personal navigation devices and laptop computers), additional technological improvements in wireless devices, such as inclusion of GPS capabilities in mobile devices and increases in functional memory, and continued development by our current and potential customers of dynamic navigation, route planning, location-based information, asset tracking and other geographic-related products and services incorporating our database, are critical to our future growth. If our customers do not continue to successfully develop and market new products and services incorporating our database, or the products that our customers develop and market do not meet consumer expectations, our revenue and operating results will be adversely affected.

Growth in the market for vehicle navigation products and services historically has occurred first in Europe and then in North America. If the market growth in North America is not consistent with the growth we have experienced in Europe, our ability to grow our revenue will be adversely affected.

Our product offering is not diversified and if we attempt to diversify, we may not be successful.

Our map database is our principal product, and a substantial majority of our revenue is attributable to the licensing of our database for route guidance applications. Consequently, if the market for existing and new products and services incorporating our database declines or does not continue to grow, our business would be seriously harmed because we currently do not have additional products or services that would generate sufficient revenue to enable us to sustain our business while seeking new markets and applications for our database. In addition, any attempt by us to diversify our product and service offerings may not be successful and may cause us to divert resources and management attention away from our core business, which could adversely affect our financial position, reputation and relationships with our customers.

If we are unable to manage our growth effectively, our profitability and ability to implement our strategy will be adversely affected.

Our continued growth has and will continue to place significant demands on our managerial, operational and financial resources. To accommodate this growth and successfully execute our strategy, we will need to continue to hire additional qualified personnel and implement new or upgraded operating and financial systems and internal operating and financial controls and procedures throughout our company. Our inability to expand and integrate these additions and upgrades in an efficient and timely manner could cause our expenses to increase, revenue to decline and could otherwise adversely affect our profitability and ability to implement our strategy.

We derive the majority of our revenue from the use of our map database in vehicle navigation systems and fluctuations in the condition of the automotive market may result in fluctuations in the demand for products incorporating our database.

The use of our database in vehicle navigation systems, which we supply directly and indirectly to automobile manufacturers, historically has accounted for a substantial majority of our revenue. Approximately 82%, 82% and 83% of our revenue for the years ended December 31, 2001, 2002 and 2003, respectively, and approximately 85% of our revenue for the quarter ended March 28, 2004, were generated by the sale of our database for use in new automobiles equipped with navigation systems. Any significant downturn in the demand for these products would materially decrease our revenue. The automotive market historically has experienced fluctuations due to increased competition, economic conditions and circumstances affecting the global market for automobiles generally, and additional fluctuations 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.

Our profitability will suffer if we are not able to maintain our license fees.

Our profitability depends significantly on the prices we are able to charge customers for our data and other services. The license fees we charge our customers are affected by a number of factors, including:

- our customers' perception of the quality of our data and other products and services;

- the proliferation of navigation applications in lower-cost products and services and market acceptance of those products and services;

- our customers' expectations of lower license fees as a result of economies of scale, customer-imposed efficiency improvements and decreases in prices of hardware and software incorporating our database;
- competition;
- advances in technology that reduce the cost of geographic data acquisition;
- introduction of new services or products by us or our competitors;
- pricing policies of our competitors;
- price sensitivity of end-users of navigation products and services; and
- general economic conditions.

Any one or a combination of these factors could cause a decline in our license fees and thus, adversely affect our revenue and profitability. In addition, the success of our pricing policies is based, in part, on our assessment of the evolution of the market for products and services incorporating navigation applications, which is uncertain, and our ability to correlate the price we charge for various uses of our database. If either our assessment of the market evolution or our price correlations turn out to be incorrect, then our revenue and profitability may be adversely affected.

The automotive market and the market for mobile devices are highly competitive and manufacturers in these markets are continually looking for ways to reduce the costs of components included in their products in order to maintain or broaden consumer acceptance of those products. Because our map database is a component incorporated in automotive, wireless telephone and handheld navigational systems, we face pressure, from time to time, from our customers to lower our database license fees. We have in the past, and may in the future, need to lower our license fees to preserve customer relationships or extend use of our database to a broader range of products. To the extent we lower our license fees in the future, we cannot assure you that we will be able to achieve related increases in the use of our database or other benefits to offset fully the effects of these adjustments.

In addition, increased competition has affected our ability to maintain the level of our prices. If price adjustments resulting from increased competition are not offset by increases in sales of our database, our revenue and profitability could be adversely affected.

Increased competition could result in price reductions, reduced profit margins or loss of market share by us.

The market for map information is highly competitive. We compete with other companies and governmental and quasi-governmental agencies that provide map information to a wide variety of users in a wide range of applications with varying levels of functionality.

We currently have several major competitors in providing map information, including Tele Atlas N.V., Geographic Data Technology, Inc. (GDT) and numerous European governmental and quasi-governmental mapping agencies (e.g., Ordnance Survey in the United Kingdom) that license map data for commercial use. Tele Atlas offers detailed map data for Western Europe. In addition, GDT and Tele Atlas are now offering more detailed map data for the United States than previously had been available from those companies, which enhances their ability to compete with us in the United States market. In July 2004, Tele Atlas acquired GDT and, as a result, it may be more difficult for us to compete effectively with the combined company. Governmental and quasi-governmental agencies also are making more map data information available free of charge or at lower prices, which may encourage new market entrants or reduce the demand for fee-based products and services which incorporate our map database.

In addition, some of our customers prefer to license data from several vendors in order to diversify their sources of supply and to maintain competitive and pricing pressures. Increased competition from our current competitors or new market entrants (which may include our customers), actions taken by our customers to diversify their sources of supply and increase pricing pressure, the acquisition of GDT by Tele Atlas and other competitive pressures, may result in price reductions, reduced profit margins or loss of market share by us.

Our dependence on our vehicle navigation systems manufacturer customers for compilation services could result in a material decrease in our revenue or otherwise adversely affect our business.

For vehicle navigation systems, we rely on our vehicle navigation systems manufacturer customers to compile copies of our map database into their proprietary formats. This can be a time and labor intensive and complex process. In some cases, these customers also are responsible for distributing the compiled database to the automobile manufacturers. If these customers do not compile or distribute our map database in a timely manner and consistent with the requirements of the automobile manufacturers, our reputation and relationships with the automobile manufacturers could be adversely affected. In other cases, our navigation systems manufacturer customers compile our map database and then return a master copy to us. We then distribute copies of the database to the automobile manufacturers in exchange for a distribution fee. If these customers do not fulfill their obligations to us to compile our map database, or to the extent we have not entered into agreements clearly specifying their obligations or fail to do so in the future, we may not be able to satisfy our obligations to automobile manufacturers, which could result in our contractual liability to these automobile manufacturers, and would likely decrease our revenue and adversely affect our business. Our vehicle navigation systems manufacturer customers also could decide to not provide compilation services to us, which would prevent us from providing distribution services to the automobile manufacturers with respect to these customers' navigation systems, and would result in a material decrease in our revenue.

We derive a significant portion of our revenue from our international operations and economic, political and other inherent risks of international operations may adversely affect our financial performance.

We have approximately 110 field and administrative offices in 19 countries worldwide. We have substantial operations in Europe. Approximately 64%, 68% and 66% of our total revenue in 2001, 2002 and 2003, respectively, and approximately 69% of our total revenue during the quarter ended March 28, 2004 were attributable to our European operations. We expect a significant portion of our revenue and expenses will be generated by our European operations in the future. Accordingly, our operating results are and will continue to be subject to the risks of doing business in foreign countries, which could have a material adverse effect on our business. We also collect data in various foreign jurisdictions and outsource some software development and data production functions in foreign jurisdictions. The key risks to us of operating in foreign countries include:

- reduced or inadequate intellectual property protections and/or high rates of intellectual property piracy in some jurisdictions;
- multiple, conflicting, vague and changing laws and regulations, including tax laws, employment laws, governmental approvals, permits and licenses;
- restrictions on the movement of cash;
- general political and economic instability;
- restrictions on the import and export of technologies;
- price controls or restrictions on exchange of foreign currencies;
- trade barriers, including tariffs and other laws and practices that favor local companies;

- maintenance of quality standards for outsourced work; and

- difficulties and costs in staffing and managing foreign subsidiary operations, including cultural differences.

We expect to continue to expand internationally into other countries and regions, including into emerging economies, where we believe that many of these risks are increased.

Currency translation risk and currency transaction risk may adversely affect 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. 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. For the year ended December 31, 2003 and the quarter ended March 28, 2004, we generated approximately 66% and 69% of our total revenue, respectively, and incurred approximately 45% and 50% of our total costs, respectively, in foreign currencies. Our European operations reported revenue of $181 million and $55 million for the year ended December 31, 2003 and for the quarter ended March 28, 2004, respectively. For the year ended December 31, 2003, approximately $28 million (or approximately 10%) of our revenue was a result of an increase in the exchange rate of the euro against the dollar, as compared to 2002, with every $0.01 change in the exchange ratio of the euro against the dollar resulting in a $1.6 million change in our revenue and a $0.8 million change in our operating income. For the quarter ended March 28, 2004, approximately $6 million (or approximately 7%) of our revenue was a result of an increase in the exchange rate of the euro against the dollar, as compared to the same period in 2003, with every $0.01 change in the exchange ratio of the euro against the dollar resulting in a $0.4 million change in our revenue and a $0.2 million change in our 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. Given the volatility of exchange rates, we may not be able to effectively manage our currency translation and/or transaction risks, which may adversely affect our financial condition and results of operations.

We are subject to income taxes in many countries because of our international operations and we exercise judgment in order to determine our provision for income taxes. Because that determination is an estimate, we cannot be certain that our income tax provisions and accruals will be adequate.

We are subject to income taxes in many countries, jurisdictions and provinces. Our international operations require us to exercise judgment in determining our global provision for income taxes. Regularly, we make estimates where the ultimate tax determination is uncertain. While we believe our estimates are reasonable, we cannot assure you that the final determination of any tax audit or tax-related litigation will not be materially different from that reflected in our historical income tax provisions and accruals. The assessment of additional taxes, interest and penalties as a result of audits, litigation or otherwise, could be materially adverse to our current and future results of operations and financial condition.

We may not generate sufficient future taxable income to allow us to realize our deferred tax assets.

We have a significant amount of tax loss carryforwards and interest expense carryforwards that will be available to reduce the taxes we would otherwise owe in the future. We have recognized the value of a portion of these future tax deductions in our consolidated balance sheet at March 28, 2004. The realization of our deferred tax assets is dependent upon our generation of future taxable income during the periods in which we are permitted, by law, to use those assets. We exercise judgment in evaluating our ability to realize the recorded value of these assets, and consider a variety of factors, including the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Our 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 the evidence can be verified objectively. While we believe that sufficient positive evidence exists to support our determination that the realization of our deferred tax assets is more likely than not, we cannot assure you that we will have profitable operations in the future that will allow us to fully realize those assets.

Increased governmental regulation may place additional burdens on our business and adversely affect our ability to compete.

Although we do not believe governmental regulation has had a material effect on our business and operations to date, it is possible that we will experience the effects of increased regulation in the future. In the United States and Europe, the combination of heightened security concerns and the increase in the breadth and accuracy of our map database could result in more restrictive laws and regulations, such as export control laws, applicable to our database. In addition, automobile safety initiatives may result in restrictions on devices that use our database. As we continue to expand our geographic coverage, policies favoring local companies and other regulatory initiatives may result in export control laws and other restrictions on our ability to access, collect and use map data or otherwise conduct business in various countries throughout the world. Our failure to comply with local policies and regulations could result in a number of adverse consequences, including loss of access to map data, restrictions or prohibitions on our use of map information, financial penalties, criminal sanctions or loss of licenses or other authority to do business in those jurisdictions. Any of these occurrences could adversely affect our ability to complete, improve, license or distribute our database, which could result in a competitive disadvantage for us and the possible loss of customers and revenue.

If we cannot retain our existing management team or attract and retain highly skilled and qualified personnel, our business could be adversely affected.

Our success depends to a significant degree on the skills, experience and efforts of our current executive officers, including Judson C. Green, President and Chief Executive Officer, David B. Mullen, Executive Vice President and Chief Financial Officer, John K. MacLeod, Executive Vice President, Global Marketing and Strategy and M. Salahuddin Khan, Senior Vice President, Technology & Development and Chief Technology Officer and our other key employees, including management, sales, support, technical and services personnel. Qualified employees are in high demand throughout technology-based industries, and our future success depends in significant part on our ability to attract, train, motivate and retain highly skilled employees and the ability of our executive officers and other members of senior management to work effectively as a team.

If we fail to adapt our map database to changes in technology, we could lose our existing customers and be unable to attract new business.

The market for products and services incorporating digital map information is evolving and is characterized by rapid technological change, changes in customer requirements, the introduction of new products and services and enhancements to existing products and services. Although our database currently can be used by our customers in a wide variety of applications, we will need to be able to maintain the compatibility of our map database with new products and services introduced as a result of technological changes. If we are unable to do so, demand for our database could decline and our revenue would be adversely affected.

If we fail to establish and maintain relationships with third party sources of data used in our map database, our business is likely to suffer.

We depend upon third party sources for data to build, maintain and enhance our database. In certain cases, this data is readily available only from limited third party sources and/or at significant cost. We cannot assure you that we will be successful in maintaining our relationships with our current third party sources or that we will be able to continue to obtain data from them on acceptable terms or at all. We also cannot assure you that we will be able to obtain data from alternative sources if our current sources become unavailable. In some cases, we may obtain data on less favorable terms in order to satisfy our customers' requirements. In addition, we may be unable to obtain data from additional sources that would allow us to enhance our existing coverage and expand our geographic coverage. Our rights to use any data we obtain may be limited in scope and duration and subject to various other terms and restrictions that may reduce its usefulness to us. Our inability to obtain data from our current sources or additional or alternative sources, or to use the acquired data for our intended purposes, may impair or delay the further development, updating and distribution of our database. Any impairments or delays may adversely affect our relationships with our customers and cause us to lose revenue. Further, if we must pay more for the data than we have in the past or acquire data on unfavorable terms to satisfy customer requirements, our profitability may be adversely affected.

If our customers do not accurately report the amount of license fees owed to us, we will not receive all of the revenue to which we are entitled.

Except with respect to our automobile manufacturer customers for whom we make and distribute copies of our database, we rely on our customers to report the amount of license fees owed to us under our agreements with them. The majority of our agreements, including those with our key customers, give us the right to audit their records to verify this information. However, these audits can be expensive, time-consuming and possibly detrimental to our ongoing business relationships with our customers. As a result, to date we have only audited a small number of customers in any given year and have relied primarily on the accuracy of our customers' reports. To the extent those reports are inaccurate, the revenue we collect from our customers could be materially less than the amount we should be receiving from them. Though we believe the revenue lost from underreporting has not been material historically, we cannot estimate the impact of underpayments in the future.

Errors or defects in the database we deliver to customers may expose us to risks of product liability claims and adversely affect our reputation, which could result in customer loss, decreased revenue, unexpected expenses and loss of market share.

The use of our data in route guidance products and other navigation products and applications involves an inherent risk of product liability claims and associated adverse publicity. Claims could be made by our customers if errors or defects result in failure of their products or services, or by end-users of those products or services or others alleging loss or harm as a result of actual or perceived errors or defects in our map database. Our potential exposure may increase as products and services incorporating our map database begin to be used more widely in emergency response or other safety-related applications and as the information included in earlier versions of our map database becomes dated or obsolete. In addition, errors or defects in our database may require us to participate in product recalls, or cause us to voluntarily initiate a recall in order to maintain good customer relationships.

Product liability claims present a risk of protracted litigation, substantial money damages, attorneys' fees, costs and expenses, and diversion of management's attention from the operation of our business. Although we have not had any product liability claims brought against us to date, we cannot assure you that claims will not be brought in the future. We attempt to mitigate the risks of product liability claims through the use of disclaimers, limitations of liability and similar provisions in our license agreements; however, we cannot assure you that any of these provisions will prove to be effective barriers to claims. Recalls also may be costly and divert management's attention from the operation of our business. In some circumstances, we are contractually obligated to indemnify our customers for liabilities, costs and expenses arising out of product liability claims. Providing indemnification or contesting indemnification claims from our customers may result in our incurring substantial costs and expenses. In some cases, purchase orders submitted by our customers purport to incorporate certain customer-favorable contractual terms and conditions which, if given effect, could increase our potential product liability and recall liability exposure. In addition, adverse publicity may reduce our customers' willingness to incorporate our database and related applications into their products, which would adversely affect our revenue.

Our inability to adequately protect our map database property could enable others to market databases with similar coverage and features that may reduce demand for our database and adversely affect our revenue.

We rely primarily on a combination of copyright laws, trade secrets, patents, database laws and contractual rights to establish and protect our intellectual property rights in our database, software and related technology. We cannot assure you that the steps we have taken or will take to protect our intellectual property from infringement, misappropriation or piracy will prove to be sufficient. Current or potential competitors may use our intellectual property without our authorization in the development of databases, software or technologies that are substantially equivalent or superior to ours, and even if we discover evidence of infringement, misappropriation or intellectual property piracy, our recourse against them may be limited or could require us to pursue litigation, which could involve substantial attorneys' fees, costs and expenses and diversion of management's attention from the operation of our business. Our database is a compilation of public domain, licensed, otherwise-acquired and independently developed information obtained from various sources such as aerial photographs, commercially available maps and data, government records, other data sources and field observation. Current or potential competitors may be able to use publicly available sources of information and techniques similar to ours to independently create a database containing substantially the same information as our database. Any of these events likely would harm our competitive position.

The laws of some countries in which we operate do not protect our intellectual property rights to the same extent as the laws of other countries. For example, although our database and software are protected in part by copyright, database and trade secret rights, copyright protection does not extend to facts and legislative database protections that relate to compilations of facts currently exist only in certain countries of Europe and do not exist in the United States or Canada. In addition, as we continue to expand our geographic coverage outside of North America and Europe, there may be little or no intellectual property protection and increased rates of piracy. Further, we recently have begun to outsource some software development and data production functions to third parties located in foreign countries where we believe there is an increased risk of infringement, misappropriation and piracy and an increased possibility that we may not be able to enforce our contractual and intellectual property rights.

Copies of our database that are distributed to end-users do not always include effective protection against unlawful copying. While we attempt to stop data piracy, our database is sometimes illegally copied and sold through auction sites and other channels.

We may face intellectual property infringement claims that could be time consuming, costly to defend and result in our loss of significant rights.

Due to the uncertain and developing nature of this area of intellectual property law, we cannot assure you that claims of infringement or similar claims will not be asserted against us. Various public authorities and private entities claim copyright or other ownership of or protection with respect to certain data and map information that we use in our database. Although our general policy is to seek to obtain licenses or other rights where necessary or appropriate, we cannot assure you that we have obtained or will be successful in obtaining all of these licenses or rights. In the event that claims are asserted against us, we may be required to obtain one or more licenses from third parties. We may or may not be able to obtain those licenses at a reasonable cost or at all. Also, if we are found to have infringed the intellectual property rights of a third party, we may be subject to payment of substantial royalties or damages, or enjoined or otherwise prevented from marketing part or all of our database, software or related technologies and/or products which would incorporate our database, software or related technologies, any of which could cause us to lose revenue, impair our customer relationships and damage our reputation.

We also claim rights in our trademarks and service marks. Certain of our marks are registered in the United States, Europe and elsewhere and we have filed applications to register certain other marks in these jurisdictions. Marks of others that are the same or similar to certain of our marks currently exist or may exist in the future. We cannot assure you that we will be able to continue using certain marks or that certain of our marks do not infringe the marks of others. We have licensed others to use certain of our marks in connection with our database and software and expect to continue licensing certain of our marks in the future. Licensees of our marks may take actions that might materially and adversely affect the value of our marks or reputation.

Our intellectual property indemnification practices and potential obligations may adversely affect our business.

Our license agreements with our customers generally contain indemnification provisions which, in certain circumstances may require us to indemnify our customers for liabilities, costs and expenses arising out of violations of intellectual property rights. These indemnification provisions and other actions by us may result in indemnification claims or claims of intellectual property right infringement. In some instances, the potential amount of the indemnities may be greater than the revenue we receive from the customer. Any indemnification claims or related disputes or litigation, whether ultimately we are or are not required to provide indemnification, could be time-consuming and costly, damage our reputation, prevent us from offering some services or products, or require us to enter into royalty or licensing arrangements, which may not be on terms favorable to us.

Our technology systems may suffer failures and business interruptions that could increase our operating costs and cause delays in our operations.

Our operations face the risk of systems failures. Although we believe we have sufficient disaster recovery plans and redundant systems in place, our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, computer hardware and software failure, telecommunications failure, computer hacking break-ins and similar events. The occurrence of a natural disaster or unanticipated problems with our technology systems at our production facility in Fargo, North Dakota, at the location of the mainframe computer that stores our map database or at our offices in Chicago, Illinois and Veldhoven, The Netherlands could cause interruptions or delays in the ongoing development and enhancement of our map database and related software, and inhibit our ability to timely deliver our database to our customers, which in turn could cause us to lose customers or revenue. Our technology systems may also be subject to capacity constraints which would ca